

September 26, 2018

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		BUY	
Target Price	250		438	
NII (Rs. m)	98,290	1,23,756	99,671	1,29,157
% Chng.			(1.4)	(4.2)
Op. Profit (Rs. m)	98,992	1,18,831	1,02,463	1,28,593
% Chng.			(3.4)	(7.6)
EPS (Rs.)	21.8	25.8	23.6	30.5
% Chng.			(7.3)	(15.4)

### Key Financials

	FY18	FY19E	FY20E	FY21E
NII (Rs bn)	77	98	124	152
Op. Profit (Rs bn)	77	99	119	140
PAT (Rs bn)	42	50	59	74
EPS (Rs.)	18.4	21.8	25.8	32.1
Gr. (%)	21.3	18.6	18.2	24.4
DPS (Rs.)	2.4	2.7	5.0	5.0
Yield (%)	1.1	1.2	2.3	2.3
NIM (%)	3.1	2.9	2.9	3.0
RoAE (%)	17.7	18.0	18.4	19.7
RoAA (%)	1.6	1.4	1.3	1.4
P/BV (x)	2.0	1.7	1.5	1.2
P/ABV (x)	2.0	1.8	1.6	1.3
PE (x)	11.9	10.1	8.5	6.8
CAR (%)	18.4	16.7	14.7	13.7

### Key Data

YESB.BO | YES IN

52-W High / Low	Rs.404 / Rs.197
Sensex / Nifty	36,652 / 11,067
Market Cap	Rs.507bn / \$ 6,979m
Shares Outstanding	2,308m
3M Avg. Daily Value	Rs.15357.94m

### Shareholding Pattern (%)

Promoter's	19.98
Foreign	42.52
Domestic Institution	25.15
Public & Others	12.35
Promoter Pledge (Rs bn)	

### Stock Performance (%)

	1M	6M	12M
Absolute	(41.3)	(23.4)	(38.9)
Relative	(38.7)	(31.8)	(47.3)

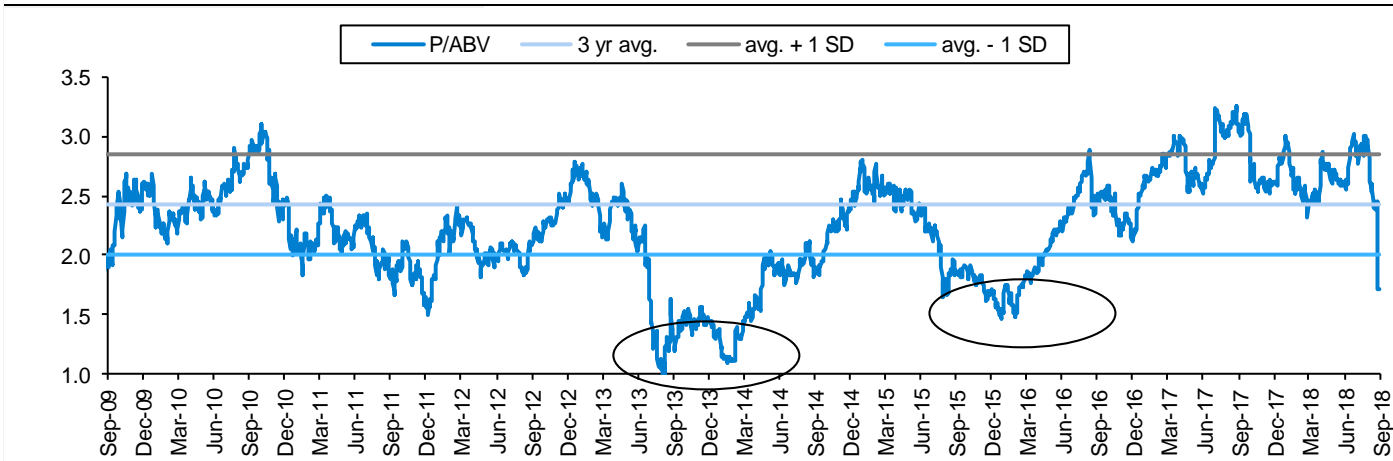
### Pritesh Bumb

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## Uncertainty to continue

We downgrade Yes Bank to ACCUMULATE (from BUY) with TP of Rs250 based on 1.8x FY20ABV (from 2.7x multiple). Yes bank's outcome of board meeting has left several loose ends and prolongs uncertainty regarding the succession. It has recommended 1) establishment of committee to search & select a new MD & CEO and 2) request to RBI an extension for the MD & CEO up to April'19 at least to review the FY19 audited results and a further extension upto Sept'19 (till AGM) to oversee transition 3) appointed Mr. Rajat Monga & Mr. Praloy Mandal as EDs as a part of a long term succession planning. However, the board has not been able to give a clear picture on the succession and further course for the bank. The timelines and uncertainty on approvals from RBI for both MD & CEO (should be difficult) and EDs will keep near term stock performance muted.

- What continues to make us jittery:** (i) Growth trajectory will likely slowdown from 45-50% to mid-20s as management bandwidth continues to be focused on succession (ii) Asset quality could see deterioration especially if CEO is from outside the bank and takes a cautious view on riskier lending done and subsequently taking higher provisions and (iii) hit on fee income & bad asset recoveries could get delayed. With this view, we lower our growth estimates to 30%/25%/20% in FY19/FY20/FY21 from 35%/28%/25% as large corporate book will be grown conservatively. While predicting any asset quality issues with certainty is difficult, we conservatively increase credit cost estimates to 85/95bps in FY20/FY21 (bank maintains 50-70bps) from 75/65bps and factor in higher slippages leading to 8%/15% cut in earnings & 3%/8% hit in ABV if asset quality issues are to transpire.
- Fundamentals not changing too much in near term but lower multiple warranted on uncertainty:** Past instances have showcased Yes bank multiples dropping to 1.0-1.2x in FY13 (wholesale funding crisis & currency crisis), 1.5x in FY15 (board tussle crisis) which have recovered over time. We believe that once course of action is absolutely clear with respect to key person to lead the bank and on growth strategy in business (loan growth/fees), through review of asset quality (no AQR/minimizing divergences) and strengthening processes (compliance procedures) will help multiples recover over the medium term from the current level of 1.6-1.7x.
- Growth to get hit in near term; asset quality will be crucially watched:** We believe loan growth momentum will likely slow down to mid-20s from 45-50% currently as uncertainty prevailing on who will head the bank while capital raising will be postponed and will start getting constrained at higher growth rates with CET/T1 at 9.5%/12.8% as of Q1FY18. In all probabilities, if an external CEO is selected there could be conservative action on asset quality recognition. However, we don't expect too much divergence especially as RBI has been closely auditing asset quality of banks.

**Exhibit 1: One year forward P/ABV – current multiples close to bottom, Long term average multiple at 1.8-2.0x**


Source: Company, PL

**Exhibit 2: We cut FY19 & FY20 ABVPS estimates by 3% & 7.6% respectively**

(Rs mn)	Old		Revised		% Change	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NII	99,671	129,157	98,290	123,756	(1.4)	(4.2)
Operating profit	102,463	128,593	98,992	118,831	(3.4)	(7.6)
Net profit	54,253	70,271	50,310	59,482	(7.3)	(15.4)
EPS (Rs)	23.6	30.5	21.8	25.8	(7.3)	(15.4)
ABVPS (Rs)	128.4	152.5	124.6	140.9	(3.0)	(7.6)
<b>Price target (Rs)</b>	<b>438</b>		<b>250</b>		<b>(42.9)</b>	
<b>Recommendation</b>	<b>BUY</b>		<b>ACCUMULATE</b>			

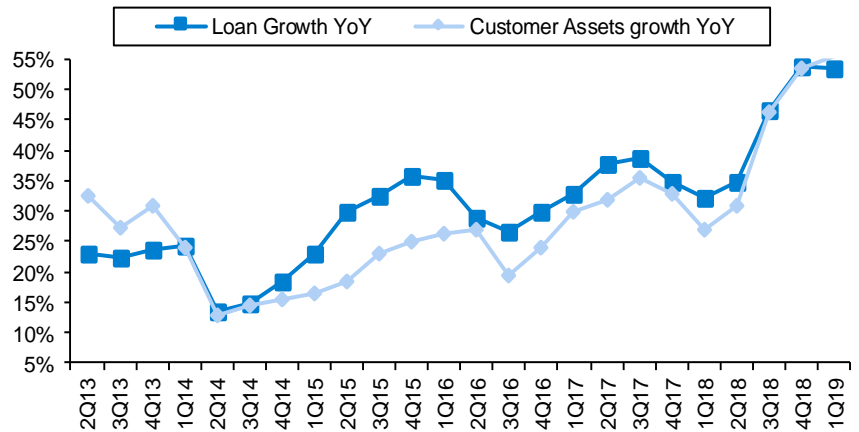
Source: Company, PL

**Exhibit 3: We revise our TP to Rs250 from Rs438 based on 1.8x Mar-20 ABV (from 2.7x Mar-20 ABV)**

PT calculation and upside	
Fair price - EVA, Rs	254
Fair price - P/ABV, Rs	246
<b>Average of the two, Rs</b>	<b>250</b>
<b>Target P/ABV (x)</b>	<b>1.8</b>
<b>Target P/E (x)</b>	<b>9.7</b>
Current price, Rs	220
<b>Upside (%)</b>	<b>13.8%</b>
Dividend yield (%)	1.1%
<b>Total return (%)</b>	<b>15.0%</b>

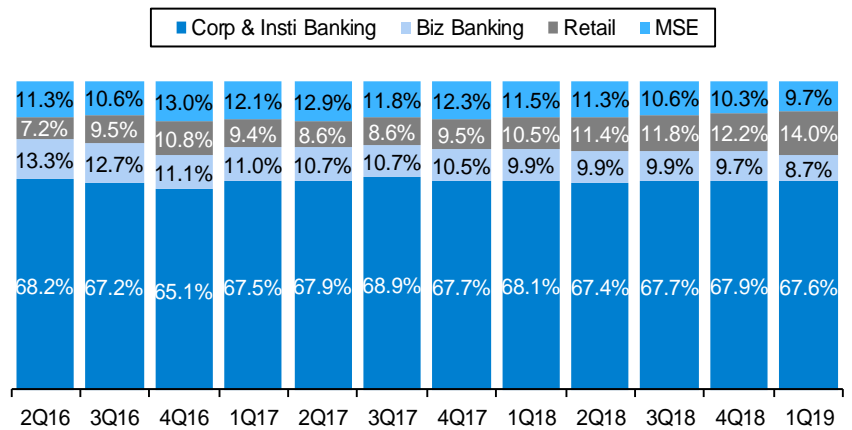
Source: Company, PL

**Exhibit 4: Yes bank had strong loan growth under Rana Kapoor's tenure**



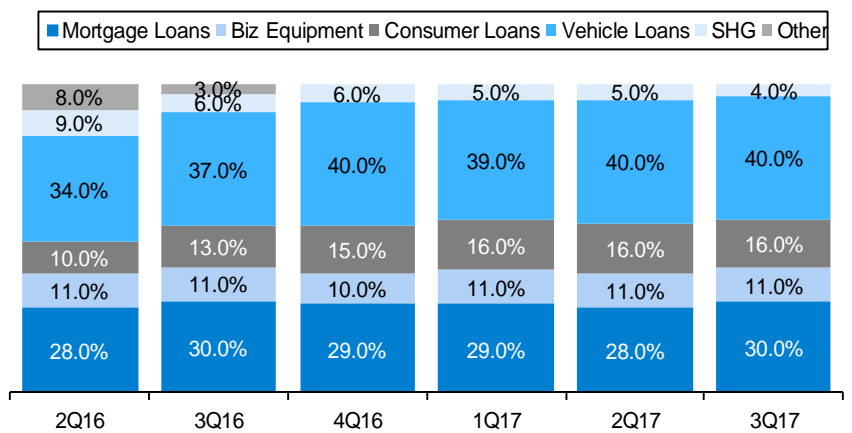
Source Company, PL

**Exhibit 5: Corporate loans dominating, but retail growth has been strong**

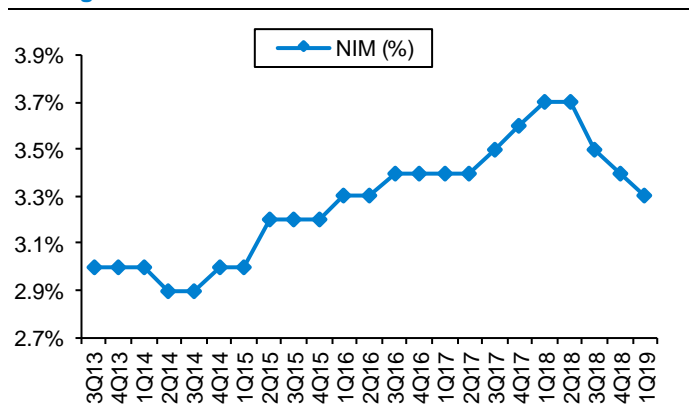


Source: Company, PL

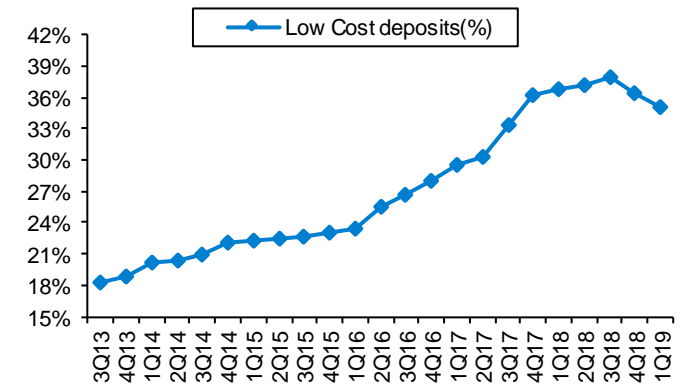
**Exhibit 6: Retail loans – Mortgage, consumer loans key driver**



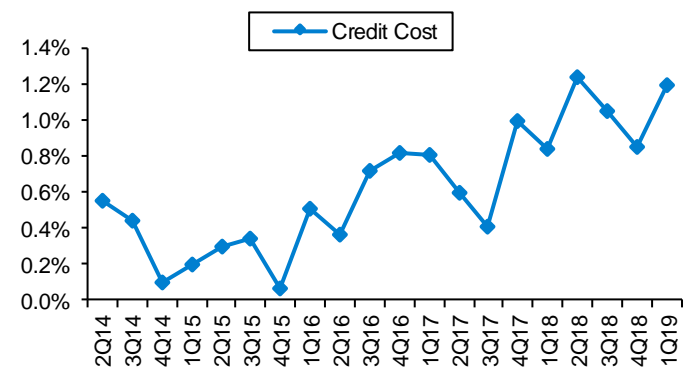
Source: Company, PL

**Exhibit 7: NIMs under pressure led by higher funding cost and higher rated assets**


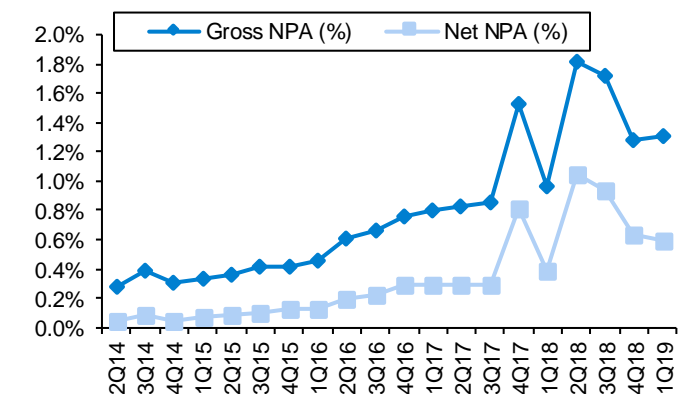
Source: Company, PL

**Exhibit 8: CASA improving on shift from wholesale funding**


Source: Company, PL

**Exhibit 9: Credit cost up on higher PCR and AQR by RBI**


Source: Company, PL

**Exhibit 10: Divergences hit asset quality, recoveries good**


Source: Company, PL

**Exhibit 11: RoAE tree - Return ratios on strong trajectory**

RoAE decomposition (%)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest income	9.59	9.44	8.98	8.64	7.68	7.78	7.95	8.12
Interest expenses	6.98	6.59	5.95	5.59	4.75	5.04	5.18	5.29
<b>Net interest income</b>	<b>2.61</b>	<b>2.85</b>	<b>3.03</b>	<b>3.05</b>	<b>2.93</b>	<b>2.74</b>	<b>2.76</b>	<b>2.83</b>
Treasury income	0.35	0.06	0.16	0.43	0.28	0.25	0.20	0.16
Other Inc. from operations	1.30	1.61	1.64	1.76	1.70	1.51	1.42	1.40
<b>Total income</b>	<b>4.26</b>	<b>4.51</b>	<b>4.83</b>	<b>5.23</b>	<b>4.91</b>	<b>4.50</b>	<b>4.38</b>	<b>4.39</b>
Employee expenses	0.75	0.80	0.86	0.95	0.83	0.68	0.65	0.64
Other operating expenses	0.93	1.06	1.11	1.22	1.15	1.06	1.09	1.14
<b>Operating profit</b>	<b>2.58</b>	<b>2.65</b>	<b>2.85</b>	<b>3.07</b>	<b>2.94</b>	<b>2.76</b>	<b>2.65</b>	<b>2.61</b>
Tax	0.35	0.28	0.36	0.42	0.59	0.68	0.69	0.55
Loan loss provisions	0.68	0.74	0.81	0.90	0.75	0.67	0.64	0.68
<b>RoAA</b>	<b>1.55</b>	<b>1.64</b>	<b>1.68</b>	<b>1.75</b>	<b>1.60</b>	<b>1.40</b>	<b>1.33</b>	<b>1.38</b>
<b>RoAE</b>	<b>25.02</b>	<b>21.33</b>	<b>19.94</b>	<b>18.58</b>	<b>17.67</b>	<b>18.03</b>	<b>18.40</b>	<b>19.67</b>

Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Earned from Adv.	1,54,782	2,15,339	2,76,831	3,43,807
Int. Earned from invt.	41,025	59,862	74,826	86,497
Others	6,867	4,223	4,423	5,244
<b>Total Interest Income</b>	<b>2,02,674</b>	<b>2,79,424</b>	<b>3,56,080</b>	<b>4,35,549</b>
Interest Expenses	1,25,304	1,81,134	2,32,324	2,83,857
<b>Net Interest Income</b>	<b>77,371</b>	<b>98,290</b>	<b>1,23,756</b>	<b>1,51,692</b>
Growth(%)	30.2	24.6	21.6	19.8
Non Interest Income	52,238	63,208	72,690	83,593
<b>Net Total Income</b>	<b>1,29,609</b>	<b>1,61,498</b>	<b>1,96,446</b>	<b>2,35,285</b>
Growth(%)	23.9	34.4	25.1	21.1
Employee Expenses	21,889	24,516	28,929	34,136
Other Expenses	27,929	35,470	45,401	57,206
Operating Expenses	52,128	62,506	77,615	95,185
<b>Operating Profit</b>	<b>77,481</b>	<b>98,992</b>	<b>1,18,831</b>	<b>1,40,099</b>
Growth(%)	32.7	27.8	20.0	17.9
NPA Provision	10,788	19,895	28,278	27,286
Total Provisions	15,538	24,459	30,709	29,659
<b>PBT</b>	<b>61,943</b>	<b>74,533</b>	<b>88,121</b>	<b>1,10,440</b>
Tax Provision	19,697	24,223	28,639	36,445
Effective tax rate (%)	31.8	32.5	32.5	33.0
<b>PAT</b>	<b>42,246</b>	<b>50,310</b>	<b>59,482</b>	<b>73,995</b>
Growth(%)	26.9	19.1	18.2	24.4

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Face value	2	2	2	2
No. of equity shares	2,303	2,303	2,303	2,303
Equity	4,606	4,606	4,606	4,606
Networth	2,57,583	3,00,397	3,46,020	4,06,155
Growth(%)	16.8	16.6	15.2	17.4
Adj. Networth to NNPA's	13,127	21,470	33,192	30,389
Deposits	20,07,381	27,09,965	33,33,257	39,99,908
Growth(%)	40.5	35.0	23.0	20.0
CASA Deposits	7,31,762	10,29,787	12,76,637	15,35,965
% of total deposits	36.5	38.0	38.3	38.4
<b>Total Liabilities</b>	<b>31,24,456</b>	<b>40,58,714</b>	<b>49,03,324</b>	<b>58,24,362</b>
Net Advances	20,35,339	26,45,940	33,07,425	39,68,910
Growth(%)	53.9	30.0	25.0	20.0
Investments	6,83,989	9,94,655	11,03,582	12,72,113
<b>Total Assets</b>	<b>31,24,456</b>	<b>40,58,714</b>	<b>49,03,324</b>	<b>58,24,362</b>
Growth (%)	45.3	29.9	20.8	18.8

**Asset Quality**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs (Rs m)	26,268	45,044	68,543	68,281
Net NPAs (Rs m)	13,127	21,470	33,192	30,389
Gr. NPAs to Gross Adv.(%)	1.3	1.7	2.1	1.7
Net NPAs to Net Adv. (%)	0.6	0.8	1.0	0.8
NPA Coverage %	50.0	52.3	51.6	55.5

**Profitability (%)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	3.1	2.9	2.9	3.0
RoAA	1.6	1.4	1.3	1.4
RoAE	17.7	18.0	18.4	19.7
Tier I	13.2	11.5	10.3	9.9
CRAR	18.4	16.7	14.7	13.7

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Interest Income	48,003	50,703	57,430	65,780
Interest Expenses	29,153	31,815	35,887	43,589
<b>Net Interest Income</b>	<b>18,851</b>	<b>18,888</b>	<b>21,542</b>	<b>22,191</b>
YoY growth (%)	10.1	16.8	32.5	53.2
CEB	7,486	10,131	9,913	10,156
Treasury	-	-	-	-
Non Interest Income	12,484	14,223	14,210	16,941
<b>Total Income</b>	<b>60,488</b>	<b>64,926</b>	<b>71,640</b>	<b>82,722</b>
Employee Expenses	5,628	5,334	5,467	5,906
Other expenses	6,641	7,759	8,931	8,680
Operating Expenses	12,269	13,093	14,398	14,586
<b>Operating Profit</b>	<b>19,067</b>	<b>20,018</b>	<b>21,354</b>	<b>24,547</b>
YoY growth (%)	37.6	37.7	26.3	44.0
Core Operating Profits	15,549	17,590	19,573	19,944
NPA Provision	-	-	-	-
Others Provisions	4,471	4,213	3,996	6,257
Total Provisions	4,471	4,213	3,996	6,257
<b>Profit Before Tax</b>	<b>14,596</b>	<b>15,805</b>	<b>17,358</b>	<b>18,291</b>
Tax	4,569	5,036	5,564	5,687
<b>PAT</b>	<b>10,027</b>	<b>10,769</b>	<b>11,794</b>	<b>12,604</b>
YoY growth (%)	25.1	22.0	29.0	30.5
<b>Deposits</b>	<b>15,79,898</b>	<b>17,17,314</b>	<b>20,07,382</b>	<b>21,33,945</b>
YoY growth (%)	23.4	29.7	40.5	42.0
<b>Advances</b>	<b>14,86,753</b>	<b>17,15,149</b>	<b>20,35,339</b>	<b>21,47,201</b>
YoY growth (%)	34.9	46.5	53.9	53.4

**Key Ratios**

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	220	220	220	220
EPS (Rs)	18.4	21.8	25.8	32.1
Book Value (Rs)	112	130	150	176
Adj. BV (70%)(Rs)	108	125	141	168
P/E (x)	11.9	10.1	8.5	6.8
P/BV (x)	2.0	1.7	1.5	1.2
P/ABV (x)	2.0	1.8	1.6	1.3
DPS (Rs)	2.4	2.7	5.0	5.0
Dividend Payout Ratio (%)	15.6	14.9	23.3	18.7
Dividend Yield (%)	1.1	1.2	2.3	2.3

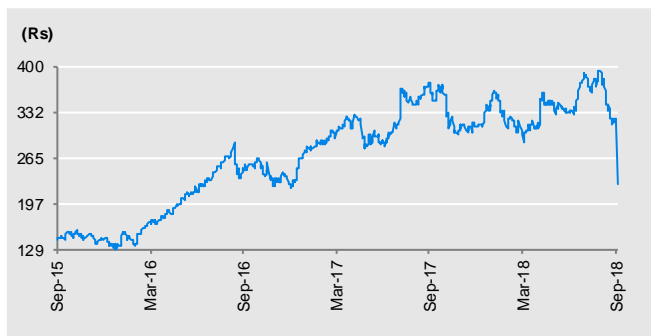
**Efficiency**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Cost-Income Ratio (%)	40.2	38.7	39.5	40.5
C-D Ratio (%)	101.4	97.6	99.2	99.2
Business per Emp. (Rs m)	222	245	253	253
Profit per Emp. (Rs lacs)	23	23	23	23
Business per Branch (Rs m)	3,675	3,967	4,150	4,307
Profit per Branch (Rs m)	38	37	37	40

**Du-Pont**

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	2.93	2.74	2.76	2.83
Total Income	4.91	4.50	4.38	4.39
Operating Expenses	1.98	1.74	1.73	1.77
PPoP	2.94	2.76	2.65	2.61
Total provisions	0.59	0.68	0.69	0.55
RoAA	1.60	1.40	1.33	1.38
RoAE	17.67	18.03	18.40	19.67

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-17	BUY	388	365
2	26-Oct-17	BUY	415	332
3	17-Nov-17	BUY	415	302
4	13-Dec-17	BUY	415	302
5	10-Jan-18	BUY	415	341
6	18-Jan-18	BUY	415	340
7	12-Feb-18	BUY	415	326
8	15-Mar-18	BUY	415	312
9	13-Apr-18	BUY	415	316
10	27-Apr-18	BUY	438	352

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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