

Yes Bank

Reco: Buy

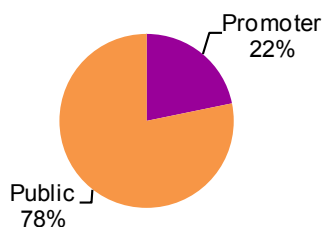
Stock Update

Blooming into adolescence
CMP: Rs1,530

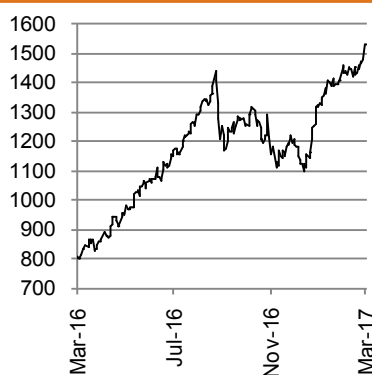
Company details

Price target:	Rs1,680
Market cap:	Rs64,838 cr
52-week high/low:	Rs1,538/792
NSE volume: (No of shares)	35.5 lakh
BSE code:	532648
NSE code:	YESBANK
Sharekhan code:	YESBANK
Free float: (No of shares)	33.08 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.8	21.4	16.1	89.0
Relative to Sensex	2.6	12.1	15.1	58.3

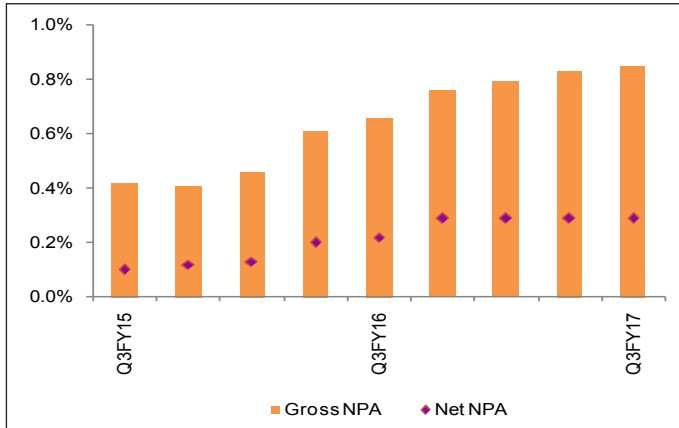
Key points

- Consistent performance; transformation into a universal bank augurs well:** Yes Bank is undergoing a transformation from a wholesale funded bank to more of a diversified bank, with an attractive retail franchise. During the last five years, Yes Bank has been able to maintain attractive return ratios (ROE over 20%) and NIM (~3-3.4% range). Currently, its Retail business has started to gain scale, which we believe is important for its transformation into a universal bank. The transformation into a universal bank will not only provide Yes Bank growth opportunities but also lend stability to its earnings.
- Retail segment opens up fresh opportunities:** Yes Bank's new business streams (Bancassurance, Credit Cards etc) are gaining traction and have helped the bank to achieve a strong 9% five-quarter CQGR from the Retail fees stream. Also, Yes bank has acquired top talent from industry leaders for its various Retail and Business banking divisions. Lateral hiring has helped the bank to quickly develop, launch and ramp up in the new business segments, thereby reducing the time to market. Also, a complete product bouquet will be helpful for Yes Bank to attract and retain clients, besides improving visibility for the bank. We believe that in the current scenario of tepid credit demand from the large corporate sector, Retail and Mid Corporate segments, coupled with Yes Bank's relatively low base can be key to driving overall loan growth. Pick-up in card transactions and digital banking initiatives are positive for smaller banks like Yes Bank.
- CASA growth augurs well for diversification, COF benefits:** While the present Current & Savings Accounts (CASA) deposit ratio at 33% of total deposits (as of Q3FY2017) was helped by demonetisation, we can see strong pace of CASA accretion (39% four-year CAGR) even on a longer term basis, reflecting Yes Bank's customer traction capabilities. The traction in CASA has also been helped by Yes Bank's attractive high interest rates (6% for Savings Accounts), which are high compared to other similar sized Private Sector Banks (PB). The strategy has worked well for Yes Bank and we believe that the bank is likely to achieve its guidance of reaching ~40% CASA by FY2019E. We expect that once Yes Bank attains a critical mass, it will lower its interest rates, which will be positive for its NIM. The current pick-up and thrust on digital transactions will nudge the Small & Medium Enterprises (SME) too to adopt formal banking channels, which will be positive from a long-term perspective, as it will allow the bank to cross-sell its offerings and also broad-base its funding mix.
- Valuation:** Yes Bank is available at 3.4x/2.9x FY2018E/FY2019E ABV, which we find attractive for a business with comfortable capital position (CRAR of 16.9%; Tier-1 at 12.2%) and attractive return ratios (RoE of over 20%; RoA of over 1.8%). We have maintained our 'Buy' rating and have revised the price target to Rs1,680, valuing the bank at 3.1x FY2019E ABV (average of FY2018/FY2019).

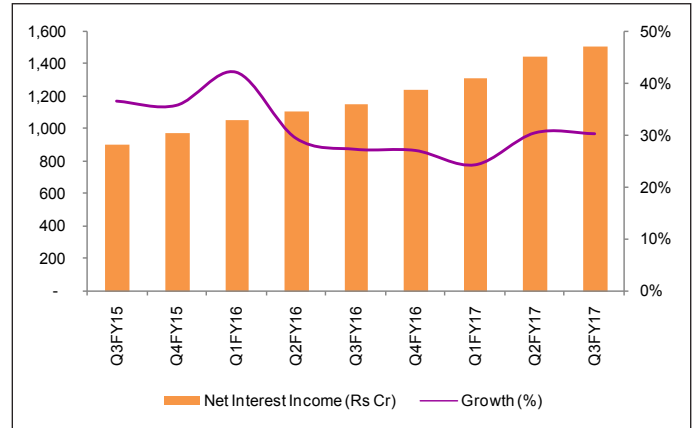
Valuation

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net interest income	3,487.8	4,566.7	5,651.6	7,051.2	8,760.1
Net profit	2,005.4	2,539.4	3,213.8	4,024.4	5,009.4
EPS (Rs)	48.7	60.4	76.4	95.7	119.1
EPS growth (%)	8.57	23.98	26.56	25.22	24.48
P/E (x)	31.4	25.3	20.0	16.0	12.8
Book value (Rs/share)	283.0	327.3	387.6	461.9	553.0
P/BV (x)	5.4	4.7	3.9	3.3	2.8
RoE (%)	21.3	19.9	21.3	22.5	23.4
RoA (%)	1.6	1.7	1.8	1.9	1.9

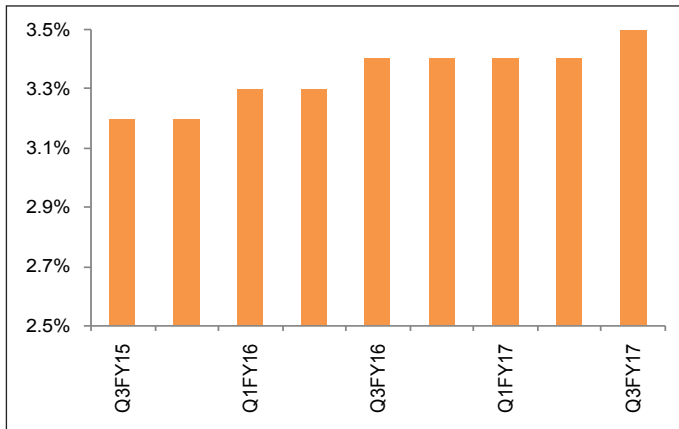
Asset quality (%)



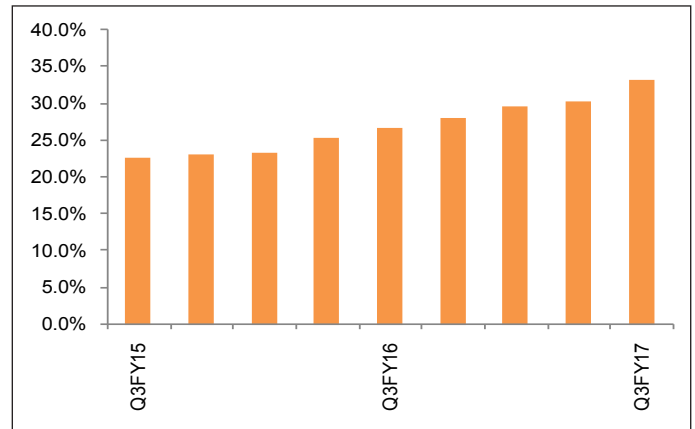
Net interest income (Rs cr)



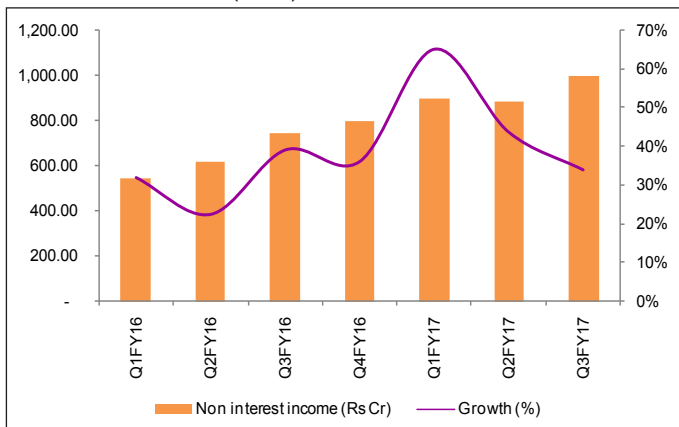
NIM (%)



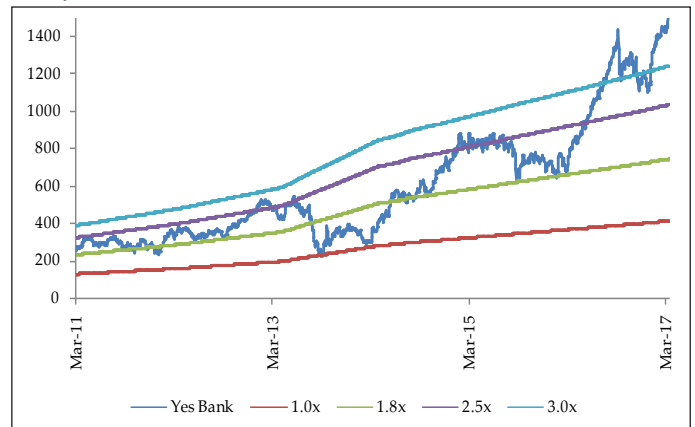
CASA (%)



Non-interest income (Rs cr)



One-year forward P/BV SD band



Profit and loss statement

Rs cr

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net interest income	3,488	4,567	5,652	7,051	8,760
Non-interest income	2,046	2,712	3,423	4,235	5,249
Net total income	5,534	7,279	9,074	11,286	14,009
Operating expenses	2,285	2,976	3,663	4,458	5,451
Pre-provisioning profit	3,250	4,302	5,411	6,828	8,558
Provision & Contingency	339	536	650	822	1,081
Profit before tax	2,910	3,766	4,761	6,007	7,477
Tax	905	1,227	1,547	1,982	2,467
Profit after tax	2,005	2,539	3,214	4,024	5,009

Balance sheet

Rs cr

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Networth	11,674	13,787	16,321	19,447	23,279
Deposits	91,176	111,720	136,856	168,333	207,050
Borrowings	26,220	31,659	37,636	47,975	59,009
Other liabilities & provisions	7,100	8,098	13,557	19,780	24,052
Total liabilities	136,170	165,263	204,370	255,535	313,390
Assets					
Cash & balances with RBI	5,241	5,776	6,090	7,407	9,110
Balances with banks & money at call	2,316	2,442	2,737	3,367	4,141
Investments	43,228	48,838	61,585	75,750	93,173
Advances	75,550	98,210	124,727	159,026	202,759
Fixed assets	319	471	541	623	716
Other assets	9,516	9,526	8,689	9,363	3,491
Total assets	136,170	165,263	204,370	255,535	313,390

Key ratios

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Per share data (Rs)					
Earnings	48.7	60.4	76.4	95.7	119.1
Dividend	9.1	10.0	13.8	18.2	23.8
Book value	283.0	327.3	387.6	461.9	553.0
Adj. book value	280.9	320.5	375.8	447.5	533.8
Spreads (%)					
Yield on advances	12.2	11.2	11.2	11.1	10.8
Cost of deposits	7.9	7.1	7.3	7.3	7.3
Net interest margins	3.2	3.4	3.5	3.5	3.5
Operating ratios (%)					
Credit to deposit	82.9	87.9	91.1	94.5	97.9
Cost to income	41.3	40.9	40.4	39.5	38.9
CASA	23.1	28.1	29.7	31.3	33.0
Non interest income / Total income	37.0	37.3	37.7	37.5	37.5
Return ratios (%)					
RoE	21.3	19.9	21.3	22.5	23.4
RoA	1.6	1.7	1.8	1.9	1.9
Assets/Equity (x)	13.0	11.8	11.7	11.8	12.3
Asset quality ratios (%)					
Gross NPA	0.4	0.8	0.7	0.7	0.7
Net NPA	0.1	0.3	0.4	0.4	0.4
Growth ratios (%)					
Net interest income	28.4	30.9	23.8	24.8	24.2
Pre-provisioning profit	20.9	32.4	25.8	26.2	25.3
Profit after tax	24.0	26.6	26.6	25.2	24.5
Advances	35.8	30.0	27.0	27.5	27.5
Deposits	22.9	22.5	22.5	23.0	23.0
Valuation ratios (x)					
P/E	31.4	25.3	20.0	16.0	12.8
P/BV	5.4	4.7	3.9	3.3	2.8
P/ABV	5.4	4.8	4.1	3.4	2.9
Capital adequacy (%)					
CAR	15.6	16.5	15.4	14.7	14.3
Tier I	11.5	10.7	10.0	9.5	9.2

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