

Stock Update

Possible bumps ahead

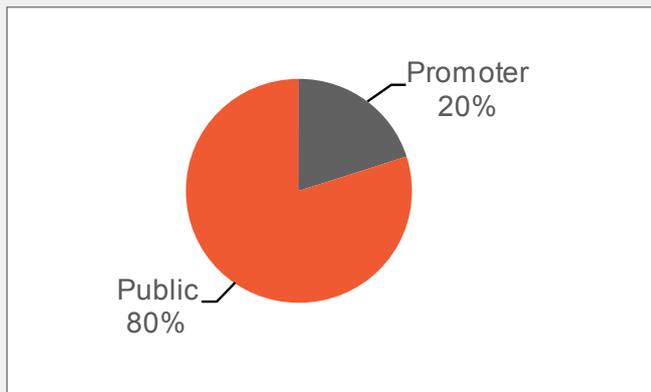
Yes Bank

Reco: Buy | CMP: Rs306

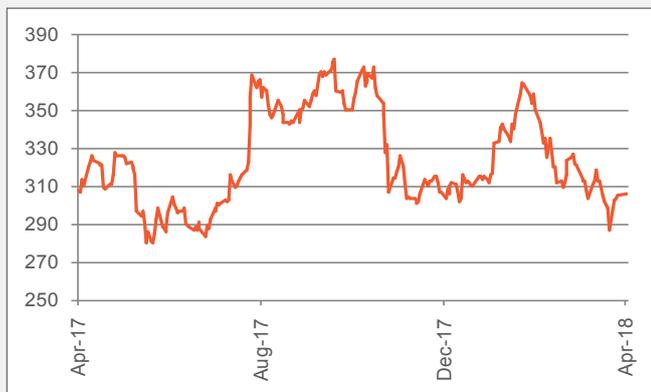
Company details

Price target:	Rs360
Market cap:	Rs70,390 cr
52-week high/low:	Rs383 / 275
NSE volume: (No of shares)	118.1 lakh
BSE code:	532648
NSE code:	YESBANK
Sharekhan code:	YESBANK
Free float: (No of shares)	183.80 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	-0.9	-10.8	2.6
Relative to Sensex	-0.6	0.2	-16.1	-9.2

Key points

- ◆ **Probability of MTM hit due to Fortis stake sale:** Yes Bank had acquired 8,97,81,906 equity shares (Face value of Rs 10 per share) of Fortis Healthcare (FHL) on 16 February 2018, pursuant to invocation of pledge due to a default by promoters in the credit facility provided by the bank. Consequently, Yes Bank became the biggest shareholder of Fortis Healthcare (FHL) with a 17.31% stake in India's second-largest hospital chain.

The board of Fortis Healthcare announced the sale of its hospital assets to the Manipal-TPG combined along with the sale of 20% stake in its diagnostics arm in a complexly structured deal, which prima facie values the Fortis Hospital stake at a significant discount. Post the announcement, the stock price of the FHL witnessed a correction. A section of minority investors (collectively holding ~30% of Fortis shareholding), have opposed the deal and seeking to annul the deal apart from taking steps to replace the current board and call for a fresh and transparent auction process of Fortis to the highest available bidder.

Hence, while there are several hurdles before the deal goes through, there has been a significant correction in the FHL shares post the announcement. Consequently, Yes Bank, as per our calculations is likely to see a noticeable provision due to mark-to-market (MTM) provision requirement in Q4 FY18E, which is likely to crimp Q4 performance and may be a dampener in the near term for the stock.

- ◆ **Outlook - Long term prospects remain bright, but brace for probable near term MTM hit:** Apart from the probable adverse MTM hit scenario which may be an overhang due to the likely MTM provisions crimping Q4 FY18E PAT expectations, we believe that the bank's prospects remain bright. It has been proactively de-risking and ring-fencing its exposures over the period. As a consequence of these proactive actions and effective monitoring, we believe that Yes Bank may have only a minimal impact on its portfolio pursuant to the implementation of NCLT Framework and IBC Loans. We continue to be positive on the outlook of the bank's performance based on asset quality and growth.
- ◆ **Valuation:** The stock of Yes Bank is currently trading at ~2.4x its FY2019E BV, which we believe is reasonable. Notwithstanding the strong overall performance and positive outlook, we believe that near term niggles of higher provisions can be an overhang on the stock performance. We maintain our rating to Buy, with a revised price target (PT) of Rs 360.

Valuations

Rs cr

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income (Rs cr)	3,487.8	4,566.7	5,797.3	7,709.0	10,816.5
Net profit (Rs cr)	2,005.4	2,539.4	3,330.1	4,026.3	5,571.2
EPS (Rs)	9.7	12.1	14.6	17.6	24.4
PE (x)	31.4	25.3	21.0	17.3	12.5
Book value (Rs/share)	56.6	65.5	96.5	110.2	128.9
P/BV (x)	5.4	4.7	3.2	2.8	2.4
RoE (%)	21.3	19.9	18.6	17.0	20.4
RoA (%)	1.6	1.7	1.8	1.8	2.0

Profit and loss statement

Rs cr

Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income	3,488	4,567	5,797	7,709	10,817
Non-interest income	2,046	2,712	4,157	4,999	5,999
Net total income	5,534	7,279	9,954	12,708	16,816
Operating expenses	2,285	2,976	4,117	5,469	7,133
Pre-provisioning profit	3,250	4,302	5,838	7,240	9,683
Provision & Contingency	339	536	793	1,230	1,368
Profit before tax	2,910	3,766	5,044	6,009	8,315
Tax	905	1,227	1,714	1,983	2,744
Profit after tax	2,005	2,539	3,330	4,026	5,571

Balance sheet

Rs cr

Particulars	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Networth	11,674	13,787	22,054	25,182	29,443
Deposits	91,176	111,720	142,874	175,020	214,400
Borrowings	26,220	31,659	38,607	49,881	64,320
Other liabilities & provisions	7,100	8,098	11,525	20,734	29,412
Total liabilities	136,170	165,263	215,060	270,817	337,575
Assets					
Cash & balances with RBI	5,241	5,776	6,952	7,701	9,434
Balances with banks & money at call	2,316	2,442	12,597	3,500	4,288
Investments	43,228	48,838	50,032	78,759	96,480
Advances	75,550	98,210	132,263	171,941	223,524
Fixed assets	319	471	684	786	904
Other assets	9,516	9,526	12,532	8,129	2,946
Total assets	136,170	165,263	215,060	270,817	337,575

Key ratios					Rs cr
Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share Data (Rs)					
Earnings	9.7	12.1	14.6	17.6	24.4
Dividend	1.8	2.0	3.5	3.4	4.9
Book value	56.6	65.5	96.5	110.2	128.9
Adj. book value	56.2	64.1	91.8	104.3	122.7
Spreads (%)					
Yield on Advances	12.2	11.2	10.8	10.3	10.2
Cost of Deposits	7.9	7.1	6.6	6.3	6.3
Net interest margins	3.2	3.4	3.4	3.7	4.0
Operating ratios (%)					
Credit to Deposit	82.9	87.9	92.6	98.2	104.3
Cost to income	41.3	40.9	41.4	43.0	42.4
CASA	23.1	28.1	36.3	38.2	40.3
Non interest income / Total income	37.0	37.3	41.8	39.3	35.7
Return ratios (%)					
RoE	21.3	19.9	18.6	17.0	20.4
RoA	1.6	1.7	1.8	1.8	2.0
Assets/Equity (x)	13.0	11.8	10.1	9.5	10.2
Asset Quality ratios (%)					
Gross NPA	0.4	0.8	1.7	1.4	0.8
Net NPA	0.1	0.3	0.9	0.8	0.6
Growth Ratios (%)					
Net interest income	28.4	30.9	26.9	33.0	40.3
Pre-provisioning profit	20.9	32.4	35.7	24.0	33.8
Profit after tax	24.0	26.6	31.1	20.9	38.4
Advances	35.8	30.0	34.7	30.0	30.0
Deposits	22.9	22.5	27.9	22.5	22.5
Valuation ratios (x)					
P/E	31.4	25.3	21.0	17.3	12.5
P/BV	5.4	4.7	3.2	2.8	2.4
P/ABV	5.4	4.8	3.3	2.9	2.5
Capital adequacy (%)					
CAR	15.6	16.5	17.0	16.4	15.5
Tier I	11.5	10.7	13.3	11.5	10.8

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