January 25, 2019

# Yes Bank (YESBAN) ₹ 225

## Clarity on leadership; focus turns on fundamental

- The bank has received RBI approval to select Ravneet Singh Gill as new MD & CEO. He is set to join on or before March 1, 2019
- Exposure to IL&FS was at ~₹ 2530 crore, out of which ₹ 1913 crore was classified as NPA against which provision of ₹ 478 crore (25%) has been made. Remaining exposure of ₹ 616 crore continues to remain standard, on which the bank has prudently provided ₹ 92.5 crore (15%). The bank has no exposure to the parent company
- Recognition of substantial exposure to IL&FS as sub-standard led to elevated provision at ₹ 550 crore, partly offset by ~₹ 206 crore write back on investment book. Additionally, GNPA ratio inched up ~50 bps QoQ to 2.10%
- Other income declined 37% YoY to ~₹ 891 crore, led by impact of decline in yields on credit substitutes of ₹ 206 crore
- Strong credit growth of 42% YoY at ₹ 243885 crore & stable margins of 3.3%, led to robust performance with NII growth at 41% YoY

### Credit growth to moderate; SME/retail proportion to rise

The bank fell short of its Version 2.0 (launched in 2010) targets like 750 branches, 3000 ATMs, ₹ 1.25 trillion deposit, ₹ 1 trillion credit, 30% retail/SME credit & 30% CASA ratio by FY15. This was due to an economic slowdown. However, it delivered a better performance vs. peers under Version 3.0. Largely, it strengthened the retail presence on both deposit (at >60% of retail deposits) & credit (targets 45% SME/retail) front. Historically, credit has grown at a brisk 53.9% CAGR in FY08-11 while in FY11-18, growth was modest at 29% CAGR to ₹ 203538 crore. We expect credit growth at 26.3% CAGR to ₹ 410076 crore in FY18-21E.

### Retail focus to garner asset and liabilities; support NIMs at ~3.2% ahead

On the liability side of the balance sheet, ~40% of Yes Bank's deposits are wholesale funded, which is highly sensitive to interest rates unlike steady retail deposits. However, with a gradual CASA build-up to ~35%, the bank has consistently managed its NIM well. Factoring in positives from incremental CASA and rising proportion of high yielding assets, we expect NIM to stay at ~3.2% in FY18-20E.

### Recognition of IL&FS exposure led to spike in GNPA

On the asset side, large corporates (sales >₹ 1000 crore) comprise ~67% while mid-corporate; SME/retail combined is 33%. Asset quality has remained resilient in the past but slippages of large stress account and divergence as per RBI supervision led to volatility in NPA numbers. Anticipating slippage of remaining IL&FS exposure and balance sheet clean up by new management, we factor increase in GNPA ratio to ~4.6% in FY20E. Accordingly, credit cost is seen to remain elevated in near term.

### Leadership ambiguity over; future strategy to be monitored

The announcement of Ravneet Singh Gill being appointed as new MD & CEO addresses uncertainty related to the top management. The change in leadership warrants a balance sheet clean-up and impact on earnings in near term. Therefore, we conservatively factor in higher credit cost in FY20E. Divergence in AQR continues to remain a near term risk. However, focus on improving retail franchise both asset as well as liability side is seen to remain structurally positive in the long run. Factoring in higher slippages, our ABV estimate dip in FY20E, post which is seen to revival led by moderation in NPA accretion. Rolling over to FY21E, we value the bank at 2.2x FY21E ABV assigning target price of ₹ 300 per share. We have a **BUY** recommendation on the stock.

| Rating matrix | | |
|---|---|---|
| Rating | : | Buy |
| Target | : | ₹ 300 |
| Target Period | : | 12 months |
| Potential Upside | : | 33% |

| What's Changed? | |
|---|---|
| Target | Chnaged from ₹ 190 to ₹ 300 |
| EPS FY20E | Changed from ₹ 19.1 to ₹ 20.2 |
| EPS FY21E | Introduced at ₹ 29.9 |
| Rating | Changed from Hold to Buy |

| Quarterly Performance | | | | | |
|---|---|---|---|---|---|
| ₹ Crore | Q3FY19 | Q3FY18 | YoY Gr.(%) | Q2FY19 | QoQ Gr.(%) |
| NII | 2,666 | 1,889 | 41.2 | 2,418 | 10.3 |
| NIM (%) | 3.3 | 3.5 | -20bps | 3.3 | 0bps |
| PPP | 1,990.4 | 2,001.8 | (0.6) | 2,366.4 | -15.9 |
| PAT | 1001.9 | 1076.9 | -7.0 | 964.7 | 3.9 |

| Key Financials | | | | |
|---|---|---|---|---|
| ₹ Crore | FY18 | FY19E | FY20E | FY21E |
| NII | 7740.2 | 10100.2 | 13111.9 | 15640.9 |
| PPP | 7754.7 | 8832.2 | 11420.0 | 13629.2 |
| PAT | 4223.6 | 4267.0 | 4647.6 | 6891.6 |
| ABV (₹) | 106.9 | 114.8 | 112.2 | 136.2 |

| Valuation summary | | | | |
|---|---|---|---|---|
| | FY18 | FY19E | FY20E | FY21E |
| P/E | 12.5 | 12.4 | 11.4 | 7.7 |
| Target P/E | 15.3 | 15.1 | 13.9 | 9.4 |
| P/ABV | 2.2 | 2.0 | 2.0 | 1.7 |
| Target P/ABV | 2.6 | 2.4 | 2.5 | 2.1 |
| RoA | 1.6 | 1.2 | 1.1 | 1.3 |
| RoE | 17.6 | 15.3 | 14.6 | 18.6 |

| Stock data | |
|---|---|
| Particular | Amount |
| Market Capitalisation | ₹ 52860 crore |
| GNPA (Q3 FY19) | ₹ 5159 crore |
| NNPA (Q3 FY19) | ₹ 2876 crore |
| NIM (Q3 FY19) | 3.30% |
| 52 week H/L | 404/147 |
| Net Worth (₹ crore) | ₹ 53273 crore |
| Face value | ₹ 2 |
| DII Holding (%) | 21.6 |
| FII Holding (%) | 36.2 |

| Price performance (%) | | | | |
|---|---|---|---|---|
| Return % | 1M | 3M | 6M | 12M |
| Yes Bank | 18.2 | 5.6 | -44.0 | -41.0 |
| Axis Bank | 7.9 | 17.6 | 21.5 | 9.2 |
| Indusind Bank | -4.6 | -2.0 | -23.5 | -13.2 |

**Research Analyst**

Kajal Gandhi
kajal.gandhi@icicisecurities.com
Vishal Narnolia
vishal.narnolia@icicisecurities.com
Harsh Shah
shah.harsh@icicisecurities.com

## Variance analysis

| | Q3FY19 | Q3FY19E | Q3FY18 | YoY (%) | Q2FY19 | QoQ (%) | Comments |
|---|---|---|---|---|---|---|---|
| NII | 2,666 | 2,527 | 1,889 | 41.2 | 2,418 | 10.3 | Strong credit growth of 42% YoY & stable margins at 3.3% led to healthy NII growth |
| NIM (%) | 3.3 | 3.3 | 3.5 | -20 bps | 3.3 | 0 bps | |
| Other Income | 891 | 1,576 | 1,422 | -37.4 | 1,473 | -39.5 | Other income lower due to muted performance by treasury and corporate banking fees |
| Net Total Income | 3,557 | 4,103 | 3,311 | 7.4 | 3,891 | -8.6 | |
| Staff cost | 625 | 363 | 533 | 17.2 | 594 | 5.3 | |
| Other Operating Expenses | 942 | 1,263 | 776 | 21.4 | 931 | 1.2 | |
| PPP | 1,990 | 2,477 | 2,002 | -0.6 | 2,366 | -15.9 | |
| Provision | 550.2 | 921.2 | 421.3 | 30.6 | 940.0 | -41.5 | Recognition of substantial exposure to IL&FS as NPA led to elevated provision.Total provision with regards to IL&FS stood at ~₹ 570 crores.Higher provisions due to IL&FS were partially offset by ~₹ 206 crore write back on investment book. |
| PBT | 1,440 | 1,556 | 1,580 | -8.9 | 1,426 | 1.0 | |
| Tax Outgo | 438.3 | 498.0 | 503.6 | -13.0 | 461.8 | -5.1 | |
| PAT | 1,001.9 | 1,058.2 | 1,076.9 | -7.0 | 964.7 | 3.9 | PAT in line with estimates due to higher provisions |
| Key Metrics | | | | | | | |
| GNPA | 5,158.6 | 4,252.7 | 2,974.3 | 73.4 | 3,866.1 | 33.4 | Asset quality took a hit owing to recognization of exposure to IL&FS. Total IL&FS exposure stood at ~₹ 2530 crore, out of which ₹ 1913 crore was classified as NPA, while remaining exposure of ₹ 616 crore continue to remain standard. |
| NNPA | 2,876.4 | 2,262.0 | 1,595.1 | 80.3 | 2,019.7 | 42.4 | |
| Total Restructured assets | 210 | 560 | 90 | 132.6 | 205 | 2.4 | |
| Advances | 243,885 | 254,005 | 171,515 | 42.2 | 239,627 | 1.8 | Robust advances growth continued owing to superior traction seen in retail book, while corporate book also continue to grow >40% YoY. |
| Deposits | 222,758 | 238,437 | 171,731 | 29.7 | 222,838 | 0.0 | Deposit growth remained healthy CASA ratio moderated to 33.5%.In current quarter Savings deposit witnessed a decline sequentially led by delay in government deposits. |

*Source: Company, ICICI Direct Research*

## Change in estimates

| | FY19E | | | FY20E | | |
|---|---|---|---|---|---|---|
| (₹ Crore) | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 9,427.4 | 10,100.2 | 7.1 | 10,479.3 | 13,111.9 | 25.1 |
| Pre Provision Profit | 8,474.7 | 8,832.2 | 4.2 | 8,880.3 | 11,420.0 | 28.6 |
| NIM (%) | 3.0 | 3.1 | 11 bps | 2.8 | 3.2 | 44 bps |
| PAT | 3,161.4 | 4,267.0 | 35.0 | 2,663.5 | 4,647.6 | 74.5 |
| ABV (₹) | 95.8 | 114.8 | 19.8 | 101.4 | 112.2 | 10.7 |

*Source: Company, ICICI Direct Research*

## Assumptions

| | | Current | | Earlier | |
|---|---|---|---|---|---|
| | FY18 | FY19E | FY20E | FY19E | FY20E |
| Credit growth (%) | 34.7 | 53.9 | 27.7 | 28.5 | 21.2 |
| Deposit Growth (%) | 27.9 | 40.5 | 27.1 | 28.2 | 27.4 |
| CASA ratio (%) | 36.3 | 36.5 | 36.3 | 36.0 | 35.3 |
| NIM Calculated (%) | 3.4 | 3.2 | 3.1 | 3.0 | 2.8 |
| Cost to income ratio (%) | 41.4 | 40.2 | 41.9 | 43.8 | 47.9 |
| GNPA (₹ crore) | 2,018.6 | 2,629.2 | 5,945.3 | 10,760.5 | 16,369.3 |
| NNPA (₹ crore) | 1,072.3 | 1,312.0 | 3,290.2 | 6,546.5 | 7,455.2 |
| Slippage ratio (%) | 2.7 | 1.7 | 2.1 | 4.5 | 2.4 |
| Credit cost (%) | 0.6 | 0.7 | 1.0 | 1.5 | 1.6 |

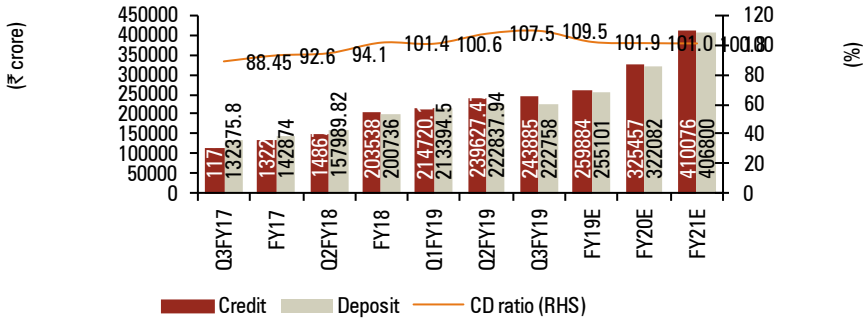
*Source: Company, ICICI Direct Research*

## Company Analysis

### Healthy credit growth of >25% to continue; share of SME/retail to inch up…

Over the years, Yes Bank has grown its credit almost entirely on the back of the corporate sector, which constitutes ~68% of its outstanding credit of ₹ 243885 crore as on Q3FY19. The credit book traction continued to be robust at 42% YoY, mainly witnessing an up-tick in the corporate and retail segments. Within corporate, international business unit (IBU), which comprises 12% of the total book as on Q3FY19.

**Exhibit 1: Credit estimated to grow at ~26.3% CAGR over FY18E-21E**




*Source: Company, ICICI Direct Research*

As on Q3FY19, large corporate constituted 67.8% while SME/retail constituted 32.2%. Within the SME/retail category, pure consumption, retail credit is 15.2% while the balance is SME/mid-corporate credit. IBU forms ~8% of book. We expect credit to grow at 26.3% CAGR to ₹ 410076 crore in FY19E-21E aided by faster growth in the SME/retail segment.

**Exhibit 2: Majority of credit growth contributed by corporate in FY07-18; going ahead, SME/retail proportion expected to rise**

| ₹ crore | Q3FY16 | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Large Corporate | 56714 | 63935 | 71511 | 74837 | 80205 | 95321 | 100207 | 116116 | 138199 | 145151 | 163426 | 165354 |
| Mid corp/SME/Retail | 27682 | 34275 | 34431 | 35379 | 36882 | 44651 | 48468 | 55399 | 65334 | 69569 | 76202 | 78531 |
| Total | 84396.2 | 98209.9 | 105942.0 | 110216.2 | 117087.0 | 139971.8 | 148675.3 | 171515.0 | 203533.9 | 214720.1 | 239627.5 | 243885.0 |

*Source: Company quarterly presentation, ICICI Direct Research*

SME/retail expected to grow at a more rapid pace ahead

The management has earlier guided that the proportion of SME/retail would increase from ~32% now to ~45% of total credit by FY20E. Strategy from the new management is awaited. Being a high yielding segment, it will support NIM, going ahead. A shift to the MCLR regime (the bank raised MCLR rate by 10 bps in Q3FY19) and higher CASA accretion is expected to provide impetus to NIMs. We expect NIM (calculated) to stay at ~3.2% by FY21E.

## Steady CASA and loan mix to support NIMs

Yes Bank has largely been a wholesale funded bank, which makes its liability franchise weak, thereby impacting its NIM. Unlike retail deposits, wholesale deposits are more sensitive to interest rates making them volatile in nature. Hence, Yes Bank tends to benefit significantly if interest rates trend south and is adversely impacted if interest rates trend north. However, the bank has successfully managed its cost of funds and consistently maintained its NIM in the range of 2.8-3.4% in the past five years despite a volatile interest rate scenario.

**Exhibit 3: Liability franchise steadily strengthening as bulk deposit proportion reduces with increase in CASA**

| (₹ crore) | FY17 | Q2FY18 | Q3FY18 | FY18 | Q1FY19 | Q2FY19 | Q3FY19 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Deposits | 142874 | 157990 | 171731 | 200736 | 213395 | 222838 | 222758 | 255101 | 322082 | 406800 |
| Current account deposit | 19088 | 19695 | 22604 | 28822 | 28333 | 25941 | 29538 | 35845 | 44806 | 56008 |
| Saving deposit | 32782 | 39030 | 42685 | 44354 | 46598 | 49339 | 44579 | 56773 | 70966 | 88708 |
| SA ratio (%) | 22.9 | 24.7 | 24.9 | 22.1 | 21.8 | 22.1 | 20.0 | 22.3 | 22.0 | 21.8 |
| CASA ratio (%) | 36.3 | 37.2 | 38.0 | 36.5 | 35.1 | 33.8 | 33.3 | 36.3 | 35.9 | 35.6 |
| Retail Term deposit | 38342 | 38392 | 39326 | 49845 | 46093 | 52144 | 53907 | 64798 | 84238 | 109509 |
| Retail Term deposit (%) | 26.8 | 24.3 | 22.9 | 24.8 | 21.6 | 23.4 | 24.2 | 25.4 | 26.2 | 26.9 |

*Source: Company quarterly presentation, ICICI Direct Research*

**Saving deposits –** The bank had struggled to mobilise significant saving deposit till FY12. It got a major fillip post the saving rate deregulation by RBI in September 2012. The bank offered highest interest rate of 7% on saving deposits with balance above ₹ 1 lakh and 6% on balance below ₹ 1 lakh. Later, the threshold for saving rate was revised upwards to ₹ 3 lakh from ₹ 1 lakh. Demonetisation in 2016 provided further impetus to CASA growth through increased accretion of low cost deposit, thereby increasing CASA ratio to 36.3% in FY17. Along with high saving interest rates, the bank has been widening its branch network (number of branches increased from 214 in FY11 to 1100 in FY18), supporting strong traction in saving deposits. InQ3FY19 Savings deposit declined ~10% QoQ due to delay in government deposit. Savings deposit would see a sharp surge QoQ in Q4FY19 due to reorganization of government deposits which were due previous quarter.

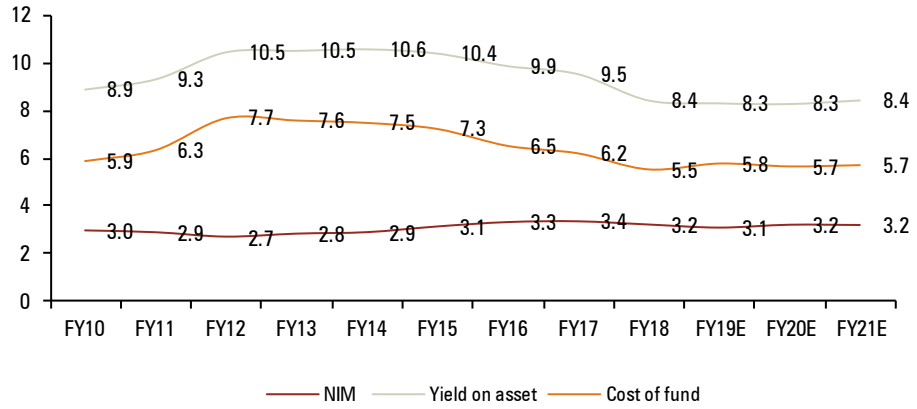
**Retail term deposits –** Retail term deposits/fixed deposits are steady by nature and less sensitive to interest rates. These deposits constitute ~25% of total deposit as on FY18. A widening branch network will support the growth momentum of retail term deposits.

**Bulk/wholesale deposit –** We have considered ex-retail deposits as bulk deposits. Its proportion has steadily declined from 76.5% in FY11 to ~40% by FY18 and is expected to further reduce ahead. Although declining sharply, it still constitutes a significant chunk of total deposits. Among peers, a few private banks have bulk deposit proportion of 35-50% while the rest of the banking industry is much lower at 20-25%.

## Reported NIM to expected to stay at ~3.2% by FY21E

Despite a volatile interest rate scenario, the bank has managed NIM in the 2.8-3.4% range consistently. Going ahead, we expect NIM to be supported by i) cost of fund being contained with CASA ratio rising, ii) increase in the proportion of high yielding SME/retail advances and iii) downward revision in saving account interest rate led by substantial accretion of saving deposits. We expect NIM to stay at ~3.2% by FY21E.

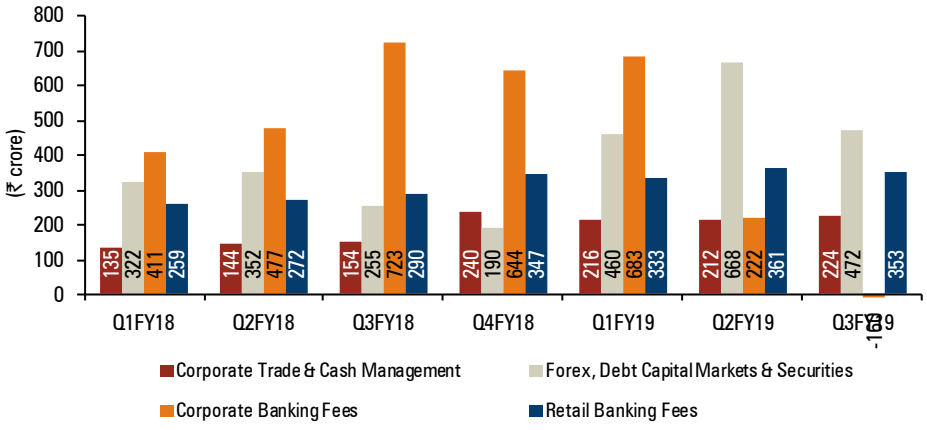
**Exhibit 4: Expect reported NIM to remain steady**




*Source: Company, ICICI Direct Research*

## Other income

**Exhibit 5: Other income break up**

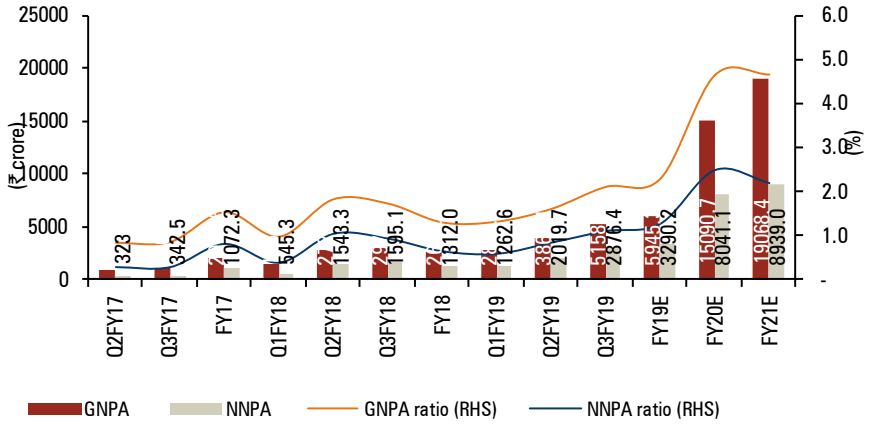



*Source: Company quarterly presentation, ICICI Direct Research*

Restructured assets at ₹ 210 crore (0.09% of loans) as on Q3FY19

## Recognition of IL&FS exposure as substandard impacts asset quality

**Exhibit 6: Asset quality sees pressure in Q3FY19**




*Source: Company, ICICI Direct Research*

Post maintaining resilience in asset quality, GNPA doubled QoQ in Q4FY17 at ₹ 2018 crore, with net accretion of ₹ 1013 crore. The increase in GNPA can be attributed to downgrading of an account with exposure of ₹ 911.5 crore, in conformity with divergences observed by RBI, as per its compliance process. The resilience in asset quality was reinstated with GNPA declining QoQ to ₹ 1364 crore in Q1FY18. This is due to 60% recovery of that account worth ₹ 911.5 crore (balance expected to be recovered in due course).

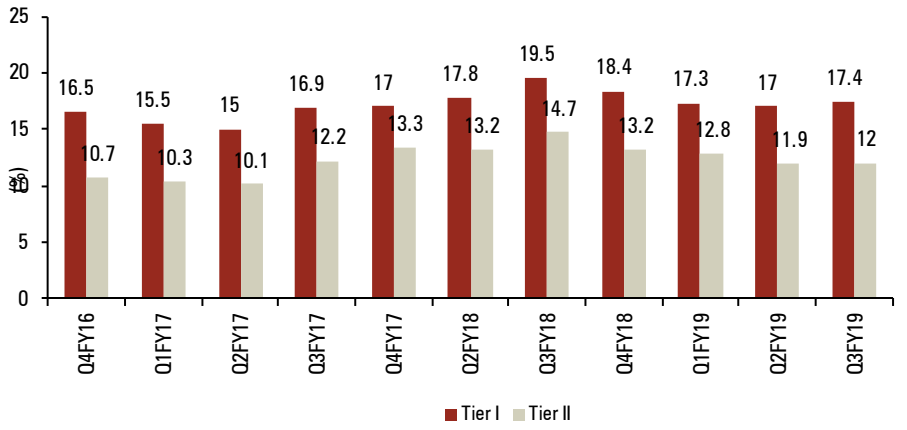
However, the impact of such divergence resurfaced again in Q2FY18. This led GNPA to increase more than 100% to ₹ 2720 crore. Accordingly, GNPA ratio increased 1.82% QoQ to 0.97% QoQ. As per RBI's risk based supervision (RBS) exercise for FY17, which concluded in October 2017, the bank had divergence in GNPA of ₹ 6355 crore as on FY17. The divergence with respect to provisioning was ₹ 1536 crore. The bank said the net current impact of the aforementioned retrospective slippages due to divergence noted by RBI has been duly reflected in results for the quarter and half year ended September 30, 2017. Out of total GNPA divergence of ₹ 6355 crore, around ₹ 1219 crore was the final additional impact on Q2FY18 GNPA as the balance either got repaid, or sold to ARC or upgraded to standard category in H1FY18.

In Q3FY19, asset quality witnessed pressure in with GNPA ratio increasing to 2.1% (₹ 5159 crore) vs. 1.61% (₹ 3866 crore) in Q2FY19. During the quarter, slippages increased and were at ~₹ 1900 crore owing to reorganisation of substantial IL&FS exposure. Out of total exposure of ~₹ 2530 crore towards IL&FS, the bank classified ₹ 1913 crore as NPA and provided ₹ 478 crore. Remaining ₹ 616 crore remained standard on which the bank prudently provided ₹ 92.5 crore. The total Standard Restructured Advances as a proportion of Gross Advances was at 0.09% (₹ 210 crores) as at Q3FY19.

Credit cost as of 9MFY19 was at 64 bps. The management has reiterated credit cost guidance at 80 bps for FY19E. Anticipating balance sheet clean up by new management, we factor in an increase in GNPA ratio to ~4.6% in FY20E. Accordingly, we expect credit cost to remain elevated in near term.

Raised ~₹ 4906 crore of capital via QIP in Q4FY17

**Exhibit 7: Capital position of the bank**



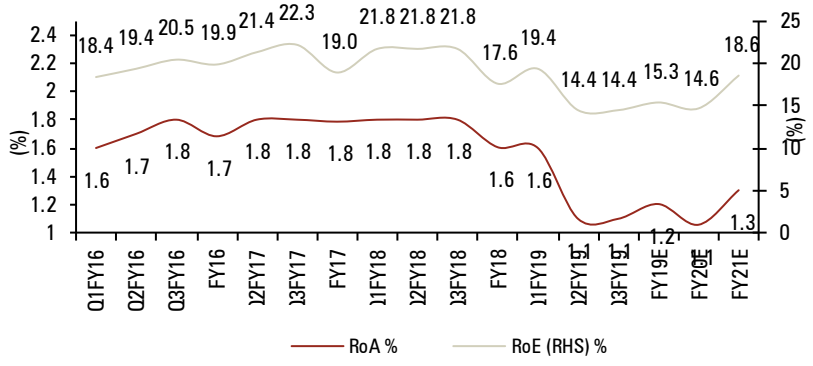

*Source: Company, ICICI Direct Research*

**Exhibit 8: Leverage to remain steady**

| | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net interest income/ avg. total assets | 2.4 | 2.6 | 2.6 | 2.8 | 3.0 | 3.0 | 2.9 | 2.9 | 3.0 | 3.0 |
| Non-interest income/ avg. total assets | 1.3 | 1.5 | 1.7 | 1.7 | 1.8 | 2.2 | 2.0 | 1.4 | 1.4 | 1.4 |
| Net total income/ avg. total assets | 3.7 | 4.0 | 4.3 | 4.5 | 4.8 | 5.2 | 4.9 | 4.3 | 4.4 | 4.3 |
| Operating expenses/ avg. total assets | 1.4 | 1.5 | 1.7 | 1.9 | 2.0 | 2.2 | 2.0 | 1.8 | 1.8 | 1.7 |
| Operating profit/ avg. total assets | 2.3 | 2.5 | 2.6 | 2.7 | 2.9 | 3.1 | 2.9 | 2.5 | 2.6 | 2.6 |
| Provisions/ Avg. total assets | 0.1 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.6 | 0.7 | 1.0 | 0.7 |
| Return on avg. total assets | 1.5 | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 1.6 | 1.2 | 1.1 | 1.3 |
| Leverage -Avg. total assets/ average equity | 15.7 | 16.5 | 16.1 | 13.0 | 11.8 | 10.6 | 11.0 | 12.7 | 13.8 | 14.3 |
| Return on equity | 23.1 | 24.8 | 25.0 | 21.3 | 19.9 | 19.0 | 17.6 | 15.3 | 14.6 | 18.6 |

*Source: Company, ICICI Direct Research*

**Exhibit 9: Return ratios impacted in Q3FY19**




*Source: Company, ICICI Direct Research*

## Outlook and valuation

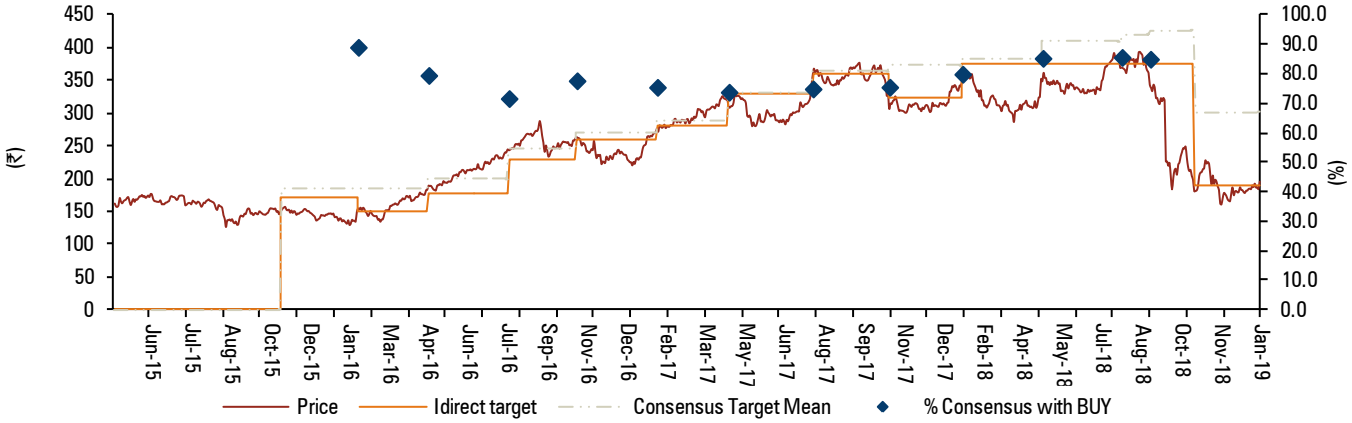
The announcement of Ravneet Singh Gill as new MD & CEO addresses uncertainty related to the top management. The change in leadership warrants a balance sheet clean-up and impact on earnings in the near term. Therefore, we conservatively factor in higher credit cost in FY20E. Divergence in AQR continues to remain a near term risk. However, focus on improving retail franchise both asset as well as liability side is seen remaining structurally positive in the long run. Factoring in higher slippages, our ABV estimates dip in FY20E, post which is seen a revival led by moderation in NPA accretion. Rolling over to FY21E, we value the bank at 2.2x FY21E ABV assigning target price of ₹ 300 per share. We have a **BUY** recommendation on the stock.

**Exhibit 10: Valuation**

| | NII (₹ cr) | Growth (%) | PAT (₹ cr) | Growth (%) | PE (x) | ABV (₹) | P/ABV (x) | RoA (%) | RoE (%) |
|---|---|---|---|---|---|---|---|---|---|
| FY16 | 4,567 | 30.9 | 2,535.6 | 26.4 | 19.1 | 64.2 | 3.6 | 1.7 | 19.9 |
| FY17 | 5,797 | 26.9 | 3,396.0 | 33.9 | 15.5 | 91.9 | 2.5 | 1.8 | 19.0 |
| FY18 | 7,740 | 33.5 | 4,223.6 | 24.4 | 12.5 | 106.9 | 2.2 | 1.6 | 17.6 |
| FY19E | 10,100 | 30.5 | 4,267.0 | 1.0 | 12.4 | 114.8 | 2.0 | 1.2 | 15.3 |
| FY20E | 13,112 | 29.8 | 4,647.6 | 8.9 | 11.4 | 112.2 | 2.0 | 1.1 | 14.6 |
| FY21E | 15,641 | 19.3 | 6,891.6 | 48.3 | 7.7 | 136.2 | 1.7 | 1.3 | 18.6 |

*Source: Company, ICICI Direct Research*

## Recommendation history vs. consensus




*Source: Bloomberg, Company, ICICI Direct Research*

## Key events

| Date | Event |
|---|---|
| FY08 | Stock rallies in past two years with Yes Bank growing its credit and PAT at a rapid pace albeit on a small base |
| FY09 | Although financials remained healthy, the stock took a severe hit as risk was high with Yes Bank relying on wholesale funds; NPAs were expected to increase significantly |
| FY11 | Launches version 2.0 with a vision to establish 750 branches, 3000 ATMs, 12000 employees, ₹ 125000 crore deposit, ₹ 100000 crore credit by FY15E |
| FY12 | Savings rate de-regulated, Yes Bank became the first bank to offer high interest rate of 7% above ₹ 1 lakh and 6% below ₹ 1 lakh |
| FY12 | Launches six new retail product offering - auto loans, commercial vehicle loan, small busines loan, LAP, LAS, etc. Ties with DHFL for home loan |
| Jan-13 | RBS said to be in talks with Yes Bank for sale of assets in India |
| Feb-13 | Stock rallies during FY09-13 as Yes Bank successfully sees out the recession and delivers 39.5% credit CAGR, 43.6% PAT CAGR with limited NPAs |
| Feb-13 | Bank highly sensitive to interest rates as it is largely wholesale funded. Rates were trending down during H2FY13, which supported the stock rally |
| May-13 | Stock also rallies in past few months as QIP rumours pick up pace |
| Jul-13 | RBI tightens liquidity by raising MSF rate by 3% and various other measures. Yes Bank impacted due to its heavy reliance on short-term and wholesale deposits for |
| Sep-13 | Arrival of new RBI Governor changes sentiment, eases few tight liquidity measures to which Yes Bank is highly sensitive, LIC buys 3% stake |
| Sep-13 | Becomes first bank to take advantage of RBI's concessional swap window for foreign borrowing at 1% lower swap rate. Bank raises ~₹ 1600 crore |
| Jun-14 | Raises ~₹ 3000 crore via QIP |
| Jun-15 | Raises ₹ 554.2 crore of Tier II capital |
| Mar-17 | Raises ~₹ 4900 crore of capital through QIP at ₹ 1500 per share |

*Source: Company, ICICI Direct Research*

## Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|---|---|---|---|---|---|
| 1 | Life Insurance Corporation of India | 30-09-2018 | 8.27% | 191.19M | +0.08M |
| 2 | Kapur (Madhu & Family) | 30-09-2018 | 7.58% | 175.28M | -0.35M |
| 3 | Kapoor (Rana) | 30-09-2018 | 4.32% | 100.00M | 0 |
| 4 | Yes Capital (India) Pvt. Ltd. | 30-09-2018 | 3.27% | 75.63M | 0 |
| 5 | Morgan Credits Pvt. Ltd. | 30-09-2018 | 3.04% | 70.25M | 0 |
| 6 | Franklin Templeton Asset Management (India) Pvt. Ltd. | 30-09-2018 | 2.65% | 61.24M | -8.65M |
| 7 | The Vanguard Group, Inc. | 30-11-2018 | 2.62% | 60.65M | +0.68M |
| 8 | T. Rowe Price International (UK) Ltd. | 30-11-2018 | 2.32% | 53.68M | 0 |
| 9 | BlackRock Institutional Trust Company, N.A. | 31-12-2018 | 2.16% | 49.84M | +0.11M |
| 10 | Aditya Birla Sun Life AMC Limited | 30-09-2018 | 1.89% | 43.73M | -11.45M |

## Shareholding Pattern

| (in %) | Sep-17 | Dec-17 | Jun-18 | Sep-18 | Dec-18 |
|---|---|---|---|---|---|
| Promoter | 20.1 | 20.0 | 20.0 | 19.9 | 19.8 |
| FII | 45.5 | 42.6 | 42.5 | 39.5 | 36.2 |
| DII | 24.6 | 24.8 | 25.2 | 22.9 | 21.6 |
| Others | 9.8 | 12.6 | 12.3 | 17.7 | 22.5 |

*Source: Reuters, ICICI Direct Research*

## Recent Activity

| Buys | | | Sells | | |
|---|---|---|---|---|---|
| Investor name | Value | Shares | Investor name | Value | Shares |
| Vontobel Asset Management, Inc. | +61.34M | +24.24M | ICICI Prudential Life Insurance Company Ltd. | -45.42M | -17.94M |
| Schroder Investment Management (Hong Kong) Ltd. | +35.64M | +14.08M | Goldman Sachs Asset Management International | -39.03M | -15.42M |
| TOBAM | +11.19M | +4.59M | Principal Global Investors (Equity) | -33.17M | -13.04M |
| SBI Funds Management Pvt. Ltd. | +9.02M | +3.70M | Franklin Advisers, Inc. | -30.04M | -12.32M |
| Axis Asset Management Company Limited | +6.21M | +2.55M | Aditya Birla Sun Life AMC Limited | -28.98M | -11.45M |

*Source: Reuters, ICICI Direct Research*

# Financial summary

| Profit and loss statement | | | | ₹ Crore |
|---|---|---|---|---|
| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
| Interest Earned | 20269.5 | 27245.4 | 33833.8 | 41260.4 |
| Interest Expended | 12529.3 | 17145.2 | 20722.0 | 25619.4 |
| Net Interest Income | 7740.2 | 10100.2 | 13111.9 | 15640.9 |
| Growth (%) | 33.5 | 30.5 | 29.8 | 19.3 |
| Non Interest Income | 5224.9 | 5103.3 | 6051.9 | 7203.3 |
| Fees and advisory | 4238.9 | 4747.6 | 5697.1 | 6836.6 |
| Treasury Income and sale of Invt. | 618.8 | 61.9 | 37.1 | 22.3 |
| Other income | 367.1 | 293.8 | 317.6 | 344.5 |
| Net Income | 12965.1 | 15203.5 | 19163.7 | 22844.2 |
| Employee cost | 2368.4 | 2559.6 | 3042.7 | 3554.4 |
| Other operating Exp. | 2842.0 | 3811.7 | 4701.0 | 5660.7 |
| Operating Income | 7754.7 | 8832.2 | 11420.0 | 13629.2 |
| Provisions | 1552.6 | 2557.2 | 4585.3 | 3494.4 |
| PBT | 6202.0 | 6275.0 | 6834.7 | 10134.7 |
| Taxes | 1978.4 | 2008.0 | 2187.1 | 3243.1 |
| Net Profit | 4223.6 | 4267.0 | 4647.6 | 6891.6 |
| Growth (%) | 24.4 | 1.0 | 8.9 | 48.3 |
| EPS (₹) | 18.3 | 18.5 | 20.2 | 29.9 |

*Source: Company, ICICI Direct Research*

| Key ratios | | | | |
|---|---|---|---|---|
| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
| Valuation | | | | |
| No. of Equity Shares | 230.3 | 230.3 | 230.3 | 230.3 |
| EPS (₹) | 18.3 | 18.5 | 20.2 | 29.9 |
| BV (₹) | 112.6 | 129.1 | 147.2 | 175.0 |
| ABV (₹) | 106.9 | 114.8 | 112.2 | 136.2 |
| P/E | 12.5 | 12.4 | 11.4 | 7.7 |
| P/BV | 2.0 | 1.8 | 1.6 | 1.3 |
| P/ABV | 2.2 | 2.0 | 2.0 | 1.7 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 3.2 | 3.1 | 3.2 | 3.2 |
| Yield on assets | 8.4 | 8.3 | 8.3 | 8.4 |
| Avg. cost on funds | 5.5 | 5.8 | 5.7 | 5.7 |
| Yield on average advances | 9.2 | 9.2 | 9.1 | 9.2 |
| Avg. Cost of Deposits | 6.0 | 6.2 | 6.0 | 6.0 |
| Quality and Efficiency (%) | | | | |
| Cost to income ratio | 40.2 | 41.9 | 40.4 | 40.3 |
| Credit/Deposit ratio | 101.4 | 101.9 | 101.0 | 100.8 |
| GNPA | 1.3 | 2.3 | 4.6 | 4.6 |
| NNPA | 0.6 | 1.3 | 2.5 | 2.2 |
| ROE | 17.6 | 15.3 | 14.6 | 18.6 |
| ROA | 1.6 | 1.2 | 1.1 | 1.3 |

*Source: Company, ICICI Direct Research*

| Balance sheet | | | | ₹ Crore |
|---|---|---|---|---|
| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
| Sources of Funds | | | | |
| Capital | 460.6 | 460.6 | 460.6 | 460.6 |
| Reserves and Surplus | 25481.2 | 29264.6 | 33428.6 | 39836.6 |
| Networth | 25941.8 | 29725.2 | 33889.1 | 40297.1 |
| Deposits | 200735.9 | 255100.8 | 322081.8 | 406799.6 |
| Borrowings | 73332.3 | 100560.8 | 111549.2 | 115904.5 |
| Other Liabilities & Provisions | 11064.4 | 12170.8 | 13387.9 | 14726.7 |
| Total | 311074.3 | 397557.6 | 480908.1 | 577727.9 |
| | | | | |
| Application of Funds | | | | |
| Fixed Assets | 737.6 | 801.4 | 878.7 | 972.5 |
| Investments | 68377.9 | 94659.0 | 104998.2 | 102663.6 |
| Advances | 203538.2 | 259883.8 | 325457.2 | 410076.1 |
| Other Assets | 13904.1 | 14298.3 | 17715.4 | 27573.6 |
| Cash with RBI & call money | 24516.4 | 27915.1 | 31858.6 | 36442.2 |
| Total | 311074.3 | 397557.6 | 480908.1 | 577727.9 |

*Source: Company, ICICI Direct Research*

| Growth ratios | | | | (%) |
|---|---|---|---|---|
| (Year-end March) | FY18 | FY19E | FY20E | FY21E |
| Total assets | 44.6 | 27.8 | 21.0 | 20.1 |
| Advances | 53.9 | 27.7 | 25.2 | 26.0 |
| Deposit | 40.5 | 27.1 | 26.3 | 26.3 |
| Total Income | 23.9 | 26.9 | 23.3 | 21.5 |
| Net interest income | 33.5 | 30.5 | 29.8 | 19.3 |
| Operating expenses | 26.6 | 22.3 | 21.5 | 19.0 |
| Operating profit | 32.8 | 13.9 | 29.3 | 19.3 |
| Net profit | 24.4 | 1.0 | 8.9 | 48.3 |
| Net worth | 17.6 | 14.6 | 14.0 | 18.9 |
| EPS | 23.3 | 1.0 | 8.9 | 48.3 |

*Source: Company, ICICI Direct Research*

## ICICI Direct coverage universe (Banking)

| Sector / Company | CMP (₹) | TP(₹) | Rating | M Cap (₹ Cr) | EPS (₹) | | | P/E (x) | | | P/ABV (x) | | | RoA (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E | FY18 | FY19E | FY20E |
| Bank of Baroda (BANBAR) | 113 | 140 | Buy | 29,868 | -9.2 | 10.0 | 17.0 | -12.3 | 11.3 | 6.6 | 0.9 | 0.9 | 0.8 | -0.3 | 0.4 | 0.6 | -5.8 | 6.1 | 9.8 |
| State Bank of India (STABAN) | 290 | 340 | Buy | 258,456 | -7.3 | 26.0 | 17.3 | -39.5 | 11.1 | 16.8 | 2.4 | 1.4 | 1.8 | -0.2 | 0.7 | 0.4 | -3.0 | 9.7 | 6.5 |
| Axis Bank (AXIBAN) | 672 | 725 | Buy | 172,627 | 1.1 | 22.2 | 38.2 | 625.5 | 30.2 | 17.6 | 3.7 | 3.2 | 2.5 | 0.0 | 0.8 | 1.2 | 0.0 | 0.8 | 1.2 |
| City Union Bank (CITUNI) | 189 | 225 | Buy | 13,796 | 8.9 | 8.5 | 10.3 | 21.2 | 22.1 | 18.3 | 3.5 | 3.3 | 2.5 | 1.6 | 1.5 | 1.6 | 15.6 | 14.5 | 14.2 |
| DCB Bank (DCB) | 182 | 210 | Buy | 5,625 | 7.9 | 10.2 | 13.9 | 23.1 | 17.8 | 13.1 | 2.3 | 2.1 | 1.8 | 0.9 | 1.0 | 1.1 | 10.9 | 11.7 | 14.0 |
| Federal Bank (FEDBAN) | 88 | 110 | Buy | 17,360 | 4.5 | 6.2 | 7.4 | 19.6 | 14.2 | 11.8 | 1.6 | 1.4 | 1.3 | 0.7 | 0.8 | 0.9 | 8.2 | 9.3 | 10.4 |
| HDFC Bank (HDFBAN) | 2,105 | 2,400 | Buy | 572,564 | 67.4 | 75.5 | 91.3 | 31.2 | 27.9 | 23.1 | 5.4 | 4.0 | 3.5 | 1.8 | 1.8 | 1.8 | 18.1 | 16.6 | 16.2 |
| IndusInd Bank (INDBA) | 1,503 | 1,860 | Buy | 90,542 | 60.1 | 81.5 | 106.1 | 25.0 | 18.4 | 14.2 | 3.9 | 3.3 | 2.8 | 1.8 | 2.0 | 2.1 | 16.2 | 18.8 | 20.6 |
| Jammu & Kashmir Bk(JAMKAS) | 39 | 52 | Buy | 2,172 | 3.6 | 5.0 | 8.9 | 10.7 | 7.8 | 4.4 | 0.7 | 0.7 | 0.7 | 0.2 | 0.3 | 0.5 | 3.4 | 4.4 | 7.5 |
| Kotak Mahindra Bank (KOTMAH) | 1,279 | 1,400 | Hold | 243,965 | 21.4 | 26.5 | 33.0 | 59.7 | 48.2 | 38.8 | 6.8 | 6.2 | 5.6 | 1.7 | 1.7 | 1.8 | 12.5 | 12.8 | 14.4 |
| Yes Bank (YESBAN) | 227 | 300 | Buy | 52,398 | 18.3 | 22.1 | 26.3 | 12.4 | 10.3 | 8.6 | 2.1 | 1.8 | 1.5 | 1.6 | 1.4 | 1.4 | 17.6 | 18.0 | 18.2 |
| Bandhan Bank (BANBAN) | 422 | 575 | Buy | 50,289 | 11.3 | 16.9 | 21.9 | 20.1 | 13.4 | 10.3 | 2.9 | 2.5 | 2.0 | 3.6 | 4.0 | 4.0 | 19.5 | 19.6 | 21.1 |

*Source: Company, ICICI Direct Research*

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**Pankaj Pandey** **Head – Research** **pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,**
**ICICI Securities Limited,**
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

**research@icicidirect.com**

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