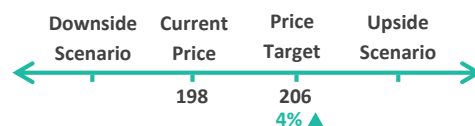


HOLD*

October 26, 2018

Yes Bank**Q2FY19 Result Update****Healthy deposits growth driven by term deposit growth**

Deposits grew 41% YoY & 4% QoQ to 2.2 trillion driven by term deposit growth of 49% YoY & 7% QoQ (came at 1.47 trillion). CASA grew at 28% YoY & remained flat sequentially at 752 billion. CASA ratio slipped to 33.8% (v/s 35.1% in Q1)

Robust credit growth at 61% YoY

Advances reported 12% QoQ at 2.4 trillion. Growth was driven by corporate banking (grew 39% YoY), retail banking (grew 72% YoY), MSME (grew 15% YoY). Within corporate book, above A rated exposure stood at 79.3% as compare to 78% in previous quarter.

Net interest margin flattish

Yield on advances improved 10bps to 10.1% while cost of funds increased by similar proportion to 6.4%. However, yield on earning funds improved to 8.5% from 8.4% sequentially due to 7bps improvement in yield on average investments at 7.21%. NIM came at 3.3% due to increase in leverage from 12.4x to 13.1x.

Moderate growth in non-interest income dented total income growth

Non-interest income grew +18%YoY/-13% QoQ on account of -53%YoY/-67%QoQ fall in corporate banking fees. Retail banking fees (+33% YoY/9%QoQ) also reported less than advance growth. This resultant in low growth of total operating income (+24%YoY/-1%QoQ). Also this brought about reverse economies of scale, bringing cost to income ratio to 39% from 37% in previous quarter.

One time provisioning wiped bottom line

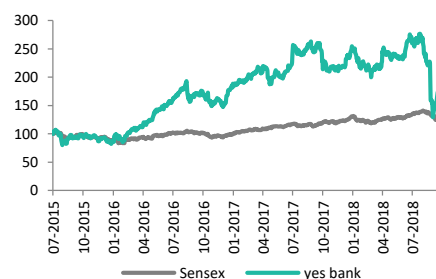
Provisions grew +110%/+50% QoQ to 940cr of which 409cr were towards NPAs, 345cr were towards investments (which also included one-time provisioning of 252cr on corporate bonds), and 118cr were towards standard asset provisioning.

Valuations

PAT reported de-growth of 4%YoY & 23% QoQ to INR 9.6bn. Resultant, ROAA% dropped to 1.1% while ROAE% came at 14.4% down from 19.4% in previous quarter. Balance sheet growth was robust, although, funding cost pressured NIM, followed by weak non-interest income & higher provisioning dented bottom line. We expect NIM to remain under pressure. Currently, stock is trading at FY20E P/ABV of 1.4x, we value stock at 1.51x and arrive at a target price of INR 206 and assign hold rating.

Market Data	
Industry	BFSI
Sensex	33690
Nifty	10125
Bloomberg Code	YES:IN
Eq. Cap. (INR Crores)	462
Face Value (INR)	2
52-w L/H	165/404
Market Cap (INR Crores)	45,724

Valuation Data	FY18A	FY19E	FY20E
NIM	3.1%	3.0%	3.0%
Book value	112	128	150
Adj BV	106	118	137
ROAA	1.6%	1.2%	1.1%
ROAE	19.4%	18.2%	19.5%

Yes Bank Vs SENSEX**Shareholding Pattern**

	Sept'18	Jun'18	Sept'17
Promoters	19.9	20.0	20.1
FIIs	39.5	42.5	45.8
MF	10.6	11.6	11.1
Retail	11.2	8.8	7.8
Others	18.9	17.1	15.1
	100.0	100.0	100.0

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	4,566.7	5,797.3	7,737.1	10,947.4	14,851.3
Growth%	31%	27%	33%	41%	36%
Pre-provisioning profit	4,302.50	5,837.5	7,748.1	9,719.7	12,390.7
Growth%	32%	36%	33%	25%	27%
Adjusted PAT	2,539.5	3,330.1	4,224.6	4,539.2	5,984.5
Growth%	27%	31%	27%	7%	32%
EPS (INR)	60.4	14.6	18.3	19.7	25.9
BVPS (INR)	327.8	96.6	111.8	128.1	150.0
ABVPS (INR)	321.1	91.9	106.1	118.3	136.6
P/B (x)	2.6	3.2	3.0	1.5	1.3
P/ABV (x)	2.7	3.4	3.2	1.7	1.4

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Interest on Advances/Bills	5549.6	3693.2	5004.7	50%	11%
Interest on Investment	1561.0	922.7	1350.9	69%	16%
Interest on bal. with RBI & Others	58.2	144.7	162.0	-60%	-64%
Other Interest	62.4	39.8	60.5	57%	3%
INTEREST EARNED	7231.2	4800.3	6578.0	51%	10%
Net-Interest Income (NII)	2417.6	1885.1	2219.1	28%	9%
Other Income	1473.5	1248.4	1694.1	18%	-13%
Total Income	3891.0	3133.5	3913.3	24%	-1%
Operating Expenses	1524.6	1226.9	1458.6	24%	5%
Pre-Provisional Profits	2366.4	1906.7	2454.7	24%	-4%
Provisions & Contingencies	940.0	447.6	625.7	110%	50%
PBT	1426.5	1459.1	1829.1	-2%	-22%
Provision for Taxes	461.8	456.9	568.7	1%	-19%
Adjusted Net Profit	964.7	1002.2	1260.4	-4%	-23%

Source: Company, NSPL Research

- Bank's total operating income grew 24% YoY from INR 3133cr in Q2FY18 & -1% QoQ from INR 3913cr in Q1FY19 to INR 3891cr in this quarter on the back of 28% YoY growth in net interest income propelled by 61% YoY growth in advances. However, yield on advances dropped from 10.2% in Q2FY18 to 10.1% in Q2FY19.
- Bank's Net Interest Income grew 28% YoY from INR 1885cr in Q2FY18 & 9% QoQ from INR 2219cr in Q1FY19 to INR 2417cr in this quarter. NIM contracted from 3.7% in Q2FY18 to 3.3% in Q2FY19 and cost of funds rose from 6.1% in Q2FY18 to 6.4% in Q1FY19.
- Bank's Non-Interest Income grew 18% YoY from INR 1694cr in Q2FY18 & -13% QoQ from INR 1248cr in Q1FY19 to INR 1473cr in this quarter on the back of 47% YoY growth in corporate trade segment, 33% YoY growth in retail banking fees and 90% YoY growth in forex fees.
- Bank's quarterly cost to income ratio remained flat YoY to 39.2%.
- Bank's quarterly pre-provisioning profit grew 24% YoY from INR 1906cr in Q2FY18 & -4% QoQ from INR 2454cr in Q1FY19 to INR 2366cr in this quarter.
- Bank's net profits -4% YoY from INR 1002cr in Q2FY18 & -23% QoQ from INR 1260cr in Q1FY19 to INR 964cr in this quarter.
- Gross NPA ratio came at 1.60% (v/s 1.82% in Q2FY18) and NNPA came at 0.84% (v/s 1.04% in Q2FY18). Provision coverage ratio was 47.8% (v/s 43.2% in Q2FY18).
- Capital adequacy ratio came at 17.0% while Tier I came at 11.9%

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q	Comment
Deposits	222,837.9	157,989.8	213,394.5	41%	4%	CASA went down from 37.2% in Q2FY18 to 33.8% in Q2FY19 due to 32% growth in CA, 26% growth in SA & 49% growth in term deposits.
Borrowings	101,659.5	44,830.0	78,790.2	127%	29%	-
Investments	90,320.2	53,907.8	82,953.2	68%	9%	
Advances	239,627.5	148,675.3	214,720.1	61%	12%	Corporate banking grew 38% YoY, MSME grew 15%, Retail banking grew impressive 72%.
Total Assets	371,647.2	237,394.1	332,549.3	57%	12%	

Source: Company, NSPL Research



Conference Call Highlights

1. CASA + Retail FD came at 57% of total deposits (v/s 56.7% in previous quarter)
2. Uncertainty pertaining to successor has got bank into capital preservation mode.
3. Bank witnessed improvement in pricing power over last few months. Although, NIM might be under pressure.
4. Exposure to NBFC has gone up for last 12-18 months. Exposure stood at 2.6%.
5. Exposure to HFCs stood at 3.2% (of which 96% is above AA)
6. Exposure to commercial real estate stood at 5.7%
7. Exposure towards telecom reduced from 3.6% in previous quarter to 3.0% (of which above A rated stood at 2.8%)
8. Bank did not take any provision on IL&FS account. Exposure stands at 2660cr.
9. Assuming worst case scenario, IL&FS exposure could spell 10bps expansion in credit cost guidance.
10. Otherwise, credit cost guidance is maintained at 50-70bps for FY19.
11. Provision of 250cr on corporate bonds came from AAA rated manufacturing company bonds
12. GNPA augmented primarily due to one account of a conglomerate company, which had exposure of 630cr. Recovery is expected post sale of asset.
13. Standard restructured exposure came at 0.08% (v/s 0.56% YoY, 0.12% QoQ).
14. Breakup of 0.08% (204.5 Cr) - S4A (105.2 Crores – 2 accounts); 5- 25 (94.6 Crores – 2 accounts); and Other Restructure book (4.7 Crores – 2 accounts)
15. SMA 2 book stood at 0.15% of gross advances.
16. Digital: bank has 40% market share in UPI transactions. Bank processed more than 29cr transactions amounting to 47,000cr in current quarter.

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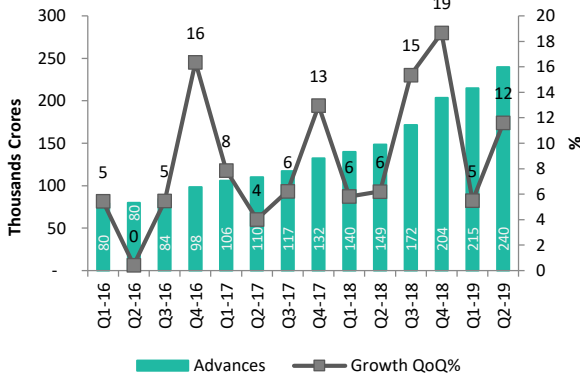
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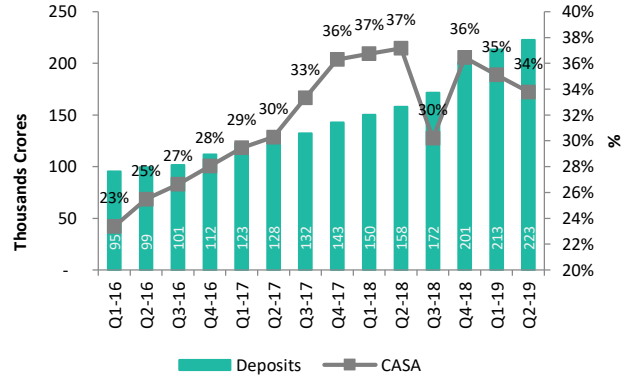
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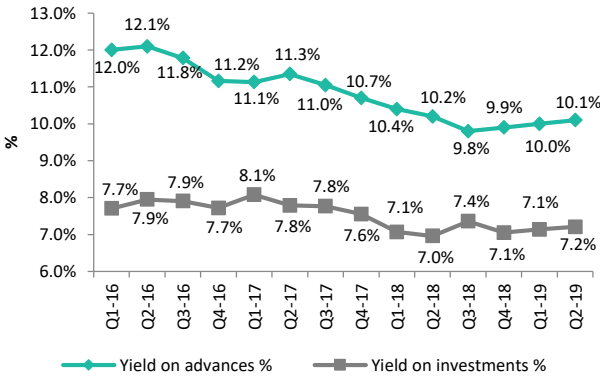
Advances Profile



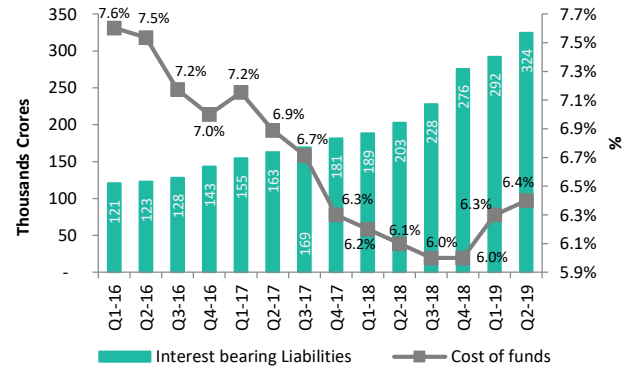
Deposits Profile



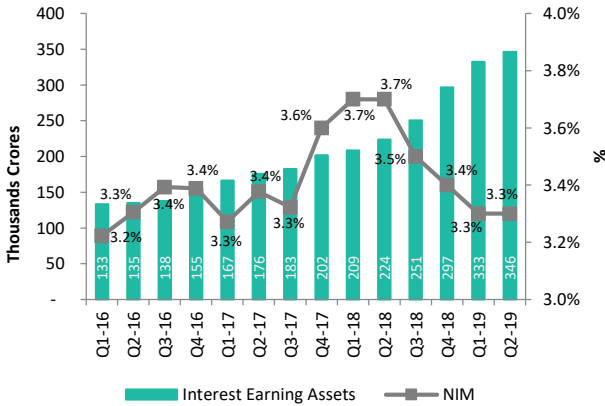
Yield Profile



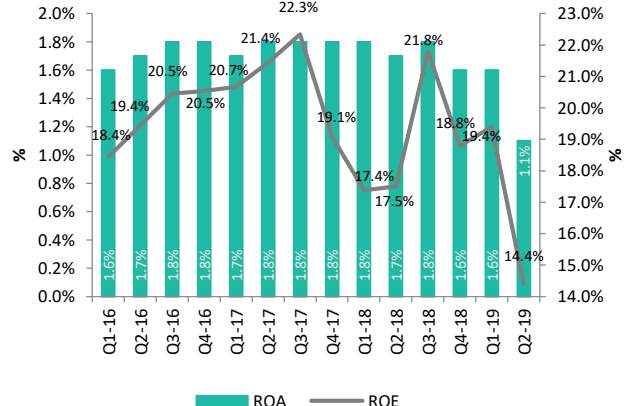
Interest Bearing Liabilities



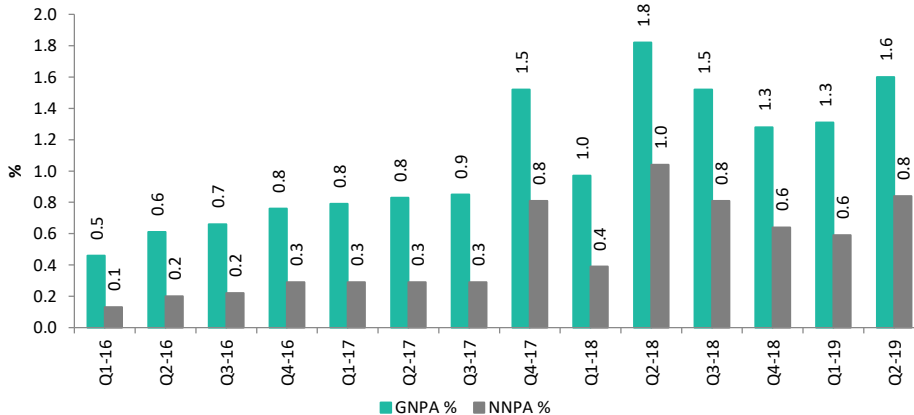
Interest Earning Assets



Return Ratios



Asset Quality



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Interest earned	13,533.4	16,424.6	20,267.4	30,133.9	41,331.7
Interest expended	8,966.7	10,627.3	12,530.4	19,186.5	26,480.4
Net interest income	4,566.7	5,797.3	7,737.1	10,947.4	14,851.3
Non-interest income	2,712.1	4,156.8	5,223.8	4,986.6	5,973.3
Total income	7,278.9	9,954.1	12,960.9	15,933.9	20,824.6
Operating expenses	2,976.4	4,116.5	5,212.8	6,214.2	8,434.0
Pre-provisioning profit	4,302.5	5,837.5	7,748.1	9,719.7	12,390.7
Provisions	536.3	793.4	1,553.8	3,064.0	3,615.9
Profit before tax (PBT)	3,766.2	5,044.1	6,194.3	6,655.7	8,774.8
Tax expense	1,226.8	1,714.0	1,969.7	2,116.5	2,790.3
Adjusted PAT	2,539.4	3,330.1	4,224.6	4,539.2	5,984.5

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Capital	420.5	456.5	460.6	461.9	461.9
Shareholder's Fund	13786.6	22054.1	25758.3	29589.0	34637.7
Deposits	111719.5	142874.3	200738.2	291070.3	383826.6
Borrowings	31659.0	38606.7	74893.6	108595.7	124553.0
Cash & Balances with RBI	8218.4	19549.4	24734.4	27501.4	35751.9
Investments	48838.5	50031.8	68398.9	107541.8	139804.4
Advances	98209.9	132262.7	203533.9	295124.1	383661.3
Total Assets	165263.4	215059.9	312445.6	453046.1	588960.0

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Growth rates					
Advances (%)	30.0%	34.7%	53.9%	45.0%	30.0%
Deposits (%)	22.5%	27.9%	40.5%	45.0%	31.9%
Total assets (%)	21.4%	30.1%	45.3%	45.0%	30.0%
NII (%)	30.9%	26.9%	33.5%	41.5%	35.7%
Pre-provisioning profit (%)	32.4%	35.7%	32.7%	25.4%	27.5%
PAT (%)	26.6%	31.1%	26.9%	7.4%	31.8%
Balance sheet ratios					
Credit/Deposit (%)	87.9%	92.6%	101.4%	101.4%	100.0%
CASA (%)	28.1%	36.3%	36.5%	36.5%	36.5%
Advances/Total assets (%)	59.4%	61.5%	65.1%	65.1%	65.1%
Leverage (x)	12.0	9.8	12.1	15.3	17.0
Operating efficiency					
Cost/income (%)	40.9%	41.4%	40.2%	39.0%	40.5%
Opex/total assets (%)	1.8%	1.9%	1.7%	1.4%	1.4%
Opex/total interest earning assets (%)	1.9%	2.0%	1.8%	1.4%	1.5%
Profitability					
NIM (%)	3.2%	3.2%	3.1%	3.0%	3.0%
RoA (%)	1.7%	1.8%	1.6%	1.2%	1.1%
RoE (%)	20.2%	17.1%	19.4%	18.2%	19.5%
Asset quality					
Gross NPA (%)	0.8%	1.5%	1.3%	1.5%	1.8%
Net NPA (%)	0.3%	0.8%	0.6%	0.8%	0.8%
PCR (%)	62.0%	46.9%	50.0%	50.0%	55.0%
Net Slippages (%)	0.6%	1.3%	0.5%	1.0%	0.8%
Per share data / Valuation					
EPS (Rs.)	60.4	14.6	18.3	19.7	25.9
BV (Rs.)	327.8	96.6	111.8	128.1	150.0
ABV (Rs.)	321.1	91.9	106.1	118.3	136.6
P/BV (x)	2.6	3.2	3.0	1.5	1.3
P/ABV (x)	2.7	3.4	3.2	1.7	1.4

Source: Company, NSPL Research

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Yes Bank				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 26, 2018	198	206	Hold	Buy	5% - 15%
July 27, 2018	369	407	Buy	Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
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Other disclosures	NO

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