



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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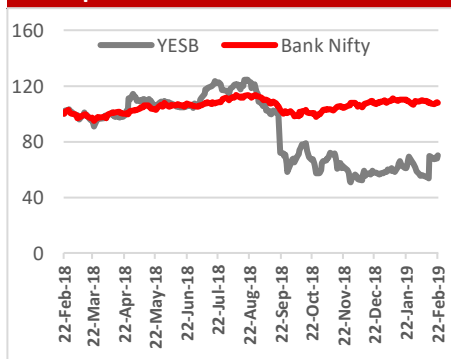
ACCUMULATE

Current Price (Rs)	228
52 Week Range	404/146
Target Price (Rs)	286
Upside (%)	25

Key Share Data

Market Cap (Rs.bn)	529.99
Market Cap (US\$ mn)	7450
No of o/s shares (Cr)	231
Face Value	2
Monthly Avg. vol (BSE+NSE) Nos'000	1246
BSE Code	532648
NSE Code	YESBANK
Bloomberg	YES:IN

Price performance



% Shareholding	Dec-18	Sep-18
Promoter	19.8	19.9
FII	36.2	39.5
DII	21.5	22.9
Others	22.5	17.6
Total	100	100

Yes Bank (YESB) is one of the fastest growing bank in India. Bank's asset size has more than doubled in last three years (between Q3FY16 and Q3FY19), with strong growth in advances (CAGR of 42%) and deposits (CAGR of 30%). Despite events like demonetization & rollout of Goods and Services Tax (GST), Bank has been successful in maintaining its growth trajectory (market share in Advances increased from 1.3% in FY16 to 2.3% in FY18, while market share in Deposits increased from 1.2% in FY16 to 1.7% in FY18). In 9MFY19, bank has reported strong operating performance (operating profit grew by 21%), though the bottom line (PAT grew by just 6%) was hampered by higher provisions & MTM treasury losses. We expect that the bank will continue to maintain strong operating performance going forward, while bottom-line will start improving from the first quarter of next financial year (FY20).

NIM on a strong footing

Despite a volatile interest rate scenario along with steep competition from other PVBs, YESB has managed to maintain NIM above 3% mark consistently. 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. Going ahead, a better credit rating along with lending rate hikes will help the bank improve its NIM in next fiscal. In the longer run, NIM will be supported by cost of fund being contained with expansion in CASA deposits and increase in the proportion of high yielding retail and business banking advances.

Strong performance across balance sheet

During Q3 FY19, YESB has reported strong credit growth of 42% YoY/2% QoQ driven by robust retail loan book growth of 83% YoY to 15.2% of outstanding book (against 11.8% in the year-ago quarter). As on Dec 31, Corporate Banking (including IBU Advances) accounted for 67.8% of the Advances portfolio, while Retail & Business Banking (including MSME) constituted 32.2%. We expect that bank will continue to register healthy credit growth of around 26% over FY18-FY20E.

On the other hand, Bank's deposits during the quarter rose 30% YoY to Rs 222,758 Cr with CASA ratio at 33.3%. Bank has seen slow growth in CASA, which grew by 13.5% YoY in Q3FY19. CASA + Retail FDs as a % of Deposits rose to 57.5% from 57.2% last quarter. We expect that bank will continue to register stable Deposits growth of around 23% over FY18-FY20E.

Key Financials

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	BVPS	PB (X)
FY16	4567	31	4302	32	2539	27	66	3.5
FY17	5797	27	5838	36	3330	31	97	2.4
FY18	7737	33	7748	33	4225	27	112	2.0
FY19E	9850	27	9176	18	4416	5	128	1.8
FY20E	12417	26	11697	27	6042	37	151	1.5



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Asset quality expected to improve

Bank's asset quality deteriorated over the last one year, with its GNPA ratio at 2.1% in Q3FY19, (as compared with 1.72% a year earlier, and 1.6% from the preceding September quarter). Standard restructured loans, including those under various debt restructuring schemes, represent 0.09% of bank's loan book. Taking into account Net NPAs, Net Security Receipts & restructured loans, bank's stressed asset ratio was around 1.98% as of the end of Dec 2018 (up from 1.79% in Q2FY19). Bank has an exposure of Rs 2,530 Cr towards IL&FS, and out of this, Rs 1,913 Cr exposure has been downgraded with a 25% provision of Rs 478 Cr. The balance advances of Rs 617 Cr is still standard and 15% provision amounting to Rs 93 Cr has been provided. Excluding the impact of the aggregate exposure to IL&FS, the gross and net NPAs would have been 1.32% and 0.59%, respectively. The provision coverage ratio (PCR) has marginally hit on YoY basis, and stands at 44.2%. We expect asset quality to start improving from the first quarter of next financial year on back of reduction in slippages and increasing recoveries/upgrades.

Outlook & Valuation

With formation of new board, appointment of Mr. Ravneet Singh Gill as MD & CEO and nil divergence report from RBI, YESB is in a better position to raise capital and return to the original growth model. We expect total business to grow at CAGR 24% in FY18-20E, with growth in advances and deposits at ~26% and ~23% respectively. At CMP the stock trades at 2.0x its FY18 BVPS and 1.8x its FY19E BVPS and 1.5x its FY20E BVPS. We assign BUY rating to the stock with P/BV multiple of 1.9x on its FY20E BV to arrive at target price of Rs 286 with potential upside of 25%.



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