

Yes Bank Ltd.

- Loan growth was surprisingly sustained at robust 36% yoy; mix moved back towards Corporate Banking
- Deposit franchise continues to improve; CASA crosses 23%
- NIM improvement was a pleasant surprise; outlook is strong too
- Trend in non-interest income growth disappointed; opex growth remains high on aggressive network investments
- Uptick in stress assets was in-line with the trend seen in preceding quarters
- Retain BUY and 12-month target price of Rs1,005

Result table

(Rs cr)	Q1FY16	Q4 FY15	% qoq	Q1 FY15	% yoy
Total Interest Income	3,252	3,088	5.3	2,680	21.4
Interest expended	(2,192)	(2,111)	3.8	(1,934)	13.3
Net Interest Income	1,060	977	8.5	745	42.2
Other income	545	590	(7.7)	426	28.1
Total Income	1,605	1,567	2.4	1,171	37.1
Operating expenses	(697)	(630)	10.6	(527)	32.3
Provisions	(98)	(126)	(22.5)	(24)	312.6
PBT	810	811	(0.1)	621	30.6
Tax	(259)	(260)	(0.4)	(181)	43.1
Reported PAT	551	551	0.0	439	25.4
EPS	13.3	13.3	0.0	10.6	25.4

(Rs cr)	Q1FY16	Q4 FY15	% qoq	Q1 FY15	% yoy
Loans	79,666	75,550	5.4	58,989	35.1
Credit Substitutes	10,394	11,600	(10.4)	12,320	(15.6)
Customer Assets	90,059	87,150	3.3	71,309	26.3
Deposits	95,316	91,180	4.5	76,103	25.2
Investment	42,204	46,605	(9.4)	40,627	3.9
Total assets	139,037	136,170	2.1	109,743	26.7

Key Ratios	Q1FY16	Q4 FY15	chg qoq	Q1 FY15	chg yoy
NIM (%)	3.3	3.2	0.1	3.0	0.3
Yield on advances (%)	11.9	12.0	(0.1)	12.5	(0.6)
Cost of funds (%)	7.6	7.8	(0.2)	8.5	(0.9)
CASA (%)	23.4	23.1	0.2	22.3	1.1
C/D (%)	83.6	82.9	0.7	77.5	6.1
Non-interest income (%)	34.0	37.7	(3.7)	36.3	(2.4)
Cost to Income (%)	43.4	40.2	3.2	45.0	(1.6)
Provisions/Income (%)	6.1	8.1	(2.0)	2.0	4.1
RoE (%)	18.4	19.0	(0.6)	21.6	(3.2)
RoA (%)	1.6	1.7	(0.1)	1.6	-
CAR (%)	15.0	15.6	(0.6)	18.0	(3.0)
Gross NPA (%)	0.5	0.4	0.1	0.3	0.1
Net NPA (%)	0.1	0.1	0.0	0.1	0.1

Source: Company, India Infoline Research

Rating: BUY

Target: Rs1,005

CMP: Rs816

Upside: 23.2%

Sector: Financials

Sector view: Positive

Sensex: 27563

52 Week h/l (Rs): 910/516

Market cap (Rscr) : 34,105

6m Avg vol ('000Nos): 3,421

Bloomberg code: YES IN

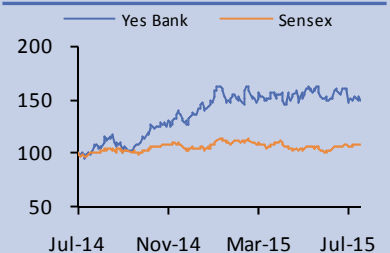
BSE code: 532648

NSE code: YESBANK

FV (Rs): 10

Price as on July 29, 2015

Share price trend



Share holding pattern

(%)	Dec-14	Mar-15	Jun-15
Promoter	22.1	22.1	22.0
Insti	66.4	65.7	65.7
Others	11.5	12.2	12.3

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Loan growth was surprisingly sustained at robust 36% yoy; mix moved back towards Corporate Banking

Yes Bank's customer assets (loans + credit substitutes) grew by strong 26% yoy in Q1 FY16 led by robust growth of 35% yoy in advances (our expectation was 30% yoy). Credit substitutes' portfolio shrunk further by 10% on sequential basis (was down 16% yoy) and as a proportion of customer assets and investments stood at multi-quarter low of 11.5% and 24.6% respectively. Within loans, the mix moved substantially towards the Corporate Banking portfolio which grew by 8% qoq while the Retail/Business Banking credit declined by 6% qoq. The share of the latter came down to 32% from 35% in the previous quarter. The Retail/Business Banking segment comprises of multiple products viz consumption financing, micro lending, CV/CE/ME financing, supply chain financing, SME and emerging corporate financing. About 75% of the Corporate Banking portfolio is to companies rated 'A' or higher. Further, the overall customer assets of the bank remain well diversified with low exposure to the perceived stressed sectors.

In our view, Yes Bank would deliver 30% CAGR in advances over FY14-17 driven by improvement in the credit environment, benign wholesale funding rates (will ensure that wholesale spreads are reasonably healthy), brisk network expansion (key for retail/SME growth) and a robust capital position (Tier-1 ratio at 10.9%). The Board has already approved an equity capital raising plan of up to US\$1bn to support brisk balance sheet growth in the longer run.

Deposit franchise continues to improve

Savings deposits growth accelerated to 46% yoy (from 35% yoy in FY15) aided by substantial expansion of branch network (bank added 30 branches in Q1 FY16) and higher savings rate offered. Overall CASA deposits grew by robust 31% yoy and the ratio improved by 110bps to 23.4%. Branch/Retail Banking FDs grew by impressive 19% qoq and 67% yoy. As at the end of the year, CASA + Branch/Retail FDs formed 52% of total deposits as compared to 44% during the end of Q1 FY15. Network addition and management's focus on growing the retail franchise remain the key drivers behind increasing granularity of deposits.

NIM improvement was a pleasant surprise; outlook is strong too

Versus our expectation of 5bps qoq contraction, Yes Bank's NIM improved by 10bps qoq to 3.3%. This was driven by 20bps decline in cost of funds (underpinned by improving CASA share and softening of bulk deposits rates) and further uptick in C/D ratio (has improved by 600bps over the past four quarters). The latter has been mainly a function of advances being funded through liquidation of credit substitutes and other investments, manifested in investment/deposits ratio declining by 900bps yoy. The blended lending yield declined by 10bps qoq, which looks resilient in the context of mix shift towards Corporate Banking and lower re-pricing in case of highly rated loans. As Yes Bank has a short duration Corporate Banking book, the rate transmission is quite prompt. NIM outlook for the bank remains encouraging with key structural drivers being improvement in CASA ratio and significant shift in the loan mix towards Retail/Business Banking in the longer run.

Trend in non-interest income disappointed; opex growth remains high on aggressive network investments

Core non-interest income growth (ex-fin markets) moderated significantly for the second consecutive quarter. It has come-off from 38% yoy in Q3 FY15 to just 8% yoy in Q1 FY16. While traction in Branch Banking fees accelerated (67% yoy), the growth in Transaction Banking fees (-10% yoy) and Financial Advisory income (5% yoy) has come-off substantially. Financial Markets income was significantly higher yoy at Rs. 125cr aided by gains booked on the bond portfolio. Opex growth remained high at 32% yoy due to sustained investments on expanding the branch network.

Uptick in stress assets was in-line with the trend seen in preceding quarters

Yes Bank's asset quality, after being pristine during FY12-14, has been normalizing from the end of FY14 in response to the challenging economic environment. In Q1 FY16, absolute Gross NPLs increased by 17.5% qoq (86% yoy) on a lower base and the ratio inched-up to 0.46%. Higher restructuring also continued and the outstanding stock reached a level of 0.7% of advances as compared to 0.5% as at the end of previous quarter. The restructured assets base has increased by nearly 5x over the past 12 months. This has been largely contributed by few road assets where project commencement has been delayed due to administrative (government side) delays. Yes Bank's exposure to the road sector stands at 1.5-1.6% of advances, of which 50% is to operational projects and a large portion of the residual is already restructured now. There was no sale of NPLs to ARCs during the quarter and the bank remains averse to this practice. Credit cost based on specific provisions was low at annualized ~25bps with the PCR being sustained above 70%. Yes Bank further augmented its counter-cyclical provisioning buffer during the quarter to maintain it at 0.5% of advances. We expect Yes Bank's asset quality to continue to normalize further in ensuing 2-3 quarters and stabilize thereon.

Retain BUY and 12-month target price of Rs1,005

We believe that robust loan growth, NIM expansion and a stable credit cost would drive strong 25% earnings CAGR for Yes Bank over FY15-17 notwithstanding continued significant investments in the network. During this period, average RoA and RoE is estimated to be at impressive 1.6% and 20% respectively. Current valuation at 2.1x FY17 P/ABV (material discount to Axis Bank) is reasonable in the context of the envisaged impressive RoE delivery and earnings growth. The planned capital raising of US\$1bn would boost book value and thus make stock valuation more attractive. Retain BUY recommendation and 12-month target price to Rs1,005.

Financial Summary

Y/e 31 Mar (Rs cr)	FY14	FY15	FY16E	FY17E
Total operating income	4,438	5,546	6,972	8,817
yoy growth (%)	27.7	25.0	25.7	26.5
Operating profit (pre-prov)	2,688	3,261	4,048	5,132
Net profit	1,618	2,013	2,456	3,141
yoy growth (%)	24.4	24.4	22.0	27.9
EPS (Rs)	44.9	48.2	58.8	75.2
Adj.BVPS (Rs)	196.8	277.5	323.0	382.2
P/E (x)	18.2	16.9	13.9	10.9
P/BV (x)	4.1	2.9	2.5	2.1
ROE (%)	25.0	21.4	19.4	21.1
ROA (%)	1.6	1.6	1.6	1.7
Dividend yield (%)	1.0	1.1	1.2	1.5
CAR (%)	14.4	15.6	13.2	12.3

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

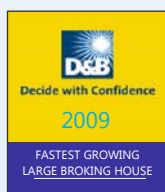
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Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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