

Yes Bank

CMP : ₹247

Target price: ₹385

HP* : Upto 3 years

The Vriddhi Pick for the month of March is Yes Bank. Yes Bank is the fourth largest bank which from its inception in 2004 has grown into a full-fledged bank. It grew rapidly on the basis of its strong branch network, corporate client base, investment banking and retail banking. We see the company to be a Vriddhi stock as it has come out unscathed from the issues which had not only battered the bank but also the entire industry. We believe resolution of ownership and control, transparent board, better reporting and compliance framework makes the company to script a comeback story.

Key investment criteria are-

- Better and consistent growth:** The last three years have been difficult for the entire banking industry. However, we see that the Yes Bank continued to grow its CASA (currently ~33%) and net interest income (~30% growth rate) over this period. These factors point to a sustainable business model and sticky nature of its relationships. The growth in investment banking was also worth mentioning.
- Assuaging slippages and divergence:** The company buckled its shoes in early FY18 to meet the regulatory compliance needs on slippages and divergence. These efforts showed results at the fag end of FY19. The risk of higher NPAs is largely contained, though we see GNPA's move to the level of +2% vs below 1% in FY16. Higher granularity should also help to lift the loan book and contain slippages.
- Professional management:** With the new CEO Ravneet Singh Gill at the helm and two new independent directors joining the board, we can expect higher transparency in the board. We expect higher professional management and further streamlining of operations. With the cost/income ratio at 40% and higher corporate clients, we see this ratio to further improve to 38% going forward.
- Valuation:** The company is currently trading at P/B of 2.2x compared to 2.73x and 3.21 in FY18 and FY17 respectively. Also, the growth in the loan book has been steady and consistent. This will be further driven by its digital push and higher granularity in the coming years which is good for asset quality too. We believe with provisioning to be contained to ~2.3%, the net profit should grow more than proportionately. The company has consistently maintained RoA at ~1.6% and RoE above 17%. We expect stock to reach the target price of Rs 385 over the next three years.

*HP : Holding Period

Company Details

Industry	Bank - Private
Chairman	Brahm Dutt
Managing Director	Rana Kapoor
Company Secretary	Shivanand Shettigar
Bloomberg Code	YES IN
BSE Code	532648

Key Market Indicators (Standalone)

Latest Date	14-Mar-2019
Latest Price (Rs)	249.85
Previous Close (Rs)	244.35
1 Day Price Var%	2.25
1 Year Price Var%	-21.65
52 Week High (Rs)	404.00
52 Week Low (Rs)	147.00
Beta	1.09
Face Value (Rs)	2.00
Industry PE	35.17
TTM Period	201812
TTM EPS(Rs)	19.04
TTM CEPS(Rs)	19.04
Price/TTM CEPS(x)	13.12
TTM PE (x)	13.1 2
Price/BV(x)	2.04
EV/TTM EBIDTA(x)	13.56
EV/TTM Sales(x)	4.41
Dividend Yield%	1.08
MCap/TTM Sales(x)	2.10
Latest Book Value (Rs)	122.45
Market Cap (Rs. In Crores)	57810.94
EV (Rs. In Crores)	121278.77
Latest no. of shares (In Crores)	231.38

Share Holding Pattern as on 201812

Promoter No of shares (In Cr)	45.84
Promoter %	19.82
FII No of Shares (In Crores)	83.58
FII %	36.15
Total No of Shares (In Crores)	231.23
Free Float %	80.18

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Consistent growth:

During the period from FY16-18, the company saw consistent growth in net interest income (NII) at ~30% per year. At the same time, PAT too increased at more than 25% per annum. This shows the solid base of clients and increasing granularity in the loan book.

We also see CASA has consistently grown, providing the bank with funds to utilise for growing its loan book. We see CASA now to be in the range of 33% in Q3FY19 and expect this to be maintained.

We see from the chart below that over the three-year period, the provisioning increased and slippages increased at an alarming rate. This was more in terms of better disclosure by the company as per the regulatory norms. Also, these slippages were largely higher due to provisioning for ILFS account and might increase 10-15% from this level.

Clarity on divergence:

Yes Bank recently reported nil divergence on the NPAs. The stock price had corrected over the last year due to the rising divergence, indicating the risk of higher defaults. As per the management, the divergence was more towards meeting the compliance needs rather than on the operational credit side. The divergence was high on FY16 and FY17 accounts and these learnings were incorporated in FY18 leading to lower slippages in the eventual quarters.

Some of the learnings include avoiding consortium-based lendings where the bank is not a lead and where it is not the first lender, it has the first rights on the sale of assets.

Digital drive is gaining traction

The company currently enjoys 30% market share in UPI merchant payments and it is also amongst the top remitters in the IMPS category. Under IMPS, banks saw 72% increase in the volumes. The company also saw two-fold increase in registering on mobile banking platforms.

The exposure to ILFS is also less than 25 bps for the company of the overall loan book. The company has provided for ~23% as the blended provision for this.

Considering such prudence, we expect GNPA's to stay in the range of 1.3-1.4%.

Moving towards next phase of growth:

In the last two years, the bank took a hit on the reputation it had built with corporates over the last decade. It is again regaining its name and customers are feeling more confident on its ability to function prudently. On the financial front, due to its strong linkages with corporates and solution offerings, the growth in corporates has been strong in the first half of FY19, but due to slower economic activity, it took a breather in Q3FY19.

We expect with the new CEO at the helm, there will be more professionalism and higher accountability will lead to better reporting.

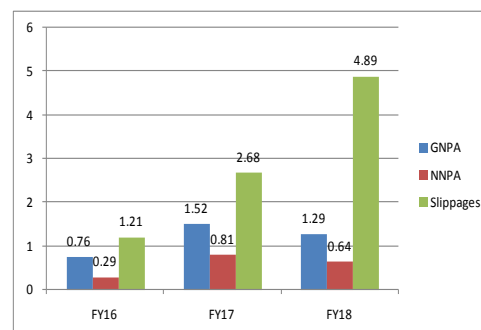
Financials

In Q3FY19, net interest income grew by 41.2% yoy and 10.3% QoQ basis. Net interest margin (NIM) have remained in the range of 3.3%. NIM has been flattish at 3.3%.

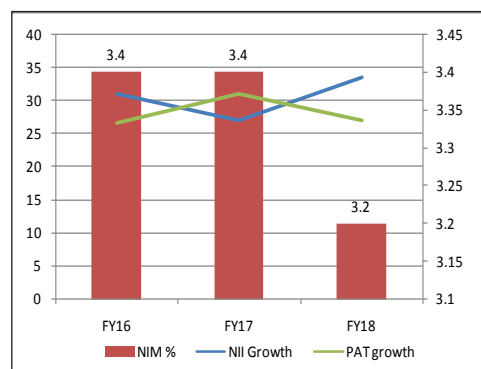
“
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Asset Quality



Stable Net Interest Margin



Non-interest income was lower due to accounting adjustment in treasuries and also lower corporate banking fees.

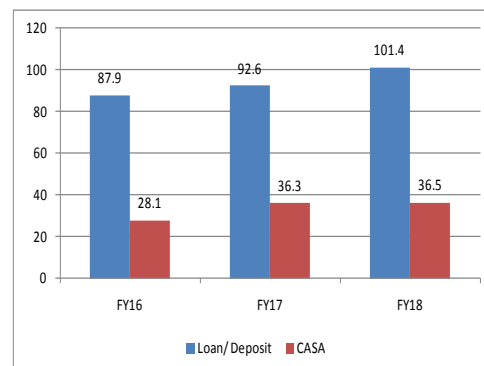
The loan book grew by 42.2% yoy and at a modest 1.8% on QoQ basis to reach Rs. 2.44 trillion. The corporate book took respite after 18 months of strong growth and witnessed slower growth, while retail saw great rebound of 83% yoy growth, which led it to increase its contribution to 15.2% in loan

Inc/Exp Statement (Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Interest Earned	20267.42	16424.64	13533.44	11572.01	9981.35
Total Income	25491.26	20581.40	16245.59	13618.46	11702.93
Interest Expended	12530.36	10627.34	8966.72	8084.17	7265.09
Operating Profit	7748.11	5837.52	4302.50	3249.59	2687.97
PAT	4224.56	3330.10	2539.45	2005.36	1617.78
Dividend %	135.00	120.00	100.00	90.00	80.00
Adj. EPS(Rs)	18.34	14.59	12.08	9.60	8.97

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201812	201809	Q on Q Var%	201712	Y on Y Var%
Interest Earned	7958.94	7231.23	10.06	5070.30	56.97
Total Income	8849.81	8704.68	1.67	6492.56	36.31
Interest Expended	5292.53	4813.68	9.95	3181.50	66.35
Operating Profit	1990.36	2366.44	-15.89	2001.81	-0.57
PAT	1001.85	964.70	3.85	1076.87	-6.97
OPM%	25.01	32.73	-23.59	39.48	-36.65
PATM%	12.59	13.34	-5.62	21.24	-40.73
Adj. EPS(Rs)	4.33	4.18	3.59	4.68	-7.48

Business efficiency


Loan book grew by 42.2% yoy. Retail growth outpaced Corporate segment growth

Stock vs. Index


book from 11.8% earlier. This also helped it to improve its ratio to CET 9.1% from earlier 9%.

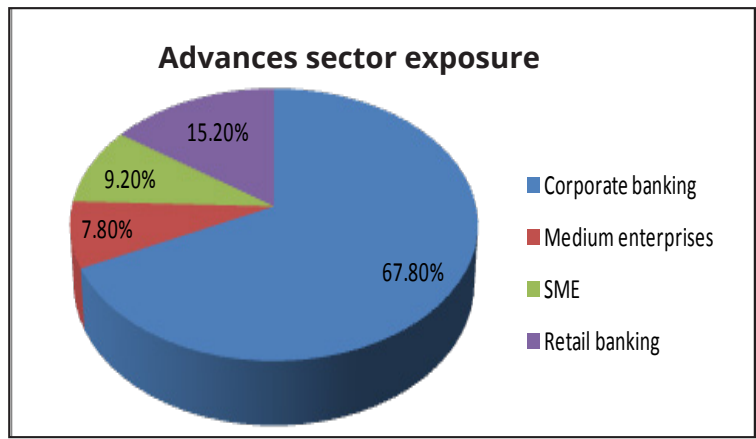
Deposit growth was sanguine as retail term deposits grew at 37.2% yoy and the corporate term deposits grew 39.9% yoy.

The company's asset quality is showing higher stability with GNPA ratio of 2.1% and NNPA of 1.18%.

About Yes Bank

Yes Bank is a full service fourth largest private bank in India with presence in 29 states, 1100 branches and 1724 ATMs. Founded in 2004, it offers complete range of products, services and digital offerings, catering to corporate, MSME and retail customers.

The bank's advances have high exposure to the corporate sector which has been the growth engine for the bank. However, we are seeing increasing retail base, which provides stability and better asset quality to the bank. We are also seeing good traction in investment banking unit, and as economic conditions improve, investment banking unit's revenue is also expected to grow at a faster pace.



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