

BSE SENSEX  
37,291

S&P CNX  
11,279

**CMP: INR201**

**TP: INR350(+74%)**

**Buy**



### Stock Info

Bloomberg	YES IN
Equity Shares (m)	2,306
M.Cap.(INRb)/(USD\$b)	464.6 / 6.4
52-Week Range (INR)	404 / 166
1, 6, 12 Rel. Per (%)	-36/-45/-59
12M Avg Val (INR M)	4193
Free float (%)	80.0

### Financials Snapshot (INR b)

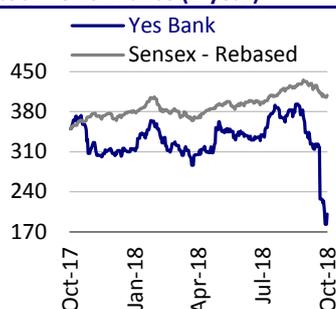
Y/E March	FY18	FY19E	FY20E
NII	77.4	101.2	128.3
OP	77.5	103.1	132.2
NP	42.2	54.7	70.7
NIM (%)	3.2	3.2	3.2
EPS (INR)	18.4	23.8	30.7
EPS Gr. (%)	26.3	29.0	29.2
BV/Sh. (INR)	111.8	131.8	158.1
ABV/Sh. (INR)	107.4	127.8	153.8
RoE (%)	17.7	19.5	21.2
RoA (%)	1.6	1.5	1.5
Valuations			
P/E(X)	10.9	8.5	6.5
P/BV (X)	1.8	1.5	1.3
P/ABV (X)	1.9	1.6	1.3

### Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	20.0	20.0	20.1
DII	25.2	24.8	22.9
FII	42.5	42.6	45.8
Others	12.3	12.6	11.2

FII Includes depository receipts

### Stock Performance (1-year)



## Reality sinking in; bracing the uncertainty

In continuation to our report dated 21st Sep'18 titled "RBI drives yet another management charge; overhang deepens - link", Yes Bank hosted a conference call to discuss the recent developments and progress the bank is making to deal with the current situation. The stock has corrected by 38% since the RBI notification which allowed Mr. Rana Kapoor to continue as MD & CEO until Jan-19. Though the bank has applied for an extension of Mr. Rana Kapoor for three months until Apr'19 (further extension of six months requested for until Sep'19), the process of succession planning is already underway by the bank. Yes has established a "Search and Selection Committee" comprising of three existing Nomination & Remuneration Committee Board Members plus two external experts which will be finalized over next one week. Though the management has not yet seen any adverse impact on the overall business they however have been monitoring situation closely and have guided for stable asset quality, credit cost trend. Following are the key takeaways from the concall:

- Succession planning is underway:** Yes bank will be able to finalize the two external experts for the "Search and Selection Committee" by end of this week. A Global Leadership Advisory firm will be appointed by next week which along with the "Search and Selection committee" will evaluate both internal and external candidates for successor. The bank aims to shortlist three names by month end, which will then be submitted to RBI for its approval by end of November or first week of December. Though the bank has applied for an extension of Mr. Rana Kapoor, the board is working with Jan-19 as the deadline and believes that any extension provided will be helpful for comfortable handover. Further, keeping long term succession plan in mind, two senior leaders of the bank – Mr. Rajat Monga and Mr. Pralay Mondal will be appointed as Executive Directors of the bank subject to the approval of RBI.
- Board to decide on continuity of Mr. Kapoor as a director:** The board of directors in its meeting will take a call whether Mr. Rana Kapoor will continue as a director and be a part of the board or not. However, post vacating his office as the MD & CEO of the bank, Mr. Kapoor will cease to be a part of the day to day operations and functioning of the bank.
- 2QFY19 unaudited numbers on track:** The performance of the bank remains healthy and the management has not yet seen any negative implications on the business of the bank. As per the 2QFY19 unaudited numbers shared in the press release total deposits grew ~41% YoY to ~INR2.23t as on 2QFY19 (vs 2.13t, +4.5% QoQ) with a CASA Ratio of ~33.8% (growth of ~28% YoY). Yes indicated that deposit balance in September has been higher than August. Loans & Advances grew by ~61.5% YoY (across the Corporate, IBU, MSME and Retail segments) to ~INR 2.4t as on 2QFY19 (vs INR2.14t, +12% QoQ) of which domestic advances aggregated to ~INR2.2t (growth of ~56.4% YoY).

- **Asset Quality outlook remains stable; comfort on divergence assessment remains high:** The asset quality of the bank is fairly stable with a Gross NPA of 1.35% (% of gross advances) as on 2QFY19 vs 1.31%/1.82% as on 2QFY18/1QFY19 respectively. Though the annual review of RBI is underway, management doesn't expect any adverse finding out of it and has reiterated its earlier credit cost guidance of 50-70bps for FY19. Divergence, if any reported, might not impact the credit cost guidance or overall asset quality materially.
- **Liquidity remains comfortable:** Yes has a Liquidity Coverage Ratio (LCR) of ~101% as on 2QFY19 (higher than the minimum regulatory requirement of 90%). Even the bank's average daily LCR for 2QFY19 was ~100% indicating strong liquidity position of the bank. The liquidity position will further benefit from the recent RBI measures (announced on September 27, 2018) to ease systemic liquidity which will take effect on Oct 01, 2018 as this is expected to release ~INR60b of funds for Yes bank which will strengthen its LCR ratio by another 11% to ~112%.
- **Loan growth momentum hinged upon capital raise; internal accrual remains strong:** Owing to robust growth momentum, Yes Bank's capitalization level has moderated with CET-1 declining by 170bp over FY18 to 9.7% (9.5% in 1QFY19). The bank had earlier announced its intention to raise capital over the next one year; however, that may now get delayed due to impending management transition. This will thus have an adverse impact on the bank's growth ambitions in the near-term. However strong internal accruals (RoEs of avg 19-20%) will still enable industry leading growth. Yes guided for 20-25% loan growth in 3QFY19. Yes guided for continued churning of the back book to generate fee income and also sell down new loans so as to efficiently utilize the capital base. Yes Bank has sold ~INR200b of loans in the past nine months and has a robust pipeline of INR100b-INR150b of loans for sell down.
- **How to view the stock from here?** The process to select the new MD & CEO should be over by first week of December and the incumbent MD & CEO should join earliest by Jan-19, if all the processes and RBI approval are received in time. While the near term uncertainty will remain till the new management takes charge and enunciates the business strategy, we believe that post sharp correction the stock is trading at reasonable valuations. We maintain our BUY rating with a TP of INR350.

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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