

OCTOBER 27, 2017
RESULT

 Coverage view: **Attractive**

 Price (₹): **331**

 Target price (₹): **285**

 BSE-30: **33,147**

All about a table, once more. Yes Bank reported a strong momentum on most operating metrics in the P&L but a very disappointing performance on balance sheet with a high divergence on loan classification pertaining to FY2017. RBI has asked the bank to report 6.3% of loans as impaired as compared to 1.5% reported by the bank. This is the third consecutive year. **While the bank has recovered a high share of this divergence, it makes it a challenge to understand any metrics reported.** Maintain SELL and reduce TP to ₹285 (from ₹304 earlier).

Company data and valuation summary

Yes Bank

Stock data

52-week range (Rs) (high,low) 383-218

Market Cap. (Rs bn) 758.5

Shareholding pattern (%)

Promoters 20.1

FIs 45.8

MFs 11.1

Price performance (%)

	1M	3M	12M
Absolute	(8.2)	(3.3)	28.3
Rel. to BSE-30	(12.5)	(5.5)	7.8

Forecasts/Valuations

	2018E	2019E	2020E
EPS (Rs)	14.6	17.4	20.0
EPS growth (%)	0.1	18.9	14.9
P/E (X)	22.7	19.1	16.6
NII (Rs bn)	74.2	87.3	100.1
Net profits (Rs bn)	33.3	39.6	45.5
BVPS	102.8	116.3	132.3
P/B (X)	3.2	2.8	2.5
ROE (%)	14.3	15.1	15.3
Div. Yield (%)	0.7	0.9	1.0

Strong loan growth masks spike in credit costs

Yes Bank's headline performance was strong with 35% yoy loan growth driving 30% yoy NII growth, which coupled with 41% yoy other income growth delivered 38% yoy PpOP growth. However, credit costs spiked 2.8X yoy, leading to relatively lower 25% yoy earnings growth and ~15% yoy EPS growth. Strong growth was skewed towards retail with retail share in loans increasing to 11% (up ~300 bps yoy). Fee income momentum was strong, largely driven by corporate banking fees (up ~70% yoy). NIM was stable qoq at 3.7%. CASA ratio improved by ~50bps qoq to 37% of deposits.

Gross NPLs are at 0.4/0.8/1.5% or 4.1/5/6.3% of loans; RoE is at <15% or 18-19%

Yes Bank reported a very high divergence on loan impairment recognition for FY2017, after having reported a huge divergence for FY2016. RBI has indicated that based on its observation, the gross NPLs should have been 6.3% of loans for FY2017 as compared to 1.5% reported by the bank. The bank has reported high slippages of 5% of loans but has correspondingly seen higher recovery and upgrades on the loans observed as impaired by RBI. Adjusted RoE would fall to <15% as compared to ~18-19% reported. The bank has indicated that it was able to upgrade or recover a substantial amount of loans with only a small proportion being declared as eventually impaired. The ability of the bank to recover or upgrade loans that RBI considers as divergent at such short notice would be something useful to understand.

Maintain SELL with TP of ₹285; a leap of faith needed as it is difficult to invest at these levels

The performance of the quarter is difficult to gauge in the context of the divergence exercise. If anything, it highlights that the underwriting of the bank is significantly different from other banks'. Investors would need to continue to have faith that the bank would be in a position to recover loans from its delinquent borrowers even in a weak macro environment. We probably find such business models difficult to value at higher multiples even if the reported RoEs are closer to ~20%. We prefer being conservative which the current valuations do not offer. We retain our SELL call and at our TP of ₹285 we value the bank on residual income basis at ~2X book and 15X September 2019E EPS for RoEs in the range 15% in the medium term and similar growth in earnings.

QUICK NUMBERS

- **NII up 30% yoy; PAT up 25% yoy**
- **GNPL worsened to 1.8% (up ~2X on absolute basis); NNPL at 1%; divergence of ~5% reported in NPL classification**
- **Maintain SELL and reduce TP to ₹285**

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Exhibit 1: Yes bank - quarterly results

March fiscal year-end, 2QFY17-2QFY18 (₹ mn)

	2QFY18	2QFY18E	2QFY17	1QFY18	(% chg.)			1HFY18	1HFY17	(% chg.)	FY2018E	FY2017	(% chg.)	FY2019E
					2QFY18E	2QFY17	1QFY18							
Income statement (Rs mn)														
Interest income	48,003	48,573	40,944	46,538	(1.2)	17.2	3.1	94,541	79,567	18.8	196,416	165,374	18.8	229,072
Advances	36,932	36,986	30,658	35,345	(0.1)	20.5	4.5	72,277	59,058	22.4	150,040	123,225	21.8	174,272
Investments	9,227	9,331	9,314	9,027	(1.1)	(0.9)	2.2	18,254	18,904	(3.4)	38,158	37,968	0.5	45,871
Balance with RBI	1,447	1,865	486	1,794	(22.4)	197.5	(19.3)	3,240	764	324.1	8,217	4,180	96.6	8,930
Interest expenses	29,153	29,882	26,482	28,449	(2.4)	10.1	2.5	57,601	51,939	10.9	122,237	106,273	15.0	141,778
Net interest income	18,851	18,691	14,462	18,089	0.9	30.4	4.2	36,940	27,628	33.7	74,179	59,100	25.5	87,294
Non-interest income	12,484	9,434	8,879	11,322	32.3	40.6	10.3	23,806	17,884	33.1	43,349	40,907	6.0	49,726
Total income	31,335	28,125	23,340	29,411	11.4	34.3	6.5	60,746	45,511	33.5	117,527	100,008	17.5	137,021
Operating expenses	12,269	12,195	9,481	12,369	0.6	29.4	(0.8)	24,638	18,584	32.6	52,225	41,164	26.9	62,388
Employee cost	5,628	5,504	4,334	5,461	2.2	29.9	3.0	11,089	8,408	31.9	23,590	18,050	30.7	26,562
Other operating cost	6,641	6,691	5,147	6,908	(0.7)	29.0	(3.9)	13,549	10,176	33.1	28,635	23,114	23.9	35,826
Pre-prov profit	19,067	15,930	13,860	17,042	19.7	37.6	11.9	36,109	26,927	34.1	65,303	58,843	11.0	74,632
Provisions	4,471	2,920	1,617	2,858	53.1	176.5	56.4	7,328	3,683	99.0	14,948	8,402	77.9	14,944
Profit before tax	14,596	13,009	12,243	14,184	12.2	19.2	2.9	28,780	23,244	23.8	50,355	50,441	(0.2)	59,688
Tax	4,569	4,244	4,228	4,529	7.7	8.1	0.9	9,098	7,911	15.0	17,010	17,140	(0.8)	20,044
Profit after tax	10,027	8,766	8,015	9,655	14.4	25.1	3.9	19,683	15,333	28.4	33,345	33,301	0.1	39,645
Tax rate (%)	31.3		34.5	31.9				31.6	34.0		33.8	34.0		33.6
PBT- treasury gains	11,878	10,220	10,147	11,595	16.2	17.1	2.4	23,473	19,374	21.2	38,925	41,297	(5.7)	44,829
PBT- treasury gains+provisions	16,349	13,141	11,764	14,453	24.4	39.0	13.1	30,802	23,057	33.6	53,873	49,699	8.4	59,773
EPS (Rs)	22		19	21		15.4	3.9	43	36	18.4	15	15	0.1	17
Asset quality														
GNPL (Rs bn)	27		9	14		196.8	99.4				33	20	66	40
NNPL (Rs bn)	15		3	5		377.8	183.0				19	11	77	21
GNPL (%)	1.8		0.8	1.0							2.0	1.5		2.0
NNPL (%)	1.0		0.3	0.4							1.2	0.8		1.1
Provision coverage (%)	43		65	60							43	47		48
Key balance sheet (Rs bn)														
Shareholder funds	234	237	154	224	(1.2)	52.3	4.6				247	221	12.2	279
Advances	1,487	1,477	1,102	1,400	0.7	34.9	6.2				1,635	1,323	23.6	1,926
Deposits	1,580	1,593	1,280	1,502	(0.8)	23.4	5.2				1,766	1,429	23.6	2,122
Current	197		130	185		51.0	6.6				240	191	25.9	299
Saving	390		257	367		51.6	6.2				423	328	29.0	540
CASA (%)	37		30	37							37.55	36.30	3.4	39.55
Investment	539	542	496	521	(0.6)	8.7	3.4				610	500	22.0	745
Net assets	2,374	2,322	1,873	2,221	2.2	26.7	6.9				2,587	2,151	20.3	3,060
Advances break-up (Rs bn)														
Corporate and institutional	1,002		748	953		33.9	5.1							
Commercial	485		354	447		37.0	8.5							
Business banking	147		118	139		24.8	6.2							
Micro and small	168		141	161		19.1	4.4							
Retail	169		95	147		78.8	15.3							
Key ratios calculated (%)														
Yield on advances	10.2		11.3	10.4										
Cost of funds	6.3		7.0	6.4										
NIM	3.3		3.2	3.3										
Cost income	39.2		40.6	42.1										
CD ratio	0.9		0.9	0.9										
Capital adequacy (%)														
CAR	17		15	18										
Tier-I	13		10	14										
Other key parameters (#)														
Branches	1,040		950	1,020		9.5	2.0				1,200	1,000		1,400
Employees	20,932		18,531	20,851		13.0	0.4				23,910	20,125		27,195

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Yes bank - quarterly results

Key financial items, March fiscal year-ends, 2QFY17-2QFY18 (%)

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY (%)
Key balance sheet items (Rs mn)						
Deposits	1,280,238	1,323,758	1,428,739	1,502,409	1,579,898	23.4
Current deposits	130,387	147,783	190,879	184,730	196,947	51.0
Saving deposits	257,453	293,481	327,818	367,421	390,299	51.6
CASA ratio (%)	30.3	33.3	36.3	36.8	36.8	
Branches	950	964	1,000	1,020	1,040	9.5
Loans	1,102,162	1,170,870	1,322,627	1,399,718	1,486,753	34.9
Investments	495,739	497,485	500,318	521,362	539,078	8.7
Total assets	1,873,088	1,948,280	2,150,599	2,221,452	2,373,941	26.7
Yield management measures (%)						
Cost of funds	6.8	6.8	6.3	6.2	6.1	
Yield on advances	10.9	10.9	10.7	10.4	10.2	
NIM	3.4	3.5	3.6	3.7	3.7	
Spread	4.2	4.1	4.1	4.1	4.1	
Asset quality details						
Gross NPL (Rs mn)	9,167	10,059	20,186	13,644	27,203	196.8
Gross NPL (%)	0.8	0.9	1.5	1.0	1.8	
Net NPL (Rs mn)	3,230	3,425	10,723	5,453	15,433	377.8
Net NPL (%)	0.3	0.3	0.8	0.4	1.0	
Provisions (Rs mn)	5,937	6,634	9,463	8,191	11,771	98.3
Provision Coverage (%)	64.8	66.0	46.9	60.0	43.3	
Restructured Loans (Rs mn)	5,115	5,002	4,816	3,314	1,161	(77.3)
Restructured Loans (% of cust. assets)	0.5	0.4	0.4	0.2	0.1	
Capital adequacy details (%)						
CAR	15.0	15.6	17.0	17.6	17.0	
Tier I	10.1	12.2	13.3	13.8	13.2	
Tier II	4.9	3.4	3.7	3.8	3.8	
Fee income composition (Rs mn)						
Forex, DCM and securities	1,492	1,877	1,474	2,031	3,518	135.8
Corporate Banking	2,757	3,406	5,864	4,108	4,768	72.9
Retail fee	2,096	2,143	3,131	2,589	2,718	29.7
Trade and Cash Mgmt	1,034	995	1,178	1,352	1,439	39.2
Total	8879	9984	12574	11322	12484	40.6

Source: Company, Kotak Institutional Equities

High divergence with regulatory norms leads to weak asset quality

Gross NPL increased to ₹27 bn (up ~2X yoy) from ₹9 bn in 2QFY17 with GNPL ratio jumping up to 1.8% (1% in 1QFY18). Net NPL increased ~3.7X yoy on absolute terms to ₹15 bn with NNPL ratio at 1% versus 0.4% in 1QFY18. Provision coverage dropped to 43% from ~60% IN 1QFY18.

Based on the latest RBI investigation, the bank reported a divergence of ₹63 bn (19 accounts). Out of this amount, only 19% is under NPA. 27% have been repaid in partial or full. About 7% have been sold to ARC and the remaining 47% have been classified as standard accounts on grounds of satisfactory account conduct (Exhibit 3).

Based on the last three investigations conducted by RBI, which amounts to ~₹134 bn, 41% have been repaid (partial/ fully), 30% is standard assets, 13% has been sold to ARC and only 16% is the remaining outstanding NPA (Exhibit 4).

With respect to the initial 12 accounts referred by RBI to IBC, the bank had an exposure to 2 accounts amounting to ₹3.4 bn on which there is a provision of 50%. One the two accounts slipped to NPA. Out of the remaining 30 accounts that RBI is expected to refer to IBC, the bank expects to have an exposure to 7 accounts amounting to ~₹11 bn on which there is a coverage of 39% (Exhibit 5).

Exhibit 3: Movement of GNPL as per Basel disclosures
March fiscal year-ends, 1QFY17-2QFY18

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
GNPA (Rs mn)						
Gross NPA	8,446	9,167	10,059	20,186	13,644	27,203
Substandard	3,238	3,621	3,027	2,732	3,636	8,660
Doubtful 1	5,206	5,542	7,029	11,216	861	10,325
Doubtful 2	2	4	2	6,238	9,147	8,218
Doubtful 3	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Net NPA	3,024	3,230	3,425	10,723	5,453	15,433
NPA ratios (%)						
GNPA	0.8	0.8	0.9	1.5	1.0	1.8
NNPA	0.3	0.3	0.3	0.8	0.4	1.0
Movement of GNPA (Rs mn)						
Opening	7,490	8,446	9,167	10,059	20,186	13,644
Additions	2,996	3,015	1,265	19,048	2,010	71,397
Reductions	2,040	2,294	373	8,921	8,551	57,837
Closing	8,446	9,167	10,059	20,186	13,644	27,203

Source: Company, Kotak Institutional Equities

Exhibit 4: High NPL divergence based on RBI's annual audit

March fiscal year-ends, 2015-2017 (Rs bn)

	2015	2016	2017	Total
Divergence reported by Yes Bank (Rs bn)				
GNPL (reported)	3.1	7.5	20.2	
GNPL as accessed by RBI	31.3	49.3	83.7	
Divergence in GNPL	28.2	41.8	63.6	133.5
NNPL (reported)		2.8	10.7	
NNPL as accessed by RBI		36.0	58.9	
Divergence in NNPL		33.2	48.2	
Provision for NPL (reported)		4.6	9.5	
Provision for NPL as accessed by RBI		13.2	24.8	
Divergence in provisioning		8.6	15.4	
Reported PAT		25.4	33.3	
Adjusted PAT		19.8	23.2	
Impact on the accounts under divergence assuming no overlap (Rs bn)				
Recovered (partially/ fully)	12.3	25.3	16.9	54.5
(% of divergence)	43	61	27	41
Upgraded	9.0	1.4	29.8	40.3
(% of divergence)	32	3	47	30
Sale to ARC	4.0	8.7	4.6	17.3
(% of divergence)	14	21	7	13
NPL	2.9	6.4	12.2	21.5
(% of divergence)	10	15	19	16

Source: Company, Kotak Institutional Equities

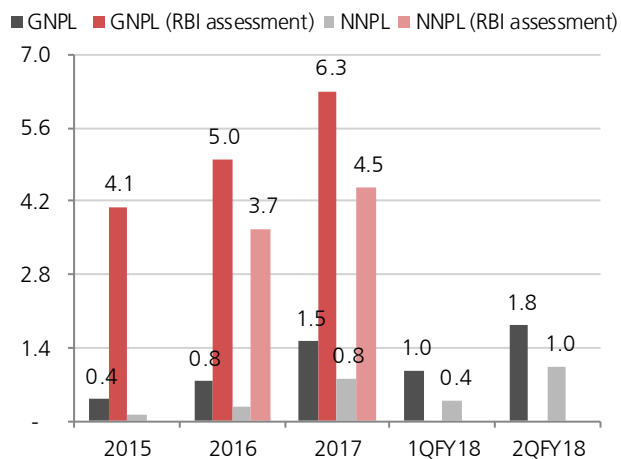
Exhibit 5: Exposure of Yes bank to accounts referred by RBI to IBC
March fiscal year-ends, October 2017 (Rs mn)

	Standard	NPA	Total
Initial 12 accounts referred under list 1			
Accounts referred (#)			2
Funded	234	3,183	3,417
Non-funded	-	-	-
Total	234	3,183	3,417
Probable 30 accounts to be referred in list 2			
Possible accounts (#)			7
Funded	687	8,019	8,706
Non-funded	759	1,464	2,223
Total	1,446	9,483	10,929
Net	1,680	12,666	14,346

Source: Company

Exhibit 6: NPL ratios adjusting for divergence are markedly higher

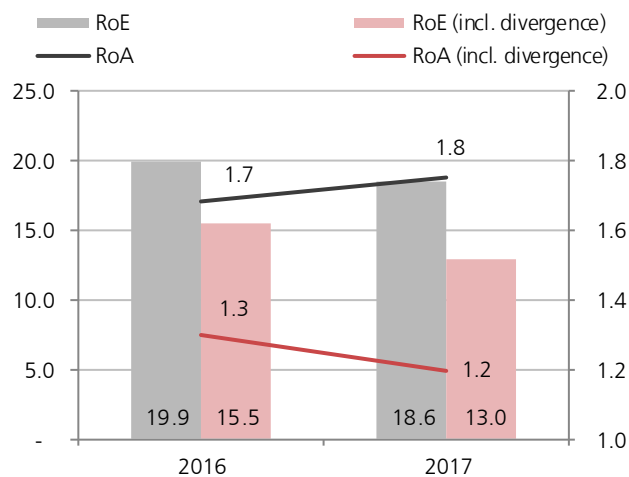
Gross and net NPL before and after divergence impact, March fiscal year-ends, 2015-2QFY18 (%)



Source: Company, Kotak Institutional Equities

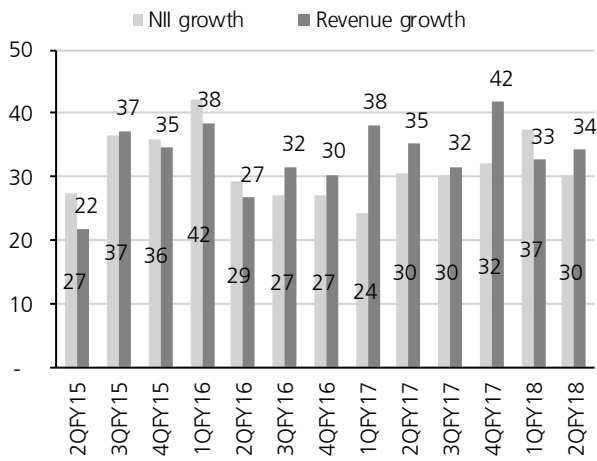
Exhibit 7: Return ratios adjusting for divergence impact are much lower

RoA and RoE before and after divergence impact, March fiscal year-ends, 2016-17 (%)



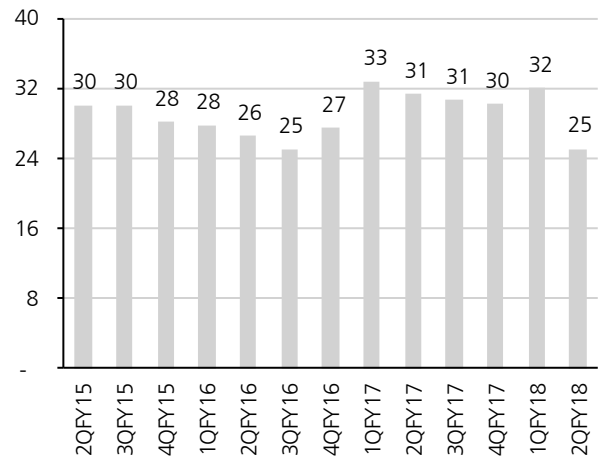
Source: Company, Kotak Institutional Equities

Exhibit 8: High revenue growth driven by strong non-interest income growth
Revenue and NII growth, March fiscal year-ends, 2QFY15-2QFY18 (%)



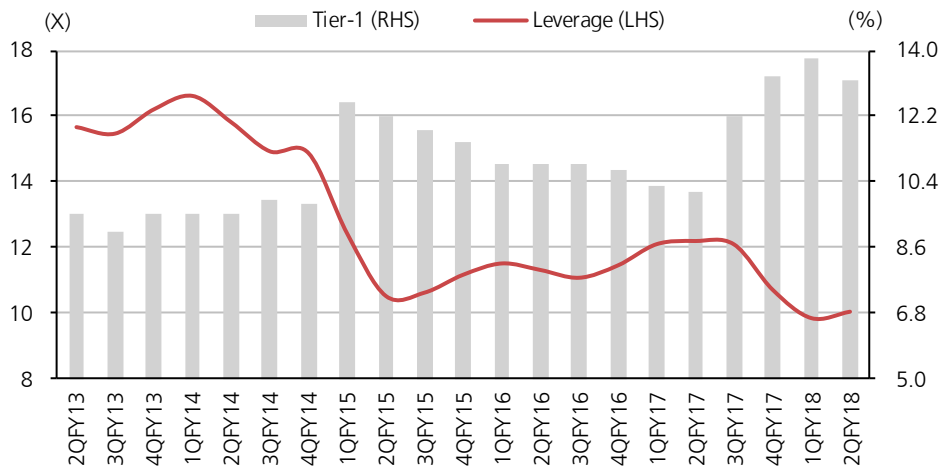
Source: Company, Kotak Institutional Equities

Exhibit 9: Earnings growth dropped to 25% yoy
Earnings growth, March fiscal year-ends, 2QFY15-2QFY18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 10: Tier-1 ratio dropped marginally qoq to 13.2%
Total assets to net worth, March fiscal year-ends, 2QFY13-2QFY18 (X)



Source: Company, Kotak Institutional Equities

Strong fee income growth

Yes Bank reported 41% yoy growth in non-interest income, driven by forex, DCM & securities income (includes treasury) up 18% yoy, 30% yoy growth in retail fee. The corporate banking fees also increase 73% yoy on a lower base (up 16% qoq).

Drivers of retail fee growth were spread across trade & remittance fees (up 36% yoy), processing fee (up 1.8X yoy), fees on third party sales (up ~8% yoy), interchange fees (up ~8% yoy), etc. Given that the focus of the business is skewed towards the corporate segment, we would be a lot more comfortable with the bank growing the trade business as it is less risky, less capital intensive and generates strong growth in current account deposits.

Exhibit 11: Yes Bank – Overall non-interest income growth strong at ~41% yoy
Break-up of non-interest income, March fiscal year-end. 2QFY17-2QFY18 (Rs mn)

	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Non Interest Income	12,443	8,879	40.1	11,270	10
Corporate Trade & Cash	1,439	1,034	39.2	1,352	6
Forex, Debt Capital Markets	3,518	2,992	17.6	3,221	9
Corporate Banking Fees	4,768	2,757	72.9	4,108	16
Retail Banking Fees	2,718	2,096	29.7	2,589	5

Source: Company, Kotak Institutional Equities

Exhibit 12: Contribution of corporate banking fees increased in 2QFY18

Break-up of fee income, March fiscal year-ends, 2008-2QFY18 (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1QFY18	2QFY18
Corporate trade and cash management	13	19	24	30	28	26	25	24	17	11	12	12
Retail banking	12	9	7	10	9	11	12	20	23	22	23	22
Forex, debt capital markets and securities	26	25	21	24	11	6	22	13	10	17	18	20
Corporate banking fees	27	21	31	39	38	39	32	37	39	35	36	38
Treasury trading and others	22	26	17	(3)	14	18	9	6	12	15	11	8

Source: Company, Kotak Institutional Equities

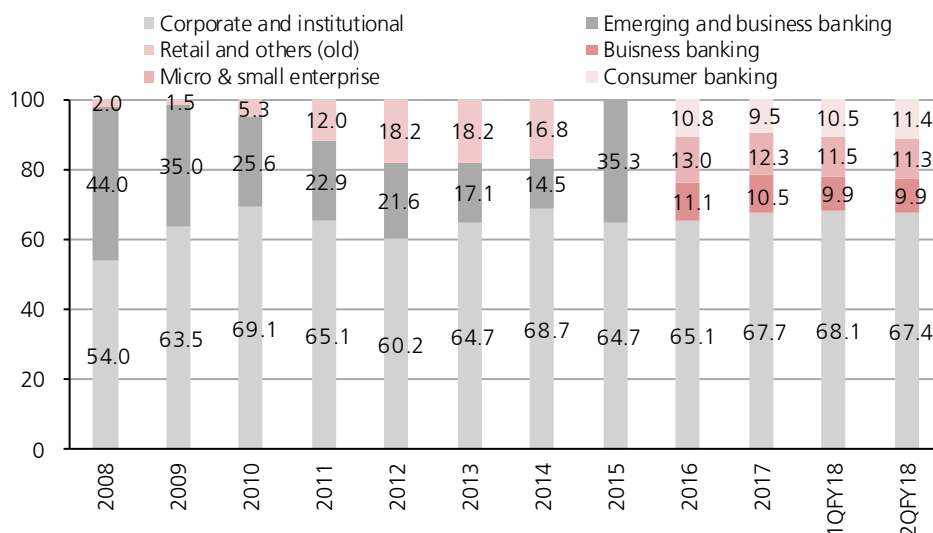
NIM remained flat qoq at 3.7%

Reported NIM remained flat qoq 3.7%. Yield on advances declined ~20 bps qoq to 10.2% from 10.4% in 1QFY18. Cost of funds declined 10 bps qoq to 6.1%. We forecast about ~20 bps NIM (calculated) compression over FY2018-20E, from 3.3% in FY2018E.

Strong growth on CASA continues

Yes Bank reported ~40 bps qoq improvement in CASA ratio to 37.2% driven by strong flows in both SA and CA balances which increased ~51% yoy each. CA balances although recorded 3% qoq drop in 1QFY18 regained momentum to obtain ~7% qoq growth in 2QFY18. SA continued to record smooth growth at ~6% qoq growth and 11% CQGR from 2QFY14 to 2QFY18. We expect CASA to increase to ~42% by FY2020E from 36% in FY2017 driven by 27% CAGR in SA balances during the same period.

Exhibit 13: Yes Bank is targeting to improve the share of retail loans to overall loans
Break-up of loans, March fiscal year-ends, 2008-2QFY18 (%)



Notes:

(A) Proportion reported in FY2013 includes credit substitutes. The bank has combined retail and SME from 2QFY15

Source: Company, Kotak Institutional Equities

Loan growth momentum remains strong with 35% yoy growth (up 6% qoq)

Loan growth was at 35% yoy on the back of 34% yoy growth in corporate loans (up 5% qoq) and an even stronger growth in retail loan book at 79% yoy (up 15% qoq). Other segments i.e. SME (37% yoy) and business banking (25% yoy) continued to grow at a healthy pace. Retail banking growth was steep at 79% yoy compared to slow growth between 18%-26% in the first two quarter of FY2017. Board break-up of loans is – corporate (67.4%), business banking (9.9%), micro and SME (11.3%) and retail (11.4%).

The bank has recently launched credit cards and now offers a full suite of retail products. Focus on credit cards is towards existing customers only, which comprise 80-90% of customers. The bank appears to have stepped up lending in the retail space. Most of the retail products are now in offering though the focus is more towards building secured loans at this stage and understanding the nature of risks rather than an aggressive rollout across all its distribution centers. We forecast 24% loan growth in FY2018E and 19% CAGR in FY2017E-19E.

Exhibit 14: Yes Bank has seen a qoq drop in exposure to electricity; exposure to telecom sector remains constant
Break-up of customer assets, March fiscal year-ends, 2013-2QFY18 (%)

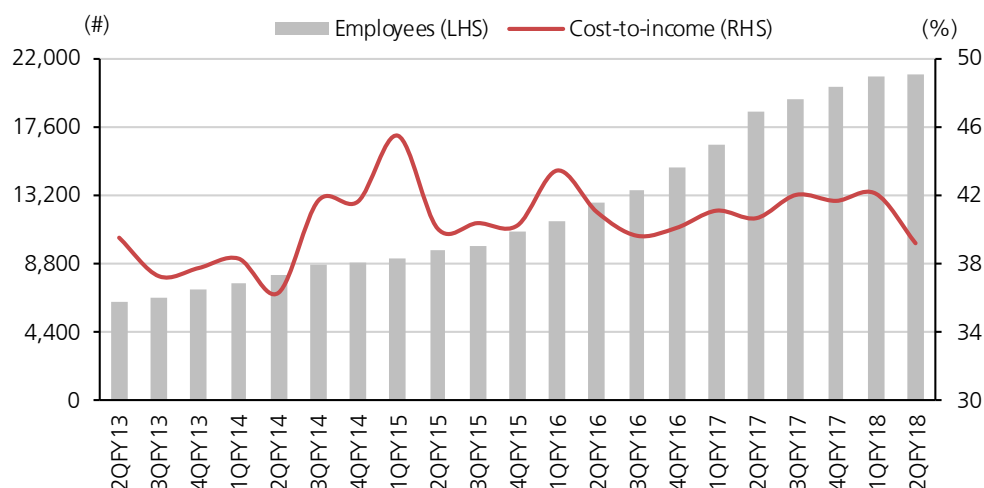
	2013	2014	2015	2016	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Electricity	2.3	4.8	8.3	8.7	9.3	9.1	9.8	11.3	10.6	9.8
Commercial real estate	-	0.0	0.0	6.8	6.7	6.4	6.6	5.8	6.3	6.3
Other real estate	-	0.0	0.0	0.9	1.2	1.2	0.9	0.8	0.7	0.5
Tech, ITES, Media	3.4	3.4	2.9	1.4	1.4	1.4	1.4	1.2	1.1	1.2
Food processing	4.6	4.4	3.2	2.7	2.8	2.6	2.3	2.4	2.5	2.6
Iron & Steel	5.7	3.5	3.3	2.2	1.9	1.7	1.8	1.8	1.9	2.0
Social & Commercial	2.1	1.8	2.7	2.4	2.6	2.7	2.8	2.7	3.0	2.8
Vehicles & equipments	2.4	2.8	3.1	2.5	2.7	2.6	2.7	2.4	2.7	3.0
Construction/EPC	3.1	2.9	3.1	6.0	5.6	5.8	6.1	7.3	7.3	7.1
Metals & mining	2.4	2.3	2.0	2.4	2.4	2.4	2.2	2.5	2.4	3.1
Telecom	2.4	3.1	2.2	4.5	6.1	5.0	5.1	4.9	3.9	3.9
Textiles	0.6	0.7	0.5	0.9	0.9	0.9	0.9	1.4	1.1	1.3
Aviation	0.3	0.3	0.2	0.6	0.7	0.9	0.9	1.0	1.0	1.2
Other industries	29.7	68.4	66.8	58.0	55.7	57.3	56.5	54.5	55.5	55.2

Source: Company, Kotak Institutional Equities

Other highlights for the quarter

- ▶ Cost-income ratio improved significantly by ~300 bps to 39% from ~42% in 1QFY18. Operating expenses grew 29% yoy on the back of 30% yoy growth in staff costs and 29% yoy growth in non-staff costs. Cost growth fairly reflects the investment made to increase the network. The total number of branches increased by 90 from 2QFY17 to 2QFY18. The total number of employees increased by 13% yoy during the same period.
- ▶ CAR dropped slightly qoq to 17% with tier 1 ratio of 13.2%.

Exhibit 15: Cost-to-income ratio dropped slightly on the back of constrained expansion in 2QFY18
Cost-to-income and total employees, 2QFY13-2QFY18 (%)



Source: Company, Kotak Institutional Equities

Exhibit 16: Yes Bank has one of the highest percentage of employee cost to total cost among private banks

Employee cost as a percentage of overall costs, March fiscal year-ends, 2012-20E (%)

	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Axis Bank	34.6	34.4	32.9	33.4	33.4	31.9	32.4	31.2	29.9
HDFC Bank	36.6	35.3	34.7	34.0	33.6	32.9	31.4	31.6	32.7
ICICI Bank	44.8	43.2	40.9	41.3	39.4	38.9	38.6	38.3	38.0
IndusInd Bank	36.1	37.7	37.0	34.2	33.7	31.8	32.1	30.6	29.9
Yes Bank	51.0	49.1	44.8	43.6	43.6	43.8	45.2	42.6	41.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: Yes bank-- estimate changes

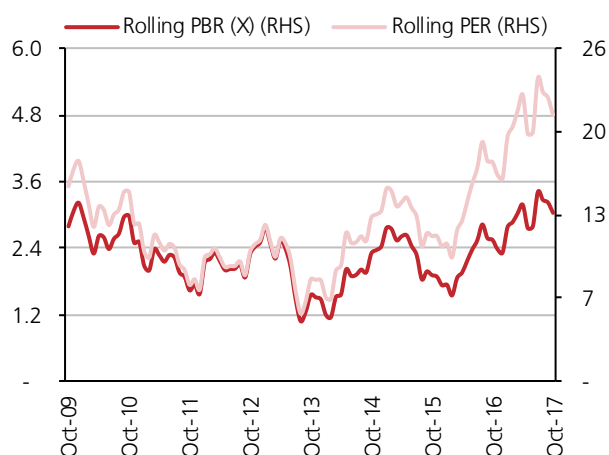
March fiscal year-ends, 2018-2020E, (₹ mn)

	New estimates			Old estimates			% change		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Net interest income	74,179	87,294	100,097	74,152	85,681	98,215	0.0	1.9	1.9
NIM (%)	3.3	3.3	3.2	3.3	3.2	3.2	-	-	-
Customer assets	1,745,220	2,036,753	2,333,954	1,745,220	2,036,753	2,333,954	-	-	-
Loan loss provisions	14,048	14,244	16,599	10,351	11,573	13,487	35.7	23.1	23.1
Other income	43,349	49,726	56,698	40,811	48,173	56,094	6.2	3.2	1.1
Fee income	37,775	42,434	48,508	35,237	40,880	47,904	7.2	3.8	1.3
Treasury income	2,600	3,500	3,500	2,600	3,500	3,500	-	-	-
Operating expenses	52,225	62,388	71,142	52,710	62,971	71,828	(0.9)	(0.9)	(1.0)
Employee expenses	23,590	26,562	29,280	23,590	26,562	29,280	-	-	-
PBT	50,355	59,688	68,354	51,003	58,609	68,295	(1.3)	1.8	0.1
Tax	17,010	20,044	22,817	17,229	19,681	22,797	(1.3)	1.8	0.1
Net profit	33,345	39,645	45,537	33,774	38,928	45,497	(1.3)	1.8	0.1
PBT-treasury+provisions	62,703	71,132	82,153	59,653	67,383	78,981	5.1	5.6	4.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 18: Yes Bank trading at 3.0X one-year forward book (adj.)

March fiscal year-ends, October 2009- October 2017 (X)



Source: Company, Bloomberg estimates, Kotak Institutional Equities

Exhibit 19: Yes bank trading premium constant in 2QFY18

Yes bank trading premium to peers, October 2009- October 2017 (X)



Source: Company, Bloomberg estimates, Kotak Institutional Equities

Exhibit 20: Yes bank - key financial ratios and growth rates

March fiscal year-ends, 2015-2020E (%)

	2015	2016	2017	2018E	2019E	2020E
Growth rates (%)						
Net loan	35.8	30.0	34.7	23.6	17.8	15.4
Net fixed assets	8.7	47.6	45.2	15.5	2.5	1.9
Cash and bank balance	28.3	8.8	137.9	(6.2)	9.2	15.0
Total Asset	24.9	21.4	30.1	20.3	18.3	17.2
Deposits	22.9	22.5	27.9	23.6	20.2	17.7
Current	21.1	28.5	74.7	25.9	24.6	21.9
Savings	34.9	62.3	60.6	29.0	27.7	24.7
Net interest income	28.4	30.9	29.4	25.5	17.7	14.7
Loan loss provisions	41.8	43.3	48.0	77.1	1.4	16.5
Total other income	18.9	32.5	50.8	6.0	14.7	14.0
Net fee income	56.7	24.4	27.7	20.3	12.3	14.3
Operating expenses	30.6	30.3	38.3	26.9	19.5	14.0
Employee expenses	24.9	32.4	39.2	30.7	12.6	10.2
Key ratios (%)						
Yield on average earning assets	10.1	9.6	9.3	8.8	8.7	8.4
Yield on average loans	12.2	11.2	10.7	10.1	9.8	9.4
Yield on average investments	8.0	7.6	7.7	6.9	6.8	6.8
Average cost of funds	7.6	6.9	6.5	6.0	5.8	5.6
Interest on deposits	7.9	7.1	6.4	5.9	5.7	5.4
Difference	2.5	2.8	2.7	2.8	2.8	2.8
Net interest income/earning assets	3.0	3.2	3.3	3.3	3.3	3.2
New provisions/average net loans	0.6	0.6	0.7	1.0	0.8	0.8
Interest income/total income	63.0	62.7	59.1	63.1	63.7	63.8
Other income / total income	37.0	37.3	40.9	36.9	36.3	36.2
Fee income to total income	35.7	33.8	31.4	32.1	31.0	30.9
Operating expenses/total income	41.3	40.9	41.2	44.4	45.5	45.4
Tax rate	31.1	32.6	34.0	33.8	33.6	33.4
Dividend payout ratio	18.7	16.6	13.7	16.6	16.6	16.6
Share of deposits						
Current	9.3	9.8	13.4	13.6	14.1	14.6
Savings	13.8	18.3	22.9	23.9	25.4	26.9
Loans-to-deposit ratio	82.9	87.9	92.6	92.6	90.8	89.0
Equity/assets (EoY)	8.6	8.3	10.3	9.6	9.1	8.8
Dupont analysis (%)						
Net interest income	2.8	3.0	3.1	3.1	3.1	3.0
Loan loss provisions	0.3	0.4	0.4	0.6	0.5	0.5
Net other income	1.7	1.8	2.2	1.8	1.8	1.7
Operating expenses	1.9	2.0	2.2	2.2	2.2	2.2
Invt. depreciation	—	—	—	—	—	—
(1- tax rate)	68.9	67.4	66.0	66.2	66.4	66.6
ROA	1.6	1.7	1.8	1.4	1.4	1.4
Average assets/average equity	13.0	11.8	10.6	10.1	10.7	11.2
ROE	21.3	19.9	18.6	14.3	15.1	15.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 21: Yes bank - income statement and balance sheet
March fiscal year-ends 2015-2020E (₹ mn)

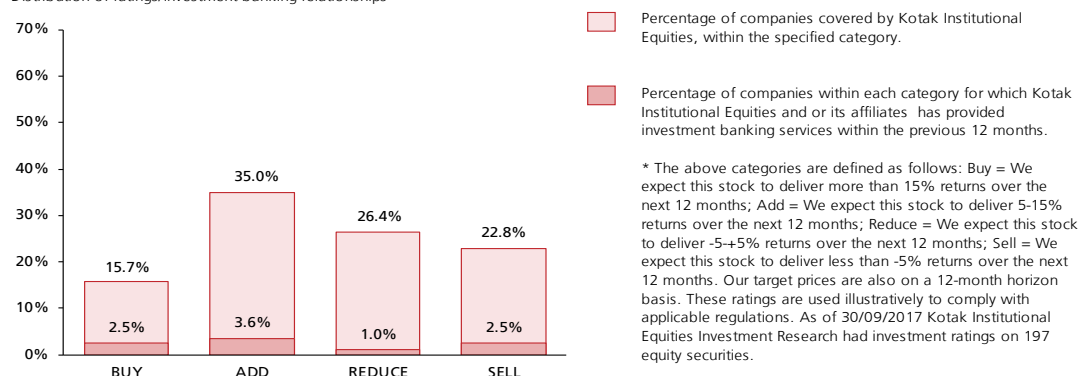
	2015	2016	2017	2018E	2019E	2020E
Income statement (Rs mn)						
Total interest income	115,720	135,334	165,374	196,416	229,072	261,260
Loans	80,161	97,115	123,225	150,040	174,272	194,959
Investments	33,557	35,082	37,968	38,158	45,871	55,959
Cash and deposits	2,002	3,138	4,180	8,217	8,930	10,342
Total interest expense	80,842	89,667	106,273	122,237	141,778	161,163
Deposits from customers	65,368	71,784	82,040	94,339	110,382	125,397
Net interest income	34,878	45,667	59,100	74,179	87,294	100,097
Loan loss provisions	3,740	5,361	7,934	14,048	14,244	16,599
Net interest income (after prov.)	31,138	40,307	51,166	60,131	73,050	83,498
Other income	20,465	27,121	40,907	43,349	49,726	56,698
Net fee income	19,765	24,592	31,400	37,775	42,434	48,508
Net capital gains	1,421	2,606	7,113	2,600	3,500	3,500
Net exchange gains	(670)	(176)	1,019	1,274	1,592	1,990
Operating expenses	22,847	29,764	41,164	52,225	62,388	71,142
Employee expenses	9,797	12,968	18,050	23,590	26,562	29,280
Depreciation on investments	(584)	25	522	-	-	-
Other Provisions	239	(23)	(54)	900	700	700
Pretax income	29,101	37,662	50,441	50,355	59,688	68,354
Tax provisions	9,047	12,268	17,140	17,010	20,044	22,817
Net Profit	20,054	25,394	33,301	33,345	39,645	45,537
% growth	24.0	26.6	31.1	0.1	18.9	14.9
Operating profit	31,075	40,419	51,731	62,703	71,132	82,153
% growth	28	27	24	10	18	15
Balance sheet (Rsmn)						
Cash and bank balance	75,572	82,184	195,494	183,329	200,179	230,142
Cash	3,646	4,124	5,705	7,490	8,385	20,589
Balance with RBI	48,761	53,638	63,815	78,884	94,838	112,597
Balance with banks	258	556	615	615	615	615
Net value of investments	432,285	488,385	500,318	610,388	744,673	908,501
Govt. and other securities	300,012	351,863	354,805	443,624	550,460	681,509
Shares	601	628	2,369	2,369	2,369	2,369
Debentures and bonds	94,667	95,154	110,453	132,544	159,052	190,863
Net loans and advances	755,498	982,099	1,322,627	1,634,767	1,926,300	2,223,501
Fixed assets	3,190	4,707	6,835	7,898	8,098	8,254
Other assets	95,160	95,259	125,325	150,390	180,467	216,561
Total assets	1,361,704	1,652,634	2,150,599	2,586,771	3,059,718	3,586,959
Deposits	911,758	1,117,195	1,428,739	1,765,921	2,122,048	2,497,954
Borrowings and bills payable	265,612	319,759	391,992	458,631	536,598	643,918
Other liabilities	67,533	77,814	109,328	114,794	121,682	128,983
Total liabilities	1,244,904	1,514,768	1,930,059	2,339,346	2,780,328	3,270,855
Paid-up capital	4,177	4,205	4,565	4,565	4,565	4,565
Reserves & surplus	112,622	133,661	215,976	242,860	274,824	311,539
Total shareholders' equity	116,800	137,866	220,541	247,425	279,389	316,104

Source: Company, Kotak Institutional Equities estimates

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