Detailed Report | 16 May 2016

Sector: Financial

Yes Bank

Earnings compounder

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Contents: Earnings compounder; 10 year CAGR of 40%

Yes Bank

BSE Sensex	S&P CNX
25,653	7,861

CMP: INR980 **TP: INR1,275 (+30%)** **Buy**

Stock Info

Bloomberg	YES IN
Equity Shares (m)	420.8
52-Week Range (INR)	962/590
1, 6, 12 Rel. Per (%)	9/27/20
M.Cap. (INR b)	399.8
M.Cap. (USD b)	6.0
Avg Val, (INR m)	2,902
Free float (%)	78.1

Financial Snapshot (INR b)

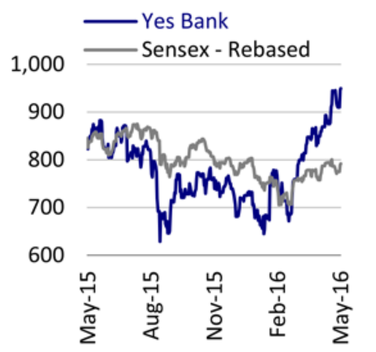
Y/E Mar	2016	2017E	2018E
NII	45.7	59.4	73.9
OP	43.0	56.4	70.2
NP	25.4	32.6	40.4
EPS (INR)	60.4	77.6	96.0
EPS Gr. (%)	25.8	28.6	23.6
BV/Sh. (INR)	328	390	466
P/E(X)	16.2	12.6	10.2
P/BV (X)	3.0	2.5	2.1
RoE (%)	19.9	21.6	22.4
RoA (%)	1.7	1.8	1.8

Shareholding pattern (%)

As On	Mar-16	Dec-15	Mar-15
Promoter	21.9	22.0	22.1
DII	24.3	23.6	20.7
FII	41.3	41.4	45.1
Others	12.6	13.1	12.2

FII Includes depository receipts

Stock Performance (1-year)



Earnings compounder; 10 year CAGR of 40%

Impeccable track record of 20%+ RoE

- **Over the last decade, YES Bank's EPS has grown at ~40% CAGR and the stock price has compounded at ~27% CAGR. While its loan market share is low at ~1.3%, share in profit pool stands at 3%+. We expect strong loan growth led by market share gains (~2% by FY20) – capitalizing on its strength in corporate business and addition of new portfolios in the retail business.**
- **Despite being a corporate lender, last four years of economic moderation has had insignificant impact on asset quality (NSL at 82bp and peak NSL of 91bp). As the economic cycle picks up, YES is well placed to ride this with strong profitability and low legacy issues.**
- **Last three years have seen aggressive push towards Retail and SME businesses with 2x increases in capacity (branches and employees). We expect share of retail and MSME business to increase further (45% of loans by FY20 v/s 35% in FY16) thereby improving granularity of the balance sheet and earnings stability.**
- **RoEs have remained 20%+ for last eight years – best in the sector. We expect RoA expansion to 1.8% and ~22% RoEs for FY17/18E led by strong loan growth and margin expansion – CASA ratio to improve by ~300bp annually.**
- **Our new target price is INR1,275 (2.7x FY18E P/BV) implying 30% upside from current levels. We have raised earnings estimate by ~5% for FY17/18E and lowered cost of equity (13.9% v/s 14.4% previously). YES remains one of our conviction buys in the Financials space.**

Building a granular retail franchise; initial trends best amongst peers

YES' branches and headcount have doubled in the last three years and quadrupled in the last five years. Investments in Retail have begun yielding results, with CASA ratio improving to 28% (from ~10% in FY11), primarily led by momentum in SA deposits (18.3% v/s ~2% in FY11). Strong customer acquisition (0.18-0.2m; ~15% customer base added every quarter), new product introduction and management focus on improving granularity of business should help increase the share of Retail and SME loans to 40%+ (2x industry growth) and CASA ratio to ~36% in three years.

Proven corporate banking capabilities; asset quality impeccable

Over the last six years, there have been several events impacting liquidity / asset quality; YES, despite being a corporate lender has navigated this period with impeccable asset quality performance (peak net stressed loans of 1.2%). Besides, it has maintained contingency provision of 30-50bp over the last two years, normalizing the impact on earnings performance. While YES has exposure to stressed corporate groups, these loans are usually part of structured transactions, adequately collateralized and out of consortium arrangements. Unlike peers, YES has drawn minimal observations in RBI AQR, giving credibility to its risk management practices. We expect corporate loan growth of ~20% over the next three years, primarily led by working capital demand and significant refinancing opportunities in better rated large corporate houses.

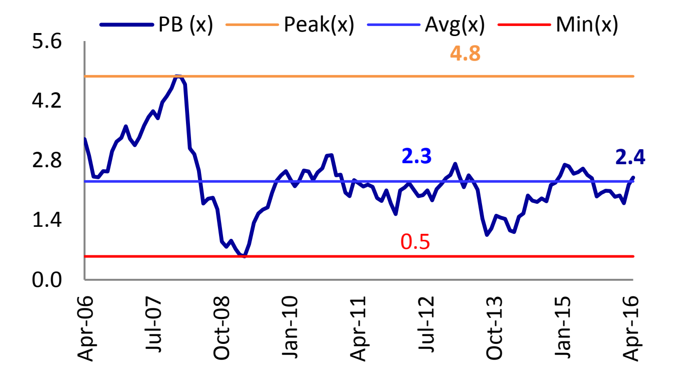
Strong profitability; best-in-class return ratios

NIM is at an all-time high (3.4%), led by improvement in liability mix; we expect margins to improve further, led by improving CASA share and better loan mix. Further, strong loan and fee income CAGR (FY16-19) of 25%+ and stable asset quality performance will help YES to report 25% earnings CAGR. Our estimates for trading gains are conservative and any windfall gains will be utilized to increase the counter-cyclical provisions. Overall RoA should remain stable at 1.7%, with RoE at 21-22% (pre-dilution) over FY17-19E.

Valuation and view – strong earnings growth; re-rating candidate

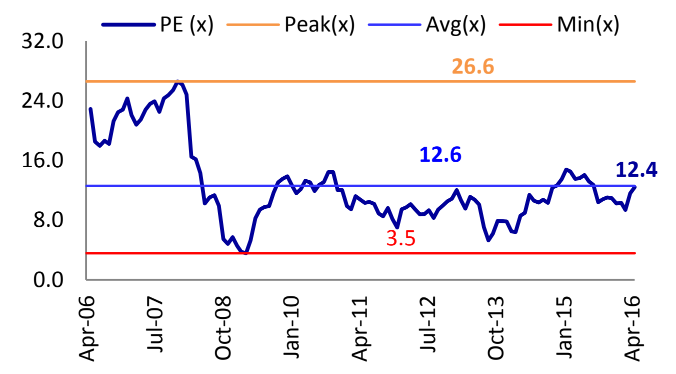
Economic indicators are turning positive and YES is better positioned, with (1) higher branch presence (860 v/s 214 in FY11), (2) best-in-class asset quality, and (3) low market share of ~1.3% (likely to be ~2% by FY20). Strong traction in retail liabilities is likely to aid margin expansion. We raise our earnings estimate by 4-5% and expect return ratios to be strong (1.7%+ RoA and 20%+ RoE). We raise our target price by 18% to factor in better medium term growth prospects and lower cost of equity (13.9% v/s 14.4% previously). **Buy** with a target price of INR1,275 (2.7x FY18E BV). Key risks to our target price are (a) execution risk on building retail assets and (b) prolonged economic recovery impacting overall asset quality position.

Exhibit 1: One-year forward P/BV



Source: Company, MOSL

Exhibit 2: One-year forward P/E

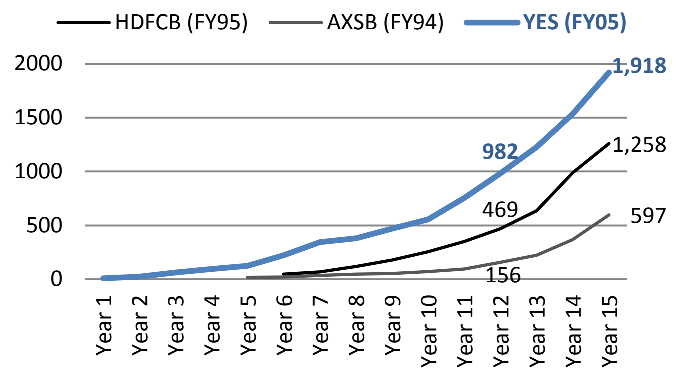


Source: Company, MOSL

Quick glimpse of first twelve years' performance

Opportunity in existing branch network remains significant

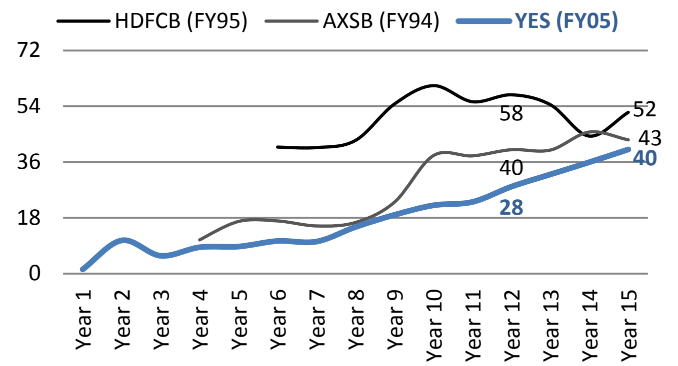
Exhibit 1: Loan book size (INR b) at the end of twelve years significantly higher than peers



Note: The above data is not inflation adjusted

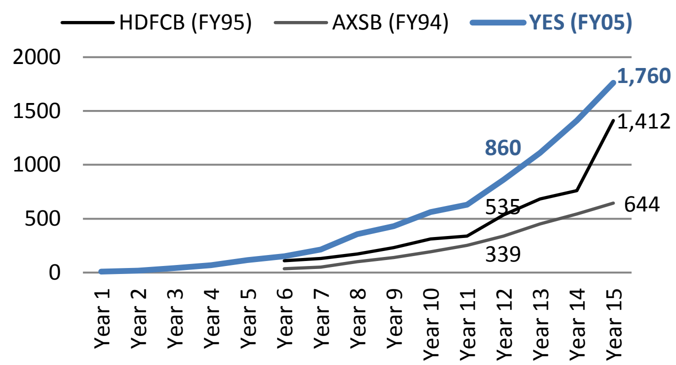
Source: MOSL, Company

Exhibit 2: However, share of CASA in overall deposits remains significantly below peers – an area of opportunity



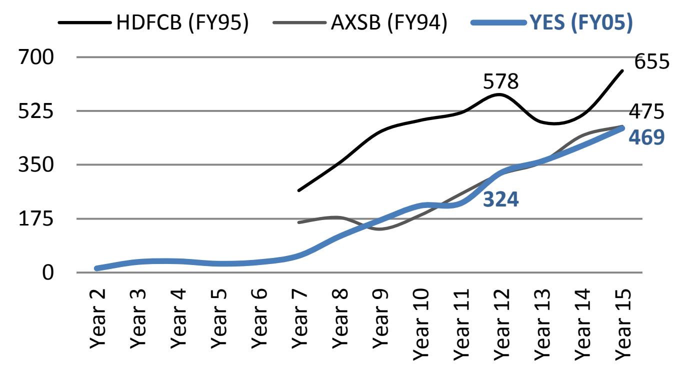
Source: MOSL, Company

Exhibit 3: YES' branch network is 2.5x AXSB's after 12 years



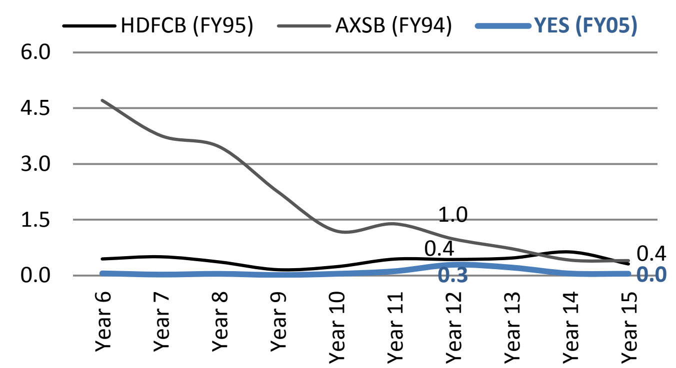
Source: MOSL, Company

Exhibit 4: However, SA per branch (1-year lag) has largely tracked the momentum seen by AXSB



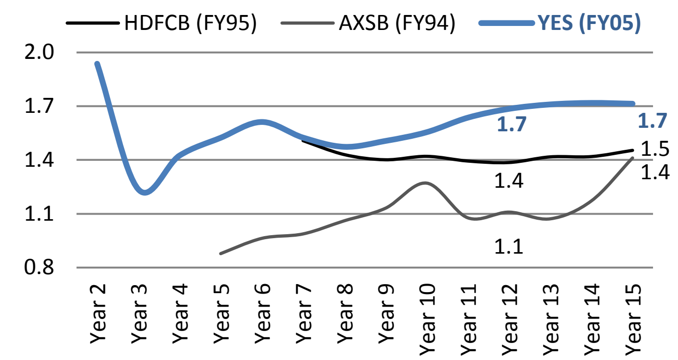
Source: MOSL, Company

Exhibit 5: Asset quality position has remained far superior even in tough times (net NPA, %)



Source: MOSL, Company

Exhibit 6: Profitability position remains robust (RoA, %)

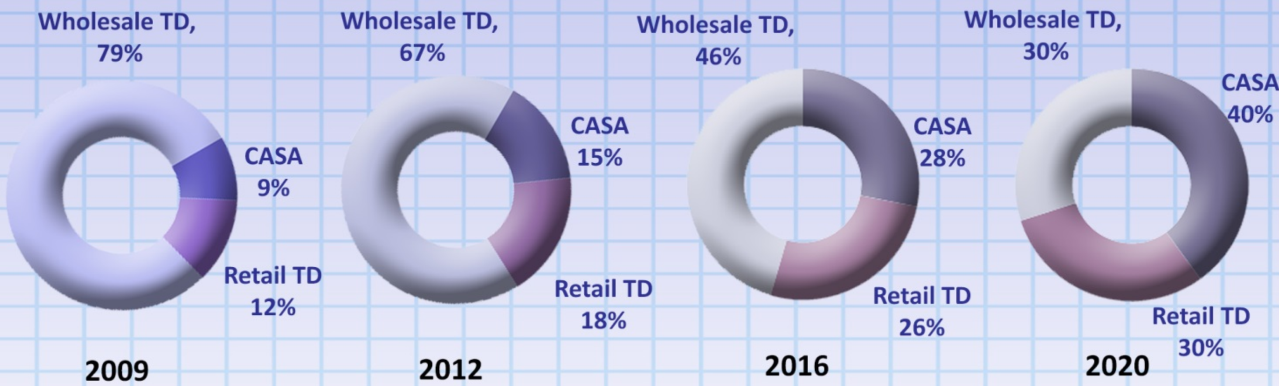


Source: MOSL, Company

Note: In case of YES, data for years 13-15 are MOSL estimates

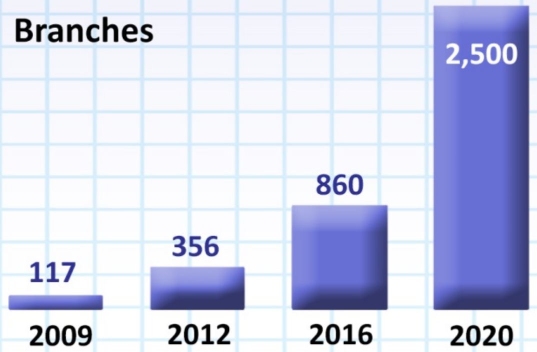
Retail Banking Roadmap

1 Liability franchise becoming more granular (highlight 2009-2012-2016-2020)



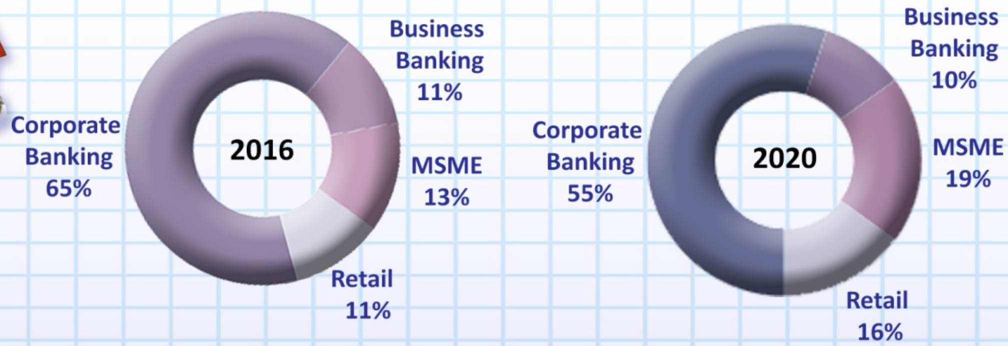
2x average SA balance per customer for YES v/s private peers

2 Capacity building continues

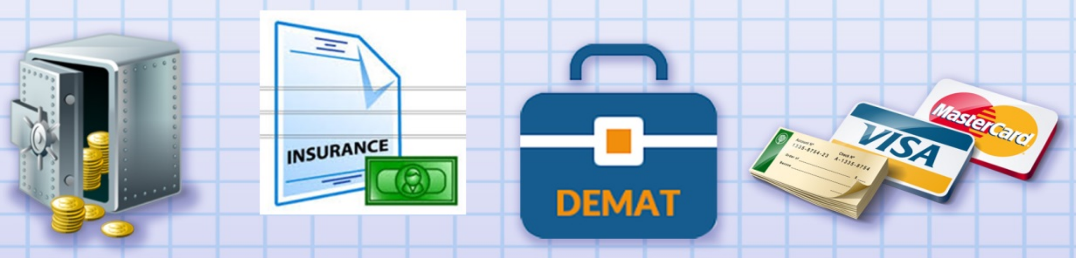


30% capacity utilization of existing branches

3 Asset franchise expected to get more granular



4 Largest contributor to overall fee income



40% of overall fees to come from retail banking

5 Digital Banking = Partnerships + Innovation

Building blocks for Retail Banking in place

Diversified balance sheet mix – a key mantra for next growth phase

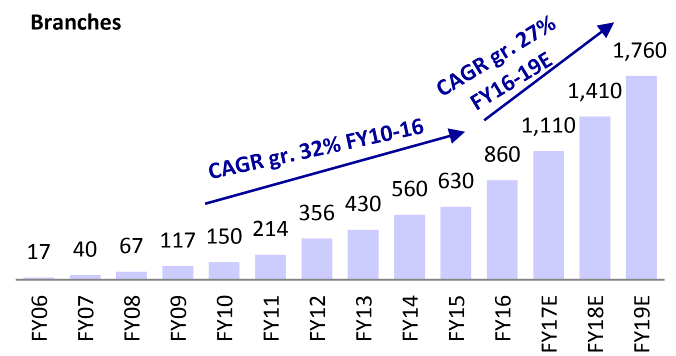
- **At a time when the banking system remains challenged with asset quality stress, YES has built significant capacity for the next phase of growth. Its branches and employee base have doubled in three years and quadrupled in five years.**
- **Along with capacity building, YES has sourced talent from leading private/foreign banks to scale up the retail business and increase overall balance sheet granularity. Its focus is on building retail assets largely from liability customers.**
- **Our branch addition analysis suggest that top-20 focused districts account for ~55% of addition, top-3 states (Maharashtra, Haryana and Delhi) account of 40% of the branch network, and incremental branch addition remains focused on the SA-rich locations.**
- **Retail, small businesses and mid-corporate banking would be the key drivers of overall loan growth. Strong corporate relationships (market share gains) built during the current cycle will drive asset-light fees.**

Retail business gaining momentum – scale benefits on the cards

Branch network quadrupled in five years; strong presence in western and northern SA rich states to bear fruits

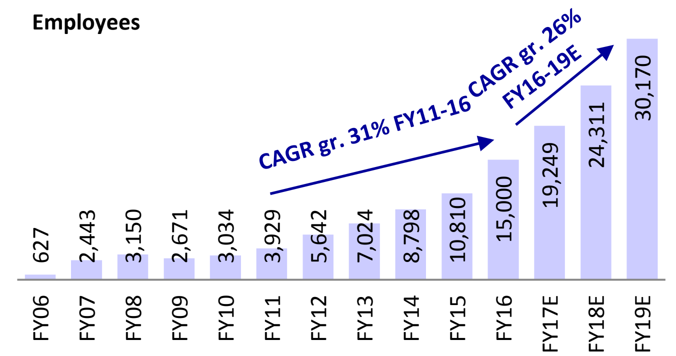
- YES has built a strong network of 860 branches against 214 branches in FY11 (4x in five years). It has strong presence in the cash rich and progressive northern and western regions of India, which will help to scale up Retail (especially HNI business) and SME businesses. YES plans to expand branch network to 2,500 branches by FY20.
- Across businesses, senior level management teams are already in place. With the increasing scale of business, junior level workforce is coming on board, leading to increase in manpower by 4x over five years.
- Significant branch expansion would be a key source of customer acquisition for YES, driving CASA and loan growth. Post savings deposits deregulation, YES is already seeing strong customer acquisition of ~60k per month. Our channel checks suggest that average SA balance per customer for YES bank is ~3x HDFCB's and 2-2.2x IIB's.

Exhibit 7: Moderate growth phase used to build capacity; 4x in five years



Source: Company, MOSL

Exhibit 8: Significant capacity addition being made to build Retail and Business Banking franchise

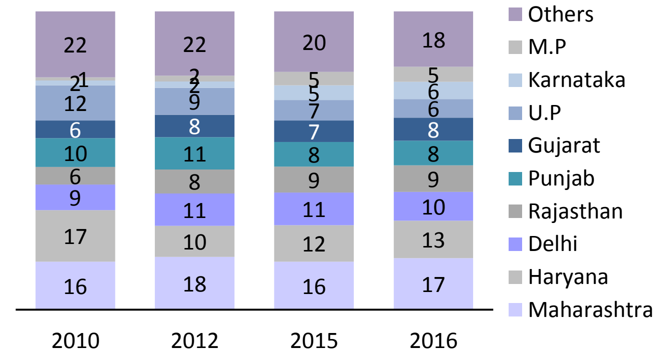


Source: Company, MOSL

Top-20 districts account for 54% of incremental branch additions

Our branch opening analysis suggests that incremental focus has remained on the northern and western region deposit centers with higher density (~15% of existing branches in Delhi and Mumbai). The management maintains its strategy of building a hub-and-spoke model (180 hubs and 75 cluster hubs) for faster maturity and greater efficiency of branch network.

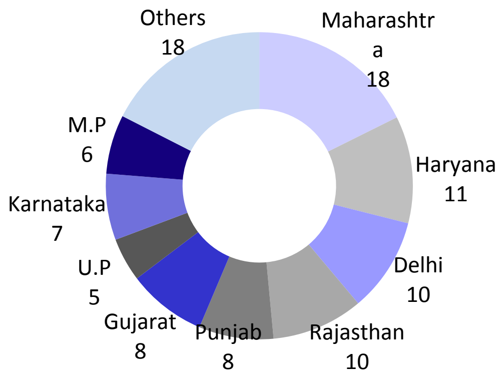
Exhibit 9: Top-3 states account for 40% of YES' branches (%)



Note: The above data is on calendar year basis

Source: RBI, Company, MOSL

Exhibit 10: YES: In the last six years (2010-2016), ~50% of incremental branch opening has been in four states (%)



Note: The above data is on calendar year basis

Source: RBI, Company, MOSL

Exhibit 11: Top-20 districts account for 54% of YES' incremental branch additions (CY12-15)

District	State	Branches o/s			% of Incremental Branches	Branch Market Share (%)
		2012	2015	Chg.	2012-2015	2015
New Delhi	Delhi	43	80	37	11	2.5
Gurgaon	Haryana	13	30	17	5	5.3
Mumbai Suburban	Maharashtra	19	30	11	3	2.3
Pune	Maharashtra	8	22	14	4	1.7
Bangalore Urban	Karnataka	5	20	15	4	0.9
Alwar	Rajasthan	6	17	11	3	5.7
Jhajjar	Haryana	4	17	13	4	13.3
Mumbai	Maharashtra	13	17	4	1	1.7
Thane	Maharashtra	15	17	2	1	1.6
Ahmedabad	Gujarat	8	13	5	1	1.2
Chennai	Tamil Nadu	5	12	7	2	0.9
Jalandhar	Punjab	6	11	5	1	1.7
Rohtak	Haryana	0	11	11	3	6.5
Sahibzada Nagar	Punjab	9	11	2	1	3.2
Hyderabad	Telangana	5	9	4	1	0.8
Ludhiana	Punjab	4	9	5	1	1.1
Raigad	Maharashtra	2	9	7	2	2.2
Chandigarh	Chandigarh	3	8	5	1	2.1
Gautam Buddha Nagar	U.P	4	8	4	1	1.9
Nasik	Maharashtra	6	8	2	1	1.5
Top 20		**178**	**359**	**181**	**54**	**2.0**
All India		**413**	**751**	**338**		
Share of Top 20 (%)		**43**	**48**			

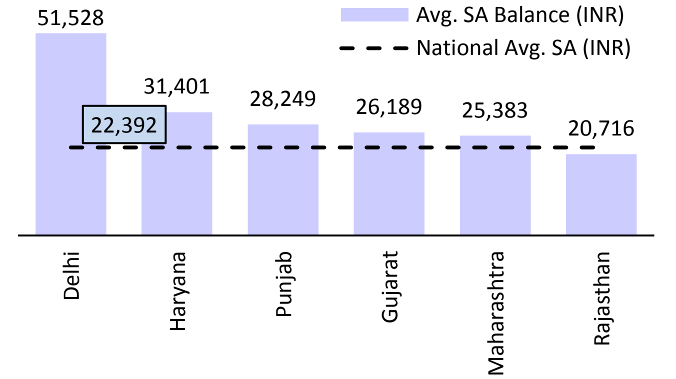
Note: The above data is on calendar year basis

Source: RBI, MOSL, Company

Focus on SA-rich states; competing in highly competitive geographies

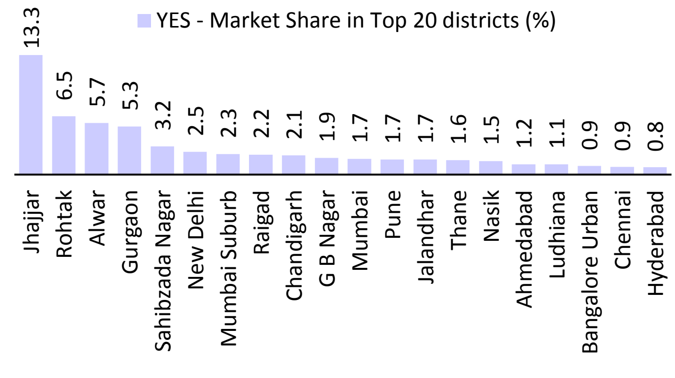
Average SA balance in top five states for YES is above national average (exhibit 14). Based on the branch opening pattern and our conclusion in the liability franchise report, YES has focused on centers with higher average SA balances; this is also reflected in YES' own average SA balances, which are ~3x private peers. In our view, offering 6%+ SA deposit rate has been one of the key drivers of customer acquisition in these highly competitive geographies.

Exhibit 12: Establishing presence in SA-rich states



Source: RBI, MOSL, Company

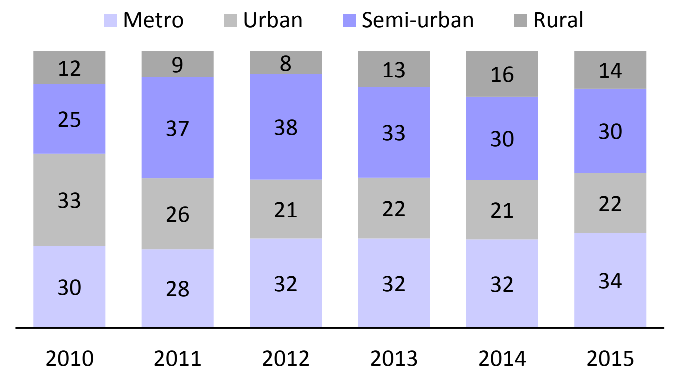
Exhibit 13: YES has already achieved 5%+ branch market share in 4 out of 21 districts in Haryana



Note: The above data is on calendar year basis

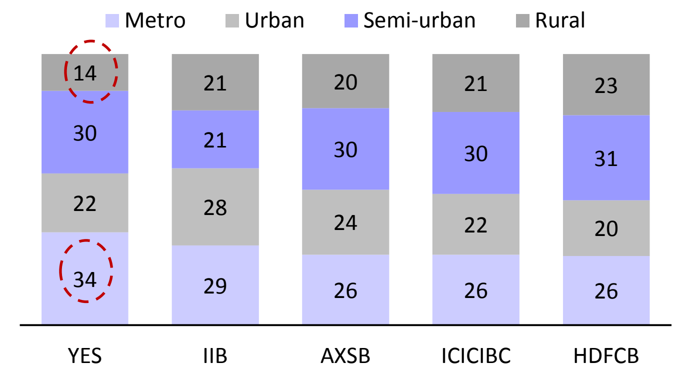
Source: RBI, MOSL, Company

Exhibit 14: YES: Share of metro branches is on the rise – 42% of incremental branch addition in 2015 (%)



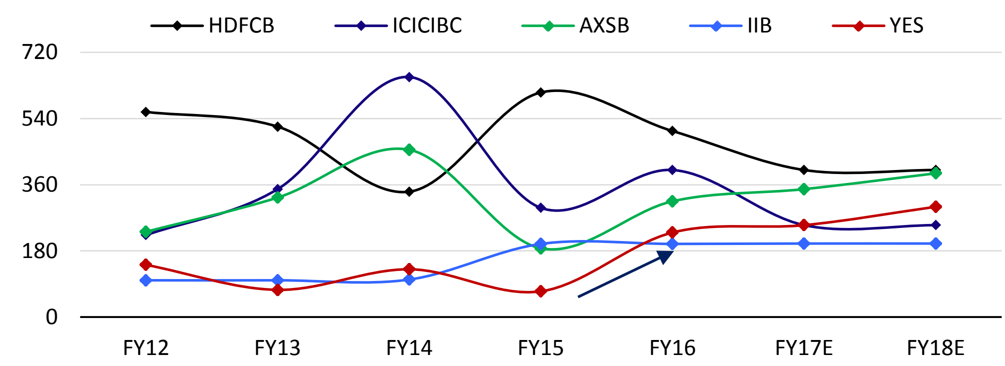
Source: RBI, MOSL, Company

Exhibit 15: YES has higher share of metro branches and lower share of rural branches v/s other private peers



Source: RBI, MOSL, Company

Exhibit 16: Expect pace of branch addition for YES to increase to 300+ over next two years – moving into the next league; targets to triple branch network over next four years

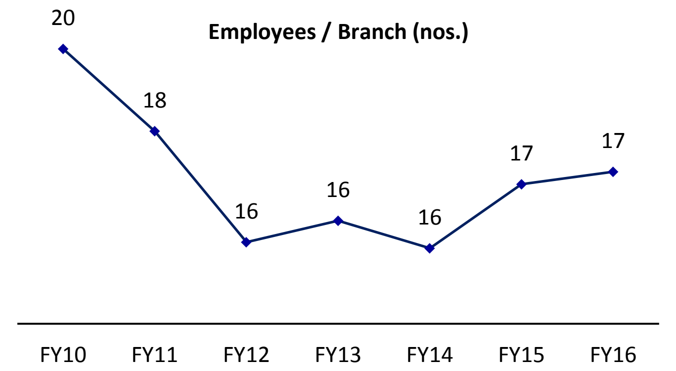


Source: Company, MOSL

Overall branch distribution strategy

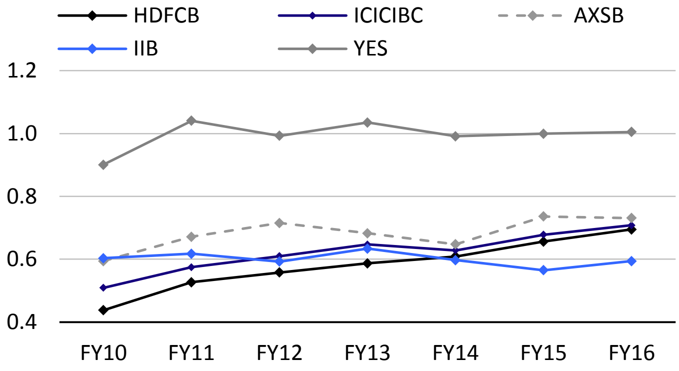
(a) Metro / Urban – largely focus on high quality competitive markets, (b) Rural / Semi-urban – largely rural inclusive banking branches, which focus on assets business initially, (c) Delhi Mumbai Industrial Corridor (DMIC), (d) smart cities, and (e) six major cities in southern market.

Exhibit 17: One of the few banks where employees / branch ratio is trending high – sign of potential operating leverage available



Source: Company, MOSL

Exhibit 18: YES: Average cost per employee (INR m) has remained largely unchanged

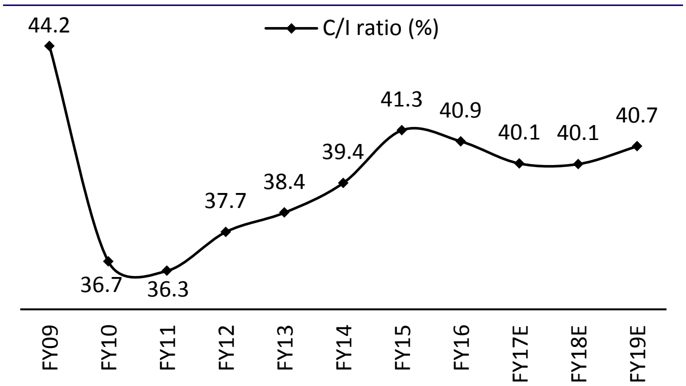


Source: Company, MOSL

Higher income generation from existing network to fund massive capex

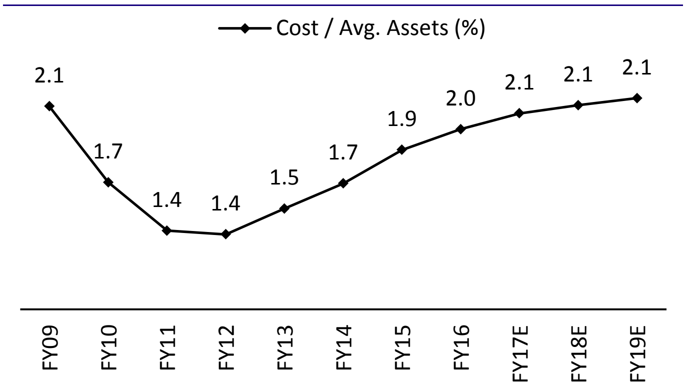
Overall, we expect cost to income ratio to remain stable at 40-41%, led by strong net income growth (26% CAGR for FY16-19E). We expect NIM to improve by 25-30bp over the next three years, largely led by improved liability mix. Operating expense growth is likely to remain 25%+, led by significant capacity addition. YES has added 300 branches in the last two years; these should help accelerate the pace of customer acquisition, leading to higher share of CASA and other income.

Exhibit 19: C/I ratio expected to remain stable



Source: MOSL, Company

Exhibit 20: However, cost-to-average-assets expected to trend higher



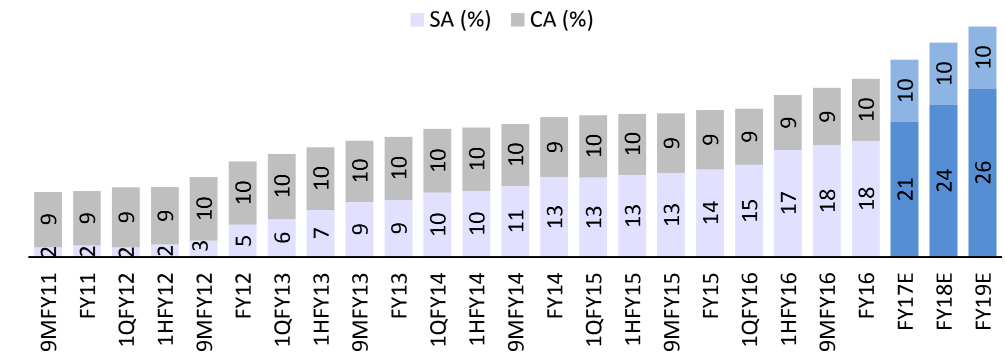
Source: MOSL, Company

Building a strong CASA franchise

CASA ratio up from 10% in FY11 to 28% in FY16; expected to touch 40%

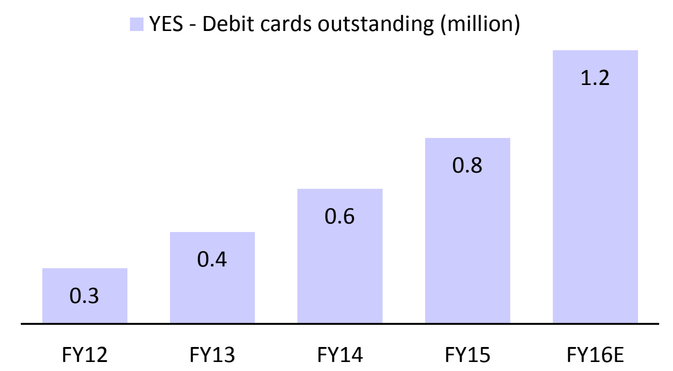
- **Focused branch expansion in SA-rich states, SA deregulation and improving brand image have driven YES' SA deposit share (18% v/s 2% in FY11). We expect CASA to reach ~36% by FY19, comparable with private peers – key driver of cost benefit / margin expansion.**
- **Average SA balance/branch is lower than large private peers (INR220m v/s an average of INR275m for private sector banks). As the branches mature, we believe SA/branch would improve further.**
- **Reduction in SA rates, though a relatively recent event (November 2015) has had limited impact on both pace of customer acquisition (0.18-0.2m per quarter) and SA deposit growth (62% YoY, 14% QoQ in 4QFY16). However, we would wait for 1-2 quarters to assess any negative impact from the competitive positioning perspective.**
- **CA deposit growth (+29% YoY) has been significantly higher than industry average (10-12% growth). Overall CA proportion has been stable at ~10%; with recovery in the economy, CA float is expected to improve and YES would be one of the key beneficiaries, given its strong corporate relationships.**

Exhibit 21: CASA ratio to increase to ~36% by FY19, largely led by strong growth in SA deposits



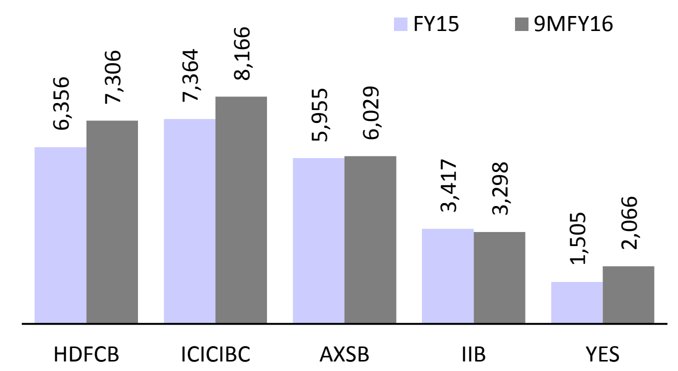
Source: MOSL, Company

Exhibit 22: Pace of customer acquisition has improved



Source: RBI, MOSL, Company

Exhibit 23: Debit cards / branch (1-year lag) – YES is still at ~30% of large private peers, indicating significant opportunity in existing network

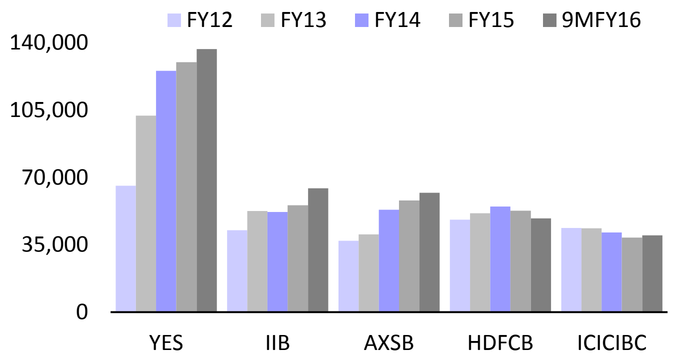


Source: RBI, MOSL, Company

YES branches operating at 30% capacity utilization – significant low hanging fruits available

- If one assumes debit cards as a proxy for SA deposit customers, YES is operating at ~2,000 customers per branch (1-year lag) v/s 6,000+ for HDFCB/ICICIBC/AXSB. The opportunity in existing branches remains significant.
- Median SA balances for YES are more than 2.5x private peers', largely led by non-salary savings accounts, which the management says have 5-6x the SA balance of salaried customers; currently, 40% of customers are non-salaried.

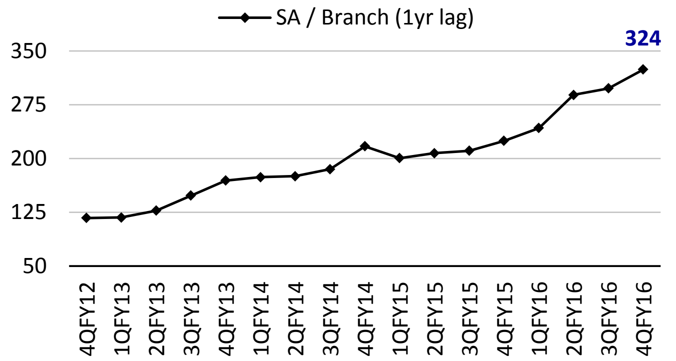
Exhibit 24: In addition, average SA balance/debit card is more than 2x for YES v/s private peers (INR)



Note: AXSB had undertaken rationalizing inactive accounts in FY14.

Source: RBI, MOSL, Company

Exhibit 25: Overall SA/branch (1-year lag) now closer to large private peers at INR370m-400m



Source: RBI, MOSL, Company

Exhibit 26: Overall strategy for CASA mobilization

	Approach	Balances	Transactional Frequency	Cross-sell Opportunity
Savings Deposit				
Salary Account	Focus on acquiring young salaried customers; while average SA balance in this category remains relatively lower, retail asset opportunity remains very attractive	Average	High	High
HNI Customers	Have been gaining share from other banks; however, still remains work in progress; customers are experimenting with YES; management is looking to make a strong push after full suite of retail asset offerings	High	High	High
Clubs / Trust / Societies	Building relationships by providing other services (CMS biz etc.)	High	High	Low
NRIs	Remains a key focus area for the bank	High	Medium	Medium
Current Deposit				
SME clients	INR4-10m balances; 80-90% of branch banking CA; significant PSL opportunity; have launched new products; sizable POS/Trade/FX business opportunity			
Government / PSUs	Dedicated team focusing on business from government maharatnas, navratnas and mini ratnas			
MNC / Embassies	Dedicated team focusing on solutions for MNC clients; have made significant inroads in embassy business			

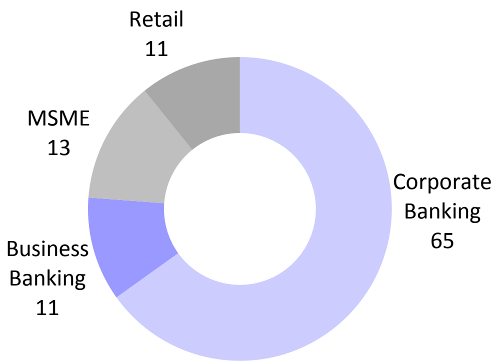
Source: MOSL, Company

Plans to build USD15b+ retail assets book by FY20

Expect 35%+ CAGR (FY16-20E) in Retail and MSME segment

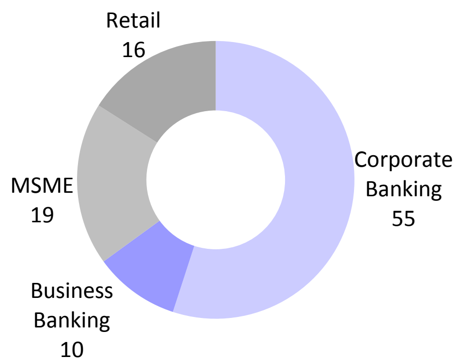
- **Over the last five years, YES has filled several gaps in its retail assets portfolio; we expect the pure retail lending story to gain significant traction and its share to increase to ~16% of overall loan book v/s ~11% currently (of which 30-40% is likely to be brought-out portfolio).**
- **Management plans to focus on select cities initially and then follow to other geographies; technology and focus on services / TAT (speed) would be the key differentiator in product offerings.**
- **Share of MSME is likely to increase ~50% in next four years (~20% v/s ~13% in FY16) led by ecosystem approach / referral model approach, that is, leveraging the value chain of existing customer base to acquire new customers.**

Exhibit 27: Share of Retail is ~11% in FY16



Source: MOSL, Company

Exhibit 28: Management targets 45% share of Retail and Business Banking by FY20



Source: MOSL, Company

Exhibit 29: Complete suite of products ready for Retail and SME customers

	Consumer Retail	Commercial Retail & Mortgage	SME and Mid Corporates
Product	✓ Auto Loans ✓ Two Wheeler Loans ✓ Gold Loan ✓ Personal Loan ✓ Credit Cards*	✓ Commercial Vehicle ✓ Construction Equipment ✓ LAP/LAS ✓ Healthcare Finance ✓ Home Loans	✓ Smart Overdraft ✓ Fast track lending Program ✓ Scorecard Lending program ✓ LGD Program (Linking Collateral with Rating for high ticket customers)
Focus segment	✓ Salaried and Self Employed	✓ Professionals ✓ Infrastructure & Logistics ✓ Retail Investors ✓ Self Employed	✓ 14 Knowledge Sunrise Sectors including Automobile, Pharmaceutical, Textile, Printing & Packaging ✓ CBB/ EBB/ SBB
Strategy	✓ Tapping Liability customers ✓ Branch Channel ✓ Technology aided processing ✓ Focused activities ✓ Manufacture Tie-ups	✓ Cash flow based Credit underwriting ✓ Adequate Collaterals ✓ Risk based pricing ✓ SME rich lending program ✓ PSL benefits	✓ Building Granular MSME book ✓ CRM Based sourcing ✓ Tapping Corporate linked Supply Chain – Channel Financing

Note: Credit cards are expected to launch in 1QFY17

Source: MOSL, Company

YES is working on hub and spoke model for expanding the Retail / Business Banking footprint

Retail at nascent stage: Building blocks in place

- YES has run pilot projects for various retail assets and now offers the entire gamut of products (ex-cards) under its roof. It is working on hub-and-spoke model for expanding the Retail / Business Banking footprint – currently has 75 cluster hubs and 180 spoke hubs. This is expected to continuously rise, as YES is expanding rapidly. Partnerships/alliances with key manufacturers, builders and new age channels (e-com) are expected to be key drivers of growth.
- Initial focus will be on cash flow based offerings like loans against property, commercial vehicle / equipment financing, and healthcare loans; consumption-based products like credit cards, personal loans and gold loans will also be key growth drivers.
- MFI business along with affordable housing loan opportunity is also another major focus area for the management.
- Over the next 3-5 years, we expect the proportion of YES' own retail loans to rise to ~16% v/s ~8% of loans (assuming 3-4% is brought out portfolio). Delinquency in these segments remains low and we believe underwriting standards of banks/NBFCs and credit discipline of borrowers is significantly better in this cycle.
- Cross-selling opportunities and benefit of low cost deposits would be one of the key advantages for YES.

Exhibit 30: Incremental growth drivers in retail assets

Phase	Products	Approach
1	LAP / Commercial Vehicle / Construction Equipment / Healthcare	▪ **Cash flow based offering – commercial retail lending Contributes significant proportion of retail assets today**
2	Homes loans and affordable housing	▪ **Consumption based lending**
3	Personal loans / Credit cards / Gold loans / 2W / 4W	

Source: MOSL, Company

SME / MSME – focus on catering to entire value chain

Management has targeted ~40% CAGR over next four years and expects this business to scale up to ~20% from ~13% in FY16

- Management targets ~40%+ CAGR over the next four years and expects this business to scale up to ~20% of loans from ~13% currently. Considering the granularity of the book, the existing book itself will drive growth during an economic upturn.
- YES is focused on 15 sunrise segments, with major thrust on service-oriented industries. Further, by leveraging on its strong large and mid-corporate relationships, the bank is targeting the entire supply chain.
- Cross-selling opportunities remain high in this segment. Currently, YES' products per customer is 3x+ (including debit cards), which can be scaled up. This business has high potential for PSL (good yield on the PSL portfolio), fee income and float business.
- Delinquency for YES in this segment remains low, even during the worst phase of the economic cycle, which can be attributed to its strong risk management practices. YES' sound strategy coupled with strong risk management (higher NIM + lower credit cost) practices should drive profitability higher.

Exhibit 31: Small business banking segment remains the key growth driver

Segment	Turnover INR b	Avg. Ticket size (INR m)	Approach
Commercial Business Banking (CBB)	1-5	INR40m+	▪ **Largely relationship based; risks are high as of now; hence, looking at selective exposures**
Emerging Business Banking (EBB)	0.1-1	INR20-40m	▪ **Further divided into large EBB (where currently risks are high) and small EBB; focus remains on small EBB**
Small Business Banking (SBB)	0.01-0.1	INR7-8m (target INR4-5m)	▪ **Key focus area for growth (PSL driver); Purely standardized underwriting; asset backed approach; hence, TAT is very less and service is the key offering. MFI business is part of SBB**

Source: MOSL, Company

Digital Banking = Partnerships + Innovations

Significant share in merchant acquisition = Higher current accounts

Please refer our report on Digital Banking dated March 2016

While the rest of the system has been obsessed with building a savings account franchise, Yes Bank (YES) has focused its efforts entirely on acquiring merchants and building a strong current account (CA) franchise as its moat. YES now needs to disproportionately participate in the e-commerce opportunity to quickly monetize its vendor footprint.

Exhibit 32: PMI (Plus Minus Interesting) analysis

Plus	Minus
Rapidly expanding installed base of POS terminals (30 POS terminals per metro and urban branch)	Highest proportion of zero-balance accounts (57%) and low activity levels in customer accounts
Largely neutral-to-gaining market share in RTGS transactions every month	Low proportion of basic savings accounts that are seeded with Aadhaar
Highest frequency of ATM transactions per month (average usage at 2.7 per debit card for Apr'15-Oct'15)	Low proportion of stable deposits (at 10% of retail deposits) #
	Highest cash intensity among new-age private sector banks at ~9x during Apr'15-Oct'15

Exhibit 33: Beachhead strategy

New To Bank (NTB) strategy: Positioned as primary banker to merchants (on-boarding of merchants using Internet Payment Gateway)	Existing To Bank (ETB) strategy: Migrate physical transactions on to quasi-digital platforms such as Yes2Call	Grow market share in the e-commerce market	Ecosystem tie-ups with fintechs to create network externalities and leapfrog early movers

Based on definition used in LCR computation

Source: Company, MOSL

Emerged stronger in every cycle

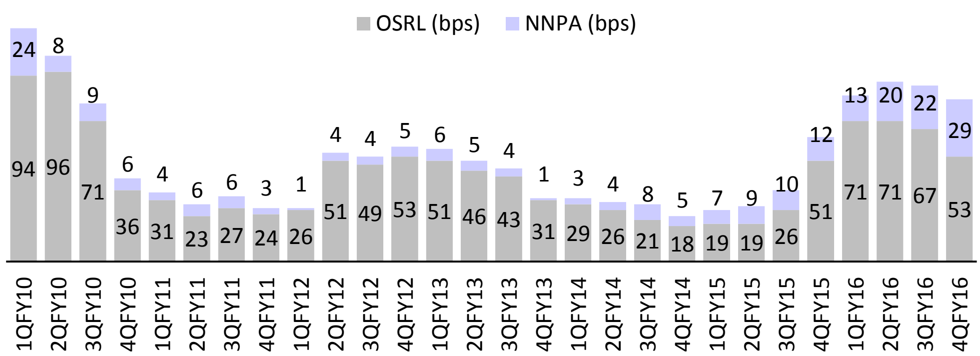
Proven track record of 20%+ RoE across cycles, with healthy balance sheet

- **YES has seen multiple cycles of economic growth moderation, and yet, it has emerged stronger.**
- **Moderate growth and focus on improving balance sheet profile and strong ALM helped NIMs to remain in a narrow range of 2.8-3%**
- **Minimal impact from RBI asset quality review (AQR), no SDR / 5:25 refinancing highlights the quality and collateral even within the exposures to stressed corporate group.**
- **Overall asset quality continues to be superior (82bp of net stress loans; amongst the lowest in peer group) and return ratios (1.5%+ RoA; 20%+ RoE) remain strong.**

Dispelled concerns by strong performance at every stage

- YES' impressive performance during FY09/FY12-14/FY16 (periods of extreme volatility and sharp moderation in growth) demonstrates the soundness of its business model and the management's execution capabilities.
- Despite being a wholesale borrower, it sailed through periods of extreme liquidity stress and volatility in interest rates with largely stable margins at 2.8%+, which gives an indication of its strong asset liability management.
- Asset quality continues to be best in-class, with net stress loans at just 82bp – among the lowest in the system. This is despite severe moderation in economic growth, higher share of corporate/mid-corporate loans in its balance sheet and RBI AQR. YES has also built floating provision (0.3% of loans), which should provide cushion.

Exhibit 34: Net stressed loans at 82bp among the lowest in the industry; YES has not done any SDR or 5:25 refinancing



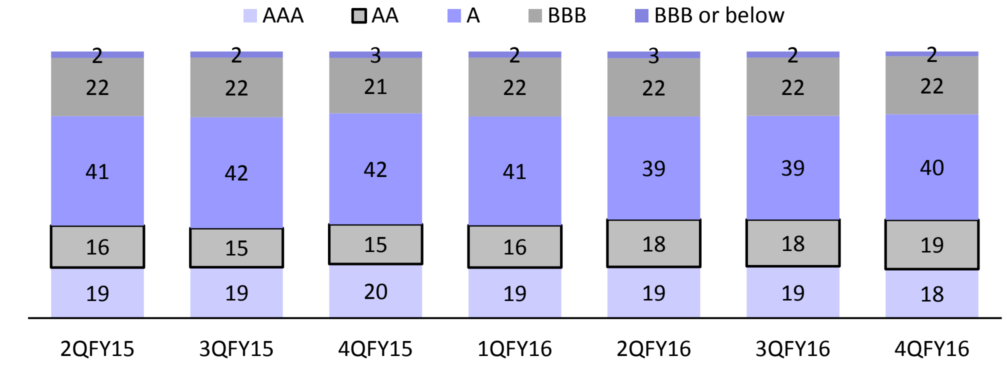
Source: MOSL, Company

Exposure to large stressed corporate groups via highly secured structured transactions

One of the key differentiators of YES' Corporate Banking business is offering structured solutions to companies (including stressed groups) against high quality collateral coverage. While the bank has exposure to stressed corporate groups, these loans are usually part of structured transactions, adequately collateralized, specific cash flow capture and largely out of consortium arrangements.

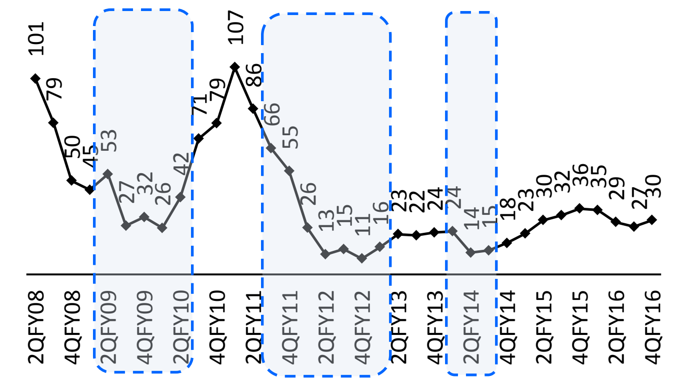
Unlike peers, YES has seen minimal observations in RBI Asset Quality Review, giving creditability to its risk management practices.

Exhibit 35: Rating profile of corporate banking exposures have largely remained stable



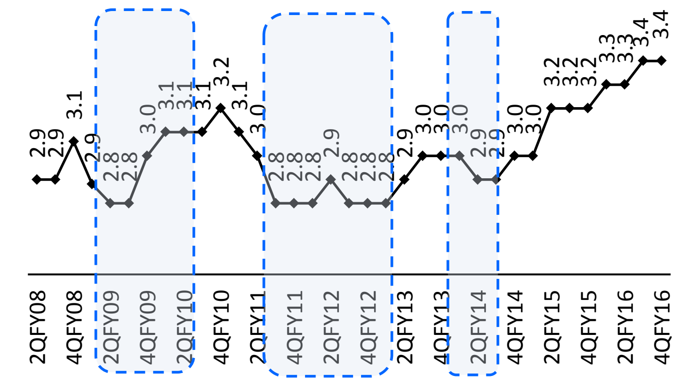
Source: MOSL, Company

Exhibit 36: Prudency led to moderate loan growth in period of crisis (%)



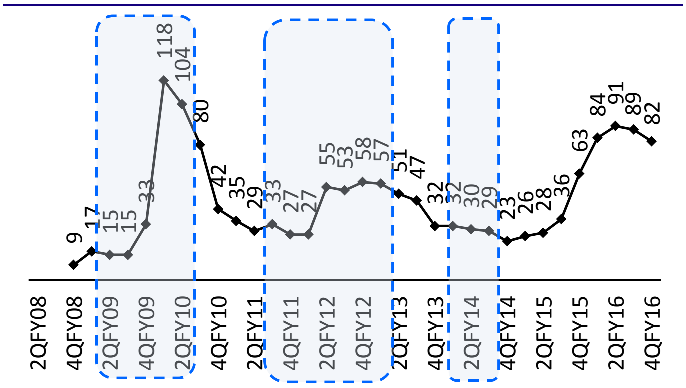
Source: Company, MOSL

Exhibit 37: During the same period, margins remained in a narrow range (%)



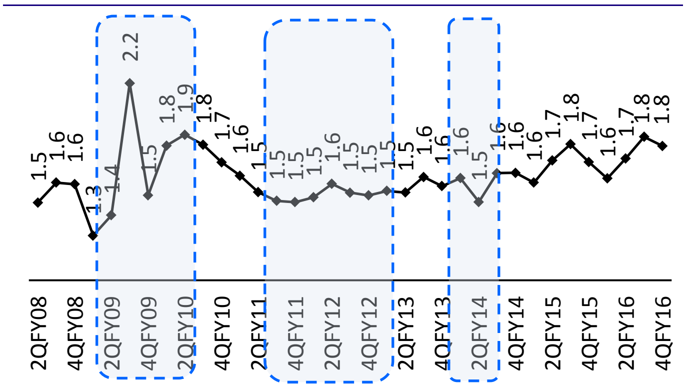
Source: Company, MOSL

Exhibit 38: Net stressed loans increased but remained well within manageable limits (bp)



Source: Company, MOSL

Exhibit 39: RoA continued to be healthy despite tough times (%)



Source: Company, MOSL

Capital raising have been significantly BV accretive

Board approval for raising USD1b equity capital in place

- In April 2016, YES' board approved the raising of USD1b equity capital; CET1 ratio stands at 10.3% v/s 9.1% prior to the last capital raising (1QFY15).
- Given strong traction in loan growth (+30% YoY), we expect YES to raise capital in the next one year.
- YES bank in the past has raised capital at significant multiple to the book; in this section we present below the different scenarios of the impact of capital raise to BVPS and EPS.

Exhibit 40: Historical equity capital raise

	Shares o/s Pre dilution	Fresh shares issued	Dilution	Funds Raise	Price	BVPS		P/BV		FII Holding		
	(m)	(m)	(%)	INR b	INR	Pre	Post	Pre	Post	Pre- issue (%)	Post-issue (%)	Chg. (%)
Oct-07	280	15	5.3	3.3	225	31	42	7.3	5.3	50.0	51.1	1.1
Jan-10	298	38	12.9	10.3	270	66	91	4.1	3.0	53.6	57.6	4.0
May-14	361	54	14.8	29.4	550	197	253	2.8	2.2	38.0	45.0	7.1

Source: MOSL, Company

Exhibit 41: We expect 13-14% post issue dilution (%)

		Price		
Capital (USD M)		900	1,000	1,100
	800	12.2	11.2	10.2
	900	13.6	12.4	11.4
	1,000	14.8	**13.6**	12.5

Source: MOSL, Company

Exhibit 42: Expect 19%+ RoE in FY17 post dilution basis (%)

		Price		
Capital (USD M)		900	1,000	1,100
	800	19.8	19.8	19.8
	900	19.6	19.6	19.6
	1,000	19.4	**19.4**	19.4

Exhibit 43: Expect 18%+ RoE in FY18 post dilution basis (%)

		Price		
Capital (USD M)		900	1,000	1,100
	800	18.5	18.5	18.5
	900	18.2	18.2	18.2
	1,000	17.8	**17.8**	17.8

Source: MOSL

Exhibit 44: FY17 EPS under various scenarios (INR)

		Price		
Capital (USD M)		900	1,000	1,100
	800	73.7	74.6	75.4
	900	73.3	74.3	75.1
	1,000	72.9	**74.0**	74.9

Exhibit 45: FY18 EPS under various scenarios (INR)

		Price		
Capital (USD M)		900	1,000	1,100
	800	90.9	92.0	93.0
	900	90.4	91.6	92.7
	1,000	89.8	**91.2**	92.3

Source: MOSL

Exhibit 46: FY17 BV under various scenarios (INR/share)

Capital (USD M)		Price		
		900	1,000	1,100
	800	457	462	467
	900	464	470	476
	1,000	471	478	484

Exhibit 47: FY18 BV under various scenarios (INR/share)

Capital (USD M)		Price		
		900	1,000	1,100
	800	525	531	537
	900	531	538	545
	1,000	537	545	552

Source: MOSL

Exhibit 48: FY17 P/E (x) post capital raise

Capital (USD M)		Price		
		900	1,000	1,100
	800	13.0	12.9	12.7
	900	13.1	12.9	12.8
	1,000	13.2	13.0	12.8

Exhibit 49: FY18 P/E (x) post capital raise

Capital (USD M)		Price		
		900	1,000	1,100
	800	10.6	10.4	10.3
	900	10.6	10.5	10.4
	1,000	10.7	10.5	10.4

Source: MOSL

Exhibit 50: Available at 2x FY17 P/BV post capital raise

Capital (USD M)		Price		
		900	1,000	1,100
	800	2.10	2.08	2.05
	900	2.07	2.04	2.02
	1,000	2.04	2.01	1.98

Exhibit 51: Available at 1.8x FY18 P/BV post capital raise

Capital (USD M)		Price		
		900	1,000	1,100
	800	1.83	1.81	1.79
	900	1.81	1.78	1.76
	1,000	1.79	1.76	1.74

Source: MOSL

Earnings compounder; 10 year CAGR of 40%

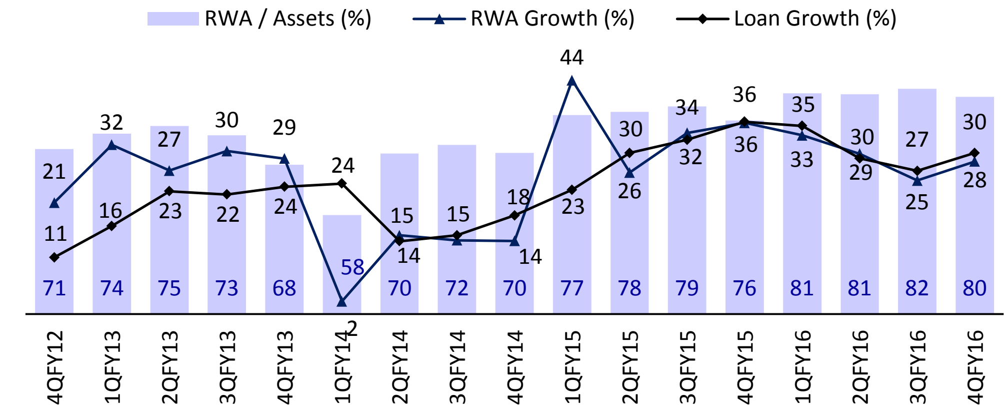
Expect ~25% earnings CAGR (FY16-19), with best-in-class return ratios

Reiterate Buy with a target price of INR1,275 (2.7x FY18E BV)

- **YES has navigated well even during periods of adverse economic environment. Even in the current quarter, when the entire industry is passing through asset quality litmus test, YES' performance has been impeccable (83bp NSL remains one of the lowest in the industry).**
- **With continued investments in franchise, people and processes, YES is well positioned to leverage the opportunity that the Indian economy presents. It has strong capitalization (CET I ratio of 10.3%), its branch network has increased to 860 v/s 214 in FY11 (to reach 2,500 by 2020), and its employee strength is up to 15,000 v/s 3,900 in FY11.**
- **Earnings growth is expected to remain strong at ~25% CAGR over FY16-19, led by (a) strong NII growth of 26% (25% CAGR in loans; margin expansion), (b) fee CAGR of 26%, and (c) stable C/I of 40-41%, despite aggressive expansion. We have factored in higher credit cost of ~70bp (average FY16-19E) v/s ~30bp average over FY12-16 and our estimate for trading gains is conservative (6% of PBT v/s 7% in FY16). Further, strong PCR of ~62% and floating provisions of 0.3% on loans provide cushion on our earnings estimates.**
- **We expect return ratios to remain healthy, with RoA at ~1.7% and RoE at 20%+. Based on residual income model, we raise our price target to INR1,275 (2.7x FY18E BV) v/s INR1,145 previously. We have lowered cost of equity to 13.9%, led by change in cost of assumption to 1.3 v/s 1.4 previously; risk free rate at 7.5% and market risk premium at 5% remain unchanged. The stock trades at 2.1x FY18E BV and 10x FY18E EPS.**

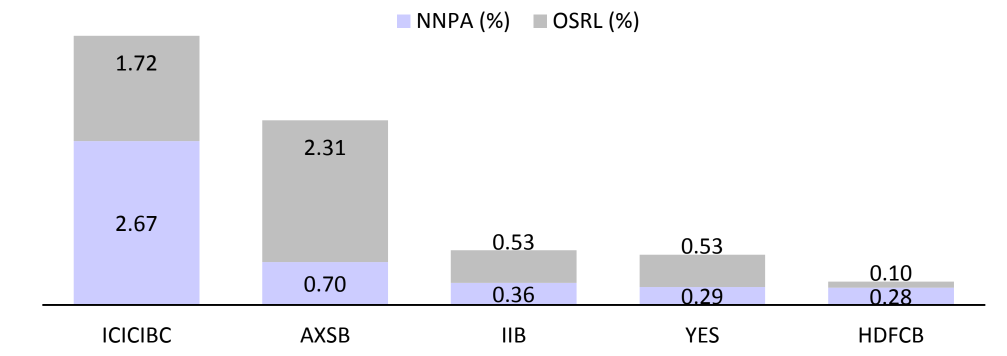
Last six quarters RWA growth has largely tracked loan growth (%)

Exhibit 52: Over last six quarters, RWA growth has largely tracked loan growth (%)



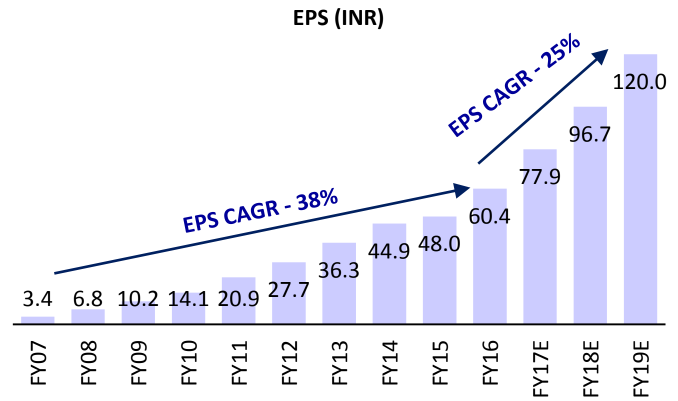
Source: MOSL, Company

Exhibit 53: Net stressed loans (%) remain one of the lowest in the industry



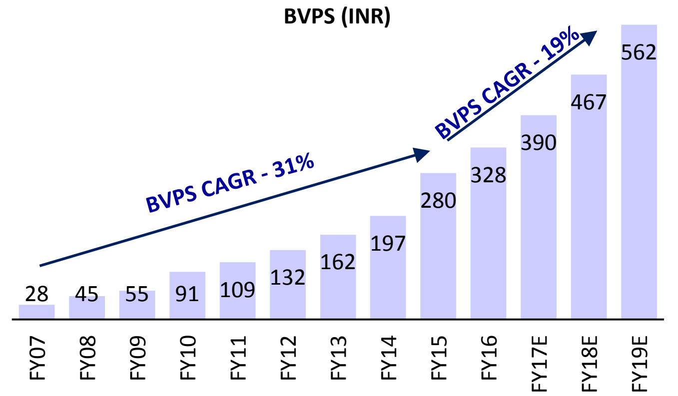
Source: MOSL, Company

Exhibit 54: We expect 25% PAT CAGR over next three years



Source: MOSL, Company

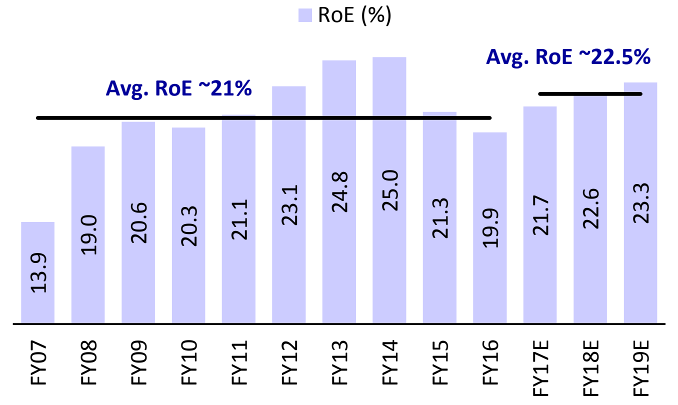
Exhibit 55: We expect ~19% BVPS CAGR ever FY16-19



Note: We have not build impact of any dilution

Source: MOSL, Company

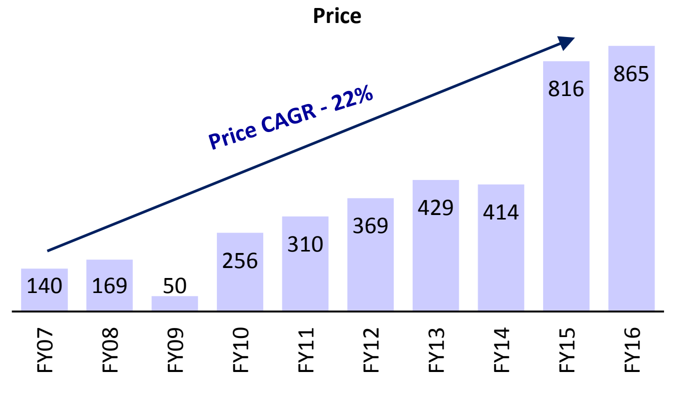
Exhibit 56: Expect 22%+ RoE over next three years



Note: We have not built impact of any dilution

Source: MOSL, Company

Exhibit 57: YES has significantly outperformed major indices



Note: We have taken period end prices

Source: MOSL, Bloomberg

Exhibit 58: YES has consistently delivered best in class RoE (%)

% of average assets (%) FY12-16	HDFCB	IIB	AXSB	YES	ICICIBC
Interest Income	9.20	10.11	8.43	9.43	7.75
Interest Expended	5.00	6.62	5.19	6.73	4.91
Net Interest Income	**4.20**	**3.49**	**3.24**	**2.70**	**2.84**
Core Fee Income	1.29	2.04	1.67	1.44	1.37
Fee to core Income (%)	*23.5*	*36.8*	*34.0*	*33.6*	*32.7*
Core Income	**5.49**	**5.53**	**4.91**	**4.13**	**4.21**
Operating Expenses	**2.79**	**2.78**	**2.18**	**1.69**	**1.81**
Cost to Core Income (%)	*50.9*	*50.2*	*44.4*	*41.0*	*43.0*
Employee cost	0.97	0.99	0.74	0.78	0.76
Others	1.82	1.79	1.44	0.92	1.05
Core operating Profits	**2.70**	**2.75**	**2.73**	**2.44**	**2.40**
Trading and others	0.48	0.29	0.35	0.14	0.50
Operating Profits	**3.17**	**3.04**	**3.08**	**2.58**	**2.90**
Provisions	**0.44**	**0.45**	**0.58**	**0.27**	**0.70**
NPA	0.34	0.35	0.50	0.14	0.51
Others	0.10	0.10	0.07	0.13	0.19
PBT	**2.73**	**2.58**	**2.50**	**2.30**	**2.20**
Tax	0.89	0.86	0.82	0.73	0.59
Tax Rate (%)	*32.7*	*33.5*	*32.9*	*31.8*	*27.0*
RoA	**1.84**	**1.72**	**1.68**	**1.57**	**1.61**
Less: Dividend from Subs	0.00	0.00	0.00	0.00	0.21
Core RoA (ex-income from subs)	**1.84**	**1.72**	**1.68**	**1.57**	**1.40**
Leverage (x)	*10.7*	*10.5*	*10.8*	*14.5*	*9.9*
RoE	**19.6**	**18.0**	**18.2**	**22.8**	**13.9**

Source: MOSL, Company

Exhibit 59: Raise estimates by 4-5% for FY17/18E led by margin expansion

INR b	Old Est.		New Est.		% Change	
	FY17	FY18	FY17	FY18	FY17	FY18
Net Interest Income	57.6	71.7	59.4	73.9	3.2	3.2
Other Income	34.6	42.9	34.8	43.6	0.4	1.8
Total Income	**92.2**	**114.5**	**94.2**	**117.6**	**2.2**	**2.6**
Operating Expenses	37.7	46.9	37.9	47.3	0.4	0.9
Operating Profits	**54.5**	**67.6**	**56.4**	**70.2**	**3.4**	**3.9**
Provisions	8.7	10.9	8.7	10.9	0.0	0.0
PBT	**45.8**	**56.7**	**47.7**	**59.4**	**4.0**	**4.6**
Tax	14.4	18.2	15.0	19.0	4.0	4.6
PAT	**31.4**	**38.6**	**32.6**	**40.4**	**4.0**	**4.6**
Margins (%)	3.5	3.5	3.6	3.6		
Credit Cost (%)	0.7	0.7	0.7	0.7		
RoA (%)	**1.7**	**1.7**	**1.8**	**1.8**		
RoE (%)	**20.9**	**21.7**	**21.6**	**22.4**		

Source: MOSL, Company

Financials and Valuations

Income Statement								(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Interest Income	63,074	82,940	99,814	115,720	135,334	161,363	192,151	230,936
Interest Expense	46,917	60,752	72,651	80,842	89,667	101,916	118,206	140,512
Net Interest Income	**16,156**	**22,188**	**27,163**	**34,878**	**45,667**	**59,448**	**73,945**	**90,425**
Change (%)	29.6	37.3	22.4	28.4	30.9	30.2	24.4	22.3
Non Interest Income	8,571	12,574	17,216	20,465	27,122	34,784	43,620	53,959
Net Income	**24,728**	**34,762**	**44,378**	**55,343**	**72,789**	**94,232**	**117,564**	**144,384**
Change (%)	32.2	40.6	27.7	24.7	31.5	29.5	24.8	22.8
Operating Expenses	9,325	13,345	17,499	22,847	29,764	37,853	47,316	59,145
Pre Provision Profits	**15,402**	**21,417**	**26,880**	**32,496**	**43,025**	**56,379**	**70,248**	**85,239**
Change (%)	29.4	39.1	25.5	20.9	32.4	31.0	24.6	21.3
Provisions (excl tax)	902	2,160	3,617	3,395	5,363	8,716	10,895	14,482
PBT	**14,500**	**19,257**	**23,263**	**29,101**	**37,662**	**47,663**	**59,353**	**70,757**
Tax	4,730	6,251	7,085	9,047	12,268	15,014	18,993	22,642
Tax Rate (%)	32.6	32.5	30.5	31.1	32.6	31.5	32.0	32.0
PAT	**9,770**	**13,007**	**16,178**	**20,054**	**25,395**	**32,649**	**40,360**	**48,115**
Change (%)	34.4	33.1	24.4	24.0	26.6	28.6	23.6	19.2
Equity Dividend (Incl tax)	1,641	2,510	3,397	4,528	4,881	6,656	8,228	9,809
Core PPP*	**15,024**	**19,860**	**25,218**	**31,075**	**40,304**	**53,158**	**66,777**	**81,518**
Change (%)	21.5	32.2	27.0	23.2	29.7	31.9	25.6	22.1

*Core PPP is (NII+Fee income-Opex)

Balance Sheet								(INR Million)
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Share Capital	3,530	3,586	3,606	4,177	4,205	4,205	4,205	4,205
Reserves & Surplus	43,236	54,490	67,611	112,622	133,661	159,653	191,785	230,090
Net Worth	**46,766**	**58,077**	**71,217**	**116,800**	**137,866**	**163,859**	**195,990**	**234,295**
Deposits	**491,517**	**669,556**	**741,920**	**911,758**	**1,117,195**	**1,396,494**	**1,745,618**	**2,182,022**
Change (%)	7.0	36.2	10.8	22.9	22.5	25.0	25.0	25.0
of which CASA Dep	**73,921**	**126,875**	**163,447**	**210,790**	**313,428**	**433,511**	**588,541**	**791,554**
Change (%)	55.6	71.6	28.8	29.0	48.7	38.3	35.8	34.5
Borrowings	141,565	209,221	213,143	262,204	316,590	363,417	417,713	487,871
Other Liabilities & Prov.	56,409	54,187	63,877	70,942	80,983	96,662	115,525	138,223
Total Liabilities	**736,257**	**991,041**	**1,090,158**	**1,361,704**	**1,652,634**	**2,020,431**	**2,474,846**	**3,042,411**
Current Assets	35,855	40,658	58,917	75,572	82,184	101,015	127,115	168,502
Investments	**277,573**	**429,760**	**409,503**	**432,285**	**488,385**	**576,294**	**680,027**	**802,432**
Change (%)	47.4	54.8	-4.7	5.6	13.0	18.0	18.0	18.0
Loans	**379,886**	**469,996**	**556,330**	**755,498**	**982,099**	**1,227,624**	**1,534,530**	**1,918,163**
Change (%)	10.5	23.7	18.4	35.8	30.0	25.0	25.0	25.0
Fixed Assets	1,771	2,295	2,935	3,190	4,707	5,951	7,194	8,438
Other Assets	41,170	48,332	62,473	95,160	95,259	109,548	125,980	144,877
Total Assets	**736,257**	**991,041**	**1,090,158**	**1,361,704**	**1,652,634**	**2,020,431**	**2,474,846**	**3,042,411**

Asset Quality								(%)
GNPA (INR m)	839	943	1,749	3,134	7,490	10,022	11,787	14,285
NNPA (INR m)	175	70	261	877	2,845	2,643	2,740	3,291
GNPA Ratio	0.22	0.20	0.31	0.41	0.76	0.81	0.76	0.74
NNPA Ratio	0.05	0.01	0.05	0.12	0.29	0.22	0.18	0.17
Slippage Ratio	18.73	0.64	0.85	0.70	1.11	1.25	1.25	1.40
Credit Cost	0.03	0.34	0.26	0.20	0.50	0.70	0.70	0.75
PCR (Excl Tech. write off)	79.2	92.6	85.1	72.0	62.0	73.6	76.8	77.0

E: MOSL Estimates

Financials and Valuations

Ratios

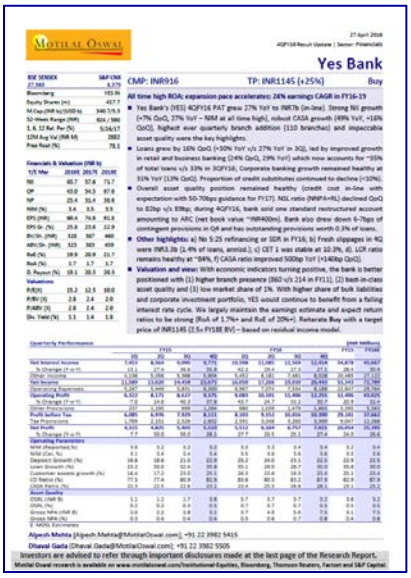
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Spreads Analysis (%)								
Avg. Yield-Earning Assets	**10.5**	**10.5**	**10.6**	**10.6**	**10.0**	**9.7**	**9.4**	**9.2**
Avg. Yield on loans	12.2	12.7	12.7	12.2	11.2	10.7	10.4	10.1
Avg. Yield on Investments	7.9	8.1	8.1	8.0	7.6	7.3	7.1	6.9
Avg. Cost-Int. Bear. Liab.	**8.1**	**8.0**	**7.9**	**7.6**	**6.9**	**6.4**	**6.0**	**5.8**
Avg. Cost of Deposits	8.1	7.9	8.0	7.9	7.0	6.5	6.1	5.9
Interest Spread	**2.4**	**2.5**	**2.7**	**3.0**	**3.1**	**3.3**	**3.4**	**3.4**
Net Interest Margin	**2.7**	**2.8**	**2.9**	**3.2**	**3.4**	**3.6**	**3.6**	**3.6**
Profitability Ratios (%)								
RoE	23.1	24.8	25.0	21.3	19.9	21.6	22.4	22.4
RoA	1.5	1.5	1.6	1.6	1.7	1.8	1.8	1.7
Int. Expense/Int.Income	74.4	73.2	72.8	69.9	66.3	63.2	61.5	60.8
Fee Income/Net Income	33.1	31.7	38.8	37.0	37.3	36.9	37.1	37.4
Non Int. Inc./Net Income	34.7	36.2	38.8	37.0	37.3	36.9	37.1	37.4
Efficiency Ratios (%)								
Cost/Income*	38.3	40.2	41.0	42.4	42.5	41.6	41.5	42.0
Empl. Cost/Op. Exps.	51.0	49.1	44.8	42.9	43.6	44.5	44.5	44.5
Busi. per Empl. (INR m)	148.4	143.1	138.5	137.2	125.6	122.7	121.4	122.3
NP per Empl. (INR lac)	17.3	18.5	18.4	18.6	17.0	17.0	16.6	15.9
* ex treasury								
Asset-Liability Profile (%)								
Loans/Deposit Ratio	77.3	70.2	75.0	82.9	87.9	87.9	87.9	87.9
CASA Ratio	15.0	18.9	22.0	23.1	28.1	31.0	33.7	36.3
Investment/Deposit Ratio	56.5	64.2	55.2	47.4	43.7	41.3	39.0	36.8
G-Sec/Investment Ratio	58.3	54.8	54.8	69.4	64.6	67.2	70.0	73.2
CAR	17.9	18.3	14.4	15.6	14.4	13.7	13.0	12.3
Tier 1	9.9	9.5	9.8	11.5	10.2	*9.9*	*9.7*	*9.4*

Valuation

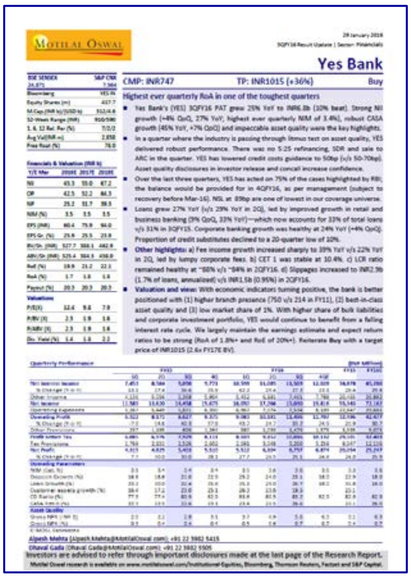
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Book Value (INR)	132.5	161.9	197.5	279.6	327.8	389.6	466.1	557.1
Change (%)	21.2	22.2	21.9	41.6	17.3	18.9	19.6	19.5
Price-BV (x)		**5.9**	**4.8**	**3.4**	**2.9**	**2.4**	**2.0**	**1.7**
Adjusted BV (INR)	132.2	161.8	197.0	278.2	323.4	385.6	461.8	552.1
Price-ABV (x)		**5.9**	**4.8**	**3.4**	**2.9**	**2.5**	**2.1**	**1.7**
EPS (INR)	27.7	36.3	44.9	48.0	60.4	77.6	96.0	114.4
Change (%)	32.1	31.0	23.7	7.0	25.8	28.6	23.6	19.2
Price-Earnings (x)		**26.2**	**21.2**	**19.8**	**15.7**	**12.2**	**9.9**	**8.3**
Dividend Per Share (INR)	4.0	6.0	8.0	9.0	10.0	13.6	16.8	20.0
Dividend Yield (%)		**0.6**	**0.8**	**0.9**	**1.0**	**1.4**	**1.8**	**2.1**

E: MOSL Estimates

YES BANK GALLERY


Yes Bank

CMP: INR916 TP: INR1145 (+25%) Buy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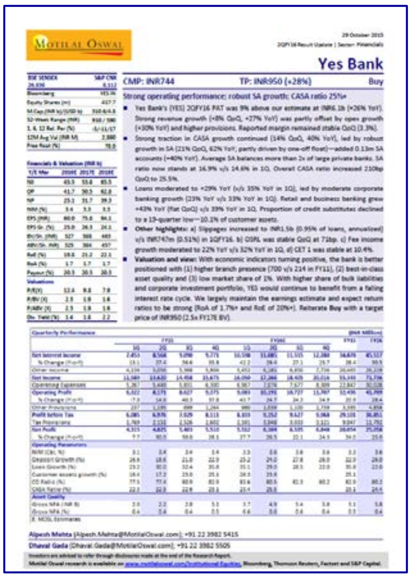
CMP: INR747 TP: INR1015 (+36%) Buy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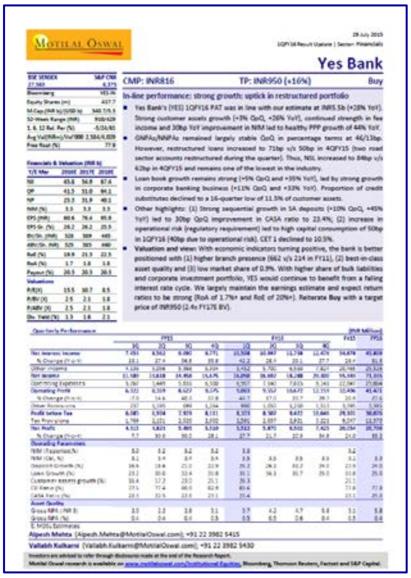
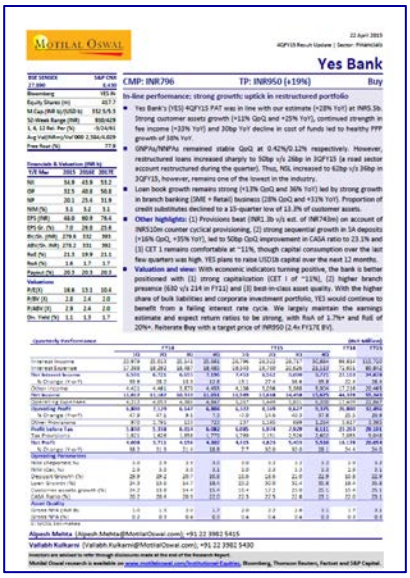
CMP: INR744 TP: INR950 (+28%) Buy


Yes Bank

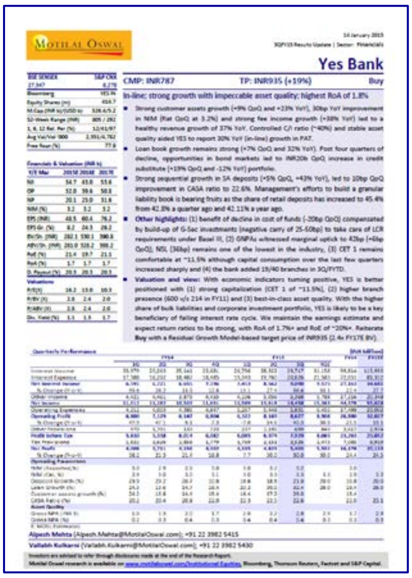
CMP: INR816 TP: INR950 (+16%) Buy


Yes Bank

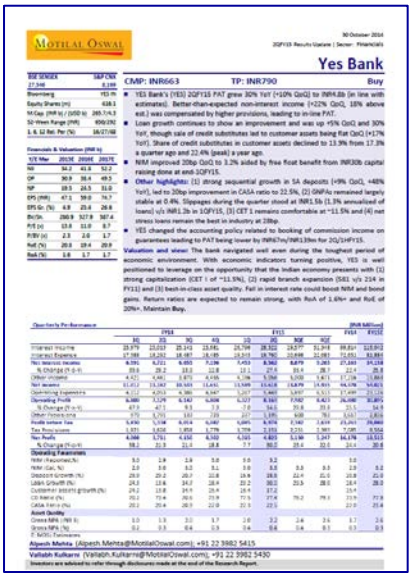
CMP: INR859 TP: INR950 (+11%) Buy


Yes Bank

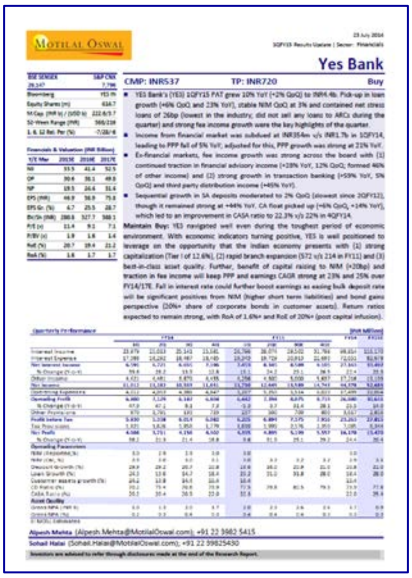
CMP: INR796 TP: INR950 (+19%) Buy


Yes Bank

CMP: INR787 TP: INR935 (+19%) Buy

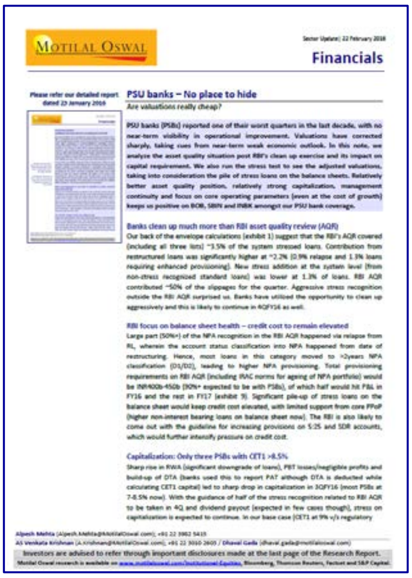

Yes Bank

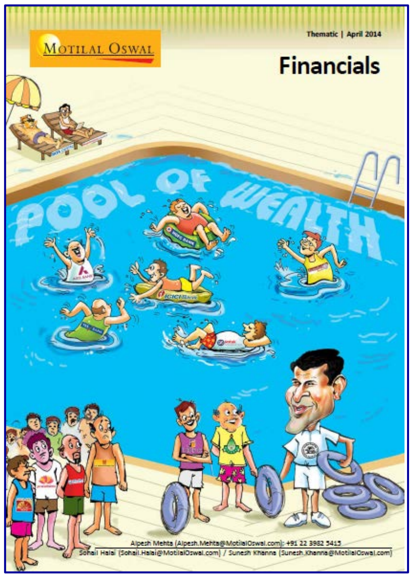
CMP: INR663 TP: INR790 Buy


Yes Bank

CMP: INR537 TP: INR720 Buy

SECTOR GALLERY





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