

# Buy Yes Bank

Industry: BFSI

# LKP

Since 1948

Stock Idea

## Higher growth + low valuations!!!

Yes Bank remains one of our best bet in the sector, we recommend a BUY rating on the stock with the TP of ₹424. IT is likely to be one the key beneficiaries of economic revival. We anticipate strong asset growth going forward – advances to grow at 30% CAGR over the next 2 yrs. Progress on retail assets/liabilities of the bank is also happening at much faster pace. Retail piece is likely to make the balance sheet and earnings of the bank more granular, stable and less volatile leading to improvement in the valuation multiples. Build-up of retail liabilities would improve its CASA/fees/retail loans generation capacity in a big way. In addition to this, asset quality stress on bank's book is relatively less as compared to peer banks as reflected in Q3FY18 results. Higher growth than the industry, de-risking the balance-sheet with more build-up of retail assets/liabilities, relatively less asset quality stress, considering all these positives, we believe the bank is likely to trade at higher multiples. BUY with the TP of ₹424, upside of 30%.

**Asset quality outlook not very bleak** – Q3FY18 results reaffirms our view that asset quality outlook of the bank is not that bleak. Also, going forward, we do not anticipate any large material shocks coming on the asset quality side. We aren't much worried about the RBI RBS divergence amount as it is the only bank that recovered & resolved 90% of divergence amount within 6 months reflecting its holding superior quality of collaterals. We also draw comfort from the fact that total maximum stress on its balance sheet is hardly 2.8% reflected in the form of BB & below rated exposure vs. 3% for Indusind Bank and 9% for Axis Bank (Dec'17). We estimate credit cost of 70 bps in FY18E in line with the management guidance of 60-80 bps. With the increase in the balance sheet-size and seasoning of the book, we expect gross NPAs to increase marginally from 1.5% in FY17 to 1.6%/1.95%/2.2% in FY18/19/20E. It is anticipating recoveries to the tune of 30-40% from ARC sale in FY19 which could give sizeable boost to profitability.

**Margin improvement likely with structural change in the balance-sheet** - Transformation of liability profile of the bank with massive surge in CASA deposits has aided the margin expansion of the bank so far. Sustenance or improvement of margins, on the balance sheet size which is expected to double in next 3 years, would be a commendable job. In our view, there is further room for margins to improve from 3.25% in FY17 to 3.5% in FY20E led by factors like higher corporate credit demand, self-origination of PSL loans, surge in CASA deposits, normalisation of savings deposit rates & higher growth in superior yielding retail assets.

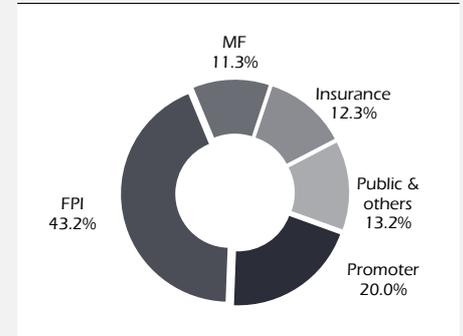
**Advances to grow at faster pace – gaining market share** - In Q3FY18, corporate loans recorded one of the highest growth seen in last 8 yrs. We expect this trend to continue going forward as well. Loan are estimated to grow at 30% CAGR during FY18-20E driven by both corporate & retail loans. Yes Bank is well positioned for next leg of growth coming from revival in corporate demand and also further wresting market share from PSU banks. With all retail assets products in place & sizeable branch expansion, visibility of retail asset growth is also very strong. Within retail segment, bank is likely to grow aggressively in commercial retail segment viz. commercial vehicle loans, commercial equipment financing, auto loans etc.

**High asset growth + increasing retail franchise = huge opportunity for valuations to improve** - Currently, the bank is trading at attractive valuations of 3x/2.5x/2.1 x on FY18E/FY19E/FY20E on ABV. Return ratios are expected to improve from 17.8% in FY18E to 19.5% in FY20E. We assign 2.7x fair value multiple to FY20E ABV, giving us target price of ₹424 and an upside of 30% from the current levels. Yes Bank remains one of our best bet in the sector.

### Stock Data

Current Market Price (₹)	326
1 year Target Price (₹)	424
Potential upside (%)	30
Market Cap (₹ bn)	755
52-Week Range (₹)	383 / 275
Face Value (₹)	2
Reuters	YESB.BO
Bloomberg	YES IN
BSE / NSE Code	532648 / YESBANK

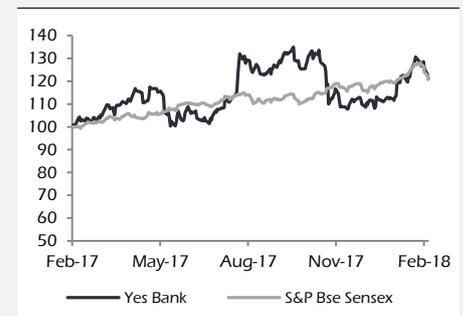
### Shareholding Pattern



### Financial Snapshot

YE Mar	FY16	FY17	FY18E	FY19E	FY20E
NII (₹ bn)	45.7	58.0	78.9	106.5	136.4
PAT (₹ bn)	25.4	33.3	42.4	53.4	68.2
yoy (%)	26.6	31.1	27.4	25.7	27.9
EPS (₹)	12.1	14.6	18.5	23.2	29.7
ABV (₹)	61.9	89.3	109.3	129.9	157.1
P/BV (x)	4.1	2.8	2.8	2.4	1.9
P/ABV (x)	4.2	2.9	3.0	2.5	2.1
ROA (%)	1.7	1.8	1.7	1.7	1.7
ROE (%)	20.6	19.2	17.8	18.4	19.5
Gross NPAs (%)	0.8	1.5	1.6	1.9	2.1
PCR (%)	62.0	46.9	60.3	63.1	65.8

### Relative Price Performance



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## Key Investment Arguments

Time again Yes Bank has proved superior quality of management decisions which gets reflected from following instances.

- Better & fast decision making ability – ahead of its counterparts
  - Rightly using the current systemic NPA burden on the banks, wrest their market share, which are constrained for growth due to capital & NPAs. Here, Yes is not only gaining market share in volumes but also adding bigger & better rated quality corporates on its books
  - Fast buildup of retail products. In short span of time, the bank has built entire retail assets bouquet and currently has all the products on its shelf that any large cap bank would have
  - Met their own guidance repeatedly
  - Sizeable investment in technology – higher than what its peer banks have done. Bank is expected to reap huge benefit of this in future
  - Only bank to recover or resolve nearly 90% of its RBI RBS divergence led amount in a matter of 6 months. This also is very good example reflecting its holding superior quality of collateral
  - Rightly timed investment into securities & asset management businesses which could add significant value to the bank in the future. Such diversification is not even done by its close competitor Indusind Bank & many other medium sized banks.
  - In our view, all these huge positive factors can't be ignored which the bank has earned over the years. This along-with the fact that the bank has recovered & resolved nearly 90% of its RBI RBS divergence amount further re-affirms our positive view on the bank.
- **Asset quality outlook not very bleak**
    1. Yes Bank had Rs63.6 bn of RBI RBS divergence in Q2FY18. However, more importantly, the bank recovered & resolved nearly 90% of this amount within 6 months of identification reflecting the strength & quality of its balance sheet. It is the only bank to resolve nearly its entire RBI RBS amount. We also draw comfort from the fact that total maximum stress on its balance sheet is hardly 2.8% reflected in the form of BB & below exposure vs. 3% for Indusind Bank and 9% for Axis Bank (Dec'17)
    2. Bank's total exposure to sensitive sector is at 7.7% which includes exposure to non-renewable electricity generation at 3.4%, iron & steel 2% and telecom at 2.3%. Here, telecom sector lending is to all AAA rated companies where the risk of default is bare minimum. Also, in power sector, nearly 90-95% of the projects are operational. Relative risk in this sector has reduced materially over the period of time as SEBs now has started honouring the commitments. The bank exposure to commercial real estate is at 6% which includes majority of the lending done to residential project developers which are well distributed across India – this book also holds up well from the asset quality standpoint.
    3. Total standard stressed assets of the bank amounts to 1.5% (Q3FY18) only which is relatively much less as compared to other banks. Of the total stressed assets, nearly 1.1% are nothing but SRs (Security Receipts). Going forward, bank expects recoveries to the tune of 30-40% from ARC sale in FY19 which could give sizeable boost to profitability.
    4. Overall, we expect credit cost of 70 bps in FY18E (75 bps in FY19E) in line with the management guidance of 60-80 bps for current fiscal. In our view, FY19 year would be better compared to current fiscal from asset quality standpoint. With the increase in the balance sheet-size and seasoning of the book, we expect gross NPAs increase marginally from 1.5% in FY17 to 1.6%/1.95%/2.2% in FY18/19/20E. While we estimate the coverage ratios to surge to 60%+ mark in the coming years. While management has also guided to increase the coverage ratios to 60% by Q1FY19.

Rating breakup of the corporate banking exposure of the bank– maximum stress on bank's books reflected from BB & Below rated exposure is relatively less at 2.8% as compared to other banks

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
AAA	17.1	20.9	20.8	19.7	22
AA	19.5	15.6	14	14.8	13.4
A	39.6	39.6	41.6	41.1	42.8
BBB	22.1	21.8	21.8	21.5	19
BB & Below	1.7	2	1.8	2.9	2.8
<b>Total</b>	<b>100</b>	<b>99.9</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Company

#### Exposure to sensitive sector

(% of advances)	Q2FY18	Q3FY18
1) Non-renewable electricity generation	3.4	3.4
1a) Exposure to SEBs	0	0
2) Iron & Steel	2	2
2a) A & above rated	1.6	1.6
3) Telecom	3.9	2.3
3a) A & above rated	3.7	2.1

Source: Company

#### Quarterly asset quality trends – recent Q3FY18 quarter reflects reduction the asset quality pain

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
<b>Gross NPAs</b>							
Opening Bal.	7,490	8,445	9,166	10,058	20,186	13,644	27,204
Add: Slippages	2,996	3,015	1,265	10,127	2,010	19,888	4,949
Less: Reductions, recoveries & write-offs	2,041	2,294	373	-	8,551	6,328	2,409
Closing Gross NPAs	8,445	9,166	10,058	20,185	13,645	27,204	29,744
Net NPAs	3,024	3,230	3,424	10,722	5,453	15,433	15,951
Provisions	5,422	5,936	6,634	9,463	8,192	11,771	13,793
PCR (%)	64	65	66	47	60	43	46
<b>Stressed Assets</b>							
Restructured Advances	5,229	5,115	5,002	4,816	3,314	1,161	903
Security Receipts	1,994	2,589	2,588	9,771	9,771	14,123	18,342
5:25	-	1,031	1,031	1,255	1,389	2,283	1,120
SDR	343	343	1,935	2,996	2,874	4,771	3,619
S4A	-	-	-	189	189	188	1,535

Source: Company, LKP Research

#### RBI RBS Divergence details

RBI - RBS	Amt (₹.mn)	%
Total Amt of divergence	63,550	100.0
Upgraded	29,869	47.0
ARC Sale	4,400	6.9
Paid Fully	17,159	27.0
Remaining Gross NPAs	12,123	19.1

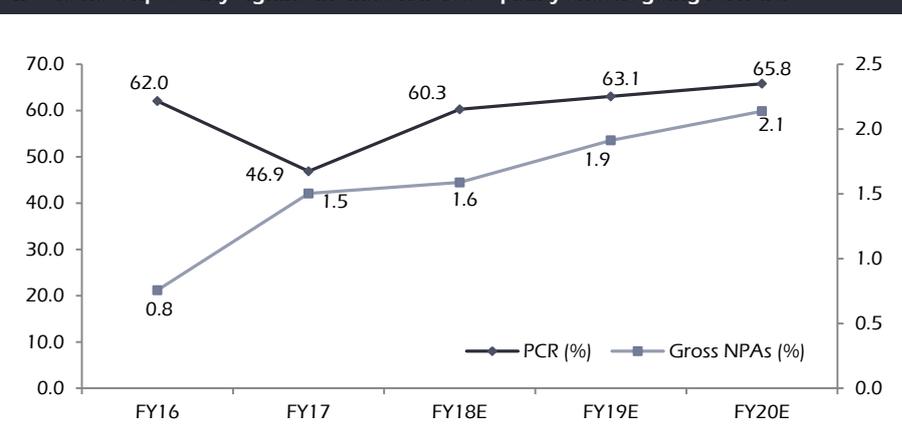
Source: Company, LKP Research

## Peer comparison of RBI RBS divergence

(₹.mn)	Yes Bank		Cumulative Divergence	Axis Bank		Cumulative Divergence
	FY16	FY17	FY16 + FY17	FY16	FY17	FY16 + FY17
Gross NPAs	41,767	63,552	105,319	94,779	57,670	152,449
Net NPAs	33,187	48,193	81,380	71,631	41,490	113,121
Provisions	8,580	15,358	23,938	23,148	16,180	39,328
PAT	(5,611)	(10,140)	(15,751)	(15,359)		(15,359)
Advances	982,099	1,322,627		3,387,730	3,730,690	
<b>Divergence as a % of advances</b>	<b>4.3</b>	<b>4.8</b>	<b>9.1</b>	<b>2.8</b>	<b>1.5</b>	<b>4.3</b>
Divergence (₹)	FY16	FY17		FY16	FY17	
Divergence Total	41,767	63,550		94,779	57,670	
Net repayments (in part/full)	25,478	16,904				
Resolutions on account of sale to ARCs	8,771	4,615				
Upgraded or continued to remain standard asset	1,253	29,837		24,080		
Classified as NPA	6,265	12,194		70,710	48,670	
Divergence (%)	FY16	FY17		FY16	FY17	
Divergence Total	100.0	100.0		100.0	100.0	
Net repayments (in part/full)	61.0	26.6		0.0	0.0	
Resolutions on account of sale to ARCs	21.0	7.3		0.0	0.0	
Upgraded to standard asset	3.0	47.0		25.4	0.0	
Classified as NPA	15.0	19.2		74.6	84.4	

Source: Company, LKP Research

## We do not expect any significant material asset quality shocks going forward



Source: Company, LKP Research

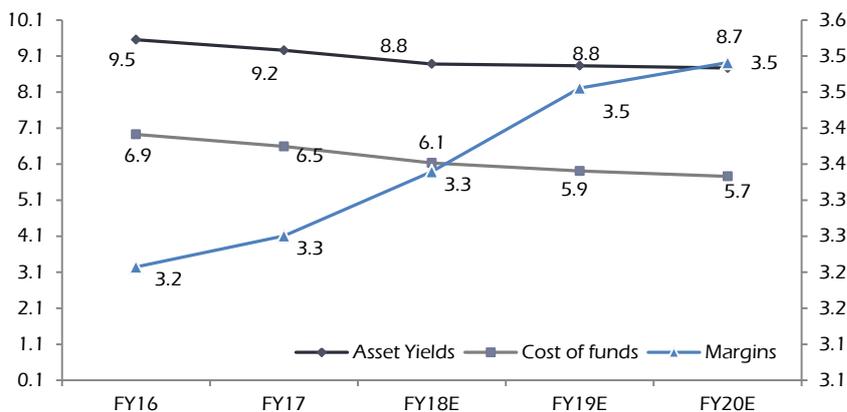
## Margin improvement likely with structural change in the balance-sheet

- Transformation of liability profile of the bank with massive surge in CASA deposits has aided the margin expansion of the bank so far. Over the last 10 years, margins have improved by 80 bps (calc). Sustainance or improvement of margins, on the balance sheet size which is expected to be double in next 3 years, would be a commendable job. In our view, there is further more room for margins to improve from 3.25% in FY17 to 3.5% in FY20E which would be led by various factors as discussed below
  - Shift of credit demand from debt market (credit substitutes) to banks again would be one of the major booster for margins for the banks. Revival of credit demand is likely to sustain or rather improve for better in next 2 years. Funds chasing high-yielding assets than low-yielding investments will be margin accretive.
  - Reduction in negative carry on PSL loans - Currently 3-4% of PSL loans are not self-originated where the yield loss is approx. 3-4%. Going forward, in-house origination of these loans would be long term yield accretive for the bank

3. Improvement in CASA deposits – we expect CASA share to surge to 41%+ levels in FY20E from 38% currently. In our view, the bank is most likely to outpace our estimates.
4. Normalisation of saving deposit rates - Bank expects to lower SA rates once the CASA target of 45% is achieved. Currently, the bank offers saving deposit interest rate of 6.25% for balances above Rs10 mn & above, 6% for balances between Rs1 mn to Rs10 mn and 5% for balances upto Rs1 lakh. The interest rate differential of Yes & other banks is 1.5%, which is still good enough to attract depositors.
5. Higher yielding retail assets growth would give added fillip to the margins - as most retail asset products viz. auto loans, credit cards, CV, PL etc. carry higher yields than the current yields of 9.8% of the bank and also offer better rates compared to credit substitutes
6. Foreign borrowings, which have increased by nearly 4x in last 4 yrs, raised at lower cost has boosted margins of the bank. Blended cost of borrowings declined by 200 bps from 8.5% in FY13 to ~6.4% in FY18E. We expect this trend to continue

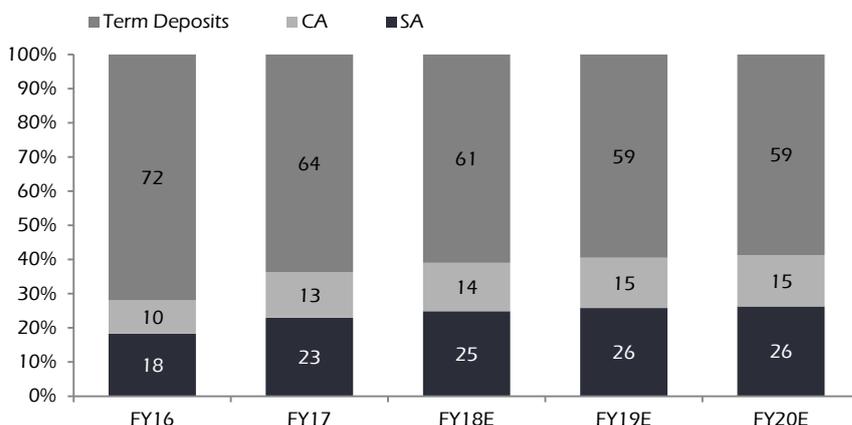
Not only there would be improvement in the margins, but margins are likely to become more granular and stable with balance-sheet becoming more retail – heavy. Objective of version 2.0 phase to become retail oriented driven bank from corporate-heavy bank has also created desired positive impact on the margins of the bank. Period between FY08-FY14, bank earned average margins of 2.7%, which got improved to 3% mark for the first time in the history of the bank in the year FY15 led by sustained reduction in cost of deposits and borrowings. Also, granularity of CASA deposits would improve bringing more sustainability to the margins profile of the bank.

**Margins estimated to improve further**



Source: Company, LKP Research

**CASA improvement to aid margins**



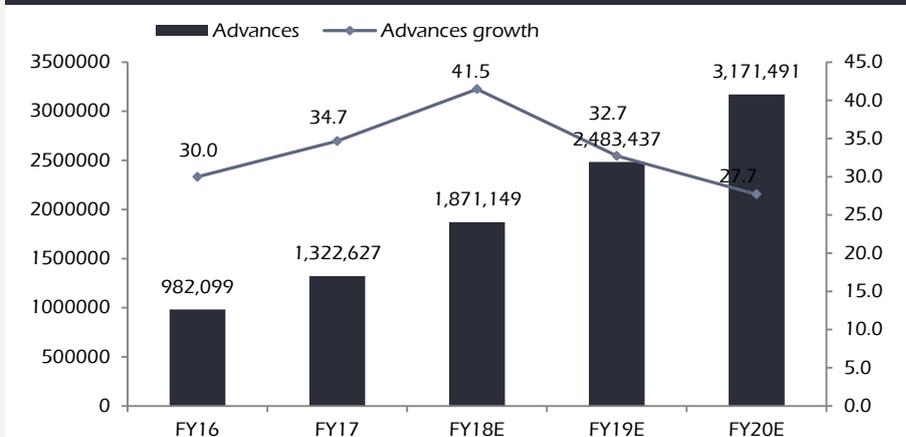
Source: Company, LKP Research

### Advances to grow at faster pace – gaining market share

In Q3FY18, corporate loans recorded one of the highest growth seen in 8 yrs. With the hardening of the bond yields, credit demand is now coming back to banks which earlier had got shifted to bond market. At the same time, retail assets are also growing rapidly aided by low base effect and management aggressive approach. On the capital side, it has sufficient capital to fund high asset growth and will not need capital atleast for next one year

Going forward, we expect sharp upturn in loan growth over next 2 years (30% CAGR over FY18-20E) driven by both corporate & retail loans. Yes Bank is well positioned for next leg of growth coming from revival in corporate demand and also further seizing of market share from PSU banks. With all retail assets products in place & sizeable branch expansion, visibility of retail asset growth is very strong. Within retail segment, bank is likely grow aggressively in commercial retail segment viz. commercial vehicle loans, commercial equipment financing, auto loans etc. Ideally the bank is looking at corporate & retail loan mix of 50:50 by FY20 vs. 68:32 currently (Q3FY18). And within retail banking, SME, MSME & consumer loans share is expected to be 60:40 by FY2020E. In addition to this, within consumer banking, the bank is likely to grow more into commercial retail loans viz. auto & CV loans than pure consumer loans like PL & home loans.

#### Advances are estimated to grow at 30% CAGR during FY18-20E



Source: Company, LKP Research

#### Loan break-up details of Yes Bank & Indusind Bank

₹.mn, Q3FY18	Indusind Bank	% Share	Yes Bank	% Share
Total Loans	1,285,420	100.0	1,715,149	100.0
<b>Corporate Loans</b>	<b>754,180</b>	<b>58.7</b>	<b>1,512,761</b>	<b>88.2</b>
-Large Corporate	365,950	28.5	1,161,156	67.7
-Mid-Corporate	240,690	18.7	169,800	9.9
-Small Corporates	147,540	11.5	181,806	10.6
<b>Consumer Finance</b>	<b>531,240</b>	<b>41.3</b>	<b>202,388</b>	<b>11.8</b>

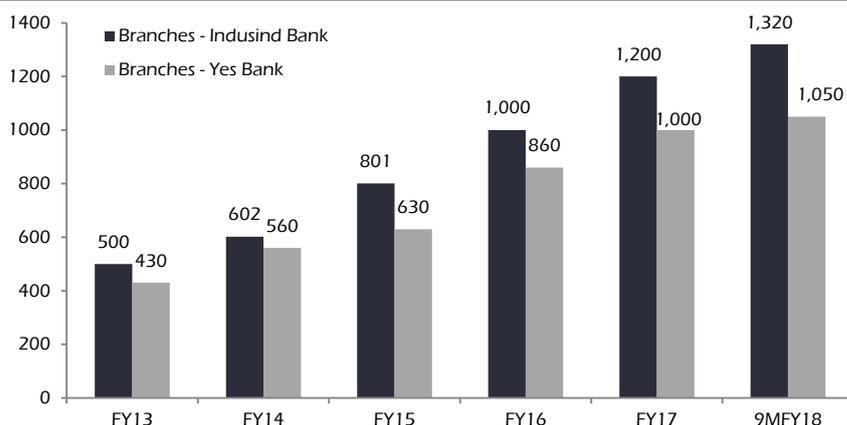
Source: Company, LKP Research

#### Quality of the balance-sheet to improve considerably with the retail assets/liabilities gaining more share

The mainstay of the Version 2.0 phase to build retail assets/liabilities of the bank got completed successfully. Enhanced distribution network, has not only added sizeable retail liabilities (both CASA + retail FDs) to the balance sheet, but also improvised the quality and granularity of the earnings of the bank. Bank's branch network has more than doubled in last 5 yrs from 430 in FY13 to 1050 currently. Buildup of entire retail assets products bouquet alongwith sizeable branch network in place would be the key factors in building the scale and size of current retail asset/liabilities theme going forward.

Also, performance of the bank has been stupendous in terms of CASA deposits growth despite tough competition in the market. Choosing the right locations for expansion at the right time has turned fruitful strategy for the bank. We expect CASA ratio to improve further from 38% currently to 41% by FY2020E.

## Branch network - Sizeable increase in branches over the years



Source: Company, LKP Research

## CASA comparison of Yes Bk &amp; Indusind Bank

₹.Mn, Q3FY18	Indusind Bank	Yes Bank
Deposits	1,460,860	1,717,314
CASA	626,160	652,890
CA	203,700	226,042
SA	422,460	426,848
(%)		
CASA	42.9	38.0
CA	13.9	13.2
SA	28.9	24.9

### Valuations - High asset growth + increasing retail franchise = huge opportunity for valuations to improve

In our view, high asset growth with improving retail franchise coupled with no major risk to asset quality, bank should command a better multiple. Retail piece is likely to make the balance sheet and earnings of the bank more granular, stable and less volatile leading to improvement in the valuation multiples. Currently, it is trading at 3x/2.5x/2.1x on FY18E/FY19E/FY20E on adjusted book value. Return ratios are also likely to improve from 17.8% in FY18E to 19.5% in FY20E. We accord 2.7x fair value multiple to FY20E ABV, giving us target price of ₹424 and an upside of 30% from the current levels. Yes Bank remains one of our best bet in the sector.

Strong loan growth, margin expansion, healthy other income growth & controlled opex – all these factors put together would lead to strong growth of 26.3% CAGR (FY18-20E) in operating profit. We estimate PAT to grow at 27% CAGR during FY18-20E.

#### Q3FY18 Results

- Q3FY18 was one of the strong quarters in terms of growth, profitability & asset quality standpoint. PAT grew by 22% yoy to ₹10.8 bn.
- Advances growth at 46.5% was one of the highest seen in past 8 years. Corporate loans, now forming 67.7% of total loans, showed robust growth of 44% yoy. With the hardening of the yields, bank is witnessing higher loan demand coming from the corporates which had earlier got shifted to debt market. Retail & business banking loan growth was healthy too at 52% yoy which was largely led by retail/consumer loans (101% yoy).
- Despite muted forex, debt capital mkt & securities income, total other income grew at healthy rate of 40%. Corporate banking fees grew at stupendous pace of 101% while retail banking fees by 35% yoy. Share of retail fees in total other income is now sizeable at 20%. With the retail assets buildup, fee income structure is becoming more granular & stable & less vulnerable

- Drop in the advances yields led to margin fall of 20 bps to 3.5% (reported). Advances yields came off by 40 bps from 10.2% in Q2FY18 to 9.8% in Q3FY18. Although margins have corrected in the near term, long term outlook on margins is upbeat due to various factors like surge in CASA deposits, normalization of SA rates, reduction in interest reversal on NPA accounts etc.
- Incremental slippages for the quarter were much less at ₹4.9 bn vs. ₹19.9 bn in Q2FY18 (includes ₹12 bn RBI RBS divergence amount). 50% of incremental slippages for the quarter came from accounts already recognized stressed assets (NCLT, 5.25, SDR). Total credit cost was at 18 bps vs. 29 bps qoq. In % terms, gross NPAs stood at 1.72% vs. 1.82% qoq. In addition to this, bank sold one standard account to ARC having gross value of Rs6 bn (net value of ₹4.2 bn). Bank's total restructured assets now stands at 1.5%, of this, majority is in SRs (at 1.06%). It is expecting recoveries to the tune of 30-40% from these ARC sale in FY19. Also, bank is aiming to increase the provision coverage ratio to 60%+ which is low currently at 46%

### Financial Highlights

(in ₹Mn)	Q3FY18	Q3FY17	yoy (%)	Q3FY17	qoq (%)	9MFY18	9MFY17	yoy (%)
Interest earned	50,703	42,134	20.3	48,003	5.6	145,244	120,757	20.3
Interest/discount on advances/bills	38,462	31,393	22.5	36,932	4.1	110,738	89,507	23.7
Income on investments	10,977	9,642	13.8	9,227	19.0	29,231	28,545	2.4
Interest on bal. with RBI	825	708	16.4	1,447	(43.0)	4,065	1,472	176.1
Others	440	391	12.4	398	10.5	1,211	1,233	(1.8)
Interest expenses	31,815	27,241	16.8	29,153	9.1	89,416	79,181	12.9
Net Interest Income (NII)	18,888	14,893	26.8	18,851	0.2	55,828	41,576	34.3
Other Income	14,223	10,165	39.9	12,484	13.9	38,029	28,994	31.2
Total income	33,111	25,059	32.1	31,335	5.7	93,857	70,570	33.0
Operating expenses	13,093	10,520	24.4	12,269	6.7	37,730	29,104	29.6
Employee cost	5,334	4,675	14.1	5,628	(5.2)	16,423	13,082	25.5
Other operating expenses	7,759	5,846	32.7	6,641	16.8	21,308	16,022	33.0
Operating profit	20,018	14,538	37.7	19,067	5.0	56,127	41,465	35.4
Provision for contingencies	4,213	1,154	265.2	4,471	(5.8)	11,542	4,837	138.6
PBT	15,805	13,384	18.1	14,596	8.3	44,585	36,629	21.7
Provision for taxes	5,036	4,558	10.5	4,569	10.2	14,134	12,469	13.4
Net profit	10,769	8,826	22.0	10,027	7.4	30,451	24,160	26.0
Equity	4,597	4,230	8.7	4,581	0.3	4,597	4,230	8.7
EPS (₹)	23	21	12.3	22	7.0	66	57	16.0
Ratios (%)								
Int. exp/Int earned (%)	63	65	-	61	-	62	66	-
Cost/Income ratio (%)	40	42	-	39	-	40	41	-
Gross NPAs (₹)	29,743	10,059	195.7	27,203	9.3	29,743	10,059	195.7
Net NPAs (₹)	15,951	3,425	365.8	15,433	3.4	15,951	3,425	365.8
Gross NPAs (%)	1.7	0.9	-	1.8	-	1.7	0.9	-
Net NPAs (%)	0.9	0.3	-	1.0	-	0.9	0.3	-
ROA (%)	1.7	1.8	-	1.7	-	1.5	1.5	-
CAR (%)	18.4	15.6	-	17.0	-	18.4	15.6	-
Provision coverage (%)	46.4	66.0		43.3		46.4	66.0	
<b>Balance Sheet (₹.mn)</b>								
Deposits	1,717,314	1,323,758	29.7	1,579,898	8.7	1,717,314	1,323,758	29.7
Advances	1,715,149	1,170,870	46.5	1,486,753	15.4	1,715,149	1,170,870	46.5

Source: Company, LKP Research

## About the company

Promoted by Rana Kapoor, Yes Bank is the Indian private sector bank which has commenced its operations in November 2004. Since inception, the bank has grown leaps & bounds in terms of asset growth & profitability. It has market cap of ₹770 bn and balance sheet size of ₹2.36 trillion. As at Q3FY18, it has network of 1050 branches, 1724 ATMs spread across India & employee base of 19276. It has CASA ratio of 38% and corporate loans form 67.7% of total loans while commercial & retail loans form 32.3%. Return profile of the bank is in the top quartile with ROE of 17.4% and ROA of 1.7%.

## Key investment thesis

Yes Bank is one the few private sector banks which has consistently delivered strong earnings even in tough times and maintained top quartile return ratios. It has strong client relationship, better capability to cross-sell to customers, sustainable competitive edge & strong growth in place. With the retail assets/liabilities buildup, earnings of the bank will become more granular, stable & less vulnerable. In our view, Yes Bank currently is best placed to drive on corporate credit growth recovery & capitalize on strong retail credit demand. It is one of our best bet in the industry.

## Profit & Loss Statement

(₹. Mn)	FY16	FY17	FY18E	FY19E	FY20E
INTEREST EARNED	135,334	164,246	208,531	270,629	340,543
Interest/Discount on advances/Bills	97,115	122,098	161,898	216,608	276,289
Income from Investment	35,082	37,968	39,759	46,190	55,935
Interest on Balances with RBI & Others	1,125	2,578	5,265	6,031	6,419
Others	2,012	1,602	1,611	1,800	1,900
INTEREST EXPENDED	89,667	106,273	129,674	164,150	204,158
Interest on Deposits	71,784	82,040	96,871	120,085	149,130
Interest on RBI/Inter-Bank Borrowings	16,457	22,243	30,804	41,865	52,728
Others	1,426	1,990	2,000	2,200	2,300
NET INTEREST INCOME (NII)	45,667	57,973	78,857	106,479	136,385
Other Income	27,121	41,568	53,121	62,285	77,330
TOTAL INCOME	72,789	99,541	131,978	168,764	213,715
Operating expenses	29,764	41,165	52,310	67,387	86,561
Employee expenses	12,968	18,050	22,136	28,957	37,902
Other operating expenses	16,796	23,115	30,174	38,430	48,659
OPERATING PROFIT	43,025	58,375	79,668	101,377	127,155
Provisions	5,363	7,934	17,262	22,911	26,798
of which NPA provisions	4,979	6,634	13,098	18,626	22,200
Profit Before Tax (PBT)	37,662	50,441	62,406	78,467	100,356
Provision for tax	12,268	17,140	19,970	25,109	32,114
PAT	25,394	33,301	42,436	53,357	68,242
(% change)	26.6	31.1	27.4	25.7	27.9
EPS(₹)	12.0	15.0	18.0	23.0	30.0
Total Paid-Up Capital	4,205	4,565	4,597	4,597	4,597

Source: Company, LKP Research

## Balance Sheet

(₹.mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Application of funds</b>					
Cash & Bal. with RBI	57,762	69,521	81,418	105,509	134,100
Balance with banks & money at call and short notice	24,423	125,974	147,497	154,040	166,932
Advances / Credit	982,099	1,322,627	1,871,149	2,483,437	3,171,491
Investments	488,385	500,318	611,111	718,806	894,251
Fixed assets	4,707	6,835	8,647	11,166	14,102
Other assets	95,259	125,325	120,502	139,783	163,546
<b>TOTAL ASSETS</b>	<b>1,652,634</b>	<b>2,150,599</b>	<b>2,840,323</b>	<b>3,612,740</b>	<b>4,544,421</b>
<b>Sources of funds</b>					
Total Paid-Up Capital	4,205	4,565	4,597	4,597	4,597
Reserves & Surplus	133,661	215,976	258,572	311,929	380,171
Networth	137,866	220,541	263,169	316,526	384,769
Deposits	1,117,195	1,428,739	1,877,314	2,442,820	3,117,529
-Current deposits	109,251	190,878	266,042	359,157	466,904
-Savings deposits	204,177	327,818	466,848	630,245	819,318
Borrowings	316,590	386,067	571,909	710,111	880,213
Other liabilities & provisions	80,983	115,253	127,931	143,283	161,910
<b>TOTAL LIABILITIES</b>	<b>1652634</b>	<b>2150599</b>	<b>2840323</b>	<b>3612740</b>	<b>4544421</b>

Source: Company, LKP Research

## Ratios

(A) Efficiency Ratios (%)	FY16	FY17	FY18E	FY19E	FY20E
Int. exp/Int. earned (%)	66.3	64.7	62.2	60.7	60.0
NII / Total Income (%)	62.7	58.2	59.8	63.1	63.8
Other income / Total Income (%)	37.3	41.8	40.2	36.9	36.2
Cost / Income	40.9	41.4	39.6	39.9	40.5
Cost/Income (excluding trading gains) (%)	42.4	44.5	42.0	40.7	41.2
C-D ratio (%)	88.6	94.0	101.3	103.6	104.0
I-D ratio (%)	43.7	35.0	32.6	29.4	28.7
Incremental CD ratio (%)	112.4	113.4	124.5	111.5	105.1
Incremental ID ratio (%)	10.9	3.8	24.7	19.0	26.0
Loan / Assets ratio (%)	59.9	62.4	66.9	70.1	71.3
Deposits / Assets ratio (%)	67.6	66.4	66.1	67.6	68.6
CA / Total Deposits (%)	9.8	13.4	14.2	14.7	15.0
SA / Total Deposits (%)	18.3	22.9	24.9	25.8	26.3
CASA / Total Deposits	28.1	36.3	39.0	40.5	41.3
(B) Spreads (%)	FY16	FY17	FY18E	FY19E	FY20E
Yield on Assets (%)	9.5	9.2	8.8	8.8	8.7
Yield on Advances (%)	11.2	10.6	10.1	9.9	9.8
Yield on Investments (%)	7.4	7.7	7.2	7.0	7.0
Cost of Funds (%)	6.9	6.5	6.1	5.9	5.7
Cost of Deposits (%)	7.1	6.4	5.9	5.6	5.4
Cost of Earning Assets (%)	6.3	6.0	5.5	5.3	5.2
Spreads (%)	2.6	2.7	2.7	2.9	3.0
Net Interest Margin	3.2	3.3	3.3	3.5	3.5
(C) Solvency	FY16	FY17	FY18E	FY19E	FY20E
Gross NPAs (₹)	7490	20186	30196	48430	69290
Net NPAs (₹)	2845	10723	12001	17890	23700
Gross NPAs / Gross Advances (%)	0.8	1.5	1.6	1.9	2.1
Net NPAs / Net advances (%)	0.29	0.81	0.64	0.72	0.75
Provisions Coverage Ratio (%) (Excl. FI. Prov.)	62.0	46.9	60.3	63.1	65.8
Credit cost (%) (incl NPA provisions)	0.5	0.49	0.7	0.8	0.7
Credit cost (%) (incl. NPA + SA + rest provisions)	0.5	0.6	0.9	0.9	0.8

<b>D) Measures of Investment</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
No. of equity shares (wtd. avg.)	2102.7	2282.4	2298.7	2298.7	2298.7
EPS (₹)	12.1	14.6	18.5	23.2	29.7
DPS (per share)	2.0	2.4	2.6	2.8	3.0
BV (₹)	63.3	94.0	114.5	137.7	167.4
Adjusted BV (₹)	61.9	89.3	109.3	129.9	157.1
Avg. ROE (%)	20.6	19.2	17.8	18.4	19.5
Avg. ROA (%)	1.7	1.8	1.7	1.7	1.7
Pre-tax ROA (%)	2.5	2.7	2.5	2.4	2.5
Pre-provisioning operating ROA (%)	2.9	3.1	3.2	3.1	3.1
Pre-provisioning operating ROE (%)	34.9	33.6	33.4	35.0	36.3
P/E (x)	21.7	18.0	17.7	14.0	11.0
P/BV (x)	4.1	2.8	2.8	2.4	1.9
P/ABV (x)	4.2	2.9	3.0	2.5	2.1
Dividend yield (x)	0.8	0.9	0.8	0.8	0.9
Dividend Payout ratio (%)	16.6	16.4	14.1	12.1	10.1
Effective tax rate (%)	32.6	34.0	32.0	32.0	32.0
<b>E) Breakdown of ROA (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Interest Income	9.0	8.6	8.4	8.4	8.3
Interest expenses	5.9	5.6	5.2	5.1	5.0
NII/avg assets	3.0	3.0	3.2	3.3	3.3
Non-NII/avg. assets	1.8	2.2	2.1	1.9	1.9
Total Income	4.8	5.2	5.3	5.2	5.2
Operating exp/avg. assets	2.0	2.2	2.1	2.1	2.1
Operating profit/avg assets	2.9	3.1	3.2	3.1	3.1
Provisions/avg. assets	0.4	0.4	0.7	0.7	0.7
PBT/avg. assets	2.5	2.7	2.5	2.4	2.5
Tax/avg. assets	0.8	0.9	0.8	0.8	0.8
PAT/avg. assets	1.7	1.8	1.7	1.7	1.7
Leverage	12.4	10.0	10.8	11.4	11.8
<b>F) Growth Rates (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Interest Income	16.9	21.4	27.0	29.8	25.8
Interest Expenses	10.9	18.5	22.0	26.6	24.4
NII	30.9	26.9	36.0	35.0	28.1
Other Income	32.5	53.3	27.8	17.3	24.2
Total Income	31.5	36.8	32.6	27.9	26.6
Operating Income	32.4	35.7	36.5	27.2	25.4
Net Profit	26.6	31.1	27.4	25.7	27.9
Deposits	22.5	27.9	31.4	30.1	27.6
Advances	30.4	35.7	41.6	33.2	28.0
<b>G) Other performance parameters</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
No. of branches (No.)	860	1000	1150	1350	1550
No. of employees (No.)	15000	20125	20000	22950	26350
Business per branch (₹)	2441	2751	3260	3649	4057
Profit per branch (₹)	29.5	33.3	36.9	39.5	44.0
Business per employee (₹)	140	137	187	215	239
Profit per employee (₹)	1.7	1.7	2.1	2.3	2.6

Source: Company, LKP Research

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