

SELL

Yes Bank

Industry: BFSI



Maintain SELL !!!

Steep rise in slippages alongwith bigger quantum of NPAs emanating from outside watchlist marks uncertainty over the future trajectory of asset quality. Capital infusion, the need of the hour, looks difficult to come by which mgmt. claims could happen in Q2FY20. Lower amount of capital infusion will restrict the balance sheet growth. For FY20, we estimate credit growth would be flat to negative, slippages to rise >7% mark, credit cost to be at 2%, other income to fall by 5% due to shrinkage in B/S, margins to drop by >20 bps to 2.8% resulting in bank to report loss of ₹1 bn. Capital infusion and lack of creditability to watchlist estimates raises fresh concerns on the stock. We revise our target price downwards to ₹75 from ₹124 earlier and maintain SELL rating. Positive risks – sizeable equity infusion to fund growth is the key.

Uncertainty looms large on asset quality

Yes Bank is going the Axis and ICICI Bank way, which took nearly more than 2 years to come out of the NPA mess. Total stress loans (including BB & below rates exposure) stands at 13.1% of the book while the provisioning on the same is hardly 20% implying steep provisioning in future yrs. We estimate credit cost for the current fiscal to be at ~2% vs. 1.25% guided by the mgmt. While we expect slippages to be ~7% for FY20 and gross/net NPAs at 7.2%/3.5% respectively.

Growth consolidated due to lack of capital

Capital would be required sooner than later as CET 1 capital is at threshold limit of 8%. Otherwise, there is high probability of bank falling under Prompt Corrective Action (PCA) category where further lending would get restricted. Fund raising is the need of the hour while at the same time getting sizeable capital is challenging given huge dilution for existing shareholders. Any lower amount of capital would restrict the balance sheet growth of the bank in big way. Mgmt claims to raise capital in Q2FY20. Credit growth took a back seat with total credit coming off by 2% qoq in Q1. Corporate loans (64% share in total loans) fall by 5% qoq while retail loans showed positive growth of 7% qoq. We build flat to negative credit growth for the current fiscal

Flight of deposits – key concern

Total CASA deposits came off by 9% qoq which now form 30% of the total deposits vs. 33% qoq. Both CA and SA deposits declined by 13% and 7% qoq while overall total deposits reduced by 1% qoq. One of the reasons for premium valuations of the bank was due to its strong liability franchise. Weakening of the deposits profile and that too at faster pace like seen in Q1 remains one of the key concern for the bank. Flight of deposits specific to Yes Bank was not seen in other bank which faced similar NPA issues earlier.

Valuations – Revise TP to ₹75 from ₹124, maintain Sell rating

For FY20, we estimate credit growth would be flat to negative, slippages to rise >7% mark, credit cost to be at 2%, other income to fall by 5% due to shrinkage in B/S, margins to drop by >20 bps to 2.8% resulting in bank to report loss of ₹1 bn. The revised adjusted book values work out to be ₹78 and ₹83 for FY20e/FY21e respectively. Capital infusion and lack of creditability to watchlist estimates raises fresh concerns on the stock. We revise our target price downwards to ₹75 (valuing the bank at 0.9x FY21e ABV) from ₹124 earlier and maintain SELL rating. **The bank is at bottom quartile of its valuations reflecting its current worst scenario. We do not expect strong upmove in the stock despite trading at lower valuations unless clarity emerges on capital infusion and asset quality.**

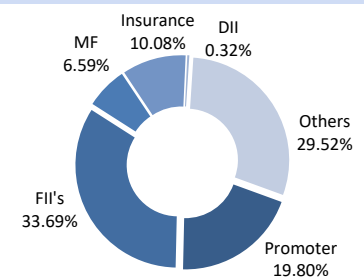
Stock Data

Current Market Price (₹)	83
12M Price Target (₹)	75
Potential upside (%)	-10
BSE / NSE Symbol	532648 / YESBANK
Reuters / Bloomberg	YESB.BO / YES IN
FV (₹)	2
Market Cap Full (₹ bn)	193
52-Week Range (₹)	404 / 79

What's Changed

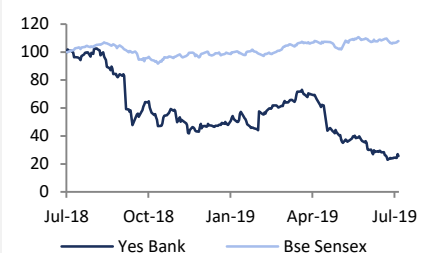
12 M Price Target (₹)	From 124 to 75
FY2020E EPS (₹)	From 5.5 to (0.4)

Shareholding Pattern (Jun-2019)



(₹ mn)	FY18	FY19	FY20e	FY21e
NII (₹ mn)	77,371	98,090	97,856	1,06,334
PAT (₹ mn)	42,246	17,203	-1,041	12,325
yoy (%)	27	-59	-106	-1284
EPS (₹)	18.3	7.4	-0.4	5.3
ABV (₹)	102	86	78	83
P/BV (x)	3.6	0.8	0.8	0.7
P/ABV (x)	3.8	1.0	1.1	1.0
ROA (%)	1.6	0.5	0.0	0.3
ROE (%)	18.2	7.0	-0.4	4.5
Gross NPAs (%)	1.3	3.2	6.7	6.6
PCR (%)	50.0	43.1	51.2	55.3

Relative Price Performance



Uncertainty looms large on asset quality

- Yes Bank is going the Axis and ICICI Bank way, which took nearly more than 2 years to come of the NPA mess. Total stress loans (including BB & below rates exposure) stands at 13.1% of the book while the provisioning on the same is hardly 20% implying steep provisioning in future yrs. We estimate credit cost for the current fiscal to be ~2% vs. 1.25% guided by the mgmt. While we expect slippages to be at ~7% for FY20 and gross/net NPAs at 7.2%/3.5% respectively.
- In our view, slippages each quarter could surprise negatively and given lower buffers of provisioning will take a toll on the profitability.
- In Q1, the bank reported large slippages which came in at ₹62.3 bn vs. ₹34.8 bn shooting up gross/net NPAs 5%/2.9% vs. 3.2%/1.9% qoq.
- Of the net corporate slippages of ₹45 bn, ₹25 bn came from the watchlist and ₹21 bn came from outside watchlist i.e. sub-investment grade book. On the top of this, the bank had taken a hit of ₹11 bn on the investment bonds, which is approx. 25-30% of the exposure, on the 2 financial sector companies. Surprisingly, these 2 accounts were not the part of the watchlist declared last quarter. This questions credibility of the current watchlist of ₹100 bn.
- Within one quarter, share of BB & below rated corporate portfolio has risen from 7.1% to 9.4%, which is cause of concern. In absolute terms, it has increased from ₹230 bn to ₹290 bn. As per management, this book is not granular but includes few large corporate accounts. At the same time, BBB rated exposure is at 17.2%. Both these put together, sub-investment grade book stands stalls at 26.6%.
- The bank has maintained credit cost guidance of 125 bps for FY20 which lacks sanctity while we estimate 200 bps for the same period. This 12 5bps credit cost estimation does not include MTM provisions taken on investment bonds amounting to ₹11 bn
- Currently, the bank has excess contingent provisions of only 7 bn.
- Total real estate exposure of the bank is ₹240 bn, of this 25% is either sub-investment grade or NPA while rest has no signs of stress currently as per management

Details on the stress loans and provisioning on the same

₹ mn	
Gross NPAs (i)	1,20,921
Net NPAs	68,833
Stress Loans (ii)	3,09,200
-BB & Below Book	2,90,000
-Net Security Receipts	17,180
-Std restructured loans	2,020
Total gross stressed loans (iv)	4,30,121
Provisioning (v)	85,898
-Specific provisions	52,088
-Std provisions	33,810
PCR (v/iv)	20
Gross NPAs (i)	1,20,921

Q1FY20 Result Highlights

(in Mn)	Q1FY20	Q1FY19	yoy (%)	Q4FY19	qoq (%)	FY19	FY18	yoy (%)
Interest earned	78,162	65,780	18.8	78,565	-0.5	2,96,248	2,02,674	46.2
-Interest/discount on advances/bills	61,062	50,047	22.0	61,200	-0.2	2,29,226	1,54,782	48.1
-Income on investments	15,391	13,509	13.9	15,327	0.4	60,484	41,025	47.4
-Interest on bal. with RBI	1,037	1,620	-36.0	1,357	-23.6	3,976	5,161	-23.0
-Others	673	605	11.2	681	-1.2	2,561	1,706	50.1
Interest expenses	55,353	43,589	27.0	53,506	3.5	1,98,157	1,25,304	58.1
Net Interest Income (NII)	22,809	22,191	2.8	25,059	-9.0	98,090	77,371	26.8
Other Income	12,727	16,941	-24.9	5,317	139.4	45,902	52,238	-12.1
Total income	35,535	39,133	-9.2	30,376	17.0	1,43,992	1,29,609	11.1
Operating expenses	15,944	14,586	9.3	17,142	-7.0	62,643	52,128	20.2
-Employee cost	6,615	5,906	12.0	6,598	0.3	24,698	21,889	12.8
-Other operating expenses	9,329	8,680	7.5	10,544	-11.5	37,945	30,239	25.5
Operating profit	19,591	24,547	-20.2	13,234	48.0	81,349	77,481	5.0
Provision for contingencies	17,841	6,257	185.2	36,617	-51.3	57,776	15,538	271.8
PBT	1,750	18,291	-90.4	-23,383	-107.5	23,573	61,943	-61.9
Provision for taxes	612	5,687	-89.2	-8,317	-107.4	6,371	19,698	-67.7
Net profit	1,138	12,604	-91.0	-15,066	-107.6	17,203	42,246	-59.3
Equity	4,638	4,611	0.6	4,630	0.2	4,630	4,606	0.5
EPS (₹)	2.45	27.33	-91.0	-32.54	-107.5	37.15	91.72	-59.5
Ratios (%)								
Int. exp./Int earned (%)	70.8	66.3	-	68.1	-	66.9	61.8	-
Cost/Income ratio (%)	44.9	37.3	-	56.4	-	43.5	40.2	-
Gross NPAs (₹)	1,20,921	28,245	328	78,826	53.4	78,826	26,268	200
Net NPAs (₹)	68,833	12,626	445	44,849	53.5	44,849	13,128	242
Gross NPAs (%)	5.01	1.31	-	3.22	-	3.2	1.3	-
Net NPAs (%)	2.91	0.6	-	1.9	-	1.9	0.6	-
ROA (%)	0.1	1.6	-	-1.6	-	1.5	1.5	-
CAR (%)	15.6	16.9	-	16.5	-	16.5	18.4	-
Provision coverage (%)	43.1	55.3	-	43.1	-	43.1	50	-
Balance Sheet (₹ mn)								
Deposits	22,59,015	21,33,945	5.9	22,76,102	-0.8	22,76,102	20,07,382	13.4
Advances	23,63,002	21,47,201	10.1	24,14,996	-2.2	24,14,996	20,35,339	18.7

Source: Company, LKP Research

Profit & Loss Statement

(₹ Mn)	FY17	FY18	FY19	FY20e	FY21e
INTEREST EARNED	1,64,246	2,02,674	2,96,247	2,95,855	3,05,899
Interest/Discount on advances/Bills	1,22,098	1,54,782	2,29,226	2,32,806	2,50,918
Income from Investment	37,968	41,025	60,484	56,050	47,481
Interest on Balances with RBI & Others	2,578	5,161	3,976	4,500	5,000
Others	1,602	1,706	2,561	2,500	2,500
INTEREST EXPENDED	1,06,273	1,25,304	1,98,157	1,97,999	1,99,565
Interest on Deposits	82,040	93,834	1,36,871	1,24,464	1,22,441
Interest on RBI/Inter-Bank Borrowings	22,243	29,841	60,765	71,635	75,124
Others	1,990	1,629	521	1,900	2,000
NET INTEREST INCOME (NII)	57,973	77,371	98,090	97,856	1,06,334
Other Income	41,568	52,238	45,902	43,432	51,352
TOTAL INCOME	99,541	1,29,609	1,43,992	1,41,288	1,57,686
Operating expenses	41,165	52,128	62,643	70,837	79,935
Employee expenses	18,050	21,889	24,698	27,201	29,752
Other operating expenses	23,115	30,239	37,945	43,637	50,182
OPERATING PROFIT	58,375	77,481	81,349	70,450	77,751
Provisions	7,934	15,538	57,776	71,981	59,626
of which NPA provisions	6,634	10,788	25,670	48,300	45,160
Profit Before Tax (PBT)	50,441	61,943	23,573	-1,531	18,125
Provision for tax	17,140	19,697	6,371	-490	5,800
PAT	33,301	42,246	17,203	-1,041	12,325
(% change)	31.1	26.9	-59.3	-106.1	-1,284.1
EPS (₹)	15	18	7.4	-0.4	5.3
Total Paid-Up Capital	4,565	4,606	4,630	4,630	4,630

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY17	FY18	FY19	FY20e	FY21e
Application of funds					
Cash & Bal. with RBI	69,521	1,14,257	1,07,977	1,18,487	1,27,004
Balance with banks & money at call and short notice	1,25,974	1,33,086	1,60,918	1,92,199	1,51,965
Advances / Credit	13,22,627	20,35,339	24,14,996	24,14,996	26,56,496
Investments	5,00,318	6,83,989	8,95,220	6,46,308	6,98,376
Fixed assets	6,835	8,324	8,170	10,917	12,810
Other assets	1,25,325	1,49,460	2,20,980	2,67,386	3,26,211
TOTAL ASSETS	21,50,599	31,24,456	38,08,262	36,50,293	39,72,861
Sources of funds					
Total Paid-Up Capital	4,565	4,606	4,630	4,630	4,630
Reserves & Surplus	2,15,976	2,52,977	2,64,412	2,60,585	2,72,910
Networth	2,20,541	2,57,583	2,69,042	2,65,215	2,77,540
Deposits	14,28,739	20,07,381	22,76,102	20,12,497	21,57,895
-Current deposits	1,90,878	2,88,257	2,85,421	2,56,879	2,44,035
-Savings deposits	3,27,818	4,43,505	4,67,112	4,20,401	3,78,361
Borrowings	3,86,067	7,48,936	10,84,241	11,54,352	12,69,004
Other liabilities & provisions	1,15,253	1,10,556	1,78,877	2,18,230	2,68,423
TOTAL LIABILITIES	21,50,599	31,24,456	38,08,262	36,50,293	39,72,861

Source: Company, LKP Research

Ratio Analysis

(A) Efficiency Ratios (%)	FY17	FY18	FY19	FY20e	FY21e
Int. exp/Int. earned (%)	64.7	61.8	66.9	66.9	65.2
NII / Total Income (%)	58.2	59.7	68.1	69.3	67.4
Other income / Total Income (%)	41.8	40.3	31.9	30.7	32.6
Cost / Income	41.4	40.2	43.5	50.1	50.7
Cost/Income (excluding trading gains) (%)	44.5	41.9	44.5	50.1	50.7
C-D ratio (%)	94.0	102.7	109.6	128.6	131.9
I-D ratio (%)	35.0	34.1	39.3	32.1	32.4
Incremental CD ratio (%)	113.4	124.2	160.8	-35.9	176.8
Incremental ID ratio (%)	3.8	31.7	78.6	94.4	35.8
Loan / Assets ratio (%)	62.4	66.0	65.5	70.9	71.6
Deposits / Assets ratio (%)	66.4	64.2	59.8	55.1	54.3
CA / Total Deposits (%)	13.4	14.4	12.5	12.8	11.3
SA / Total Deposits (%)	22.9	22.1	20.5	20.9	17.5
CASA / Total Deposits	36.3	36.5	33.1	33.7	28.8
B) Spreads (%)	FY17	FY18	FY19	FY20e	FY21e
Yield on Assets (%)	9.2	8.1	9.1	8.5	8.7
Yield on Advances (%)	10.6	9.2	10.3	9.6	9.9
Yield on Investments (%)	7.7	7.0	7.7	7.3	7.1
Cost of Funds (%)	6.5	5.5	6.5	6.1	6.1
Cost of Deposits (%)	6.4	5.5	6.4	5.8	5.9
Cost of Earning Assets (%)	6.0	5.0	6.1	5.7	5.7
Spreads (%)	2.7	2.7	2.6	2.5	2.7
Net Interest Margin	3.3	3.1	3.0	2.8	3.0
C) Solvency	FY17	FY18	FY19	FY20e	FY21e
Gross NPAs (₹)	20,186	26,268	78,829	1,73,515	1,89,080
Net NPAs (₹)	10,723	13,128	44,849	84,758	84,437
Gross NPAs / Gross Advances (%)	1.5	1.3	3.2	6.7	6.6
Net NPAs / Net advances (%)	0.8	0.6	1.9	3.5	3.2
Provisions Coverage Ratio (%) (Excl. Fl. Prov.)	46.9	50.0	43.1	51.2	55.3
Credit cost (%) (incl NPA provisions)	0.5	0.5	1.1	2.0	1.7
Credit cost (%) (incl. NPA + SA + rest provisions)	0.6	0.6	2.0	2.1	1.8
D) Measures of Investment	FY17	FY18	FY19	FY20e	FY21e
No. of equity shares (wtd. avg.)	2,282	2,303	2,315	2,315	2,315
EPS (₹)	14.6	18.3	7.4	-0.4	5.3
DPS (per share)	2.4	2.7	2.0	1.0	1.0
BV (₹)	94	108	105	115	120
Adjusted BV (₹)	89	102	86	78	83
Avg. ROE (%)	19.2	18.2	7.0	-0.4	4.5
Avg. ROA (%)	1.8	1.6	0.5	0.0	0.3
Pre-tax ROA (%)	2.7	2.3	0.7	0.0	0.5
Pre-provisioning operating ROA (%)	3.1	2.9	2.3	1.9	2.0
Pre-provisioning operating ROE (%)	33.6	33.4	33.0	27.7	28.7
P/E (x)	18.0	21.3	11.6	-191.3	16.2
P/BV (x)	2.8	3.6	0.8	0.8	0.7
P/ABV (x)	2.9	3.8	1.0	1.1	1.0
Dividend yield (x)	0.9	0.7	2.3	1.2	1.2
Dividend Payout ratio (%)	16.4	14.7	26.9	-222.4	18.8
Effective tax rate (%)	34.0	31.8	27.0	32.0	32.0

E) Breakdown of ROA (%)	FY17	FY18	FY19	FY20e	FY21e
Interest Income	8.6	7.7	8.5	7.9	8.0
Interest expenses	5.6	4.8	5.7	5.3	5.2
NII/avg assets	3.0	2.9	2.8	2.6	2.8
Non-NII/avg. assets	2.2	2.0	1.3	1.2	1.3
Total Income	5.2	4.9	4.2	3.8	4.1
Operating exp/avg. assets	2.2	2.0	1.8	1.9	2.1
Operating profit/avg assets	3.1	2.9	2.3	1.9	2.0
Provisions/avg. assets	0.4	0.6	1.7	1.9	1.6
PBT/avg. assets	2.7	2.3	0.7	0.0	0.5
Tax/avg. assets	0.9	0.7	0.2	0.0	0.2
PAT/avg. assets	1.8	1.6	0.5	0.0	0.3
Leverage	10.0	12.6	15.6	13.8	14.3
F) Growth Rates (%)	FY17	FY18	FY19	FY20e	FY21e
Interest Income	21.4	23.4	46.2	-0.1	3.4
Interest Expenses	18.5	17.9	58.1	-0.1	0.8
NII	26.9	33.5	26.8	-0.2	8.7
Other Income	53.3	25.7	-12.1	-5.4	18.2
Total Income	36.8	30.2	11.1	-1.9	11.6
Operating Income	35.7	32.7	5.0	-13.4	10.4
Net Profit	31.1	26.9	-59.3	-106.1	-1284.1
Deposits	27.9	40.5	13.4	-11.6	7.2
Advances	35.7	53.5	21.0	3.8	9.9
H) Other performance parameters	FY17	FY18	FY19	FY20e	FY21e
No. of branches (No.)	1,000	1,100	1,120	1,130	1,200
No. of employees (No.)	20,125	18,238	21,136	22,600	24,000
Business per branch (₹)	2,751	3,675	4,189	3,918	4,012
Profit per branch (₹)	33.3	38.4	15.4	-0.9	10.3
Business per employee (₹)	136.7	221.7	221.9	195.9	200.6
Profit per employee (₹)	1.7	2.3	0.8	0.0	0.5

Source: Company, LKP Research

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