

## BANKING

07 March 2020

### Yes Bank rescue plan – stake purchase the lesser evil for SBIN

**YES placed under moratorium:** The RBI and government of India have superseded Yes Bank's (YES) board and placed the bank under moratorium from 5 Mar 2020. Consequently, YES cannot issue fresh loans nor can it make payments beyond Rs 50,000, including discharge of liabilities (possibly servicing of letters of credit, bank guarantees and interbank obligations). While being placed under moratorium implies zero equity value in the bank, the RBI has moved swiftly to formulate a reconstruction plan to revive YES.

**Reconstruction scheme highlights:** As per RBI's scheme, YES's authorised share capital will increase from Rs 6bn to Rs 50bn while the number of shares stands altered to 24bn shares of Rs 2 each. Under the plan, State Bank of India (SBIN) will acquire up to 49% stake in YES by infusing capital at a price of Rs 10/sh (including a premium of Rs 8). Also, SBIN's holding in the bank must remain above 26% for the next three years. Instruments qualifying as additional tier-I capital issued by YES under the Basel-III framework shall stand written down permanently to nil value.

**SBIN's initial capital commitment totals ~Rs 24bn:** SBIN is conducting due diligence and shall revert to RBI shortly with views. However, as per the scheme, the initial capital commitment required for 49% stake is Rs 24.5bn (1.1% of net worth). YES will also need further capital infusion in future – assuming a requirement of Rs 200bn, SBIN's contribution could range from a minimum of Rs 52bn (26%) to a maximum of Rs 98bn (49%).

**Stake buy vs. merger:** We believe buying a stake is a much better deal for SBIN as a merger would have led to a sharp deterioration in its asset quality and probably a spike in credit cost as well. In its role as strategic investor, SBIN's losses could be restricted to the amount invested in YES.

**We place YES under review, retain BUY on SBIN:** We believe SBIN's near-term share performance will track the news flow around YES, including the latter's financial performance, pedigree of other investors, if any, in the reconstruction plan, and the exact infusion required. We retain our BUY rating on SBIN with a Mar'21 SOTP-based target price of Rs 400 as we believe the bank will be one of the prime beneficiaries of the ongoing revival in the corporate NPA cycle. That said, above-expected capital infusion in YES is a key risk to our call. We had a SELL rating on YES but in light of current developments now place the stock under review.

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#### STOCK PERFORMANCE – SBIN



Source: NSE

#### STOCK PERFORMANCE – YES



Source: NSE



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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