FIRST LIGHT

30 July 2020

RESEARCH

Market Strategy | Model Portfolio
Midcaps – hunting for value amidst uncertainty

Maruti Suzuki | Target: Rs 6,500 | +5% | ADD
Weak Q1; upsides limited – downgrade to ADD

IDFC First Bank | Target: Rs 23 | –17% | SELL
High moratorium in corporate portfolio a risk – cut to SELL

Manappuram Finance | Target: Rs 195 | +7% | ADD
MFI and vehicle finance to see incremental stress – cut to ADD

Dr Reddy's Labs | Target: Rs 4,640 | +8% | ADD
Good beat but ETR increase caps earnings upgrade – ADD

TVS Motor | Target: Rs 315 | –22% | SELL
Rich valuations; maintain SELL

Yes Bank
Challenges galore – we drop coverage

SUMMARY

Market Strategy: Model Portfolio

The recent rally in broad market indices – reminiscent of a classic V-shaped recovery – has been restricted to select stocks. Divergence in midcap index performance vs. the Nifty has stretched to all-time highs. In our view, this could be the right time to hunt for value in the small and midcap universe. We introduce our Midcap Model Portfolio, with an intent to tap the rare opportunity presented by the mispricing of various midcaps. At 14.3x one-year forward P/E, the Nifty Midcap 50 is trading well below its long-term average of 21x.

Click here for the full report.

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	690
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,950
Chola Investment	Buy	200
Laurus Labs	Buy	630
Transport Corp	Buy	240
Mahanagar Gas	Sell	710

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.58	(4bps)	(6bps)	(148)
India 10Y yield (%)	5.85	(1bps)	(7bps)	(54)
USD/INR	74.85	0	1.1	(8.7)
Brent Crude (US$/bbl)	43.22	(0.4)	5.4	(33.2)
Dow	26,379	(0.8)	5.5	(3.0)
Shanghai	3,228	0.7	8.3	9.3
Sensex	38,493	1.5	9.4	2.9
India FII (US$ mn)	**27 Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	2.0	(177.0)	(14,458.9)	(4,699.4)
FII-E	5.3	1,100.1	(1,341.3)	5,261.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

Maruti Suzuki

Maruti (MSIL) reported a disappointing Q1FY21. Though revenue was ahead of estimates, operating inefficiencies led to negative EBITDA. MSIL derives >40% of revenues from rural India. With strong farm sector growth and relaunch of diesel variants in H2FY21, we expect the company to clock a run-rate of ~150,000 units a month in FY22. We estimate a revenue/EBITDA/PAT CAGR of 12%/ 15%/13% over FY20-FY23. Valuing the stock at 26x Sep'22E EPS, we maintain our TP at Rs 6,500. Downgrade from BUY to ADD.

Click here for the full report.

IDFC First Bank

IDFC First Bank's (IDFCFB) Q1FY21 PAT at Rs 0.9bn was aided by 38% YoY growth in NII, stable non-interest income and lower opex QoQ. Unlike peers, moratorium share reduced only marginally to 28% of loans (vs. 35% in Q4) while wholesale share stayed high at 35%. GNPA declined to 2% and the legacy stress book was stable at 3.3% of loans. Retailisation trends continued with 26% YoY retail loan growth and retail deposit share rising to 57%. We cut FY22 EPS 15%; cut to SELL (from ADD) as exposure to riskier segments will keep credit cost high.

Click here for the full report.

Manappuram Finance

Manappuram Finance's (MGFL) gold AUM surged 33% YoY to Rs 177bn in Q1FY21. Despite buoyant gold prices, MGFL prudently maintained LTV at 57% on the gold book. Lower opex fuelled 54% YoY growth in operating profit to Rs 5.4bn. PAT increased 68% YoY to Rs 3.7bn aided by low credit cost of ~30bps. We decrease FY21-FY22 earnings by 3-6% and roll over to a Jun'21 TP of Rs 195 (vs. Rs 150). Downgrade from BUY to ADD given incremental asset quality pressure in the MFI and vehicle financing businesses.

Click here for the full report.

Dr Reddy's Labs

Dr Reddy's (DRRD) reported a Q1 EBITDA beat of 21% despite a marginal surprise on sales. 2/3rd of the beat was led by product mix and productivity and rest came from currency benefits. PSAI sales (+19% QoQ), ROW ex-Russia/CIS (+40%) saw strong growth while India was weak and the US in line. Gross margin at 56% is on higher side and may fluctuate in the 53-56% range in coming quarters. PAT was a lower 9% beat due to higher ETR. Management is confident of growth despite Covid. We roll to a new Sep'21 TP of Rs 4,640 (vs. Rs 4,210).

Click here **for the full report.**

TVS Motor

TVS Motor's (TVSL) Q1FY21 revenue beat estimates at Rs 14.3bn. The company suffered a net loss of Rs 1.4bn as against a Rs 1bn loss forecast. Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We bake in a volume CAGR of 2% during FY20-FY23, leading to a revenue, EBITDA and PAT CAGR of 5%, 6% and 5% respectively. Maintain SELL with an unchanged Sep'21 TP of Rs 315, based on 24x P/E.

Click here **for the full report.**

Yes Bank

Yes Bank (YES) reported Q1FY21 PAT of ~Rs 0.5bn on a 50% QoQ increase in NII and 78% QoQ decline in provisions. Loan book dropped 30% YoY. YES has cumulative Covid-related provisions worth Rs 8.8bn (~0.5% of loans), but management highlighted that pandemic disruptions could pose further risks to asset quality and recoveries. We believe the multitude of challenges faced by the bank on asset health, capital raising and leadership will stifle earnings recovery. Given the rising uncertainty over fundamentals, we drop coverage on the stock.

Click here **for the full report.**

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MODEL PORTFOLIO

29 July 2020

Midcaps – hunting for value amidst uncertainty

Rohit Ahuja | Harleen Manglani
research@bobcaps.in

The recent rally in broad market indices – reminiscent of a classic V-shaped recovery – has been restricted to select stocks. Divergence in midcap index performance vs. the Nifty has stretched to all-time highs. In our view, this could be the right time to hunt for value in the small and midcap universe. We introduce our Midcap Model Portfolio, with an intent to tap the rare opportunity presented by the mispricing of various midcaps. At 14.3x one-year forward P/E, the Nifty Midcap 50 is trading well below its long-term average of 21x.

Most prominent, extended bear run since Jan'18: The bear run in the Nifty Midcap 50 (M50) Index is far more pronounced than that in the broader market, given that its performance divergence versus the Nifty 50 has expanded to a historical high of ~55% (from Jan'18 levels).

The M50 is currently trading at a P/E of ~14.3x one-year forward earnings, much below long-term average levels of ~21x. While the index is up 47% from Mar'20 lows, it still has a lot of catching up to do in terms of multiples to qualify as a sustained uptrend. Q1 and Q2FY21 earnings trends will be the primary inflection point for multiples to either expand or remain sideways.

Focusing on V-shaped recovery: Midcap index recovery from Mar'20 lows was driven by sectors that largely benefit from the pandemic – pharma, chemicals, gold finance, IT and consumer. While these continue to form key overweights in our BOBCAPS Midcap Model Portfolio (BMP-M50), we see value in some auto ancillary (tyre, battery), building material, logistic and gas utility stocks.

Key picks: We follow a bottom-up approach towards stock picking, focusing on companies with resilient earnings or scope for faster earnings recovery as the economic lockdown eases. Additionally, most of our picks are a culmination of fundamental inputs from our research team.

Pharma, agrochemicals, gas utilities and IT are our largest sector overweights, carrying attributes of resilient earnings through the pandemic and an improved fundamental outlook. Financials (mostly midsize banks) and autos (mostly OEMs) remain our primary underweights. That said, we remain optimistic on select NBFCs (gold and MSME financiers) that have delivered a robust operating performance.

BMP-M50: TOP BETS

TOP 5 Overweight	TOP 5 Underweight
PI Industries	Ashok Leyland
Aarti Industries	TVS Motor
Gujarat State Petronet	Mahanagar Gas
L&T Infotech	Mindtree
Laurus Labs	Canara Bank

Source: BOBCAPS Research

RESULT REVIEW

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ADD
TP: Rs 6,500 | ⮝ 5%

MARUTI SUZUKI | Automobiles | 29 July 2020

Weak Q1; upsides limited – downgrade to ADD

Maruti (MSIL) reported a disappointing Q1FY21. Though revenue was ahead of estimates, operating inefficiencies led to negative EBITDA. MSIL derives >40% of revenues from rural India. With strong farm sector growth and relaunch of diesel variants in H2FY21, we expect the company to clock a run-rate of ~150,000 units a month in FY22. We estimate a revenue/EBITDA/PAT CAGR of 12%/ 15%/13% over FY20-FY23. Valuing the stock at 26x Sep'22E EPS, we maintain our TP at Rs 6,500. Downgrade from BUY to ADD.

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

Disappointing Q1: Revenue declined 79% YoY to Rs 41bn (albeit ahead of estimates) but operating inefficiencies led to a negative EBITDA margin (–21%). Despite higher other income, MSIL reported its first ever loss at Rs 2.5bn.

Key beneficiary of strong rural growth: Our interactions with various agri marketplaces ('mandis') in Rajasthan, adjoining Neemuch (Madhya Pradesh), and Uttar Pradesh suggest robust growth (>2x) in annual agricultural produce led by higher cultivation. Since >40% of its domestic revenues come from rural India, we believe MSIL will be a direct beneficiary of this strong growth.

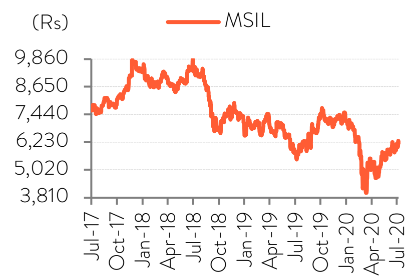
Muted FY21 volume assumptions: Due to the current uncertainty, we assume a volume decline of 18% YoY in FY21. Given expectations of a rising preference for personal mobility, rural pickup and relaunch of diesel variants in H2FY21, we believe MSIL could retrace to a monthly run-rate of ~150,000 vehicle sales in FY22. We thus model for a volume CAGR of ~8% during FY20-FY23.

Downgrade to ADD: We expect ROCE and ROE to improve to 12.4% and 13.1% respectively in FY22. Valuing MSIL at 26x one-year forward EPS, we have a Sep'21 TP of Rs 6,500. Cut from BUY to ADD as upsides look capped.

Ticker/Price	MSIL IN/Rs 6,185
Market cap	US$ 25.0bn
Shares o/s	302mn
3M ADV	US$ 125.2mn
52wk high/low	Rs 7,759/Rs 4,001
Promoter/FPI/DII	56%/21%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	860,203	756,106	651,773	945,676	1,046,863
EBITDA (Rs mn)	109,993	73,026	61,366	97,417	111,003
Adj. net profit (Rs mn)	91,700	56,506	41,906	70,037	81,125
Adj. EPS (Rs)	193.0	187.1	138.7	231.8	268.6
Adj. EPS growth (%)	(8.9)	(3.1)	(25.8)	67.1	15.8
Adj. ROAE (%)	13.3	11.9	8.4	13.1	13.8
Adj. P/E (x)	32.0	33.1	44.6	26.7	23.0
EV/EBITDA (x)	16.9	25.4	30.2	19.1	16.8

Source: Company, BOBCAPS Research

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SELL
TP: Rs 23 | ⩔ 17%

IDFC FIRST BANK | Banking | 29 July 2020

High moratorium in corporate portfolio a risk – cut to SELL

IDFC First Bank's (IDFCFB) Q1FY21 PAT at Rs 0.9bn was aided by 38% YoY growth in NII, stable non-interest income and lower opex QoQ. Unlike peers, moratorium share reduced only marginally to 28% of loans (vs. 35% in Q4) while wholesale share stayed high at 35%. GNPA declined to 2% and the legacy stress book was stable at 3.3% of loans. Retailisation trends continued with 26% YoY retail loan growth and retail deposit share rising to 57%. We cut FY22 EPS 15%; cut to SELL (from ADD) as exposure to riskier segments will keep credit cost high.

Vikesh Mehta
research@bobcaps.in

Moratorium share at 28%: IDFCFB's loans under moratorium decreased to 28% with retail loan share at 23%; wholesale portfolio share at 35% is high compared to peers. The bank made additional Covid-related provisions of ~Rs 3.8bn and has an overall buffer of Rs 6bn (0.6% of loans). GNPAs declined to 2% as slippages were lower at Rs 0.7bn (vs. Rs 4.2bn in Q4) given the benefit of moratorium provided to customers, including the overdue 'standstill' accounts. PCR improved to ~75% (vs. 65% in Q4). The legacy stress book was stable at Rs 32bn (3.3% of loans) but provisioning on the same improved to 52%.

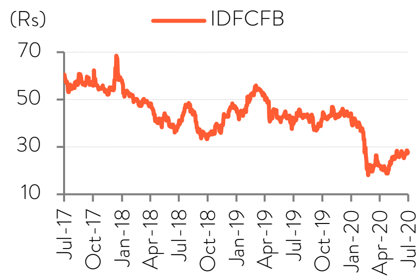
Retail growth stays strong: Despite 26% YoY growth in retail assets, total funded loan assets declined 8% as the wholesale portfolio dropped 28% (due to a 24%/34% YoY fall in the corporate/infrastructure books). The share of retail deposits swelled to 57% (vs. 52% in Q4) and CASA ratio improved to 34%.

Downgrade to SELL: We view IDFCFB's shift towards retail assets and liabilities as a positive but high exposure to riskier segments will keep credit costs elevated and return ratios subdued. We cut FY22 EPS estimates by ~15% to factor higher credit costs and roll forward to a Sep'21 TP of Rs 23 (Rs 20 earlier). Cut to SELL.

Ticker/Price	IDFCFB IN/Rs 28
Market cap	US$ 2.1bn
Shares o/s	5,672mn
3M ADV	US$ 15.6mn
52wk high/low	Rs 39/Rs 18
Promoter/FPI/DII	40%/11%/49%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	31,991	56,353	59,671	68,406	78,280
NII growth (%)	77.9	76.2	5.9	14.6	14.4
Adj. net profit (Rs mn)	(19,442)	(28,642)	(955)	6,020	9,438
EPS (Rs)	(4.8)	(6.0)	(0.2)	1.1	1.7
P/E (x)	(5.9)	(4.7)	(152.9)	26.2	16.7
P/BV (x)	0.7	0.9	0.9	0.9	0.9
ROA (%)	(1.3)	(1.8)	(0.1)	0.4	0.6
ROE (%)	(11.6)	(17.1)	(0.6)	3.4	5.2

Source: Company, BOBCAPS Research

ADD
TP: Rs 195 | ⮝ 7%

MANAPPURAM FINANCE | NBFC | 29 July 2020

MFI and vehicle finance to see incremental stress – cut to ADD

Manappuram Finance's (MGFL) gold AUM surged 33% YoY to Rs 177bn in Q1FY21. Despite buoyant gold prices, MGFL prudently maintained LTV at 57% on the gold book. Lower opex fuelled 54% YoY growth in operating profit to Rs 5.4bn. PAT increased 68% YoY to Rs 3.7bn aided by low credit cost of ~30bps. We decrease FY21-FY22 earnings by 3-6% and roll over to a Jun'21 TP of Rs 195 (vs. Rs 150). Downgrade from BUY to ADD given incremental asset quality pressure in the MFI and vehicle financing businesses.

Shubhranshu Mishra
research@bobcaps.in

Better productivity fuels AUM growth: At Rs 177bn, MGFL's gold loan AUM increased 33% YoY in Q1FY21, continuing its growth streak for the tenth consecutive quarter. This was aided by 28% YoY growth in AUM per branch to Rs 50mn. MGFL prudently maintained 57% LTV on its gold portfolio.

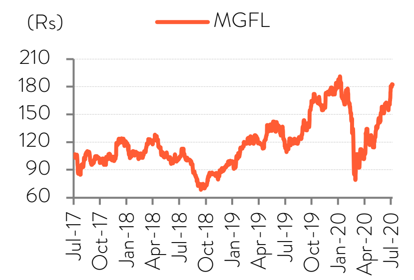
Cost control bolsters operating profit: Spreads (calc.) on gold finance decreased 20bps YoY to 18.6%, driven by yield compression of 70bps YoY to 28.2%. Opex decline of 15% YoY to Rs 2.5bn resulted in a lower expense ratio of 5.7% (–320bps YoY). Thus, operating profit grew 54% YoY to Rs 5.4bn.

Credit costs to spike; MFI performance faces Covid-19 overhang: Credit costs were contained at ~30bps of AUM in Q1, resulting in 68% YoY growth in PAT to Rs 3.7bn. Asirvad MFI AUM grew 20% YoY to Rs 50bn due to back-ended disbursements. Management indicated that the MFI business would see a spike in delinquencies post-lockdown as ~10% of its collection centres are not operational. Collections will take 4-6 months to scale up and hence management has taken Rs 750mn of Covid-19 provisions in Q1. At ~27% capital adequacy, the MFI business remains well capitalised to absorb any increased provisioning from event risks.

Ticker/Price	MGFL IN/Rs 182
Market cap	US$ 2.1bn
Shares o/s	845mn
3M ADV	US$ 21.6mn
52wk high/low	Rs 195/Rs 74
Promoter/FPI/DII	35%/38%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	23,525	28,340	30,160	32,813	36,831
NII growth (%)	12.3	20.5	6.4	8.8	12.2
Adj. net profit (Rs mn)	7,884	12,242	12,752	14,054	16,215
EPS (Rs)	9.4	14.6	15.1	16.6	19.2
P/E (x)	19.4	12.5	12.1	10.9	9.5
P/BV (x)	3.5	2.9	2.5	2.1	1.8
ROA (%)	4.9	5.9	5.1	5.1	5.4
ROE (%)	19.3	25.2	22.0	20.9	20.8

Source: Company, BOBCAPS Research

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ADD
TP: Rs 4,640 | ▲ 8%

DR REDDY'S LABS | Pharmaceuticals | 29 July 2020

Good beat but ETR increase caps earnings upgrade – ADD

Dr Reddy's (DRRD) reported a Q1 EBITDA beat of 21% despite a marginal surprise on sales. 2/3rd of the beat was led by product mix and productivity and rest came from currency benefits. PSAI sales (+19% QoQ), ROW ex-Russia/CIS (+40%) saw strong growth while India was weak and the US in line. Gross margin at 56% is on higher side and may fluctuate in the 53-56% range in coming quarters. PAT was a lower 9% beat due to higher ETR. Management is confident of growth despite Covid. We roll to a new Sep'21 TP of Rs 4,640 (vs. Rs 4,210).

Vivek Kumar
research@bobcaps.in

PSAI, ROW (ex-Russia/CIS) and Europe more than offset weak India and US sales: DRRD saw strong volume traction (ex-India/US), largely offsetting the price erosion impact. US sales declined 7% QoQ to US$ 234mn as pre-buying normalised. DRRD launched six products in Q1 (incl. gZytiga, gColcrys) which should scale up in coming quarters. India sales (with 20 days of Wockhardt integration) were weak, declining 10% YoY. Offsetting this, was strong growth for ROW (led by China), PSAI (deferred sales from Q4) and Europe (led by Germany, Spain). We retain our US sales estimate of US$ 1.1bn by FY22 (10% CAGR over FY20, 5% ex-Copaxone, Nuvaring).

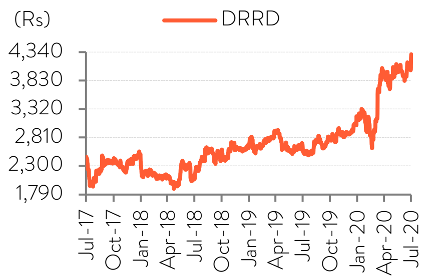
Adj. EBITDA beat at 16%: Gross margin rose 460bps QoQ to 56% despite flat sales. About 70% of the gains were driven by product mix and productivity improvement within PSAI, Europe and China; the rest was forex benefits. Our interaction with DRRD suggests that ~100bps of mix-related margin tailwinds could be non-recurring. Adj. EBITDA was a 16% beat (21% on reported EBITDA).

Earnings call takeaways: (1) CRL for Copaxone submitted while that for gNuvaring is pending. (2) ETR revised upward to 25-27% for FY21 (from 22%). (3) PSAI saw order book improvement across markets. (4) Wockhardt portfolio to focus on full brand recognition via higher promotional spends.

Ticker/Price	DRRD IN/Rs 4,302
Market cap	US$ 9.6bn
Shares o/s	166mn
3M ADV	US$ 57.8mn
52wk high/low	Rs 4,336/Rs 2,351
Promoter/FPI/DII	27%/27%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	153,852	174,601	185,782	202,826	236,766
EBITDA (Rs mn)	31,333	40,942	42,473	47,502	59,572
Adj. net profit (Rs mn)	17,895	32,248	26,272	30,137	40,447
Adj. EPS (Rs)	107.8	194.3	158.3	181.5	243.7
Adj. EPS growth (%)	90.3	80.2	(18.5)	14.7	34.2
Adj. ROAE (%)	13.8	23.1	17.1	16.9	19.3
Adj. P/E (x)	39.9	22.1	27.2	23.7	17.7
EV/EBITDA (x)	23.8	18.0	16.9	14.5	11.1

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 315 | ⮟ 22%

TVS MOTOR | Automobiles | 29 July 2020

Rich valuations; maintain SELL

TVS Motor's (TVSL) Q1FY21 revenue beat estimates at Rs 14.3bn. The company suffered a net loss of Rs 1.4bn as against a Rs 1bn loss forecast. Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest 3W sales have been badly hit and recovery may take longer than expected. We bake in a volume CAGR of 2% during FY20-FY23, leading to a revenue, EBITDA and PAT CAGR of 5%, 6% and 5% respectively. Maintain SELL with an unchanged Sep'21 TP of Rs 315, based on 24x P/E.

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

Q1 results highlights: At Rs 14.3bn, revenue was down 68% YoY. TVSL sold ~255k 2Ws, a decline of 70% YoY. 3Ws performed similarly, dropping 71% YoY. Average realisations increased 11% YoY led by BSVI upgrades. The company reported a negative 3.4% EBITDA margin (vs. –1% expected). Net loss was at Rs 1.4bn.

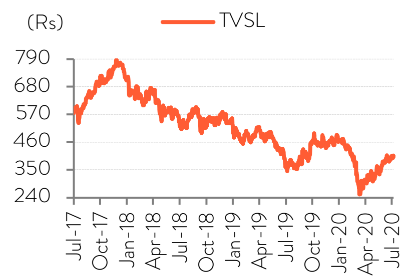
Motorcycles gaining due to rural growth; scooter and 3W sales struggling: Strong rural growth is expected to boost moped and motorcycle sales. Our channel checks suggest that besides CVs, sales in the 3W segment have been the most affected by the Covid-19 crisis and recovery may take longer than expected. Scooters, being more of an urban product, also continue to witness slowdown. We expect a volume CAGR of 2% in TVSL's 2W segment and flattish growth in 3W sales during FY20-FY23.

Valuations expensive: We expect ROCE to reduce from 13% to 12% and ROE to dip from 17% to ~15% over FY20-FY23. At CMP, the stock is trading at 28x FY23E EPS (32x FY22E) which looks rich. Our TP remains unchanged at Rs 315 and is based on 24x Sep'22E EPS; maintain SELL.

Ticker/Price	TVSL IN/Rs 403
Market cap	US$ 2.6bn
Shares o/s	475mn
3M ADV	US$ 14.9mn
52wk high/low	Rs 504/Rs 240
Promoter/FPI/DII	57%/11%/22%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	182,099	164,233	134,521	172,955	190,052
EBITDA (Rs mn)	14,333	13,459	9,715	14,602	16,136
Adj. net profit (Rs mn)	6,701	6,246	2,510	5,932	6,836
Adj. EPS (Rs)	14.1	12.5	5.3	12.5	14.4
Adj. EPS growth (%)	3.9	(11.8)	(57.6)	136.4	15.2
Adj. ROAE (%)	20.0	17.1	6.6	14.0	14.5
Adj. P/E (x)	28.5	32.3	76.3	32.3	28.0
EV/EBITDA (x)	13.4	14.3	19.4	13.0	12.0

Source: Company, BOBCAPS Research

RESULT REVIEW

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COVERAGE DROP

YES BANK | Banking | 29 July 2020

Challenges galore – we drop coverage

Yes Bank (YES) reported Q1FY21 PAT of ~Rs 0.5bn on a 50% QoQ increase in NII and 78% QoQ decline in provisions. Loan book dropped 30% YoY. YES has cumulative Covid-related provisions worth Rs 8.8bn (~0.5% of loans), but management highlighted that pandemic disruptions could pose further risks to asset quality and recoveries. We believe the multitude of challenges faced by the bank on asset health, capital raising and leadership will stifle earnings recovery. Given the rising uncertainty over fundamentals, we drop coverage on the stock.

Vikesh Mehta
research@bobcaps.in

CET-1 improves to 13.4% post capital raise: YES's proforma CET-1/CRAR, including profits and the recent capital raise via FPO, improved to 13.4%/20%. The bank repaid Rs 250bn out of the Rs 500bn special liquidity facility availed of from the RBI; the rest is expected to be repaid over the next 45 days. It has also requested RBI approval for interest payment worth Rs 62mn on its upper tier-2 bonds.

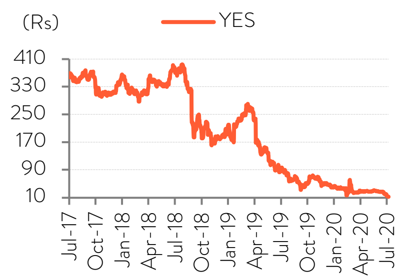
Corporate GNPA ratio at 27%: Headline GNPA ratio increased to 17.3% as the loan book declined 30% YoY on sell-downs, repayments and a lack of fresh disbursements. Management believes the 75% coverage ratio adequately provides for NPAs, but stated that the Covid-19 crisis casts uncertainty over asset quality and could delay recovery prospects. YES highlighted that its moratorium share is in line with that of banks covered in RBI's recent report.

Dropping coverage: We believe the bank faces overwhelming challenges, ranging from further deterioration in asset quality to calls for additional capital raising and senior management exits once the lock-in on salaries expires. This will keep earnings under pressure. We, therefore, drop coverage on the stock.

Ticker/Price	YES IN/Rs 12
Market cap	US$ 2.0bn
Shares o/s	12,551mn
3M ADV	US$ 15.7mn
52wk high/low	Rs 96/Rs 6
Promoter/FPI/DII	0%/2%/98%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	98,090	68,021	47,592	37,300	42,817
NII growth (%)	26.8	(30.7)	(30.0)	(21.6)	14.8
Adj. net profit (Rs mn)	17,203	(164,219)	(49,471)	(10,523)	(4,140)
EPS (Rs)	7.5	(30.6)	(2.6)	(0.4)	(0.2)
P/E (x)	1.6	(0.4)	(4.4)	(27.9)	(70.8)
P/BV (x)	0.1	0.7	1.5	1.6	1.6
ROA (%)	0.5	(7.1)	(2.0)	(0.5)	(0.2)
ROE (%)	6.5	(93.4)	(24.1)	(5.6)	(2.3)

Source: Company, BOBCAPS Research

Disclaimer

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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