

**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

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE**

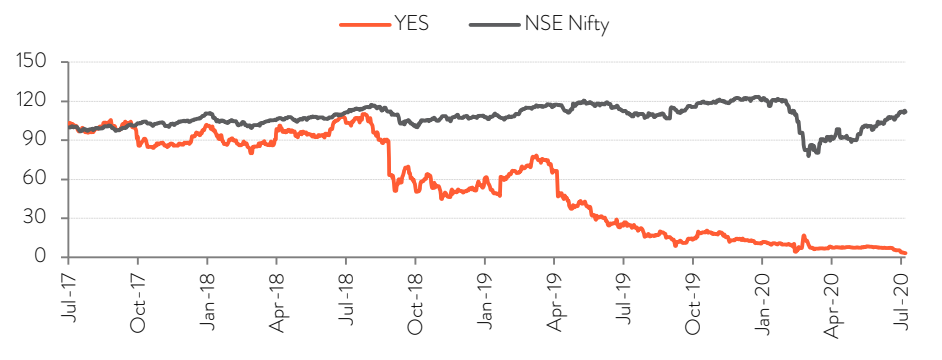
(Rs mn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
<b>Income Statement</b>					
<b>Interest income</b>	<b>54,861</b>	<b>78,162</b>	<b>52,214</b>	<b>(29.8)</b>	<b>5.1</b>
Interest expense	35,779	55,353	39,476	(35.4)	(9.4)
<b>Net interest income</b>	<b>19,081</b>	<b>22,809</b>	<b>12,737</b>	<b>(16.3)</b>	<b>49.8</b>
Non-interest income	6,207	12,727	5,973	(51.2)	3.9
Net total income	25,288	35,535	18,710	(28.8)	35.2
Staff expenses	6,437	6,615	6,390	(2.7)	0.7
Other operating expenses	7,383	9,329	11,256	(20.9)	(34.4)
Operating expenses	13,820	15,944	17,645	(13.3)	(21.7)
Pre-provisioning profit	11,469	19,591	1,064	(41.5)	977.7
<b>Total provisions</b>	<b>10,866</b>	<b>17,841</b>	<b>48,723</b>	<b>(39.1)</b>	<b>(77.7)</b>
<b>Profit before tax</b>	<b>602</b>	<b>1,750</b>	<b>(47,659)</b>	<b>(65.6)</b>	<b>(101.3)</b>
Tax	148	612	(10,976)	(75.8)	(101.3)
<b>Profit after tax</b>	<b>454</b>	<b>1,138</b>	<b>(36,683)</b>	<b>(60.1)</b>	<b>(101.2)</b>
<b>Balance Sheet</b>					
Advances	1,645,100	2,363,002	1,714,433	(30.4)	(4.0)
Deposits	1,173,600	2,259,015	1,053,639	(48.0)	11.4
CASA ratio (%)	25.8	30.2	26.6	(432bps)	(79bps)
<b>Yields and margins (%)</b>					
Net interest margin	3.0	2.8	1.9	20bps	110bps
Yield on advances	9.4	10.0	8.9	(60bps)	50bps
Cost of funds	6.6	6.8	6.5	(20bps)	10bps
<b>Key ratios (%)</b>					
Cost/Income	54.6	44.9	94.3	978bps	-3,966bps
Tax rate	24.6	35.0	23.0	(1,042bps)	154bps
Loan to Deposit ratio	140.2	104.6	162.7	3,557bps	(2,254bps)
<b>Capital adequacy ratios (%)</b>					
Tier 1	6.6	10.7	6.5	(410bps)	10bps
Total CAR	8.6	15.7	8.5	(710bps)	10bps
<b>Asset quality (Rs mn)</b>					
Gross NPAs	327,027	120,921	328,776	170.4	(0.5)
Net NPAs	81,575	68,833	86,238	18.5	(5.4)
Gross NPA ratio (%)	17.3	5.0	16.8	1,229bps	50bps
Net NPA ratio (%)	5.0	2.9	5.0	205bps	(7bps)
Coverage Ratio (%)	75.1	43.1	73.8	3,198bps	129bps

Source: Company, BOBCAPS Research

## Valuation methodology

We believe YES 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. Further, there are more attractive investment opportunities in the banking space that offer earnings visibility and a far better franchise. Given the rising uncertainty over fundamentals, we drop coverage on the stock.

**FIG 2 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>98,090</b>	<b>68,021</b>	<b>47,592</b>	<b>37,300</b>	<b>42,817</b>
NII growth (%)	26.8	(30.7)	(30.0)	(21.6)	14.8
Non-interest income	45,902	34,744	25,902	25,137	26,029
Total income	143,992	102,765	73,494	62,437	68,846
Operating expenses	(62,643)	(67,651)	(62,009)	(58,863)	(60,094)
Operating profit	81,349	35,113	11,485	3,574	8,752
Operating profit growth (%)	5.0	(56.8)	(67.3)	(68.9)	144.9
Provisions	(57,776)	(327,584)	(75,171)	(17,120)	(14,081)
PBT	23,573	(292,471)	(63,686)	(13,547)	(5,330)
Tax	(6,371)	65,282	14,215	3,024	1,190
<b>Reported net profit</b>	<b>17,203</b>	<b>(227,189)</b>	<b>(49,471)</b>	<b>(10,523)</b>	<b>(4,140)</b>
Adjustments	0	62,969	0	0	0
<b>Adjusted net profit</b>	<b>17,203</b>	<b>(164,219)</b>	<b>(49,471)</b>	<b>(10,523)</b>	<b>(4,140)</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Equity capital	4,630	25,101	50,101	50,101	50,101
Reserves & surplus	264,412	192,162	142,691	132,168	128,028
Net worth	269,042	217,263	192,792	182,269	178,129
Deposits	2,276,102	1,053,639	948,275	995,689	1,055,431
Borrowings	1,084,241	1,137,905	1,019,413	1,007,350	1,012,605
Other liabilities & provisions	178,877	169,462	144,043	150,138	160,999
<b>Total liabilities and equities</b>	<b>3,808,262</b>	<b>2,578,269</b>	<b>2,304,523</b>	<b>2,335,447</b>	<b>2,407,163</b>
Cash & bank balance	268,895	83,830	79,670	82,087	84,637
Investments	895,220	439,148	390,763	392,241	425,654
Advances	2,414,996	1,714,433	1,371,546	1,212,126	1,292,326
Fixed & Other assets	229,150	340,858	462,544	648,992	604,546
<b>Total assets</b>	<b>3,808,262</b>	<b>2,578,269</b>	<b>2,304,523</b>	<b>2,335,447</b>	<b>2,407,163</b>
Deposit growth (%)	13.4	(53.7)	(10.0)	5.0	6.0
Advances growth (%)	18.7	(29.0)	(20.0)	(11.6)	6.6

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
EPS	7.5	(30.6)	(2.6)	(0.4)	(0.2)
Dividend per share	2.7	0.0	0.0	0.0	0.0
Book value per share	116.2	17.3	7.7	7.3	7.1

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
P/E	1.6	(0.4)	(4.4)	(27.9)	(70.8)
P/BV	0.1	0.7	1.5	1.6	1.6
Dividend yield (%)	23.0	0.0	0.0	0.0	0.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Net interest income	2.8	2.1	1.9	1.6	1.8
Non-interest income	1.3	1.1	1.1	1.1	1.1
Operating expenses	1.8	2.1	2.5	2.5	2.5
Pre-provisioning profit	2.3	1.1	0.5	0.2	0.4
Provisions	1.7	10.3	3.1	0.7	0.6
PBT	0.7	(9.2)	(2.6)	(0.6)	(0.2)
Tax	0.2	(2.0)	(0.6)	(0.1)	(0.1)
ROA	0.5	(7.1)	(2.0)	(0.5)	(0.2)
Leverage (x)	13.2	13.1	11.9	12.4	13.2
ROE	6.5	(93.4)	(24.1)	(5.6)	(2.3)

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	26.8	(30.7)	(30.0)	(21.6)	14.8
Pre-provisioning profit	5.0	(56.8)	(67.3)	(68.9)	144.9
EPS	(59.6)	(510.3)	(91.4)	(84.0)	(60.7)
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.0	2.3	2.3	2.1	2.5
Fees / Avg. assets	1.0	0.8	0.7	0.7	0.7
Cost-Income	43.5	65.8	84.4	94.3	87.3
ROE	6.5	(93.4)	(24.1)	(5.6)	(2.3)
ROA	0.5	(7.1)	(2.0)	(0.5)	(0.2)
<b>Asset quality (%)</b>					
GNPA	3.2	16.8	22.2	19.9	16.5
NNPA	1.9	5.0	8.1	7.5	6.4
Provision coverage	43.1	73.8	69.1	67.6	65.3
<b>Ratios (%)</b>					
Credit-Deposit	106.1	162.7	144.6	121.7	122.4
Investment-Deposit	39.3	41.7	41.2	39.4	40.3
CAR	16.5	8.5	20.9	20.5	20.0
Tier-1	11.3	6.5	14.7	14.0	13.4

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

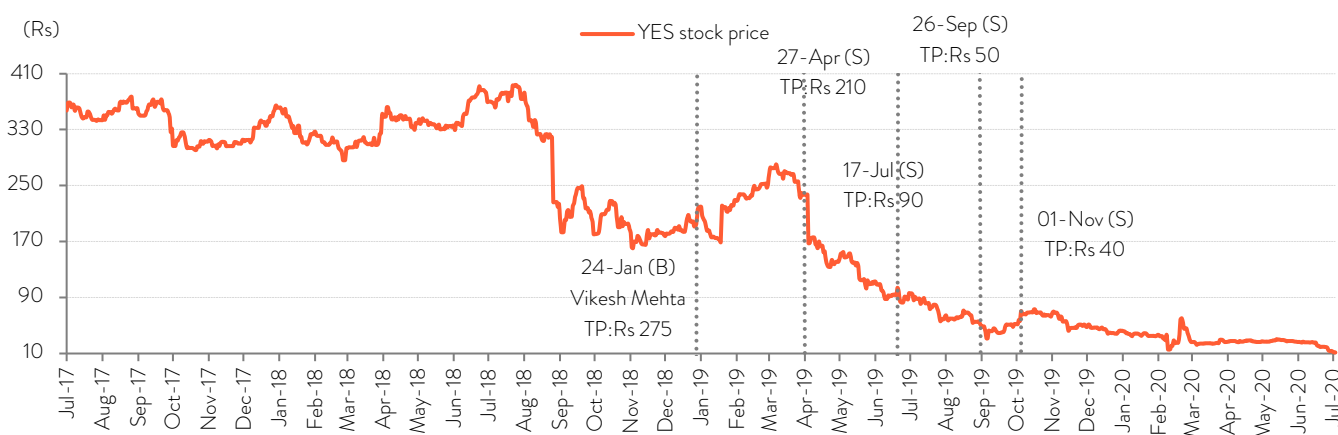
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): YES BANK (YES IN)



B – Buy, A – Add, R – Reduce, S – Sell

### Rating distribution

As of 30 June 2020, out of 95 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 49 have BUY ratings, 23 have ADD ratings, 12 are rated REDUCE, 10 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.