

SELL

TP: Rs 40 | ▼ 40%

YES BANK

Banking

01 November 2019

No respite from asset quality woes

Yes Bank (YES) reported a Rs 6bn loss due to a one-time DTA impact of Rs 7.1bn. Operating metrics were also weak as NII growth fell 10% YoY and pre-provision profit plunged 38%. Asset quality worsened, with a rise in the 'BB & below' book to Rs 314bn, while FY20 credit cost guidance was doubled to 225-250bps from 125bps. Slippages stayed high at Rs 59.5bn (Rs 62.3bn in Q1), including Rs 20bn from the 'non-BB & below' book. We cut estimates materially on growth and asset quality travails; **SELL** with a revised Sep'20 TP of Rs 40 (from Rs 50).

Vikesh Mehta

research@bobcaps.in

Increase in stressed book a big negative: The BB & below book surged to Rs 314bn (vs. Rs 295bn) due to additions of Rs 52bn from accounts such as Cox & Kings, CG Power, CCD and Altico. Credit cost guidance was increased to a steep 225-250bps for FY20. YES used Rs 21bn of contingent provisions in H1FY20 and has none left to cover advances (67%), but has MTM provisions worth Rs 15bn towards investments (28%) in the BB & below book. Telecom exposure stood at 3% while CRE exposure stood at 7%, with 33% being part of the BB & below book (including NPA) and ~50% rated as BBB.

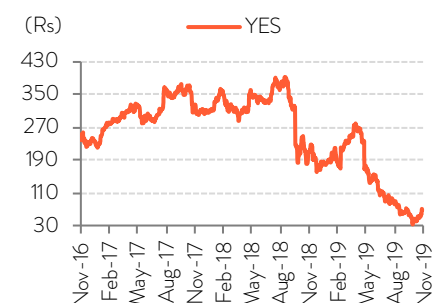
Capital raise around the corner: YES consulted SEBI before announcing the binding US\$ 1.2bn offer received from a global investor, valid till 30 Nov – deal pricing will be as per the SEBI formula (two-week average price) or a mutually agreed figure. Apart from this, the bank has received several other non-binding bids from domestic and global institutional investors and family offices.

Retain SELL: We slash FY20-FY22 earnings estimates on slower loan growth, higher slippages and a rise in credit costs. Our Sep'20 TP thus stands revised to Rs 40; we remain sellers as we await clarity on stabilisation of the 'BB & below' rated pool, adherence to credit cost guidance and capital raising.

Ticker/Price	YES IN/Rs 67
Market cap	US\$ 2.2bn
Shares o/s	2,318mn
3M ADV	US\$ 216.2mn
52wk high/low	Rs 286/Rs 29
Promoter/FPI/DII	20%/40%/41%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	77,370	98,090	89,461	93,551	103,889
NII growth (%)	33.5	26.8	(8.8)	4.6	11.1
Adj. net profit (Rs mn)	42,245	17,203	(5,248)	9,166	18,935
EPS (Rs)	18.4	7.5	(1.6)	2.0	3.7
P/E (x)	3.6	8.9	(41.6)	33.3	18.1
P/BV (x)	0.6	0.6	0.8	0.9	0.9
ROA (%)	1.6	0.5	(0.1)	0.2	0.4
ROE (%)	17.7	6.5	(1.6)	2.5	4.9

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q1FY20	Q2FY19	YoY (%)	QoQ (%)
Net interest income	21,859	22,809	24,176	(9.6)	(4.2)
Non-interest income	9,459	12,727	14,735	(35.8)	(25.7)
Net total income	31,318	35,535	38,910	(19.5)	(11.9)
Total operating expenses	16,734	15,944	15,246	9.8	5.0
Pre-provisioning profit	14,584	19,591	23,664	(38.4)	(25.6)
Provisions	13,363	17,841	9,400	42.2	(25.1)
Profit before tax	1,222	1,750	14,265	(91.4)	(30.2)
Tax	7,223	612	4,618	56.4	1079.6
Profit after tax	(6,001)	1,138	9,647	NM	NM
Balance Sheet					
Loans	2,245,046	2,363,002	2,396,275	(6.3)	(5.0)
Deposits	2,094,973	2,259,015	2,228,379	(6.0)	(7.3)
CASA ratio (%)	30.8	30.2	33.8	(300bps)	63bps
Margin components (%)					
Yield on advances	9.8	10.0	10.1	(30bps)	(20bps)
Cost of funds	6.7	6.8	6.4	30bps	(10bps)
Net interest margin	2.7	2.8	3.3	(60bps)	(10bps)
Key ratios (%)					
Cost/Income	53.4	44.9	39.2	1,425bps	856bps
Non-int. income / Net-total income	30.2	35.8	37.9	(766bps)	(561bps)
LDR	107.2	104.6	107.5	(37bps)	256bps
Capital Adequacy Ratios (%)					
Tier-I ratio	11.5	10.7	11.9	(40bps)	80bps
Tier-II ratio	4.8	5.0	5.1	(30bps)	(20bps)
Total CAR ratio	16.3	15.7	17.0	(70bps)	60bps
Asset quality					
Gross NPA	171,344	120,921	38,661	343.2	41.7
Net NPA	97,572	68,833	20,197	383.1	41.8
Gross NPA ratio (%)	7.39	5.0	1.6	579bps	238bps
Net NPA ratio (%)	4.35	2.9	0.8	351bps	144bps
Coverage ratio (%)	43.1	43.1	47.8	(470bps)	(2bps)

Source: Company, BOBCAPS Research

Valuation methodology

We reduce FY20-FY22 earnings estimates substantially to factor in slower loan growth, higher slippages and a subsequent rise in credit costs. Retain SELL as we await clarity on stabilisation of the ‘BB & below’ rated pool, adherence to credit cost guidance and capital raising.

Our Sep’20 target price for YES stands revised to Rs 40 from Rs 50 earlier, set at a target multiple of 0.7x Sep’21E P/ABV (unchanged). Our book value is aided by the dilution we have considered through FY20-FY22.

FIG 2 – REVISED ESTIMATES

Particulars	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net interest income (Rs mn)	97,867	103,467	115,905	89,461	93,551	103,889	(8.6)	(9.6)	(10.4)
Pre-provisioning profit (Rs mn)	70,410	74,752	84,121	67,890	70,523	79,186	(3.6)	(5.7)	(5.9)
Profit after tax (Rs mn)	3,968	31,729	47,216	(5,248)	9,166	18,935	(232.3)	(71.1)	(59.9)
EPS (Rs)	2	11	14	(2)	2	4	(203.5)	(81.3)	(74.5)

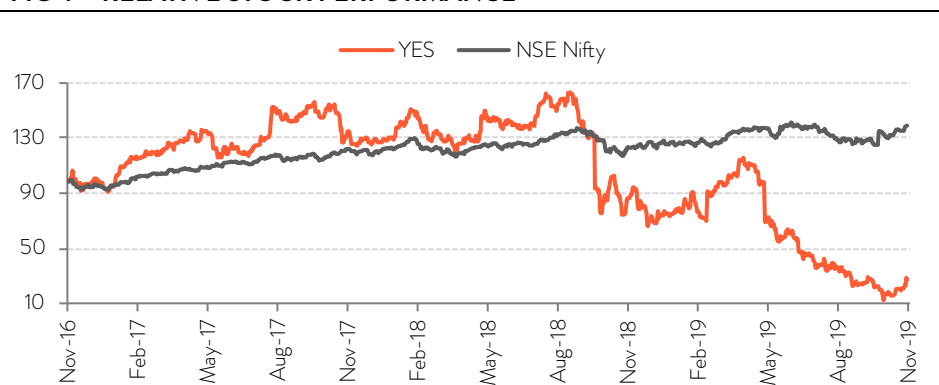
Source: BOBCAPS Research

FIG 3 – VALUATION SUMMARY

Gordon growth model	Assumptions
Risk-free rate (%)	7.0
Equity risk premium (%)	5.0
Beta	1.4
Cost of equity (%)	14.2
Blended ROE (%)	11.7
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	2.3
Long term dividend payout ratio (%)	80.0
Justified P/BV Multiple (x)	0.7
Adj. BVPS (Rs)	57
Value per share (Rs)	40

Source: BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- If YES manages to raise enough capital at regular intervals to deliver strong growth, our estimates could be at risk.
- If economic conditions turn conducive, the bank may not see material asset quality risks.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	77,370	98,090	89,461	93,551	103,889
NII growth (%)	33.5	26.8	(8.8)	4.6	11.1
Non-interest income	52,238	45,902	40,843	42,720	45,770
Total income	129,608	143,992	130,304	136,272	149,659
Operating expenses	(52,128)	(62,643)	(62,414)	(65,749)	(70,473)
Operating profit	77,480	81,349	67,890	70,523	79,186
Operating profit growth (%)	32.7	5.0	(16.5)	3.9	12.3
Provisions	(15,538)	(57,776)	(65,176)	(58,202)	(53,736)
PBT	61,942	23,573	2,714	12,320	25,450
Tax	(19,697)	(6,371)	(7,962)	(3,154)	(6,515)
Reported net profit	42,245	17,203	(5,248)	9,166	18,935
Adjustments	0	0	0	0	0
Adjusted net profit	42,245	17,203	(5,248)	9,166	18,935

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Equity capital	4,606	4,630	8,485	9,831	10,748
Reserves & surplus	252,977	264,412	359,526	367,617	384,333
Net worth	257,583	269,042	368,011	377,447	395,081
Deposits	2,007,381	2,276,102	2,094,014	2,198,714	2,462,560
Borrowings	748,936	1,084,241	1,030,029	1,258,255	1,537,681
Other liabilities & provisions	110,556	178,877	214,652	257,583	309,099
Total liabilities and equities	3,124,456	3,808,262	3,706,706	4,091,999	4,704,421
Cash & bank balance	247,344	268,895	298,694	333,940	375,704
Investments	683,989	895,220	808,599	847,988	943,436
Advances	2,035,339	2,414,996	2,225,923	2,328,202	2,607,586
Fixed & Other assets	157,784	229,150	373,490	581,869	777,695
Total assets	3,124,456	3,808,262	3,706,706	4,091,999	4,704,421
Deposit growth (%)	40.5	13.4	(8.0)	5.0	12.0
Advances growth (%)	53.9	18.7	(7.8)	4.6	12.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS	18.4	7.5	(1.6)	2.0	3.7
Dividend per share	2.4	2.7	0.0	0.2	0.4
Book value per share	111.8	116.2	86.7	76.8	73.5

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	3.6	8.9	(41.6)	33.3	18.1
P/BV	0.6	0.6	0.8	0.9	0.9
Dividend yield (%)	3.6	4.0	0.0	0.3	0.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	2.9	2.8	2.4	2.4	2.4
Non-interest income	2.0	1.3	1.1	1.1	1.0
Operating expenses	2.0	1.8	1.7	1.7	1.6
Pre-provisioning profit	2.9	2.3	1.8	1.8	1.8
Provisions	0.6	1.7	1.7	1.5	1.2
PBT	2.3	0.7	0.1	0.3	0.6
Tax	0.7	0.2	0.2	0.1	0.1
ROA	1.6	0.5	(0.1)	0.2	0.4
Leverage (x)	11.0	13.2	11.8	10.5	11.4
ROE	17.7	6.5	(1.6)	2.5	4.9

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Net interest income	33.5	26.8	(8.8)	4.6	11.1
Pre-provisioning profit	32.7	5.0	(16.5)	3.9	12.3
EPS	21.3	(59.6)	(121.5)	(225.1)	83.9
Profitability & Return ratios (%)					
Net interest margin	3.1	3.0	2.6	2.7	2.8
Fees / Avg. assets	1.6	1.0	0.8	0.8	0.8
Cost-Income	40.2	43.5	47.9	48.2	47.1
ROE	17.7	6.5	(1.6)	2.5	4.9
ROA	1.6	0.5	(0.1)	0.2	0.4
Asset quality (%)					
GNPA	1.3	3.2	8.6	8.4	7.5
NNPA	0.6	1.9	5.0	3.9	2.7
Provision coverage	50.0	43.1	43.8	55.2	66.5
Ratios (%)					
Credit-Deposit	101.4	106.1	106.3	105.9	105.9
Investment-Deposit	34.1	39.3	38.6	38.6	38.3
CAR	18.4	16.5	18.7	17.7	17.1
Tier-1	13.2	11.3	13.1	12.3	11.9

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

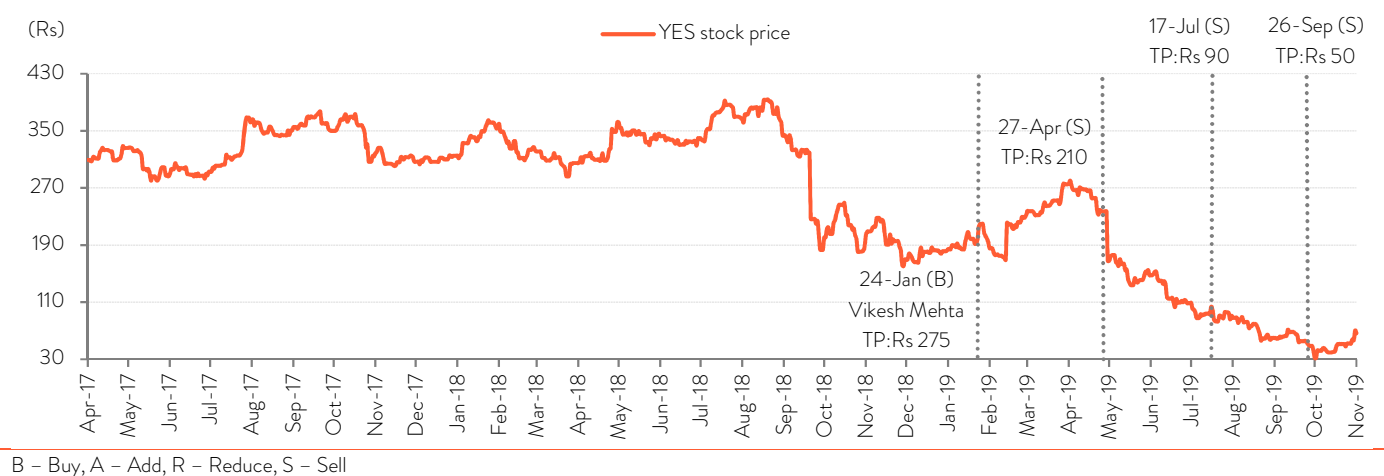
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: YES BANK (YES IN)



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