

Stock Update

Mixed results, but concerns on outlook

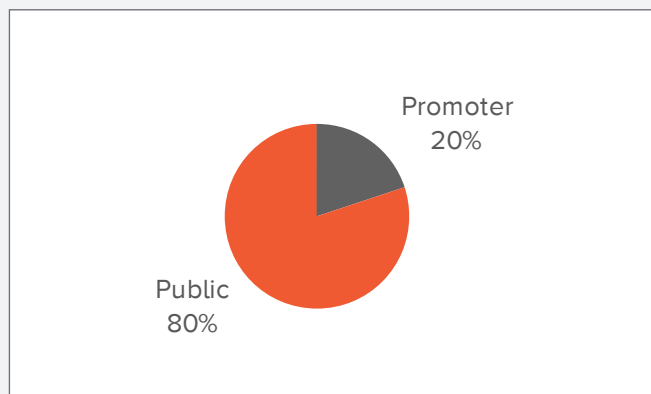
Yes Bank

Reco: Hold | CMP: Rs214

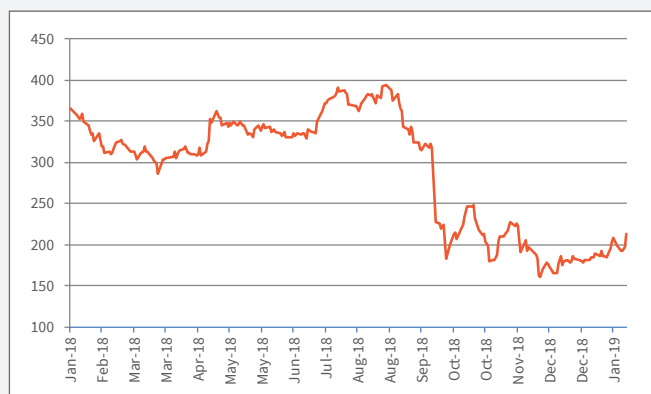
Company details

Price target:	Rs245
Market cap:	Rs49,460 cr
52-week high/low:	Rs404 / 147
NSE volume: (No of shares)	568.9 lakh
BSE code:	532648
NSE code:	YESBANK
Sharekhan code:	YESBANK
Free float: (No of shares)	185.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	-7.5	-49.0	-44.7
Relative to Sensex	6.7	-13.5	-48.3	-45.3

Key points

- ♦ **Operating performance below expectations:** Yes Bank has posted mixed bag results for Q3FY2019. On the operating front, margins were stable but overall asset quality worsened slightly. Net interest income (NII) performance was in line with expectations, rising by 41.1% y-o-y to Rs. 2,665.9 crore by a strong growth in advances. However, non-interest income decreased by 37.4% y-o-y to Rs. 890.9 crore. Notably, while the retail banking fees (up 2106% YoY) and corporate trade fees (up 45.9% YoY) led the growth, the Corporate banking fees declined by 34.7% y-o-y. Moreover, treasury revenue posted a loss of Rs. 1,602 crores as the bank was impacted by adverse swap book movement due to which a loss of Rs. 280 crore was recognized with an equivalent offset/ reversal in investment provisioning. This in turn affected the other income (OI) stream. Net interest margin remained stable at 3.3% sequentially. Provisions increased by 30.6% y-o-y to Rs. 550 crore, but declined by 41.5% on a q-o-q basis, aided by a fall in bond yields. Affected by accelerated provisioning for the exposure to an infrastructure and financial services conglomerate and lower other income, Q3FY2019 net profit declined by 7% y-o-y to Rs. 1001.8 crore.
- ♦ **Outlook:** Yes Bank has posted mixed results for the quarter with impressive growth on one side and weakening of asset quality on the other. With the appointment of the new MD & CEO, some leadership uncertainty has been addressed, and will be taken positively by investors. However, in our opinion, the overhang still remains on the near-term strategy and execution by the new leadership and capital raising plans. The pending RBI's report, will also be a near-term overhang that can throw up surprises. Looking at the bigger picture, we believe the stock still warrants caution.
- ♦ **Valuation:** Yes Bank currently trades at 1.4 times its FY20E book value, which reflects concerns on the multiple challenges that it faces. We thus maintain our Hold rating on the stock with revised PT of Rs. 245.
- ♦ **Business growth strong, but momentum slackens a tad:** Yes Bank witnessed slower (historically) yet robust loan momentum with its loan portfolio growing by 42.2% y-o-y on the back of a strong 42% y-o-y rise in the corporate loans segment, whereas the retail and business banking book grew by 41.8% y-o-y. Within the retail and business banking group, the SME loan book grew by 12% y-o-y, Medium Enterprise portfolio increased by

23.4% y-o-y where the retail (consumer banking) book jumped by 83.2% y-o-y. Considering the present exigency of capital conservation and sell-downs by the bank, the performance is decent. Deposit growth stood at 35.9% y-o-y, of which CASA deposit grew by 13.5% y-o-y. As a result, the CASA ratio declined by 470 bps y-o-y and 60 bps q-o-q to 33.8%. CASA and retail fixed deposits formed 57.6% of overall deposits as against 57.2% in the previous quarter.

- ♦ **Asset quality deteriorates:** During Q3FY2019, asset quality deteriorated as the gross non-performing asset (GNPA) ratio increased by 50 bps sequentially to 2.10% whereas the net NPA ratio increased to 1.18%, rising by 34 bps q-o-q. However, there was 80 bps gross slippages contribution by its exposure to as one aforementioned large infrastructure conglomerate slipping into NPA category which resulted in the large gross slippage figure. Excluding the extraordinary impact of aggregate

exposure to the one-off stressed Infrastructure conglomerate, GNPA and net NPA ratios would have improved sequentially to 1.32% and 0.59%, respectively. The provisioning coverage ratio (PCR) would have improved to 55.6% from 47.8%, as reported in Q3. Slippages for the quarter increased to Rs. 2,297 crore from Rs. 1,632 crore in Q2. There were no sales to asset reconstruction companies (ARCs) in Q3FY2019. The SMA2 outstanding exposure is to the tune of 19 bps of gross advances (Q2 was 15BPS of gross advances) and its pool of stressed assets forms 1.98% of the book (Q2 was 1.77%) of the book. The bank has exposure of Rs. 2,620 crore to a beleaguered Infrastructure finance conglomerate company of which it has classified Rs 1,913 crore as NPA (with 25% provisions). The balance of Rs. 617 crore is still standard in the bank's books. Moreover, the bank is yet to receive the FY18 Risk based Supervision report from the Reserve Bank of India (RBI).

Results

					Rs cr
Particulars	Q3FY19	Q3FY18	YoY %	Q2FY19	QoQ %
Interest income	7,958.9	5,070.3	57.0	7,231.2	10.1
Interest expense	5,293.0	3,181.5	66.4	4,813.7	10.0
Net interest income	2,665.9	1,888.8	41.1	2,417.6	10.3
Non-interest income	891.0	1,422.6	-37.4	1,473.5	-39.5
Net total income	3,556.9	3,311.4	7.4	3,891.0	-8.6
Operating expenses	1,566.9	1,309.3	19.7	1,524.6	2.8
-Employee expenses	625.4	533.4	17.2	594.0	5.3
-Other operating expenses	941.6	775.9	21.4	930.6	1.2
Pre-provisioning profit	1,990.0	2,002.2	-0.6	2,366.4	-15.9
Provisions	550.2	421.3	30.6	940.0	-41.5
Profit before tax	1,439.8	1,580.8	-8.9	1,426.5	0.9
Tax	438.0	503.6	-13.0	461.8	-5.1
Profit after tax	1,001.8	1,077.2	-7.0	964.7	3.8
Asset quality					
Gross NPLs	5,158.6	2,974.3	73.4	3,866.1	33.4
Gross NPLs (%)	2.10	1.72	38 bps	1.60	50 bps
Net NPLs	2,876.4	1,595.1	80.3	2,019.7	42.4
Net NPLs (%)	1.18	0.93	25 bps	0.84	34 bps
Capital adequacy (%)					
CAR	17.40	19.50	-210 bps	17.00	40 bps
Tier I	12.00	14.70	-270 bps	11.90	10 bps
Key reported ratios (%)					
NIM	3.30	3.40	-10 bps	3.30	0 bps
CASA	31.74	38.02	-628 bps	33.78	-204 bps

Profit and loss statement

					Rs cr
Particulars	FY16	FY17	FY18	FY19E	FY20E
Non-interest income	2,712	4,157	5,224	5,968	6,959
Net total income	7,279	9,954	12,961	15,740	19,331
Operating expenses	2,976	4,117	5,213	6,571	8,278
Pre-provisioning profit	4,302	5,838	7,748	9,169	11,053
Provision & Contingency	536	793	1,554	1,853	1,550
Profit before tax	3,766	5,044	6,194	7,316	9,503
Tax	1,227	1,714	1,970	2,414	3,136
Profit after tax	2,539	3,330	4,225	4,901	6,367

Balance sheet

Rs cr

Particulars	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Networth	13,787	22,054	25,758	29,508	34,379
Deposits	111,720	142,874	200,738	266,982	347,076
Borrowings	31,659	38,607	74,894	80,095	104,123
Other liabilities & provisions	8,098	11,525	11,056	36,676	5,243
Total liabilities	165,263	215,060	312,446	413,260	490,821
Assets					
Cash & balances with RBI	5,776	6,952	11,426	11,747	15,271
Balances with banks & money at call	2,442	12,597	13,309	21,359	27,766
Investments	48,838	50,032	68,399	93,444	69,415
Advances	98,210	132,263	203,534	268,665	362,697
Fixed assets	471	684	832	957	1,101
Other assets	9,526	12,532	14,946	17,089	14,570
Total assets	165,263	215,060	312,446	413,260	490,821

Key ratios

Rs cr

Particulars	FY16	FY17	FY18	FY19E	FY20E
Per share Data (Rs)					
Earnings	12.1	14.6	18.3	21.3	27.6
Dividend	2.0	3.5	3.5	4.3	5.5
Book value	65.5	96.5	111.7	128.0	149.2
Adj. book value	64.1	91.8	106.0	121.7	141.0
Spreads (%)					
Yield on Advances	11.2	10.8	9.2	9.2	9.3
Cost of Deposits	7.1	6.6	5.5	6.0	5.9
Net interest margins	3.3	3.4	3.1	3.0	3.1
Operating ratios (%)					
Credit to Deposit	87.9	92.6	101.4	100.6	104.5
Cost to income	40.9	41.4	40.2	41.7	42.8
CASA	28.1	36.3	36.5	38.9	40.4
Non interest income / Total income	37.3	41.8	40.3	37.9	36.0
Return ratios (%)					
RoE	19.9	18.6	17.7	17.7	19.9
RoA	1.7	1.8	1.7	1.5	1.5
Assets/Equity (x)	11.8	10.1	10.2	12.1	13.0
Asset Quality ratios (%)					
Gross NPA	0.8	1.5	1.3	0.9	0.8
Net NPA	0.3	0.8	0.6	0.5	0.5
Growth Ratios (%)					
Net interest income	30.9	26.9	33.5	26.3	26.6
Pre-provisioning profit	32.4	35.7	32.7	18.3	20.5
Profit after tax	26.6	31.1	26.9	16.0	29.9
Advances	30.0	34.7	53.9	32.0	35.0
Deposits	22.5	27.9	40.5	33.0	30.0
Valuation ratios (x)					
P/E	17.7	14.7	11.7	10.0	7.7
P/BV	3.3	2.2	1.9	1.7	1.4
P/ABV	3.3	2.3	2.0	1.8	1.5
Capital adequacy (%)					
CAR	16.5	17.0	18.4	13.6	13.4
Tier I	10.7	13.3	13.2	8.8	8.6

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