

# Stock Update

## Bank in course-correction mode

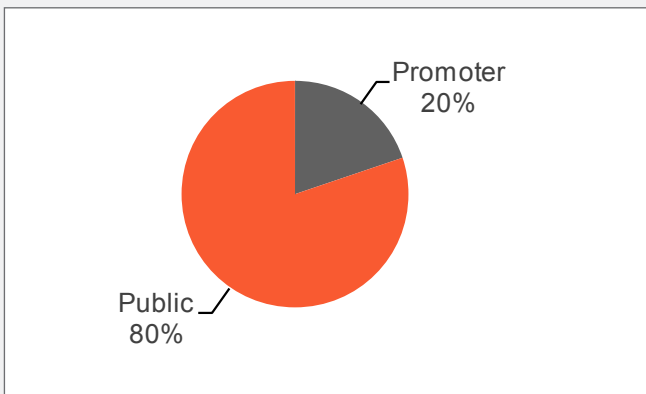
### Yes Bank

Reco: Buy | CMP: Rs237

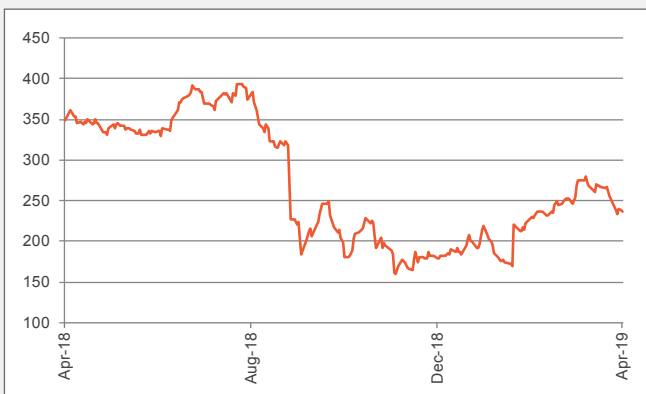
#### Company details

Price target:	Rs275
Market cap:	Rs54,983 cr
52-week high/low:	Rs404 / 147
NSE volume: (No of shares)	533.6 lakh
BSE code:	532648
NSE code:	YESBANK
Sharekhan code:	YESBANK
Free float: (No of shares)	185.67 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-4.1	7.9	19.5	-26.5
Relative to Sensex	-6.4	0.2	3.6	-35.4

#### Key points

- ◆ **Weak operating performance, exacerbated with provisioning spike:** Yes Bank has posted weak results for Q4FY2019 due to spike in provisions, lower other income and worsening of overall asset quality. As a result, it posted a net loss for the quarter.

Net interest income (NII) performance was below our expectations, rising by 16.3% y-o-y to Rs. 2,505.9 crore due to moderate growth in overall advances. Non-interest income (OI) declined significantly by 62.6% y-o-y to Rs. 531.7 crore. OI except retail banking fees (up 13.7% y-o-y) other heads witnessed negative growth on a y-o-y and q-o-q basis. Net interest margin(NIM) declined to 3.1% sequentially mainly due to slower loan growth and pressure on fee income.

However, the quarter witnessed a steep rise in provisions, where it increased 8x y-o-y and ~6x on a q-o-q basis to Rs. 3661.7 crore. Yes Bank has identified a stressed pool of ~ Rs 10,000 crores, against which it has taken additional contingent provisions of Rs 2,100 crore. Affected by accelerated additional provisioning and lower other income, the bank reported a loss of Rs 1506.3 crore for Q4FY2019 as compared to net profit of Rs 1179.4 crore in Q4FY18 and Rs 1001.8 crore in Q3FY19.

- ◆ **Outlook - Bank in course-correction mode:** The change in guard at the bank is entailing in a change in business model as well as strategy.

But the key notable in the near term, may be a more pragmatic and calibrated business growth with more focus on improving risk management and quality of disclosure, which we believe are steps in the right direction. However, that said, in the near term changes in business model (liability led, lesser dependence on corporate fees, more granularity in liabilities profile and calibrated growth) may see growth and return ratios moderating for a near to medium term.

At present, Yes Bank's capital adequacy at CRAR of 16.5% and Tier-1 of 11.3%, and considering its quarterly burn rate, we believe Yes Bank may need to raise capital in the near to medium term.

- ◆ **Valuation:** Yes Bank currently trades at ~1.6x its FY21E book value, which we believe is reasonable. However, we believe the near term upsides may be limited as the bank's changed strategy, business mix, and conservatism may entail into slower growth and moderate return ratios, albeit with a better quality of incremental business for the next year. We therefore maintain our Buy rating on the stock with a revised PT of Rs. 275.

- ◆ **Business growth moderated:** Yes Bank witnessed slower loan momentum with its loan portfolio growing by 18.7% y-o-y. Notably, retail loan growth was much stronger than corporate loan during the quarter which grew 62.3% y-o-y, whereas the corporate loan growth was 14.7% y-o-y. The retail and business banking book grew by 27.1% y-o-y. Within the retail and business banking group, the SME loan book grew by 15% y-o-y, while the Medium Enterprise portfolio saw a de-growth of 4.5% y-o-y. Deposit growth was also sluggish during the quarter at 13.4% y-o-y, of which CASA deposit grew by mere 2.8% y-o-y. As a result, the CASA ratio declined by 337 bps y-o-y and 17 bps q-o-q to 33.1%. CASA plus retail fixed deposits improved from 57.6% to 58.8% of overall deposits.
- ◆ **Asset quality deteriorates further:** During Q4FY2019, asset quality deteriorated as the gross non-performing asset (GNPA) ratio increased by

112 bps sequentially to 3.22% whereas the net NPA ratio increased by 68 BPS q-o-q to 1.86%. However, gross slippages during the quarter were contributed by its exposure to an Airline company and large infrastructure conglomerate slipping into NPA category which resulted in the large gross slippage figure. The provisioning coverage ratio (PCR) has also declined to 43.1% from 44.2% in Q3FY19. Slippages for the quarter increased to Rs. 3,481 crore from Rs. 2,297 crore in Q3FY19. There was one sale to asset reconstruction companies (ARCs) in Q4FY2019. The SMA2 outstanding exposure is to the tune of 98 bps of gross advances (Q3FY19 was 19BPS of gross advances) and its pool of stressed assets stood at 2.65% of the book. The bank has exposure of Rs. 2,528 crore to a beleaguered Infrastructure finance conglomerate of which it has classified Rs 2,442 crore as NPA. The balance of Rs. 86 crore is still standard in the bank's book on which bank has made 15% provisions.

**Result**

Particulars	Rs cr				
	Q4FY2019	Q4FY2018	YoY (%)	Q3FY2019	QoQ (%)
Interest Earned	7,856.5	5,743.0	36.8	7,958.9	-1.3
Interest Expense	5,350.6	3,588.7	49.1	5,293.0	1.1
Net interest income	2,505.9	2,154.2	16.3	2,665.9	-6.0
Non-interest income	531.7	1,421.0	-62.6	891.0	-40.3
Net total Income	3,037.6	3,575.2	-15.0	3,556.9	-14.6
Operating Expenses	1,713.9	1,439.8	19.0	1,566.9	9.4
- Employee cost	659.8	546.7	20.7	625.4	5.5
- Other Costs	1,054.1	893.1	18.0	941.6	12.0
Pre-provisioning profit	1,323.7	2,135.4	-38.0	1,990.0	-33.5
Provisions	3,661.7	399.6	816.2	550.2	565.5
Profit before tax	-2,338.0	1,735.8	-234.7	1,439.8	-262.4
Tax	-831.7	556.4	-249.5	438.0	-289.9
Profit after tax	-1,506.3	1,179.4	-227.7	1,001.8	-250.4
Gross NPAs (%)	3.22	1.28	194 bps	2.10	112 bps
Net NPAs (%)	1.86	0.64	122 bps	1.18	68 bps
NIMs (%)	3.10	3.40	-30 bps	3.30	-20 bps
CASA (%)	33.10	36.47	-337 bps	33.27	-17 bps

**Valuations**

Particulars	Rs cr					
	FY16	FY17	FY18	FY19	FY20E	FY21E
Net interest income	4,566.7	5,797.3	7,737.1	9,808.6	11,069.9	12,664.3
Net profit	2,539.4	3,330.1	4,224.6	1,720.5	3,765.7	5,482.0
EPS (Rs)	12.1	14.6	18.3	7.5	16.4	23.8
PE (x)	19.7	16.3	12.9	31.8	14.5	10.0
Book value (Rs/share)	65.5	96.5	111.7	116.4	130.0	148.2
P/BV (x)	3.6	2.5	2.1	2.0	1.8	1.6
RoE (%)	19.9	18.6	17.7	6.5	13.3	17.1
RoA (%)	1.7	1.8	1.7	0.5	1.0	1.1

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