

Hard Transition, Long Time for Capital Raise. Downgrade to Sell

The bank reported a loss as higher provision on early recognition of stressed assets led to a rise in credit cost. The new MD, Mr. Ravneet Gill appears to be poised to change the DNA of the bank and adopt his MNC experiences. The bank is likely slowing the corporate asset growth, due to capital constraints, and is realigning corporate products. The bank has also aggressively recognized stressed assets and is likely to continue to assess losses based on time value erosion. The bank is further likely to invest in network and feet on street for liabilities. During the transition, it plans to invest heavily in branches and liabilities, even as its business slows and provisions for previous excesses rise.

On a lower growth momentum and a weaker RoA, we reduce our multiple to 1.5x from 2x FY21E P/ABV, and downgrade to Sell. The result of the transition from an Indian corporate bank to a bank with a MNC flairs sweeter in the long term. But investors are likely to await more visibility on the milestones the bank has placed. We currently factor no capital raise.

Proactive Stress Assets Recognition, Credit Costs Rise

The bank proactively recognized stress/non-performing assets (₹ 100 bn of stressed assets across six accounts alone, Jet is non performing, even if the mandatory three months are outstanding), which increased GNPA by 112 bps to 3.2%. Of the provisions of 397bps, 233bps was due to contingencies on ₹~100 bn. The bank is likely to continue to provide for these and other such assets based on LGD, after evaluating erosion of asset value, based on time value, even if a collateral exists. This is likely to raise credit costs, which will further be aggravated by sluggish economic growth, pockets of conglomerate stress, and change in rating regulation.

Investment High with Slower Income Momentum; Sell at 1.5x FY21P/ABV

The bank is expected to pause the growth in its mainstay corporate book to realign some products. Mr. Gill believes that the liability side has more potential and needs attention. It plans to undertake branch expansion and increase feet on street (2100+) for the same. Lower incomes from erstwhile mainstay corporate products, and higher investments and credit costs is expected to dent RoA. Downgrade our estimates and multiple (see table)

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Interest earned	78,565	57,430	36.8	79,589	(1.3)
Interest expended	53,506	35,887	49.1	52,925	1.1
Net interest income	25,059	21,542	16.3	26,664	(6.0)
Other income	5,317	14,210	(62.6)	8,909	(40.3)
Total Net Income	30,376	35,752	(15.0)	35,573	(14.6)
Operating expenses	17,142	14,398	19.1	15,669	9.4
Pre-provision profits	13,234	21,354	(38.0)	19,904	(33.5)
Provisions	36,617	3,996	816.2	5,502	565.5
Tax expense	(8,317)	5,564	(249.5)	4,383	(289.8)
Extraordinary gains	0	0		0	
Reported Net Profit	(15,066)	11,794	(227.7)	10,019	(250.4)
			(bps)		(bps)
Advances	18.7			42.2	(2354)
NIM (%)	3.1	3.4	(30)	3.3	(20)
RoA	(1.6)	1.6	(320)	1.1	(270)
RoE	0.0	0.0	0	14.4	(1440)
Gross NPA (%)	3.2	1.3	194	2.1	112

CMP	₹ 237
Target / Downside	₹ 160 / 33%
BSE Sensex	39,067
NSE Nifty	11,755

Script Details

Equity / FV	₹ 4,630mn / ₹ 2
Market Cap	₹ 548bn
	US\$ 8bn
52-week High/Low	₹ 404/₹ 147
Avg. Volume (no)	46,132,300
NSE Symbol	YESBANK
Bloomberg Code	YES IN

Shareholding Pattern Mar'19(%)

Promoters	19.9
MF/Banks/FIs	23.0
FII	40.1
Public / Others	17.0

Valuation (x)

	FY19E	FY20E	FY21E
P/E	50.9	40.2	19.9
P/ABV	2.3	2.2	1.9
ROAA	0.5	0.5	0.9
ROAE	6.7	7.9	14.4

Estimates (₹ mn)

	FY19E	FY20E	FY21E
NII	98,090	124,207	161,565
PPOP	81,349	87,930	111,740
PAT	17,203	21,856	43,980
Adj BV	102.3	108.0	122.6

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Exhibit 1: Change in estimates

Particulars (₹ mn)	FY20E			FY21E		
	Old	New	Change	Old	New	Change
NII	132,516	124,207	(6)	175,092	161,565	(8)
PPOP	117,560	87,930	(25)	153,685	111,740	(27)
PAT	57,812	21,856	(62)	80,540	43,980	(45)
RoA	1.2	0.5	(70)	1.3	0.9	(40)
RoE	18.1	7.9	(1020)	20.4	14.4	(600)

Source: Company, DART

Exhibit 1: Quarterly Data

Particulars	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Advances (₹ mn)	2,035,339	2,147,201	2,396,275	2,438,850	2,414,996
YoY (%)	53.9	53.4	61.2	42.2	18.7
QoQ (%)	18.7	5.5	11.6	1.8	(1.0)
Deposits (₹ mn)	2,007,382	2,133,945	2,228,379	2,227,580	2,276,102
YoY (%)	40.5	42.0	41.0	29.7	13.4
QoQ (%)	16.9	6.3	4.4	(0.0)	2.2
Advances Mix (%)					
Corporate Banking	67.9	67.6	68.2	67.8	65.6
Medium Enterprises	9.7	8.7	8.3	7.8	7.8
Small & Micro Enterprises	10.3	9.7	9.2	9.2	9.9
Retail Banking	12.2	14	14.3	15.2	16.7
Deposit Mix (%)					
Current account	14.3	13.3	11.6	13.3	12.5
Saving account	22.1	21.8	22.1	20.0	20.5
Term deposits	63.5	64.9	66.3	66.7	67.0
CASA (%)	38.0	38.0	33.8	0.0	0.0
CASA + Retail TD	58.7	59.5	57.2	24.3	25.7
Contribution Margin (%)					
Yield on Advances	9.9	10.0	10.1	10.2	10.2
Cost of Funds	6.0	6.3	6.4	6.5	6.7
NIM	3.4	3.3	3.3	3.3	3.1
GNPA	1.3	1.3	1.6	2.1	3.2
NNPA	0.6	0.6	0.8	1.2	1.9
NNPA as a % of networth	0.7	0.6	0.9	0.1	2.0
PCR	50.0	55.0	47.5	43.8	42.2
GNPA + SR + Std Restructured exposure	2.4	2.3	2.5	2.9	4.0
- of which Net Security Receipts	0.9	0.8	0.85	0.71	0.71
- of which Std. Restructured Exposure	0.2	0.1	0.08	0.09	0.08
CAR	18.4	17.3	17.0	17.4	16.5
Tier 1	13.0	12.8	11.9	12.0	11.3
Dupont analysis (as a % of average assets)					
Interest income	9.5	8.3	8.4	9.1	8.5
Interest expenses	5.9	5.5	5.6	6.0	5.8
Net interest income	0.9	0.7	0.7	0.8	0.7
Non-interest Income	2.3	2.1	1.7	1.0	0.6
Total expenses	2.4	1.8	1.8	1.8	1.9
Provisions	0.7	0.8	1.1	0.6	4.0
Tax	0.9	0.7	0.5	0.5	(0.9)
RoA	1.9	1.6	1.1	1.1	(1.6)
Leverage	9.1	12.1	12.9	12.8	13.6
RoE	17.7	19.4	14.4	14.7	(22.2)

Source: DART

Profit and Loss Account (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Interest Income	202,674	296,247	337,659	393,979
Interest expenses	125,304	198,157	213,452	232,414
Net interest income	77,371	98,090	124,207	161,565
Other incomes	52,238	45,902	47,667	55,217
Total expenses	52,128	62,643	83,944	105,041
- Employee cost	21,889	24,698	29,274	33,915
- Other	30,239	37,945	54,669	71,127
Pre provisioning profit	77,481	81,349	87,930	111,740
Provisions	15,538	57,776	54,563	44,596
Profit before taxes	61,943	23,573	33,368	67,145
Tax provision	19,697	6,371	11,512	23,165
Profit after tax	42,246	17,203	21,856	43,980
Adjusted profit	42,246	17,203	21,856	43,980

Balance Sheet (₹ Mn)

Particulars	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	4,606	4,630	4,630	4,606
Reserves & Surplus	245,969	261,834	281,207	319,798
Minority Interest	0	0	0	0
Net worth	250,575	266,464	285,837	324,404
Borrowings	748,936	1,084,241	1,011,790	828,089
- Deposits	2,007,381	2,276,102	2,807,527	3,498,489
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	117,564	178,877	252,878	356,876
Total Liabilities	3,124,456	3,805,683	4,358,032	5,007,859
Application of Funds				
Cash and balances with RBI	247,344	268,895	305,545	302,860
Investments	683,989	895,221	956,086	1,030,238
Advances	2,035,339	2,414,996	2,884,661	3,448,714
Fixed assets	8,324	8,170	11,783	14,021
Other current assets, loans and advances	149,460	220,980	199,957	212,026
Total Assets	3,124,456	3,808,262	4,358,032	5,007,859

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Yield on advances	9.3	10.4	9.8	9.9
Yields on interest earning assets	8.2	9.1	8.8	8.9
Yield on investments	6.9	7.7	7.9	7.7
Costs of funds	5.5	6.5	5.9	5.7
Cost of deposits	5.5	5.6	5.7	5.6
NIMs	3.1	3.0	3.2	3.7
(B) Asset quality and capital ratios (%)				
GNPA	1.3	3.2	3.7	4.0
NNPA	0.6	1.9	1.9	1.8
PCR	50.0	43.1	50.0	55.0
Slippages	2.9	1.1	1.1	1.0
NNPA to NW	5.7	17.3	19.6	20.9
CASA	36.5	33.0	32.1	31.9
CAR	19.2	16.6	15.8	14.8
Tier 1	13.0	11.1	10.4	9.8
Credit - Deposit	101.4	106.1	102.7	98.6
(C) Dupont as a percentage of average assets				
Interest income	7.7	8.5	8.3	8.4
Interest expenses	4.8	5.7	5.2	5.0
Net interest income	2.9	2.8	3.0	3.5
Non-interest Income	2.0	1.3	1.2	1.2
Total expenses	2.0	1.8	2.1	2.2
- cost to income	40.2	43.5	48.8	48.5
Provisions	0.6	1.7	1.3	1.0
Tax	0.7	0.2	0.3	0.5
RoA	1.6	0.5	0.5	0.9
Leverage	11.0	12.6	13.4	13.3
RoE	18.2	6.7	7.9	14.4
RoRwa	1.9	0.6	0.7	1.2
(D) Measures of Investments				
EPS - adjusted	11.5	4.7	5.9	11.9
BV	108.8	115.1	123.5	140.9
ABV	105.0	102.3	108.0	122.6
DPS	13.6	2.0	5.0	10.0
Dividend payout ratio	14.8	5.4	10.6	10.5
(E) Growth Ratios (%)				
Net interest income	33.5	26.8	26.6	30.1
PPoP	32.7	5.0	8.1	27.1
Adj PAT	26.9	(59.3)	27.1	101.2
Advances	53.9	18.7	19.4	19.6
Total borrowings	94.0	44.8	(6.7)	(18.2)
Total assets	45.3	21.9	14.4	14.9
(F) Valuation Ratios				
Market Cap (₹ mn)	547,695	547,695	547,695	547,695
CMP (₹)	237	237	237	237
P/E (x)	20.6	50.9	40.2	19.9
P/BV (x)	2.2	2.1	1.9	1.7
P/ABV (x)	2.3	2.3	2.2	1.9
Div Yield (%)	5.7	0.8	2.1	4.2

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Oct-18	Accumulate	230	181
Jan-19	Accumulate	230	215

*Price as on recommendation date

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