

# Yes Bank

Refer to important disclosures at the end of this report

## Business downtrend arrested, but long way to come out of the woods

**CMP: Rs 13**  
 as of (October 23, 2020)

**TP: Rs 9 (▲)**  
 12 months

**Rating: SELL (■)**

**Upside: (32.3) %**

- Yes Bank has sustained profitability for a second quarter in a row with net profit at Rs1.3bn (vs. an estimated loss of Rs3.4bn), led by high margins and contained provisions. The GNPA ratio remained elevated but largely stable at 16.9%, benefiting from SC stay on NPA tagging.
- The downtrend in credit/deposits has been largely arrested. After a sharp run-down for the last one year, deposits grew 16% qoq, led by corporate/bulk deposits, but building a retail deposit base will be an arduous task. The bank has paid back RBI liquidity support of Rs500bn.
- The bank has Rs24bn in unrecognised NPAs (1.4% of loans) due to SC stay and SMA pool (+30 DPD) at Rs67bn (4% of loans). Covid-19-related cumulative contingent provisions stand at Rs19bn (1.2% of loans) but should be shored up as asset quality risk persists.
- RBI initiated bailout backed by large banks and recent capital raising from market reduced survival risk considerably but it will have to manoeuvre through Covid-19-led asset quality disruption and win stakeholders' trust. Retain Sell with a TP of Rs9, given sub-par return ratios and unfavourable risk-reward with higher valuations than peers.

**Business downtrend arrested, but NIMs to come under pressure:** Credit growth was moderate (1.5% qoq/down 26% yoy) as the bank is gradually recovering from deposit/capital scare. Corporate book grew 1% qoq (down 33% yoy), but management's incremental focus remains on building strong and secured retail/SME book, deviating from its pre-bailout dependence on large corporates. Retail disbursements rose to Rs37bn, mainly toward secured loans, while SME disbursements of Rs29bn are inching toward pre-Covid levels. The bank has set a disbursement target of Rs100bn for FY21 for Retail/SME loans. Deposits improved 16% qoq, mainly led by corporate/bulk deposit growth, while building retail deposit franchise will be an arduous task. Further, it has fully paid off RBIs liquidity support facility of Rs500bn. Reported NIM stands at 3.1% (10bps qoq improvement), benefiting from no interest reversal on NPAs during the quarter, but likely to come under pressure as NPA recognition begins and LDR recedes.

**Asset quality risk persists:** Headline GNPA ratio remains elevated but largely stable at 16.9% (down 40bps qoq) benefiting in Q2 from SC stay on NPA tagging. The bank has unrecognised NPAs to the tune of Rs23.9bn (1.4% of loans), while SMA pool (+30 DPD), excluding unrecognised NPAs, stands at Rs67bn (4% of gross loans). Additional Covid provisions of Rs10.4bn in Q2 has been made, resulting in cumulative provisions of Rs19.2bn (115bps of loans), which is still lower than large peers and for otherwise higher stress pool for the bank. Momentum in collection efficiency is positive with collection in Retail/SME at 89%/80% (97%/94% pre-Covid), whereas corporate collections are still low due to issues in real estate, hospitality, food processing, etc. However, management expects recoveries in the coming quarters to be better than H1FY21.

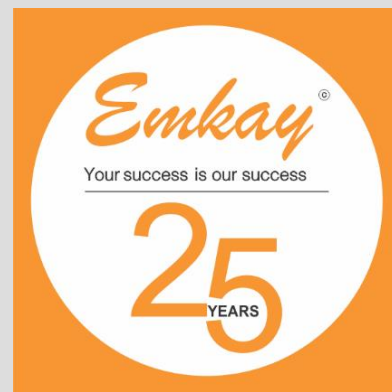
**Outlook and valuation:** We raise our earnings estimates primarily due to better growth trajectory than expected, non-interest income and contained cost ratios. RBI-initiated bailout backed by large banks and recent capital raising from market reduced survival risk considerably, but it will have to manoeuvre through Covid-19-led asset quality disruption and win back stakeholders' trust. Retain Sell with a TP of Rs9, given sub-par return ratios and higher valuations. Risk-reward remains unfavourable and we believe that many superior large banks available at attractive valuations. Key risks to our call: Faster and sustainable business growth and lower-than-expected NPA formation.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 7\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	143,988	186,617	103,209	105,058	114,005
Net profit	17,199	(164,178)	(9,574)	(3,691)	15,492
EPS (Rs)	7.4	(22.1)	(0.5)	(0.1)	0.6
ABV (Rs)	100.4	20.5	14.6	10.5	11.2
RoA (%)	0.5	(5.1)	(0.4)	(0.1)	0.5
RoE (%)	6.7	(68.6)	(3.3)	(1.0)	4.3
PE (x)	1.8	(0.6)	(26.1)	(90.3)	21.5
P/ABV	0.1	0.6	0.9	1.3	1.2

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	12.5
Target Period (Months)	12
Previous Reco	SELL

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(0.5)	(0.1)
Consensus	(1.6)	1.2
Mean Consensus TP (12M)	Rs 38	

### Stock Details

Bloomberg Code	YES IN
Face Value (Rs)	2
Shares outstanding (mn)	25,055
52 Week H/L	88 / 6
M Cap (Rs bn/USD bn)	333 / 4.53
Daily Avg Volume (nos.)	214,552,400
Daily Avg Turnover (US\$ mn)	40.7

### Shareholding Pattern Sep '20

Promoters	-%
FIIs	11.2%
DIIIs	49.3%
Public and Others	39.6%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	1	(10)	(53)	(74)
<b>Rel. to Nifty</b>	(6)	(15)	(63)	(75)

### Relative price chart



Source: Bloomberg

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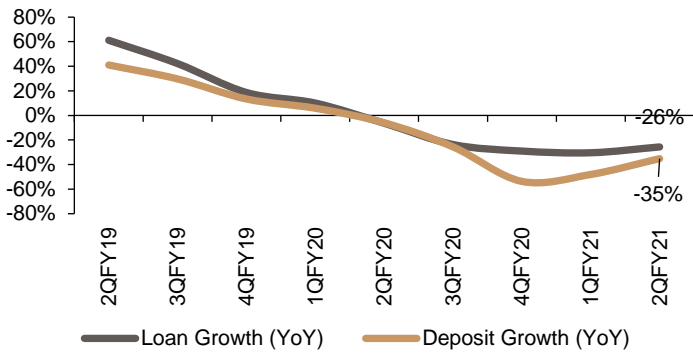
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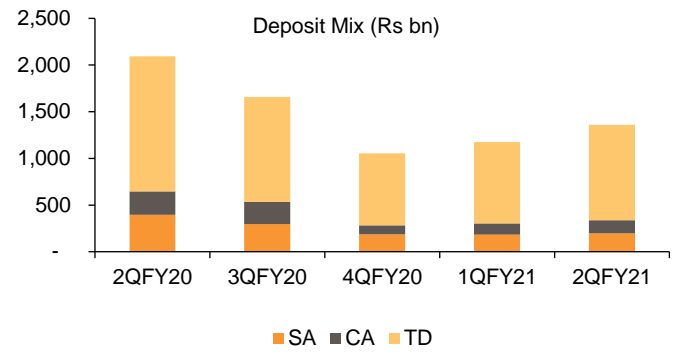
# Story in charts

**Exhibit 1: Loan/deposits down yoy, but sequentially have picked-up**



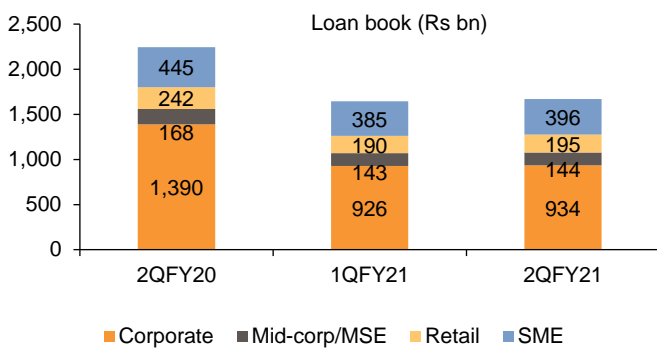
Source: Company, Emkay Research

**Exhibit 2: Deposits saw a qoq traction aided by growth in CA and TD**



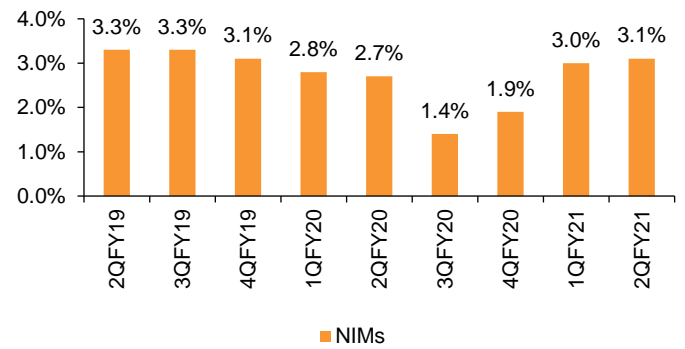
Source: Company, Emkay Research

**Exhibit 3: As a strategy, bank intends to focus on retail/SME**



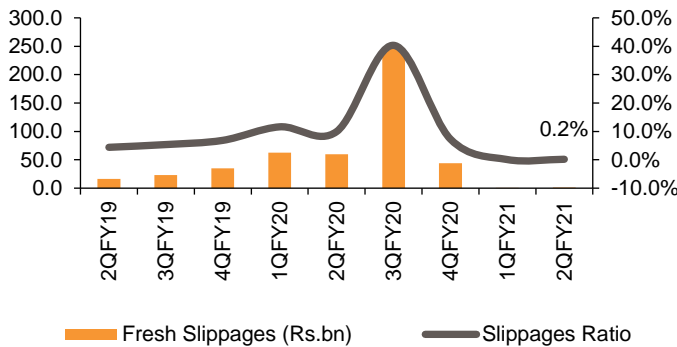
Source: Company, Emkay Research

**Exhibit 4: NIM improved by 10bps qoq benefitting from no interest reversals on NPA, but is unsustainable**



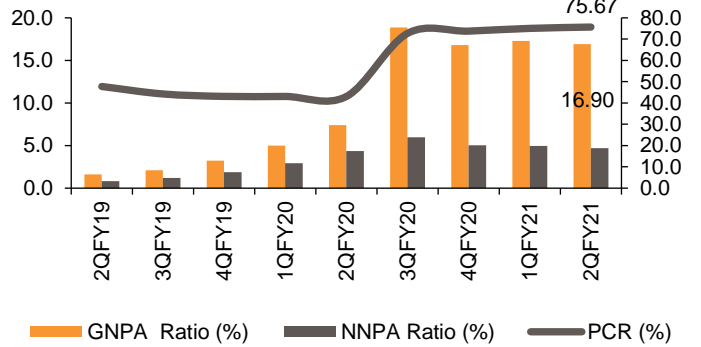
Source: Company, Emkay Research

**Exhibit 5: Fresh slippages during the quarter were abysmal at Rs1.01bn owing to SC stay on NPA tagging**



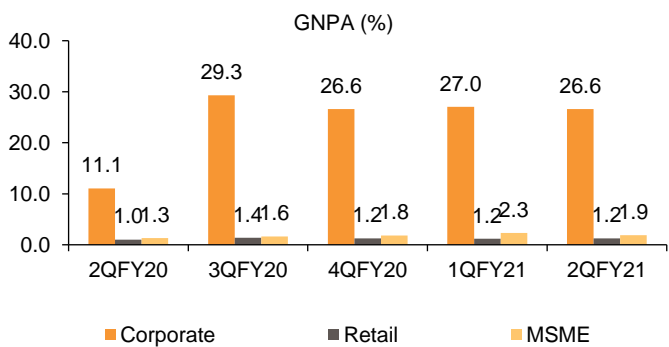
Source: Company, Emkay Research

**Exhibit 6: GNPA ratio improved by 40bps qoq to 16.9%, while bank has improved specific PCR to 76%.**



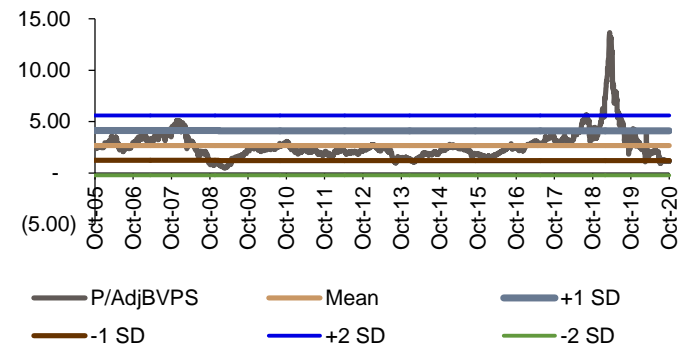
Source: Company, Emkay Research

**Exhibit 7: Corporate NPAs remain elevated, but we believe Covid-led disruption is likely to once again test the entire book**



Source: Company, Emkay Research

**Exhibit 8: P/ABV remains higher and thus risk-reward unfavorable**



Source: Company, Emkay Research

**Exhibit 9: Actuals vs. Estimates – 2QFY21**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	26,801	25,581	21,953	5%	22%	Better margins led to a beat
PPOP	13,600	11,007	6,673	24%	104%	Lower opex leads to a beat
PAT	1,294	-3,426	-6,284	NA	NA	Contained provisions led to a beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly summary**

Rs (mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	73,863	56,427	52,214	54,861	52,454	-29	-4	260,666	210,757	-19
Interest Exp	52,004	45,781	39,476	35,779	32,720	-37	-9	192,614	136,155	-29
Net Interest Income	21,859	10,646	12,738	19,081	19,734	-10	3	68,052	74,602	10
Global NIMs (reported)	2.7	1.4	1.9	3.0	3.1	40bps	10ps	2.4	3.5	109bps
Non-interest Income	9,459	6,257	5,973	6,207	7,068	-25	14	118,565	28,607	-76
Operating Expenses	16,734	16,968	17,645	13,820	13,201	-21	-4	67,290	57,048	-15
Pre Provisioning Profit	14,584	-65	1,065	11,469	13,600	-7	19	119,327	46,161	-61
Provision & Contingencies	13,363	247,657	48,723	10,866	11,873	-11	9	327,584	58,956	-82
PBT	1,222	-247,722	-47,659	602	1,727	41	187	-208,257	-12,795	-94
Income Tax Expense (Gain)	7,223	-62,118	-10,976	148	433	-94	193	-44,079	-3,220	-93
Adjusted Net Profit/(Loss)	-6,001	-185,604	-36,683	454	1,294	-122	185	-164,178	-9,574	-94
Gross NPA (%)	7.39	18.87	16.80	17.30	16.90	951bps	-40bps	16.80	19.54	274bps
Net NPA (%)	4.35	5.97	5.03	4.96	4.71	36bps	-25bps	5.03	6.79	176bps
Deposits (Rs in bn)	2,095	1,658	1,054	1,174	1,358	-35	16	1,054	1,464	39
Net Advances (Rs in bn)	2,245	1,861	1,714	1,645	1,669	-26	1	1,714	1,655	-3

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	93,448	103,209	10.45%	90,772	105,058	15.74%	96,907	114,005	17.64%
PPOP	36,084	46,161	27.9%	40,997	49,359	20.4%	49,185	55,833	13.5%
PAT	-26,649	-9,574	NA	-22,039	-3,691	NA	12,396	15,492	25.0%
EPS (Rs)	-1.4	-0.5	NA	-0.9	-0.1	NA	0.5	0.6	25.0%
BV (Rs)	18.1	19.0	5.0%	12.7	14.1	11.1%	13.2	14.7	11.6%

Source: Emkay Research

**Exhibit 12: Key assumptions**

	FY20A	FY21E	FY22E	FY23E
Loan Growth %	(29.0)	(3.4)	4.3	12.3
Deposit Growth %	(53.7)	38.9	16.2	18.1
NIM %	2.4	3.5	3.4	3.3
GNPA %	16.8	19.5	20.4	17.8
Credit Cost %	11.7	3.1	2.8	1.7
Yield on Advances %	10.6	11.2	11.3	11.0
Cost of Deposits %	7.2	7.3	6.7	6.5

Source: Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>98,090</b>	<b>68,052</b>	<b>74,602</b>	<b>73,117</b>	<b>77,023</b>
<b>Other income</b>	<b>45,898</b>	<b>118,565</b>	<b>28,607</b>	<b>31,942</b>	<b>36,982</b>
Fee income	36,361	15,262	14,499	15,224	17,507
<b>Net income</b>	<b>143,988</b>	<b>186,617</b>	<b>103,209</b>	<b>105,058</b>	<b>114,005</b>
Operating expenses	62,643	67,290	57,048	55,699	58,172
<b>Pre provision profit</b>	<b>81,345</b>	<b>119,327</b>	<b>46,161</b>	<b>49,359</b>	<b>55,833</b>
<b>PPP excl treasury</b>	<b>78,170</b>	<b>108,193</b>	<b>41,161</b>	<b>43,359</b>	<b>49,233</b>
Provisions	57,776	327,584	58,956	54,292	35,130
<b>Profit before tax</b>	<b>23,570</b>	<b>(208,257)</b>	<b>(12,795)</b>	<b>(4,933)</b>	<b>20,703</b>
Tax	6,371	(44,079)	(3,220)	(1,242)	5,211
Tax rate	27	21	25	25	25
<b>Profit after tax</b>	<b>17,199</b>	<b>(164,178)</b>	<b>(9,574)</b>	<b>(3,691)</b>	<b>15,492</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	4,630	25,101	50,101	50,101	50,101
Reserves	256,908	192,162	307,588	303,896	319,388
<b>Net worth</b>	<b>261,538</b>	<b>217,263</b>	<b>357,689</b>	<b>353,997</b>	<b>369,489</b>
Deposits	2,276,102	1,053,639	1,463,842	1,700,567	2,008,109
Borrowings	807,246	948,601	569,161	455,329	478,095
<b>Total liabilities</b>	<b>3,808,262</b>	<b>2,578,269</b>	<b>2,655,764</b>	<b>2,776,640</b>	<b>3,114,050</b>
Cash and bank	107,977	59,437	62,408	65,529	68,805
Investments	895,220	439,148	433,847	445,740	500,787
Loans	2,414,996	1,714,433	1,655,468	1,726,691	1,939,693
Others	220,980	330,767	404,583	444,097	503,845
<b>Total assets</b>	<b>3,808,262</b>	<b>2,578,269</b>	<b>2,655,764</b>	<b>2,776,640</b>	<b>3,114,050</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.0	2.4	3.5	3.4	3.3
Non-ll/avg assets	1.3	3.7	1.1	1.2	1.3
Fee income/avg assets	1.0	0.5	0.6	0.6	0.6
Opex/avg assets	1.8	2.1	2.2	2.1	2.0
Provisions/avg assets	1.7	10.3	2.3	2.0	1.2
PBT/avg assets	0.7	(6.5)	(0.5)	(0.2)	0.7
Tax/avg assets	0.2	(1.4)	(0.1)	0.0	0.2
RoA	0.5	(5.1)	(0.4)	(0.1)	0.5
RoAE	6.7	(68.6)	(3.3)	(1.0)	4.3
GNPA (%)	3.2	16.8	19.5	20.4	17.8
NNPA (%)	1.9	5.0	6.8	7.1	6.1

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.4	(22.1)	(0.5)	(0.1)	0.6
BVPS	113.3	29.2	19.0	14.1	14.7
ABVPS	100.4	20.5	14.6	10.5	11.2
DPS	2.7	0.6	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	1.8	(0.6)	(26.1)	(90.3)	21.5
P/BV	0.1	0.6	0.9	1.3	1.2
P/ABV	0.1	0.6	0.9	1.3	1.2
P/PPOP	0.4	1.4	7.2	6.8	6.0
Dividend Yield (%)	20.3	4.7	0.0	0.0	0.0

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	26.8	(30.6)	9.6	(2.0)	5.3
PPOP	5.0	46.7	(61.3)	6.9	13.1
PAT	(59.3)	(1,054.6)	(94.2)	(61.4)	(519.7)
Loans	18.7	(29.0)	(3.4)	4.3	12.3

<b>Quarterly (Rs mn)</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>
NII	21,859	10,646	12,738	19,081	19,734
NIM(%)	2.7	1.4	1.9	3.0	3.1
PPOP	14,584	(65)	1,065	11,469	13,600
PAT	(6,001)	(185,604)	(36,683)	454	1,294
EPS (Rs)	(2.35)	(72.77)	(2.92)	-	0.05

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-20</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Jul-20</b>	<b>Sep-20</b>
Promoters	1.4	1.7	-	-	-
FII	1.9	2.0	1.7	13.7	11.2
DII	69.2	70.1	69.1	54.2	49.3
Public and Others	27.6	26.3	29.2	32.1	39.6

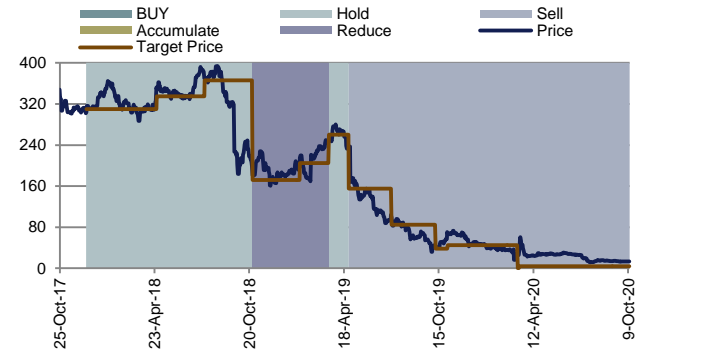
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Apr-20	25	4	12m	Sell	Anand Dama
16-Mar-20	37	4	12m	Sell	Anand Dama
13-Mar-20	26	-	12m	Sell	Anand Dama
1-Nov-19	67	45	12m	Sell	Anand Dama
9-Oct-19	43	38	12m	Sell	Anand Dama
17-Jul-19	98	85	12m	Sell	Anand Dama
27-Apr-19	237	155	12m	Sell	Anand Dama
20-Mar-19	252	260	12m	Hold	Anand Dama
24-Jan-19	215	205	12m	Reduce	Anand Dama
26-Oct-18	181	172	12m	Reduce	Jignesh Shial
27-Jul-18	370	366	12m	Hold	Jignesh Shial
21-May-18	334	335	12m	Hold	Ravikant Bhat
27-Apr-18	349	335	12m	Hold	Ravikant Bhat
14-Dec-17	304	310	12m	Hold	Ravikant Bhat

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

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#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>19.83</b>	<b>19.83</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.05	2.16	5%	11	10.87
AU Small Finance Bank	0.25	0.21	-16%	-4	1.04
Bandhan Bank	0.34	0.49	43%	15	2.48
Bank of Baroda	0.08	0.00	-100%	-8	0.00
Canara Bank	0.04	0.00	-100%	-4	0.00
City Union Bank	0.17	0.17	0%	0	0.84
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.17	0.17	0%	0	0.87
HDFC Bank	7.66	7.96	4%	30	40.12
ICICI Bank	4.35	4.48	3%	14	22.62
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.56	0.56	0%	0	2.82
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.78	2.23	-20%	-55	11.23
Punjab National Bank	0.05	0.00	-100%	-5	0.00
RBL Bank	0.12	0.14	18%	2	0.70
State Bank of India	1.19	1.27	7%	8	6.42
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

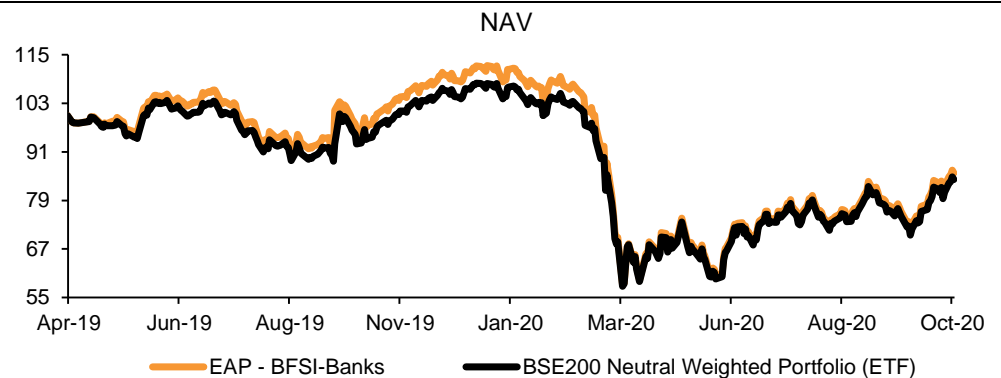
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Jan-20	23-Apr-20	23-Jul-20	22-Sep-20	22-Oct-20
EAP - BFSI-Banks	100.0	108.0	70.2	80.2	73.5	85.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.7	69.3	79.1	72.4	84.2

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 24 Oct 2020 03:03:58 (SGT)

Dissemination Date: 24 Oct 2020 03:04:58 (SGT)

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