

Retail Equity Research

Yes Bank Ltd.

Banking

BSE CODE: 532648

NSE CODE: YESBANK

Bloomberg CODE: YES:IN

SENSEX: 40,345

REDUCE

12M Investment period

Rating as per Large cap

CMP Rs 73

TARGET Rs 61

RETURN -16% ↓

(Closing: 11-11-19)

KEY CHANGES:
TARGET ↓

RATING ↔

EARNINGS ↑

Higher provisioning on sharp increase in NPAs weigh on performance

Yes Bank is India's fourth-largest private sector bank. The bank provides products, services and digital offerings to corporate, retail and MSMEs.

- Loans & Advances declined 6.3% YoY, due to 15.0% decline in the Corporate Banking division representing 61.9% of total loans.
- Net interest margin (NIM) declined ~60bps YoY and ~10bps sequentially, due to higher cost of funds, fresh slippages and decline in loans.
- GNPA/NNPA ratio increased sharply to 7.4%/4.4% in Q2FY20 vs. 1.6%/0.8% in Q2FY19, as a result of increasing bad loans.
- Given the weakening asset quality, declining margins and loan volumes, we revise our target price to Rs. 61 based on 0.85x FY21E adj. BVPS, and retain our REDUCE rating.

Loan book growth tapers out

The bank's loan book registered 6.3% YoY decline as the management continues to cut down on its exposure to the corporate exposure. Corporate banking advances (representing ~61.9% of the total loan book) fell 15.0% YoY. Retail banking continued to post a healthy 29.7% YoY growth in its loan book. The bank's deposit base declined 6.0% YoY, while CASA ratio was down 300bps YoY to 30.8%, impacted primarily by decline in Savings accounts deposits, which imply higher cost of funds going forward.

Margins continue downtrend

NIM declined ~60bps YoY to 2.7% in Q2FY20 due to the impact of ~Rs. 228cr of fresh slippages. Non-interest income declined 35.8% to Rs. 946cr in Q2FY20. Operating expenses were up 9.8% YoY as the bank drew funds to meet priority sector lending targets. Provisions during the quarter jumped 42.2% YoY to Rs. 1,336cr, with most of them towards credit costs which stood at 69bps in Q2FY20 (vs 18bps in Q2FY19). Net profit plunged 162.2% YoY to record a loss of Rs. 600cr, which was impacted by a one-time deferred tax adjustment of Rs. 709cr as the company migrated to the lower corporate tax regime. Adj. PAT stood at Rs.109 cr (vs. Rs. 965cr in Q2FY19).

Worsening asset quality

Gross NPAs and Net NPAs each rose sequentially by 41.7% in Q2FY20. The company reported fresh slippages of Rs. 5,945cr while recoveries and upgrades amounted to Rs. 867cr. The Corp. BB and Below exposures rose 6.6% YoY on account of downgrade of already recognised stressed accounts and adverse credit developments in accounts such as Altico, and Café Coffee Day. The management has taken measures to reduce its exposure to NBFC/HFC's, which resulted in reduction of Rs. 1,750cr in gross outstanding exposure.

Key concall highlights

- The bank has raised USD 273mn via Qualified Institutional Placement in August 2019 to shore up its capital.
- Management increased its FY20E guidance for credit costs to 225-250bps.

Outlook & Valuation

We remain cautious on the bank's growth prospects on account of the rise in credit costs, increase in slippages and declines in loan book. We value the bank at Rs. 61 based on 0.85x FY21E adj. BVPS and maintain our REDUCE rating on the stock, with capital infusion the key factor to watch out for.

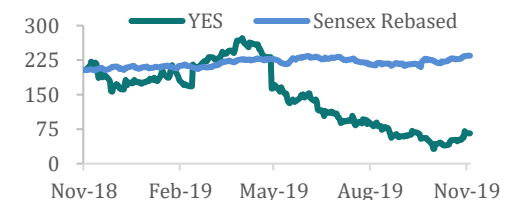
Company Data

Market Cap (cr)	Rs. 18,615
Outstanding Shares (cr)	255.0
Free Float	80.0%
Dividend Yield	2.7%
52 week high	Rs. 286
52 week low	Rs. 29
6m average volume (cr)	1.4
Beta	1.6
Face value	Rs. 2

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	19.8	19.8	13.1
FIIIs	40.3	33.7	26.5
MFs/Insti	21.0	17.0	19.3
Public	14.0	20.5	30.0
Others	4.9	9.0	11.2
Total	100.0	100.0	100.0
Promoters pledge	3.6	3.6	35.1

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.1%	-54.2%	-67.1%
Absolute Sensex	9.4%	4.8%	15.7%
Relative Return*	-20.5%	-59.0%	-82.8%

*over- or underperformance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	9,809	9,260	9,811
Growth (%)	26.8	(5.6)	6.0
NIM (%)	3.2	2.9	3.1
Pre-provision Profit	8,135	6,894	7,513
Adj. Net Profit	1,720	248	1,285
Growth (%)	-59.3	-85.6	417.5
Adj. EPS	7.4	1.0	5.0
Growth (%)	-59.1	-86.8	417.5
BVPS	116.2	108.9	112.0
P/E	37.4	75.0	14.5
P/B	2.4	0.7	0.7
P/ABV	2.8	1.1	1.0
ROE (%)	6.5	-1.7	4.6
ROA (%)	0.5	-0.1	0.3

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	7,386	7,231	2.1	7,816	(5.5)	15,202	13,809	10.1
Interest Expense	5,200	4,814	8.0	5,535	(6.1)	10,736	9,173	17.0
Net Interest Income (NII)	2,186	2,418	<i>(9.6)</i>	2,281	<i>(4.2)</i>	4,467	4,637	<i>(3.7)</i>
Non-Interest Income	946	1,473	(35.8)	1,273	(25.7)	2,219	3,168	(30.0)
Total Net Income	3,132	3,891	<i>(19.5)</i>	3,554	<i>(11.9)</i>	6,685	7,804	<i>(14.3)</i>
Total Income	8,332	8,705	<i>(4.3)</i>	9,089	<i>(8.3)</i>	17,421	16,977	2.6
Operating Expenses	1,673	1,525	9.8	1,594	5.0	3,268	2,983	9.5
Total Expenditure	6,874	6,338	8.4	7,130	<i>(3.6)</i>	14,003	12,156	15.2
Pre-Provision profit	1,458	2,366	<i>(38.4)</i>	1,959	<i>(25.6)</i>	3,418	4,821	<i>(29.1)</i>
Provisions	1,336	940	42.2	1,784	(25.1)	3,120	1,566	99.3
Profit Before Tax	122	1,426	<i>(91.4)</i>	175	30.2	297	3,256	<i>(90.9)</i>
Tax	722	462	56.4	61	(1079.6)	784	1,030	(24.0)
Net Profit	(600)	965	<i>(162.2)</i>	114	627.5	(486)	2,225	<i>(121.9)</i>
Adj.	709	0	-	0	-	709	0	-
Adj. PAT	109	965	<i>(88.8)</i>	114	4.6	222	2,225	<i>(90.0)</i>
Adj. EPS - Diluted (Rs)	0.4	4.1	(89.0)	0.5	9.2	0.9	9.5	(90.1)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	10,675	12,982	9,260	9,811	(13.3)	(24.4)
Net Interest Margin (%)	3.0	3.2	2.9	3.1	(13bps)	(11bps)
Pre-Provision Profit	8,000	9,197	6,894	7,513	(13.8)	(18.3)
Net Profit	637	896	248	1,285	(61.0)	43.5
EPS (Rs.)	2.7	3.8	1.0	5.0	(64.4)	31.1

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	16,425	20,267	29,625	30,997	32,345
Interest Expense	10,627	12,530	19,816	21,738	22,534
Net Int. Income	5,797	7,737	9,809	9,260	9,811
% Change	26.9	33.5	26.8	(5.6)	6.0
Non-Int. Income	4,157	5,224	4,590	4,482	4,750
Net Income	9,954	12,961	14,399	13,741	14,562
Total Income	20,581	25,491	34,215	35,479	37,095
Operating Exp.	4,117	5,213	6,264	6,847	7,048
Total Exp.	14,744	17,743	26,080	28,585	29,582
Pre-Prov. Profit	5,838	7,748	8,135	6,894	7,513
Provisions	793	1,554	5,778	6,562	5,796
PBT	5,044	6,194	2,357	332	1,717
Tax	1,714	1,970	637	792	432
Tax Rate (%)	34.0	31.8	27.0	238.7	25.2
Net Profit	3,330	4,225	1,720	(460)	1,285
% Change	31.1	26.9	(59.3)	(126.8)	(379.2)
Adj.	0	0	0	709	0
Adj. PAT	3,330	4,225	1,720	248	1,285
No. of Shares (cr)	217	234	233	255	255
Adj. EPS (Rs)	15.4	18.1	7.4	1.0	5.0
% Change	29.4	17.6	(59.1)	(86.8)	417.5
DPS (Rs)	2.4	2.7	2.0	1.5	2.0

BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	19,549	24,734	26,890	31,972	33,850
Investments	50,032	68,399	89,522	72,727	80,000
Advances	132,263	203,534	241,500	235,730	253,410
Fixed Assets	684	832	817	903	922
Other Assets	12,532	14,946	22,098	25,089	26,846
Total Assets	215,060	312,446	380,826	366,422	395,027
Capital	456	461	463	510	510
Reserves & Surplus	21,598	25,298	26,441	27,267	28,042
Deposits	142,874	200,738	227,610	229,085	255,430
Borrowings	38,607	74,894	108,424	93,597	94,533
Other Liabilities	11,525	11,056	17,888	15,963	16,513
Total Liabilities	215,060	312,446	380,826	366,422	395,027
BVPS (Rs)	96.6	111.8	116.2	108.9	112.0
Adj. BVPS(Rs)	91.9	106.1	96.8	69.5	71.4
% Change	43.2	15.5	(8.8)	(28.2)	2.7

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	20.2	16.9	37.4	75.0	14.5
P/BV (x)	3.2	2.7	2.4	0.7	0.7
Div. Yield (%)	0.8	0.9	0.7	2.1	2.7
Profitab. & Return (%)					
Yield on Advances	10.6	9.2	10.3	10.0	10.1
Cost of Deposits	6.5	5.5	6.5	6.6	6.7
Spread	4.1	3.7	3.8	3.4	3.4
NIM	3.4	3.5	3.2	2.9	3.1
ROE	18.6	17.7	6.5	(1.7)	4.6
ROA	1.8	1.6	0.5	(0.1)	0.3
Capital Adequacy (%)					
CAR	17.0	18.4	16.5	16.5	15.7
Tier I	13.3	13.2	11.3	11.3	10.8
Tier II	3.7	5.2	5.2	5.2	4.9
Asset Quality (%)					
GNPA	1.5	1.3	3.3	7.4	7.1
NNPA	0.8	0.6	1.9	4.3	4.1
Operating Ratios (%)					
Credit/ Deposit	92.6	101.4	106.1	102.9	99.2
Cost/ Income	41.4	40.2	43.5	49.8	48.4
CASA	36.3	36.5	33.1	30.4	30.3

Recommendation Summary



Dates	Rating	Target
8-Jun-17	BUY	349
13-Oct-17	BUY	441
24-Jan-18	BUY	400
30-Apr-18	BUY	404
1-Aug-18	BUY	404
26-Sep-18	BUY	253
29-Nov-18	HOLD	182
29-Jan-19	HOLD	228
3-May-19	REDUCE	160
24-Jul-19	REDUCE	83
12-Nov-19	REDUCE	61

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Abijith T Cheriau author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.



FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abijith T Cherian, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customer-care@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

