

**CMP: Rs 168**

**Rating: HOLD**

**Target Price: Rs187**

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	532648
NSE	YESBANK
Bloomberg	YESIN
Reuters	YESB.BO
Sector	Bank
Face Value (Rs)	2
Equity Capital (Rs Cr)	463
Mkt Cap (Rs Cr)	38,916
52w H/L (Rs)	404/ 147
Avg Weekly Vol (BSE+NSE)	51,607,010

**Shareholding Pattern**

	%
<b>(As on March, 2019)</b>	
Promoters	19.8
FII	40.3
DII	21.0
Public & Others	18.9

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Yes Bank	8.1	31.5	-32.5
SENSEX	9.7	15.2	11.0

Source: ACE Equity, Arihant Research

**Yes Bank v/s SENSEX**



Source: ACE Equity, Arihant Research

**Yes Bank's result for Q4FY19 under the leadership of new CEO was a reflection of management's shift towards conservative approach and re-building the credibility of the bank. It has reported a loss of Rs 1507 cr, largely due to higher provisioning made during the quarter. The bank has made contingent provision of Rs 2100 cr towards a loan book of Rs ~10000 cr (BB & below rated) which was identified as stressed. These assets come under the corporate segment and include 5-6 accounts from real estate, infra and media & telecom sector. We downgrade our rating to 'Hold' from 'Accumulate' with a revised target price of Rs 187.**

Moderate growth in advances (19% YoY/-1% QoQ) and rise in cost of funds leading to lower NII growth of 16% to Rs 2506 cr, resulting into margin contraction by 30bps to 3.1% from 3.4% on YoY basis. Other income of the bank fell sharply by 63% YoY to Rs 532 cr mainly due to one-time reversal of Rs 280 cr in corporate banking fees. OPEX for the quarter grew by 19% YoY to Rs 1714 cr, taking the Cost-income ratio to 56.4%. As a result, PPOP declined by 38%YoY / 34% QoQ to Rs 1323 cr.

**Loan growth will moderate going forward**

Loan growth in FY19 moderated to 19% YoY due to slowdown in corporate book (+14.7% YoY/-4.2% QoQ), while retail book grew by 27% YoY. Going forward, banks plan is to more focus on retail & SME book and under the corporate segment more focus towards working capital loans. As on FY19 its loan book share amongst corporate and retail stood at 66:34 which is expected to be 50:50 in a longer term (next 5 years). The bank's CASA ratio stands low at 33% vs 36.5% YoY while total deposits grew by 13% YoY. Management intends to make deposits more granular and focus on retail liability franchise.

**Asset Quality to deteriorate further**

Slippages for the quarter increased to Rs 3481 cr, as residual ILFS and airline exposure of Rs 529 cr and 552 cr respectively, slipped during the quarter leading to 112 bps rise in GNPA. GNPA/NNPA for the quarter increased by 112 bps/68 bps QoQ and stood at 3.22%/1.86% respectively. PCR declined by 110 bps to 43.1%. Management has given a guidance of ~ 125bps for credit cost in FY20E and expect it will normalize post FY20. Exposure towards BB & below rated accounts jumped to 8.3% from 2.5% in Q3FY19, out of which ~50% assets are marked as stressed. We believe that the corporate book will continue to witness pressure in terms of asset quality in FY20E.

**Valuation and view**

Yes Bank's new CEO Mr. Ravneet Gill, unveiled his strategy to move in different direction by change in loan mix, focus towards retail & granular deposit and improve corporate governance. This may help the bank in the longer run but near term prospects still remain challenging due to elevated credit costs, subdued asset quality and lower fee income. We expect the upcoming quarters to remain painful for the bank and hence in view of sudden change in asset quality and weak operating metrics we adopt a cautious approach. We downgrade our rating to 'Hold' with TP of Rs 187 from Rs 255 based on 1.4x FY21E ABV.

**Q4FY19 Concall Highlights**

- The bank has an exposure of Rs 2528 cr towards IL&FS out of which Rs 2442 cr has been classified as NPA. 86 cr continues to be classified as 'Standard' in line with the NCLAT order. The Bank has made provisioning of 15% against this standard exposure.
- Loan growth target is in range of mid-20s; within it, main focus is on retail which is expected to grow at 30%. The bank intends to do more of working capital loans rather than term loans.
- Over the next 5-6 years, the bank aims loan mix with 50% retail & SME and the rest will be corporate portfolio.
- Focus on retail deposits, which help to moderate the cost of fund.
- The below investment grade book has increased to 8.3% from 2.5% in 3QFY19. Expects ~50% of the below investment grade book to slip. Real estate exposure is 70% towards residential and the balance is towards commercial real estate.
- Branch banking: Currently ~30% of total branches are profitable and expects ~80% of the total branches to turn profitable by FY23. Building retail liabilities will be the near-term focus for the bank.

**Q4FY19 Quarterly Snapshot:**

Reported Quarterly Results					
Particulars (Rs in Cr)	Q4FY19	Q4 FY18	YoY	Q3FY19	QoQ
Interest Earned	7,857	5,743	37%	7,959	-1%
Interest Expended	5,351	3,589	49%	5,293	1%
<b>Net Interest Income</b>	<b>2,506</b>	<b>2,154</b>	<b>16%</b>	<b>2,666</b>	<b>-6%</b>
Other Income	532	1,421	-63%	891	-40.3%
<i>Other income / Net Income (%)</i>	17.5	40		25	
<b>Total income</b>	<b>3038</b>	<b>3,575</b>	<b>-15%</b>	<b>3,557</b>	<b>-15%</b>
Employee Expenses	660	547	21%	625	6%
Non-Employee expenses	1,054	893	18%	942	12%
<b>Operating Expenses</b>	<b>1,714</b>	<b>1,440</b>	<b>19%</b>	<b>1,567</b>	<b>9%</b>
<i>Cost-income Ratio (%)</i>	56.4	40.3		44	
<b>Pre-Prov Profits</b>	<b>1,323</b>	<b>2,135</b>	<b>-38%</b>	<b>1,990</b>	<b>-34%</b>
Provisions & Contingencies	3,662	400	816%	550	565%
<b>PBT</b>	<b>-2,338</b>	<b>1,736</b>	<b>NA</b>	<b>1,440</b>	<b>NA</b>
Provisions for Tax	-832	556	NA	438	NA
<i>Effective Tax Rate (%)</i>	36	32		30	
<b>PAT (reported)</b>	<b>-1,507</b>	<b>1,179</b>	<b>NA</b>	<b>1,002</b>	<b>NA</b>
EPS Basic	-6.5	5.1		4.3	
EPS Diluted	-6.5	5.1		4.3	
GNPAs	7,883	2,627	200%	5,159	53%
NNPAs	4,485	1,313	242%	2,876	56%
GNPAs (%)	3.22%	1.28%		2.10%	
NNPAs (%)	1.86%	0.64%		1.18%	
Total CAR (%)	16.5	18.4		17.3	
Tier 1 (%)	11.3	13.2		12.8	
NIMs	3.1%	3.4%		3.3%	
Advances	241,500	203,534	19%	243,885	-1%
Deposits	227,610	200,738	13%	222,758	2%

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY20E	FY21E
Interest Income	29,625	35,286	42,409
Interest Expenses	19,816	24,175	29,494
<b>Net Interest Income</b>	<b>9,809</b>	<b>11,111</b>	<b>12,915</b>
- growth %	27%	13%	16%
Other Income	4,590	5,141	6,169
<b>Operating Income</b>	<b>14,399</b>	<b>16,252</b>	<b>19,084</b>
- growth %	11%	13%	17%
Operating Expenses	6,264	7,489	9,014
- Staff Cost	2,470	3,087	3,952
- Other Operating Exp.	3,795	4,402	5,062
<b>Gross Profits</b>	<b>8,135</b>	<b>8,763</b>	<b>10,071</b>
- growth %	5%	8%	15%
Provisions	5,778	5,369	5,108
<b>Profit Before Taxes</b>	<b>2,357</b>	<b>3,394</b>	<b>4,963</b>
Taxes	637	1,208	1,767
<b>Profit After Taxes</b>	<b>1,720</b>	<b>2,186</b>	<b>3,196</b>
- growth %	-59%	27%	46%

Ratio Analysis			
Year to 31st March	FY19	FY20E	FY21E
<b>Basic Ratio (Rs.)</b>			
EPS	7.4	9.4	13.8
Book Value per share	116.2	136.8	159.7
Adjusted Book Value	96.8	111.8	133.3
Dividend per share	16.0	16.0	16.0
<b>Asset Quality (%)</b>			
Gross NPAs	3.22%	4.00%	3.50%
Net NPAs	1.86%	2.05%	2.00%
PCR	42.24%	48.75%	42.86%
<b>Profitability ratios</b>			
RoE	6.5%	7.5%	9.3%
RoA	0.6%	0.7%	0.9%

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY20E	FY21E
<b>LIABILITIES</b>			
Capital	463	463	463
Reserves & Surplus	26,441	31,201	36,505
<b>Share holders Fund</b>	<b>26,904</b>	<b>31,664</b>	<b>36,968</b>
Deposits	227,610	269,718	326,359
Borrowings	108,424	127,940	153,842
Other liabilities & provisions	17,888	20,750	23,862
<b>Total Liabilities</b>	<b>380,826</b>	<b>450,072</b>	<b>541,030</b>
<b>ASSETS</b>			
Cash on hand & with RBI	10,798	14,025	16,971
Money at call and short notice	16,092	18,988	22,406
Advances	241,500	275,310	322,112
Investments	89,522	116,379	151,292
Fixed assets	817	1,062	1,381
Other assets	22,098	24,308	26,868
<b>Total Assets</b>	<b>380,826</b>	<b>450,072</b>	<b>541,030</b>

Spread analysis (%)			
	FY19	FY20E	FY21E
NIM	3.2%	2.9%	2.9%
Cost to Income	43.5%	46.1%	47.2%
<b>Yield</b>			
Yield on investments	6.8%	6.5%	6.5%
Yield on advances	10.1%	9.9%	10.0%
Cost of funds	6.5%	6.6%	6.7%
Spread	2.6%	2.4%	2.3%
<b>Valuation ratios (x)</b>			
P/E	22.6	17.8	12.2
P/BV	1.4	1.2	1.1
P/ABV	1.7	1.5	1.3

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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