

Yes Bank

10 June 2019

Reuters: YESB.NS; Bloomberg: YES IN

What's Not To Like Now?

We recently met Mr. Ravneet Gill, CEO of Yes Bank (YBL) and gleaned incremental insight into the strategy of the company. *We share our detailed takeaways below. We revise our estimates for FY20/FY21 and maintain Buy rating, revising our target price to Rs197 (from Rs273 earlier), valuing the stock at 1.3x FY21E (or 1.5x FY20E) P/BV. YBL is one of our top picks in the banking sector.*

Strategy shift

- YBL's corporate lending was asset-backed. This lending approach works when the economy is doing well. However, when the economy falters, there is difficulty in disposing off large-value asset collateral. The bank now wants to move away from such collateral-driven financing to cash flow-based financing.
- Two businesses that are doing well but are currently sub-scale are transaction banking and retail banking. Structured finance is bespoke and therefore, cannot be shown as scalable. Hence, there is the intention of increasing predictable businesses in the form of transaction banking and retail business.
- There is no intention to de-focus corporate lending or, within that, structured finance. However, as a consequence of non-wholesale businesses growing faster, the share of wholesale loans in loan book would decline from ~70% currently to ~50% by 2025.

Asset quality

- Of the key stressed corporates that are being discussed in the media currently, YBL has exposure to (a) An NBFC that faced allegations from an investigative media company (b) A diversified conglomerate that has interests in financial services and infrastructure and (c) A media and entertainment company.
- Of these exposures, (a) the infrastructure business of the diversified conglomerate and (b) the media and entertainment company form part of the ~Rs 100bn watchlist disclosed earlier. The other exposures do not form part of the watchlist.
- As such, the watchlist contains 2 real estate names, 2 power sector names and 1 media sector name.
- The exposures to (a) the NBFC that faced allegations and (b) the financial services holding company of the diversified conglomerate are mainly bond exposures wherein mark-to-market losses are travel through the P&L.
- The concern regarding the aforementioned exposures is mitigated by two aspects
 - Even though there might be temporary cash flow mismatches, the collateral that YBL possesses is very sound and ultimate LGD would be very low.
 - Events pertaining to the resolution of these accounts is encouraging.
- Resolution of the NBFC that faced allegations
 - Resolution entails a 3-way takeout of retail, wholesale and SRA portfolios with separate equity partners coming in for each portfolio.
 - Ownership of the NBFC will eventually change significantly and the original promoter is expected to be left with 7-8% of the company.
 - This resolution plan is expected to be implemented fairly soon.

(The takeaways are continued from page 2 onwards).

BUY

Sector: Banking

CMP: Rs140

Target Price: Rs197

Upside: 41%

Shivaji Thapliyal

Research Analyst

shivaji.thapliyal@nirmalbang.com

+91-22-6273 8068

Raghav Garg

Research Analyst

raghav.garg@nirmalbang.com

+91-22-6273 8192

Key Data

Current Shares O/S (mn)	2,316.9
Mkt Cap (Rsbn/US\$bn)	333/4.8
52 Wk H / L (Rs)	404/132
Daily Vol. (3M NSE Avg.)	56,135,970

Price Performance (%)

	1 M	6 M	1 Yr
Yes Bank	(12.3)	(13.2)	(57.4)
Nifty Index	6.0	14.0	11.1

Source: Bloomberg

Asset Quality (continued from page 1)

- Resolution of the financial services holding company of the diversified conglomerate
 - Sale of stake in asset management business has been decided upon.
 - Sale of stake in general insurance should happen in June 2019.
 - Together, these two transactions should fetch about Rs 130bn.
- Resolution of the infrastructure business of the diversified conglomerate
 - The road assets business has already been sold for ~Rs 15bn.
 - The power business, among others, comprises a 1200 MW power project, which is fully operational and has PPAs in place.
 - They own about half of the power distribution company of a major metro where the only debt is Rs 15bn from a large NBFC. The equity value is huge.
- Loss given default for overall exposure to diversified conglomerate
 - The base case is that the LGD would be nil.
 - In a conservative scenario, the LGD would be ~20%.
- Loss given default for exposure to media sector name
 - The underlying here are the shares of two listed companies.
 - The current stake of the promoter, given the current market capitalisation, pays for everything.

Fee Income

- The change in accounting approach (spreading corporate fees over the lifetime of facility rather than upfront recognition) will impact about 40% of total fees, since this is the proportion pertaining to corporate fees.
- The amortisation of corporate fees only entails a change in the timing of recognition of fees and there is no permanent loss of revenue.
- Improved traction for transaction banking and retail fees will be helpful for overall fee income and, together with amortised fees appearing later in the revenue stream, the current damage to fee income to assets ratio will be repaired in 4-6 quarters.

Rich UPI-driven database throws up huge retail opportunity

- YBL is the number one-ranked bank when it comes to UPI transactions.
- The bank did ~1.4bn UPI transactions last year with a transaction value of ~Rs 2.35 trn.
- This entailed ~330mn unique UPI handles, of which ~99% plus are not clients of the bank.
- During a UPI transaction on the YBL platform, the bank is able to access the transacting individual's name, mobile number, bank account, transaction value and merchant name.
- This has thrown up the richest available database for conducting analytics in order to carry out credit assessment for offering various retail loans including credit cards, home loans and personal loans.
- Even if one conservatively assumes that YBL would not be able to convert 90% of these potential customers, one is looking at an opportunity set of ~30mn new customers without opening any new branches.
- Current revenue from retail banking is roughly Rs 27bn, of which ~Rs 17bn is from fees. All this revenue is generated from 3.16mn clients. This implies the bank is looking at a retail banking opportunity that is ~10x of current retail business size and at a lower cost structure.
- YBL's UPI database is so rich that it has led to fintech companies approaching YBL and depending on the latter to act as a quasi-credit bureau.
- One of India's largest online insurance aggregators shares anonymised data with YBL, which the latter scrubs and lets the aggregator know regarding the eligibility of specific customers for retail loans.

More on Digital Strategy and Cost Control

- YBL will maintain its current operating expenses to assets ratio. Cost to income ratio could move to ~39% in 3 years.
- The focus is to monetise digital strategy. Most of the investment in digital strategy is already done.
- The future of technology is open source. In such an environment, success would not mainly be derived from technology investments but rather through technology partnerships.
- YBL is already seized of the matter and has been establishing technology partnerships. For example, two of the most visible sponsors of the IPL, PhonePe and Dream11, have their payment engines run by YBL.
- Share of digital channels (non branch, non ATM) in transactions is ~30%. At a headline level, this is on the lower side since, of the ~1100 branches that YBL has, ~400 are rural.

Year-wise RoA guidance

- The RoA for FY20, given the credit cost guidance of 125 bps, would be 0.8-0.9%.
- The RoA for FY21 would be in the range of 1-1.2%.
- This would be the glide path before YBL achieves the RoA of 1.5% in 18 months following the end of FY21.
- No provision writebacks have been assumed in providing this credit cost guidance.

Subsidiaries

- Securities business complements the banks and hence, would be invested in.
- A call would be taken on the asset management business at a later point.

Exhibit 1: Change in our estimates

	Revised estimate		Earlier estimate		% Revision	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net interest income (Rsmn)	111,731	136,783	112,032	141,207	(0.3)	(3.1)
NIM (%)	3.0	3.1	3.0	3.2	-1 bps	-10 bps
Operating profit (Rsmn)	92,423	121,635	100,621	135,548	(8.1)	(10.3)
Profit after tax (Rsmn)	33,118	51,394	43,959	65,393	(24.7)	(21.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 3: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Interest income	164,246	202,674	296,248	341,053	405,327
Interest expenses	106,273	125,304	198,157	229,322	268,544
Net interest income	57,973	77,371	98,090	111,731	136,783
Fee income	31,400	41,380	40,255	36,853	50,611
Other income	10,168	10,859	5,647	14,878	16,787
Net revenues	99,540	129,609	143,992	163,462	204,181
Operating expenses	41,165	52,128	62,643	71,038	82,546
-Employee expenses	18,050	21,889	24,698	28,921	31,935
-Other expenses	23,115	30,239	37,945	42,118	50,611
Pre-provisioning operating profit	58,375	77,481	81,349	92,423	121,635
Provisions	7,934	15,538	57,776	42,244	43,765
-Loan-loss provision	7,466	12,476	54,866	34,348	39,115
-Provisions for investment	522	2,599	2,430	7,896	4,649
-Other provisions	(54)	463	480	-	-
PBT	50,441	61,943	23,573	50,179	77,870
Taxes	17,140	19,697	6,371	17,061	26,476
PAT	33,301	42,246	17,203	33,118	51,394

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Equity capital	4,565	4,606	4,630	5,001	5,001
Reserves & surplus	215,975	252,977	264,412	329,699	373,871
Shareholders' funds	220,540	257,583	269,042	334,699	378,871
Deposits	1,428,738	2,007,381	2,276,102	2,710,801	3,400,427
-Current deposits	190,878	288,257	285,000	338,850	442,056
-Saving deposits	327,818	443,505	467,000	569,268	748,094
-Term deposit	910,042	1,275,620	1,524,102	1,802,683	2,210,278
Borrowings	386,067	748,936	1,084,241	1,125,482	1,249,574
Other liabilities	115,254	110,556	178,877	238,105	303,209
Total liabilities	2,150,599	3,124,456	3,808,262	4,409,087	5,332,081
Cash/equivalent	195,494	247,344	268,895	341,963	417,195
Advances	1,322,627	2,035,339	2,414,996	2,849,695	3,476,628
Investments	500,318	683,989	895,220	964,546	1,133,818
Fixed assets	6,835	8,324	8,170	9,804	12,745
Other assets	125,325	149,460	220,980	243,078	291,694
Total assets	2,150,599	3,124,456	3,808,262	4,409,087	5,332,081

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key ratios

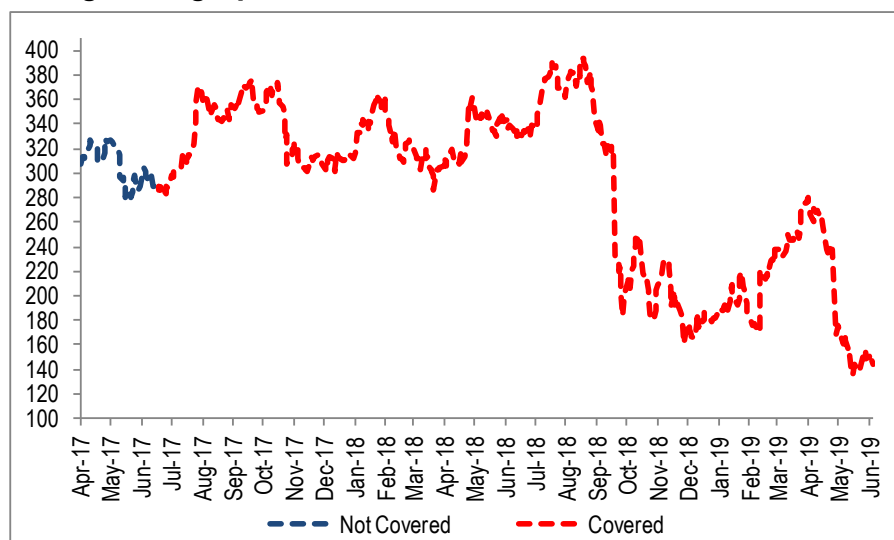
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
NII growth	26.9	33.5	26.8	13.9	22.4
Pre-provision profit growth	35.7	32.7	5.0	13.6	31.6
PAT growth	31.1	26.9	(59.3)	92.5	55.2
Business (%)					
Deposit growth	27.9	40.5	13.4	19.1	25.4
Advance growth	34.7	53.9	18.7	18.0	22.0
Business growth	31.1	46.9	16.0	18.5	23.7
CD	92.6	101.4	106.1	105.1	102.2
CASA	36.3	36.5	33.0	33.5	35.0
Operating efficiency (%)					
Cost-to-income	41.4	40.2	43.5	43.5	40.4
Cost-to-assets	2.2	2.0	1.8	1.7	1.7
Productivity (Rsmn)					
Business per branch	2,751.4	3,675.2	4,188.5	4,448.4	5,190.2
Business per employee	136.7	221.7	221.9	247.1	298.9
Profit per branch	33.3	38.4	15.4	26.5	38.8
Profit per employee	1.7	2.3	0.8	1.5	2.2
Spread (%)					
Yield on advances	10.6	9.2	10.3	9.9	9.9
Yield on investments	7.7	6.9	7.7	7.7	7.7
Cost of deposits	6.4	5.5	6.3	6.3	6.3
Yield on assets	9.6	8.5	9.4	9.2	9.2
Cost of funds	6.5	5.5	6.5	6.4	6.3
NIM	3.4	3.2	3.1	3.0	3.1
Capital adequacy (%)					
Tier I	13.3	13.2	11.3	12.3	11.1
Tier II	3.7	5.2	5.2	3.5	3.3
Total CAR	17.0	18.4	16.5	15.8	14.4
Asset quality (%)					
Gross NPAs	1.5	1.3	3.2	3.6	3.1
Net NPAs	0.8	0.6	1.9	1.4	0.9
Provision coverage	46.5	49.7	42.3	60.0	70.0
Slippage	2.3	4.9	3.6	3.0	2.5
Credit cost	0.6	0.7	2.5	1.3	1.2
Return (%)					
RoE	18.6	17.7	6.5	11.0	14.4
RoA	1.8	1.6	0.5	0.8	1.1
RoRWA	2.1	1.9	0.6	1.0	1.3
Per share					
EPS	15.1	18.4	7.5	13.8	20.6
BV	96.6	111.8	116.2	133.9	151.5
ABV	91.9	106.1	96.8	117.6	138.5
Valuation (x)					
P/E	9.3	7.6	18.8	10.2	6.8
P/BV	1.4	1.3	1.2	1.0	0.9
P/ABV	1.5	1.3	1.4	1.2	1.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
19 June 2017	Buy	286	362
27 July 2017	Buy	344	420
27 October 2017	Buy	331	429
19 January 2018	Buy	341	435
27 April 2018	Buy	352	439
27 July 2018	Buy	370	461
21 September 2018	Buy	319	461
26 September 2018	Buy	220	299
9 October 2018	Buy	221	297
26 October 2018	Buy	198	300
13 December 2018	Buy	187	283
25 January 2019	Buy	215	307
8 March 2019	Buy	232	329
8 April 2019	Buy	267	331
30 April 2019	Buy	237	273
10 June 2019	Buy	140	197

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010