

Yes Bank

8 March 2019

Reuters: YESB.NS; Bloomberg: YES IN

Probability Of Prospective Divergence Is Low

We, recently, met Mr Raj Ahuja, CFO and Senior Group President, Mr Niranjana Banodkar, Senior President, Financial and Investor Strategy and Mr Sunny Desa, Senior VP, Financial and Investor Strategy, Yes Bank (YBL) and gleaned incremental insight into future prospects for the bank. The most key takeaway from our conversation with management was that the likelihood of Divergence with RBI in asset quality assessment in the future is low. We detail our takeaways below. We have also revised our estimates for FY20/FY21 and retained Buy rating on YBL, revising our target price to Rs329 (from Rs307 earlier) and valuing the stock at 1.8x 1HFY21E P/BV.

On why the probability of Divergence in the future is low

- YBL had learnings from the Divergences as of FY16-end and FY17-end which led to the positive outcome as of FY18-end.
- The Divergences as of FY16-end and FY17-end were largely technical / compliance-related rather than credit-related.
- This is reflected in the relatively low net slippages from the divergent accounts from FY16 and FY17.
- Having understood the compliance requirements better, not only was the FY18-end Divergence outcome positive, possibilities of a repeat of FY16 and FY17 Divergences are now minimal.
- The communication regarding FY16-end Divergence was received during April 2017 i.e. when March 2017 had already passed. In other words, FY18-end was the first opportunity that YBL got to apply its learnings and duly, did so.
- YBL has, earlier, hired Deloitte as a concurrent auditor so that Divergence is avoided henceforth.

YBL's approach to corporate lending

- In general, YBL has avoided consortium lending where it is not the lead lender.
- YBL has either been the lead of a relatively smaller consortium, the sole lender or a multi-lateral lender.
- In some cases in the past, YBL did come in as a last-mile solution provider for somewhat stressed accounts but with the clear understanding that they would be the first ones to be paid if the scenario deteriorated.

What RBI's 12th February 2018 Circular implies

- The behaviour of corporate customers has improved since the 12th February Circular.
- Under the 12th February Circular, the Rs 20bn threshold that actuates referral to NCLT, if resolution is not carried out within 180 days, pertains to all aggregate debt for an account and not just aggregate consortium debt.
- However, if in a theoretical scenario, a YBL borrower account enters the NCLT due to the 12th February Circular, the superior structuring of YBL will play a role and the bank will receive due priority.

(The takeaways are continued from page 2 onwards).

BUY

Sector: Banking

CMP: Rs232

Target Price: Rs329

Upside: 42%

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Key Data

Current Shares O/S (mn)	2,313.8
Mkt Cap (Rsbn/US\$bn)	536.1/7.7
52 Wk H / L (Rs)	404/147
Daily Vol. (3M NSE Avg.)	62,434,720

Price Performance (%)

	1 M	6 M	1 Yr
Yes Bank	32.3	(28.4)	(24.9)
Nifty Index	1.0	(4.6)	8.0

Source: Bloomberg

90-dpd asset classification

- For the record, there was no account that was not 90-dpd that YBL classified as NPA as of FY18-end.
- However, YBL did do so for an account as of September 2018. YBL has received part payment against this account.

On IL&FS exposure

- There is the aspect of NPA recognition arising regarding IL&FS group entities due to the NCLAT order and one will have to await for clarity on this matter as far as the regulator's stance is concerned.
- It may be noted that, earlier, the RBI had not been in favour of a moratorium request for IL&FS group entities.
- Regardless of the asset classification of the IL&FS group entities, the real issue is the haircuts that will happen as resolutions happen over the next 3-9 months. In other words, even if a bank chooses to technically keep an IL&FS entity standard, the haircut would have to be negotiated soon enough.
- The current blended provision of ~23% maintained by YBL on IL&FS group exposure is about reasonable and there could be an incremental requirement of 10-15% at most.
- As far as YBL is concerned, there are three categories of exposure (1) Intermediate holding company for road sector assets (2) Intermediate holding company for energy sector assets and (3) Other non-road non-energy SPV exposure.
- YBL believes that provisions, as such, are not required for non-road non-energy SPV exposure.
- For the intermediate holding company for energy sector assets, the recovery is likely to be reasonably good and haircut is likely to be controlled within 25%.
- The intermediate holding company for roads sector assets could see higher haircut.
- Blended provision cover on YBL's exposure to the IL&FS group could go up to ~40%.

On real estate exposure

- The SMA2 on the real estate book is nil.
- Roughly speaking, about 20% of the real estate book comprises commercial projects, about 40% mid-income residential projects, about 20% affordable housing projects and about 20% luxury housing projects.
- It is the luxury housing portion that poses any sort of asset quality question.
- In almost all cases, YBL is either the sole lender or the lead lender.
- In few cases, where incipient stress is visible, YBL will take the lead in pushing for resolution.
- Sale of a stressed asset to new and stronger real estate developer is a resolution approach that in the realm of possibility.

On exposure to NBFCs

- In lending to Financials, it is not really possible to construct a priority design and YBL is pari passu with other lenders.
- There are no asset quality concerns, as such, on the NBFC book.

On capital raise

- YBL will come back with capital raise strategy soon.
- Such a strategy will be articulated once new CEO, Mr Ravneet Gill, has gathered his thoughts and ideated regarding the operational strategy for YBL.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	57,973	77,371	99,257	127,103	169,792
Pre-Provisioning Operating Profit	58,375	77,481	99,918	125,609	174,316
PAT	33,301	42,246	48,132	63,133	86,678
EPS (Rs)	15.1	18.4	20.9	26.7	35.0
ABV (Rs)	91.9	106.1	123.3	155.9	195.0
P/E (x)	15.4	12.6	11.1	8.7	6.6
P/ABV (x)	2.5	2.2	1.9	1.5	1.2
GNPAs (%)	1.5	1.3	1.4	1.4	1.4
NNPAs (%)	0.8	0.6	0.6	0.5	0.4
RoA (%)	1.8	1.6	1.4	1.4	1.5
RoE (%)	18.6	17.7	17.3	18.3	19.1

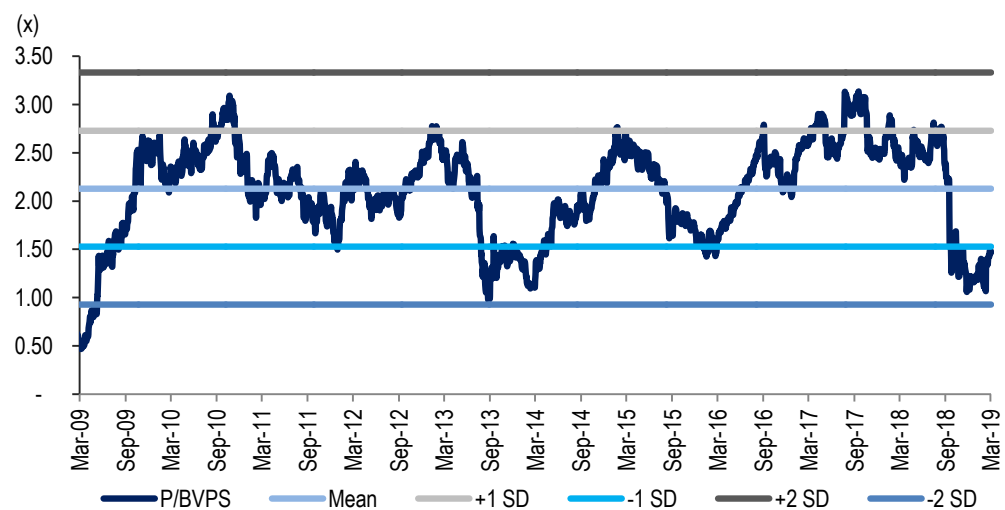
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised estimate			Earlier estimate			% Revision		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net interest income (Rsmn)	99,257	127,103	169,792	99,257	127,013	169,519	0.0	0.1	0.2
NIM (%)	3.1	3.1	3.2	3.1	3.1	3.2	0 bps	0 bps	1 bps
Operating profit (Rsmn)	99,918	125,609	174,316	99,918	125,519	174,043	0.0	0.1	0.2
Profit after tax (Rsmn)	48,132	63,133	86,678	48,132	62,471	85,670	0.0	1.1	1.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Interest income	164,246	202,674	290,824	366,169	471,630
Interest expenses	106,273	125,304	191,567	239,067	301,838
Net interest income	57,973	77,371	99,257	127,103	169,792
Fee income	31,400	41,380	52,664	73,145	95,088
Other income	10,168	10,859	11,745	15,762	19,553
Net revenues	99,540	129,609	163,666	216,009	284,433
Operating expenses	41,165	52,128	63,748	90,401	110,117
-Employee expenses	18,050	21,889	24,822	28,959	30,243
-Other expenses	23,115	30,239	38,926	61,442	79,874
Pre-provisioning Operating profit	58,375	77,481	99,918	125,609	174,316
Provisions	7,934	15,538	26,992	29,952	42,986
-Loan-loss provision	7,466	12,476	26,992	29,952	42,986
-Provisions for investment	522	2,599	0	0	0
-Other provisions	(54)	463	0	0	0
PBT	50,441	61,943	72,927	95,656	131,330
Taxes	17,140	19,697	24,795	32,523	44,652
PAT	33,301	42,246	48,132	63,133	86,678

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	4,565	4,606	4,606	4,836	5,078
Reserves & surplus	215,975	252,977	293,625	388,574	508,659
Shareholders' funds	220,540	257,583	298,230	393,410	513,737
Deposits	1,428,738	2,007,381	2,516,216	3,279,468	4,370,918
-Current deposits	190,878	288,257	377,432	491,920	655,638
-Saving deposits	327,818	443,505	591,311	819,867	1,136,439
-Term deposit	910,042	1,275,620	1,547,473	1,967,681	2,578,842
Borrowings	386,067	748,936	941,643	1,109,758	1,255,908
Other liabilities	115,254	110,556	149,835	202,647	263,682
Total liabilities	2,150,599	3,124,456	3,905,925	4,985,283	6,404,245
Cash/equivalent	195,494	247,344	305,301	396,891	515,958
Advances	1,322,627	2,035,339	2,544,173	3,307,425	4,299,653
Investments	500,318	683,989	882,055	1,088,133	1,356,035
Fixed assets	6,835	8,324	9,989	11,986	15,582
Other assets	125,325	149,460	164,406	180,847	217,017
Total assets	2,150,599	3,124,456	3,905,925	4,985,283	6,404,245

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

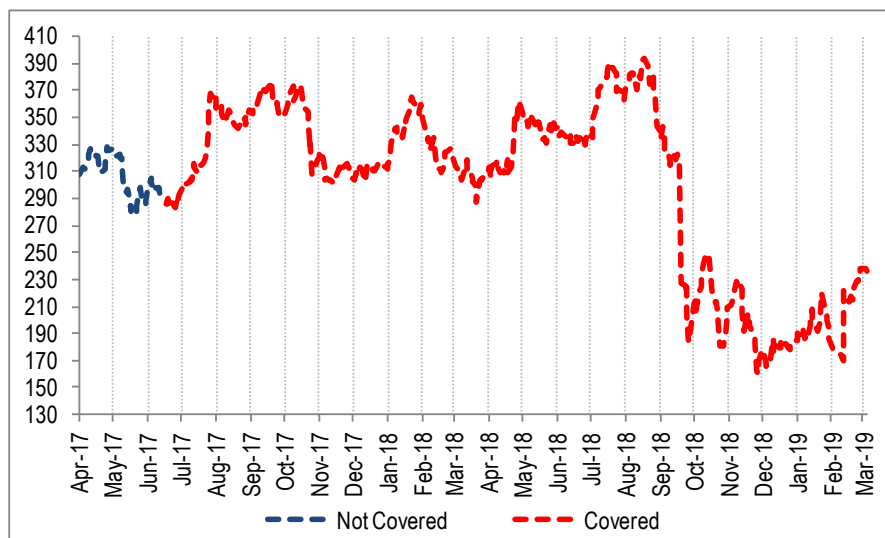
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
NII growth	26.9	33.5	28.3	28.1	33.6
Pre-provision profit growth	35.7	32.7	29.0	25.7	38.8
PAT growth	31.1	26.9	13.9	31.2	37.3
Business (%)					
Deposit growth	27.9	40.5	25.3	30.3	33.3
Advance growth	34.7	53.9	25.0	30.0	30.0
Business growth	31.1	46.9	25.2	30.2	31.6
CD	92.6	101.4	101.1	100.9	98.4
CASA	36.3	36.5	38.5	40.0	41.0
Operating efficiency (%)					
Cost-to-income	41.4	40.2	39.0	41.9	38.7
Cost-to-assets	2.2	2.0	1.8	2.0	1.9
Productivity (Rsmn)					
Business per branch	2,751.4	3,675.2	4,306.7	5,269.5	6,543.8
Business per employee	136.7	221.7	261.8	321.3	413.1
Profit per branch	33.3	38.4	41.0	50.5	65.4
Profit per employee	1.7	2.3	2.5	3.1	4.1
Spread (%)					
Yield on advances	10.6	9.2	9.7	9.6	9.6
Yield on investments	7.7	6.9	7.8	7.5	7.5
Cost of deposits	6.4	5.5	5.9	5.9	5.9
Yield on assets	9.6	8.5	9.1	9.0	9.0
Cost of funds	6.5	5.5	6.2	6.1	6.0
NIM	3.4	3.2	3.1	3.1	3.2
Capital adequacy (%)					
Tier I	13.3	13.2	11.7	12.9	12.1
Tier II	3.7	5.2	4.3	3.4	2.9
Total CAR	17.0	18.4	16.0	16.2	15.1
Asset quality (%)					
Gross NPAs	1.5	1.3	1.4	1.4	1.4
Net NPAs	0.8	0.6	0.6	0.5	0.4
Provision coverage	46.5	49.7	59.8	64.4	70.0
Slippage	2.3	4.9	1.4	1.4	1.4
Credit cost	0.6	0.7	1.2	1.0	1.1
Return (%)					
RoE	18.6	17.7	17.3	18.3	19.1
RoA	1.8	1.6	1.4	1.4	1.5
RoRWA	2.1	1.9	1.7	1.8	1.9
Per share					
EPS	15.1	18.4	20.9	26.7	35.0
BV	96.6	111.8	129.5	162.7	202.3
ABV	91.9	106.1	123.3	155.9	195.0
Valuation (x)					
P/E	15.4	12.6	11.1	8.7	6.6
P/BV	2.4	2.1	1.8	1.4	1.1
P/ABV	2.5	2.2	1.9	1.5	1.2

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

Rating track graph



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SELL < -5%

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