

Yes Bank

Refer to important disclosures at the end of this report

Rebuilding deposits, but no escape from asset quality fallout

- Yes Bank has sustained profitability at Rs1.5bn (vs. estimate of Rs8.7bn loss), aided by treasury gains and contained provisions as NPA formation is deferred due to SC stay. Overall stress pool stood high at Rs185bn (11% of loans), indicating continued asset quality risk.
- The bank carries Covid-related contingent provisions of Rs27bn (1.6% of loans), which is still low factoring in higher stress pool. The bank has restructured over Rs81bn of loans (4.8% of loans), which is highest in the industry till now. It awaits regulatory approval for Independent ARC to transfer and manage its stress assets.
- The downtrend in credit/deposits has been largely arrested and incremental focus is on building retail asset/liabilities, but sustaining momentum will be an arduous task. Despite CET 1 of 13.1%, the bank plans to raise capital again to the tune of Rs100bn (4.2% of RWA) probably to secure capital before asset quality fallout begins, leading to further dilution for existing investors.
- Retain Sell with a TP of Rs11 (0.9x FY23 ABV), given sub-par return ratios and unfavourable risk-reward with higher valuations. We believe that the transfer of NPAs to a separate ARC (somewhat similar to IDBI in 2003) probably means window dressing standalone bank B/sheet, but we need to see the extent of hair-cuts, structure of ARC and recovery record in the ARC, which is not inspiring in case of IDBI SASF.

Business downtrend arrested; NIMs could drop as NPA recognition begins: Credit book downtrend has been arrested (up 2% qoq/down 9% yoy) led by a higher gross retail disbursement (Rs76bn in Q3 vs. Rs38bn in Q2), partly offset by a continued decline in corporate book. Deposits growth is trending well post a deposit scare in Q4FY20 – up 8% qoq, mainly led by CASA and high cost TD accretion including corporate. However, rebuilding the retail deposit franchise with a scale will be a challenge. NIMs look optically higher at 3.4% benefiting from better cost management, but could come under pressure as interest reversal on NPAs begin.

Asset quality risk remains elevated: Reported GNPA improved by 46bps qoq to 15.36% mainly due to SC Stay. However, loans to the tune of Rs83bn (5% of loans) are not classified as NPA due to SC stay. In Q2, these loans were Rs24bn (1.4% of loans). Overall stress pool including SMA 2 (65bn, 4% of loans), unrecognised NPAs (+90 DPD – Rs83bn (5% of loans) and other restructured loans (31bn, 2% of loans) stood high at Rs185bn (11% of loans). On an overall basis, the bank has restructured over Rs80bn of loans (4.8% of loans), which is highest in the industry. The bank carries Covid-related provisions of Rs27bn (1.6% of loans), which is still lower than larger peers and otherwise higher stress pool for the bank. The bank is planning to launch an ARC, with investors on board, where identified stressed loans will be transferred and managed independently.

Outlook and valuation: Retain Sell with a TP of Rs11 (0.9x FY23 ABV) given sub-par return ratios and unfavorable risk-reward with higher valuations. We believe that the transfer of NPAs to a separate ARC (somewhat similar to IDBI in 2003) probably means window dressing standalone bank B/sheet, but we need to see the extent of hair-cuts, structure of ARC and recovery record in the ARC, which is not inspiring in case of IDBI SASF. Though current top management with the help of regulatory/investor support has been able to arrest bank failure, but re-orienting into a sustainable retail bank will require a differentiated private management. Key risks to our call: Faster and sustainable business growth, lower-than-expected NPA formation and higher-than-expected recoveries from stress pool.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	143,988	186,617	121,237	122,376	132,449
Net profit	17,199	(164,178)	(6,852)	(1,986)	21,008
EPS (Rs)	7.4	(22.1)	(0.4)	(0.1)	0.8
ABV (Rs)	100.4	20.5	14.4	10.6	11.7
RoA (%)	0.5	(5.1)	(0.3)	(0.1)	0.7
RoE (%)	6.7	(68.6)	(2.4)	(0.6)	5.7
PE (x)	2.3	(0.8)	(46.7)	(214.5)	20.3
P/ABV	0.2	0.8	1.2	1.6	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 17 as of (January 23, 2021)	Rs 11 (■) 12 months
Rating	Upside
SELL (■)	(35.3) %

Change in Estimates

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

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	(0.4)	(0.1)
Consensus	(0.7)	0.3
Mean Consensus TP (12M)	Rs 12	

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)	426 / 5.84
Daily Avg Volume (nos.)	241,268,600
Daily Avg Turnover (US\$ mn)	54.5

Shareholding Pattern Dec '20

Promoters	-%
FIIIs	15.0%
DIIIs	47.3%
Public and Others	37.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	34	(7)	(56)
Rel. to Nifty	(8)	11	(28)	(63)

Relative price chart



Source: Bloomberg

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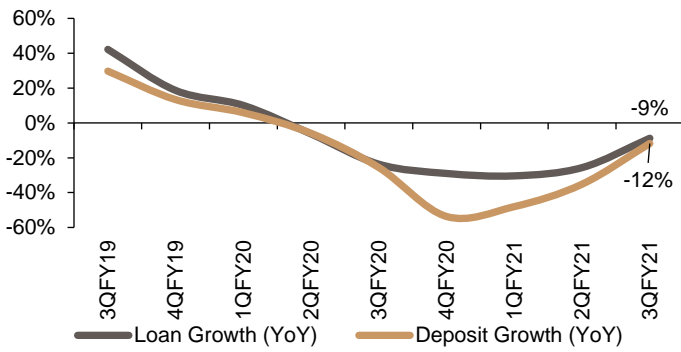
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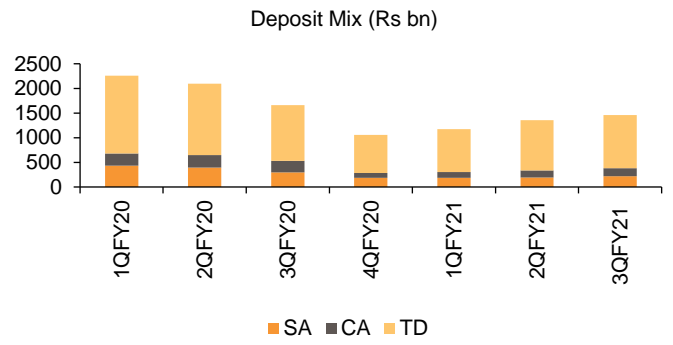
Story in Charts

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



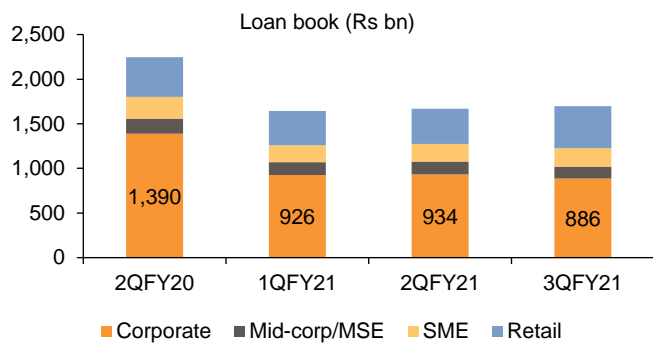
Source: Company, Emkay Research

Exhibit 2: Deposits saw a qoq traction aided by growth in CASA



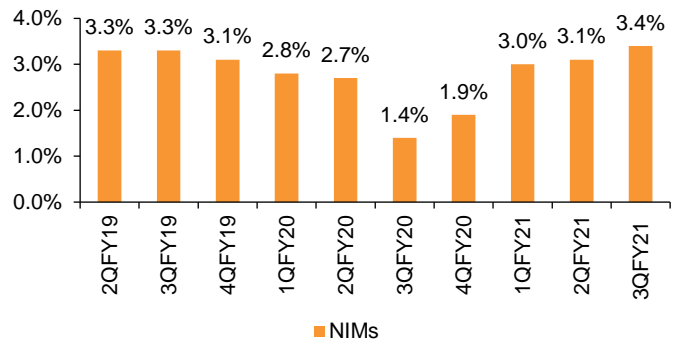
Source: Company, Emkay Research

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



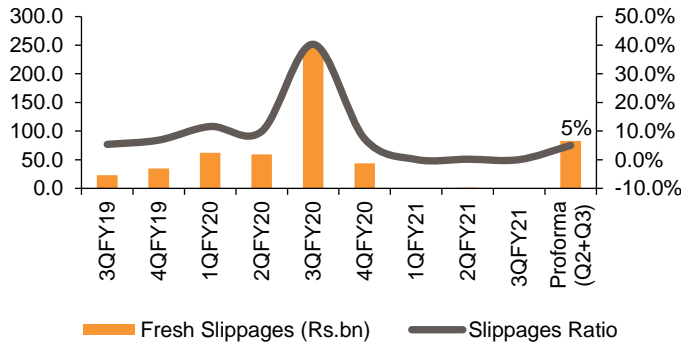
Source: Company, Emkay Research

Exhibit 4: NIM improved by 30bps qoq benefitting from low COF and absence of interest reversal



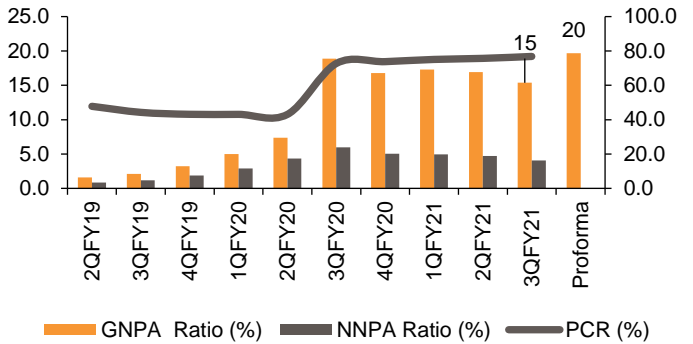
Source: Company, Emkay Research

Exhibit 5: Fresh slippages during the quarter were down due to SC stay but proforma slippages remains elevated...



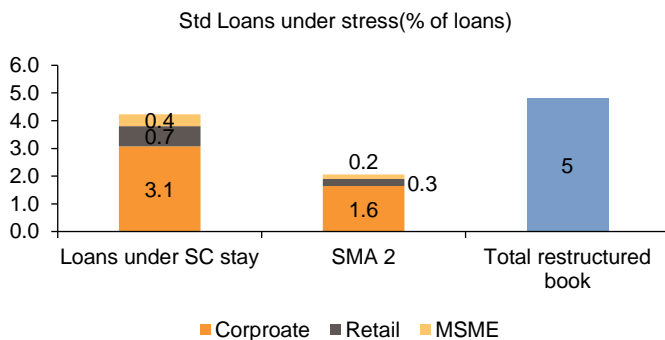
Source: Company, Emkay Research

Exhibit 6: ...leading to elevated proforma GNPA



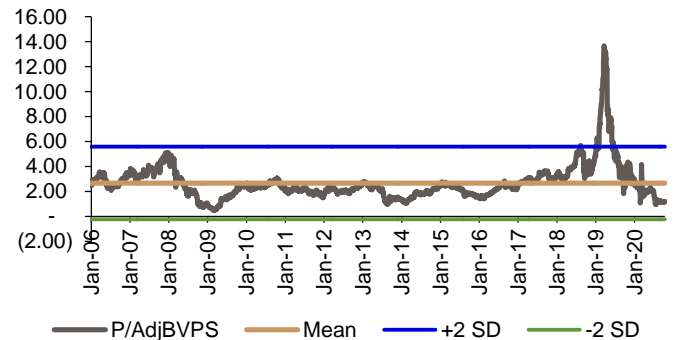
Source: Company, Emkay Research

Exhibit 7: Overall stress pool is 11% including 5% of restructured assets which is highest in industry till now



Source: Company, Emkay Research

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



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs Estimates-Q3FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	37,577	25,937	26,413	45%	42%	Treasury income led to beat
PPOP	22,855	11,402	12,732	100%	80%	Treasury income led to beat
PAT	1,507	-8,761	-48,154	-117%	-103%	Higher PPOP and contained provisions led to beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs (mn)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	56,427	52,214	54,861	52,454	53,211	-6	1	260,666	211,430	-19
Interest Exp	45,781	39,476	35,779	32,720	27,607	-40	-16	192,614	125,875	-35
Net Interest Income	10,646	12,738	19,081	19,734	25,604	140	30	68,052	85,555	26
Global NIMs (reported)	1.4	1.9	3.0	3.1	3.4	200bps	30ps	2.4	4.0	157bps
Non-interest Income	6,257	5,973	6,207	7,068	11,973	91	69	118,565	35,682	-70
Operating Expenses	16,968	17,645	13,820	13,201	14,721	-13	12	67,290	57,048	-15
Pre Provisioning Profit	-65	1,065	11,469	13,600	22,855	NM	68	119,327	64,189	-46
Provision & Contingencies	247,657	48,723	10,866	11,873	21,988	-91	85	327,584	73,346	-78
PBT	-247,722	-47,659	602	1,727	867	NM	NM	-208,257	-9,157	-96
Income Tax Expense (Gain)	-62,118	-10,976	148	433	-640	NM	NM	-44,079	-2,305	-95
Adjusted Net Profit/(Loss)	-185,604	26,287	454	1,294	1,507	NM	16	-164,178	-6,852	-96
Gross NPA (%)	18.9	16.8	17.3	16.9	15.4	-351bps	-154bps	16.80	20.01	321bps
Net NPA (%)	6.0	5.0	5.0	4.7	4.0	-193bps	-67bps	5.03	6.98	195bps
Deposits (Rs in bn)	1,658	1,054	1,174	1,358	1,462	-12	8	1,054	1,553	47
Net Advances (Rs in bn)	1,861	1,714	1,645	1,669	1,697	-9	2	1,714	1,700	-1

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	103,209	121,237	17.47%	108,083	122,376	13.22%	122,376	132,449	8.23%
PPOP	46,161	64,189	39.1%	52,383	66,677	27.3%	64,204	74,277	15.7%
PAT	-9,574	-6,852	-28.4%	-1,986	-1,986	0.0%	21,008	21,008	0.0%
EPS (Rs)	-0.5	-0.4	-28.4%	-0.1	-0.1	0.0%	0.8	0.8	0.0%
BV (Rs)	19.0	19.2	0.8%	14.2	14.3	0.8%	15.0	15.1	0.7%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY20A	FY21E	FY22E	FY23E
Loan Growth %	(29.0)	(0.9)	7.5	14.5
Deposit Growth %	(53.7)	47.4	16.3	18.3
NIM %	2.4	4.0	3.7	3.5
GNPA %	16.8	20.0	20.3	17.4
Credit Cost %	11.7	3.7	3.4	2.0
Yield on Advances %	10.6	11.0	11.2	10.9
Cost of Deposits %	7.2	6.7	6.5	6.5

Source: Emkay Research, Company

Exhibit 13: Key ratio and trends

	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Loans Rs bn	2,439	2,415	2,363	2,245	1,861	1,714	1,645	1,669	1,697
Loan Growth YoY %	42.2	18.7	10.1	(6.3)	(23.7)	(29.0)	(30.4)	(25.6)	(8.8)
Loan Growth QoQ %	1.8	(1.0)	(2.2)	(5.0)	(17.1)	(7.9)	(4.0)	1.5	1.7
Composition %									
- Corporate & Institutional	67.8	65.6	63.9	61.9	57.0	56.0	56.0	56.0	52.0
- Medium Enterprise	7.8	7.8	7.7	7.5	8.2	8.0	9.0	8.0	8.0
- Retail banking	15.2	16.7	10.1	19.8	22.2	23.8	23.0	24.0	28.0
- Small and Micro Enterprises	9.2	9.9	18.3	10.8	12.7	13.0	12.0	12.0	12.0
Liability Profile & Margin									
Deposit - Rs bn	2,228	2,276	2,259	2,095	1,658	1,054	1,174	1,358	1,462
Deposit Growth YoY %	29.7	13.4	5.9	(6.0)	(25.6)	(53.7)	(48.0)	(35.2)	(11.8)
CASA %	33.3	33.0	30.2	30.8	32.1	26.6	25.8	24.8	26.0
CA %	13.3	12.5	11.0	11.9	14.1	9.0	10.2	10.5	10.8
SA %	20.0	20.5	19.2	18.9	18.0	17.6	15.6	14.4	15.1
Branches	1,115	1,120	1,122	1,123	-	1,135	1,139	1,106	1,098
NIM (%)	3.3	3.1	2.8	2.7	1.4	1.9	3.0	3.1	3.4
Movement of NPA (Rs mn)									
Gross NPA (Opening Balance)	38,661	51,586	78,826	120,921	171,344	407,092	328,780	327,027	323,444
Fresh Addition	22,970	34,810	62,320	59,450	245,870	43,900	450	1,010	152
Total Reduction	10,045	7,571	20,225	9,027	10,122	122,213	2,203	4,590	28,130
GNPA	51,586	78,826	120,921	171,344	407,092	328,780	327,027	323,444	295,465
NPA	28,764	44,849	68,833	97,572	111,147	86,238	81,575	78,681	68,566
Asset Quality									
GNPA %	2.1	3.2	5.0	7.4	18.9	16.8	17.3	16.9	15.4
NNPA %	1.2	1.9	2.9	4.4	6.0	5.0	5.0	4.7	4.0
PCR %	44.2	43.1	43.1	43.1	72.7	73.8	75.1	75.7	76.8
Slippages - Rs mn	22,970	34,810	62,320	59,450	245,870	43,900	450	1,010	152
Capital Adequacy %	17.4	16.5	15.6	16.3	4.1	8.5	8.6	19.9	19.4
Tier I %	12.0	11.3	10.7	11.5	2.1	6.5	6.6	13.6	13.1
ROE Decomposition % (on Total Asset)									
NII	3.1	2.8	2.2	2.2	1.4	2.0	3.0	3.1	4.0
Other Income	1.2	0.6	1.2	1.0	0.8	0.9	1.0	1.1	1.9
Opex	1.8	1.9	1.5	1.7	2.3	2.8	2.2	2.1	2.3
PPOP	2.3	1.5	1.9	1.5	(0.0)	0.2	1.8	2.2	3.6
Provisioning Cost	0.6	4.1	1.7	1.3	33.4	7.7	1.7	1.9	3.4
PBT	1.6	(2.6)	0.2	0.1	(31.5)	(5.4)	0.1	0.3	0.1
ROA	1.1	(1.7)	0.1	(0.6)	(25.0)	(5.8)	0.1	0.2	0.2

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	98,090	68,052	85,555	83,019	87,191
Other income	45,898	118,565	35,682	39,357	45,258
Fee income	36,361	15,262	14,499	15,224	17,507
Net income	143,988	186,617	121,237	122,376	132,449
Operating expenses	62,643	67,290	57,048	55,699	58,172
Pre provision profit	81,345	119,327	64,189	66,677	74,277
PPP excl treasury	78,170	108,193	52,189	53,477	59,757
Provisions	57,776	327,584	73,346	69,330	46,203
Profit before tax	23,570	(208,257)	(9,157)	(2,654)	28,074
Tax	6,371	(44,079)	(2,305)	(668)	7,066
Tax rate	27	21	25	25	25
Profit after tax	17,199	(164,178)	(6,852)	(1,986)	21,008

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	4,630	25,101	50,110	50,110	50,110
Reserves	256,908	192,162	310,310	308,324	329,332
Net worth	261,538	217,263	360,420	358,434	379,442
Deposits	2,276,102	1,053,639	1,553,049	1,805,683	2,135,871
Borrowings	807,246	948,601	474,301	379,440	398,412
Total liabilities	3,808,262	2,578,269	2,698,582	2,884,463	3,278,248
Cash and bank	107,977	59,437	62,408	65,529	68,805
Investments	895,220	439,148	432,858	450,855	509,201
Loans	2,414,996	1,714,433	1,699,701	1,827,346	2,092,087
Others	220,980	330,767	404,554	444,250	504,349
Total assets	3,808,262	2,578,269	2,698,582	2,884,463	3,278,248

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.0	2.4	4.0	3.7	3.5
Non-ll/avg assets	1.3	3.7	1.4	1.4	1.5
Fee income/avg assets	1.0	0.5	0.5	0.5	0.6
Opex/avg assets	1.8	2.1	2.2	2.0	1.9
Provisions/avg assets	1.7	10.3	2.8	2.5	1.5
PBT/avg assets	0.7	(6.5)	(0.3)	(0.1)	0.9
Tax/avg assets	0.2	(1.4)	(0.1)	0.0	0.2
RoA	0.5	(5.1)	(0.3)	(0.1)	0.7
RoAE	6.7	(68.6)	(2.4)	(0.6)	5.7
GNPA (%)	3.2	16.8	20.0	20.3	17.4
NNPA (%)	1.9	5.0	7.0	6.9	5.6

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.4	(22.1)	(0.4)	(0.1)	0.8
BVPS	113.3	29.2	19.2	14.3	15.1
ABVPS	100.4	20.5	14.4	10.6	11.7
DPS	2.7	0.6	0.0	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	2.3	(0.8)	(46.7)	(214.5)	20.3
P/BV	0.2	0.8	1.2	1.6	1.5
P/ABV	0.2	0.8	1.2	1.6	1.4
P/PPOP	0.5	1.8	6.5	6.3	5.6
Dividend Yield (%)	15.9	3.7	0.0	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	26.8	(30.6)	25.7	(3.0)	5.0
PPOP	5.0	46.7	(46.2)	3.9	11.4
PAT	(59.3)	(1,054.6)	(95.8)	(71.0)	(1,157.9)
Loans	18.7	(29.0)	(0.9)	7.5	14.5

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
NII	10,646	12,738	19,081	19,734	25,604
NIM (%)	1.4	1.9	3.0	3.1	3.4
PPOP	(65)	1,065	11,469	13,600	22,855
PAT	(185,604)	(36,683)	454	1,294	1,507
EPS (Rs)	(72.77)	(2.92)	-	0.05	0.06

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Jul-20	Sep-20	Dec-20
Promoters	1.4	-	-	-	-
FII	1.9	1.7	13.7	11.2	15.0
DII	69.2	69.1	54.2	49.3	47.3
Public and Others	27.6	29.2	32.1	39.6	37.6

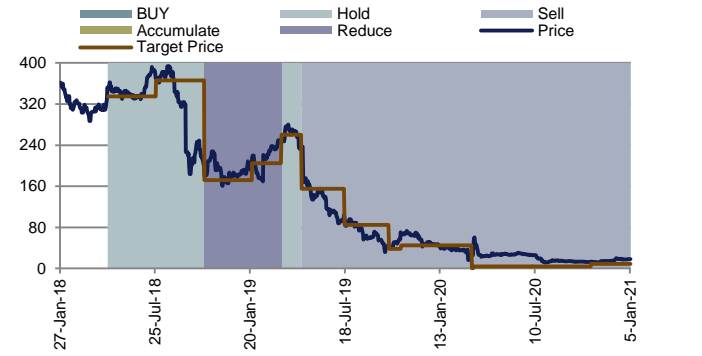
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
24-Oct-20	13	9	12m	Sell	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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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)
BFSI-Banks	20.41	20.41	0.0%	0	100.00
Axis Bank	2.12	2.27	7%	15	11.12
AU Small Finance Bank	0.23	0.20	-13%	-3	1.00
Bandhan Bank	0.28	0.41	44%	13	2.01
Bank of Baroda	0.12	0.12	1%	0	0.59
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.16	0.16	-1%	0	0.78
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.18	0%	0	0.90
HDFC Bank	7.35	7.53	2%	18	36.90
ICICI Bank	4.61	4.80	4%	20	23.52
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.63	0.73	15%	9	3.57
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.99	2.41	-19%	-58	11.81
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.15	0.13	-14%	-2	0.61
State Bank of India	1.36	1.47	8%	11	7.19
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
Cash	0.00	0.00	NA	0	0.00

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	24-Jan-20	24-Jul-20	23-Oct-20	23-Dec-20	22-Jan-21
EAP - BFSI-Banks	100.0	108.7	78.9	85.9	103.1	107.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.5	77.8	84.3	101.5	105.3

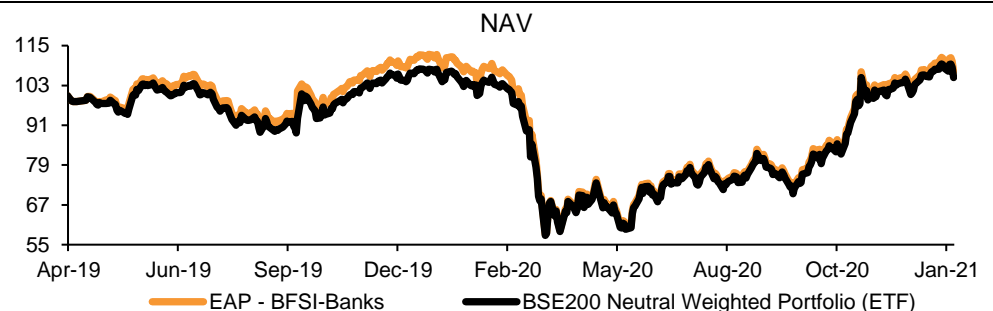
*Performance measurement base date 1st April 2019 | Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	3.9%	24.7%	35.8%	-1.5%
BSE200 Neutral Weighted Portfolio (ETF)	3.8%	25.0%	35.5%	0.8%

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: 25 Jan 2021 19:51:54 (SGT)

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