

Yes Bank

Refer to important disclosures at the end of this report

Back in to the woods

- Yes Bank reported a heavy loss of Rs38bn (vs. est. loss of Rs8.7bn) in Q4FY21, mainly due to higher interest reversals on NPAs leading to a sharp margin contraction (down 200bps yoy/30bps qoq to 1.6%) and accelerated provisioning, including higher write-offs.
- Headline GNPA ratio fell qoq to 15.4% mainly due to higher write-offs. Restructured pool stood at 0.7% of loans, but another 1.3% of loans is pending for Q1FY22. With the raging second Covid-19 wave, we believe asset quality risk is likely to remain elevated, while RBI's rejection to allow the bank to set up a separate ARC has dashed its hope of window dressing of B/sheet.
- Yes Bank has largely arrested the downtrend in deposits, but credit momentum remains weak (down 3% yoy), given its corporate de-bulking strategy. Going forward, the bank plans to double the retail book to Rs1trn in three years, and retains its medium-term RoA target of 1-1.5%, which we believe looks optimistic.
- We retain Sell and cut the TP to Rs10 (0.9x FY23E ABV), given continued concerns about the bank's asset quality, sub-par return ratios and unfavourable risk-reward ratio with higher valuations.

NIMs drop with onset of NPA recognition and weak credit momentum: Credit growth remains bleak at Rs1.7tn (down 35% yoy/2% qoq) due to weak demand in the underlying corporate book, partly offset by healthy growth in retail (up 23% yoy) and commercial banking (up 12% yoy). Retail asset disbursements are trending upwards, rising to Rs75bn, mainly driven by secured lending. Deposit growth too is trending well post a deposit scare in Q4FY20 – up 54.7%yoy/11% qoq to Rs1.6tn, mainly led by strong growth in TDs and CASA despite reduction in SA rates. CASA ratio (ex. CDs) stands at 27.3%. NIM plunged to 1.6% (3.4% in Q3FY21) due to interest reversals of Rs7.5bn on NPAs and Rs1.4bn on interest-on-interest waiver on loans as per SC directive. Under a 3-year forward looking strategy, the bank expects retail advances to double to Rs1tn by FY24, sourcing from bank customers to grow 2x and CASA to touch 40%, which looks optimistic.

Asset quality risk remains elevated: Reported GNPA improved by 420bps qoq to 15.4% vs. pro forma 19.6% in Q3, mainly due to heavy write-offs. Restructured pool for the bank stands at Rs11bn i.e. 0.7% of advances and further Rs25bn to be implemented in Q1FY22 (currently part of the 61-90 days overdue book). Provisions for standard advances include proactive provisioning of Rs2.5bn toward the Rs25bn restructuring anticipated. Yes Bank carries specific PCR of 66% on GNPA, 90% on investments and 10% on restructured assets. Retail collection efficiency is back to pre-Covid-19 levels at 96% vs. 89% in Sep'20 with a strong focus on book quality and collections. Yes Bank believes that the current level of capital-Tier 1 at 11.2% is comfortable enough and strong recoveries expected in FY22 should take care of any incremental credit cost. Thus, the bank does not carries any contingent provisioning buffer, which we believe would keep credit cost elevated in FY22 as well, particularly in view of the second Covid-19 wave.

Outlook and valuation: We have cut our FY22/23E earnings estimates, factoring in higher credit cost/lower margins. We introduce FY24 estimates and expect RoA trajectory to remain sub-par at 0.5-0.8% over FY23-FY24E vs. management expectation of 1-1.5%. We retain Sell and cut the TP to Rs10 (0.9x FY23 ABV) amid continued concerns over its asset quality, sub-par return ratios and unfavorable risk-reward ratio with higher valuations. 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 and lower-than-expected NPA formation, including via sale of assets.

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

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	186,617	107,692	110,518	121,834	141,187
Net profit	(164,178)	(34,623)	(10,905)	14,177	28,542
EPS (Rs)	(22.1)	(1.8)	(0.4)	0.6	1.1
ABV (Rs)	20.5	13.7	9.7	10.7	12.0
RoA (%)	(5.1)	(1.3)	(0.4)	0.5	0.8
RoE (%)	(68.6)	(12.6)	(3.3)	4.3	8.2
PE (x)	(0.6)	(7.5)	(31.9)	24.6	12.2
P/ABV	0.7	1.0	1.4	1.3	1.2

Source: Company, Emkay Research

CMP

Rs 14

as of (April 30, 2021)

Rating

SELL (■)

Target Price

Rs 10 (▼)

12 months

Upside

(28.1) %

Change in Estimates

EPS Chg FY22E/FY23E (%)	NA/(32.5)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	(0.4)	0.6
Consensus	0.1	0.8
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	32 / 11
M Cap (Rs bn/USD bn)	348 / 4.71
Daily Avg Volume (nos.)	112,827,700
Daily Avg Turnover (US\$ mn)	23.9

Shareholding Pattern Mar '21

Promoters	-%
FIIs	13.8%
DIIIs	46.7%
Public and Others	39.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(14)	13	(50)
Rel. to Nifty (10)	(13)	(8)	(8)	(68)

Relative price chart



Source: Bloomberg

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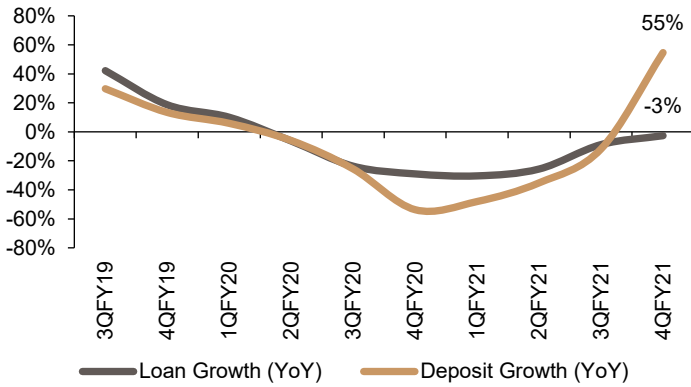
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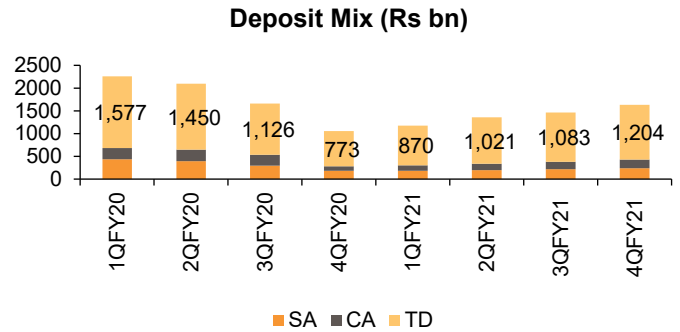
Story in Charts

Exhibit 1: Credit growth remains bleak, while deposits jump, albeit on a lower base, led by TD and CASA



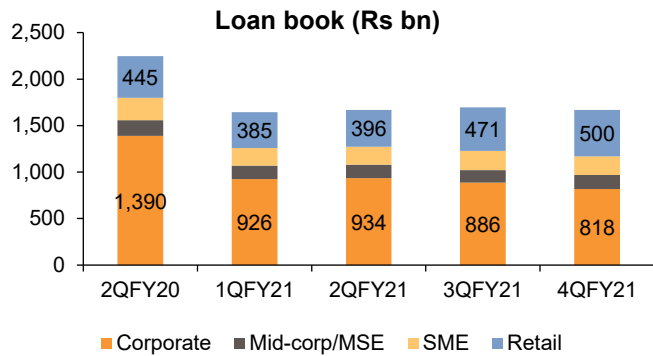
Source: Company, Emkay Research

Exhibit 2: Deposits see traction aided by growth across CASA and TD product



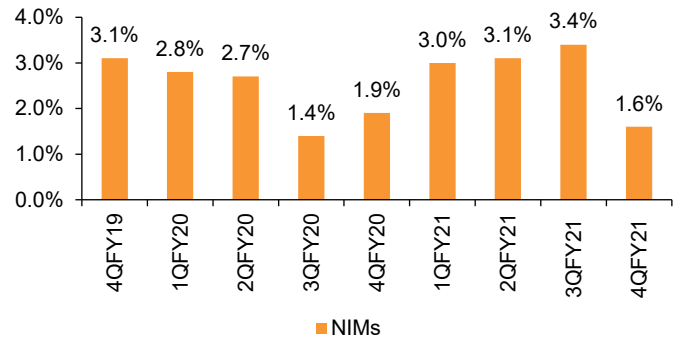
Source: Company, Emkay Research

Exhibit 3: Bank's strategy is to improve focus on Retail/SME segment



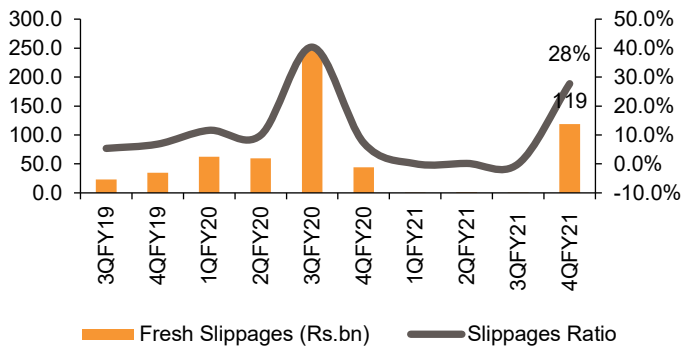
Source: Company, Emkay Research

Exhibit 4: NIMs falls due to interest reversals and interest-on-interest liability



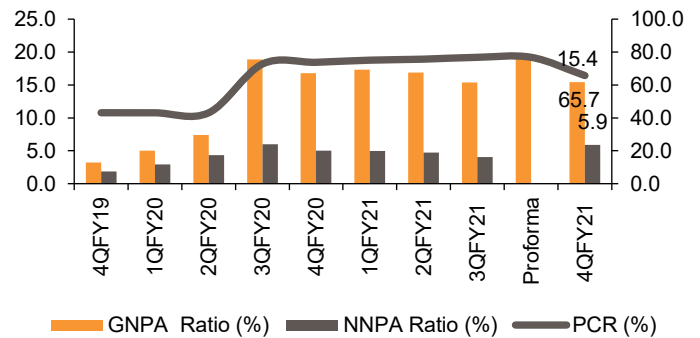
Source: Company, Emkay Research

Exhibit 5: Slippages look optically higher due to pro forma addition from previous quarters

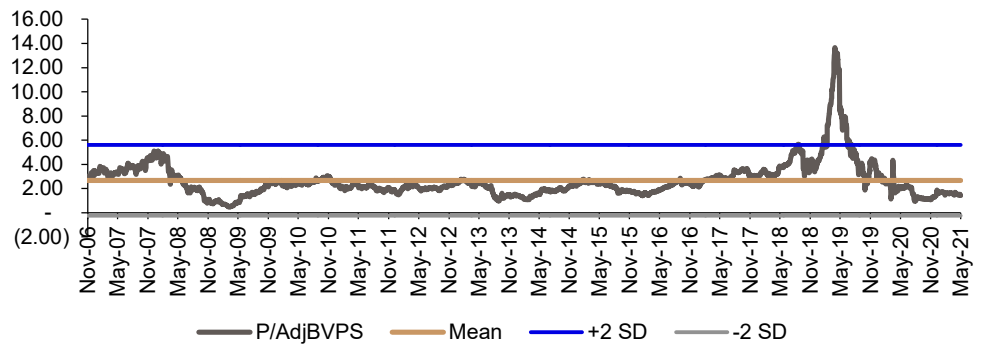


Source: Company, Emkay Research

Exhibit 6: Reported GNPA improved substantially aided by higher write-offs



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at 1.4x – one-year forward ABV

Source: Emkay Research

Exhibit 8: Actual vs. Estimates – Q4FY21

Rs mn	Actuals	Estimates Emkay	Consensus	% Variation		Comments
				Emkay	Consensus	
Net income	18,026	31,571	32,198	-43%	-44%	Sharp margin contraction leads to miss
PPOP	1,848	16,265	16,892	-89%	-89%	Lower net income leads to miss
PAT	-37,879	-10,108	-4,953	NM	NM	Higher provisions leads to miss

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21E	FY22E	YoY (%)
Interest Earned	52,214	54,861	52,454	53,211	39,892	-24	-25	200,418	204,793	2
Interest Exp	39,476	35,779	32,720	27,607	30,026	-24	9	126,132	130,719	4
Net Interest Income	12,738	19,081	19,734	25,604	9,866	-23	-61	74,285	74,073	0
Global NIMs (reported)	1.9	3.0	3.1	3.4	1.6	-30bps	-180ps	3.3	3.2	-16bps
Non-interest Income	5,973	6,207	7,068	11,973	8,160	37	-32	33,407	36,445	9
Operating Expenses	17,645	13,820	13,201	14,721	16,178	-8	10	57,920	56,989	-2
Pre Provisioning Profit	1,065	11,469	13,600	22,855	1,848	74	-92	49,772	53,529	8
Provision & Contingencies	48,723	10,866	11,873	21,988	52,396	8	138	97,123	68,102	-30
PBT	-47,659	602	1,727	867	-50,548	NM	-5,930	-47,352	-14,573	NM
Income Tax Expense (Gain)	-10,976	148	433	-640	-12,669	NM	NM	-12,728	-3,668	NM
Adjusted Net Profit/(Loss)	26,287	454	1,294	1,507	-37,879	-244	-2,613	-34,623	-10,905	NM
Gross NPA (%)	16.8	17.3	16.9	15.4	15.4	-139bps	5bps	15.41	16.42	102bps
Net NPA (%)	5.0	5.0	4.7	4.0	5.9	85bps	184bps	5.88	6.09	21bps
Deposits (Rs in bn)	1,054	1,174	1,358	1,462	1,629	55	11	1,629	1,895	16
Net Advances (Rs in bn)	1,714	1,645	1,669	1,697	1,669	-3	-2	1,669	1,735	4

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E Introduced
	Earlier	Revised	% change	Earlier	Revised	% change	
Net income	122,376	110,518	-9.69%	132,449	121,834	-8.01%	141,187
PPOP	66,677	53,529	-19.7%	74,277	62,398	-16.0%	76,712
PAT	-1,986	-10,905	NM	21,008	14,177	-32.5%	28,542
EPS (Rs)	-0.1	-0.4	NM	0.8	0.6	-32.5%	1.1
BV (Rs)	14.3	12.8	-10.4%	15.1	13.4	-11.7%	14.5

Source: Emkay Research

Exhibit 11: Key Assumptions

	FY21E	FY22E	FY23E	FY24E
Loan Growth %	(2.7)	4.0	13.6	17.3
Deposit Growth %	54.7	16.3	14.4	15.5
NIM %	3.3	3.2	3.2	3.2
GNPA %	15.4	16.4	13.9	11.3
Credit Cost %	4.2	3.6	2.1	1.6
Yield on Advances %	10.6	10.4	10.5	10.7
Cost of Deposits %	7.2	6.5	6.2	6.3

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs bn	2,415	2,363	2,245	1,861	1,714	1,645	1,669	1,697	1,669
Loan Growth YoY %	18.7	10.1	(6.3)	(23.7)	(29.0)	(30.4)	(25.6)	(8.8)	(2.7)
Loan Growth QoQ %	(1.0)	(2.2)	(5.0)	(17.1)	(7.9)	(4.0)	1.5	1.7	(1.7)
Composition %									
- Corporate & Institutional	65.6	63.9	61.9	57.0	56.0	56.0	56.0	52.0	49.0
- Medium Enterprise	7.8	7.7	7.5	8.2	8.0	9.0	8.0	8.0	9.0
- Retail banking	16.7	10.1	19.8	22.2	23.8	23.0	24.0	28.0	30.0
- Small and Micro Enterprises	9.9	18.3	10.8	12.7	13.0	12.0	12.0	12.0	12.0
Liability Profile & Margin									
Deposit - Rs bn	2,276	2,259	2,095	1,658	1,054	1,174	1,358	1,462	1,629
Deposit Growth YoY %	13.4	5.9	(6.0)	(25.6)	(53.7)	(48.0)	(35.2)	(11.8)	54.7
CASA %	33.0	30.2	30.8	32.1	26.6	25.8	24.8	26.0	26.1
CA %	12.5	11.0	11.9	14.1	9.0	10.2	10.5	10.8	11.7
SA %	20.5	19.2	18.9	18.0	17.6	15.6	14.4	15.1	14.5
Branches	1,120	1,122	1,123	1,123	1,135	1,139	1,106	1,098	1,070
NIM (%)	3.1	2.8	2.7	1.4	1.9	3.0	3.1	3.4	1.6
Movement of NPA (Rs mn)									
Gross NPA (Opening Balance)	51,586	78,826	120,921	171,344	407,092	328,780	327,027	323,444	295,465
Fresh Addition	34,810	62,320	59,450	245,870	43,900	450	1,010	152	118,738
Total Reduction	7,571	20,225	9,027	10,122	122,213	2,203	4,590	28,130	128,108
GNPA	78,826	120,921	171,344	407,092	328,780	327,027	323,444	295,465	286,095
NPA	44,849	68,833	97,572	111,147	86,238	81,575	78,681	68,566	98,134
Asset Quality									
GNPA %	3.2	5.0	7.4	18.9	16.8	17.3	16.9	15.4	15.4
NNPA %	1.9	2.9	4.4	6.0	5.0	5.0	4.7	4.0	5.9
PCR %	43.1	43.1	43.1	72.7	73.8	75.1	75.7	76.8	65.7
Slippages - Rs mn	34,810	62,320	59,450	245,870	43,900	450	1,010	152	118,738
Capital Adequacy %	16.5	15.6	16.3	4.1	8.5	8.6	19.9	19.4	17.5
Tier I %	11.3	10.7	11.5	2.1	6.5	6.6	13.6	13.1	11.2
ROE Decomposition % (on Total Asset)									
NII	2.8	2.2	2.2	1.4	2.0	3.0	3.1	4.0	1.5
Other Income	0.6	1.2	1.0	0.8	0.9	1.0	1.1	1.9	1.2
Opex	1.9	1.5	1.7	2.3	2.8	2.2	2.1	2.3	2.4
PPOP	1.5	1.9	1.5	(0.0)	0.2	1.8	2.2	3.6	0.3
Provisioning Cost	4.1	1.7	1.3	33.4	7.7	1.7	1.9	3.4	7.9
PBT	(2.6)	0.2	0.1	(31.5)	(5.4)	0.1	0.3	0.1	(7.6)
ROA	(1.7)	0.1	(0.6)	(25.0)	(5.8)	0.1	0.2	0.2	(5.7)

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	68,052	74,285	74,073	80,358	93,262
Other income	118,565	33,407	36,445	41,476	47,925
Fee income	15,262	14,499	15,224	17,507	20,484
Net income	186,617	107,692	110,518	121,834	141,187
Operating expenses	67,290	57,920	56,989	59,436	64,475
Pre provision profit	119,327	49,772	53,529	62,398	76,712
PPP excl treasury	108,193	37,772	40,329	47,878	60,740
Provisions	327,584	97,123	68,102	43,452	38,570
Profit before tax	(208,257)	(47,352)	(14,573)	18,946	38,142
Tax	(44,079)	(12,728)	(3,668)	4,769	9,600
Tax rate	21	27	25	25	25
Profit after tax	(164,178)	(34,623)	(10,905)	14,177	28,542

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	25,101	50,110	50,110	50,110	50,110
Reserves	192,162	281,854	270,948	285,126	313,667
Net worth	217,263	331,963	321,058	335,236	363,777
Deposits	1,053,639	1,629,466	1,895,179	2,168,996	2,506,003
Borrowings	948,601	488,048	390,438	409,960	430,458
Total liabilities	2,578,269	2,735,427	2,837,211	3,179,845	3,645,148
Cash and bank	59,437	68,128	71,534	75,111	78,867
Investments	439,148	433,192	480,456	530,731	593,174
Loans	1,714,433	1,668,930	1,735,192	1,971,018	2,311,758
Others	330,767	318,734	350,725	401,787	442,528
Total assets	2,578,269	2,735,427	2,837,211	3,179,845	3,645,148

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	2.4	3.3	3.2	3.2	3.2
Non-ll/avg assets	3.7	1.3	1.3	1.4	1.4
Fee income/avg assets	0.5	0.5	0.5	0.6	0.6
Opex/avg assets	2.1	2.2	2.0	2.0	1.9
Provisions/avg assets	10.3	3.7	2.4	1.4	1.1
PBT/avg assets	(6.5)	(1.8)	(0.5)	0.6	1.1
Tax/avg assets	(1.4)	(0.5)	(0.1)	0.2	0.3
RoA	(5.1)	(1.3)	(0.4)	0.5	0.8
RoAE	(68.6)	(12.6)	(3.3)	4.3	8.2
GNPA (%)	16.8	15.4	16.4	13.9	11.3
NNPA (%)	5.0	5.9	6.1	4.6	3.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	(22.1)	(1.8)	(0.4)	0.6	1.1
BVPS	29.2	17.7	12.8	13.4	14.5
ABVPS	20.5	13.7	9.7	10.7	12.0
DPS	0.6	0.0	0.0	0.0	0.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	(0.6)	(7.5)	(31.9)	24.6	12.2
P/BV	0.7	1.0	1.4	1.3	1.2
P/ABV	0.7	1.0	1.4	1.3	1.2
P/PPOP	1.5	7.0	6.6	5.6	4.6
Dividend Yield (%)	4.5	0.0	0.0	0.0	0.0

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	(30.6)	9.2	(0.3)	8.5	16.1
PPOP	46.7	(58.3)	7.5	16.6	22.9
PAT	(1,054.6)	(78.9)	(68.5)	(230.0)	101.3
Loans	(29.0)	(2.7)	4.0	13.6	17.3

Quarterly (Rs mn)	Q4FY20	Q4FY20	Q2FY21	Q3FY21	Q4FY21
NII	12,738	19,081	19,734	25,604	9,866
NIM (%)	1.9	3.0	3.1	3.4	1.6
PPOP	1,065	11,469	13,600	22,855	1,848
PAT	(36,683)	454	1,294	1,507	(37,879)
EPS (Rs)	(2.92)	-	0.05	0.06	(1.51)

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Jul-20	Sep-20	Dec-20	Mar-21
Promoters	-	-	-	-	-
FII	1.7	13.7	11.2	15.0	13.8
DII	69.1	54.2	49.3	47.3	46.7
Public and Others	29.2	32.1	39.6	37.6	39.5

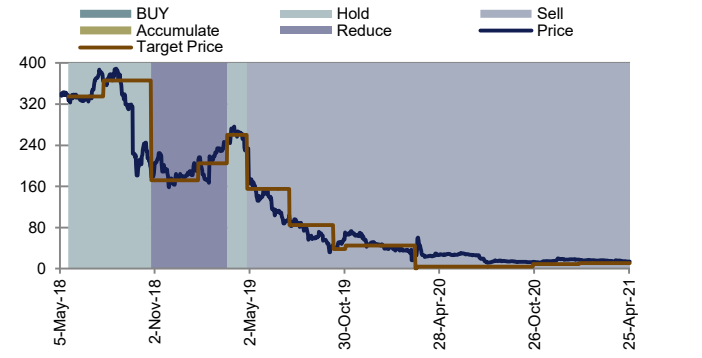
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Jan-21	16	11	12m	Sell	Anand Dama
20-Jan-21	18	11	12m	Sell	Anand Dama
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	234	155	12m	Sell	Anand Dama
20-Mar-19	249	260	12m	Hold	Anand Dama
24-Jan-19	212	205	12m	Reduce	Anand Dama
26-Oct-18	178	172	12m	Reduce	Jignesh Shial
27-Jul-18	365	366	12m	Hold	Jignesh Shial
21-May-18	327	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	20.61	20.61	0.0%	0	100.00
Axis Bank	2.27	2.36	4%	9	11.45
AU Small Finance Bank	0.25	0.21	-18%	-5	1.00
Bandhan Bank	0.29	0.34	18%	5	1.64
Bank of Baroda	0.15	0.10	-31%	-5	0.50
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.06
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.20
Federal Bank	0.19	0.24	23%	4	1.15
HDFC Bank	6.94	7.06	2%	12	34.25
ICICI Bank	5.00	5.16	3%	16	25.05
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.64	0.74	16%	10	3.60
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.76	2.27	-18%	-49	11.02
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.11	0.08	-27%	-3	0.40
State Bank of India	1.64	1.79	9%	15	8.67
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
	01-Apr-19	30-Apr-20	30-Oct-20	29-Jan-21	01-Apr-21	30-Apr-21
EAP - BFSI-Banks	100.0	74.7	83.5	104.9	115.7	112.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	73.6	82.3	103.0	113.5	110.0

*Performance measurement base date 1st April 2019

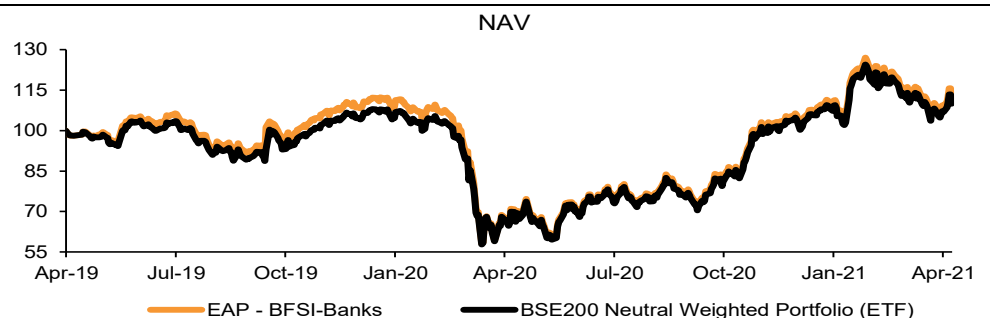
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-2.9%	7.1%	34.5%	50.4%
BSE200 Neutral Weighted Portfolio (ETF)	-3.1%	6.8%	33.6%	49.3%

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: 04 May 2021 04:22:48 (SGT)

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