

## RETAIL EQUITY RESEARCH

### Yes Bank Ltd.

#### Banking

BSE CODE: 532648

NSE CODE: YESBANK

Bloomberg CODE: YES:IN

SENSEX: 36,194

# HOLD

Rating as per Large cap

12months investment period

CMP Rs 170

TARGET Rs.182

RETURN 7% 

30<sup>th</sup> November, 2018

### Uncertainties piling up

- The issues kick started to Yes bank when the RBI has denied the extension of Mr.Rana Kapur to continue as MD and CEO of the bank for next three years.
- Troubles continued to mount when rating agencies ICRA Ltd and CARE Ratings Ltd downgraded the private-sector lender's debt instruments.
- Moody's Investors Service downgraded Yes Bank's ratings citing corporate governance concerns and impact of leadership change on the bank's growth plan.
- Ashok Chawla, non-executive chairman of Yes Bank Ltd, the former Chairman of SBI, O.P. Bhatt (external expert of the 'Search and Selection Committee') and Vasant Gujrati, the chairman of the bank's audit committee have resigned recently.
- The media reports regarding the promoter's business and its transactions have impacted the credibility of the Bank.
- We reduce our valuation of Yes bank to 1.2x P/BV and revise our target price to Rs182 and recommend Hold rating.

### Uncertainty over resignations

RBI denied a three year extension of Mr.Rana Kapoor as Chief Executive Officer of the bank and asked him to step down after 31<sup>st</sup> January 2019. But the exact reason for the denial is not known to the public and it is expected that the NPA divergence is the main reason for not allowing him to continue. Ashok Chawla, non-executive chairman of Yes Bank Ltd, resigned from the board after being named in a corruption charge sheet (Aircel-Maxis case) by the Central Bureau of Investigation (CBI). The former Chairman of State Bank of India O.P. Bhatt has resigned as an external expert of the 'Search and Selection Committee' which has been set up to find a successor to the company's MD and CEO Rana Kapoor. Yes Bank accepted the resignation of Vasant Gujrati, the chairman of the bank's audit committee recently.

### Recent down grading by rating agencies

Troubles continued to mount when rating agencies ICRA Ltd and CARE Ratings Ltd downgraded the debt instruments of YES bank. Moody's Investors Service downgraded Yes Bank's ratings owing to corporate governance concerns and impact of leadership change on the bank's growth plan.

### Promoter's family involved businesses driving sentiments

As per media reports, promoters through two of its entities (Yes Capital (India) Private Limited and Morgan Credits Private Limited) have pledged their shares for borrowing debt on personal count. Such transactions were never reported and that lead losing credibility on the operations of the bank.

### Outlook & Valuations

The bank is fronting many challenges and the stock performance will be based on the stories to unfold over the near term. We downgrade our valuation of Yes bank to 1.2x FY20E book value of Rs152. However, we expect the recent steep fall largely factored in price and we recommend Hold rating with a revised target price of Rs.182.

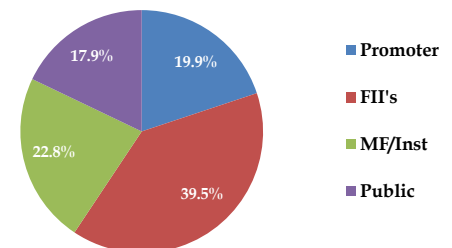
### Company Background...

Yes Bank is India's fifth largest private sector Bank. The bank provides a range of services such as Corporate, Retail & SME Banking franchise, with a comprehensive product suite of Financial Markets, Investment Banking, Corporate Finance, Branch Banking, Business and Transaction Banking, and Wealth Management business lines across the country.

### Company Data

Market Cap (cr)	Rs. 39,222
Outstanding Shares (cr)	231
Free Float	80%
Dividend Yield	1.6%
52 week high	Rs. 404
52 week low	Rs. 147
6m average volume (mn)	2.7
Beta	1.5
Face value	Rs. 2

### Shareholding Pattern as on June-2018



Standalone (Rs.cr)	FY18A	FY19E	FY20E
Net Interest Income	7,737	9,807	12,089
Growth (%)	33	28	23
NIM	3.2	3.0	3.0
PBT	6,194	9,256	11,381
Net Profit	4,225	4,656	5,983
Growth (%)	27	13	29
BVPS (Rs)	112	128	152
Adj.EPS (Rs)	18	20	25
Growth (%)	27	13	29
P/E (x)	9.5	8.6	6.7
P/B (x)	1.5	1.3	1.1
ROE (%)	18	17	18
ROA (%)	1.6	1.4	1.5

Source: Bloomberg

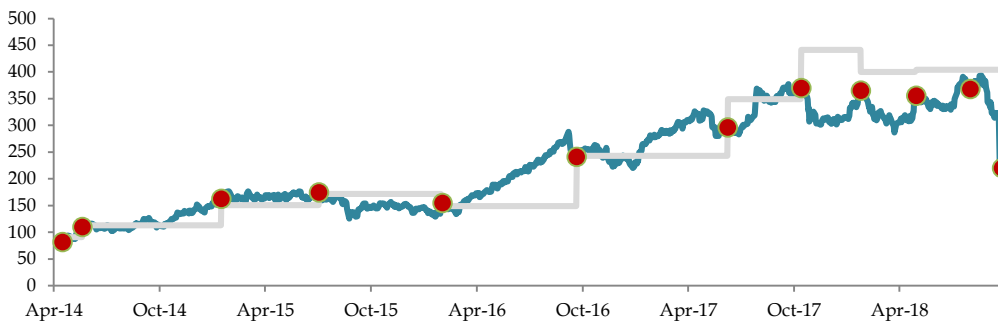
## Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q2FY19	Q2FY18	YoY Growth %	Q1FY19	QoQ Growth %	Comments
<b>Interest Income</b>	7,231	4,800	51%	6,578	10%	
<b>Interest Expense</b>	4,814	2,915	65%	4,359	10%	
<b>Net Interest Income (NII)</b>	2,418	1,885	28%	2,219	9%	Strong loan growth at 51% YoY reflected steady growth in NII
Fee and Other Income	1,473	1,248	18%	1,694	-13%	
<b>Total Income</b>	3,891	3,134	24%	3,913	-1%	
Expenditure	1,525	1,227	24%	1,459	4%	Fee & other income grew by 18% YoY.
Provisions	940	447	110%	626	50%	
<b>Profit Before Tax</b>	1,426	1,460	-2%	1,829	-22%	
Tax	462	457	1%	569	-19%	
<b>Reported PAT</b>	965	1,003	-4%	1,260	-23%	
<b>Adjustment</b>	-	-		-		
<b>Adjusted PAT</b>	965	1,003	-4%	1,179	-18%	PAT de- grew by 3% YoY on account of higher provisioning
<b>Diluted EPS (Rs)</b>	4	4	-5%	5	-20%	

Source: Company

## Price History



Source: Bloomberg, Geojit Research

Dates	Rating	Target
16-Apr-14	HOLD	91
20-May-14	HOLD	113
15-Jan-15	HOLD	151
3-Jul-15	HOLD	172
1-Feb-16	HOLD	149
20-Sep-16	HOLD	243
8-Jun-17	BUY	349
13-Oct-17	BUY	441
24-Jan-18	BUY	400
30-Apr-18	BUY	404
1-Aug-18	BUY	404
26-Sep-18	BUY	253
29-Nov-18	HOLD	182

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review.

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