

Bailout plans - no value for minority shareholders...

The Reserve Bank of India (RBI) has placed a temporary moratorium on Yes Bank for a month till April 3, 2020 and restricted withdrawal to ₹ 50,000 per customer from deposits. The extreme step of moratorium by the RBI does indicate the pressing need of the bank for capital and liquidity. According to RBI, discussions with Yes Bank were on for months but nothing could materialise on fund raising. Hence, the action was well considered after assessing the situation. The restoration will be done swiftly within the 30-day time frame to finalise the bailout plan as per RBI Governor.

Ensuring depositor's safety is RBI's main objective and will be done. In the plan being discussed, media sources mentioned that SBI is expected to form a consortium with other banks/Life Insurance Corporation of India (LIC) and buy ~49% stake in the troubled Yes Bank, providing it much needed capital support. Initial plans seem to indicate at equity investment or Tier I instruments by buyer banks but a merger cannot be completely ruled out if capital requirements keep rising to provide for stress and consortium members do not agree.

All these will lead to huge dilution, leading to value erosion for minority shareholders. Equity shares have lost value as with huge writeoffs pending, networth is already eroded.

View - Just like the large NCLT cases, a bailout involves bringing in fresh equity at extremely beaten down value (like ₹ 1-2) by the fresh buyer. Accordingly, minority shareholders will be reduced to a very small percentage stake from current large position. In all cases, minority shareholders are set to lose and recommend that existing shareholders exit positions. We rate the stock as Sell (from Reduce earlier).

In our estimates, we have not factored huge dilutions (post current 49% bailout buy), required for large fund raising not known at this point and which could lead to value erosion for minority shareholders.

Stressed asset quality remains cause for concern

Absolute GNPA and NNPA were at ₹ 17134 crore and ₹ 9757 crore, respectively. Its GNPA already surged 238 bps QoQ in Q2 to 7.39% while NNPA ratio had surged 144 bps QoQ to 4.35%.

The GNPA and NNPA ratios can go above 10-11% soon as the risk in BBB/BB and below books is estimated to be closer to ₹ 30000-40000 crore. If slippages are recognised, capital is needed so that hefty provisions can be made.

As on September 2019, Yes Bank's advances & deposits were at ₹ 224381.9 crore and ₹ 209422.8 crore, respectively. CASA for Q2FY20 came in at 30.8%.

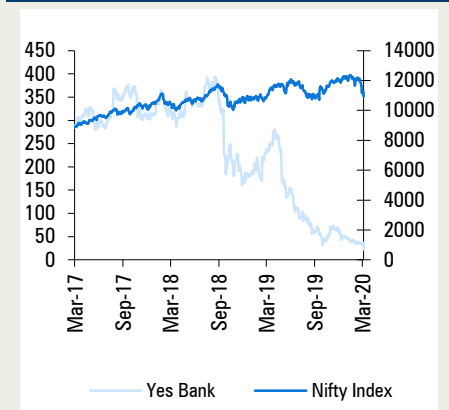
SBI board has approved exploring buying some stake in Yes Bank. SBI's former DMD and CFO Prashant Kumar has been appointed as administrator by RBI as it supersedes the board of the bank.



Particulars

Particulars	Amount
Market Capitalisation	₹ 5649 crore
GNPA (Q2FY20)	₹ 17134 crore
NNPA (Q2FY20)	₹ 9757 crore
NIM (Q2FY20)	2.7%
52 week H/L	286/22
Networth	₹ 27726 crore
Face Value	₹ 2
DII Holding (%)	14.2
FII Holding (%)	15.2

Price Chart



Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

Exhibit 1: Profit & loss statement (₹ crore)

(Year-end March)	FY19	FY20E	FY21E	FY22E
Interest Earned	29624.8	27903.9	24946.5	23539.5
Interest Expended	19815.7	21108.8	20061.0	19161.3
Net Interest Income	9809.1	6795.1	4885.6	4378.2
Growth (%)	27	-30.7	-28.1	-10.4
Non Interest Income	4590.2	4160.7	3647.6	3357.7
Fees and advisory	3636.1	3413.7	3018.9	2794.6
Treasury Income and sale of Invnt	317.5	190.5	114.3	68.6
Other income	636.5	556.5	514.4	494.5
Net Income	14399.2	10955.8	8533.2	7735.9
Employee cost	2469.8	2723.7	2892.4	1501.0
Other operating Exp.	3794.5	4469.8	4844.4	2352.0
Operating Income	8134.9	3762.3	796.3	3883.0
Provisions	5777.6	6872.3	3571.8	2672.8
PBT	2357.4	-3110.0	-2775.5	1210.2
Taxes	637.1	-73.0	-707.7	308.6
Net Profit	1720.3	-3036.9	-2067.7	901.6
Growth (%)	-59.2	-276.5	-31.9	-143.6
EPS (₹)	7.4	-5.7	-3.9	1.7

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios

(Year-end March)	FY19	FY20E	FY21E	FY22E
Valuation				
No. of Equity Shares*	231.5	529.6	529.6	529.6
EPS (₹)	7.4	-5.7	-3.9	1.7
BV (₹)	116.2	49.7	45.8	45.4
ABV (₹)*	96.8	29.1	20.2	16.2
P/E	2.7	-3.5	-5.1	11.7
P/BV	0.2	0.4	0.4	0.4
P/ABV	0.2	0.7	1.0	1.2
Yields & Margins (%)				
Net Interest Margins	3.2	2.1	1.7	1.6
Yield on assets	9.6	8.6	8.5	8.5
Avg. cost on funds	6.1	6.1	6.2	6.1
Yield on average advances	10.3	9.5	9.6	9.6
Avg. Cost of Deposits	6.4	6.5	6.4	6.2
Quality and Efficiency (%)				
Cost to income ratio	43.5	65.7	90.7	49.8
Credit/Deposit ratio	106.1	104.0	105.6	101.4
GNPA	3.3	8.6	12.3	13.1
NNPA	1.9	5.0	7.4	8.2
ROE	6.5	-11.4	-8.2	3.7
ROA	0.5	-0.8	-0.6	0.3

Source: Company, ICICI Direct Research

*We have not factored huge dilutions (post current 49% bailout buy), possible for fund raising not known at this point which could lead to value erosion for minority shareholders *

Exhibit 3: Balance Sheet

(Year-end March)	FY19	FY20E	FY21E	FY22E
Sources of Funds				
Capital	463.0	1059.2	1059.2	1059.2
Reserves and Surplus	26441.2	25287.2	23219.5	23008.9
Networth	26904.2	26346.4	24278.7	24068.1
Deposits	227610.2	209826.4	174370.5	185719.9
Borrowings	108424.1	110869.2	110898.6	105592.7
Other Liabilities & Provisions	17887.7	19680.1	23385.6	28156.6
Total	380826.2	366722.1	332933.4	343537.4
Application of Funds				
Fixed Assets	817.0	894.5	987.8	1100.6
Investments	89522.0	79178.4	73104.5	77662.7
Advances	241499.6	218191.2	184109.9	188300.1
Other Assets	22098.0	42340.4	44883.8	42300.3
Cash with RBI & call money	26889.5	26117.6	29847.3	34173.7
Total	380826.2	366722.1	332933.4	343537.4

Source: Company, ICICI Direct Research

Exhibit 4: Growth Ratios (%)

(Year-end March)	FY19	FY20E	FY21E	FY22E
Total assets	27.7	-3.7	-9.2	3.2
Advances	48.2	-9.7	-15.6	2.3
Deposit	21.1	-7.8	-16.9	6.5
Total Income	34.2	-6.3	-10.8	-5.9
Net interest income	26.8	-30.7	-28.1	-10.4
Operating expenses	20.2	14.8	7.6	-50.2
Operating profit	5.0	-53.8	-78.8	387.6
Net profit	-59.2	-276.5	-31.9	-143.6
Net worth	4.4	-2.1	-7.8	-0.9
EPS	-59.4	-177.2	-31.9	-143.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vishal Namolia, MBA and Yash Batra, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.