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Yes Bank shares fall after UBS downgrades the lender to 'Sell'

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Synopsis
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MUMBAI: Yes Bank shares slumped 7.46 per cent after UBS downgraded the lender to "sell" citing its vulnerability to corporate defaults in a prolonged weak credit cycle as it has charge on assets behind many other lenders.

The stock ended at Rs 797.35 after USB cut its price target to Rs 740 from Rs1,000. "It is most vulnerable to a large corporate default," said UBS. "Estimated loans to potentially stressed firms recorded a 60 per cent compounded annual growth rate over FY12-15E and would be 125 per cent of the net worth for Yes Bank. We believe consensus is not factoring in a sharp increase in credit costs for Yes Bank."

But Yes Bank said UBS is exaggerating. "This report has exaggerated the exposures attributed to Yes Bank given that the RoC filings reflect historically sanctioned amounts, which are dated, and therefore, do not reflect the actual outstanding exposures," Yes Bank spokesman said. "The report compares sanction amounts to total loans outstanding as on March 31, 2015 thus presenting a distorted picture."

While the stress of the Indian banking system is familiar to investors, UBS analysts said they studied over 7,000 documents relating to loans worth over $100 billion to get a clearer picture.

UBS also said that ICICI Bank is also exposed to such stress in the system since it also has exposure to companies such as Jaypee Group, and GMR, the infrastructure companies that binged on debt during the boom time.

"Estimated loans approved to our sample set of firms as a percentage of FY15 loans was the highest for Yes Bank at 19 per cent, followed by ICICI (14 per cent) and PNB (10 per cent). "While Yes Bank had the highest share of loans backed by unlisted shares and current assets (23 per cent). About 10-20 per cent of loan approvals were granted on subservient charges by Yes, ICICI and Axis," the brokerage said.

Banks typically would approve a loan and create a charge on the assets taken as collateral and companies would disclose them to the **Registrar** of Companies the information on exposure, nature of the collateral and the terms of the loan approval.