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State Bank of India | Asia Pacific

Yes Bank: F4Q20 conference call takeaways

Stock Rating
Equal-weight

Industry View
In-Line

Price Target
Rs205.0

Yes Bank (not covered; 48% owned by SBI), hosted a conference call to discuss its F4Q20 results. We summarize the key takeaways in this note.

Yes Bank announced its results on May 6 – see our results note titled [India Financials: Key Takeaways from Yes Bank's F4Q20 Earnings](#) for details. The bank hosted a conference call on May 8 to discuss the same. Below are the key takeaways.

The bank acknowledged challenges around ALM, capital and asset quality.

- Capital:** The bank expects to maintain a minimum CET 1 ratio of 10% vs. 6.3% as of March 2020. The bank has board approval to raise capital up to Rs150bn, and has appointed bankers to help raise the same. The capital raising could be via QIP/rights issue/FPO but per management QIP might be difficult, and hence the other two options look more likely. See [Exhibit 1](#) for shareholding details.
- Liquidity:** The bank saw material deposit outflows as expected post moratorium, both on corporate and retail segments. However, this has stabilized now, and there was a sharp pickup in fixed deposit account openings in April 2020 (>than total accounts opened in F20). The outflow of deposits was managed by a funding line from the RBI (Rs500bn), apart from refinancing and borrowings via IBPCs. The bank will keep focus on retail lending, and expects 10% YoY loan growth in F20. In corporate, the focus will be on transaction banking and cash management activities.
- Asset quality:** The bank has coverage of ~75% on the outstanding stock of bad loans and believe that they are well provided. Yes Bank has formed a stressed asset resolution team to tackle this, and has also separated credit and risk functions. Going forward, provisioning will be based on new slippages. The bank had guided to a 5% slippage run-rate in F20 in pre COVID-19 environment but has revised it to 7-8% (assuming lockdown ends in May; if not, stress could be higher as per management).

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State Bank of India (SBI.NS, SBIN IN)

India Financials / India

Stock Rating	Equal-weight			
Industry View	In-Line			
Price target	Rs205.0			
Up/downside to price target (%)	23			
Shr price, close (May 8, 2020)	Rs166.7			
52-Week Range	Rs373.80-166.10			
Mkt cap, curr (bn)	US\$19.7			
Avg daily trading value (mn)	US\$163			

Fiscal Year Ending	03/19	03/20e	03/21e	03/22e
ModelWare EPS (Rs)	1.0	22.5	13.9	21.5
ModelWare net inc (Rs bn)	8.6	200.9	124.4	192.2
P/E	331.5	8.7	12.0	7.7
P/BV	1.3	0.7	0.6	0.6
Return on avg eqty (%)	0.4	8.7	5.0	7.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
e = Morgan Stanley Research estimates

Exhibit 1: Yes Bank: Shareholding snapshot

F4Q20	In Mn	% of Total
Promoters	178	1.4%
Foreign	316	2.5%
FPI/FDI/FII	234	1.9%
Others	82	0.7%
Mutual Funds	70	0.6%
Financial Institutions/Insurance	10063	80.2%
SBI	6050	48.2%
ICICI Bank	1000	8.0%
HDFC Limited	1000	8.0%
Axis Bank	600	4.8%
Kotak	453	3.6%
Bandhan Bank	300	2.4%
Federal Bank	241	1.9%

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Valuation Methodology and Risks

State Bank of India(SBI.NS)

Rs205: sum of the parts, probability-weighted bear 40% (higher-than-expected downside risks from Covid-19), bull 5% (low probability of strong economic recovery), base 55%.

Banking business: price to adjusted book value methodology.

Base: COE 13.9%, sustainable ROE 8.5%, growth rate 0%.

Bull: COE 12.5%, sustainable ROE 12.5%, growth rate 6.0%.

Bear: COE 14.7%, sustainable ROE 2.5%, growth rate 0%.

Risks to Upside

- Strong V-shaped economic recovery, resulting in better revenue growth
- Improved asset quality progression
- Higher recoveries from stressed assets

Risks to Downside

- Macro climate remains weak and COVID-19 impact lingers for longer, leading to slower than-expected growth.
- Bailout of some funding-constrained financial entities such as Yes.
- Sharp rise in provisioning given higher NPLs in SME/mid-corporate segments.

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(as of April 30, 2020)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1216	38%	300	42%	25%	533	37%
Equal-weight/Hold	1432	45%	325	46%	23%	698	48%
Not-Rated/Hold	3	0%	1	0%	33%	3	0%
Underweight/Sell	553	17%	81	11%	15%	220	15%
TOTAL	3,204		707			1454	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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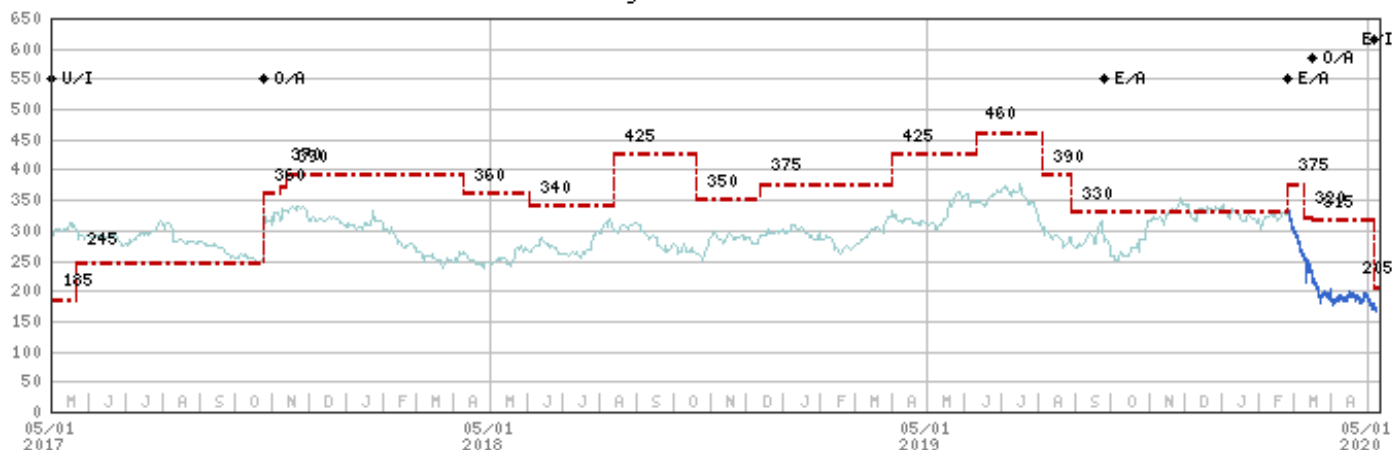
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)

State Bank of India (SBI.NS) - As of 5/10/20 in INR
Industry : India Financials

Stock Rating History: 5/1/15 : U/I; 12/10/15 : U/I; 4/18/16 : U/C; 5/13/16 : U/I; 10/25/17 : O/A; 9/25/19 : E/A; 2/25/20 : E/A; 3/16/20 : O/A; 5/6/20 : E/I

Price Target History: 12/15/14 : 250; 5/25/15 : 220; 8/12/15 : 210; 8/21/15 : 200; 9/3/15 : 180; 12/10/15 : 165; 1/10/16 : 150; 2/1/16 : 115; 2/12/16 : 105; 3/17/16 : 120; 5/23/16 : 110; 8/15/16 : 155; 11/2/16 : 200; 1/10/17 : 185; 5/22/17 : 245; 10/25/17 : 360; 11/8/17 : 370; 11/13/17 : 390; 4/10/18 : 360; 6/4/18 : 340; 8/13/18 : 425; 10/21/18 : 350; 12/12/18 : 375; 4/2/19 : 425; 6/10/19 : 460; 8/5/19 : 390; 8/29/19 : 330; 2/25/20 : 375; 3/9/20 : 320; 3/16/20 : 315; 5/6/20 : 205

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)

Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■

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Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)

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INDUSTRY COVERAGE: India Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (05/08/2020)
Subramanian Iyer		
Aditya Birla Capital Ltd (ADTB.NS)	O (03/20/2020)	Rs43.10
Bajaj Finance Limited (BJFN.NS)	O (03/20/2020)	Rs2,024.15
Edelweiss Financial Services Ltd. (EDEL.NS)	E (09/09/2019)	Rs38.25
HDFC (HDFC.NS)	O (09/11/2018)	Rs1,689.70
HDFC Asset Management Company Ltd (HDFANS)	E (01/10/2020)	Rs2,619.25
IDFC First Bank Ltd (IDFB.NS)	U (03/21/2017)	Rs20.30
Indiabulls Housing Finance (INBF.NS)	U (03/06/2018)	Rs123.25
IndoStar Capital Finance Ltd (INAC.NS)	U (03/20/2020)	Rs275.55
LIC Housing Finance Ltd. (LICH.NS)	U (05/04/2020)	Rs263.65
Mahindra and Mahindra Financial Services (MMFS.NS)	O (05/30/2017)	Rs165.35
Multi Commodity Exchange of India Ltd (MCEI.NS)	O (09/23/2019)	Rs1,121.05
PNB Housing Finance Ltd (PNBH.NS)	O (03/20/2020)	Rs179.45
Shriram City Union Finance Ltd (SHCU.NS)	E (09/30/2019)	Rs713.65
Shriram Transport Finance Co. Ltd. (SRTR.NS)	O (05/30/2017)	Rs744.40
Sumeet Kariwala		
AU Small Finance Bank Ltd (AUF1.NS)	E (10/21/2018)	Rs421.20
Axis Bank (AXBK.NS)	O (02/15/2019)	Rs382.05
Bank of Baroda (BOB.NS)	U (05/06/2020)	Rs41.10
Bank of India (BOI.NS)	U (06/08/2015)	Rs32.15
Canara Bank (CNBK.NS)	U (09/19/2014)	Rs79.85
Federal Bank (FED.NS)	U (05/06/2020)	Rs42.65
HDFC Bank (HDBK.NS)	O (07/25/2017)	Rs929.05
HDFC Bank (HDB.N)	O (07/25/2017)	US\$40.59
HDFC Life (HDFL.NS)	E (04/19/2018)	Rs520.05
ICICI Bank (IBN.N)	O (01/13/2018)	US\$9.02
ICICI Bank (ICBK.NS)	O (10/25/2017)	Rs337.70
ICICI Prudential Life Insurance (ICIR.NS)	E (10/23/2019)	Rs400.10
IndusInd Bank (INBK.NS)	E (05/06/2020)	Rs440.35
Kotak Mahindra Bank (KTKM.NS)	O (03/18/2019)	Rs1,217.45
Punjab National Bank (PNBK.NS)	U (03/12/2019)	Rs29.20
RBL Bank Limited (RATB.NS)	U (10/21/2018)	Rs119.35
SBI Life Insurance Company Ltd (SBIL.NS)	E (03/17/2020)	Rs760.05
State Bank of India (SBI.NS)	E (05/06/2020)	Rs166.65

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.