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Capital Structure Analysis and Financials Analysis of Yes Bank in India

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ABSTRACT

This research aims to compare the capital structure and financial analysis of selected banks through some measurements. The annual financial statements of the commercial bank was used for this study which covers a period of two years from 2015 to 2017 for debt equity and over-all financial analysis. The study assesses the capital structure of the banking measured by total debt to equity ratio (DER), f-test have been used to show the capital structure of banks and its performance. However this study concludes that there is no significant difference in debt equity ratio amongst the years and future prospects are much profitable and growth oriented as per financials.

Keywords: Capital Structure, Performance, EPS, Total Debt to Total Equity Ratio (DER).

INTRODUCTION:

Banks is the major sector for the concern of investors. A bank is a financial intermediary that accepts the deposits of the clients and channels those deposits into lending activities to the account holders, either directly giving it or by loaning or indirectly through capital markets way out. A bank links together all customers that have capital deficits and all customers with capital surpluses. This is nothing but the financial circle and network. Banks facilitate the financial services, such as investment, risk pooling, contractual savings, and market brokering. Examples of these include insurance firms, check cashing locations, lending of pay day, currency international exchanges, cashier's check issuers and microloan organizations. All of this makes the chain moving in the economy as one sector of above mentioned items is connected to each other. This study emphasis on capital structure & performance of yes bank in the banking sector. Capital structure is one of the major topics among scholars in finance and it is base for the company financials as well. Capital Structure in terminology of finance means that the way a firm or a company finances his assets across the mixture of debt, equity or hybrid securities (Saad, 2010). The concept is generally described and explained as the combination of debt & equity that make the total capital of firms. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. The term "capital structure" of a banking sector or firm or company is actually a mixture/combination of equity shares, preference shares and long term debts. The relationship between capital structure and profitability is one that received considerable and great attention in the finance literature all over the world. Nonetheless, in the context of the banking industry, the subject has received a limited research attention but has wide scope of growth and research. The study regarding the effects of capital structure on profitability will help us to know the potential problems in performance and capital structure. The purpose of conducting this study is to measure the impact of capital structure of yes bank and its performance to provide empirical evidence regarding Indian banking sector over a period of 2013 to 2017 and make financial analysis of yes bank as future prospects.

The Yes Bank which is highly rated commercial private bank has received several national and international honours for their various businesses including Corporate Investment Banking, Treasury, Transaction Banking, and Sustainable practices through Responsible Banking. The steadily evolving as the bank of the professionals has

mission by 2020 of “Finest Quality Large Bank in India”. Prestigious media houses and global advisory firms in Indian banking league recognized the bank as “The top and fastest growing banks”. The name: Yes Bank.
Yes bank is India’s 4th largest private sector bank is a high quality, customer centric, service driven, private Indian Bank catering to the Future Businesses of India. Since origin in 2004, Yes Bank has developed into a Full Service Commercial Bank that has steadily built Corporate Banking, Branch Banking , Investment Banking, Corporate Finance, , Financial Markets, Business and Transaction Banking, Digital Banking and Wealth Management business lines across the country, and is well equipped to offer a range of comprehensive products and services to Corporate and Retail customers. Yes Bank is headquartered in the Lower Parel Innovation District (LPID) of Mumbai, and now has a pan-India presence with a footprint of 1,000 branches and 1,800 ATMs across all 29 states and 7 Union Territories in India.
The position targeted and achieved is the result of the professional entrepreneurship of its Chairperson and Founder and a highly competent top Rana Kapoor management team, to establish a high quality, customer centric, service driven bank catering to the Sunrise Sectors of India Full Service.[1]
“Yes bank is committed to provide comprehensive banking and financial solutions to all our valued customers”

- Mr. Rana kapoor

REVIEW OF LITERATURE:

Jensen and Meckling (1976) had the view that the shareholders-lenders create problems and has the effect of transferring risk from shareholders and of appropriating the wealth in their favor as they take on high leverage investment projects (asset substitution).
B.Nimalathasan & Valeriu Brabete (2010) created a buzz about capital structure and its impact on profitability. The analysis of listed manufacturing companies shows that Debt equity ratio is positive and strong and much connected to all profitability ratios (Gross Profit, Operating Profit & Net Profit Ratios)
Dr.R.P.Rustagi, has given an amazing understanding about capital structure and theories of capital structure in his book ‘Financial Management-theory, concepts and problems’. He has explained every aspect of capital structure, cost of capital and value of the firm. He says that the value of the firm depends on the earnings of the firm and the earnings of the firm depend upon the investment decision of the firm. The earnings of the firm are capitalized at a rate equal to cost of capital in order to find out the value of the firm. Thus the value of the firm depends on two basic factors, i.e., the earnings of the firm and cost of capital.
Van Homs James C., in his book financial management and policy mentions “In practice, how does the financial manager determine the optimal capital structure for the particular firm? Our concern is with ways of coming to grips with the formidable problem of determining an appropriate capital structure. In this regard, various methods of analysis are available but none of the methods are completely satisfactory in it.
Gitman, Lawrence J., in his book ‘Principles of Managerial Finance’, says that the theory of capital structure is closely related to the firm’s cost of capital. Many debates over whether an ‘optimal’ capital structure exists are found in the financial literature. The debate began in the late 1950s, and there is as yet no resolution of the conflict. Theorists who assert the existence of an optimal capital structure are said to take a traditional approach, while those who believe such a capital structure does not exit are called supporters of the M and M approach.

RESEARCH METHODOLOGY:

Research Design: The research is conducted totally based on the secondary data, websites, annual reports, journals, announcements by the companies are taken into consideration as the research design of the study.
Sampling Design: the study has whole and sole research and analysis of Yes Bank which is taken in for the sample
Period of the Study: The period of the study for debt equity ratio is five years and for financial analysis it is of the previous years as there will be future estimation for future financial years

RESEARCH PROBLEM:

The research study is carried out for the purpose of analysis and interpretation of the debt equity ratio and over al financials of the commercial private bank Yes Bank.

Many scholars and researchers have given their impact on capital structure for finding out the optimum capital structure but all of them end up at the moment where it is stated that “The capital structure depends upon the industry and the average of the selected companies of the study”.

Yes Bank is the leading private commercial bank which has all the financials matters considered in it. There is the wide scope of study of financials within itself. The Research Problem of the study is to provide with the analysis and interpretation of the debt equity ratio of past five years and to give recommendations over the future growth and prospects of yes bank.

Objectives:
The objectives of the study and research are,
- To study the total Debt Equity ratio of the leading commercial bank, i.e.: Yes Bank.
- To analyze and interpret the debt equity ratio using the anova and f test.
- To make over all financial Analysis of the yes bank.
- To give recommendations for the future prospects of yes bank.

Hypothesis:
Hypothesis: 01
H0: There is significant difference in debt equity ratio over the years.
H1: There is no significant difference in debt equity ratio over the years.

Hypothesis: 02
H0: The future prospect is profitable for investors.
H1: The future prospect is not profitable for investors.

DATA ANALYSIS AND INTERPRETATION:

The above table shows the data of debt equity ratio of yes bank for the year 2013 - 14 to 2017- 18, Highest debt equity ratio was observed in 2013-14 with 13.41 and least with 8.23 in 2016-17.
It is believed that higher the debt equity ratio so is good for the company and its financials.
Latest was the 2017-18 with 10.70, the average forming of 10.558.
Taking into consideration of Hypothesis: 01
H0: There is significant difference in debt equity ratio over the years.
H1: There is no significant difference in debt equity ratio over the years
F Value 0.99 is lower than F crit 6.38
It means that it accepts the alternative hypothesis H1. There is no significant difference in debt equity ratio over the years.

Financial Analysis and Key Features :
Exhibit 1: Credit estimated to grow at 29% CAGR over FY18-20E.
Exhibit 2: Majority of credit growth contributed by corporate in FY07-18; going ahead, SME/retail proportion expected to rise.
Exhibit 3: Liability franchise steadily strengthening as bulk deposit proportion reduces with increase in CASA.
Exhibit 4: Expect reported NIM to remain steady with upward bias
Exhibit 5: Other income growth muted at 13.7% YoY in Q4FY18
Exhibit 6: Asset quality saws pressure in Q4FY17 & Q2FY18 but stabilises in last two quarters
Exhibit 7: Adequately capitalised for growth
Exhibit 8: Leverage to remain steady
Exhibit 9: Consistent RoA of >1.5% and RoE of >17%
Exhibit 10: Valuation

Strong growth traction sustains; quality improves:
- NII increased 31.4% YoY to | 2154 crore mainly led by robust credit traction of 53.9% YoY to | 203534 crore. This was despite margins declining 10 bps QoQ to 3.4%
- The credit book was largely driven by corporate portfolio, which rose 54.1% YoY. Core retail advances doubled YoY and is now at 12.2% of loans, coupled with healthy growth of 34.4% in MSME
- Operating profit grew 26.3% YoY to | 2135 crore while lower provisions QoQ enabled PAT growth of 29% YoY to | 1179 crore

- Asset quality improved in Q4FY18. Absolute GNPA fell by | 348 crore QoQ to | 2627 crore. The GNPA ratio improved to 1.28% vs. 1.72% QoQ. Slippages were lower at | 380 crore vs. | 495 crore seen in Q3FY18. PCR improved to 50% from 46.4% QoQ
- Standard restructured loans were at 0.16% (| 338 crore) of total
- The bank has | 969 crore exposure to nine accounts under NCLT for which it has made provisions in the range of 43-50%
- Deposits growth was at 40.5% YoY to | 200738 crore. CASA ratio was at 36.5%. Savings balances rose 35% YoY to | 44351 crore

Considering the Hypothesis: 02, The analysis accepts the null hypothesis that the future prospects is profitable for investors

Credit to grow at healthy pace; SME/retail proportion to rise:
The bank fell short of its Version 2.0 (launched in 2010) targets like 750 branches, 3000 ATMs, | 1.25 trillion deposit, Rs.1 trillion credit, 30% retail/SME credit & 30% CASA ratio by FY15. This was due to an economic slowdown. However, it delivered a better performance vs. peers under Version 3.0. Largely, it strengthens the retail presence on both deposit (at greater than 60% of retail deposits) & credit (targets 45% SME/retail) front. Historically, credit has grown at a brisk 53.9% CAGR in FY08-11 while in FY11-17, growth was modest at 29% CAGR to Rs.203538 crore. We expect credit growth at 28.7% CAGR to Rs.337066 crore by FY20E.

CASA improvement to aid calculated NIMs at 3.3% by FY20E:
On the liability side of the balance sheet, 39% of Yes Bank's deposits are wholesale funded, which is highly sensitive to interest rates unlike steady retail deposits. However, with a gradual CASA build-up to 37%, the bank has consistently managed its NIM well. Factoring in positives from incremental CASA and rising proportion of high yielding assets, we expect NIM to stay at 3.3% by FY20E.

- **Post enhanced pressure in Q2FY18, asset quality stabilises:**

On the asset side, large corporates (sales greater than equal to Rs.1000 crore) comprise 68% while mid-corporate, SME/retail combined is 32%. Asset quality has remained resilient in the past but large stress was seen in Q4FY17 due to reclassification of one cement account with exposure of Rs.911.5 crore and in Q2FY18 owing to divergence as per RBI supervision. Total stressed assets (GNPLs + RA + 5:25/SDR/SRs/S4A) are at sub-3.0% levels. It is expected GNPA at Rs.4612 crore (GNPA ratio -1.4%) by FY20E.

- **Strong business growth, healthy quality offer earnings comfort; HOLD:**

In the past five years, the bank has consistently delivered 1.5%+ RoA and 18%+ RoE. Asset quality has stayed largely resilient for the bank across cycles but recently saw large pressure. Healthy asset growth coupled with improving margins would support earnings ahead. We expect earnings CAGR of 22% to Rs. 6261 crore in FY18-20E. The target price is maintained of Rs.375, valuing at 2.4x FY20E ABV. The recommendation on the stock is to hold for a while. Large NPA related divergence observed by RBI in the last two years keeps us cautious on aggressive credit growth registered by the bank recently.

CONCLUSION:

It is hence concluded that there is no significant difference on debt equity ratio for the commercial private bank Yes Bank. Moreover, the financials and future prospects also seems much profitable achieving heights financially and capturing of the market retail share. The investors are tends to get the profit if invested during this phase of year. Coming years for the yes bank are the years of achieving of the target and mission which is set for the year 2020.

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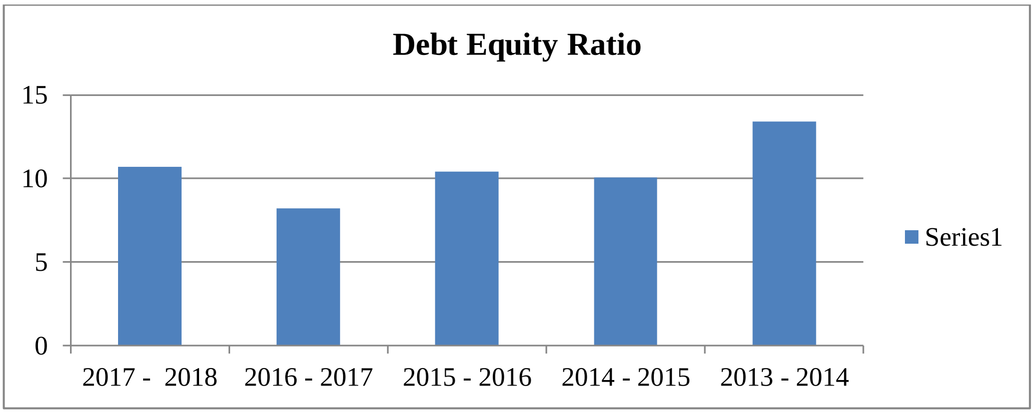
FIGURES

Figure: 1.0: Debt Equity Ratio Graphical presentation



TABLES

Table 1.0: Debt Equity Ratio

Years	Ratio
2017 - 2018	10.70
2016 – 2017	8.23
2015 – 2016	10.40
2014 – 2015	10.05
2013 – 2014	13.41
Total	**52.79**
Average	**10.558**

Table: 2.0: Anova Two Factor

Anova: Two-Factor Without Replication				
SUMMARY	*Count*	*Sum*	*Average*	*Variance*
Row 1	2	43170.7	21585.35	9.31E+08
Row 2	2	42803.23	21401.62	9.15E+08
Row 3	2	42440.4	21220.2	9E+08
Row 4	2	42074.05	21037.03	8.84E+08
Row 5	2	41712.41	20856.21	8.69E+08
Column 1	5	212148	42429.6	333610.3
Column 2	5	52.79	10.558	3.46417

Table 3.0: Anova F test

ANOVA

Source of Variation	SS	Df	MS	F	P-value	F crit
Rows	664582.6	4	166145.6	0.992103	0.502973	6.388233
Columns	4.5E+09	1	4.5E+09	26861.46	8.31E-09	7.708647
Error	669872.5	4	167468.1			
Total	**4.5E+09**	**9**				

Table: 4.0: Profit & Loss Statement

Profit and loss statement				
				Rs in Crores
Particulars (Year-end March)	**FY17**	**FY18**	**FY19E**	**FY20E**
Interest Earned	16424.6	20269.5	26977.3	32805.4
Interest Expended	10627.3	12529.3	16394.4	19984.5
Net Interest Income	5797.3	7740.2	10582.9	12820.8
Growth (%)	26.9	33.5	36.7	21.1
Non Interest Income	4156.8	5224.9	5998.7	6901.4
Fees and advisory	3140	4238.9	5171.5	6205.8
Treasury Income and sale of Invt.	711.3	618.8	433.2	259.9
Other income	305.6	367.1	394	435.7
Net Income	9954.1	12965.1	16581.6	19722.2
Employee cost	1805	2368.4	3025.1	3759.5
Other operating Exp.	2311.5	2842	3620.2	4469.7
Operating Income	5837.6	7754.7	9936.4	11493
Provisions	793.4	1552.6	1912.4	2230.5
PBT	5044.2	6202	8023.9	9262.5
Taxes	1648.2	1978.4	2647.9	3001
Net Profit	3396	4223.6	5376	6261.4
Growth (%)	33.9	24.4	27.3	16.5
EPS (Rs.)	14.9	18.3	23.3	27.2

Table 5.0: Growth Ratios

Growth ratios				
(%)				
Particulars (Year-end March)	**FY17**	**FY18**	**FY19E**	**FY20E**
Total assets	30.1	44.6	21.1	20.7
Advances	34.7	53.9	28.6	28.8
Deposit	27.9	40.5	27.1	25.6
Total Income	26.7	23.9	29.3	20.4
Net interest income	26.9	33.5	36.7	21.1
Operating expenses	38.3	26.6	27.5	23.8
Operating profit	35.7	32.8	28.1	15.7
Net profit	33.9	24.4	27.3	16.5
Net worth	60	17.6	18.9	18.7
EPS	23.4	23.3	27.3	16.5

Table: 6.0: Balance Sheet

Balance sheet

				Rs in Crores
(Year-end March)	**FY17**	**FY18**	**FY19E**	**FY20E**
Sources of Funds				
Capital	456.5	460.6	460.6	460.6
Reserves and Surplus	21597.6	25481.2	30373.6	36151.4
Networth	22054.1	25941.8	30834.2	36612
Deposits	142873.9	200735.9	255089.7	320340.3
Borrowings	38606.7	73332.3	78749.7	84659.7
Other Liabilities & Provisions	11525.3	11064.4	12170.8	13387.9
Total	215059.9	311074.3	376844.4	455000
Application of Funds				
Fixed Assets	684	737.6	801.4	878.7
Investments	50031.8	68377.9	78196.7	79706.7
Advances	132262.7	203538.2	261754.5	337065.7
Other Assets	12532	13904.1	8176.7	5490.3
Cash with RBI & call money	19549.4	24516.4	27915.1	31858.6
Total	**215059.9**	**311074.2**	**376844.4**	**455000**
