

Yes Bank

Yes Bank Ltd. (YBL), a new generation private sector bank, was incorporated in November 2003 by Mr. Rana Kapoor and Mr. Ashok Kapur. However, the RBI superseded the Board of Directors of the bank and imposed a moratorium on YBL from March 05, 2020. Further, on March 13, 2020, the government had approved a bailout plan for Yes Bank. Under the plan, Yes Bank had received around ₹10,000cr from eight financial institutions, including ₹6,050cr from SBI. Currently, pre-FPO, SBI owns 48.21% in Yes Bank.

Weakening operations, business metrics; SBI support to take longer time for stabilizing: Yes Bank was having deposits worth ₹2,27,610cr as on Q4FY2019, however, it dropped to ₹2,09,497cr in Q2FY20. Further, as a result of the negative news in Q3 & Q4 of FY2020, the bank witnessed sizeable deposit withdrawal of ₹1,00,000cr reaching to ₹1,05,364cr in Q4FY2020. CASA deposits declined 63% yoy to ₹28,063cr. We believe rebuilding term deposit and CASA would be a challenging task, nevertheless SBI image would likely help YBL to stop further depletion in deposit base. Moreover, constraint in capital and deposit withdrawal has impacted loan book too, which declined 29% yoy in FY20; consequently, adversely impacting NII and other income. Subsequently pre-provision profit plunged 56% in FY20.

Improvement in asset quality a far off thing; economic slowdown to add to existing woes: GNPA for FY2020 spiked 4.2x to ₹32,878cr, which led to 6x increase on provision on bad asset. This impacted profitability adversely, and YBL reported loss of ₹16,418cr. However, on positive side, YBL's provision coverage ratio increased to 74%. We believe the bank's provision cost to remain elevated owing to (1) high overdue advances (SMA I & II) that stood at 6.5% (₹11,102cr) of the standard advances as on Q4FY20, (2) Covid led slowdown in economic activity to impact bank's exposure to segments like real estate, hospitality, travel and tourism

Gap between FPO price & CMP: We believe current market price of Yes Bank is not the true reflection of fundamentals given that the reconstruction scheme had locked in 75% of all shares for 3 years, held by existing shareholders and new investors entering via the scheme. Hence, we believe CMP will converge around FPO price, once FPO shares float in the market. However, on FPO there is no locked in period for any investor.

Market outlook and valuation: At the upper end of the price band, Yes Bank demands Adj. PB of 0.85x post considering FPO. In current market, other banks are trading at attractive valuation of FY20 net worth viz. IDFC Bank (0.9x), SBI Bank (0.5x Core banking business), Federal Bank (0.9x). Our concern for Yes Bank is fresh formation of bad loans that would keep provision highs and return ratio compressed for longer time. Retail deposit is the key for any bank for lower cost of funds; however, YBL has witnessed sizable deposit withdrawal over last 2 quarters. Rebuilding CASA and deposits is a challenging task and would take longer time. Overall, the bank's revival and decent RoE numbers will take longer time. Considering above factors, we recommend NEUTRAL rating for FPO.

Key Financials

Y/E March	FY17	FY18	FY19	FY20
NII	5,797	7,737	9,809	6,805
% Chg	27	33	27	(31)
Net Profit	3,330	4,225	1,720	(16,432)
% Chg	31	27	(59)	(1,419)
NIM (%)	3.4	3.3	3.1	2.4
EPS (₹)	1	2	1	(9)
P/BV (x)	1.5	1.3	1.2	0.9
RoA (%)	1.8	1.6	0.5	(7.1)

Source: Valuation done on upper price band and FY20 PBV considered FPO.

NEUTRAL

Issue Open: July 15, 2020

Issue Close: July 17, 2020

Issue Details

Face Value: ₹2

Present Eq. Paid up Capital: ₹ 2510cr

Fresh issue: ₹15,000cr

Offer for sale: ₹ -

Post Eq. Paid up Capital: ₹5,013cr

Issue size (amount): *₹15,000cr

Price Band: ₹12-13

Lot Size: 1000 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹30,079cr - **₹31,332cr

Promoters holding Pre-Issue: 1.4%

Promoters holding Post-Issue: 0.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	0.7%
Others	99.3%

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Issue details

Yes Bank FPO is raising ₹15,000cr through fresh issue.

In this FPO, there is a reservation (₹200cr) kept for employees of Yes Bank, along with this they will also get ₹1/- discount.

Exhibit 1: Pre and Post Shareholding Pattern

Particular	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	17,79,40,925	1.4	17,79,40,925	0.7
Investor/Public	12,37,25,31,306	98.6	24,88,76,82,820	99.3
	12,55,04,72,231	100.0	25,06,56,23,745	100.0

Source RHP Note : Calculated on upper price band

Objects of the offer

- Ensuring adequate capital to support growth and expansion, including enhancing the Bank's solvency and capital adequacy ratio

Risk

- Improvement in asset quality and Deposit in mid term would be key risk to our NEUTRAL call.

Exhibit 2: Relative Valuation

Banks (₹ cr)	Mcap	NW	Advance	Deposit	GNPA	NPA	PCR	PBV FY20
Yes Bank	31,332	36,726	1,71,443	1,05,364	16.8	5.0	70	0.85
Axis Bank	1,24,056	84,947	5,71,424	6,40,105	4.9	1.6	68	1.46
ICICI bank	2,33,366	1,12,091	6,45,290	7,70,969	5.5	1.4	75	1.45
IDFC Bank	15,372	17,342	85,595	65,108	2.6	0.9	64	0.94
SBI Bank	1,74,000	2,08,244	24,22,845	32,41,621	6.2	2.2	64	0.50
Bank Of Baroda	23,842	65,776	6,90,121	9,45,985	9.4	3.1	67	0.37
Federal Bank	10,800	14,513	1,24,153	1,52,290	2.8	1.3	54	0.89
HDFC Bank	6,06,731	1,70,985	9,93,703	11,47,502	1.3	0.4	71	3.55
Canara Bank	15,000	32,959	4,51,223	6,25,351	8.2	4.2	49	0.58

Source: Company, Valuation done on closing price of 10/7/2020

Income Statement

Particular (₹ cr)	FY17	FY18	FY19	FY20
Net Interest Income	5,797	7,737	9,809	6,805
- YoY Growth (%)	27	33	27	(31)
Other Income	4,157	5,224	4,590	3,441
- YoY Growth (%)	53	26	(12)	(25)
Operating Income	9,954	12,961	14,399	10,247
- YoY Growth (%)	37	30	11	(29)
Operating Expenses	4,117	5,213	6,264	6,706
- YoY Growth (%)	38	27	20	7
Pre - Provision Profit	5,838	7,748	8,135	3,541
- YoY Growth (%)	36	33	5	(56)
Prov. & Cont.	793	1,554	5,778	32,758
- YoY Growth (%)	48	96	272	467
Profit Before Tax	5,044	6,194	2,357	(29,217)
- YoY Growth (%)	34	23	(62)	(1,339)
Prov. for Taxation	1,714	1,970	637	(6,530)
- as a % of PBT	34	32	27	22
PAT	3,330	4,225	1,720	(22,688)
Extraordinary Item (Net of tax)				6,297
Adj Pat	3,330	4,225	1,720	(16,391)

Balancesheet

Y/E March (₹ cr)	FY17	FY18	FY19	FY20
Equity	456	461	463	2,510
Reserve & Surplus	21,598	25,298	26,441	19,216
Networth	22,054	25,758	26,904	21,726
Deposits	1,42,874	2,00,738	2,27,610	1,05,364
- Growth (%)	28	41	13	(54)
Borrowings	38,607	74,894	1,08,424	1,13,791
Other Liab. & Prov.	11,525	11,056	17,888	16,946
Total Liabilities	2,15,060	3,12,446	3,80,826	2,57,827
Cash Balances	6,952	11,426	10,798	5,944
Bank Balances	12,597	13,309	16,092	2,439
Investments	50,032	68,399	89,522	43,915
Advances	1,32,263	2,03,534	2,41,500	1,71,443
- Growth (%)	35	54	19	(29)
Fixed Assets	684	832	817	1,009
Other Assets	12,532	14,946	22,098	33,077
Total Assets	2,15,060	3,12,446	3,80,826	2,57,827
- Growth (%)	30	45	22	(32)

Key Ratio

Particular	FY17	FY18	FY19	FY20
Profitability ratios (%)				
NIMs	3.4	3.3	3.1	2.4
Cost to Income Ratio	41.4	40.2	43.5	65.4
RoA	1.8	1.6	0.5	-7.1
RoE	18.6	17.7	6.5	-93.3
B/S ratios (%)				
CASA Ratio	36	36	33	27
Credit/Deposit Ratio	0.9	1.0	1.1	1.6
Asset Quality				
Gross NPAs %	1.52	1.28	3.22	16.80
Gross NPAs (Amt)	2,019	2,627	7,883	32,878
Net NPAs %	0.81	0.64	1.86	5.03
Net NPAs (Amt)	1,072	1,313	4,485	8,624
Credit Cost on Advance %	0.60	0.76	2.39	19.11
Provision Coverage %	47%	50%	43%	74%
Per Share Data (₹)				
EPS	1.3	1.7	0.7	-9.1
BV	8.8	10.3	10.7	14.7
Valuation Ratios				
PER (x)	9.8	7.7	18.9	-1.4
P/BV	1.5	1.3	1.2	0.9

Valuation done at upper price band and FPO share considered

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