

Subscribe for Long Term

Issue Details

Price Band (Rs)	Rs. 12 - 13
Face Value (Rs)	2
Issue Size (Rs)	15,000Cr
Issue Type	Book Building
Minimum lot	1,000 Shares
Issue Opens	July 15, 2020
Issue Closes	July 17, 2020
Listing on	BSE, NSE

Indicative Timeline

On or before	
Finalization of Basis of Allotment	July 22, 2020
Unblocking of Funds	July 23, 2020
Credit of shares to Demat Account	July 24, 2020
Listing on exchange	July 27, 2020

Other Detail

Book Running Lead Managers	Kotak Mahindra Capital Company Limited, SBI Capital Markets Limited, Axis Capital Limited, Citigroup Global Markets India Private Limited, DSP Merrill Lynch Limited, HSBC Securities and Capital Markets (India) Private Limited, ICICI Securities Limited and YES Securities (India) Limited
Registrar	KFIN Technologies Private Limited

YES BANK LIMITED

Company Background

Yes Bank Ltd. (YBL) is a new generation private sector bank in India incorporated as a public limited company in November 2003 and obtained certificate of commencement of business in 2004. In May 2004, it was granted a license by the RBI under Section 22(1) of the Banking Regulation Act to commence banking operations in India. In March 2020, the Government of India notified the "YES Bank Limited Reconstruction Scheme 2020" and the Board was reconstituted with eight eminent professionals with vast experience within the banking industry.

Issue Details

The offer comprises fresh issue of Equity shares aggregating upto Rs.15,000Cr.

Issue Objectives

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

As of March 31, 2020, the Bank's CET 1 ratio was at 6.3%. The RBI had prescribed a minimum CET 1 ratio of 7.375% by March 31, 2020. This minimum CET 1 ratio requirement will increase to 8% by September 30, 2020. In order to comply with the requirements of the RBI with respect to CET 1 ratio and support the Bank's growth plans, it is important to have adequate equity capital.

FPO share allotment pattern

Category	Allocation	Number of Shares at Rs.12	Number of Shares at Rs.13	Issue Size (Rs.Cr)
QIP	50%	6,166,666,667	5,692,307,692	7,400
NII	15%	1,850,000,000	1,707,692,308	2,220
Retail	35%	4,316,666,667	3,984,615,385	5,180
Employee*		181,818,181	166,666,666	200
Total		12,515,151,514	11,551,282,051	15,000

* Discount of Rs. 1/- per equity share will be offered to eligible employees.

Outlook and Valuations

After growing well for several years, YES Bank has seen tough times in the past couple of years in terms of asset quality, including NPA divergence, and change in management, which affected its financials. Consequently, in March 2020, the government notified a reconstruction scheme, which was followed by the reconstitution of its board and Rs 10,000-crore equity infusion by larger peers, led by State Bank of India. We believe a reconstruction scheme, change in management and fund raising will lead to benefit the bank in the long run. At the upper price band of Rs.13/-, the stock trades at 0.85x its FY20 P/B value of Rs.15.22/-(Post FPO) which is at discount of 38% based its last traded price of Rs.20.9. (as on 14.07.2020) Hence, **We recommend to subscribe the issue from a long-term prospective.**

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Business Overview

YBL is India's 6th Largest Private Sector Bank on the basis of total standalone assets as at March 31, 2019. Yes Bank is a full-service Commercial Bank specialising in Merchant Banking, Digital Banking, Brokerage Business, Asset Management and Investment Banking. Its' presence covers all (28 States and 8 Union Territories in India and 1 representative office in Abu Dhabi. As of March 31, 2020, the Bank has a network of 1,135 branches and 1,423 ATMs. Its' extensive network of branches include 250 hub branches, 850 spoke branches, and with approximately 85% of their branches with more than 3 years vintage.

The bank provides a knowledge-based approach to banking that adds value for its customers by allowing them to capitalize on its knowledge in specific business sectors as well as across products. This approach, enabled further by the use of efficient technology-based solutions, strengthens the relationships with the customers by allowing bank to develop those existing relationships to cross-sell their full range of product and service offerings, with increasing thrust on transaction banking and payments. YBL is also ranked first as a remitter bank for IMPS by National Payments Corporation of India in the peer group for 2019 and 1st about the promotion of Digital Payment and exemplary performance in Digital Payments across 56 Public and Private sector banks in India by the Ministry of Electronics & Information Technology. The bank also aims to develop a scalable platform as it focuses on retail and SME advances. As of March 31, 2020, it has 50 dedicated SME branches in SME hubs.

As of March 31, 2020 Yes Bank has 3 subsidiaries, YES Securities, YES Asset Management (I) Ltd. ("YAMIL") and YES Trustee Ltd. ("YTL"). YES Securities is engaged in the business of merchant banking, investment banking, institutional sales and trading and equity research. YAMIL offers the services of an investment manager and YTL acts as a trustee to YAMIL.

On March 5, 2020, the Central Government, based on the RBI's application, imposed a moratorium effective from March 5, 2020 up to and inclusive of April 3, 2020. The RBI superseded the board of directors of the Bank on March 5, 2020. Subsequently, on March 6, 2020, the RBI proposed a draft reconstruction scheme. Further on March 13, 2020, the Government of India notified the Yes Bank Ltd Reconstruction Scheme 2020. Among other things, the Reconstruction Scheme provided for cessation of the imposed moratorium with effect from March 18, 2020. The Board was reconstituted with 8 eminent professionals. Since the implementation of the Reconstruction Scheme, they have formulated new strategic objectives which aim at augmenting deposit base and liquidity buffers, optimizing operating costs, building stronger governance and underwriting framework and focusing on stressed assets resolution over the next 6 to 12 months.

Investment Rationale

Simplified organisation structure backed by marquee institutions and experienced leadership team

Pursuant to the Reconstruction Scheme, SBI, together with Housing Development Finance Corporation Limited, ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, The Federal Bank Limited, Bandhan Bank Limited and IDFC First Bank Limited, invested Rs.10,000 Cr in the Bank at a price of Rs.10 per equity share of the Bank. Moreover, pursuant to the Reconstruction Scheme, a new Board of Directors, Chief Executive Officer and Managing Director and Non-Executive Chairman were also identified and appointed. The newly formed board consists of eminent and experienced professionals, which seek to ensure that the Bank adheres strictly to regulatory and governance norms.

Details regarding the Board of Directors:

Prashant Kumar is the Managing Director and Chief Executive Officer of the Bank. He has over 35 years of experience in the banking field. In his long service in SBI, he had the opportunity to work in various areas of banking such as credit, retail banking, human resources & strategic training and finance.

Sunil Mehta is the Non-Executive Chairman of the Bank. He has over three and a half decades of experience in banking, financial services, insurance and investments, which includes his time with Citibank and AIG. He headed the Sashakt panel, which was appointed by the Government of India that penned an approach to resolve the pool of NPAs for public sector banks.

Mahesh Krishnamurti is the Non-Executive Director of the Bank. He has extensive experience in partnering closely with senior leadership teams in some of the most dynamic companies in the world.

Atul Chunilal Bheda is the Non-Executive Director of the Bank.

Rama Subramaniam Gandhi and **Ananth Narayan Gopalkrishnan** are the Additional Director of the Bank and are appointed by the RBI. **Partha Pratim Sengupta** and **Swaminathan Janakiraman** are the Nominee Director of SBI on the board of the Bank.

Differentiated technology platform leading to digital leadership

YBL has a strong technology backbone and unparalleled digital capabilities and operates based on two themes of "Run the Bank" and "Build the bank". YBL has emerged as a market leader in the payment segment by ranking as top Remitter Bank in the Intermediate Payment Service, highest P2M transactions in the Unified Payments Interface segment and held approximately 29.5% market share based on transaction volume in the Aadhaar Enabled Payment System segment as at March 31, 2020.

Wide Pan India Presence

YBL has its presence across India covering all 28 states and eight union territories with one representative office in Abu Dhabi as of March 31, 2020. It has a network of 1,135 branches and 1,423 ATMs spread geographically across the country. Its' extensive network of branches include 250 hub branches, 850 spoke branches, and with approximately 85% of their branches with more than 3 years vintage.

Well-established granular banking platform with a strong focus on retail and SME advances

YBL has a well-established banking platform with a strong focus on retail and SME advances. The use of digital capabilities helps the company lower the cost of retail-led acquisition and the use of a robust risk management system for SME business provides a potential for growth of the said business. The Bank's SME advances portfolio consists of engineering, textile, retail, metals, jewellery, agriculture, iron and steel, food and others. It is highly granular with an average ticket size of approximately Rs.15 million. RBL has lower account level vintage delinquency compared to the peer group across personal loans, auto loans and loans against property portfolios, as per TransUnion CIBIL.

Knowledge-based approach to banking enabling cross-selling

YBL uses a knowledge-based approach to banking to provide their customers with well-informed, customized, and risk-mitigated solutions which differentiate the bank from their competitors and helps strengthens the customer relationships. This allows the banks to cross-sell a full range of products and services to existing customers.

Financial performance

Amt in Crore	2018	2019	2020
Share Capital	461	463	2510
Reserves and surplus	25,292	26,424	19,185
Net worth	25,753	26,887	21695
Deposits	200,689	227,558	105,311
Deposits Growth (%)	-	13.39%	-53.72%
Borrowings	74,894	108,424	113,791
Borrowings Growth (%)	-	44.77%	4.95%
Interest Earned	20,268	29,624	26,052
Interest Earned Growth (%)	-	46.16%	-12.05%
Net Profit/Loss for the year	4,233	1,709	-16,433
Net Interest Margin (%)	3.39%	2.97%	2.30%
Gross NPA (%)	1.28%	3.22%	16.80%
Net NPA (%)	0.64%	1.86%	5.03%
EPS	18.46	7.40	-56.11
RoNW (%)	17.72%	6.49%	-81.94%
Net Asset Value(Rs.)	111.82	116.14	17.29

The company's financials for Fiscal 2020 see a negative growth compared to earlier years. This was mainly on account of a sudden rise in NPA due to the slippage of investments in stressed corporate groups. The Bank has focused on pro-actively recognizing bad loans as it continues to account for loan slippages in fiscal year 2020 and has decided to increase its coverage ratio on its NPA loans beyond the RBI requirements with a provision coverage ratio on advances at 73.77%. While its CASA ratio reduced from 32.1% to 26.6% from December 31, 2019 to March 31, 2020 due to the substantial withdrawal of deposits during the fiscal year 2020, the Bank is committed to increasing the volume of its CASA and granular term deposits. The management has guided CASA target of 40% in the next three years.

Going forward, the Bank has set the following strategic objectives:

- Rebuild the foundation and calibrate growth over the next 6 to 12 months:
 - Rebuild liabilities and liquidity buffers;
 - Optimise cost;
 - Strengthen the governance and underwriting framework; and
 - Focus on stressed assets resolution.

• Medium-term objectives:

- Stabilise liability mix and lower cost of funds with and aim to increasing CASA ratio to more than 40%;
- Provide granular advances, with retail and MSME being more than 60%;
- Enhance corporate flows and cross-selling through transaction banking; and
- Increase ROA to above 1% within the next 1 to 3 years and above 1.5% within the next 3 to 5 ye

Risk and Concern

1. Any increase in the portfolio of NPAs or NPIs, RBI-mandated provisioning requirements or restructured advances could materially and adversely affect Bank's business.
2. There is no assurance that its growth will continue at a rate similar to what they have experienced in the past, or at all. In the event that they continue to record negative EPS, it may adversely affect its business and financial condition.
3. The Bank is exposed to certain NPAs concentrations with respect to the size of its corporate loans, the nature of its micro, small and medium-sized enterprises loans, and its loans to priority sectors, for example, resulting in increased risk of higher NPAs levels.

Business Update - COVID 19

The Bank ensured availability of Services in 95+ of all branches/ ATMs.

- The electronic and digital channels are available 24 hours to provide banking services to its customers.
- Quickly ramped up its remote access capability and wear able to cover critical activities from day 1, at this stage bank deployed 10,000+ remote users working towards supporting business using remote access systems with the ability of further expansion as needed.
- Sequential planning of employee working shift with twin objectives was introduced. This extended the window for customer service at branches and avoided employee travel at peak hours.
- Critical v/s non critical activities were immediately reviewed, where 1,000 critical users were already performing their activities from remote locations as part of business as usual before lockdown.

Moratorium:

- In accordance with the RBI guidelines relating to COVID-19 Regulatory package, the Bank has offered a moratorium of 6 months on the payment of all unpaid instalments and /or interest, as applicable, failing due between March 1, 2020 and August 31, 2020 to all eligible borrowers classified as 'Standard' as on Feb 29,2020.
- Overdue exposures as on Feb 29, 2020 has a total outstanding amount of Rs.15,010.55 Cr as on March 31, 2020 of which NPAs standstill as on March 31, 2020, was Rs.2,712.95 Cr against which Provisioning of Rs.237.84 Cr.

Peer Comparison*

Name of the Company	"Total Income(Cr)"	P/E	EPS	"Return on Net Worth (%)"	"NAV per share (Rs.)"
Yes Bank Limited	38,008	--	-56.11	-81.94%	17.29
IndusInd Bank	35,735	8.47	64.33	13.92%	486.70
RBL Bank	10,696	17.9	11.04	5.75%	207.67
IDFC First	17,962	NM	-5.94	NM	32.02
Federal Bank	15,472	6.71	7.94	11.16%	74.36

*All data as per Restated Financial Statement for the year ended March 31, 2020, NM=not meaningful
 All financial statement related values are for fiscal year 2020 and on consolidated basis
 P/E based on , closing prices as of July 13, 2020

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Weekly Derivative Synopsis	Portfolio Review
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