

Yes Bank FPO Note



Yes Bank Limited

Issue Opens On
July 15, 2020

Issue Closes On
July 17, 2020

CMP (INR)
22

Price Band (INR)
12-13

Issue Size (INR Cr.)
Up to 15,000

Rating
SUBSCRIBE

Yes Bank is leading private sector, full-service commercial bank with pan-India presence across 28 States and 8 Union Territories in India. As of June 30, 2020, the Bank has a network of 1,100+ branches and 1,400+ ATMs. Its' extensive network of branches include 250 hub branches, and 850 spoke branches. Yes Bank has 3 subsidiaries namely YES Securities, YES Asset Management and YES Trustee. The bank provides complete range of products, services and technology driven digital offerings that served to corporate, MSME and retail customers. In March 2020, Yes bank undergone complete restructuring under guidance of Central Government and RBI due to dramatic increase in NPA. SBI and other investors including HDFC, ICICI Bank, Axis Bank, Kotak Mahindra Bank, The Federal Bank, Bandhan Bank and IDFC First Bank invested an amount aggregating to INR 10,000 Cr. in the Bank as a part of restructuring scheme. As a next step, along with new management team in place, Yes Bank is looking at strengthening with this fund-raise.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under FPO (#)	12,515,151,514-11,551,282,050
Face Value	INR 2
Price band (INR)	12-13
Post issue MCAP (INR Cr.)	30,079 – 31,332

Indicative Timetable	
Offer Closing Date	July 17, 2020
Finalization of Basis of Allotment with Stock Exchange	On or about 22 nd July-20
Initiation of Refunds	On or about 23 rd July-20
Credit of Equity Shares to Demat accounts	On or about 24 th July-20
Commencement of Trading of Eq.shares on NSE	On or about 23 rd July-20

Source: RHP Document

Source: RHP Document

Issue Details
Fresh Issue of Equity shares aggregating up to INR 15,000 Cr.
Equity shares aggregating up to ₹ 200 Cr. reserved for employees who will get discount of INR 1 per share

Issue break-up	No. of shares (#)
QIB	Up to 50% of the Net Offer
Non-Institutional	Up to 15% of the Net Offer
Retail	Up to 35% of the Net Offer
Net Offer	12,515,151,514- 11,551,282,050

Source: RHP Document

Source: RHP Document

Summary of Restated Financials			
Particulars (In INR mn)*	FY18	FY19	FY20
Share Capital	4,605	4,630	25,100
Net worth	257,525	268,874	216,949
Revenue	255,617	342,992	380,081
PAT	42,332	17,092	-164,625
Earning per share (basic)	18.46	7.40	-56.11
Earning per share (diluted)	18.09	7.33	-56.11
Net asset value per Equity share	111.82	116.14	17.29
Total borrowings	748,935	1,084,241	1,137,905

Source: RHP Document * Restated Consolidated, # Proforma Ind AS

Yes Bank Limited

Investment Thesis

6th largest private bank

Yes Bank is the 6th largest private bank (in terms of standalone asset as on March 31, 2020). Total assets and Total Advances stood at INR 2,57,827 Cr. and INR 1,71,443 Cr., respectively, as on March 31, 2020. In terms of Advances breakdown, Corporate (55.9%) remains largest segment followed by Retail (23.8%), SME (12.6%), and Medium Enterprises (7.8%). Total Deposits stood at INR 1,05,364 Cr., resulting into Advances/Deposit ratio of 1.63.

Bank with scalable platform with pan-India presence

Yes Bank is the market leader in digital payments UPI, AEPS and IMPS with 35%+ market share that offers complete suite of products through digital channels. Amid Covid-19 lockdown, the bank has developed system of opening saving account through video KYC. Besides, as of June 30, 2020, the Bank has a network of 1,100+ branches and 1,400+ ATMs. Its' extensive network of branches include 250 hub branches, and 850 spoke branches. Thus, pan-India presence along with digital capabilities gives significant edge the bank among its peers.

New board to focus on corporate governance adhere to regulatory guidelines

The current Board consists of 8 Directors, comprising the Managing Director and CEO, 5 Non-Executive Directors (including 2 Nominee Directors) and 2 Additional Directors. All the board members comes with strong banking and financial experience; which will surely drive efficiency and enhance the operational efficiency. The new board is expected to focus on compliance and corporate governance on a priority basis.

(i) Mr. Prashant Kumar is the CEO of the Bank. He comes with 35+ years of experience in the banking industry and previously worked with SBI. He has worked in the fields of credit, human resources and training systems at SBI where in he has served as chief general manager of the bank's Kolkata Circle as well as the Mumbai Circle. (ii) Mr. Sunil Mehta is the Non-Executive Chairman of the Bank. He is also former non-executive chairman of Punjab National 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 also occupies the position of Chairman & Managing Director at SPM Capital Advisers Pvt Ltd. Besides, Mr. Mahesh Krishnamurti and Mr. Atul Chunilal Bheda are the Non-Executive Directors of the Bank. Mr. Rama Subramaniam Gandhi and Mr. Ananth Narayan Gopalkrishnan are the Additional Directors of the Bank. Mr. Partha Pratim Sengupta and Mr. Swaminathan Janakiraman are the nominee Directors that represents SBI.

Near term objective (6-12 months) is to re-build foundation for Yes Bank 2.0

The management has planned four-step strategy to rebuild the foundation for Yes Bank post restructuring that includes:

- Cost optimization: The bank is targeting atleast 10% cost savings in FY21 driven by digital and analytics solution implementation.
- Governance and underwriting framework: Simplified organization structure planning is ongoing with independent risk management team.
- Focused stressed assets resolution: The bank is looking at spin-off and planning to set up separate subsidiary which will focus on stressed asset management.
- Rebuild liability and liquidity buffers: The bank is planning to focus on granular loan portfolio rather than corporate loan as well as revamped cash management systems.

On a medium term (12-24 months), the management has made more aggressive targets to achieve

The board has designed another four-step strategy with tough targets to achieve in the next 24 months that includes:

- Focus on CASA ratio: The bank is targeting to improve CASA mix of greater than 40% which is currently ~26%.
- Granular advance: The bank aims to achieve advances mix that is more focused on granular rather than corporate advances and hence, looking to achieve mix of 40%:60% of Corporate: retail in next 2 years compared to current mix of 55%:45%.
- Cross-sell opportunities: With comprehensive offerings, the management is planning to tap multiple cross-selling opportunity through analytics.
- Sustainable earnings: The management has laid target of achieving 1% RoA in next 1 year and 1.5% RoA over 3-5 years (current RoA is negative).

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KEY RISKS & CONCERNS

Asset quality is concern: Gross NPA increased to INR 32,878 Cr. in FY20 from INR 7,883 Cr. from FY19. Most of these NPA is pertaining to Corporate loan book. As on 31st March 2020, Yes Bank reports GNPA of 16.8%; which is significantly higher than industry average and poses a high risk. While the bank has already made provisions to cover the respective GNPA; any material change in asset quality can result in fresh slippages and affect performance. Any major default in corporate loan book can significantly impact overall portfolio of assets. Amid Covid-19 led slowdown, the risk of loan losses may increase and could result in increase fresh slippages.

Capital Adequacy Ratio is below regulatory requirement: As on March 31, 2020, the bank is in breach of its Tier I capital ratio as required by RBI. The decline in Capital Adequacy Ratio was attributed to increase in provisions related to GNPA. As mentioned, the key objective of this fund raise is to enhance the Tier I Capital ratio.

Non-compliance with RBI's regulation on exposure to a group of connected counterparties: As on March 31, 2020, the bank is in breach of its exposure limits to eight groups of connected counterparties and two single counterparties. Accordingly, the applicable single counterparty "Large Exposure" limits for bank amounted to INR 3,103 Cr. and applicable group counterparty "Large Exposure" limits for the Bank amounted to INR 3,879 Cr.

KEY CONCALL HIGHLIGHTS

- (i) On 13th Mar'20, GOI notified Yes Bank Ltd reconstruction scheme. The board was reconstituted with experienced professionals. There are no plans to change management in near term and bank would continue to operate as an individual private sector bank.
- (ii) The main objective of the issue is to ensure adequate capital to support 2 years of growth and expansion requirements, including bank's capital ratios to maintain 4-5% over and above the minimum regulatory requirements.
- (iii) The bank is focused on building strong governance and underwriting framework. It is focusing on stressed assets resolution over the next 6-12 months.
- (iv) The bank has set the issue price 50% discount to current price. Price discovery and feedback from BLRM, small amount of stock in the market and to reward stakeholders/investors who would join bank's 2nd version are the main reasons for the discount.
- (v) The bank has clarified that there is no lock-in period except for intermediaries having 30 days of lock-in period.
- (vi) The bank would focus more on customer acquisition and technology. It has set target to achieve ROA more than 1% over next 3 years and more than 1.5% over next 4-5 years.
- (vii) As on Mar'20, the bank has worth INR 500 bn of stressed asset and provision coverage ratio was at 74%.
- (viii) Stressed asset portfolio worth INR 500 bn includes INR 330 bn of Non-performing advances and INR 100 bn of Non-performing investments.
- (ix) The management believes in its digital capabilities to differentiate from other banks. It has plans to reduce cost of transactions and customer acquisition. From last 15 days, the bank has been opening deposit saving account with the help of video KYC.
- (x) SBI would continue to hold financial investment for the bank and would have 2 nominee directors from SBI on the board.
- (xi) Bank's focus would be more on retail/MSME as against corporate earlier. The strategy to be granular on liability and asset side sides both.
- (xii) As on Mar'20, corporate and retail/SME portfolio is at 55%/45%, respectively. The bank is expected to reach at 50% by the end of FY21 and focusing on increasing its retail/MSME portfolio up to 60%. Growth in NIMs is expected to be driven by rebalancing the mix of retail & corporate loans on asset side and improvement in CASA ratio up to 40% and more.
- (xiii) With the use of analytics and algorithms, bank's digital roadmap is aiming at upgrading operational efficiency, more meaningful engagements with customers to improve CASA and self-service mode to deepen the businesses.
- (xiv) The bank's major portion of operating expenses was employee costs where the bank would decide on outsourced employees wherever required; however, no change is expected for on roll employees. Also, there are no plans to change salary/compensation structure of the bank. As on Mar'20, there are 22,000 employees are on payroll of the bank.
- (xv) The bank is looking to form a subsidiary to hive off its stressed assets over next 6 to 9 months which is subject to approval. It would operate professionally.

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Financials:

INR Millions	FY 16	FY 17	FY 18	FY 19	FY 20
Interest Income	1,35,334	1,64,246	2,02,674	2,96,247	2,60,666
Interest Expense	89,667	1,06,273	1,25,304	1,98,157	1,92,614
Net Interest Income	45,667	57,973	77,371	98,090	68,052
Non interest income	27,121	41,568	52,238	45,902	34,415
Operating income	72,789	99,540	1,29,609	1,43,992	1,02,467
- Employee expense	12,968	18,050	21,889	24,698	25,999
- Other operating expense	16,796	23,115	30,239	37,945	41,293
Operating Expense	29,764	41,165	52,128	62,643	67,292
PPOP	43,025	58,375	77,481	81,349	35,175
Provisions	5,363	7,934	15,538	57,776	3,27,584
PBT	37,662	50,441	61,943	23,573	-2,92,409
Tax Expense	12,268	17,140	19,697	6,371	-65,260
PAT	25,394	33,301	42,246	17,203	-2,27,150
Exceptional Items					62,969
PAT (Inc. Exceptional Items)	25,394	33,301	42,246	17,203	-1,64,180

Source: Company, Bloomberg

INR Millions	FY 16	FY 17	FY 18	FY 19	FY 20
Source of Funds					
Share capital	4,205	4,565	4,606	4,630	25,101
Reserves & Surplus	1,33,660	2,15,975	2,52,977	2,64,244	191,849
Networth	1,37,865	2,20,540	2,57,583	2,69,042	2,17,263
Borrowings	3,16,590	3,86,067	7,48,936	10,84,241	11,37,905
Deposits	11,17,195	14,28,738	20,07,381	22,75,579	10,53,112
Other liabilities & provisions	80,983	1,15,254	1,10,556	1,78,902	1,70,355
Total Equity & Liabilities	16,52,634	21,50,599	31,24,496	38,08,596	25,78,322
Uses of Funds					
Cash & Equivalent	82,184	1,95,494	2,47,344	2,68,895	83,830
Net investments	4,88,385	5,00,318	6,83,989	8,93,285	4,37,478
Loans & advances	9,82,099	13,22,627	20,35,339	24,13,972	17,14,330
Fixed assets	4,707	6,835	8,324	8,298	10,234
Other assets	95,259	1,25,325	1,49,460	2,23,191	3,31,975
Total Assets	16,52,634	21,50,599	31,24,496	38,08,596	25,78,322

Source: Company, Bloomberg

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Financials:

Key Ratio	FY 16	FY 17	FY 18	FY 19	FY 20
Growth Rates					
Advances (%)	30.0%	34.7%	53.9%	18.7%	-29.0%
Deposits (%)	22.5%	27.9%	40.5%	13.4%	-53.7%
Total assets (%)					
NII (%)	30.9%	26.9%	33.5%	26.8%	-30.6%
Pre-provisioning profit (%)	32.4%	35.7%	32.7%	5.0%	-56.8%
PAT (%)	26.6%	31.1%	26.9%	-59.3%	-1420.4%
B/S Ratios					
Credit/Deposit (%)	87.9%	92.6%	101.4%	106.1%	162.7%
CASA (%)	28.1%	36.3%	36.5%	33.1%	26.6%
Operating efficiency					
Cost/income (%)	40.9%	41.4%	40.2%	43.5%	65.7%
Opex/total assets (%)	2.0%	2.2%	2.0%	1.8%	2.1%
Opex/total interest earning assets					
Profitability					
NIM (%)	3.4%	3.4%	3.2%	3.1%	2.4%
RoA (%)	1.7%	1.8%	1.6%	0.5%	-7.1%
RoE (%)	19.9%	18.6%	17.7%	6.5%	-93.4%
Asset quality					
Gross NPA (%)	0.8%	1.5%	1.3%	3.2%	16.8%
Net NPA (%)	0.3%	0.8%	0.6%	1.9%	5.0%
CAR (%)	16.5%	17.0%	18.4%	16.5%	8.5%
Slippage (%)	1.0%	2.3%	4.9%	3.6%	18.0%
Credit cost (%)	0.6%	0.6%	0.7%	2.2%	12.5%
Per share data					
Diluted EPS (INR)	12.10	15.10	18.09	7.33	-56.11
BVPS (INR)	65.60	96.60	111.80	116.20	17.30

Source: Company, Bloomberg

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