

Yes Bank Ltd. (FPO)

SSIS IPO GRADE 5/5 (Subscribe)

13th July, 2020

Rating Overview

Yes Bank Limited ("Yes Bank") 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. I

Yes Bank's capital raise augments its CET-1 ratio to 9.9% from 6.3%, which can further give positive outlook to credit fundamentals. An improvement in provision coverage to 74% indicates that the legacy stress in assets has been well provided for. The offer is priced at a discount to its book value priced at ~0.7 x its book value as on Mar FY20, which captures the lockdown induced stress risk on collections, and existing loans.

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.

Our overall fundamental rating of Yes Bank is average fundamentals but we give a thumbs up to its revival strategy. This could be a turnaround for the bank and the ask price is fair compared to what the banks and private investors purchased it for.

Note: The analyst has plans of subscribing to the offer but does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

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. Since the implementation of the Reconstruction Scheme, the bank has 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 six to twelve months.

Amidst the challenging environment, it continues to develop young and dynamic talent pool as an investment in human capital is the key to long term sustainable success. As one of India's new generation private sector bank, its presence covers all 28 states and eight union territories in India and one representative office in Abu Dhabi as of March 31, 2020. It is a full-service commercial bank specializing in merchant banking, digital banking, brokerage business, asset management and investment banking.

As of March 31, 2020, the Bank has a network of 1,135 branches and 1,423 ATMs. Its branches increased to 1,135 as of March 31, 2020, from 631 as of March 31, 2015 to 1,000 as of March 31, 2017. Bank's extensive network of branches includes 250 hub branches, 850 spoke branches, and with approximately 85% of its branches with more than three years vintage. YBL's branches are geographically extensive with 386, 236, 298 and 215 in metro, urban, semi-urban and rural locations respectively.

YBL is also ranked first as a remitter bank for IMPS by National Payments Corporation of India ('NPCI') 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. It provides a knowledge-based approach to banking that adds value for its customers by allowing them to capitalize on the bank's knowledge in specific business sectors as well as across products.

Its strategic initiatives in the enhancement of SME capabilities include financing vendors of corporates, tie-ups with trade and industry relationships and expanding its liability business through branches and CRM based sourcing. As of March 31, 2020, it has 50 dedicated SME branches in SME hubs it intends to increase customer base in its corporate banking, medium enterprises banking, SME banking and retail banking business segments through a focused customer relationship management approach.

Fundamental Overview

As per re-stated financial data, the bank has posted total revenue/net profit (Loss) of Rs. 25561.75 cr. / Rs. 4233.22 cr. (FY18), Rs. 34299.28 cr. / Rs. 1709.27 cr. (FY19) and Rs. 38008.12 cr. / Rs. -(16432.58) cr. (FY20). Thus while its revenue marked steady growth, its bottom line declined sharply. According to bank management, extra provisioning of NPAs and other adjustments, the bank has posted dismal performance for FY20. For all

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these fiscals, its basic EPS (Earnings per Share) stood at Rs. 18.46, Rs. 7.40 and Rs. (56.11). For the said year end, its NAV (Net Asset Value) was at Rs. 111.82, Rs. 116.14 and Rs. 17.29 respectively. As on 31.03.2020, its total borrowings

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were Rs. 113790.50 cr. As on the date of filing of RHP for this offer, the bank is involved in litigations/criminal and other proceedings amounting to Rs. 56716.74 cr. (that includes by the bank, against the bank and its group companies).

For the last three fiscals, the bank has (on a consolidated basis) posted an average EPS of Rs. - (22.51) and an average RoNW of - (35.85%). This negative data is attributed to a sharp decline in the bottom line for FY20. During these three fiscals, bank's total assets decreased by CAGR of (9.16%), total deposits decreased at a CAGR of (27.96%), CASA deposits decreased at a CAGR of (38.09%), advances decreased by (8.22%).

The Bank has focused on pro-actively recognizing bad loans as it continues to account for loan slippages in the fiscal year 2020. Additionally, the Bank 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%.

Since the bank's current position is showing negative earnings as on 31.3.2020, its P/E cannot be arrived at. However, if we consider NAV of Rs. 17.29 as on 31.03.20, this issue is priced at a P/BV of 0.75 and a discount of 49% based on its last traded price (LTP) of Rs. 25.50 (as on 10.07.20). (As per the upper band of FPO).

Summary of past financials			
Particulars	For the year/period ended (Rs in Million)		
	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	2,578,321.64	3,808,596.10	3,124,496.54
Total Revenue	103,350.56	144,879.93	130,323.20
Profit After Tax	(164,325.80)	17,092.66	42,332.20

Issue Details

To meet its revised capital adequacy norms to support its growth and expansion plans, YBL is coming out with Follow-on Public Offer (FPO) of 11551282051 equity shares of Rs. 2 each via book building route. It has fixed the price band of Rs. 12 to Rs. 13 per share. YBL mulls raising Rs. 15000 cr. from this FPO. This is the second public offer from this bank after 2005. The maiden IPO was oversubscribed by 29.13 times (QIB 31.32 times, HNI 43.75 times and Retail 10.15 times).

It opens for subscription on 15.07.20 and will close on 17.07.20. Minimum application is to be made for 1000 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. This issue constitutes 47.93% of the post issue paid-up capital of the bank. Management clarified that estimates of issue expenses are not a part of RHP and the same will be dealt with only in the final RHP post issue.

Out of the entire issue, the bank has kept shares worth Rs. 200 cr. reserved for its eligible employees. From the rest Rs. 4400 cr. for anchor investors, QIBs Rs. 2960 cr., NIIIs Rs. 2220 cr., Retail Rs. 5180 cr. The bank is offering Re. 1 per share discount to its eligible employees.

This issue is jointly lead managed by Kotak Mahindra Capital Co. Ltd., SBI Capital Markets Ltd., Axis Capital Ltd., Citi Global Markets India Pvt. Ltd., DSP Merrill Lynch Ltd. (BofA Securities), HSBC Securities and Capital Markets (India) Pvt. Ltd., ICICI Securities Ltd. and Yes Securities (India) Ltd. KFIN Technologies Pvt. Ltd. is the registrar to the issue.

In the year 2019, YBL has issued (FV Rs. 2 per share) 211600 shares at Rs. 76.81 per share on 10.08.19 (ESOP), 231055018 shares at Rs. 83.55 on 15.08.19 (QIBs), 22300 shares at Rs. 55.77 per share on 16.09.19 (ESOP), 140000 shares at Rs. 53.88 per share on 13.11.2019 (ESOP) and 10000000000 shares at Rs. 10 per share (FV Rs.2 per share) on 14.03.2020 under reconstruction scheme introduced by RBI to the consortium of banks that included State Bank of India, HDFC, ICICI Bank, Axis Bank, Kotak Mahindra Bank, Federal Bank, Bandhan Bank and IDFC First Bank. As on the date of filing of RHP, the bank has 2138050 shareholders. Out of this consortium team, SBI will have three years lock-in for its 26% stake while all others will have a lock-in of three years for their 75% holding.

Post issue bank's current paid-up equity capital of Rs. 2510.09 cr. will stand enhanced to Rs. 4820.35 cr. Post this issue, YBL is looking at a market cap of Rs. 31215.28 cr. with this FPO. Its current market cap is Rs. 32003.70 based on LTP related to the latest paid-up equity capital of Rs. 2510.09 cr.

Application Dates Jul 15, 2020 – Jul 17, 2020	
Issue Type	Book Built Issue FPO
Face Value	₹2 per equity share
IPO Price	₹12 to ₹13 per equity share
Market Lot	1000 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹2 (Up to ₹15,000.00 Cr)

Issue Timeline	
Basis of Allotment Date	Jul 22, 2020
Initiation of Refunds	Jul 23, 2020
Credit of Shares to Demat Account	Jul 24, 2020
IPO Listing Date	Jul 27, 2020

Investment Strategy

Yes bank suffered a severe setback in line with general trends of the banking sector in general and due to higher NPA following few defaulting advances in particular. Although its pricing indicates negative P/E due to mega losses for FY20, considering its book value and the current market price, the issue is at a sizeable discount. Once the issue proceeds are received, the bank will be on a fast forward mode. Investors may consider investment with a long term perspective.