



Issue Highlights

Industry	Banking
Total Issue (Shares) - Fresh Issue	11,538,461,538
Net Offer to the Public	11,538,461,538
Issue Size (Rs. Cr.)	13846-15000
Price Band (Rs.)	12-13
Employee discount	Re.1 Per share
Offer Date	15-Jul-20
Close Date	17-Jul-20
Face Value	2
Lot Size	1000 Shares

Issue Composition

	In shares
Total Issue for Sale	11,384,615,385
QIB	5,692,307,692
NIB	1,707,692,308
Retail	3,984,615,385

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	1.42%	0.74%
QIB	71.69%	60.98%
NIB	12.37%	13.53%
Retail	14.53%	24.75%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The proposed utilisation of the net proceeds is for ensuring adequate capital to support growth and expansion, including enhancing the bank's solvency and capital adequacy ratio.

Book Running Lead Manager

- 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
- YES Securities (India) Limited

Name of the registrar

- KFIN Technologies Private Limited

About the Company

Incorporated in 2003, Headquartered in Mumbai Yes Bank is a private sector bank in India. It has developed as a full-service commercial bank offering banking and technology-driven product and services to fulfill the financial needs of MSME, corporate, and retail customers. Yes Bank provides merchant banking, investment banking, and brokerage businesses through Yes Securities. It has a pan-India presence across 28 states and 8 Union Territories. One representative office of the bank is also established in Abu Dhabi in March 2020. As of March 31, 2020, the bank has 1,135 branches and 1,423 ATMs.

Strength

Simplified organisation structure backed by marquee institutions and experienced leadership team: The bank has a unique combination of public-private ownership model within the Indian financial services space. Actually, 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 ₹10000 crore in the Bank at a price of ₹10 per equity share of the Bank (₹2 face value with a premium of ₹8). As of March 31, 2020, the company had 22,973 employees.

Differentiated technology platform leading to digital leadership: The bank's information technology (IT) strategy is divided into two parts: the first being "Run the Bank", which focuses on initiatives aimed at ensuring efficient and effective operations, and the second strategy entitled "Build the Bank", which focuses on technologies that could further enhance its business. As a new generation bank, the bank has been able to invest in latest technology infrastructure and applications to enhance customer experience across all service delivery channels, including digital banking.

Well-established granular banking platform with a strong focus on retail and SME advances: The bank has experienced a strong growth in its retail and SME advances over the last three years despite a reduction in corporate loan book. The composition of retail banking in total advances increased to approximately 24% as at March 31, 2020 compared to approximately 17% as at March 31, 2019 and approximately 12% as of March 31, 2018. Similarly, the composition of SME advances increased to approximately 13% compared to approximately 10% as at March 31, 2019 and approximately 10% as of March 31, 2018.

Diverse and scalable revenue streams: The bank provides diversified solutions to the financial and banking needs of its customers, with a focus on cross-selling multiple products to them such as deepening its corporate relationships by cross selling of cash management and transaction banking products and selling of retail asset products, including credit cards, to its retail liability customers. The bank believes that its combination of diverse product offerings and a relationship-driven approach has enabled it to structure solutions to meet its customers' needs, resulting in sustained revenue generation. Net interest income accounted for 59.70%, 68.12%, 66.41% (not including the extraordinary item of the write down of the Bank's AT I bonds) of the Bank's total net income for the fiscal years 2018, 2019 and 2020, respectively. For the fiscal year 2020, the Bank had a gain from the write-down of its AT I bonds of ₹62,96.94 Crore (posttax) which is not included in the calculation of total net income.

Knowledge-based approach to banking enabling cross-selling: The bank utilizes a knowledge-based approach to banking that it believes differentiates it from its competitors and enables it to provide its customers with well-informed, customized and risk-mitigated solutions. The Bank is increasing its thrust in liabilities with a focus on Transaction Banking.

Wide Pan India Presence: The bank has pan-India network. It has grown from 1,100 branches as at March 31, 2018 to 1,135 branches as at March 31, 2020 across 28 states and eight union territories. As at March 31, 2020, it has 215 branches in the rural areas, 298 branches in the semi-urban areas, 236 branches in the urban areas and 386 branches in the metro areas. Approximately 85% of its branches are with more than three years vintage. The bank operates through an extensive nationwide network of 250 hub branches, 850 spoke branches, more than 500,000 business correspondents as on March 31, 2020, that provide a strong sales platform, which enables us to cross-sell its products and deliver high-quality and convenient services.

Strategy

Liability Led Business Model: The Key elements of this strategy are the identification of current account corporate customers for preferred cash flow lending and working capital lending, and offering them a range of customized products, including wealth products targeted at their owners, promoters and directors, salary accounts and cash management and liquidity management solutions. The bank has undertaken the following initiatives:

- Expanded its distribution network to provide better access to customers, evidenced by an increase in the number of branches from 1,100 as of March 31, 2018 to 1,135 as of March 31, 2020 and increase in business correspondents from 64,854 as of March 31, 2018 to more than 500,000 as of March 31, 2020;
- Collaborating with Fintech companies to identify potential geographies;
- Cross-sell of liability products to new credit customers;
- Utilizing branch channel, manufacturing tie-ups and technology aided service delivery;
- Offering a higher savings rate to customers, following the RBI's deregulation of savings bank deposits rates in October 2011, which has led to a significant improvement in its savings bank deposits balances and new account openings;
- Offering targeted products such as 3-in-1 accounts, family accounts, salary accounts and specialized accounts for employees of central government, state government, public sector units and for defense forces with select privileges and relationship pricing on certain types of banking offerings;
- Government-to-Customer partnerships focused on expanding its customer base through initiatives such as partnerships with state government and digitizing their payments system;
- Leveraging digital channels with overlay of CRM and analytics to enhance productivity and servicing;
- Ensuring seamless service by leveraging investments in digital and technology capabilities.

Sustainable and diversified revenue generation: The bank intends to increase its customer base in its Corporate Banking, Medium Enterprises Banking, SME Banking and Retail Banking business segments through a focused customer relationship management approach. The strategy is to ensure sustainable and diversified revenue generation by granularizing the business. As part of its corporate strategy, the bank continues to invest in the transaction banking group, with the aim to improve revenue generation through the use of digital platforms. The bank has also launched a full suite of retail asset products, including secured business loans, cars loans, super bike loans, commercial vehicle loans, construction equipment loans, loans against securities, gold loans, personal loans, home loans and credit cards. After the withdrawal of the moratorium, the bank has constantly sought to improve its payment and cash management services and regained businesses from its customers.

Focus on cost optimization: The bank will continue to focus on effective cost management through manpower optimization, process improvements such as digitization of credit sanction process and investment reviews, and centralization of credit monitoring and analytics led cost monitoring. The bank will also review the consolidation, relocation and reformatting of its branch network. The bank has target minimum 5% fixed cost savings in the fiscal year 2021.

Enhancing brand value and strengthening corporate governance: The new Board and management intend to rebuild its brand and focus on improving customer sentiment by engaging in various activities such as advertising across print media, radio, television and the internet, domestically and abroad. As part of its brand value, it would continue to focus on initiatives that will enable it to strengthen its corporate governance. The bank has adopted a framework of policies and adopts the best practices that reflect its commitment to accountability, transparency and protection of stakeholders' interests. Its internal policies and procedures ensure that its activities and operations comply with existing regulatory requirements, and it regularly monitors, evaluates and audits the processes to ensure that they remain robust to meet the challenges of its activities and operations.

Strengthen risk management framework: The bank is actively focused on evaluating its enterprise, credit, market and operational risks and the bank intends to optimize its capital needs for growth to achieve high returns on capital and explore various fundraising opportunities (including, but not limited to, preferential offerings or rights issue) while managing and mitigating risks appropriately.

Risk Factor

Non-compliance with the RBI's observations: Non-compliance with the RBI's observations may have a material adverse effect on its reputation, business, financial condition and results of operation.

The Bank is in breach of certain restrictive covenants: The Bank is in breach of certain restrictive covenants contained in its financing arrangements and if the lenders choose to exercise their rights for any such breach, it may have an adverse effect on its business, cash flows, financial condition and results of operations.

Exposed to Non Performing Asset: For the fiscal years 2018, 2019 and 2020, the Bank's gross non-performing assets ("Gross NPAs") represented 1.28%, 3.22% and 16.80% of the Bank's total gross advances, respectively, and NPAs (net of provisions) ("Net NPAs") represented 0.64%, 1.86% and 5.03% of the Bank's net advances, respectively. If there is any deterioration in the quality of security or further ageing of the assets after being classified as non-performing, an increase in provisions will be required. Any such increase in provisions may adversely impact its financial performance.

The recent moratorium imposed on the Bank has adversely impacted its reputation: The recent moratorium imposed on bank has adversely influenced its reputation and caused a dent in depositors' confidence. Depositors concerned with its ability to return any money they have saved with the Bank had the knee-jerk reaction to withdraw their deposits with the Bank, resulting in a decrease in its deposits.

Peer comparison

(Rs. Crore)

Co_Name	Total Income	APAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Indusind Bank	37393.61	4458.18	64.28	8.39	1.11	486.46	10	539.15	37393.61
RBL Bank	10696.69	500.18	9.83	18.42	0.87	207.65	10	181.05	9210.74
IDFC first Bank	15372.05	-2843.39	-ve	-ve	33.39	0.81	10	27.1	15372.05
Federal Bank	15472.2	1580.20	7.91	6.85	0.73	74.32	2	54.2	1580.2
Yes Bank Limited	38008.12	-16432.58	-ve	-ve	0.85	15.23	2	13.00*	31315.61

*Peer Companies comparative financials are based on TTM

*Issue Price

Valuation

Considering the P/BVx valuation on the upper end of the price band of Rs. 13, the stock is priced at P/B ratio of 0.75x on the pre issue book value of Rs. 17.29 and on the post issue book value of Rs. 15.23, the P/B comes out to 0.85x.

On the lower end of the price band of Rs.12 the stock is priced at P/B ratio of 0.69x on the pre issue book value of Rs. 17.29 and on the post issue book value of Rs. 15.23, the P/B comes out to 0.79x.

Yes Bank continues to have a sizable stress book and hence provisions in the coming quarters will continue to remain elevated, thus restricting it from showing in any improved financials. Further the FPO will result in massive dilution in existing equity and even if the bank turns around it will struggle on the ROA and ROE front, this justifies the lower valuations for the bank.

Industry overview

As of March 2020, private sector banks (“PVBs”), accounted for 34.5% of the total credit and 29.0% of the total deposits of all SCBs. In fiscal year 2020, PVBs’ grew their total credit by 9.3% and total deposits by 10.4%. The retail credit market in India has undergone a significant transformation over the last decade and has experienced rapid growth due to consumer credit becoming cheaper and more widely available, and a more acceptable avenue of funding for consumers. In fiscal year 2020, 56.6% of growth in bank credit was on account of retail banking (personal loans, including priority sector housing), driven largely by the housing sector credit growth of 15.4% year-on-year “y-o-y”). During the same period, credit for vehicle loans grew by 9.1% while credit for education contracted by 3.3%. As of March 31, 2020 the credit-deposit ratio for all scheduled commercial banks in total was 76.0% as compared to 78.2% as on March 31, 2019. In fiscal year 2020, aggregate deposits of SCBs increased by 9.5%. Deposit growth in both public and private sector banks exceeded their credit growth; although for fiscal year 2020, deposit growth for public sector banks was marginally slower at 8.2% as against 10.4% for private sector banks.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	July 15, 2020
Bid/Offer Closing Date	July 17, 2020
Finalisation of Basis of Allotment with the Designated Stock Exchange	July 22, 2020
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	July 23, 2020
Credit of Equity Shares to depository accounts of Allottees	July 27, 2020

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)	31-Mar-18 (12 Months)
Interest Earned	26,052.02	29,623.80	20,268.59
Interest Expended	19,258.06	19811.2872	12,529.43
Net Interest Income	6,793.96	9,812.51	7,739.16
Other Income	11,956.10	4675.4814	5,293.15
Net Total Income	18,750.06	14,487.99	13,032.32
Operating Expenses	6,870.15	6,361.43	5,273.54
Operating Profits	11,879.91	8,126.57	7,758.78
Provisions & Contingencies (taxes and others)	28,312.49	6,417.30	3,525.56
Profit after Tax	-16,432.58	1,709.27	4,233.22

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-20	As on 31-Mar-19	As on 31-Mar-18
Non-current assets			
Fixed assets	1023.3842	829.8874	837.30
Net other assets	33197.53	22319.07	15046.28
Advances	171433.09	241397.19	203518.83
investment	43747.80	89328.53	68293.44
Total Non- Current Assets	249401.81	353874.68	287695.84
Current assets			
Cash and balance with RBI	5943.66	10797.74	11425.75
Balance with banks and money at call	2486.70	16187.19	13328.07
Total current assets	8430.36	26984.93	24753.82
Total Assets	257832.16	380859.61	312449.65
Non-current liabilities			
Deposit	105311.17	227557.90	200688.60
Borrowings	113790.50	108424.11	74893.58
Total	219101.67	335982.01	275582.18
Current liabilities			
Other current Liabilities and provisions	17035.53	17990.19	11,115
Total current liabilities	17035.53	17990.19	11114.96
Total	236137.20	353972.20	286697.15
NET Worth	21694.96	26887.41	25752.51
Net worth represented by:			
Share capital	2510.09	463.01	460.59
Reserves and surplus	19184.87	26424.40	25,291.91
Net Worth	21694.96	26887.41	25752.51

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