ON HOLD

Yes Bank says no to overseas issue plan, for now

The bank does not need funds immediately and is comfortable to fund growth through profit retention, says CEO

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MUMBAI

A year after it secured board approval to raise up to $500 million (about ₹2,712 crore) in international markets, new-age lender **Yes Bank Ltd** said it has put the plan on hold because it has sufficient capital.

The macroeconomic environment in Asia's third largest economy and rising bad loans have made Indian banks unattractive to global investors, experts said. Yes Bank's bad assets, however, are minuscule.

The bank had approval in April 2012 for raising funds by issuing equity capital up to $500 million through a qualified institutions placement, global depositary receipts (GDR) or American depositary receipts (ADR). Its shareholders, too, approved of the plan.

Yes Bank originally planned the fund-raising in the second half of fiscal year 2013.

The lender put the plan on hold as it did not need funds immediately and is comfortable to fund its growth through profit retention, managing director and chief executive officer Rana Kapoor said. "We have no plans immediately," Kapoor said in an interview on Wednesday. "It's not fashionable to raise capital when you are already equipped on capital."

So far, 179 Indian companies have listed their shares in international markets either through GDRs or ADRs, according to *Bloomberg*, and only a handful of them are banks.

According to Kapoor, who started Yes Bank in 2004, the lender has been retaining about 84% of earnings. "We are right now funding our growth from profit retention." He, however, maintained that the bank has not scrapped the plan and will consider fund raising at an opportune time.

Experts blamed the worsening macroeconomic environment for affecting Indian banks' plans for global listing.

"The India story has to improve. The banking story has to improve to change the global investors' outlook towards Indian stocks," said Akeel Master, partner, financial services, **KPMG India**, an audit and consulting firm. "Indian banking system is under pressure of rising bad loans and restructured advances, while the economic slowdown has impacted the cash flows of companies, which has contributed to the pressure in the financial system."

An executive with another global consultancy firm held a similar view. "India's economic environment has worsened since 2011. In such a scenario, any bank that plans to tap international markets for capital-raising may suffer from negative investor outlook," the executive said, requesting anonymity.

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Self-sufficient: *A file photo of Yes Bank managing director and chief executive officer Rana Kapoor. Kapoor says the lender has been retaining about 84% of earnings.*

In an unrelated development, Yes Bank has pulled out from a joint venture—South Asia Clean Energy Fund—that planned to launch a $200 million corpus to invest in renewable energy projects in India. This is due to changes in market dynamics and possibility of a conflict of interest in its role, Kapoor said. The fund had achieved a closure of about $120-$130 million. Yes Bank had initiated the tie-up in 2007-2008 in partnership with **International Finance Corp.** and Global Environment Fund, US.

The fund planned to invest in companies that operate on renewable energy, energy efficiency and sanitation solutions. Under the agreement, Yes Bank was responsible to facilitate fund raising and local acquisitions in the domestic market.

According to Kapoor, there was conflict of interest in its role in the partnership. "Somehow we felt that the market has changed dramatically. We were also lenders to some of the projects. We didn't want a situation where we are seen as advisors and lenders," he said.

Healthy profit growth

Yes Bank is set to announce its fourth-quarter results on Wednesday. A *Bloomberg* poll of 20 analysts expects net profit at ₹351.5 crore up 29% from the ₹272 crore in the year-ago period.

According to Kapoor, risks have been "heightened" in the last couple of years due to both domestic and global economic conditions, and these have prompted the bank to look at a "balanced growth".

"We are de-risking from the sectors where there is a policy impact or lack of policy acceleration like greenfield power, greenfield road projects and new 2G licenses," Kapoor said.

"We continue to grow in food and agriculture, healthcare, mid-size hospitality, education, renewable energy. These are far less affected given the state of the economy, given the consumerism in the country."

To be sure, the share of power and telecommunications is still very small at 1.8% and 2.8% of Yes Bank's total advances book of ₹43,860. Loans to road projects constitute 1.5%, according to a presentation on its website.

Comparatively, agriculture and allied activities make up 2.9% of the loan book, while food processing makes up 1.1%.

Yes Bank continues to command a premium in the stock market because of its growth potential and strong asset quality, according to Kajal Gandhi, analyst at ICICIdirect.com, the retail broking arm of **ICICI Securities Ltd**.

"They have done well on all parameters, be it return on assets or equity. The last few years' growth has been commendable because there are not many private banks which have grown at that pace." Gandhi said. "It continues to be in the top six of most brokerages."

On Thursday, Yes Bank shares gained 1.82% to ₹436.25 on BSE, while the bourse's benchmark Sensex rose 0.69%, and the Bankex expanded 1.53%.

In September, the bank got a licence to set up its own brokerage but Kapoor does not expect the brokerage to "be a blockbuster on fees".

"It's not meant to be a blockbuster on fees but it will fill a big product gap," Kapoor said. "The earnings may not come from broking fees but from savings accounts."

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