

Yes Bank Ltd

Recommendation	HOLD
CMP (24/01/2012)	Rs. 320
Target Price	Rs.342
Sector	Banking

Stock Details

BSE Code	532648
NSE Code	YES
Bloomberg Code	YES IN
Market Cap (Rs cr)	11,261
Free Float (%)	73.8%
52- wk HI/Lo (Rs)	341/230
Avg. volume BSE (Quarterly)	292,257
Face Value (Rs)	10.0
Dividend (FY 11)	25%
Shares o/s (Cr)	35.2

Relative Performance	1Mth	3Mth	1Yr
Yes Bank	25.5%	4.3%	12.3%
Sensex	6.4%	-1.5%	-11.3%



Shareholding Pattern	31 st Dec 11
Promoters Holding	26.2%
Institutional (Incl. FII)	59.9%
Corporate Bodies	1.8%
Public & others	12.1%

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Another strong quarter!!!!

Yes Bank's performance for Q3FY12 was marginally above our estimates. The bank reported a net profit of Rs.254 crs in Q2FY12 resulting in a growth of 33.0% on a YoY basis and a QoQ increase of 8.8% resulting from lower provisioning.

➤ Loan book grows moderately

Yes Bank loan book grew at 15.3% YoY and 4.9% on a QoQ basis in Q3FY12. Out of the total advances portfolio, Corporate & Institutional Banking accounted for 63.4%, Commercial banking accounted for 21.4% and Branch Banking accounted for 15.2%. We have factored in loan growth of 17.7% and 30.6% for FY12E and FY13E respectively.

➤ CASA showed visible signs of improvement

The bank's CASA deposits showed improvement and increased by 46.5% YoY on absolute basis and 22.2% on QoQ basis. CASA as a % of total deposits increased from 11.0% in Q2FY12 to 12.6% in Q3FY12. We expect CASA ratio to be at 12.7% for FY12E and 14.0% for FY13E respectively.

➤ NIMs impacted by higher cost of funds

Interest earned increased by 17.1% on sequential basis resulting from higher base rate. However, higher cost of funds resulting from higher cost of deposits (+19.3% QoQ) impacted the NIMs of the bank. We expect NIMs to be at 2.6% for FY12E and then marginally improve to 2.7% for FY13E.

➤ Non-interest income continues to grow YoY

Non Interest Income grew 30.8% to Rs 211.4 crs in Q3FY12 resulting from growth in Transaction Banking, Financial Advisory and Financial markets. However, on sequential basis, non interest income remained flat.

➤ Asset quality remains healthy on a consistent basis

Gross NPA increased 4.7% QoQ and declined 1.1% YoY to Rs.72 Crs in the quarter ended December 2011. The bank has restructured assets worth Rs. 175.7 crs as at December, 2011 which represents 0.49% of gross advances.

Valuation & Recommendation

Yes Bank has shown consistent performance and has been able to maintain its NIMs. Moreover, the bank is on track with its plans to expand in the retail and SME segment. The bank has also continued its focus on non interest income and has maintained superior profitability and return ratios (RoA of 1.5% for last 13 quarters and RoE at approximately 20% for the same period).

At the current price of Rs. 320, Yes Bank is trading at a PE of 12.15x of FY12E EPS & 9.6x of FY13E EPS and at an adjusted P/BV of 2.4x and 1.95x of FY12E & FY13E Adj BV respectively. We have a target price of Rs 342 on the stock. We believe that the upside is limited in near term and partial profit may be booked at current levels. However, long term outlook continues to remain positive.

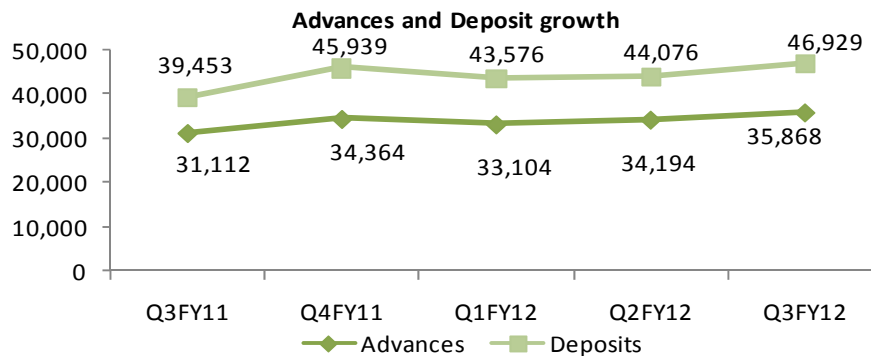
Year	NII (Rs crs)	Growth (%)	PBP (Rs crs)	Margin (%)	PAT (Rs crs)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 10A	788	54.7%	863	63.3%	478	14.87	21.52	90.70	3.53	20.3%
FY 11A	1,247	58.2%	1,190	63.7%	727	20.25	15.81	109.12	2.93	21.1%
FY 12E	1,576	26.4%	1,518	63.3%	953	26.34	12.15	132.88	2.41	22.6%
FY 13E	2,080	32.0%	1,914	62.8%	1,201	33.19	9.64	163.17	1.96	23.3%



Yes Bank Ltd

Loan book grows moderately

Yes Bank loan book grew at 15.3% YoY and 4.9% on a QoQ basis in Q3FY12. Out of the total advances portfolio, Corporate & Institutional Banking accounted for 63.4%, Commercial banking accounted for 21.4% and Branch Banking accounted for 15.2%. The bank has increased its focus on corporate and institutional banking which increased from 61.4% (in Q2FY12) to 63.4% during the quarter. We have factored in loan growth of 17.6% and 30.6% for FY12E and FY13E respectively.



Source: Company data, Nirmal Bang Research

The bank has introduced some new products in order to focus on its retail book (branch banking). These assets includes

- Auto loan
- Commercial Vehicle Financing
- Home loan in partnership with Dewan Housing Finance
- Inventory funding/Small business loan
- Loan against property
- Loan against shares

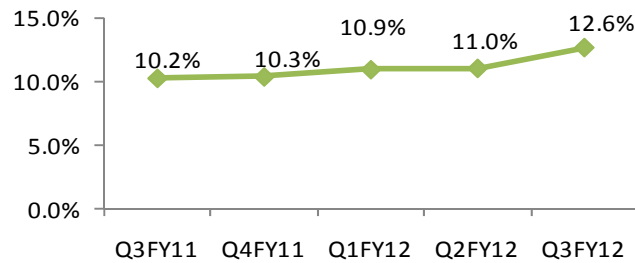
We believe that going forward in the long run the bank is likely to improve its presence in the high yielding retail segment which is a positive indicator for the bank.

CASA showed visible signs of improvement

The bank's total deposits grew by 18.9% YoY and only 6.5% QoQ in Q3FY12. Resulting from the increase in the savings rate deposit, the bank witnessed an improvement in its CASA deposits. The CASA deposits increased by 46.5% YoY on absolute basis and 22.2% on QoQ basis. CASA as a % of total deposits increased from 11.0% in Q2FY12 to 12.6% in Q3FY12. We expect CASA ratio to be at 12.7% for FY12E and 14.0% for FY13E respectively.

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CASA %

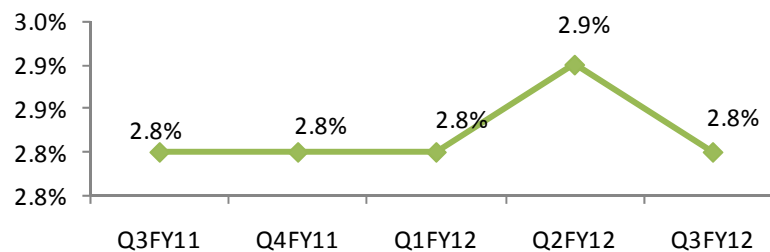


Source: Company data, Nirmal Bang Research

NIMs impacted by higher cost of funds

Interest earned increased by 17.1% on sequential basis resulting from higher base rate. However, higher cost of funds resulting from higher cost of deposits (+19.3% QoQ) impacted the NIMs of the bank. NII increased by 32.3% y-o-y to Rs 428 crs in Q3FY12 from Rs 323 crs in Q3FY11. Net Interest Margin (NIM) stood at 2.8% in Q3FY12 as compared to 2.9% in Q2FY12. We expect NIMs to be at 2.6% for FY12E and then marginally improve to 2.7% for FY13E.

Net Interest Margins

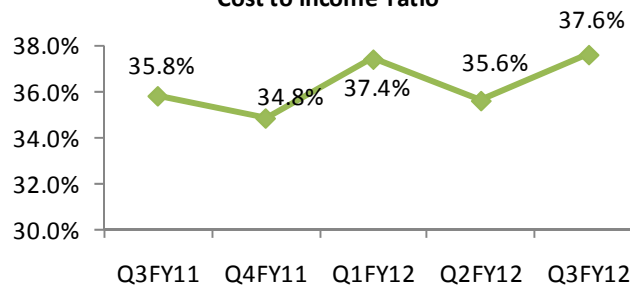


Source: Company data, Nirmal Bang Research

Increase in cost to income ratio

The bank added 26 new branches and added approximately 300 employees in Q3FY12; the bank has managed to keep its cost to income ratio at manageable levels. The cost to income ratio increased from 35.6% in Q2FY12 to 37.6% in Q3FY12. We expect cost to income ratio to be at 36.7% and 37.2% for FY12E and FY13E.

Cost to income ratio

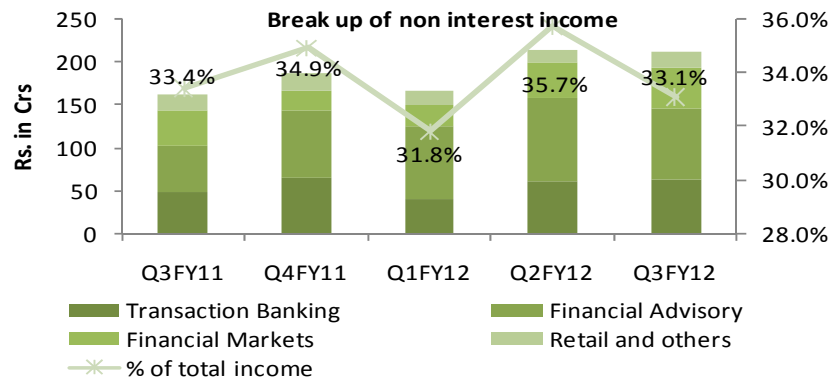


Source: Company data, Nirmal Bang Research

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Non interest income continues to grow YoY

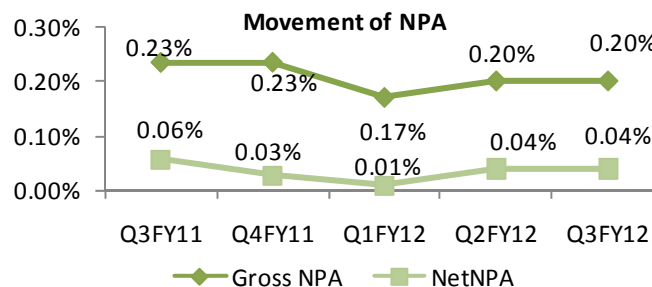
Non Interest Income grew 30.8% to Rs 211.4 crs in Q3FY12 resulting from growth in Transaction Banking, Financial Advisory and Financial markets. Transaction Banking grew 28.3% YoY to Rs 63.9 crs, Financial Advisory grew 50.6% YoY to Rs 80.6 crs and Financial Markets increased 17.7% YoY to Rs 48.3 crs. However, on sequential basis, non interest income remained flat. We believe that that going forward financial advisory and transaction banking will continue to be the key focus areas for growth in non interest income.



Source: Company data, Nirmal Bang Research

Asset quality remains healthy on a consistent basis

Gross NPA increased 4.7% QoQ and declined 1.1% YoY to Rs.72 Crs in the quarter ended December 2011. Yes Bank has continued to maintain minimal Net NPAs. Gross NPAs and Net NPAs stood at 0.20% & 0.04%, respectively as on December 31 2011. The bank has restructured assets worth Rs. 175.7 crs as at December, 2011 which represents 0.49% of gross advances. Provisioning coverage ratio of the bank (including technical write off) stood at 80.0% in Q3FY12.



Source: Company data, Nirmal Bang Research

Yes Bank Ltd

Income Statement	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Interest Earned	1684.1	1126.2	49.5%	1438.7	17.1%
Interest Expended	1256.5	803.0	56.5%	1053.0	19.3%
Net Interest Income	427.6	323.2	32.3%	385.6	10.9%
Other Income	211.4	161.6	30.8%	214.1	(1.2%)
Total Income	639.0	484.8	31.8%	599.7	6.6%
Payment to employees	121.7	90.3	34.7%	110.0	10.7%
Other operating expenses	118.5	83.3	42.3%	103.8	14.1%
Total operating expenses	240.2	173.6	38.4%	213.8	12.4%
Profit before provisioning	398.8	311.2	28.2%	385.9	3.3%
Provisions	22.4	25.0	(10.4%)	37.9	(41.0%)
Profit before tax	376.5	286.2	31.5%	348.1	8.2%
Tax	122.4	95.2	28.6%	113.0	8.3%
Profit after tax	254.1	191.1	33.0%	235.0	8.1%
EPS	7.2	5.5	30.8%	6.7	7.8%

Source: Company data

- Net Profit has shown a growth of 8.1% QoQ and 33.0% YoY at Rs 254.1 crs mainly due to 32.3% YoY increase in net interest income and 30.8% YoY increase in other income.
- EPS for Q3FY12 stood at Rs 7.2 while for Q3FY11, it was Rs 5.5.
- RoA stood flat at 1.5% in Q3FY12.
- Capital Adequacy Ratio (CAR) of the Bank as on Q3FY12 stood at 16.1% with Tier I ratio of 9.2%. The Bank has improved its Tier I Ratio over September 30, 2011, despite growth in the Balance Sheet by increasing percentage of Rated Advances.

Valuation and Recommendation

Yes Bank has shown consistent performance and has been able to maintain its NIMs. Moreover, the bank is on track with its plans to expand in the retail and SME segment. The bank has continued focus on non interest income and has maintained superior profitability and return ratios (RoA of 1.5% for last 13 quarters and RoE at approximately 20% for the same period).

At the current price of Rs. 320, Yes Bank is trading at a PE of 12.15x of FY12E EPS & 9.6x of FY13E EPS and at an adjusted P/BV of 2.4x and 1.95x of FY12E & FY13E Adj BV respectively. We have a target price of Rs 342 on the stock. We believe that the upside is limited in near term and partial profit may be booked at current levels. However, long term outlook continues to remain positive.

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Financials

Profitability (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Interest earned	2,370	4,042	6,206	7,491
Interest expended	1,582	2,795	4,630	5,410
Net interest income	788	1,247	1,576	2,080
Non interest income	576	623	823	967
Total income	1,363	1,870	2,399	3,048
Operating expenses	500	680	882	1,134
Staff costs	257	362	469	618
Other Op Exp	243	317	413	516
Operating profit	863	1,190	1,518	1,914
Provisions	137	98	95	121
Profit before tax	726	1,092	1,423	1,792
Taxes	249	365	469	592
Net profit	478	727	953	1,201

Quarterly (Rs. Crs)	Mar.11	June.11	Sep. 11	Dec.11
Net interest income	349	354	386	428
Non interest income	187	165	214	211
Total income	535	519	600	639
Operating expenses	186	194	214	240
Operating profit	349	325	386	399
Provisions	43	2	38	22
Profit before tax	306	324	348	376
Taxes	102	108	113	122
Net profit	203	216	235	254
Earnings per share	5.6	6.0	6.6	7.1

Profitability Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Cost / Income Ratio	36.7%	36.3%	36.7%	37.2%
Net profit margin	35.0%	38.9%	39.7%	39.4%
RONW	20.3%	21.1%	22.6%	23.3%

Growth Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Advances Growth	78.9%	54.8%	17.7%	30.6%
Deposit Growth	65.7%	71.4%	20.3%	32.8%
NII Growth	54.7%	58.2%	26.4%	32.0%
PAT Growth	57.2%	52.2%	31.1%	26.0%
Pre prov profit growth	63.6%	37.9%	27.5%	26.1%
Non interest income growth	31.7%	8.3%	32.1%	17.5%

Valuation Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
P/BV	3.52	2.93	2.40	1.95
P/ABV	3.53	2.93	2.41	1.96
P/E	21.52	15.81	12.15	9.64

Balance Sheet (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Deposits	26,799	45,939	55,274	73,404
(of which CASA)	(2,818)	(4,750)	(6,992)	(10,277)
Borrowings	4,749	6,691	6,984	7,656
Other liab and prov	1,745	2,583	2,841	3,126
Total liabilities	33,293	55,213	65,099	84,186
Equity Share Capital	340	347	347	347
Reserves and Surplus	2,750	3,447	4,278	5,337
Net worth	3,090	3,794	4,625	5,684
Total liab and equity	36,383	59,007	69,724	89,870
Cash and bank bal	2,673	3,496	3,290	6,886
Investments	10,210	18,829	23,552	27,589
Advances	22,193	34,364	40,434	52,818
Fixed assets	115	132	152	168
Other assets	1,191	2,186	2,295	2,410
Total assets	36,383	59,007	69,724	89,870

Key Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Yield Ratios				
Avg Yield on Assets	8.6%	8.9%	10.1%	9.9%
Yield on Advances	10.2%	10.6%	11.8%	11.5%
Yield on Investments	6.8%	7.1%	8.3%	8.2%
Cost of Int Bearing Liab	6.2%	6.6%	8.1%	7.6%
Cost of Deposits	5.6%	6.2%	7.9%	7.4%
Net Interest Spread	2.4%	2.3%	2.1%	2.3%
NIM	2.9%	2.8%	2.6%	2.7%
Balance Sheet Ratios				
Gross NPA	0.27%	0.23%	0.23%	0.28%
Net NPA	0.06%	0.03%	0.05%	0.06%
Return on Assets	1.6%	1.5%	1.5%	1.5%
CASA	10.5%	10.3%	12.7%	14.0%
Loan-deposit ratio	82.8%	74.8%	73.2%	72.0%
CAR	20.6%	16.1%	16.3%	14.8%
Provision cov ratio	78.4%	86.0%	80.0%	80.0%

Per Share Data	FY 2010	FY 2011	FY 2012E	FY 2013E
EPS	14.87	20.25	26.34	33.19
BVPS	90.96	109.29	133.24	163.74
Adjusted BVPS	90.70	109.12	132.88	163.17
Dividend Per Share	1.50	2.50	3.00	3.50
Dividend yield	0.8%	0.8%	0.9%	1.1%

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