

Slower growth restricts NIMs contraction

January 20, 2011

Reco Previous Reco
Accumulate Reduce

CMP Target Price
Rs273 Rs300

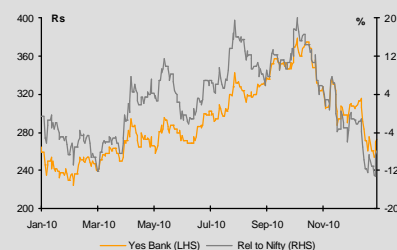
EPS change CY10E/11E (%) -1.5/-6
Target Price change (%) NA
Nifty 5,712
Sensex 19,047

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	(22)	(8)	0
Rel. to Nifty	(4)	(19)	(13)	(8)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	YES@IN
Equity Capital (Rs mn)	3468
Face Value(Rs)	10
No of shares o/s (mn)	347
52 Week H/L	388/223
Market Cap (Rs bn/USD mn)	95/2,087
Daily Avg Volume (No of sh)	2981500
Daily Avg Turnover (US\$m)	20.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	32.6	27.1	27.2
FII/NRI	50.5	51.8	58.1
Institutions	2.9	10.0	4.1
Private Corp	3.2	2.2	2.3
Public	10.7	9.0	8.4

Source: Capitaline

Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com
+91 22 6612 1249

Pradeep Agrawal

pradeep.agrawal@emkayglobal.com
+91 22 6612 1340

- **Yes Bank's Q3FY11 results were inline with expectations with NII at Rs3.2bn and PAT at Rs1.9bn**
- **Lower than expected 20bps contraction in NIMs was a positive surprise. As the asset repricing will continue for next two quarters, pressure on NIMs will be minimal**
- **Yes Bank consciously decelerated loan book growth to 2.6% qoq due to volatile rates. Asset quality maintained at 0.2% gross and 0.1% net NPAs**
- **Valuations attractive at 2.5x FY11E/2.0x FY12E ABV. Upgrade to ACCUMULATE as the recent correction in the stock price leaves 10% upside to our target price of Rs300**

NII growth inline with expectations

Yes Bank's NII grew by 53.2% yoy to Rs3.2bn inline with our expectations. The NII growth was driven by a restricted 20bps qoq contraction in margins, albeit advance growth was slower at 2.5% qoq.

NIMs contraction restricted at 20bps – a positive

The better than expected NIMs were driven by 50bps increase in yield on advances which has partially offset the cost increase of 40bps. However, we believe that there may be some sharp drop in the yield on investments and other assets which has resulted in only 20bps increase in overall yields.

Yield analysis

%	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (bps)	QoQ (bps)
Yield on advances*	10.8	9.6	9.2	10.2	10.6	-11	40
Yield on investments*	7.9	7.4	6.7	7.0	8.1	16	102
Yield on assets*	9.0	8.1	7.6	8.2	8.7	-29	43
Cost of funds*	5.9	5.1	4.9	5.5	6.2	24	65
NIM*	3.0	3.0	2.7	2.7	2.5	-53	-22
Yield on advances [#]	10.3	9.7	9.6	9.5	10.0	-30	50
Yield on assets #	9.7	9.5	9.4	9.7	9.9	20	20
Cost of funds #	6.6	6.3	6.3	6.7	7.1	50	40
NIM #	3.1	3.2	3.1	3.0	2.8	-30	-20

Source: Company, Emkay Research

Note:* Calculated on basis of average quarterly balances # Reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/E (x)	P/ABV (x)
FY2009	9,681	3,039	10.2	53.3	1.5	20.6	26.5	5.1
FY2010	13,635	4,777	14.1	90.6	1.6	20.3	19.8	3.0
FY2011E	21,342	7,472	21.7	108.7	1.5	21.8	12.6	2.5
FY2012E	31,434	11,209	32.2	136.2	1.5	26.2	8.4	2.0

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	2,109	2,442	2,621	3,132	3,232	53.2	3.2	8,984	5,507	63.2
Other Income	1,278	1,601	1,438	1,309	1,617	26.5	23.5	4,364	4,085	6.8
Net Income	3,387	4,043	4,059	4,441	4,848	43.1	9.2	13,348	9,592	39.2
Total Operating Expenses	1,226	1,467	1,570	1,628	1,736	41.6	6.7	4,933	3,534	39.6
As % Of Net Income	36.2	36.3	38.7	36.7	35.8			37.0	36.8	
Employee Expenses	627	708	812	878	903	44.0	2.9	2,593	1,861	39.4
As % Of Net Income	18.5	17.5	20.0	19.8	18.6			19.4	19.4	
Other Expenses	599	759	758	750	833	39.1	11.0	2,340	1,674	39.8
As % Of Net Income	17.7	18.8	18.7	16.9	17.2			17.5	17.4	
Operating Profit	2,162	2,575	2,490	2,813	3,113	44.0	10.6	8,415	6,058	38.9
As % Of Net Income	63.8	63.7	61.3	63.3	64.2			63.0	63.2	
Provisions	254	426	126	174	250	-1.7	43.1	550	943	-41.7
PBT	1,908	2,150	2,364	2,639	2,863	50.1	8.5	7,866	5,115	53.8
Total Tax	649	750	800	877	952	46.8	8.5	2,629	1,738	51.3
Adjusted PAT	1,259	1,400	1,564	1,762	1,911	51.8	8.5	5,237	3,377	55.1
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	1,259	1,400	1,564	1,762	1,911	51.8	8.5	5,237	3,377	55.1
Reported EPS	4.2	4.1	4.6	5.1	5.5	31.4	8.0	15.2	11.3	34.4

Source: Company, Emkay Research

Cost of funds up despite cutting the deposits

Even as Yes Bank has not grown its deposits during the quarter, the cost of funds has still gone up by ~40bps due to sharp increase in the interest rates and very short maturity of the deposits.

CASA Mix

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
CASA Deposits	22,289	28,138	31,800	40,528	40,242	80.5	-0.7
Term deposits	198,097	239,847	270,587	359,609	354,286	78.8	-1.5
Total Deposits	220,386	267,985	302,387	400,137	394,528	79.0	-1.4
CASA (%)	10.1	10.5	10.5	10.1	10.2	9	7

Source: Company, Emkay Research

Deposit Mix

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Retail FD	26,446	30,282	36,589	39,213	53,261	101.4	35.8	13.5
Corporate FD	70,083	94,063	111,581	189,665	155,050	121.2	-18.3	39.3
CB FD	14,325	16,883	21,469	29,210	31,562	120.3	8.1	8.0
Govt inst FD	20,276	25,727	31,146	32,411	39,847	96.5	22.9	10.1
CoD	43,857	46,361	41,427	44,815	50,105	14.2	11.8	12.7
Institutional FD	23,141	26,531	28,424	24,408	24,855	7.4	1.8	6.3
CASA	22,259	28,138	31,751	40,414	40,242	80.8	-0.4	10.2
Total	220,386	267,985	302,387	400,137	394,923	79.2	-1.3	100.0

Source: Company, Emkay Research

NIMs can make bounce back over H1CY11

Yes Bank has ~55% of assets which are short maturity (6 months) and having fixed price. As this advances come up for renewal and the balance 45% of the book keeps repricing due to change in BPLR/base rate, we expect the NIMs to bounce back in H1CY11. We have built in a contraction of 11bps in NIMs in FY12E.

Advances growth slows down to 2.5%qoq

As the interest rates remained steeply high during Q3FY11, Yes Bank has consciously slowed down the growth in advances to 2.5% qoq after double digit qoq growth in last five quarters. However, the management is still confident about clocking 60% yoy growth for FY11 which is in line with our estimates.

Advances Mix

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Corporate	135,838	153,354	192,725	211,830	210,317	54.8	-0.7	67.6
SME	43,221	56,814	57,765	59,482	69,380	60.5	16.6	22.3
Others	8,045	11,762	12,078	32,169	31,423	290.6	-2.3	10.1
Total	187,104	221,931	262,568	303,481	311,120	66.3	2.5	100.0

Source: Company, Emkay Research Note: Numbers not strictly comparable due to reclassification between corporate and others segments

Advances Mix

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	% of total
Food and agri	35,737	37,506	34,396	47,647	56,157	57.1	17.9	18.1
Infrastructure	30,311	45,940	47,787	66,462	70,469	132.5	6.0	22.7
Engineering	37,982	42,389	53,564	59,786	67,513	77.7	12.9	21.7
Healthcare	18,710	17,754	18,117	13,657	14,934	-20.2	9.4	4.8
Telecom, media, tech	25,446	29,517	60,653	56,144	44,801	76.1	-20.2	14.4
Others	38,918	48,825	48,050	59,786	57,246	47.1	-4.2	18.4
Total	187,104	221,931	262,568	303,481	311,120	66.3	2.5	100.0

Source: Company, Emkay Research

Non-financials income continues to show traction

The strong traction in the business services and retail services continued during the quarter as the wealth management and transaction banking business contributed 41% of the fee income which have shown very high double digit sequential growth.

Fee income

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Financial markets	280	474	226	141	410	46.4	190.8	777.0	1,626	-52.2
Financial advisory	570	578	761	637	535	-6.1	-16.0	1,933.0	1,386	39.5
Wealth Management	57	117	108	148	174	205.3	17.6	430.0	260	65.4
Transaction Banking	371	432	343	383	498	34.2	30.0	1,224.0	974	25.7
Total	1,278	1,601	1,438	1,309	1,617	26.5	23.5	4,364.0	4,246	2.8

Source: Company, Emkay Research

Asset quality remains stable

The asset quality remained stable during the quarter as the gross and net NPA were just 0.2% and 0.1% respectively. The provision stood strong at 76.1%.

Asset quality

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)
Gross NPAs	542	602	597	677	728	34.4	7.5
Net NPAs	162	130	111	172	174	7.5	1.3
Gross NPAs (%)	0.3	0.3	0.2	0.2	0.2		
Net NPAs (%)	0.1	0.1	0.0	0.1	0.1		
Net NPAs/Net worth (%)	0.8	0.4	0.3	0.5	0.5		
Provision cover (%)	70.1	78.4	81.4	74.7	76.1		

Source: Company, Emkay Research

Valuations and view

We are marginally changing our growth numbers for Yes Bank from 53% CAGR over FY10-12E to ~48% as we remain upbeat on resilience of Yes Bank's NIMs. We believe that short term nature of liabilities and assets will over next half help the NIMs to sustain at current levels. Recent correction in the stock leaves ~10% upside to our target price. We upgrade the stock to ACCUMULATE with target price of Rs300.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	5,112	7,880	13,102	18,401
Other income	4,569	5,755	6,363	8,741
Net income	9,681	13,635	19,465	27,142
Operating expenses	4,186	5,002	6,801	9,762
Pre provision profit	5,495	8,633	12,663	17,379
PPP excl treasury	4,009	7,647	12,163	16,829
Provisions	836	1,368	1,478	1,455
Profit before tax	4,659	7,265	11,186	15,924
Tax	1,621	2,488	3,830	5,452
Tax rate	34.8%	34.2%	34.2%	34.2%
Profit after tax	3,038	4,777	7,356	10,472
		4,777	7472	11209
			-1.55675	-6.57808

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Liabilities				
Equity	2,970	3,397	3,440	3,483
Reserves	13,272	27,499	34,050	43,502
Net worth	16,242	30,896	37,490	46,986
Deposits	161,694	267,986	463,161	668,001
Borrowings	51,072	64,944	65,239	65,453
Total liabilities	229,008	363,825	565,890	780,440
Assets				
Cash and bank	19,227	26,733	44,754	64,548
Investments	60,928	93,185	142,611	194,485
Customer assets	134,273	230,846	364,937	507,345
Others	14,580	13,062	13,588	14,062
Total assets	229,008	363,825	565,890	780,440

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.9	3.0	3.1	3.0
Non-Il/avg assets	2.0	1.6	1.1	1.1
Fee income/avg assets	1.1	1.3	1.1	1.1
Opex/avg assets	2.1	1.7	1.5	1.5
Provisions/avg assets	0.5	0.5	0.4	0.2
PBT/avg assets	2.0	2.0	2.0	2.0
Tax/avg assets	0.7	0.7	0.7	0.7
RoA	1.5	1.6	1.6	1.6
RoAE	20.6	20.3	21.5	24.8
GNPA (%)	0.7	0.3	0.2	0.2
NNPA (%)	0.3	0.1	0.0	0.0

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	3,039	4,777	7,356	10,472
Shares in issue (mn)	297	340	344	348
EPS (Rs)	10.2	14.1	21.4	30.1
PER (x)	26.5	19.3	12.7	9.0
FDEPS(Rs)	10.2	13.7	21.1	30.1
FDPER (x)	26.5	19.8	12.8	9.0
Book value (Rs)	54.7	91.0	109.0	134.9
P/BV (x)	5.0	3.0	2.5	2.0
Adj book value (Rs)	53.3	90.6	108.5	133.9
P/ABV (x)	5.1	3.0	2.5	2.0
P/PPP (x)	14.6	10.7	7.4	5.4
Dividend yield (%)	0.0	0.6	0.9	1.1

Recommendation History: Yes Bank – YES IN

Date	Reports	Reco	CMP	Target
20/10/2010	Yes Bank Q2FY11 Result Update	Reduce	352	300
22/07/2010	Yes Bank Q1FY11 Result Update	Reduce	298	260
27/04/2010	Yes Bank Q4FY10 Result Update	Reduce	276	255
21/01/2010	Yes Bank Q3FY10 Result Update	Reduce	278	200

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	South Indian Bank Q3FY11 Result Update	Buy	22	30
19/01/2011	LIC Housing Finance Q3FY11 Result Update	UR	170	UR
17/01/2011	Axis Bank Q3FY11 Result Update	Hold	1,227	1,300
28/12/2010	Allahabad Bank Management Meet Update	Buy	216	300

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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