

Yes Bank

Performance Highlights

Particulars (Rs cr)	1QFY11	4QFY10	% chg (qoq)	1QFY10	% chg (yoy)
Net interest income	262	244	7.3	164	60.1
Pre-prov. profit	249	258	(3.3)	198	25.9
PAT	156	140	11.7	100	56.3

Source: Company, Angel Research

Yes Bank reported strong net profit growth of 56.3% yoy for 1QFY2011. Growth was above our expectations primarily due to lower provisions of Rs13cr as against our estimate of Rs50cr. However, branch expansion, which is important for CASA accretion, continued to remain behind schedule during the quarter.

We maintain a Neutral view on the stock.

Strong growth in balance sheet continues: The bank registered substantial sequential growth in advances and deposits, with advances growing 18.3% qoq (107.2% yoy) to Rs26,257cr and deposits growing 12.8% qoq (97.1% yoy) to Rs30,239cr, which was reflected in the sequential NII growth of 7.3%. The bank's reported NIM declined by 10bp sequentially to 3.1% in 1QFY2011. Non-interest income declined by 0.9% yoy and 10.2% qoq to Rs144cr in 1QFY2011 due to lower treasury income and a sharp fall in financial market income. During the quarter, the gross NPA ratio was at 0.2% and net NPA ratio stood at 0.04% (as against 0.5% and 0.2%, respectively, in 1QFY2010). The capital adequacy ratio (CAR) declined to 16.6%, with Tier-I capital of 10.3%, from 20.6% in 4QFY2010.

Outlook and Valuation: At the CMP, the stock is trading at valuations of 15.0x FY2012E EPS of Rs19.8 and 2.4x FY2012E ABV of Rs125. In our view, this leaves little margin of safety, in light of structural downside in RoAs. Moreover, with rising interest rates, the cost of funds for the bank is expected to rise at a faster rate due to the bank's wholesale-based funding mix. Further, considering the experience of the past several quarters, the inherent challenges of building a retail franchise are substantial despite the management's high pedigree. In our view, there is a relatively high execution risk involved in the kind of growth that current valuations imply, especially with respect to the bank's retail business.

We remain Neutral on the stock.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
NII	511	788	1,038	1,232
% chg	54.6	54.1	31.7	18.7
Net Profit	304	478	579	673
% chg	51.9	57.2	21.3	16.2
NIM (%)	2.7	2.8	2.6	2.5
EPS (Rs)	10.2	14.1	17.1	19.8
P/E (x)	29.1	21.2	17.4	15.0
P/ABV (x)	5.5	3.3	2.8	2.4
RoA (%)	1.5	1.6	1.4	1.3
RoE (%)	20.6	20.3	17.3	17.1

Source: Company, Angel Research

NEUTRAL

CMP	Rs298
Target Price	-

Investment Period	-
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Stock Info

Sector	Banking
Market Cap (Rs cr)	10,192
Beta	1.2
52 Week High / Low	305/140
Avg. Daily Volume	630,415
Face Value (Rs)	10
BSE Sensex	17,977
Nifty	5,399
Reuters Code	YESB.BO
Bloomberg Code	YES@IN

Shareholding Pattern (%)

Promoters	27.1
MF / Banks / Indian Fls	10.0
FII / NRIs / OCBs	53.9
Indian Public / Others	9.00

Abs. (%)	3m	1yr	3yr
Sensex	2.9	19.4	15.5
Yes Bank	9.9	94.0	63.8

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Exhibit 1: 1QFY2011 performance

Particulars (Rs cr)	1QFY2011	4QFY2010	% chg (qoq)	1QFY2010	% chg (yoy)
Interest earned	739	665	11.2	543	36.2
Interest expenses	477	420	13.5	379	25.9
Net interest income	262	244	7.3	164	60.1
Non-interest income	144	160	(10.2)	145	(0.9)
Total income	406	404	0.4	309	31.4
Operating expenses	157	147	7.0	111	41.3
Pre-prov. profit	249	258	(3.3)	198	25.9
Provisions & cont.	13	43	(70.5)	46	(72.4)
PBT	236	215	9.9	152	55.3
Prov. for taxes	80	75	6.7	52	53.3
PAT	156	140	11.7	100	56.3
EPS (Rs)	4.6	4.1	11.7	3.4	36.6
Cost-to-income ratio (%)	38.7	36.3		36.0	
Effective tax rate (%)	33.9	34.9		34.3	
Net NPA (%)	0.04	0.1		0.2	

Source: Company, Angel Research

Exhibit 2: 1QFY2011 actual v/s Angel estimates

Particulars (Rs cr)	Actual	Estimates	Var. (%)
Net interest income	262	251	4.5
Non-interest income	144	154	(6.5)
Total income	406	405	0.3
Operating expenses	157	143	9.6
Pre-prov. profit	249	261	(4.8)
Provisions & cont.	13	50	(75.1)
PBT	236	211	12.0
Prov. for taxes	80	72	11.5
PAT	156	139	12.2

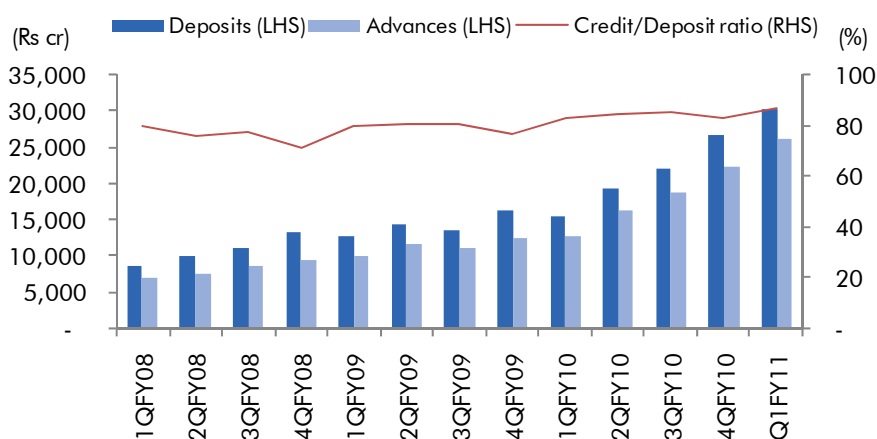
Source: Company, Angel Research

Strong business growth continues

The bank registered substantial sequential growth in advances and deposits, with advances growing 18.3% qoq (107.2% yoy) to Rs26,257cr and deposits growing 12.8% qoq (97.1% yoy) to Rs30,239cr. During the quarter, CASA deposits also recorded a similar surge of 118.8% yoy, while the CASA ratio remained at 10.5%.

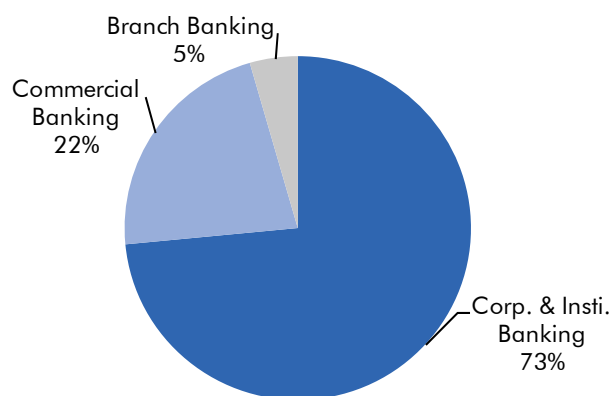
The surge in advances was also boosted by strong demand for funds from the telecom sector and low base in the corresponding period last year.

Exhibit 3: Trend in advances and deposits



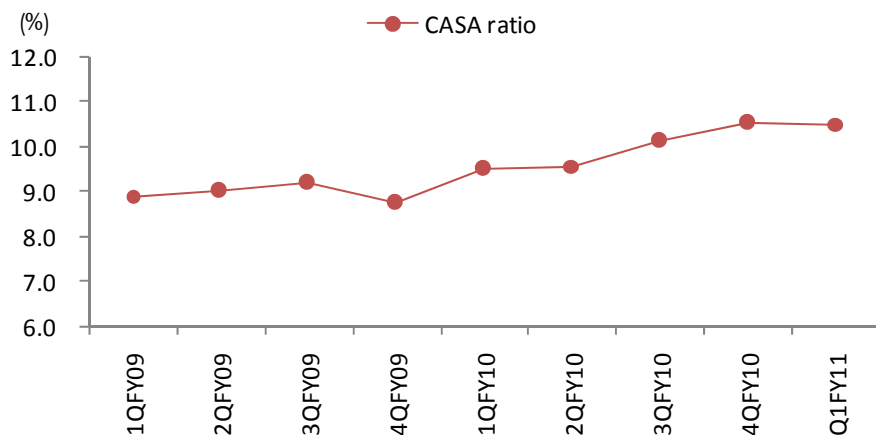
Source: Company, Angel Research

Exhibit 4: Break-up of non-priority sector advances as of 1QFY2011



Source: Company, Angel Research

Exhibit 5: Trend in CASA deposits

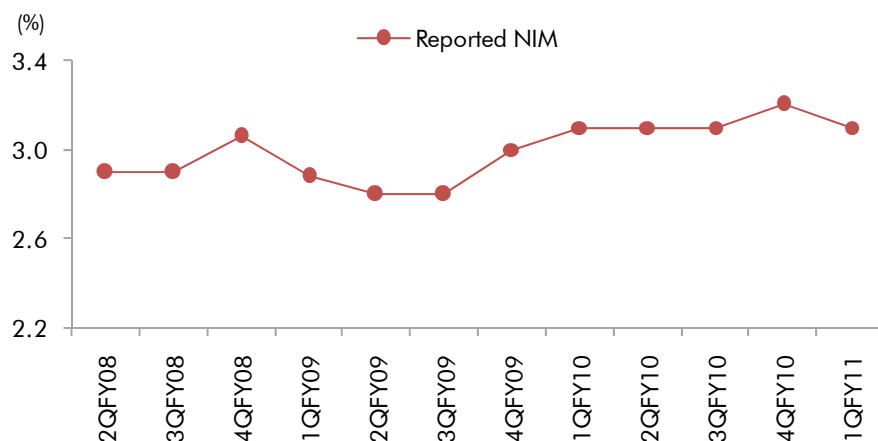


Source: Company, Angel Research

Strong NII growth

The bank's NII registered 60.1% yoy and 7.3% qoq growth to Rs262cr in 1QFY2011. Reported NIM declined by 10bp sequentially to 3.1% in 1QFY2011 (3.1% in 1QFY2010). Equity capital raised during FY2010 has helped in maintaining the bank's NIM above 3.0%. However, going forward, as the interest rates in the system start rising, the NIMs of the bank are expected to be under pressure due to very low CASA ratio.

Exhibit 6: Trend in quarterly reported NIM

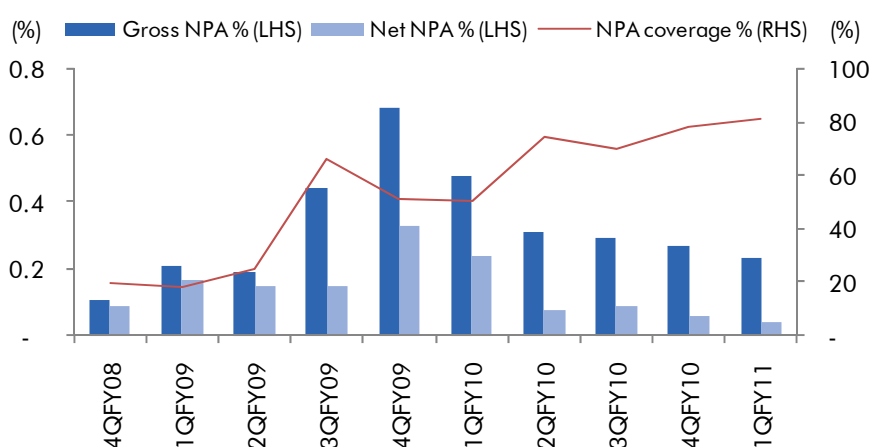


Source: Company, Angel Research

Asset-quality improved

As of 1QFY2011, gross NPA ratio stood at 0.2% and net NPA ratio stood at 0.04% (as against 0.5% and 0.2%, respectively, as of 1QFY2010). Restructured advances increased marginally by Rs0.4cr during 1QFY2011, taking total restructured advances to Rs80.4cr at the end of 1QFY2011, and constituting 0.3% to advances. In our opinion, the present level of gross NPA is significantly lower than sectoral averages relative to the bank's high-yield credit portfolio. Accordingly, from a structural point of view, we believe asset-quality deterioration remains a risk for the bank.

Exhibit 7: Trend in asset quality

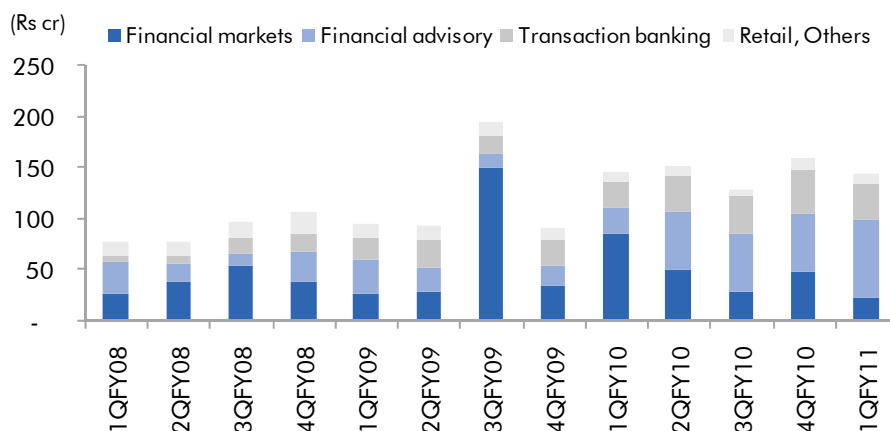


Source: Company, Angel Research

Muted non-interest income

Non-interest income declined marginally by 0.9% yoy to Rs144cr in 1QFY2011 (down 10.2% qoq). Financial market income declined by 75.4% yoy due to negligible trading gains in 1QFY2011 compared to 1QFY2010. However, income from transaction banking grew by 37.3% yoy. Income from financial advisory also witnessed strong growth of 200.4% yoy, which the bank expects to sustain going forward.

Exhibit 8: Trend in non-interest income mix



Source: Company, Angel Research

Rising operating expenses with muted branch expansion

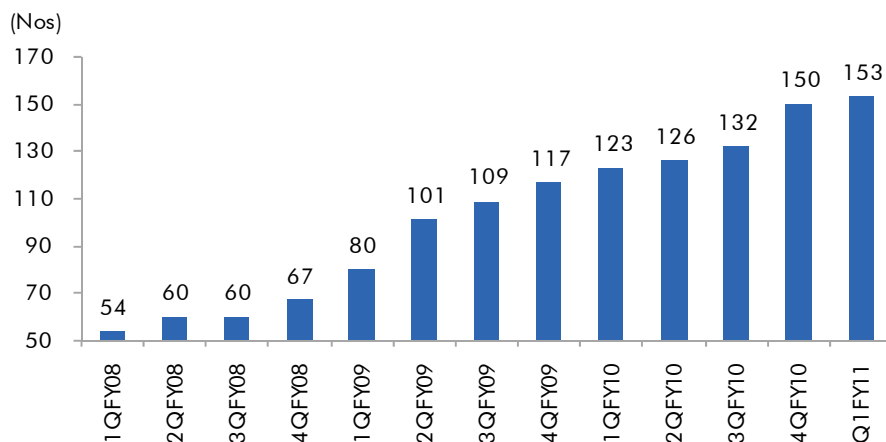
Operating expenses increased by 41.3% yoy and 7.0% qoq to reach Rs157cr. However, the bank’s operating income grew at a lower rate of 31.4% yoy, which was reflected in deteriorated cost-to-income ratio to 38.7% (36.0% in 1QFY2010 and 36.3% in 4QFY2010).

The surge in staff expenses was on account of performance appraisals and increase in headcount by around 400 during 1QFY2011. The bank is planning to recruit 1,000 more employees by 1QFY2012. Hence, we expect the bank’s cost-to-income ratio to range between 37–40% in FY2011E.

During the quarter, the bank’s branch network grew to 153, with the addition of only three branches due to regulatory delays. However, in June 2010, the bank received 91 new branch licenses and plans to open 100 new branches across India by 1QFY2012E, expanding its branch network to 250.

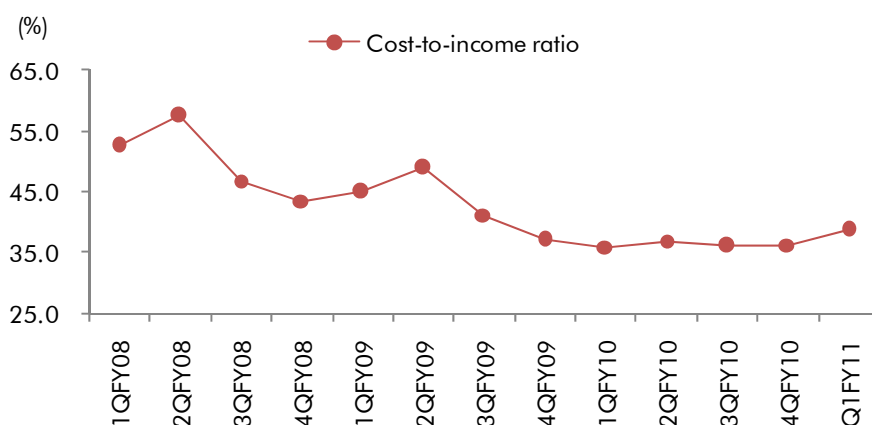
We believe building CASA deposits is a key challenge for the bank, the lack of which renders the bank at a cost disadvantage to larger banks and is exacerbated by regulatory reserve requirements. Moreover, the bank’s branch expansion plans, a key driver for CASA growth, have fallen behind schedule several times. In such a scenario, we believe management’s CASA target of 15% by FY2012E appears difficult to be achieved.

Exhibit 9: Trend in branch expansion



Source: Company, Angel Research

Exhibit 10: Trend in productivity

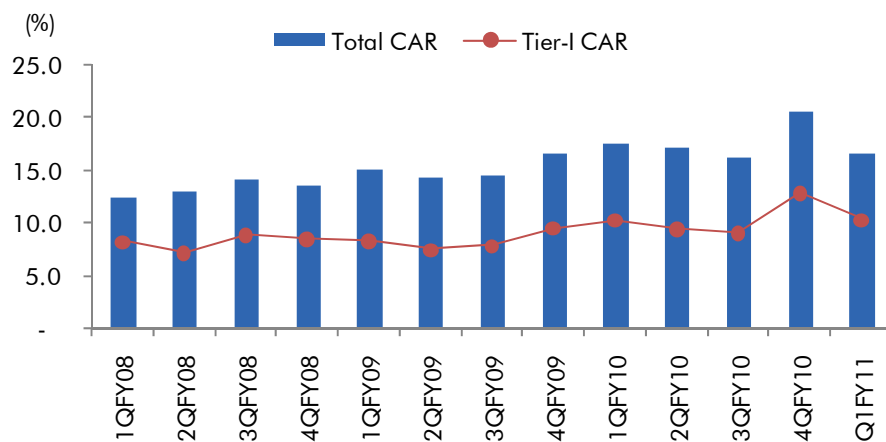


Source: Company, Angel Research

Comfortable capital adequacy

In 1QFY2011, the bank's capital adequacy ratio (CAR) stood at 16.6%, with tier-I capital of 10.3%, which decreased from 20.6% in 4QFY2010 and from 17.6% in 1QFY2010. By 4QFY2011, the bank plans to raise Rs1500cr of upper tier-II and lower tier-II capital, which would help it maintain the CAR at comfortable levels.

Exhibit 11: Comfortable capital adequacy



Source: Company, Angel Research

Investment Arguments

Management's quality and ability to raise capital

In a knowledge-driven business like banking, intellectual capital is of paramount importance. To its credit, Yes Bank has an A-list top management team, which brings to the table rich experience from the best banks in India, including Bank of America, ABN AMRO, Citibank, ICICI Bank, Rabo India and HDFC Bank. The bank's performance also benefits from management's ability to raise equity capital (at increasing, book-accretive premiums). Moreover, the bank's complementary financial services businesses (including stock broking and private equity) are further avenues for wealth creation. The bank's high-growth trajectory, strong branding and franchise and impressive pool of intellectual capital will also make it an attractive acquisition target, post the impending liberalisation of regulatory norms governing foreign banks.

Outlook and Valuation

The bank's high NIM is a function of a higher yield on advances, while, at the same time, provision costs have been lower than the sectoral average. Hence, we believe asset-quality deterioration remains a significant risk for the bank. Moreover, with rising interest rate, the cost of funds for the bank is expected to rise at a faster rate due to the bank's wholesale-based funding mix.

Accordingly, we expect lower net profit growth of 13.4% yoy in FY2011E and 13.2 yoy in FY2012E as compared to 61.8% in FY2010. Moreover, due to equity dilution, the bank's RoE is expected to decline to 15.3% in FY2012E from 20.2% in FY2010.

At the CMP, the stock is trading at expensive valuations of 15.0x FY2012E EPS of Rs19.8 and 2.4x FY2012E ABV of Rs124.8. We believe this leaves little margin of safety, in light of structural downside in RoAs. Moreover, based on past experiences, the inherent challenges of building a retail franchise are substantial despite the management's high pedigree. In our view, there is a relatively high execution risk involved in the kind of growth that current valuations imply, especially with respect to the bank's retail business. **We remain Neutral on the stock.**

Exhibit 12: Key assumptions

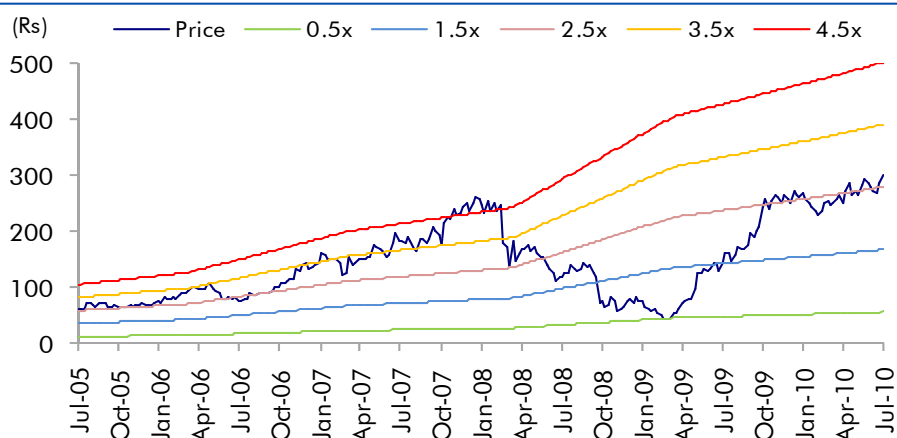
Particulars (%)	Earlier estimates		Revised estimates	
	FY2011E	FY2012E	FY2011E	FY2012E
Credit growth	30.0	25.0	30.0	25.0
Deposit growth	30.0	25.0	30.0	25.0
CASA ratio	10.8	11.5	10.8	11.5
NIM	2.6	2.5	2.6	2.5
Other income growth	13.7	28.1	13.7	28.1
Growth in staff expenses	24.5	31.5	26.0	31.5
Growth in other expenses	24.5	31.5	26.0	31.5
Slippages	1.1	1.2	0.9	0.9
Coverage ratio	72.1	70.4	72.1	70.4
Treasury gain/(loss) (% of investments)	0.1	0.1	0.1	0.1

Source: Company, Angel Research

Exhibit 13: Change in estimates

Particulars (Rs cr)	FY2011E			FY2012E		
	Earlier estimates	Revised estimates	% chg	Earlier estimates	Revised estimates	% chg
NII	1,038	1,038	-	1,232	1,232	-
Non-interest income	655	655	-	838	838	-
Total income	1,693	1,693	-	2,070	2,070	-
Operating expenses	623	630	1.2	819	829	1.2
Pre-prov. profit	1,070	1,062	(0.7)	1,251	1,241	(0.8)
Provisions & cont.	202	184	(8.6)	268	221	(17.3)
PBT	868	878	1.1	983	1,020	3.7
Prov. for taxes	295	299	1.1	334	347	3.7
PAT	573	579	1.1	649	673	3.7

Source: Company, Angel Research

Exhibit 14: P/ABV band


Source: Company, Angel Research, Bloomberg

Exhibit 15: Recommendation summary

Company	Reco	CMP (Rs)	Tgt. price (Rs)	Upside (%)	FY2012E P/ABV (x)	FY2012E Tgt P/ABV (x)	FY2012E P/E (x)	FY10-12E CAGR in EPS (%)	FY2012E RoA (%)	FY2012E RoE (%)
AXISBK	Buy	1,346	1,688	25.4	2.6	3.2	13.4	27.4	1.6	20.5
HDFCBK	Buy	2,034	2,514	23.6	3.2	4.0	17.0	36.5	1.7	20.6
ICICIBK	Buy	903	1,145	26.8	1.7	2.2	15.0	29.2	1.4	15.1
YesBk	Neutral	298	-	-	2.4	-	15.0	18.7	1.3	17.1
SIB	Neutral	189	-	-	1.1	-	6.6	17.1	1.0	17.8
FedBk	Neutral	360	-	-	1.1	-	7.7	31.4	1.4	14.6
SBI	Accumulate	2,437	2,596	6.5	1.4	1.6	10.7	25.7	1.0	19.5
BOI	Neutral	408	-	-	1.3	-	8.0	24.3	0.8	17.3
CorpBk	Neutral	573	-	-	1.1	-	6.2	6.6	0.9	18.5
IndBk	Neutral	243	-	-	1.1	-	5.9	8.1	1.4	21.1
DenaBk	Buy	100	115	15.2	0.8	1.0	4.6	10.9	0.9	18.4
IOB	Accumulate	115	125	8.7	0.8	0.9	5.8	23.8	0.6	14.6
OBC	Neutral	361	-	-	0.9	-	6.0	15.0	0.9	16.6
PNB	Reduce	1,062	948	(10.7)	1.5	1.3	7.3	8.3	1.2	21.6
UnionBk	Neutral	324	-	-	1.3	-	5.8	17.1	1.1	24.1
UcoBk	Buy	89	112	25.9	0.8	1.0	3.9	12.0	0.8	23.8

Source: Company, Angel Research

Income statement

Y/E March (Rs cr)	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Interest Income	88	171	331	511	788	1,038	1,232
- YoY Growth (%)	385.8	94.6	92.9	54.6	54.1	31.7	18.7
Other Income	100	201	361	435	576	655	838
- YoY Growth (%)	448.4	101.1	79.7	20.6	32.3	13.7	28.1
Operating Income	188	372	691	946	1,363	1,693	2,070
- YoY Growth (%)	417.2	98.0	85.8	36.9	44.1	24.1	22.3
Operating Expenses	86	194	341	419	500	630	829
- YoY Growth (%)	115.5	124.7	76.3	22.7	19.5	26.0	31.5
Pre - Provision Profit	102	179	350	528	863	1,062	1,241
- YoY Growth (%)	(2904.1)	75.4	96.0	50.7	63.6	23.0	16.8
Prov. & Cont.	17	35	44	62	137	184	221
- YoY Growth (%)	812.6	101.3	24.9	41.6	121.6	34.7	20.2
Profit Before Tax	84	144	306	466	726	878	1,020
- YoY Growth (%)	(1627.1)	70.1	113.3	52.0	55.9	20.9	16.1
Prov. for Taxation	29	49	106	162	249	299	347
- as a % of PBT	34.4	34.3	34.7	34.8	34.2	34.0	34.0
PAT	55	94	200	304	478	579	673
- YoY Growth (%)	(1592.7)	70.4	111.9	51.9	57.2	21.3	16.2

Balance sheet

Y/E March (Rs cr)	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Share Capital	270	280	296	297	340	340	340
Reserves & Surplus	303	507	1,023	1,327	2,750	3,278	3,900
Deposits	2,910	8,220	13,273	16,169	26,799	34,838	43,548
- Growth (%)	338.9	182.5	61.5	21.8	65.7	30.0	25.0
Borrowings	465	867	986	2,189	2,564	3,288	4,056
Tier 2 Capital	100	479	728	1,513	2,185	2,775	3,469
Other Liab. & Prov.	115	750	677	1,405	1,745	2,144	2,246
Total Liabilities	4,163	11,103	16,982	22,901	36,383	46,664	57,559
Cash Balances	88	390	959	1,278	1,995	2,439	3,266
Bank Balances	127	903	668	645	678	870	1,073
Investments	1,350	3,073	5,094	7,117	10,210	12,834	15,101
Advances	2,407	6,290	9,430	12,403	22,193	28,851	36,064
- Growth (%)	216.3	161.3	49.9	31.5	78.9	30.0	25.0
Fixed Assets	35	71	101	131	115	144	172
Other Assets	155	377	730	1,327	1,191	1,527	1,884
Total Assets	4,163	11,103	16,982	22,901	36,383	46,664	57,559
- Growth (%)	226.6	166.7	52.9	34.8	58.9	28.3	23.3

Ratio analysis

Y/E March	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profitability ratios (%)							
NIMs	3.4	2.3	2.5	2.7	2.8	2.6	2.5
Cost to Income Ratio	45.8	52.0	49.4	44.2	36.7	37.2	40.0
RoA	2.0	1.2	1.4	1.5	1.6	1.4	1.3
RoE	14.1	13.9	19.0	20.6	20.3	17.3	17.1
B/S ratios (%)							
CASA Ratio	10.7	5.8	8.5	8.7	10.5	10.8	11.5
Credit/Deposit Ratio	82.7	76.5	71.0	76.7	82.8	82.8	82.8
CAR	16.4	13.6	13.6	15.7	19.3	17.3	17.0
- Tier I	13.8	8.2	8.5	8.9	12.1	10.5	10.0
Asset Quality (%)							
Gross NPAs	-	-	0.1	0.7	0.3	0.1	0.1
Net NPAs	-	-	0.0	0.4	0.1	0.0	0.0
Slippages	-	-	0.2	0.9	0.9	0.9	0.9
Loan Loss Prov./Avg. Assets	-	-	0.0	0.3	0.3	0.4	0.4
Provision Coverage	-	-	80.0	48.5	78.4	72.1	70.4
Per Share Data (Rs)							
EPS	2.1	3.4	6.8	10.2	14.1	17.1	19.8
ABVPS	21.2	28.1	44.6	53.9	91.0	106.5	124.8
DPS	-	-	-	-	1.5	1.5	1.5
Valuation Ratios							
PER (x)	146.3	89.0	44.4	29.3	21.3	17.8	15.7
P/ABVPS (x)	14.1	10.7	6.7	5.6	3.3	2.8	2.4
Dividend Yield	-	-	-	-	0.5	0.5	0.5
DuPont Analysis (%)							
NII	3.2	2.2	2.4	2.6	2.7	2.5	2.4
(-) Prov. Exp.	0.6	0.5	0.3	0.3	0.5	0.4	0.4
Adj. NII	2.6	1.8	2.0	2.3	2.2	2.1	1.9
Treasury	0.1	0.1	0.4	0.7	0.3	0.0	0.0
Int. Sens. Inc.	2.8	1.9	2.5	3.0	2.5	2.1	2.0
Other Inc.	3.5	2.5	2.1	1.4	1.6	1.5	1.6
Op. Inc.	6.3	4.4	4.6	4.4	4.1	3.6	3.5
Opex	3.2	2.5	2.4	2.1	1.7	1.5	1.6
PBT	3.1	1.9	2.2	2.3	2.5	2.1	2.0
Taxes	1.1	0.6	0.8	0.8	0.8	0.7	0.7
RoA	2.0	1.2	1.4	1.5	1.6	1.4	1.3
Leverage (x)	6.9	11.2	13.3	13.6	12.6	12.4	13.3
RoE	14.1	13.9	19.0	20.6	20.3	17.3	17.1

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Disclosure of Interest Statement
Yes Bank

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)