

Yes Bank
YES IN

Target price: **Rs390.00** → **Rs390.00** Up/downside: **+20.8%** Share price (5 Jul): **Rs322.85**

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

Company visit: NIM has bottomed out

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- Loan-growth momentum should remain strong, asset quality stable
- NIM unlikely to witness further pressure
- Improving loan yields and recent softening of bulk borrowing rates can provide a faster NIM improvement

What's new

At our recent visit to Yes Bank, management was confident of being able to maintain its NIM quarter-on-quarter at around 2.8% for 1Q FY12. Whereas we expect most banks to face NIM pressure, Yes Bank should be among the very few banks that should be able to sustain its NIM for 1Q FY12 and FY12. Management confirmed our expectation that loan growth should remain much higher than for the industry on average for 1Q FY12 as well as FY12.

The bank's asset quality remains strong, according to management. Loans to sectors such as micro-finance institutions (MFI), infrastructure and power are performing well. In our view, Yes Bank's asset quality should continue

to be among the best in the industry over the next two years.

Traction in fee income remains strong, and management expects growth to remain robust for FY12, mirroring the balance-sheet growth.

What's the impact

Yes Bank has already witnessed NIM pressure during the past three quarters (NIM down by 40bps from its high). In our view, Yes Bank should be one of the biggest beneficiaries of the recent softening of wholesale borrowing rates. Almost 57% of its total borrowings are funded on the wholesale market, and if the bulk borrowing rates retain their downward bias, the bank could potentially improve its NIM much sooner than its peers.

Almost 85% of Yes Bank's loan book comprises working-capital loans, where demand remains strong. Also, lending-rate increases can be passed on faster for working-capital loans and can benefit Yes Bank to a large extent.

What we recommend

The bank has raised its base rate by 125bps in 1Q FY12 (c.40% of loans are linked to the base rate) and its PLR by 50bps (c.15% of its loans are linked to the PLR). The positive effect of these increases should start to be reflected from 1Q FY12 onwards and support the NIM. Also, a further softening of bulk borrowing rates should augur well for Yes Bank, in our view.

We expect the bank to continue to deliver above-industry-average loan growth with stable asset quality over the next two years. With a net-profit CAGR forecast by us at 26% from FY11-13 and an average ROE of 22.5% for the same period, Yes Bank is one of our top picks among the private-

sector banks. We maintain our Buy (1) rating and six-month target price of Rs390, based on a GGM-derived target PBR of 2.9x on our FY12 BVPS forecast. Higher-than-expected NPLs would be the key risk to our call.

How we differ

While the market is worried about the impact of high interest rates on the bank's NIM, we believe Yes Bank can start to improve its NIM much earlier than other banks as bulk borrowing rates soften.

Forecast revisions (%)

Year to 31 Mar	12E	13E	14E
PPOP change	0.0	0.0	n.a.
Net-profit change	0.0	0.8	n.a.
EPS change	0.0	0.8	n.a.

Source: Daiwa forecasts

Share price performance



12-month range	236.10-378.85
Market cap (US\$bn)	2.52
Average daily turnover (US\$m)	18.66
Shares outstanding (m)	347
Major shareholder	Rana Kapoor Group (14.2%)

Financial summary (Rs)

Year to 31 Mar	12E	13E	14E
Total operating income (m)	24,859	31,199	38,525
Pre-provision operating profit (m)	15,682	19,483	23,913
Net profit (m)	9,455	11,615	14,424
Core EPS (fully-diluted)	27.236	33.459	41.548
EPS change (%)	28.6	22.8	24.2
Daiwa vs Cons. EPS (%)	0	4	n.a.
PER (x)	11.9	9.6	7.8
Dividend yield (%)	0.9	1.1	1.4
DPS	3.000	3.500	4.500
PBR (x)	2.4	2.0	1.6
ROE (%)	22.5	22.7	23.0

Source: Bloomberg, Daiwa forecasts

Financial summary

■ **Key assumptions**

Year to 31 Mar	2007	2008	2009	2010	2011	2012E	2013E	2014E
Loan growth (%)	161.3%	49.9%	31.5%	78.9%	54.8%	36.0%	30.0%	26.0%
Deposit growth (%)	182.5%	61.5%	21.8%	65.7%	71.4%	32.5%	27.0%	26.2%

■ **Profit and loss (Rs m)**

Year to 31 Mar	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net-interest income	1,713	3,306	5,093	7,880	12,469	17,446	22,905	29,243
Net fees & commission	1,116	2,051	2,258	3,791	5,215	6,258	7,009	7,850
Trading and other income	830	1,556	2,111	1,964	1,018	1,155	1,286	1,432
Net insurance income	0	0	0	0	0	0	0	0
Total operating income	3,659	6,913	9,462	13,635	18,702	24,859	31,199	38,525
Personnel expenses	(1,175)	(2,024)	(2,180)	(2,569)	(3,623)	(4,892)	(6,359)	(8,076)
Other expenses	(760)	(1,388)	(2,005)	(2,433)	(3,175)	(4,286)	(5,357)	(6,536)
Total expenses	(1,935)	(3,412)	(4,185)	(5,002)	(6,798)	(9,177)	(11,716)	(14,612)
Pre-provision operating profit	1,725	3,501	5,277	8,633	11,904	15,682	19,483	23,913
Total provision	(288)	(436)	(617)	(1,368)	(982)	(1,464)	(2,016)	(2,224)
Operating profit after prov.	1,437	3,065	4,660	7,265	10,922	14,218	17,467	21,690
Non-operating income	0	0	0	0	0	0	0	0
Profit before tax	1,437	3,065	4,660	7,265	10,922	14,218	17,467	21,690
Tax	(493)	(1,065)	(1,621)	(2,488)	(3,650)	(4,763)	(5,851)	(7,266)
Min. int./pref. div./other items	0	0	0	0	0	0	0	0
Net profit	944	2,000	3,039	4,777	7,271	9,455	11,615	14,424
Adjusted net profit	944	2,000	3,039	4,777	7,271	9,455	11,615	14,424
EPS (Rs)	3.433	6.948	10.253	15.008	21.174	27.236	33.459	41.548
EPS (adjusted) (Rs)	3.433	6.948	10.253	15.008	21.174	27.236	33.459	41.548
EPS (adjusted fully-diluted) (Rs)	3.433	6.948	10.253	15.008	21.174	27.236	33.459	41.548
DPS (Rs)	0.000	0.000	0.000	1.500	2.500	3.000	3.500	4.500

■ **Change (YoY %)**

Year to 31 Mar	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net-interest income	94.5	92.9	54.1	54.7	58.2	39.9	31.3	27.7
Non-interest income	100.3	85.4	21.1	31.7	8.3	18.9	11.9	11.9
Total operating income	97.5	88.9	36.9	44.1	37.2	32.9	25.5	23.5
Total expenses	124.6	76.3	22.7	19.5	35.9	35.0	27.7	24.7
Pre-provision operating profit	74.0	103.0	50.7	63.6	37.9	31.7	24.2	22.7
Total provisions	96.8	51.4	41.6	121.7	(28.2)	49.1	37.7	10.3
Operating profit after provisions	70.0	113.3	52.0	55.9	50.3	30.2	22.8	24.2
Profit before tax	70.0	113.3	52.0	55.9	50.3	30.2	22.8	24.2
Net profit (adjusted)	70.5	111.9	51.9	57.2	52.2	30.0	22.8	24.2
EPS (adjusted)	45.7	102.4	47.6	46.4	41.1	28.6	22.8	24.2
Gross loans	161.3	50.0	32.0	78.7	54.8	36.2	30.1	26.1
Deposits	182.5	61.5	21.8	65.7	71.4	32.5	27.0	26.2
Total assets	166.7	52.9	34.9	58.9	62.2	26.9	23.4	23.3
Total liabilities	187.4	51.8	35.8	56.5	65.8	27.2	23.5	23.3
Shareholders' equity	37.4	67.6	23.1	90.2	22.8	21.7	22.1	22.3
Avg interest-earning assets	182.3	84.4	40.0	49.8	63.3	40.7	25.3	23.1
Avg risk-weighted assets	231.3	80.6	35.8	30.5	56.1	48.3	32.5	27.7

Source: Company, Daiwa forecasts

Financial summary continued ...

■ **Balance sheet (Rs m)**

As at 31 Mar	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & equivalent	12,928	16,276	19,227	26,732	34,960	45,448	57,719	72,148
Investment securities	30,731	50,937	71,170	102,099	188,288	207,117	227,829	255,168
Net loans and advances	62,897	94,303	124,031	221,931	343,636	467,346	607,549	765,512
Fixed assets	709	1,012	1,311	1,155	1,324	1,457	1,602	1,763
Goodwill	0	0	0	0	0	0	0	0
Other assets	3,769	7,297	13,269	11,907	21,861	27,216	29,257	44,398
Total assets	111,034	169,824	229,008	363,825	590,070	748,583	923,956	1,138,989
Customers deposits	82,204	132,732	161,694	267,986	459,389	608,816	773,315	975,991
Borrowing	8,673	9,862	21,891	25,639	33,330	31,663	30,080	28,576
Debentures	4,786	7,275	15,126	21,852	33,579	35,579	37,579	38,579
Other liabilities	7,501	6,766	14,055	17,453	25,831	26,347	26,611	26,877
Total liabilities	103,164	156,635	212,766	332,930	552,129	702,406	867,585	1,070,023
Share capital	2,800	2,958	2,970	3,397	3,472	3,472	3,472	3,472
Reserves & others	5,071	10,231	13,272	27,499	34,469	42,706	52,899	65,495
Shareholders' equity	7,871	13,189	16,242	30,895	37,941	46,177	56,371	68,967
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	111,034	169,824	229,008	363,826	590,070	748,583	923,956	1,138,989
Avg interest-earning assets	73,143	134,877	188,818	282,819	461,822	649,594	813,992	1,001,760
Avg risk-weighted assets	68,741	124,168	168,567	219,926	343,273	509,139	674,824	862,015
BVPS (Rs)	28.11	44.59	54.69	90.96	109.29	133.02	162.38	198.66

■ **Key ratios (%)**

Year to 31 Mar	2007	2008	2009	2010	2011	2012E	2013E	2014E
Loan/deposit	76.5	71.1	77.0	83.0	75.0	77.0	78.9	78.8
Tier-1 CAR	8.2	8.5	9.5	12.9	9.7	8.5	7.9	7.6
Total CAR	13.6	13.6	16.6	20.6	16.5	14.6	12.8	11.6
NPLs/gross loans	0.0	0.1	0.7	0.3	0.2	0.4	0.5	0.6
Total loan-loss prov./NPLs	n.a.	20.0	51.5	78.4	88.6	85.0	85.0	85.0
ROAA	1.2	1.4	1.5	1.6	1.5	1.4	1.4	1.4
ROAE	13.9	19.0	20.7	20.3	21.1	22.5	22.7	23.0
Net-interest margin	2.3	2.5	2.7	2.8	2.7	2.7	2.8	2.9
Gross yield	8.0	9.7	10.6	8.4	8.8	9.5	9.8	10.0
Cost of funds	6.4	7.9	8.6	6.2	6.6	7.3	7.5	7.6
Net-interest spread	1.7	1.7	2.0	2.2	2.1	2.1	2.3	2.5
Total cost/total income	52.9	49.4	44.2	36.7	36.4	36.9	37.6	37.9
Effective tax	34.3	34.7	34.8	34.2	33.4	33.5	33.5	33.5
Dividend-payout	0.0	0.0	0.0	10.0	11.8	11.0	10.5	10.8

Source: Company, Daiwa forecasts

■ **Company profile**

Yes Bank is a private-sector bank with total assets of Rs590bn (US\$13.1bn) at the end of March 2011. Established in 2004, the bank is a new private-sector bank, as classified by the Reserve Bank of India. The bank's network spans 214 branches with a pan-India presence. It is primarily a wholesale bank catering to the lending needs of corporates and business loans. Retail loans comprise 12% of its total loans.

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If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants. *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Capital Markets Co. Ltd.
Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.109
Memberships: Japan Securities Dealers Association, Financial Futures Association of Japan
Japan Securities Investment Advisers Association
Type II Financial Instruments Firms Association