

Yes Bank

Rs274

OUTPERFORMER

Mkt Cap: Rs92.9bn; US\$2.0bn

RESULT NOTE

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Result: Q3FY11

Comment: On track

Key valuation metrics

| Year to March 31 (Rs m) | NII | yoy chg (%) | Net profit | yoy chg (%) | EPS (Rs) | Adj. Book Value (Rs/ share) | P/ Adj.Bk (x) | PE (x) | RoE (%) |
|-------------------------|--------|-------------|------------|-------------|----------|-----------------------------|---------------|--------|---------|
| FY07 | 1,713 | 94.5 | 944 | 70.6 | 3.4 | 28.1 | 9.7 | 81.2 | 13.9 |
| FY08 | 3,367 | 96.5 | 2,000 | 112.0 | 6.9 | 44.6 | 6.1 | 39.4 | 19.0 |
| FY09 | 5,112 | 51.8 | 3,038 | 51.9 | 10.2 | 54.2 | 5.0 | 26.7 | 20.6 |
| FY10 | 7,880 | 54.1 | 4,777 | 57.2 | 14.1 | 91.1 | 3.0 | 19.4 | 20.3 |
| FY11E | 12,449 | 58.0 | 7,302 | 52.8 | 21.5 | 109.2 | 2.5 | 12.7 | 21.5 |
| FY12E | 18,188 | 46.1 | 9,893 | 35.5 | 29.1 | 134.5 | 2.0 | 9.4 | 24.0 |

Highlights of Q3FY11 results

Yes Bank delivered a PAT of Rs1.91bn (52% yoy growth), in-line with our estimate of Rs1.85bn. Fee income exhibited robust traction, credit costs remained under leash and coverage ratio inched-up during the quarter. These cushioned the impact of qoq decline in NIMs in Q3FY11. As a result, the bank's RoA remained steady at healthy 1.5% in Q3FY11.

- **Strong momentum in non-interest income:** Yes Bank's overall other income was robust at Rs1.6bn – a 27% yoy and 23% qoq rise. The impetus was led by transaction banking (up 34% yoy) and financial market fees (up 46% yoy). Third party distribution fees witnessed revival and increased by 2x yoy and 17% qoq – benefiting from a low base. (Exhibit 3)
- **Cost ratios remain under leash:** Operating costs increased by 42% yoy (7% qoq), owing to aggressive hiring (~160 employees added in Q3 and 970 in last 12 months) and network expansion carried out by the bank. However, given the pace of revenue growth, cost to income ratio declined to 35.8% (decline of 80bp qoq). The bank had received 91 new branch licenses in Q1FY11 out of which 32 have been rolled out. Overall, the management reiterated its plan to expand the branch network to ~250 by June 2011. We expect revenue growth to outpace costs and see cost to income ratio remaining steady at 36% over FY11-12.
- **Healthy NII growth, margins decline sequentially:** NII grew by a robust 53% yoy to Rs3.2bn in Q3FY11, slightly below our estimates. Owing to steep rise in wholesale borrowing costs, costs of funds increased by 40bp qoq to 7.1% in Q3FY11, leading to a 20bp qoq decline in NIMs (down to 2.8% from 3% in Q2FY11). While loan yields also increased by 50bp qoq (to 10%), management indicated lower NIMs were a function of lower rise in investment yields. Over the next couple of quarters, we expect repricing of assets at higher rates as also steady borrowing rates to aid expansion in margins. (Exhibit 1)
- **Sluggish credit growth; likely to pick-up:** Owing to tight liquidity environment in Q3, deposits declined by 1% qoq to Rs395bn (up 79% yoy). In-line with sluggish deposit growth, credit was muted at 3% qoq rise to ~Rs311bn (66% yoy rise). Consequently, CD ratio increased by ~300bp qoq to 79%. During the quarter, entire growth is attributable to

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commercial banking (emerging corporate) segment, with SME and large corporate books declining sequentially. We expect growth to pick-up going forward and Yes Bank to deliver ~45% loan CAGR over FY10-12.

- **Steady CASA deposits:** Yes Bank's CASA deposits remained steady qoq on the back of rapid 27% qoq rise seen in Q2FY11. Term deposits grew by 79% yoy in Q3FY11 (1% qoq decline). As a result, CASA ratio remained largely steady at 10.2% (10.1% in Q2FY11). (Exhibit 2)
- **Strong asset quality:** Gross NPAs have remained flat sequentially at 0.23% as against 0.22% in Q2FY11 - a rise of Rs51m qoq in absolute terms. Net NPAs have also remained stable sequentially at 0.06% (0.09% in Q3FY10). Cumulative restructured loans remained a negligible proportion at Rs837m (0.23% of gross advances) in Q3FY11. Coverage ratio (excluding write-offs) inched-up by ~150bp qoq to 76.1%. The management clarified that the bank's exposure to micro-finance stood at Rs2.9bn (0.94% of the loan book), which had not witnessed any slippages so far.
- **Capital position healthy:** Yes Bank's Tier I ratio remained healthy at 10.4% in Q3FY11 as against 11% in Q2FY11. Overall CAR stood at a strong 18.2% compared to 19.4% in Q2FY11.

Valuations & View

Yes Bank delivered a stable core performance in Q3FY11, marked by stellar non-interest income. While the bank paused on loan growth as systemic liquidity remained tight, we expect growth to resume as deposit flow picks up. Also, re-pricing of assets at higher levels would protect margins hereon. A clean asset book with elevated coverage ratio is likely to restrict provision expenses in the future. Going forward, we expect strong growth outlook and earnings expansion (44% CAGR over FY10-12E) to drive stock performance. Owing to concerns around increasing wholesale costs and micro-finance exposure, the stock has corrected by 22% over past 3 months. It currently trades at extremely attractive valuations of 2x FY12E P/BV. We reiterate Outperformer with a 12 month price target of Rs440 (3.3x FY12E adjusted book).

Quarterly results

| P&L (Rs m) | Q3FY10 | Q4FY10 | Q1FY11 | Q2FY11 | Q3FY11 | FY10 | FY11E | FY12E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Interest income | 6,264 | 6,646 | 7,392 | 9,538 | 11,262 | 23,697 | 40,873 | 61,880 |
| Interest expense | 4,154 | 4,204 | 4,771 | 6,406 | 8,030 | 15,818 | 28,424 | 43,692 |
| Net Interest Income | 2,109 | 2,442 | 2,621 | 3,132 | 3,232 | 7,880 | 12,449 | 18,188 |
| <i>yoy growth (%)</i> | 75.2 | 57.3 | 67.1 | 77.9 | 53.2 | 54.1 | 58.0 | 46.1 |
| Non-intt income | 1,278 | 1,601 | 1,438 | 1,310 | 1,617 | 5,755 | 6,133 | 7,547 |
| <i>yoy growth (%)</i> | (33.9) | 78.4 | (5.4) | (3.3) | 26.5 | 32.3 | 6.6 | 23.1 |
| Net revenue | 3,387 | 4,043 | 4,059 | 4,442 | 4,848 | 13,635 | 18,582 | 25,735 |
| Operating expense | 1,226 | 1,467 | 1,570 | 1,628 | 1,736 | 5,002 | 6,713 | 9,397 |
| Operating profit | 2,162 | 2,576 | 2,490 | 2,814 | 3,113 | 8,633 | 11,869 | 16,338 |
| Provisions | 254 | 426 | 126 | 174 | 250 | 1,368 | 888 | 1,348 |
| <i>yoy growth (%)</i> | 24.2 | 32.2 | (72.4) | (25.4) | (1.7) | 121.7 | (35.1) | 51.8 |
| PBT | 1,908 | 2,150 | 2,364 | 2,640 | 2,863 | 7,265 | 10,981 | 14,989 |
| Tax | 649 | 750 | 800 | 877 | 952 | 2,487 | 3,679 | 5,096 |
| PAT | 1,259 | 1,400 | 1,564 | 1,763 | 1,911 | 4,777 | 7,302 | 9,893 |
| <i>yoy growth (%)</i> | 19.0 | 74.8 | 56.3 | 57.8 | 51.8 | 57.2 | 52.8 | 35.5 |
| Ratios (%) | | | | | | | | |
| NIM (reported) | 3.10 | 3.20 | 3.10 | 3.00 | 2.80 | | | |
| NIM (calc)* | 3.02 | 2.96 | 2.71 | 2.70 | 2.48 | 2.66 | 2.61 | 2.60 |
| Op exp/avg assets | 1.8 | 1.8 | 1.6 | 1.4 | 1.3 | 1.7 | 1.4 | 1.3 |
| Cost to net rev. | 36.2 | 36.3 | 38.7 | 36.6 | 35.8 | 36.7 | 36.1 | 36.5 |
| Prov/ avg assets | 0.4 | 0.5 | 0.1 | 0.2 | 0.2 | 0.5 | 0.2 | 0.2 |
| Tax/ PBT | 34.0 | 34.9 | 33.9 | 33.2 | 33.2 | 34.2 | 34.0 | 34.0 |
| RoA | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 | 1.6 | 1.5 | 1.4 |
| RoE | 26.3 | 22.1 | 19.7 | 20.9 | 21.3 | 20.3 | 21.5 | 24.0 |
| CRAR | 16.2 | 20.6 | 16.6 | 19.4 | 18.2 | 20.6 | | |
| Tier-I CRAR | 9.0 | 12.9 | 10.3 | 11.0 | 10.4 | 12.9 | | |
| CD ratio | 84.9 | 82.8 | 86.8 | 75.8 | 78.9 | 82.8 | | |
| Balance sheet (Rs bn) | | | | | | | | |
| Credit | 187 | 222 | 263 | 303 | 311 | | | |
| <i>yoy change (%)</i> | 71.1 | 78.9 | 107.2 | 86.3 | 66.3 | | | |
| Deposits | 220 | 268 | 302 | 400 | 395 | | | |
| <i>yoy change (%)</i> | 62.8 | 65.7 | 97.1 | 106.6 | 79.0 | | | |

Calculated on average quarterly balances

Exhibit 1: Margins decline sequentially

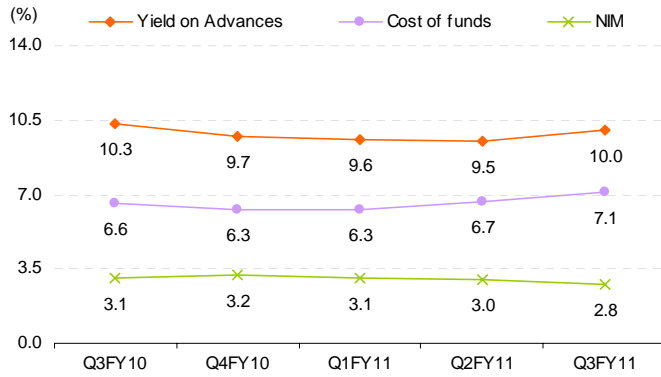


Exhibit 2: CASA deposits steady

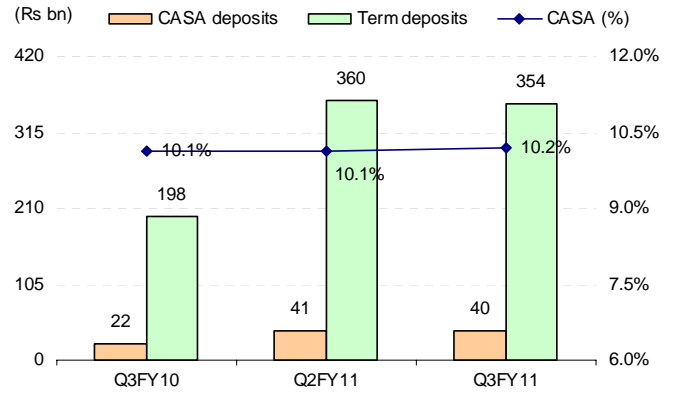


Exhibit 3: Other income break up (Rs m)

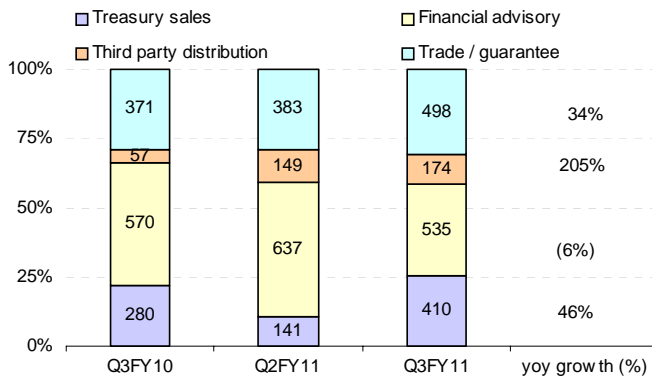


Exhibit 4: Composition of advances book (Rs bn)

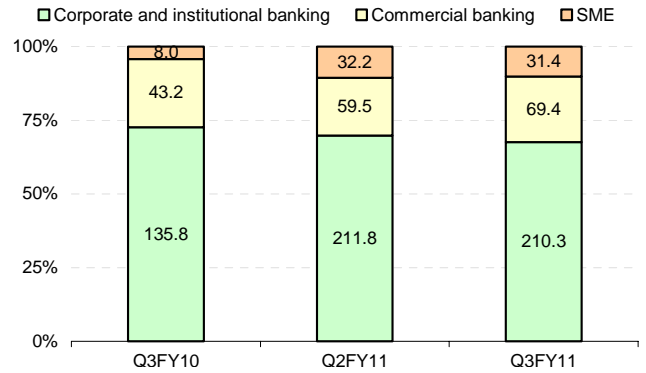


Exhibit 5: Asset quality remains resilient

| | Q3FY10 | Q2FY11 | Q3FY11 | Incremental qoq (Rs m/ bp) |
|--------------------------|--------|--------|--------|----------------------------|
| Gross NPAs (Rs m) | 542 | 677 | 728 | 51 |
| Net NPAs (Rs m) | 162 | 172 | 174 | 2 |
| Gross NPAs (%) | 0.29 | 0.22 | 0.23 | 1 |
| Net NPAs (%) | 0.09 | 0.06 | 0.06 | - |
| Loan loss coverage (%) | 70.1 | 74.7 | 76.1 | 147 |
| Restructured loans(Rs m) | 1,340 | 690 | 837 | 147 |
| As a % of loans | 0.71 | 0.23 | 0.27 | 4 |

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