

Banking

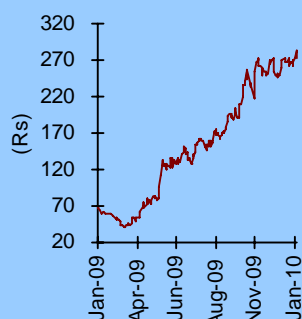
Target price Rs335

Shareholding pattern

	Jun '09	Sep '09	Dec '09
Promoters	31.0	31.3	30.7
Institutional investors	54.1	56.3	50.8
MFs and UTI	8.2	8.7	4.5
Insurance Cos.	25.0	29.2	35.3
FIs	20.9	18.4	18.2
Others	15.1	12.5	11.3

Source: BSE

Price chart



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INDIA

Yes Bank

BUY

Maintained

Rs273

Surpassing expectations

Reason for report: Q3FY10 results review

Yes Bank's Q3FY10 results were above expectations – net profits grew 18.5% YoY (I-Sec: 4.3% YoY) led by 69.5% YoY growth in NII. Credit growth, though high at 71.1% YoY, was broad-based. CASA improved to 10.1% in Q3FY10, while NIMs rose ~30bps YoY to 3.1%. Asset quality improved marginally – GNPA's fell 2bps QoQ to 0.29% – with specific provision coverage ratio at 70.4%. Capital adequacy was healthy at 16.2% (tier 1 at 9.2%). We tweak earnings to factor in higher loan growth, stronger margin and capital dilution in FY10 (from FY11 earlier). With the stock trading at 16.2x FY11E EPS & 2.5x FY11E BV, our Rs335/share target price (at 20x FY11E EPS) implies 23% upside. Maintain BUY. Sharp spike in NPL is the key risk.

- **Sharp credit growth; margins rise YoY.** A 71.1% YoY credit growth, funded by a 63% YoY rise in deposits (with CASA rising 55bps QoQ & 91bps YoY to 10.1%) was the key highlight in Q3FY10. Credit offtake was broad-based and characterised by higher working capital financing this quarter. Management indicated its intent to grow credit at ~2x the industry growth. Overall duration of assets at 15-16 months was lower than 19-20 months for liabilities, indicating a favourable ALM profile in a rising rate scenario. Despite 340bps YoY contraction in yield on advances, deposit repricing and CASA accretion led to a 300bps fall in the cost of deposits, resulting in 30bps YoY NIM improvement. NII grew 69.5% YoY. We expect higher 42% NII CAGR through FY12E due to likelihood of higher-than-estimated credit growth.
- **Other income (ex-treasury) robust; costs contract.** While financial advisory and transaction banking witnessed robust growth, income from financial markets was weak given negligible trading gains and a lull in foreign exchange activity in Q3FY10. Costs, however, decreased 5.4% YoY as Yes Bank added only five branches this quarter and employee costs declined ~15% YoY. We expect branch expansion to gather pace. Cost-to-income should stabilise at ~40% by FY12E.
- **Asset quality maintained; restructured accounts fall.** GNPA's declined 2bps QoQ to 0.29%, though NNPA's rose 1bp QoQ to 0.09%. Specific provisioning coverage at 70.4% was healthy, while overall provisioning coverage was at 270%. Restructured accounts declined Rs219mn in Q3FY10. Outstanding restructured accounts now stand at Rs1.35bn or 0.71% of gross advances.
- **Strong growth trajectory.** We foresee robust credit CAGR of 46% through FY11E, driving NII CAGR of 42%. We tweak earnings marginally to incorporate higher credit growth assumptions and capital dilution in FY10 (from FY11 earlier). Continued strength in other income and well-maintained asset quality will continue to drive ~18% RoE through FY12E. We maintain our 20x FY11E EPS multiple, with target price of Rs335/share implying 23% upside. Reiterate BUY. Sharp inflection in interest rates, chunky slippages and execution are the key concerns.

Market Cap	Rs81.4bn/US\$1.8bn
Reuters/Bloomberg	YESB.BO/YES IN
Shares Outstanding (mn)	298.2
52-week Range (Rs)	284/41
Free Float (%)	69.3
FII (%)	18.2
Daily Volume (US\$/'000)	10,800
Absolute Return 3m (%)	11.7
Absolute Return 12m (%)	82.7
Sensex Return 3m (%)	2.7
Sensex Return 12m (%)	99.0

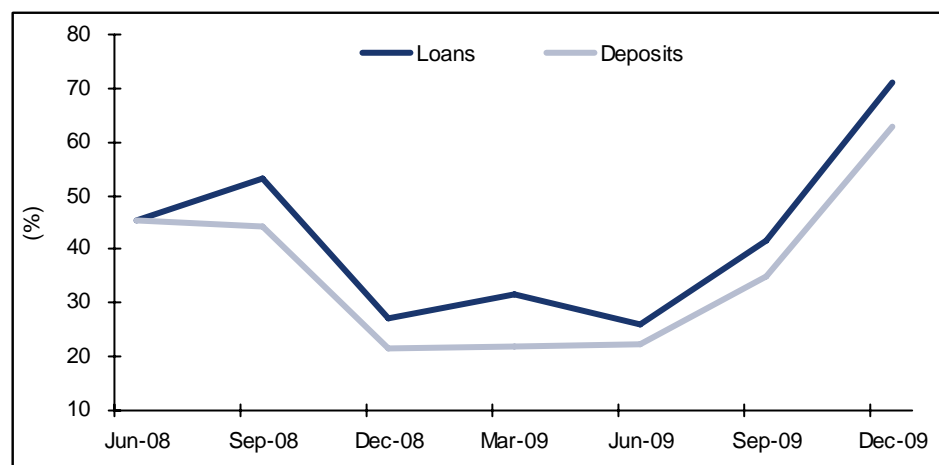
Year to March	2009	2010E	2011E	2012E
NII (Rs mn)	5,112	7,745	10,368	13,438
Net Profit (Rs mn)	3,038	4,619	5,707	7,202
EPS (Rs)	10.2	13.7	16.9	21.3
% Chg YoY	51.3	33.5	23.6	26.2
P/E (x)	26.7	20.0	16.2	12.8
P/BV (x)	5.0	2.9	2.5	2.1
Net NPA (%)	0.3	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0	(0.0)
RoA (%)	1.5	1.7	1.5	1.5
RoE (%)	20.6	19.3	16.5	17.6

Please refer to important disclosures at the end of this report

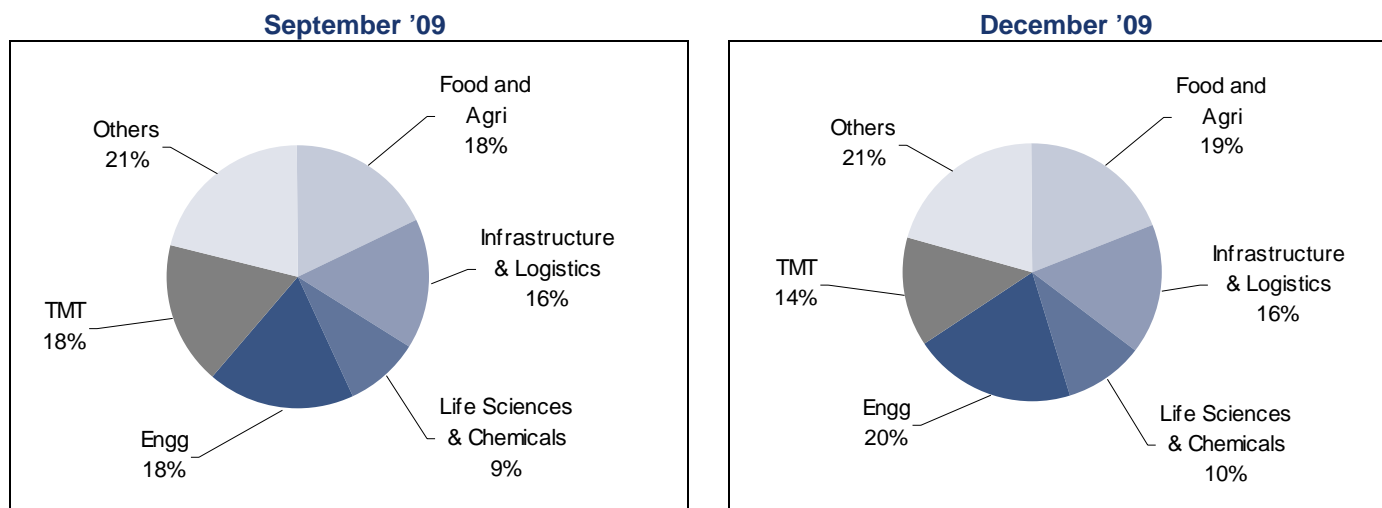
Table 1: Q3FY10 results review*(Rs mn, Year ending March 31)*

	Q3FY10	Q3FY09	% chg. (YoY)	Q2FY10	% chg. (QoQ)	YTD FY10	YTD FY09	% chg. (YoY)
Interest income	6,264	5,367	16.7	5,269	18.9	16,959	14,411	17.7
Interest expense	4,154	4,123	0.8	3,670	13.2	11,613	10,811	7.4
Net interest income	2,109	1,245	69.5	1,600	31.9	5,346	3,600	48.5
Non-interest income	1,278	1,894	(32.5)	1,516	(15.7)	4,246	3,412	24.4
Total income	3,387	3,139	7.9	3,115	8.7	9,592	7,012	36.8
Staff cost	627	736	(14.8)	622	0.9	1,861	1,779	4.6
Other op expenses	599	559	7.1	575	4.0	1,674	1,497	11.8
Total op expenses	1,226	1,295	(5.4)	1,197	2.4	3,534	3,275	7.9
Pre-provisioning profit	2,162	1,844	17.2	1,918	12.7	6,058	3,737	62.1
Total Provisions	254	204	24.2	234	8.6	943	295	219.2
PBT	1,908	1,639	16.4	1,684	13.3	5,115	3,442	48.6
Tax	649	581	11.5	567	14.3	1,738	1,204	44.3
PAT	1,259	1,058	19.0	1,117	12.7	3,377	2,237	50.9

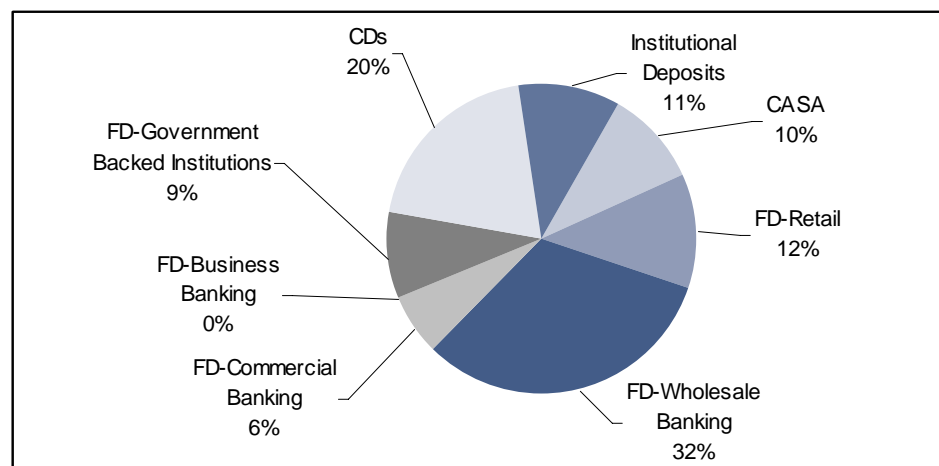
Source: Company data, I-Sec Research

Chart 1: Loan growth trended upwards – High growth to sustain

Source: Company data, I-Sec Research

Chart 2: Broad-based advances growth; share of TMT falls

Source: Company data, I-Sec Research

Chart 3: Funding mix in Q3FY10 – Slight QoQ improvement in CASA

Source: Company data, I-Sec Research

Table 2: Sharp repricing negates effect of falling yields & supports NIMs

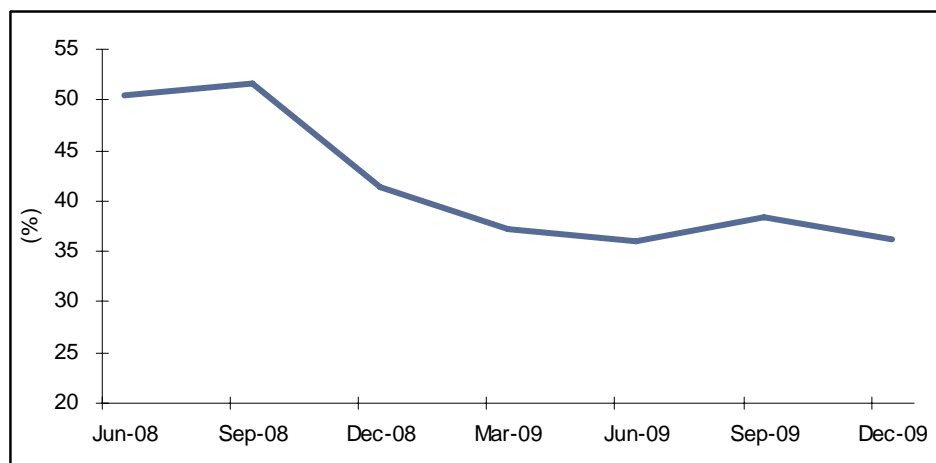
(%)	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Yield on advances	12.7	13.7	13.0	12.5	11.1	10.3
Cost of deposits	9.2	9.6	8.8	8.1	7.2	6.6
NIM	2.8	2.8	3.0	3.1	3.1	3.1

Source: Company data, I-Sec Research

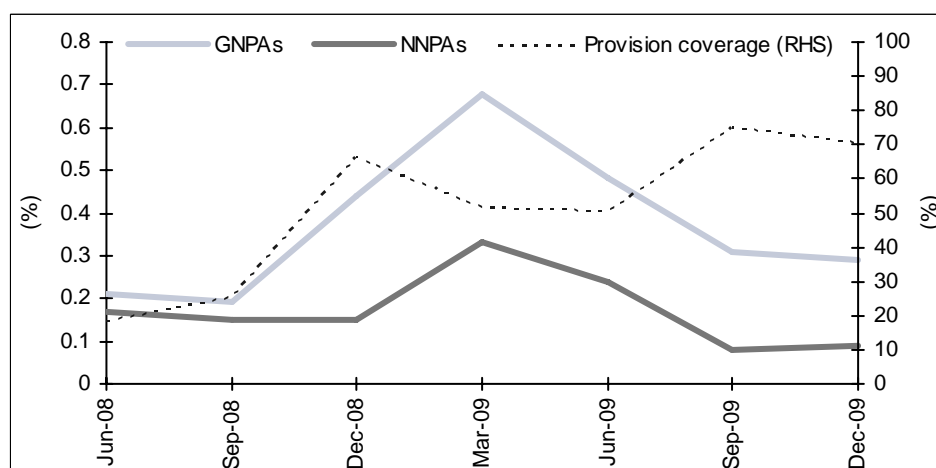
Table 3: Strong show in other income (ex-treasury)

(Rs mn)	Dec-08	Dec-09	% YoY
Financial Markets	1,450	280	(80.7)
Financial Advisory	127	570	348.8
Transaction Banking	187	371	98.4
TPD, Retail, Others	131	57	(56.5)
Total	1,894	1,278	(32.5)

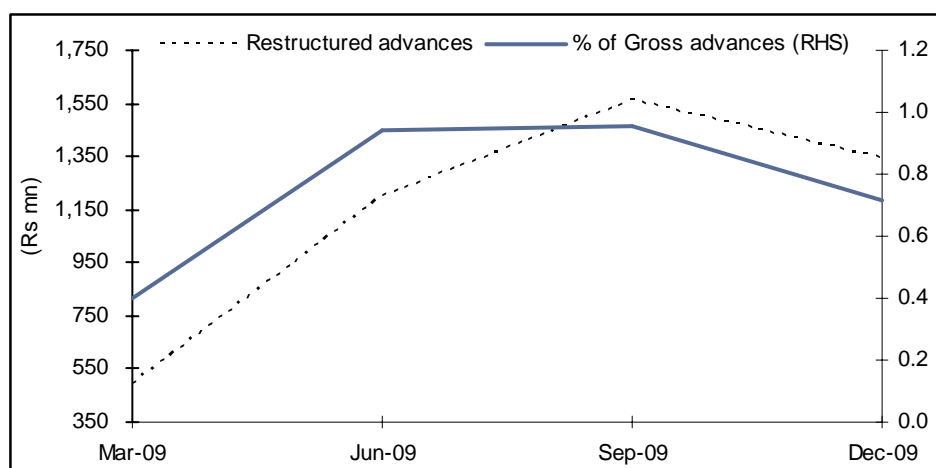
Source: Company data

Chart 4: Cost-to-income improves as expansion plans go slow

Source: Company data, I-Sec Research

Chart 5: Asset quality improves marginally...

Source: Company data, I-Sec Research

Chart 6: ...while restructured advances decline

Source: Company data, I-Sec Research

Financial Summary

Table 4: Profit and Loss Statement
(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Interest earned	20,033	24,272	33,854	45,345
Interest expended	14,921	16,527	23,486	31,908
Net interest income	5,112	7,745	10,368	13,438
Other income	4,350	5,845	7,119	8,898
Trading gains	1,486	700	800	1,000
Operating expenses	4,185	5,023	6,730	8,884
Employee costs	2,180	2,616	3,506	4,628
Pre-provisioning profit	5,276	8,567	10,756	13,452
Loan and investment loss provisions	617	1,568	2,109	2,606
Profit before tax	4,659	6,998	8,647	10,846
Income taxes	1,621	2,379	2,940	3,644
Net profit	3,038	4,619	5,707	7,202

Source: Company data, I-Sec Research

Table 5: Balance Sheet
(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Share Capital	2,970	3,382	3,382	3,382
Reserves and surplus	13,272	28,291	33,998	41,200
Deposits	161,694	239,307	315,886	429,605
Borrowings	21,891	25,831	30,997	37,196
Other liabilities and provisions	29,181	33,558	38,592	44,381
Total liabilities & stockholders' equity	229,008	330,369	422,855	555,764
Cash and balances with RBI and call money	19,227	20,765	22,426	24,221
Investments	71,170	97,645	115,547	148,548
Advances	124,031	194,729	264,831	360,170
Fixed Assets, net	1,311	1,573	2,045	2,659
Other Assets	13,269	15,657	18,005	20,166
Total assets	229,008	330,369	422,855	555,764

Source: Company data, I-Sec Research

*Note: We have factored in a capital infusion of Rs10.8bn in FY10E

Table 6: Key Ratios
(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per share data (Rs)				
Period end shares outstanding (mn)	297.0	338.2	338.2	338.2
Basic EPS	10.2	13.7	16.9	21.3
Diluted EPS	10.2	13.7	16.9	21.3
Book value per share	54.7	93.7	110.5	131.8
Adjusted book value per share	53.7	93.0	109.5	130.3
Growth ratios (%)				
Total assets	34.8	44.3	28.0	31.4
Advances	31.5	57.0	36.0	36.0
Deposits	21.8	48.0	32.0	36.0
Book value	22.7	71.3	18.0	19.3
EPS	51.3	33.5	23.6	26.2
Valuation ratios (x)				
P/PPP (pre-provisioning profit)	15.4	10.8	8.6	6.9
P/E	26.7	20.0	16.2	12.8
P/BV	5.0	2.9	2.5	2.1
P/ABV	5.1	2.9	2.5	2.1
Dividend yield (%)	-	-	0.0	(0.0)

Operating ratios (%)

Operating cost to income	44.2	37.0	38.5	39.8
Operating expenses/ Avg. assets	2.1	1.8	1.8	1.8

Profitability ratios (%)

Spread	2.6	2.7	2.6	2.6
Net interest margin	2.7	2.9	2.9	2.9
Return on avg. assets	1.5	1.7	1.5	1.5
Return on avg net worth	20.6	19.3	16.5	17.6

Asset quality and capital (%)

Gross NPA	0.7	0.5	0.7	0.8
Net NPA	0.3	0.2	0.2	0.2
Total CAR	16.6	18.9	17.0	15.0

Source: Company data, I-Sec Research

Table 7: Quarterly trends
(Rs mn, year ending March 31)

	Mar-09	Jun-09	Sep-09	Dec-09
Net interest income	1,552	1,637	1,600	2,109
% growth (YoY)	45	45	30	69
Other income	898	1,452	1,516	1,278
Pre-provision profit	1,539	1,978	1,918	2,162
Net profit	801	1,001	1,117	1,259
% growth (YoY)	24.2	84.2	75.6	19.0

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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