

October 20, 2010

Reco Previous Reco
Reduce Reduce

CMP Target Price
Rs352 Rs300

EPS change CY10E/11E (%) +11.6/+17

Target Price change (%) +15

Nifty 5,982

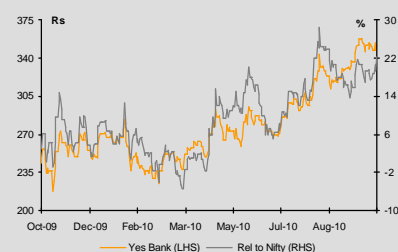
Sensex 19,872

Price Performance

(%)	1M	3M	6M	12M
Absolute	6	18	30	39
Rel. to Nifty	6	6	14	19

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	YES@IN
Equity Capital (Rs mn)	3452
Face Value(Rs)	10
No of shares o/s (mn)	345
52 Week H/L	364/214
Market Cap (Rs bn/USD mn)	122/2,749
Daily Avg Volume (No of sh)	2149463
Daily Avg Turnover (US\$m)	15.7

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	26.7	27.1	27.2
FII/NRI	55.4	51.8	58.1
Institutions	7.4	10.0	4.1
Private Corp	1.5	2.2	2.3
Public	9.0	9.0	8.4

Source: Capitaline

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- **Yes Bank's Q2FY11 NII at Rs3.1bn and PAT at Rs1.8bn were better than our expectations driven by 15.6% qoq growth in advances and restricted pressure on NIMs**
- **Advances grew 15.6% qoq driven by sharp growth in the agriculture and infrastructure loans; deposits grew by 32% qoq, CASA witnessed some pressure with 40bps shrinkage**
- **Asset quality remained robust with gross NPAs at 0.2% of advances, negligible net NPAs and the provision cover of 75%**
- **Valuations unattractive at 3.2x FY11E/2.6x FY12E ABV. Maintain REDUCE with TP of Rs300 (2.2x FY12E ABV). Risks to our call – Equity raising and faster than expected growth**

NII growth better than expected

Yes Bank's NII grew by 78% yoy to Rs3.1bn better than our expectations of Rs2.9bn. The NII growth was driven by 15.6% qoq growth in advances and a restricted 10bps qoq contraction in margins.

Repricing of loans helps mitigate costs

The higher proportion of short duration and base rate/PLR linked loans has helped Yes Bank to mitigate the rising cost of funds. A 40bps rise in cost of funds was partially mitigated by 30bps expansion in yields.

Yield analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (bps)	QoQ (bps)
Yield on advances*	11.5	10.8	9.6	9.2	10.2	-125	104
Yield on investments*	7.4	7.9	7.4	6.7	7.0	-34	39
Yield on assets*	9.0	9.0	8.1	7.6	8.2	-81	58
Cost of funds*	6.1	5.9	5.1	4.9	5.5	-58	59
NIM*	2.9	3.0	3.0	2.7	2.7	-23	-1
Yield on assets #	10.3	9.7	9.5	9.4	9.7	-60	30
Cost of funds #	7.2	6.6	6.3	6.3	6.7	-50	40
NIM #	3.1	3.1	3.2	3.1	3.0	-10	-10

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	34.5	6.6
FY2010	13,635	4,777	14.1	90.6	1.6	20.3	25.7	3.9
FY2011E	21,342	7,472	21.7	108.7	1.5	21.8	16.4	3.2
FY2012E	31,434	11,209	32.2	136.2	1.5	26.2	11.0	2.6

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	1,760	2,109	2,442	2,621	3,132	77.9	19.5	5,753	3,398	69.3
Other Income	1,355	1,278	1,601	1,438	1,309	-3.4	-9.0	2,747	2,807	-2.1
Net Income	3,115	3,387	4,043	4,059	4,441	42.5	9.4	8,500	6,205	37.0
Total Operating Expenses	1,197	1,226	1,467	1,570	1,628	35.9	3.7	3,197	2,309	38.5
As % Of Net Income	38.4	36.2	36.3	38.7	36.7			37.6	37.2	
Employee Expenses	622	627	708	812	878	41.1	8.0	1,690	1,233	37.0
As % Of Net Income	20.0	18.5	17.5	20.0	19.8			19.9	19.9	
Other Expenses	575	599	759	758	750	30.3	-1.0	1,508	1,075	40.2
As % Of Net Income	18.5	17.7	18.8	18.7	16.9			17.7	17.3	
Operating Profit	1,918	2,162	2,575	2,490	2,813	46.7	13.0	5,303	3,896	36.1
As % Of Net Income	61.6	63.8	63.7	61.3	63.3			62.4	62.8	
Provisions	234	254	426	126	174	-25.4	38.9	300	689	-56.5
PBT	1,684	1,908	2,150	2,364	2,639	56.7	11.6	5,003	3,207	56.0
Total Tax	567	649	750	800	877	54.6	9.6	1,677	1,089	54.0
Adjusted PAT	1,117	1,259	1,400	1,564	1,762	57.7	12.7	3,325	2,118	57.0
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	1,117	1,259	1,400	1,564	1,762	57.7	12.7	3,325	2,118	57.0
Reported EPS	3.7	4.2	4.1	4.6	5.1	36.2	11.3	9.7	7.1	36.1

Source: Company, Emkay Research

Advances show robust growth

The advances for the quarter have grown 86% yoy (15.6% qoq). The growth was visible in sectors like agriculture and infrastructure as they grew by 38-39% qoq respectively.

Advances Mix

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	% of total
Corporate	117,317	135,838	153,354	192,725	211,830	80.6	9.9	69.8
SME	37,476	43,221	56,814	57,765	59,482	58.7	3.0	19.6
Others	8,147	8,045	11,762	12,078	32,169	294.9	166.3	10.6
Total	162,940	187,104	221,931	262,568	303,481	86.3	15.6	100.0

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

Advances Mix

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	% of total
Food and agri	29,329	35,737	37,506	34,396	47,647	62.5	38.5	15.7
Infrastructure	26,070	30,311	45,940	47,787	66,462	154.9	39.1	21.9
Engineering	29,329	37,982	42,389	53,564	59,786	103.8	11.6	19.7
Healthcare	14,665	18,710	17,754	18,117	13,657	-6.9	-24.6	4.5
Telecom, media, tech	29,329	25,446	29,517	60,653	56,144	91.4	-7.4	18.5
Others	34,217	38,918	48,825	48,050	59,786	74.7	24.4	19.7
Total	162,940	187,104	221,931	262,568	303,481	86.3	15.6	100.0

Source: Company, Emkay Research

Strong advances growth puts some pressure on CASA

A steep growth in advances put some pressure on CASA as it contracted by ~40bps qoq. Incrementally a fairly large amount of deposits came from the large and emerging corporate segments.

CASA Mix

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
CASA Deposits	18,520	22,289	28,138	31,800	40,528	118.8	27.4
Term deposits	175,130	198,097	239,847	270,587	359,609	105.3	32.9
Total Deposits	193,650	220,386	267,985	302,387	400,137	106.6	32.3
CASA (%)	9.6	10.1	10.5	10.5	10.1	56	-39

Source: Company, Emkay Research

Deposit Mix

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	% of total
Retail FD	26,336	26,446	30,282	36,589	39,213	48.9	7.2	9.8
Corporate FD	62,355	70,083	94,063	111,581	189,665	204.2	70.0	47.4
CB FD	10,844	14,325	16,883	21,469	29,210	169.4	36.1	7.3
Govt inst FD	19,559	20,276	25,727	31,146	32,411	65.7	4.1	8.1
CoD	35,244	43,857	46,361	41,427	44,815	27.2	8.2	11.2
Institutional FD	20,721	23,141	26,531	28,424	24,408	17.8	-14.1	6.1
CASA	18,590	22,259	28,138	31,751	40,414	117.4	27.3	10.1
Total	193,650	220,386	267,985	302,387	400,137	106.6	32.3	100.0

Source: Company, Emkay Research

Lower transaction banking and trading losses hurt other income

The non-interest income declined by 14% yoy as there were treasury losses in this quarter compared with large trading gains in the same quarter last year. The transaction banking business also grew very moderately at 8.5% yoy to slow down in LC and buyers' credit business.

Fee income

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Financial markets	496	280	474	226	141	-71.6	-37.6	367.0	1,346	-72.7
Financial advisory	563	570	578	761	637	13.1	-16.3	1,398.0	816	71.3
Wealth Management	104	57	117	108	148	42.3	37.0	256.0	203	26.1
Transaction Banking	353	371	432	343	383	8.5	11.7	726.0	603	20.4
Total	1,516	1,278	1,601	1,438	1,309	-13.7	-9.0	2,747.0	2,968	-7.4
Other income excl fin. markets	1,020	998	1,127	1,212	1,168	14.5	-3.6	2,380	1,622	46.7

Source: Company, Emkay Research

Asset quality remains largely 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 at 74.7% during the quarter.

Asset quality

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPAs	500	542	602	597	677	35.4	13.5
Net NPAs	126	162	130	111	172	36.6	54.7
Gross NPAs (%)	0.3	0.3	0.3	0.2	0.2		
Net NPAs (%)	0.1	0.1	0.1	0.0	0.1		
Net NPAs/Net worth (%)	0.7	0.8	0.4	0.3	0.5		
Provision cover (%)	74.9	70.1	78.4	81.4	74.7		

Source: Company, Emkay Research

Capital adequacy remains comfortable

The total CAR stood at 19.4% with tier I CAR of 11.0%. There has been sharp run down on CAR in this quarter driven by strong loan growth.

Valuations and view

We have revised our numbers for FY11E/12E by 11.6%/17% respectively taking into account better earnings for Q2FY11, stronger than expected advances growth and stable NIMs. While we like YES Bank's growth trajectory and we have factored the same in our numbers (CAGR of 53% in profits over FY10-12E), the stock is currently quoting at 3.2x FY11E and 2.6x FY12E ABV which we do not find attractive. We maintain our REDUCE rating on the stock with price target of Rs300 (2.2x FY12E ABV).

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net interest income	5,112	7,880	13,219	19,696
Other income	4,569	5,755	8,123	11,738
Net income	9,681	13,635	21,342	31,434
Operating expenses	4,186	5,002	7,866	11,649
Pre provision profit	5,495	8,633	13,476	19,785
PPP excl treasury	4,009	7,647	12,976	19,235
Provisions	836	1,368	2,113	2,739
Profit before tax	4,659	7,265	11,363	17,046
Tax	1,621	2,488	3,891	5,837
Tax rate	34.8%	34.0%	34.0%	34.0%
Profit after tax	3,038	4,777	7,472	11,209

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	34,166	44,357
Net worth	16,242	30,896	37,606	47,840
Deposits	161,694	267,986	527,518	756,977
Borrowings	51,072	64,944	65,239	65,453
Total liabilities	229,008	363,825	630,363	870,271
Assets				
Cash and bank	19,227	26,733	50,973	73,145
Investments	60,928	93,185	158,909	217,017
Customer assets	134,273	230,846	406,549	565,602
Others	14,580	13,062	13,588	14,062
Total assets	229,008	363,825	630,363	870,271

Key Ratios (%)

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
NIM	2.9	3.0	2.9	2.9
Non-ll/avg assets	2.0	1.6	1.3	1.3
Fee income/avg assets	1.1	1.3	1.3	1.3
Opex/avg assets	2.1	1.7	1.6	1.6
Provisions/avg assets	0.5	0.5	0.5	0.5
PBT/avg assets	2.0	2.0	1.8	2.0
Tax/avg assets	0.7	0.7	0.6	0.7
RoA	1.5	1.6	1.5	1.5
RoAE	20.6	20.3	21.8	26.2
GNPA (%)	0.7	0.3	0.3	0.4
NNPA (%)	0.3	0.1	0.1	0.1

Valuations Table

(Year Ending Mar 31)	FY09	FY10	FY11E	FY12E
Net profit (Rs mn)	3,039	4,777	7,472	11,209
Shares in issue (mn)	297	340	344	348
EPS (Rs)	10.2	14.1	21.7	32.2
PER (x)	34.5	25.1	16.2	11.0
FDEPS(Rs)	10.2	13.7	21.5	32.2
FDPER (x)	34.5	25.7	16.4	11.0
Book value (Rs)	54.7	91.0	109.3	137.3
P/BV (x)	6.5	3.9	3.2	2.6
Adj book value (Rs)	53.3	90.6	108.7	136.2
P/ABV (x)	6.6	3.9	3.2	2.6
P/PPP (x)	19.1	13.9	9.0	6.2
Dividend yield (%)	0.0	0.5	0.7	0.8

Recommendation History: Yes Bank – YES IN

Date	Reports	Reco	CMP	Target
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
22/10/2009	Yes Bank Q2FY10 Result Update	Reduce	244	180

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2010	HDFC Bank Q2FY11 Result Update	Reduce	2,366	2,100
19/10/2010	CRISIL Q3CY10 Result Update	Accumulate	6,118	7,000
18/10/2010	Manappuram Q2FY11 Result Update	Hold	150	160
14/10/2010	Axis Bank Q2FY11 Result Update	Reduce	1,563	1,200

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