

'Saving' for the long term

Reason for report: Management meet

We met with Yes Bank's management and come back confident of their continued business strategy with focus on the retail segment. The management aims to build on the business traction built on post the savings rate deregulation and in enhancing its retail franchise. Share of savings deposits will continue to rise by ~15% QoQ (100-150bps as proportion) over FY13E, driven by: 1) continued traction in new savings account, especially led by expansion in the salary accounts, 2) improvement in average SA balances on account of a higher savings rate, and 3) further traction from branches opened in the past 12 months as well as strong branch network expansion in FY13E in the CASA-rich north and west India. The bank plans to further enhance its retail and SME asset portfolio by introducing LAP, LAS, gold loans, education loans, salary overdrafts, etc. Though the build-up will be gradual, the bank aims to increase its branch banking portfolio (SME + retail) from 18% of the total loans in FY12 to 30% in FY15. We estimate business growth for FY13E to remain at 23.1%, with preference towards credit substitutes in H1FY13. Margins (calculated) will remain steady at 2.6% while healthy fee income and stable asset quality would likely drive an earnings growth of 27% for FY13. Maintain Yes Bank as one of our top picks with a target price of Rs416/share.

- ▶ **All eyes on CASA deposits:** YES Bank has made significant inroads in the salary account space resulting in an improved run-rate for new accounts to 25,000-30,000 per month from 6,000-7,000 earlier. This has also helped improve average savings balances from ~Rs35,000 earlier to ~Rs85,000 currently. Salary accounts constitute 60-65% of the new accounts. Given its small base and immense scope of penetration in the salary account space, we expect a 15-18% QoQ growth in savings deposits over FY13E. Branch network is expected to grow by ~120 in FY13E.
- ▶ **Business performance to remain healthy:** Loan growth in FY13 will remain at 24% as risk aversion remains high. Credit substitutes will witness strong growth in H1FY13 and taper in H2FY13 as loans re-gain their attractiveness. Margins will continue to be stable at 2.6% as falling yields on credit substitutes is offset by the cost benefit of an improved CASA profile. Cost-to-income ratio would remain stable at 38% in FY13E despite opening ~120 new branches as the bank amortises most of its capex.
- ▶ **Premium asset quality to sustain, maintain BUY:** Lower exposure to stressed sectors will ensure lower delinquencies and we build-in loan-loss provisions at 21bps for FY13E. Given the slower loan growth target for FY13E (vs FY09-FY11), YES Bank remains adequately capitalised with tier-1 capital at 9.9%. Maintain **BUY** with a target price of Rs416/share.

Market Cap	Rs124bn/US\$2.3bn
Reuters/Bloomberg	YESB.BO/YES IN
Shares Outstanding (mn)	347.1
52-week Range (Rs)	387/232
Free Float (%)	73.9
FII (%)	46.6
Daily Volume (US\$/'000)	21,890
Absolute Return 3m (%)	(4.0)
Absolute Return 12m (%)	9.6
Sensex Return 3m (%)	1.8
Sensex Return 12m (%)	(6.3)

Year to March	2011	2012	2013E	2014E
NII (Rs bn)	12.5	16.2	20.3	28.0
Net Profit (Rs bn)	7.3	9.8	12.4	15.6
EPS (Rs)	20.9	27.7	35.2	44.1
% Chg YoY	48.9	32.1	27.1	25.3
P/E (x)	17.0	12.9	10.1	8.1
P/BV (x)	3.3	2.7	2.2	1.8
Net NPA (%)	0.0	0.0	0.1	0.1
Dividend Yield (%)	0.8	1.1	1.7	2.2
RoA (%)	1.5	1.5	1.5	1.5
RoE (%)	21.1	23.1	24.2	24.8

Banking

Target price Rs416

Shareholding pattern

	Sep '11	Dec '11	Mar '12
Promoters	26.3	26.2	26.1
Institutional investors	59.7	59.9	62.2
MFs and UTI	3.8	3.5	4.4
FIs	45.2	44.5	46.6
Foreign Institute	4.8	4.8	4.7
Others	14.0	13.9	11.7

Source: BSE

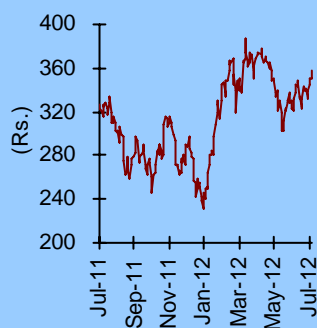
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Table 1: Quarterly estimates*(Rs mn, year ending March 31)*

	Q4FY12	Q1FY13E	Q2FY13E	Q3FY13E	Q4FY14E
Income statement					
Interest on advances	11,962	12,285	12,456	13,016	13,611
Income on investments	5,782	5,993	6,093	6,346	6,742
Interest on balances	62.6	72.6	77.0	81.4	181.8
Others interests	44.4	11.2	11.5	12.1	12.8
Interest earnings	17,851	18,361	18,638	19,455	20,548
Interest expended	13,369	13,523	13,681	14,185	15,267
NII	4,482	4,838	4,956	5,269	5,280
YoY growth (%)	28.6	36.6	28.5	23.2	17.8
QoQ growth (%)	4.8	7.9	2.4	6.3	0.2
Other Income	2,664	2,527	2,808	3,132	3,504
Net income	7,146	7,364	7,765	8,401	8,784
YoY growth (%)	33.5	41.8	29.5	31.5	22.9
QoQ growth (%)	11.8	3.1	5.4	8.2	4.6
Payment/provisions for employees	1,337	1,460	1,594	1,741	1,901
Total operating expenses	2,842	2,735	2,937	3,192	3,417
PPP	4,304	4,630	4,827	5,209	5,367
YoY growth (%)	23.4	42.4	25.1	30.6	24.7
QoQ growth (%)	7.9	7.6	4.3	7.9	3.0
Provisions and contingencies	285	378	389	416	450
Profit before tax	4,019	4,252	4,438	4,793	4,917
Tax	1,301	1,382	1,442	1,558	1,598
Profit after tax	2,718	2,870	2,996	3,235	3,319
YoY growth (%)	33.6	32.8	27.5	27.3	22.1
QoQ growth (%)	7.0	5.6	4.4	8.0	2.6
Balance sheet					
Advances	3,79,886	3,76,088	4,02,414	4,30,583	4,69,335
YoY growth (%)	10.5	13.6	17.7	20.0	23.5
QoQ growth (%)	5.9	(1.0)	7.0	7.0	9.0
Deposits	4,91,517	5,00,915	5,26,095	5,59,655	6,03,781
YoY growth (%)	7.0	15.0	19.4	19.3	22.8
QoQ growth (%)	4.7	1.9	5.0	6.4	7.9
CASA proportion (%)	15.0	15.9	16.8	17.5	19.3
Asset quality					
Gross NPAs	839	1166	1551	1749	2031
Net NPAs	175	180	383	379	481
Gross NPAs (%)	0.2	0.3	0.4	0.4	0.4
Net NPAs (%)	0.0	0.0	0.1	0.1	0.1
Coverage (%)	79.2	84.6	75.3	78.3	76.3

Source: Company data, I-Sec research

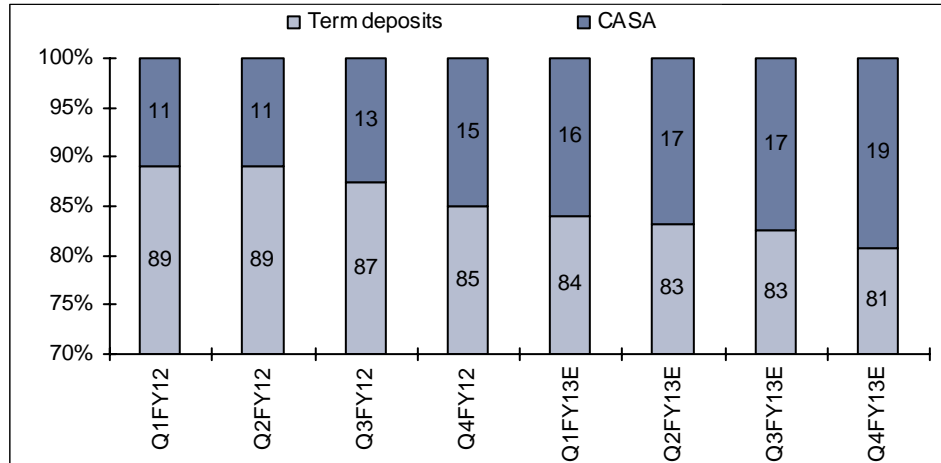
Fee income will be slightly lower than asset book growth. However, gains from the non-SLR portfolio could spring a positive surprise

Given that credit substitutes remain popular, loan growth will remain slow in H1FY13E and pick-up only in H2FY13E

Savings deposit accretion is expected to continue at 15-18% QoQ, resulting in a 100-150bps improvement in the CASA ratio per quarter

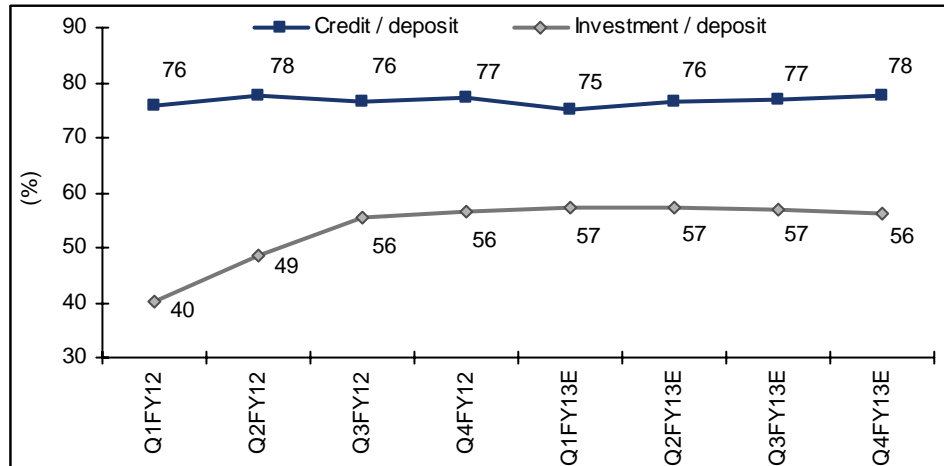
Low exposure to stressed sectors will keep asset quality issues at bay. We build-in loan-loss provisions at 21bps for FY13E

Chart 1: Traction in savings bank accounts to drive CASA growth



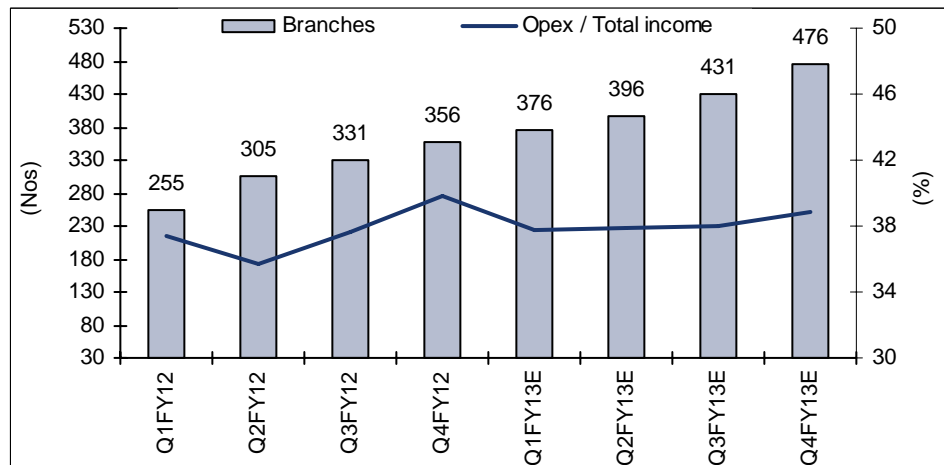
Source: Company data, I-Sec research

Chart 2: Credit substitutes will remain in flavour for H1FY13 while H2FY13 would see a revival in loan growth



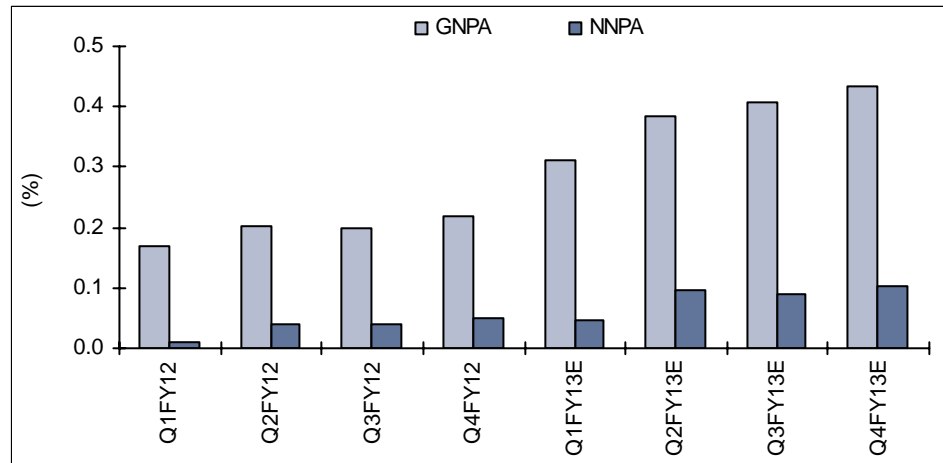
Source: Company data, I-Sec research

Chart 3: Costs to remain stable despite strong branch expansion as the bank amortises most of its capex expenses



Source: Company data, I-Sec research

Chart 4: GNPA's to remain below 0.5% for FY13



Source: Company data, I-Sec research

Valuation methodology and key risks

Based on 2.6x FY13E ABV owing to a robust and sustainable RoE, we arrive at a target price of Rs416/share for YES Bank. Slowdown in retail momentum and higher than expected deterioration in asset quality are the key risks to our call.

Financial summary

Table 2: Profit and Loss statement
(Rs bn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Interest earned	40.4	63.1	77.0	90.7
Interest expended	27.9	46.9	56.7	62.7
Net interest income	12.5	16.2	20.3	28.0
Other income	6.2	8.6	12.0	16.2
Fee income	5.9	7.7	9.4	12.6
Operating expenses	6.8	9.3	12.3	19.1
Employee costs	3.6	4.8	6.7	8.9
Pre-provisioning profit	11.9	15.4	20.0	25.2
Loan and investment loss provisions	1.0	0.9	1.6	2.3
Profit before tax	10.9	14.5	18.4	22.9
Income taxes	3.7	4.7	6.0	7.3
Net profit	7.3	9.8	12.4	15.6

Source: Company data, I-Sec research

Table 3: Balance sheet
(Rs mn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Share Capital	3.5	3.5	3.5	3.5
Reserves and surplus	34.5	43.2	52.5	66.0
Deposits	459.4	491.5	603.8	743.3
Borrowings	66.9	141.6	150.8	158.9
Other liabilities and provisions	25.8	56.8	102.2	192.9
Total liabilities & stockholders' equity	590.1	736.6	912.8	1,164.7
Cash and balances with RBI and call money	35.0	35.9	35.9	56.2
Investments	188.3	277.6	339.5	423.5
Advances	343.6	379.9	469.3	575.2
Fixed Assets, net	1.3	1.8	2.1	1.7
Other Assets	21.9	41.5	66.0	108.0
Total assets	590.1	736.6	912.8	1,164.7

Source: Company data, I-Sec research

Table 4: Key ratios
(Year ending March 31)

	FY11	FY12	FY13E	FY14E
Per share data (Rs)				
Period end shares outstanding (mn)	347.1	353.0	353.0	353.0
Basic EPS	20.9	27.7	35.2	44.1
Book value per share	109.3	132.5	158.8	197.1
Adjusted book value per share	109.0	132.0	157.5	195.7
Growth ratios (%)				
Total assets	62.2	24.8	23.9	27.6
Advances	54.8	10.5	23.5	22.6
Deposits	71.4	7.0	22.8	23.1
Book value	20.2	21.2	19.9	24.1
EPS	48.9	32.1	27.1	25.3
Valuation ratios (x)				
P/PPP (pre-provisioning profit)	10.4	8.2	6.3	5.0
P/E	17.0	12.9	10.1	8.1
P/BV	3.3	2.7	2.2	1.8
P/ABV	3.3	2.7	2.3	1.8
Dividend yield (%)	0.8	1.1	1.7	2.2
Operating ratios (%)				
Operating cost to income	36.3	37.7	38.0	43.1
Operating expenses/ Avg. assets	1.5	1.5	1.6	2.0
Profitability ratios (%)				
Spread	2.2	2.0	1.9	2.0
Net interest margin	2.7	2.6	2.6	3.0
Return on avg. assets	1.5	1.5	1.5	1.5
Return on avg net worth	21.1	23.1	24.2	24.8
Asset quality and capital (%)				
Gross NPA	0.2	0.2	0.4	0.6
Net NPA	0.0	0.0	0.1	0.1
Tier 1	9.7	8.7	7.8	7.1

Source: Company data, I-Sec research

Table 5: RoA tree
(Rs bn, year ending March 31)

	FY11	FY12	FY13E	FY14E
Interest Earned	8.5	9.5	9.3	8.7
Interest expended	5.9	7.1	6.9	6.0
NII	2.6	2.4	2.5	2.7
- NIM	2.7	2.6	2.6	3.0
Other Income	1.3	1.3	1.5	1.6
Total Income Earned	3.9	3.7	3.9	4.3
Employee expense	0.8	0.7	0.8	0.9
Operating Expenses & Administrative Expenses	0.7	0.7	0.7	1.0
Total op exp	1.4	1.4	1.5	1.8
Pre Provisioning Profit	2.5	2.3	2.4	2.4
Provisions & Contingencies	0.2	0.1	0.2	0.2
PBT	2.3	2.2	2.2	2.2
Provision for Tax	0.8	0.7	0.7	0.7
PAT	1.5	1.5	1.5	1.5

Source: Company data, I-Sec research

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