

We met the management of Yes Bank to gauge the impact of savings rate deregulation, sense its business potential and to comprehend its future growth strategy. Yes Bank is among the fastest-growing private sector banks in the country, having a branch network of 331 branches as of Dec 11. Yes Bank has a balance sheet of INR 711 bn, deposits of INR 469 bn and advances of INR 359 bn, with Gross NPA of less than 0.20%. Given below are key takeaways from the visit:-

Moving in-line with Version 2.0 targets

Yes Bank unveiled a plan, named Version 2.0, on 29th April 2010, wherein, it aimed to grow its Balance Sheet, Advances and Deposits at a CAGR of 32%, 35% and 36% over FY10-15 to INR 1500 bn, INR 1000 bn and INR 1250 bn respectively. As of Dec 2011, it has been able to grow the same at a CAGR of 45%, 32% and 38% to INR 711 bn, INR 359 bn and INR 469 bn respectively from FY10.

In the near term, the management is focussing more on asset quality and margin maintenance over growth. It aims to grow 500-750 bps higher than the system growth rates over the next couple of years aided by expanding distribution base and gaining market share.

One of the biggest beneficiaries of savings rate deregulation

Banking on the savings rate deregulation, Yes Bank was among the first banks to raise interest rates on savings accounts to 6% initially and later to 7%, resulting in 99.2% YoY and 40.0% QoQ growth in savings deposits in Q3FY12 (leading to 160 bps QoQ improvement in CASA ratio to 12.6%). It has successfully tapped several salary accounts and the account opening rate has grown by ~4x the pre-deregulation regime (earlier it was attracting ~6000-7000 customers a month, now it is almost at ~25,000 a month).

The management remains confident on the traction that it has been witnessing on CASA mobilization and aims to improve its CASA ratio by ~1-1.5% each quarter for the next few quarters. The company is targeting a CASA ratio of 30% by FY15.

Change in lending mix to improve yields

Yes Bank is looking to increase its presence in high yielding segment by targeting to tab more mid-sized corporate and SME/retail. It is aiming to change the proportion of large corporate, mid-sized corporate and SME/retail from 63%, 21% and 16% in Dec 11 to 40%, 30% and 30% of its total advances book in FY15. This would lead to improvement in yields, as yields in the mid-corporate and SME segment are higher by ~75 bps and ~150 bps respectively than large corporate yields.

NIMs to improve in long term

Yes bank expects NIMs to improve to ~3.6% by FY15 from 2.8% in Dec 11. This will be aided by improvement in yield on advances led by increased penetration in the mid corporate & retail segments and reduction in cost of deposits helped by rapid branch expansion (from 331 in Dec 11 to 750 by Mar 15) and sharp mobilization of low cost CASA deposits.

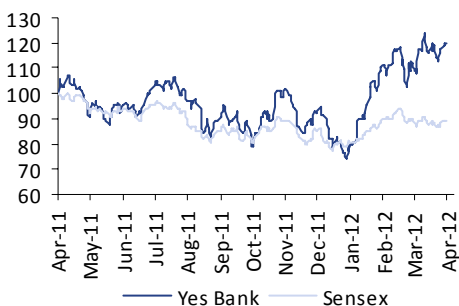
Outlook & Valuation

Yes Bank has superlative asset quality and well diversified balance sheet mix. It has a strong track record of consistently delivering superior returns. The main focus areas of Yes Bank at this point of time are driving CASA deposits, growing fee income and branch expansion.

Currently the stock is trading at 2.9x its TTM BV of INR 129.5, which is reasonable for a bank that has grown its NII & Profit at a CAGR of 56% & 54% respectively over FY08-11. Asset quality of Yes Bank remains among the best in the industry with gross NPA of 0.20% and also has one of the best return ratios (RoA of 1.5% and RoE of 23.0%).

Shareholding (%)	Dec-11
Promoters	26.21
FII's	49.91
DII's	10.68
Others	13.20

Relative Price Performance



Key Data	
BSE Code	532648
NSE Code	YESBANK
Bloomberg Code	YES IN
Reuters Code	YESB.BO
Shares O/S (mn)	352.99
Face Value	10
Mcap (INR bn)	132.76
52 Week H/L	388.70/230.50
2W Avg. Qty, NSE	2617421
Free Float (INR bn)	97.96
Beta	1.43

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Interest income	13047	20014	23697	40418
Interest Expended	9741	14921	15818	27948
Net interest income	3306	5093	7880	12469
Growth (%)	92.92%	54.07%	54.71%	58.25%
NIM (%)	2.77%	2.99%	3.04%	2.91%
APAT	2000	3039	4781	7274
Growth (%)	111.96%	51.95%	57.30%	52.14%
EPS (INR)	6.76	10.23	14.08	20.95
P/E	24.95	4.88	18.11	14.79
P/ABV	3.78	0.91	2.80	2.84
Net NPA	0.09%	0.33%	0.06%	0.03%
RoA	1.42%	1.52%	1.61%	1.53%
RoE	19.00%	20.65%	20.29%	21.13%
Dividend Yield	0.00%	0.00%	0.59%	0.81%

Best asset quality

Asset quality of Yes Bank remains among the best in the industry, with gross NPA of 0.20% & net NPA of 0.04% and provision coverage ratio of 80%. The management indicated that there is no immediate stress on asset quality and it does not expect significant pressure in coming quarters. It is stressing on asset quality and is closely monitoring its book in order to avoid any spikes. As of Dec 11, the bank's restructured pool stood at a mere 0.49% of advances, which is one of the lowest in the industry. It has also not been a part of any CDR till date.

Insulated from exposure to stress sectors

Yes Bank has a well diversified and de-risked loan book with exposure to stressed sectors (such as Power, Iron and steel, Textiles and Engineering) at only around 10%. Most of the bank's corporate book is working capital as opposed to project finance. Total project finance exposure is only ~ 5%, but pure thermal power project finance is only ~0.50% of total exposure. Exposure to new 2G /3G telecom players is nil while that to the troubled aviation sector is 0.15%.

Non-interest income to grow at more than 25%

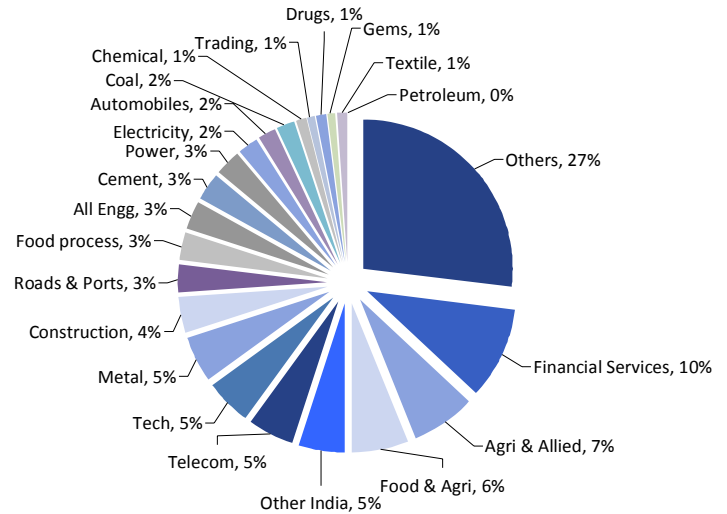
The company has well diversified non-interest income base, which includes Financial markets (FX sales, Debt Capital Markets and trading income: 19%), Financial advisory (Investment Banking, Corporate Finance advisory and other advisory income: 44%), Retail (Branch banking & other fees: 8%) and Transaction banking (28%). It is expecting a growth of more than 25% in NII aided by higher growth in Transaction Banking Segment, as the bank continues to deepen its relationship with the corporate segment. Financial advisory business would also grow at a healthy pace due to possible revival in capital markets.

Quarterly Result

Particulars (INR mn)	Q3FY12	Q3FY11	Var %	Q2FY12	Var %	9MFY12	9MFY11	Var %
Interest Earned	16841	11262	49.54	14387	17.06	45223	28191	60.41
Interest Expended	12565	8030	56.48	10530	19.32	33549	19207	74.67
Net Interest Income	4276	3232	32.31	3856	10.88	11674	8984	29.94
NIM (%)	2.80%	2.80%	-	2.90%	(10 bps)	2.80%	2.90%	(10 bps)
Other Income	2114	1617	30.78	2141	(1.22)	5908	4365	35.34
Net Total Income	6390	4848	31.80	5997	6.56	17582	13349	31.71
Operating Expenses	2402	1736	38.36	2138	12.35	6483	4933	31.42
Operating Profits	3988	3113	28.14	3859	3.35	11099	8416	31.87
Provisions	224	250	(10.42)	379	(40.98)	617	550	12.34
Profit Before Tax	3765	2863	31.50	3481	8.17	10481	7867	33.24
Provision for Tax	1224	952	28.60	1130	8.29	3429	2629	30.44
Net Profit	2541	1911	32.95	2350	8.11	7052	5238	34.64
EPS	7.22	5.51	31.00	6.69	7.84	20.04	15.10	32.67
Equity	3519	3468	1.49	3511	0.25	3519	3468	1.49
GNPA	721	728	(1.06)	688	4.69	721	728	(1.06)
NNPA	144	174	(17.09)	136	5.65	144	174	(17.09)
(%) GNPA	0.20%	0.23%	(3 bps)	0.20%	-	0.20%	0.23%	(3 bps)
(%) NNPA	0.04%	0.06%	(2 bps)	0.04%	-	0.04%	0.06%	(2 bps)

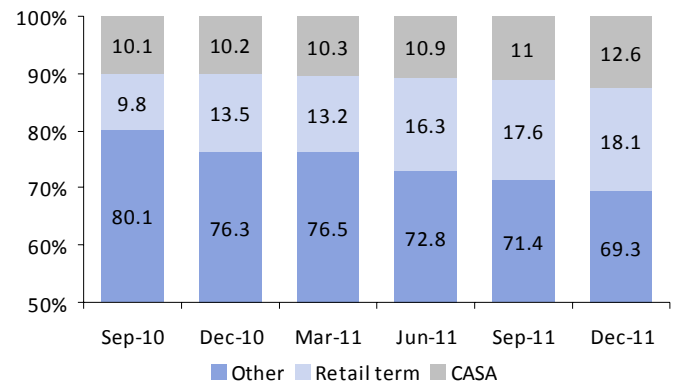
Source: Capitaline

Diversified loan book



Source: Company, SPA Research

CASA mobilisation gaining momentum



Source: Company, SPA Research

Version 2.0 plan unplugged



Source: Company, SPA Research

Financials

Income Statement

Y/E March (INR mn)	FY08	FY09	FY10	FY11
Interest income	13047	20014	23697	40418
<i>Growth (%)</i>	<i>122.03%</i>	<i>53.40%</i>	<i>18.40%</i>	<i>70.56%</i>
Interest Expended	9741	14921	15818	27948
Net interest income	3306	5093	7880	12469
<i>Growth (%)</i>	<i>92.92%</i>	<i>54.07%</i>	<i>54.71%</i>	<i>58.25%</i>
Other Income	3607	4589	5755	6233
Net Income	6913	9682	13635	18702
Operating Expenditure	3412	4187	5002	6798
Operating Income	3501	5495	8633	11904
Provisions & Contingencies	436	836	1368	982
PBT	3065	4659	7265	10922
Tax	1065	1621	2488	3650
PAT	2000	3038	4777	7271
Extra-ordinary Items	(0)	(1)	(4)	(3)
APAT	2000	3039	4781	7274
<i>Growth (%)</i>	<i>111.96%</i>	<i>51.95%</i>	<i>57.30%</i>	<i>52.14%</i>
EPS (INR)	6.76	10.23	14.08	20.95

Balance Sheet

Y/E March (INR mn)	FY08	FY09	FY10	FY11
SOURCES OF FUNDS				
Equity Share Capital	2958	2970	3397	3472
Reserves	10231	13272	27499	34469
Total Shareholders Funds	13189	16242	30896	37941
Total Deposits	132732	161694	267986	459389
<i>Growth (%)</i>	<i>61.47%</i>	<i>21.82%</i>	<i>65.74%</i>	<i>71.42%</i>
Borrowings	9862	37017	47491	66909
Other Liabilities & Provisions	14049	14055	17453	25831
Total Liabilities	169832	229008	363825	590070
APPLICATION OF FUNDS				
Current Assets	16276	19227	26733	34960
Investments	50937	71170	102099	188288
Advances	94303	124031	221931	343636
<i>Growth (%)</i>	<i>49.93%</i>	<i>31.52%</i>	<i>78.93%</i>	<i>54.84%</i>
Fixed Assets	1012	1311	1155	1324
Other Assets	7305	13269	11907	21861
Total Assets	169832	229008	363825	590070

Key Ratios

Y/E March	FY08	FY09	FY10	FY11
Per Share Data (INR)				
EPS	6.76	10.23	14.08	20.95
BVPS	44.59	54.69	90.96	109.29
ABVPS	44.59	54.69	90.96	109.29
DPS	0.00	0.00	1.50	2.50
Profitability Ratios				
Yield on Advances	12.01%	13.76%	10.31%	10.66%
Cost of Deposits	9.06%	10.14%	7.36%	7.68%
Net Interest Margin	2.77%	2.99%	3.04%	2.91%
RoA	1.42%	1.52%	1.61%	1.53%
RoE	19.00%	20.65%	20.29%	21.13%
Balance Sheet Ratios				
Credit/Deposit Ratio	71.05%	76.71%	82.81%	74.80%
Investment/Deposit Ratio	38.38%	44.02%	38.10%	40.99%
CASA Ratio	8.50%	8.73%	10.52%	10.34%
Capital Adequacy Ratio (CAR)	13.60%	14.50%	20.60%	16.50%
Tier I	8.50%	8.30%	12.90%	9.65%
Asset Quality Ratios				
Gross NPA	0.11%	0.68%	0.27%	0.23%
Net NPA	0.09%	0.33%	0.06%	0.03%
Provision Coverage Ratio (calculated)	22.31%	58.23%	93.45%	91.68%
Slippage Ratio	0.14%	0.81%	0.66%	0.18%
Efficiency Ratios				
Cost to Income Ratio	49.36%	43.24%	36.68%	36.35%
Business per Employee (in INR mn)	683.00	988.00	1624.00	2220.00
Profit per Employee (in INR mn)	6.00	11.00	17.00	21.00
Valuation Ratios				
P/E	24.95	4.88	18.11	14.79
P/ABV	3.78	0.91	2.80	2.84
Dividend Yield	0.00%	0.00%	0.59%	0.81%

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