

October 20, 2011

Reco Accumulate	Previous Reco Hold
CMP Rs285	Target Price Rs340
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,019
Sensex	16,937

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(11)	(10)	(19)
Rel. to Nifty	(1)	(2)	4	(5)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Banks
Bloomberg	YES@IN
Equity Capital (Rs mn)	3510
Face Value(Rs)	10
No of shares o/s (mn)	351
52 Week H/L	388/234
Market Cap (Rs bn/USD mn)	100/2,034
Daily Avg Volume (No of sh)	2878917
Daily Avg Turnover (US\$mn)	16.7

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	26.5	26.6	26.6
FII/NRI	53.7	51.2	54.0
Institutions	7.0	9.9	6.7
Private Corp	1.6	1.4	1.8
Public	11.3	11.0	11.0

Source: Capitaline

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- **Yes Bank's Q2FY12 NII at Rs3.8bn was largely inline. PAT at Rs2.35bn was above our and street estimates and was aided by higher non-interest income**
- **Balance sheet growth remains moderate at 10% qoq; helps maintain NIM at 2.9%. Retail + CASA deposits grew 53% yoy (6% qoq) and comprised 29% of total deposits**
- **Restructured portfolio doubles to Rs1.7bn driven by 3 MFI accounts, albeit bank has made adequate provisions for the same**
- **Drive comfort in smooth transition of the business mix. Valuations of 2.2x/1.5x FY12E / FY13E ABV provide room for decent upside. Upgrade to ACCUMULATE. Maintain TP of 340**

Results ahead of our and street expectations ...

Yes Bank's Q2FY12 NII at Rs3.8bn was largely in line with our estimates of Rs3.6bn. Net profit at Rs2.3bn, however, was way ahead of our estimates of Rs2bn and street estimates at Rs2.2bn. Calculated NIM expanded 13bps qoq to 2.6% (our estimates of 10bps expansion). Robust growth in non-interest income (up 64% yoy) compensated for higher provisioning charges. Restructuring assets were up 2x sequentially and was due to 3 MFI accounts. The bank, however, has made adequate provisioning for the same.

On the balance sheet front, deposits were up 10.2% yoy (1% qoq). A large part of the incremental deposits during the quarter was in the form of retail and CASA deposits. Borrowings were up 70% qoq and the management attributed the same towards higher borrowing under foreign currency window. On the asset front, loan growth moderates to 3% qoq (13% yoy). Investments were up 48% yoy and 22% qoq; largely due to investments in non-SLR securities. In our numbers, we have assumed 26% growth in total customer assets for FY12.

Yield analysis

%	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (bps)	QoQ (bps)
Yield on advances*	10.2	10.6	10.9	12.2	12.3	202	10
Yield on investments*	7.0	8.1	7.7	8.0	8.2	112	15
Yield on assets*	8.2	8.7	8.8	9.7	9.6	138	-4
Cost of funds*	5.5	6.2	6.3	7.2	7.0	151	-17
NIM*	2.7	2.5	2.5	2.4	2.6	-12	13
Yield on advances#	9.5	10.0	10.7	11.6	12.2	270	60
Yield on assets #	9.7	9.9	10.6	11.3	11.5	180	20
Cost of funds #	6.7	7.1	7.8	8.5	8.6	190	10
NIM #	3.0	2.8	2.8	2.8	2.9	-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	FDEPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/E (x)	P/ABV (x)
FY2010	13,635	4,777	13.8	90.6	1.6	20.3	20.7	3.1
FY2011	18,701	7,271	20.7	109.0	1.5	21.1	13.8	2.6
FY2012E	23,932	9,579	22.6	131.2	1.5	22.8	12.6	2.2
FY2013E	32,260	12,760	30.1	186.5	1.5	20.4	9.5	1.5

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Net Interest Income	3,132	3,232	3,485	3,541	3,856	23.1	8.9	7,397	5,753	28.6
Other Income	1,309	1,617	1,868	1,653	2,141	63.5	29.5	3,793	2,747	38.1
Net Income	4,441	4,848	5,353	5,194	5,997	35.0	15.5	11,191	8,500	31.7
Total Operating Expenses	1,628	1,736	1,865	1,944	2,138	31.3	10.0	4,081	3,197	27.6
As % Of Net Income	36.7	35.8	34.8	37.4	35.6			36.5	37.6	
Employee Expenses	878	903	1,030	1,098	1,100	25.3	0.1	2,198	1,690	30.0
As % Of Net Income	19.8	18.6	19.2	21.1	18.3			19.6	19.9	
Other Expenses	750	833	835	846	1,038	38.4	22.8	1,884	1,508	25.0
As % Of Net Income	16.9	17.2	15.6	16.3	17.3			16.8	17.7	
Operating Profit	2,813	3,113	3,488	3,250	3,859	37.2	18.7	7,109	5,303	34.1
As % Of Net Income	63.3	64.2	65.2	62.6	64.4			63.5	62.4	
Provisions	174	250	433	15	379	117.3	2,409.9	394	300	31.4
PBT	2,639	2,863	3,055	3,235	3,480	31.9	7.6	6,715	5,003	34.2
Total Tax	877	952	1,021	1,075	1,130	28.9	5.1	2,205	1,677	31.5
Adjusted PAT	1,762	1,911	2,034	2,160	2,350	33.4	8.8	4,510	3,325	35.6
Extra Ordinary Items	0	0	0	0	0			0	0	
Reported PAT	1,762	1,911	2,034	2,160	2,350	33.4	8.8	4,510	3,325	35.6
Reported EPS	5.1	5.5	5.9	6.2	6.7	31.2	7.6	13	10	33.3

Source: Company, Emkay Research

Branch addition clearly reflected in incremental deposit mix...

Through branch additions (134 branches yoy and 50 branches qoq) and primarily in non-corporate segment, the bank has gained substantial traction in branch banking franchise. This is clearly evident in the incremental deposit mix during the quarter. As against mere 10.2% yoy (1% qoq) growth in deposits, retail + CASA deposits were up 58% yoy and 6% qoq and comprised 29% of total deposits.

CASA ratio albeit at 11

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
CASA Deposits	40,528	40,242	47,500	47,644	48,388	19.4	1.6
Term deposits	359,609	354,286	411,889	388,115	392,371	9.1	1.1
Total Deposits	400,137	394,528	459,389	435,759	440,759	10.2	1.1
CASA (%)	10.1	10.2	10.3	10.9	11.0	85	4

Source: Company, Emkay Research

Deposit Mix – Retail + CASA deposits now form 29% of total deposits.

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Retail FD	39,213	53,261	60,639	71,029	77,574	97.8	9.2	17.6
Corporate FD	189,665	155,050	181,459	149,901	151,180	-20.3	0.9	34.3
CB FD	29,210	31,562	34,454	38,783	36,583	25.2	-5.7	8.3
Govt inst FD	32,411	39,847	55,586	47,062	47,161	45.5	0.2	10.7
CoD	44,815	50,105	50,073	58,392	54,213	21.0	-7.2	12.3
Institutional FD	24,408	24,855	29,585	23,531	25,564	4.7	8.6	5.8
CASA	40,414	40,242	47,500	47,498	48,484	20.0	2.1	11.0
Total	400,137	394,923	459,296	436,195	440,759	10.2	1.0	100.0

Source: Company, Emkay Research

Loan portfolio expanded 3.3% qoq aided by branch banking

Loan portfolio during the quarter expanded 3.3% qoq (12.7%) and was largely in the nature of branch banking business. Increasing penetration in SME and retail segment has enabled the proportion of branch banking to increase from 5% in Q2FY10 to 15% now. Exposure to risky segments stands at: Power (4.1%), Electricity (3.3%) and Infrastructure (3.2%).

Advances Mix

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	% of total
Corporate	211,830	210,317	223,707	209,219	209,952	-0.9	0.4	61.4
Commercial Banking	59,482	69,380	78,693	80,774	81,382	36.8	0.8	23.8
Others	32,169	31,423	41,236	41,049	50,607	57.3	23.3	14.8
Total	303,481	311,120	343,636	331,042	341,941	12.7	3.3	100.0

Source: Company, Emkay Research

Other income growth surprised on the upside

Other income at Rs2.1bn was up 64% yoy and much ahead of our estimates of Rs1.5bn. Healthy growth was witnessed across segments of non-interest income stream: Financial markets (up 1.9x yoy), financial advisory (up 53% yoy) and transaction banking (up 59% yoy). Financial markets income was also driven by few large deals done during the quarter and the performance may not be repeated.

Fee income

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Financial markets	141	410	241	247	410	190.8	66.0	657	367	79.0
Financial advisory	637	535	772	829	978	53.5	18.0	1,807	1,398	29.3
Wealth Management	148	174	201	157	143	-3.4	-8.9	300	256	17.2
Transaction Banking	383	498	654	420	609	59.0	45.0	1,029	726	41.7
Total	1,309	1,617	1,868	1,653	2,140	63.5	29.5	3,793	2,747	38.1

Source: Company, Emkay Research

Asset quality remains comfortable; restructured assets doubles but well provided

Asset quality continues to remain in comfortable zone with GNPA/NNPA at 0.2%/0.04%. Restructured assets at Rs1.7bn zoomed 2x sequentially, largely due to MFI companies. The bank has however made adequate provisioning towards the same. The bank has made specific and general provisioning of Rs100mn each and remains well protected with PCR at 80.2%.

Asset quality

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Gross NPAs	677	728	805	560	688	1.6	23.0
Net NPAs	172	174	92	27	136	-20.5	410.9
Gross NPAs (%)	0.2	0.2	0.2	0.2	0.20		
Net NPAs (%)	0.1	0.1	0.0	0.0	0.04		
Net NPAs/Net worth (%)	0.5	0.5	0.2	0.1	0.3		
Provision cover (%)	74.7	76.1	88.6	95.2	80.2		

Source: Company, Emkay Research

Valuations and view

We remain positive on Yes Bank given its smooth transition towards branch banking business model and improved liability franchise. Also given improving retail deposits franchise (retail + CASA deposits) and resilience to margin performance, we now upgrade the stock to ACCUMULATE (HOLD earlier). The current valuations at 2.2x FY12E and 1.5x FY13E ABV provide room for decent upside.

Key Financials

Income Statement (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net interest income	7,880	12,469	15,542	21,402
Other income	5,755	6,232	8,390	10,858
Net income	13,635	18,701	23,932	32,260
Operating expenses	5,002	6,798	8,571	11,894
Pre provision profit	8,633	11,903	15,361	20,366
PPP excl treasury	7,647	12,368	15,871	20,927
Provisions	1,368	982	1,064	1,321
Profit before tax	7,265	10,921	14,297	19,045
Tax	2,488	3,650	4,718	6,285
Tax rate	34.2%	33.4%	33.0%	33.0%
Profit after tax	4,777	7,270	9,579	12,760

Balance Sheet (Rs. Mn)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Liabilities				
Equity	3,397	3,472	3,515	4,240
Reserves	27,499	34,469	42,609	74,955
Net worth	30,896	37,941	46,124	79,195
Deposits	267,986	459,389	583,731	821,623
Borrowings	64,944	92,742	88,961	89,754
Total liabilities	363,825	590,072	718,816	990,572
Assets				
Cash and bank	26,733	34,960	44,923	75,012
Investments	93,185	148,091	180,714	250,132
Customer assets	230,846	383,834	469,742	641,560
Others	13,062	23,185	23,437	23,867
Total assets	363,825	590,072	718,816	990,572

Key Ratios (%)

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
NIM	2.7	2.6	2.4	2.5
Non-II/avg assets	1.6	1.1	1.2	1.1
Fee income/avg assets	1.3	2.1	2.1	2.1
Opex/avg assets	1.7	1.4	1.3	1.4
Provisions/avg assets	0.5	0.1	0.1	0.1
PBT/avg assets	2.0	1.9	2.0	1.9
Tax/avg assets	0.7	0.6	0.7	0.6
RoA	1.6	1.5	1.5	1.5
RoAE	20.3	21.1	22.8	20.4
GNPA (%)	0.3	0.2	0.2	0.2
NNPA (%)	0.1	0.0	0.0	0.0

Valuations Table

(Year Ending Mar 31)	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	4,777	7,271	9,579	12,760
Shares in issue (mn)	340	347	351	424
EPS (Rs)	14.1	20.9	27.3	30.1
PER (x)	20.3	13.6	10.5	9.5
FDEPS(Rs)	13.8	20.7	22.6	30.1
FDPER (x)	20.7	13.8	12.6	9.5
Book value (Rs)	91.0	109.3	131.2	186.8
P/BV (x)	3.1	2.6	2.2	1.5
Adj book value (Rs)	90.6	109.0	131.2	186.5
P/ABV (x)	3.1	2.6	2.2	1.5
P/PPP (x)	11.2	8.3	6.5	5.9
Dividend yield (%)	0.6	1.0	1.4	1.8

Recommendation History: Yes Bank – YES IN

Date	Reports	Reco	CMP	Target
21/07/2011	Yes Bank Q1FY12 Result Update	Hold	318	340
20/04/2011	Yes Bank Q4FY11 Result Update	Accumulate	331	390
20/01/2011	Yes Bank Q3FY11 Result Update	Accumulate	273	300
20/10/2010	Yes Bank Q2FY11 Result Update	Reduce	352	300

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	HDFC Bank Q2FY12 Result Update	Hold	491	510
18/10/2011	CRISIL Q3CY11 Result Update	Accumulate	839	1,050
18/10/2011	Federal Bank Initiating Coverage	Accumulate	377	425
17/10/2011	South Indian Bank Q2FY12 Result Update	Accumulate	23	27

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