

January 16, 2013

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Rating	BUY
Price	Rs518
Target Price	Rs560
Implied Upside	8.1%
Sensex	19,818
Nifty	6,002

(Prices as on January 16, 2013)
Trading data

Market Cap. (Rs bn)	182.9
Shares o/s (m)	353.0
3M Avg. Daily value (Rs m)	1312.9

Major shareholders

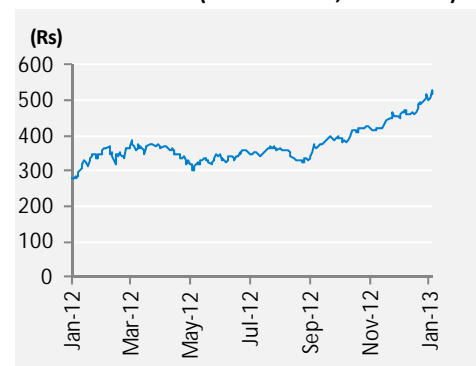
Promoters	25.80%
Foreign	48.30%
Domestic Inst.	14.65%
Public & Other	11.25%

Stock Performance

(%)	1M	6M	12M
Absolute	12.5	48.0	84.8
Relative	9.9	32.1	62.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	42.6	39.9	6.7
2015	50.6	45.8	10.5

Price Performance (RIC: YESB.BO, BB: YES IN)


Source: Bloomberg

Yes Bank reported a beat in PAT with strong all-round performance on most operating metrics and a near zero NPA qtr. Margin recovery and SA build up has been faster than anticipated and fee income though lumpy also continues to surprise. Though we do not see any near term fundamental issues, the strong stock performance (20% in last 1mnt) captures near term positives and also to some extent potential book accretion through a dilution and hence we believe near term upsides may be limited.

- Growth picking up:** Growth in total customer assets (3.2% QoQ) was led by pick-up in growth in Loan book (up 4.4%) v/s being led by credit substitutes in FY12. Fee income surprised positively with ~50% y/y led by a 2x jump in Financial Advisory fees (some lumpiness). Ex-Financial advisory fee income was lower than expected but management believes that Financials markets could deliver in the next ~6mnts due to MTM gains on their corporate credit substitute book as yields have come off.
- Uptick in margins continue; SA growth surprises;** NIM's expanded ~10bps q/q largely driven by lower cost of funds as wholesale funding rates have come off. Management remained sanguine on outlook for margins as near term NIMs will continue to benefit from lower funding costs and medium term mgt expects benefit of higher CASA to flow through as SA momentum continues to remain strong with Rs10.3bn accretion in 3Q13 (v/s Rs8.8bn in 2Q13).
- Asset quality continues to improve:** The bank continues to deliver on asset quality as Gross NPAs come off q/q with near Zero slippages or restructuring in 3Q13. Credit costs was higher than expected due to Deccan provisioning and mgt has now provided ~80% of their Deccan exposure and does not expect further write offs.
- Why retain a BUY?** Though last 3-4mnts stock performance will limit near term upsides we retain our BUY ratings as we see Yes delivering high ROEs in spite of a potential dilution and valuations (2.2x FY14) on diluted book is not very demanding considering the inherent book growth. Also build in Liability franchise + stability in asset quality demonstrated over last 4-5 yrs imply that historically high valuations (2.2-2.5x) could sustain in spite of slower growth.

Key financials (Y/e March)	2012	2013E	2014E	2015E
Net interest income (Rs m)	16,156	21,932	27,109	32,987
Growth (%)	29.6	35.7	23.6	21.7
Operating profit (Rs m)	15,417	20,819	25,308	30,185
PAT (Rs m)	9,784	12,855	15,028	17,861
EPS (Rs)	27.7	36.4	42.6	50.6
Growth (%)	32.1	31.6	16.9	18.9
Net DPS (Rs)	2.5	3.5	4.5	5.5

Profitability & Valuation	2012	2013E	2014E	2015E
NIM (%)	2.44	2.71	2.81	2.85
RoAE (%)	23.1	24.5	23.2	22.6
RoAA (%)	1.47	1.59	1.56	1.54
P / BV (x)	3.9	3.1	2.6	2.1
P / ABV (x)	3.9	3.1	2.6	2.1
PE (x)	18.7	14.2	12.2	10.2
Net dividend yield (%)	0.5	0.7	0.9	1.1

Source: Company Data; PL Research

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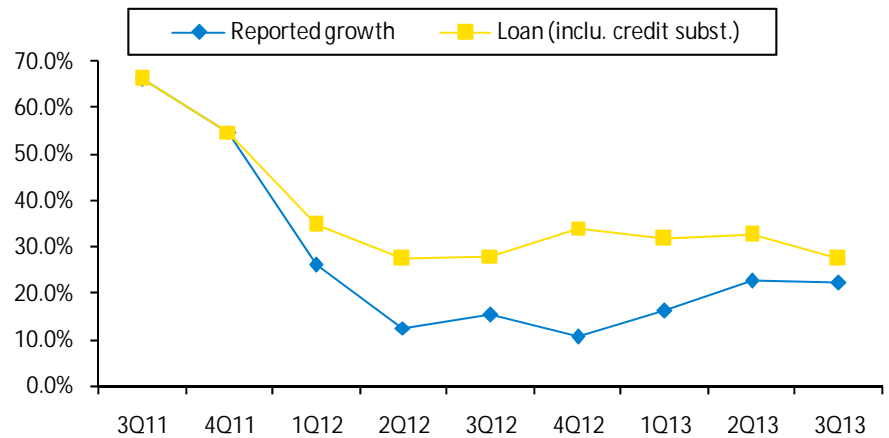
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Exhibit 1: Q3FY13 – PAT, a beat on estimate; continues to deliver on operating matrix

	3Q12	2Q13	3Q13	YoY	QoQ
	16,841	19,864	21,336	26.7%	7.4%
<i>NII was better than expected due to the beat in NIMs</i>	12,565	14,622	15,493	23.3%	6.0%
	4,276	5,242	5,843	36.7%	11.5%
	2,114	2,768	3,132	48.1%	13.2%
<i>Fee income growth lead by Financial Advisory</i>	2,402	3,162	3,341	39.1%	5.7%
	3,988	4,847	5,635	41.3%	16.2%
	224	317	567	153.6%	78.6%
<i>Provision includes ~0.4bn for Deccan</i>	3,765	4,530	5,068	34.6%	11.9%
	1,224	1,469	1,645	34.4%	11.9%
	2,541	3,061	3,423	34.7%	11.8%
	2.8%	2.9%	3.0%	0.2%	0.1%
<i>Expansion in NIM's supported by accretion to CASA and lower cost of funds</i>	25.4%	26.4%	27.4%	2.0%	1.0%
	37.6%	39.5%	37.2%	-0.4%	-2.3%
	5.6%	6.5%	10.1%	4.5%	3.5%
	32.5%	32.4%	32.5%	-0.1%	0.0%
Balance sheet data					
	358,678	420,193	438,568	22.3%	4.4%
	437,546	540,200	557,542	27.4%	3.2%
	469,291	522,908	564,005	20.2%	7.9%
	76.4%	80.4%	77.8%	1.3%	-2.6%
<i>Growth in SA balances leads CASA accretion</i>	12.6%	17.3%	18.3%	5.7%	1.1%
Asset Quality					
	721	1,028	762	5.8%	-25.9%
	144	201	155	7.7%	-22.9%
<i>Asset quality continues to hold at extremely strong level</i>	0.20%	0.24%	0.17%	0.0%	-0.1%
	0.04%	0.05%	0.04%	0.0%	0.0%
	0.26%	0.32%	0.53%	0.3%	0.2%
	2,115	2,769	3,132	48.1%	13.1%
	483	471	392	-18.8%	-16.8%
	806	1,196	1,624	101.5%	35.8%
<i>Financial advisory services leads the growth</i>	639	796	805	26.0%	1.1%
	187	306	311	66.3%	1.6%

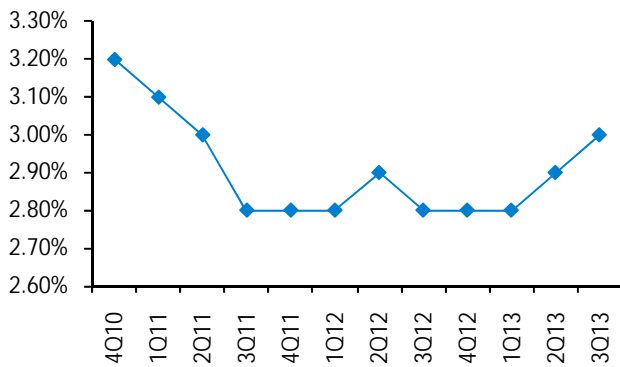
Source: Company Data, PL Research

Exhibit 2: Loan book growth inching up now v/s growth in investment book earlier



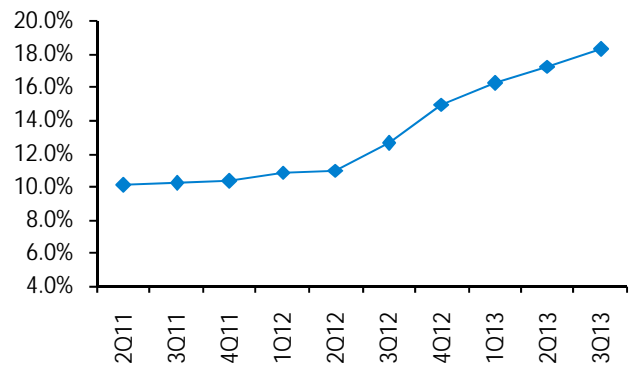
Source: Company Data, PL Research

Exhibit 3: NIM coming back strongly as cost of funds come off



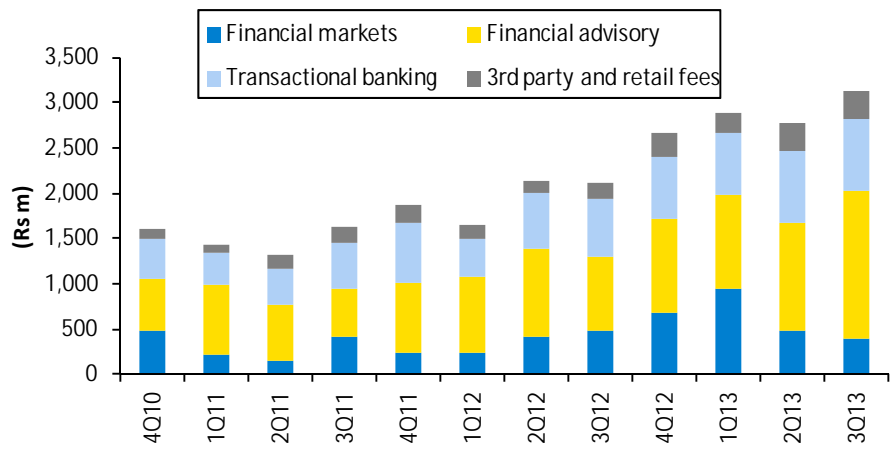
Source: Company Data, PL Research

Exhibit 4: Continues to deliver on CASA accretion

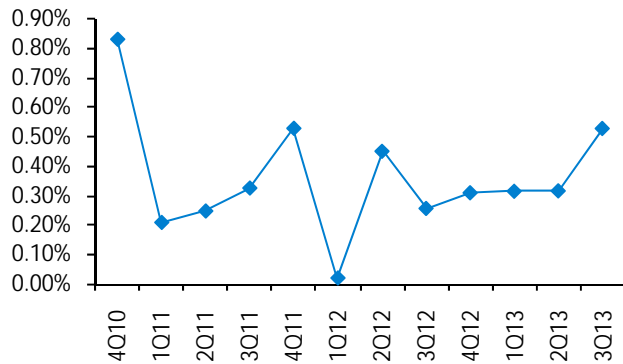


Source: Company Data, PL Research

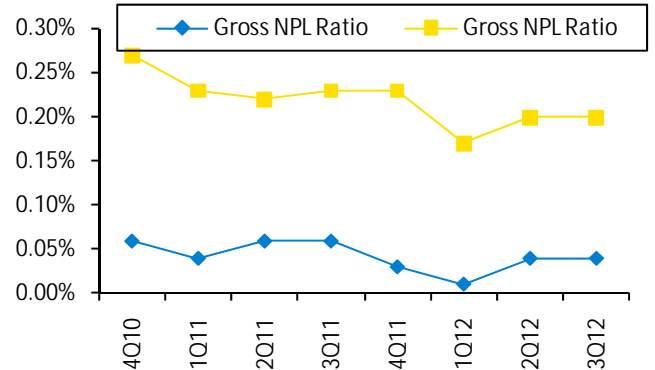
Exhibit 5: Financial Advisory led the fee income growth – Little lumpy in nature



Source: Company Data, PL Research

Exhibit 6: Credit costs jump largely linked to Deccan


Source: Company Data, PL Research

Exhibit 7: Asset quality continues to remain robust


Source: Company Data, PL Research

Exhibit 8: Valuation and Return ratios sensitivity to ~11% dilution

	Post dilution		Pre Dilution		Change	
	FY13	FY14	FY13	FY14	FY13	FY14
Networth	78,565	92,672	58,176	71,345	35%	30%
PAT	13,402	16,168	12,855	15,028	4%	8%
BPS	200.7	236.7	164.8	202.1	22%	17%
EPS	34.2	41.3	36.4	42.6	-6%	-3%
ROA	1.77%	1.80%	1.69%	1.66%	0.08%	0.14%
ROE	21.4%	18.9%	24.5%	23.2%	-3.1%	-4.3%
Current Price	518					
P/B	2.58	2.19	3.14	2.56		
P/E	15.1	12.5	14.2	12.2		

Source: Company Data, PL Research

**Exhibit 9: ROEs remain best in class**

ROE Tree	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13
Net Interest Income/Assets	2.51%	2.44%	2.58%	2.56%	2.48%	2.49%	2.60%	2.75%
Fees/Assets	1.34%	1.14%	1.43%	1.26%	1.47%	1.52%	1.37%	1.47%
Investment profits/Assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net revenues/Assets	3.85%	3.58%	4.01%	3.82%	3.95%	4.00%	3.97%	4.22%
Operating Expense/Assets	-1.34%	-1.34%	-1.43%	-1.44%	-1.57%	-1.58%	-1.57%	-1.57%
Provisions/Assets	-0.31%	-0.01%	-0.25%	-0.13%	-0.16%	-0.16%	-0.16%	-0.27%
Taxes/Assets	-0.73%	-0.74%	-0.76%	-0.73%	-0.72%	-0.73%	-0.73%	-0.77%
Total Costs/Assets	-2.39%	-2.09%	-2.44%	-2.30%	-2.45%	-2.48%	-2.46%	-2.61%
ROA	1.46%	1.49%	1.57%	1.52%	1.50%	1.53%	1.52%	1.61%
Equity/Assets	6.7%	6.7%	6.9%	6.6%	6.4%	6.4%	6.4%	6.5%
ROE	21.7%	22.1%	22.6%	23.0%	23.6%	24.0%	23.8%	24.9%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Int. Earned from Adv.	44,268	53,130	63,382	76,983
Int. Earned from Inv.	18,470	27,662	31,261	33,650
Others	335	436	463	495
Total Interest Income	63,074	81,228	95,106	111,127
Interest expense	46,917	59,296	67,997	78,140
NII	16,156	21,932	27,109	32,987
<i>Growth (%)</i>	29.6	35.7	23.6	21.7
Treasury Income	379	800	1,000	1,000
NTNII	8,207	11,188	13,840	17,088
Non Interest Income	8,586	11,988	14,840	18,088
Total Income	71,659	93,216	109,946	129,216
<i>Growth (%)</i>	53.6	30.1	17.9	17.5
Operating Expense	9,325	13,100	16,642	20,890
Operating Profit	15,417	20,819	25,308	30,185
<i>Growth (%)</i>	29.5	35.0	21.6	19.3
NPA Provisions	523	1,741	3,004	3,676
Investment Provisions	160	—	—	—
Total Provisions	902	1,741	3,004	3,676
PBT	14,514	19,079	22,304	26,509
Tax Provisions	4,730	6,224	7,276	8,648
<i>Effective Tax Rate (%)</i>	32.6	32.6	32.6	32.6
PAT	9,784	12,855	15,028	17,861
<i>Growth (%)</i>	34.6	31.4	16.9	18.9

Balance Sheet (Rs m)

Y/e March	2012	2013E	2014E	2015E
Par Value	10	10	10	10
No. of equity shares	353	353	353	353
Equity	3,530	3,530	3,530	3,530
Networth	46,766	58,176	71,345	86,935
Adj. Networth	46,592	57,922	70,708	85,818
Deposits	491,517	595,129	719,689	887,946
<i>Growth (%)</i>	7.0	21.1	20.9	23.4
Low Cost deposits	73,921	110,099	154,733	213,107
<i>% of total deposits</i>	15.0	18.5	21.5	24.0
Total Liabilities	736,621	881,658	1,049,425	1,268,911
Net Advances	379,886	459,663	574,578	723,969
<i>Growth (%)</i>	10.5	21.0	25.0	26.0
Investments	277,573	325,447	359,962	405,776
Total Assets	736,621	881,658	1,049,425	1,268,911

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Interest Income	17,851	18,863	19,864	21,336
Interest Expense	13,369	14,142	14,622	15,493
Net Interest Income	4,482	4,722	5,242	5,843
Non Interest Income	2,664	2,881	2,768	3,132
CEB	—	—	—	—
Treasury	—	—	—	—
Net Total Income	7,146	7,603	8,009	8,975
Operating Expenses	2,842	3,007	3,162	3,341
Employee Expenses	1,337	1,552	1,642	1,620
Other Expenses	1,505	1,455	1,520	1,721
Operating Profit	4,304	4,596	4,847	5,635
Core Operating Profit	4,304	4,596	4,847	5,635
Provisions	285	300	317	567
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	4,019	4,296	4,530	5,068
Tax	1,301	1,395	1,469	1,645
PAT before EO	2,718	2,901	3,061	3,423
Extraordinary item	—	—	—	—
PAT	2,718	2,901	3,061	3,423

Key Ratios

Y/e March	2012	2013E	2014E	2015E
CMP (Rs)	518	518	518	518
Equity Shrs. Os. (m)	353	353	353	353
Market Cap (Rs m)	182,865	182,865	182,865	182,865
<i>M/Cap to AUM (%)</i>	24.8	20.7	17.4	14.4
EPS (Rs)	27.7	36.4	42.6	50.6
Book Value (Rs)	132	165	202	246
Adj. BV (75%) (Rs)	132	165	202	245
P/E (x)	18.7	14.2	12.2	10.2
P/BV (x)	3.9	3.1	2.6	2.1
P/ABV (x)	3.9	3.1	2.6	2.1
DPS (Rs)	2.5	3.5	4.5	5.5
<i>Dividend Yield (%)</i>	0.5	0.7	0.9	1.1

Profitability (%)

Y/e March	2012	2013E	2014E	2015E
NIM	2.4	2.7	2.8	2.8
RoAA	1.5	1.6	1.6	1.5
RoAE	23.1	24.5	23.2	22.6

Efficiency

Y/e March	2012	2013E	2014E	2015E
<i>Cost-Income Ratio (%)</i>	37.7	38.6	39.7	40.9
<i>C-D Ratio (%)</i>	77.3	77.2	79.8	81.5
Business per Emp. (Rs m)	194	205	218	236
Profit per Emp. (Rs m)	22	25	25	26
Business per Branch (Rs m)	3,541	3,727	3,977	4,307
Profit per Branch (Rs m)	40	45	46	48

Asset Quality

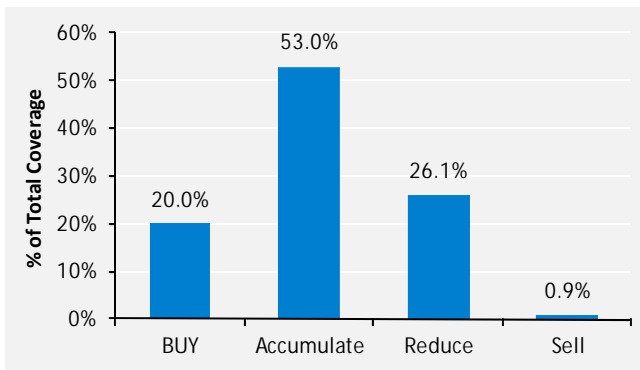
Y/e March	2012	2013E	2014E	2015E
Gross NPAs (Rs m)	839	1,219	3,062	5,370
Net NPAs (Rs m)	175	254	637	1,118
<i>Gr. NPAs to Gross Adv. (%)</i>	0.2	0.3	0.5	0.7
<i>Net NPAs to Net Adv. (%)</i>	—	0.1	0.1	0.2
<i>NPA Coverage (%)</i>	79.2	79.2	79.2	79.2

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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