

YES BANK

Beat on core earnings aids higher provisions

India Equity Research | Banking and Financial Services



Yes Bank's Q3FY13 PAT at INR3.42bn (up 34.7% YoY) surpassed our estimate. In spite of proactive provision of INR0.5bn towards Deccan Chronicle (net exposure now at INR0.3bn) beat at the NII level (up 36.7% YoY) and fee income acceleration (up 48% YoY) aided performance. Good got better; led by recoveries and lower slippages, headline asset quality continued to impress with GNPA coming off from 0.24% to 0.17%, while restructured book is at mere 0.43%--NIL restructuring during the quarter. Saving bank balances surged 27% QoQ to propel CASA to 18.3% (10.3% in FY11)—a key beneficiary of the saving rate deregulation. We remain confident of management's ability to execute Version II strategy (30% CASA by FY15) and consequently tread the path of re-rating. Maintain 'BUY' with target price of INR615.

This report also contains Q3FY13/Q2FY13 earnings call highlights

CASA: Success story continues post saving rate deregulation

In line with its Version II strategy, Yes Bank has been aggressively garnering SA balances, post the interest rate deregulation, by offering 6-7%. CASA picked up from 17.3% to 18.3% QoQ, largely contributed by traction in SA, up 27% QoQ. While SA at ~8.7% is currently small to make any significant dent in cost of funds, it is a step in the right direction as the bank targets high profile clients who can be tapped for cross sell.

NIMs improve 10bps as cost of funds on tight leash

NIMs improved 10bps to 3%, given benefits of lower COF (down 20bps QoQ to 8.5%) due to the move to seek lower cost borrowing and healthy traction in SA. Yes Bank, through a well matched ALM, has managed to restrict margin volatility to 2.8-3.1% over the past four years. We are building in average NIMs of 2.9% by FY14E as the increasing CASA and decline in wholesale rates will lower cost of funds.

Outlook and valuations: Improving profitability; maintain 'BUY'

We expect Yes Bank to grow well above the system, with a well entrenched fee income platform, improving CASA and lower credit costs, delivering superior earnings (~28% CAGR over FY12-15E) and attractive RoA/RoE of 25%/1.7% by FY14E. The stock is trading at 2.6x FY14E adj. book. Maintain 'BUY/ Sector Outperformer'.

Financials			(INR mn)					
Year to March	Q3FY13	Q3FY12	Growth %	Q2FY13	Growth %	FY12	FY13E	FY14E
Net int. inc.	5,843	4,276	36.7	5,242	11.5	16,156	22,300	28,388
Net profit	3,423	2,541	34.7	3,061	11.8	9,783	13,064	16,540
Adj.B/V / share (INR)						132	164	206
Diluted EPS (INR)	9.4	7.1	32.6	8.6	9.2	27.7	37.0	46.9
Price / Adj. book (x)						4.0	3.2	2.6
Price/ PPOP (x)						12.4	9.1	7.1
Diluted P/E (x)						19.1	14.3	11.3

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: YESB.BO, B: YES IN)

CMP	: INR 518
Target Price	: INR 615
52-week range (INR)	: 545 / 274
Share in issue (mn)	: 357.6
M cap (INR bn/USD mn)	: 185/ 3,381
Avg. Daily Vol.BSE/NSE('000)	: 3,104.9

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	25.9	25.9	26.1
MF's, FI's & BK's	15.5	15.5	15.3
FII's	46.4	46.4	41.7
others	12.3	12.3	16.9
* Promoters pledged shares (% of share in issue)			1.0

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	12.5	2.1	10.6
3 months	35.4	6.3	4.7
12 months	84.8	23.1	22.7

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Suruchi Chaudhary
+91 22 6623 3316
suruchi.chaudhary@edelweissfin.com

January 16, 2013

Customer asset growth impressive at 27.4%; pick up in advances

During Q3FY13, Yes Bank's credit (advances + credit substitutes) grew 27.4% YoY to INR557.5bn. Within this, advances accounted for 78.7% (~84% a year ago), a function of increasing share of credit substitutes over the past one year. However, during the current quarter, advance book picked up to 4.4%(QoQ) higher than credit substitutes – a trend expected to continue as interest rates soften in the system. Advance growth was largely contributed by large corporate segment (up 27% YoY) and commercial banking segment (up 17.7% YoY) offsetting some moderation in retail banking segment (8.6% YoY).

Best-in-class asset quality performance continues

Yes Bank's headline asset quality improved further as it partly recovered an INR200mn account, taking GNPLs down to 0.17% from 0.24%. NNPL continued to stay at negligible levels of 0.04%. With no additions in the restructured pool during the quarter, the bank's outstanding restructured assets stand at a mere 0.43% of advances. With weak assets of INR2.7bn (reported gross NPAs + standard asset restructuring) (~60bps), we believe the bank is well positioned to steer the asset quality out of pressures compared to peers. Provisions during the quarter surged 78.6% QoQ to INR567mn as Yes Bank made additional provisions of INR450mn towards Deccan Chronicle. We are confident of management's execution capability to guide through the current cyclical slowdown since it came out relatively unscathed during the previous financial crisis.

Strong fee income led by financial advisory

Fee income came in strong at INR31.3bn up 48.1% YoY, contributed by a robust performance in financial advisory offsetting some moderation in financial markets (predominantly debt capital and forex segments) down ~18% YoY. While volatility in segments of financial market and advisory can be chunky nature of the revenue flow, revenue from the core fee segment—transaction banking—is starting to show predictability. Retail banking segment has seen a healthy ramp up over the quarter, up 66% YoY (forming 10% of total fees) in line with its strategy of building in granularity in fee income.

Cost-to-income improves

The bank's cost-to-income ratio for Q3FY13 was steady at 37.2% QoQ, yet at the lower end of private sector bank peer group. During the quarter, it added 12 branches (412 as of Q3FY13). Even as Yes Bank expands its footprint, with focus on scaling up branch banking business, CASA pool and revenue traction to keep cost-income ratio around 40% mark.

Capital raising in CY13

Yes Bank has the board's approval to raise USD500mn capital. However it believes in the interim, current capital along with internal accruals is sufficient to sail through. Further, the INR100bn bond portfolio that the bank carries was originated to down sell and hence if needed some capital can be released via this book as well. Given its track record, we expect Yes Bank to raise capital at an attractive valuation, limiting earnings dilution and providing a significant boost to book value. Tier 1 currently stands at 9.5%.

Other highlights

- On Deccan Chronicle, the bank had exposure of INR1.6bn, of which it recovered INR400mn and provided about INR450mn in Q2FY13. In Q3FY13 it provided another INR450mn. Of the balance INR300mn, management stated that it expects recovery of INR150mn through indentified receivables. For the balance INR150mn it has asset collateral of INR600mn .

Table 1: While advances grew at 22% YoY, credit (advances + Credit substitutes) grew at 27.4% YoY

(%)	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313
Advances (INR mn)	311,220	343,636	331,042	341,941	358,678	379,886	385,339	420,193	438,568
Advances growth Q-o-Q (%)	2.6	10.4	(3.7)	3.3	4.9	5.9	1.4	9.0	4.4
Advances growth Y-o-Y (%)	66.3	54.8	26.1	12.7	15.2	10.5	16.4	22.9	22.3
Deposits (INR mn)	394,528	459,389	435,759	440,759	469,291	491,517	502,081	522,900	564,005
Deposit growth Q-o-Q (%)	(1.4)	16.4	(5.1)	1.1	6.5	4.7	2.1	4.1	7.9
Deposit growth Y-o-Y (%)	79.0	71.4	44.1	10.2	18.9	7.0	15.2	18.6	20.2
CD ratio (%)	78.9	74.8	76.0	77.6	76.4	77.3	76.7	80.4	77.8
CASA (%)	10.2	10.3	10.9	11.0	12.6	15.0	16.3	17.3	18.3

Table 2: Aiming towards bringing granularity in business– Retail (branch banking) standing at 14%

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q312	Q412	Q113	Q213	Q313
Corporate and institutional	68	65	63	61	63	60	64	67	66
Commercial	22	23	24	24	21	22	20	18	21
Retail (Branch banking)	10	12	12	15	15	18	16	15	14

Table 3: Financial advisory–key growth driver of fee income

(%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q312	Q412	Q113	Q213	Q313
Financial markets	25.4	12.9	14.9	19.2	22.8	25.8	32.8	17.0	12.5
Financial advisory	33.1	41.3	50.2	45.7	38.1	38.3	35.6	43.2	51.9
Retail banking fees and others	10.8	10.8	9.5	6.7	8.8	9.6	7.5	11.1	9.9
Transaction banking	30.8	35.0	25.4	28.5	30.2	26.3	24.1	28.8	25.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 4: Non-fund income contributed to 35% of Net revenues for the quarter

(%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q312	Q412	Q113	Q213	Q313
Fees income growth Q-o-Q	23.4	15.5	(11.5)	29.5	(1.2)	26.0	8.2	(3.9)	13.2
Non fund income/Net revenue	33.3	34.9	31.8	35.7	33.1	37.3	37.9	34.6	34.9

Table 5: NIMs up 10bps as cost of funds declined by 20bps

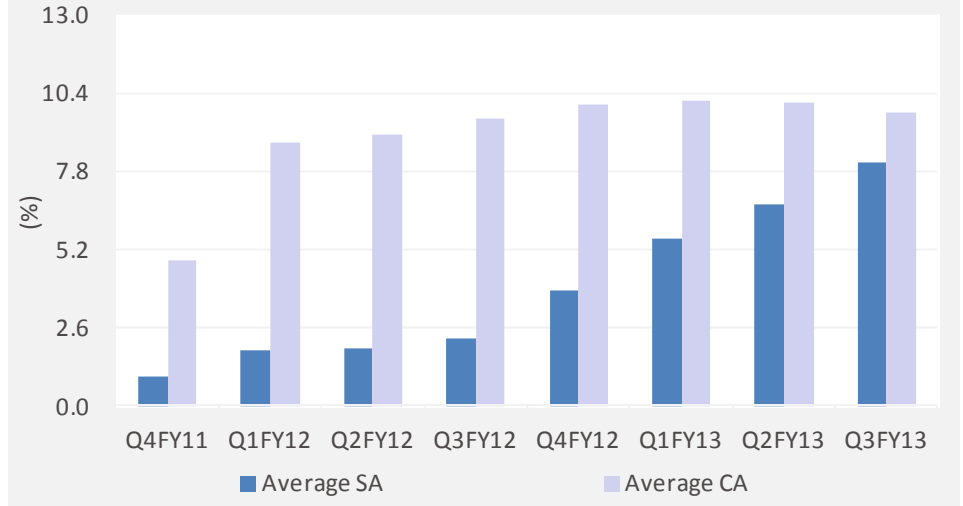
(%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q312	Q412	Q113	Q213	Q313
Spreads	2.9	2.9	3.1	3.6	3.5	3.5	3.4	3.7	3.8
NIM	2.8	2.8	2.8	2.9	2.8	2.8	2.8	2.9	3.0
COF	7.1	7.8	8.5	8.6	8.9	9.0	9.0	8.7	8.5
YoA	10.0	10.7	11.6	12.2	12.4	12.5	12.4	12.4	12.3

Table 6: Tier I ratio at 9.5%

(%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q312	Q412	Q113	Q213	Q313
Tier-I	10.4	9.7	9.6	9.4	9.2	9.9	9.2	9.5	9.5
Tier-II	7.8	6.8	6.6	6.6	6.9	8.0	7.3	8.0	8.5

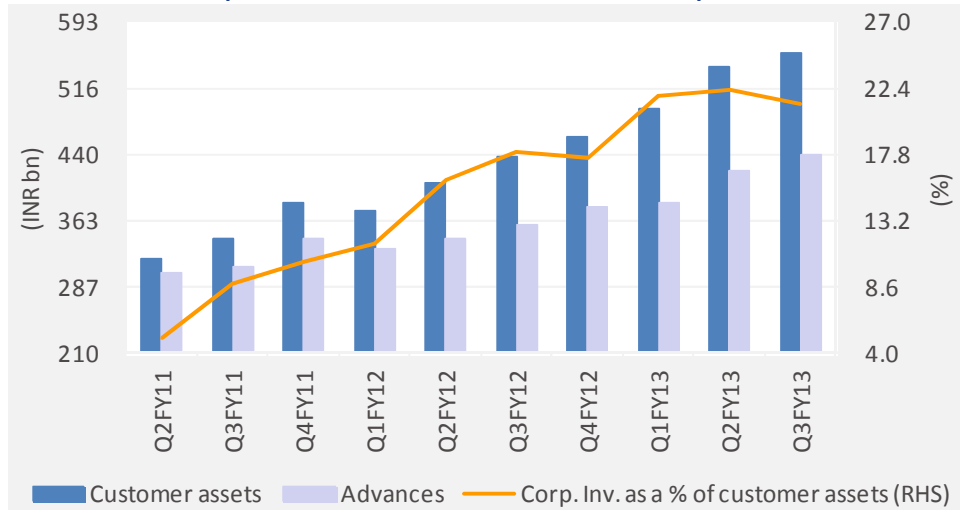
Source: Company

Chart 1: Given healthy traction on SA, it is targeting 30% CASA by FY15E



Source: Company

Chart 2: Ratio of corporate investments/customer assets have peaked



Source: Company

Financial snapshot

(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Interest on advances	13,936	11,726	18.8	12,909	8.0	39,318	51,168	60,856
Interest on investments	7,257	5,060	43.4	6,892	5.3	20,451	26,983	33,872
Interest on other resources	43	49	(12.7)	57	(25.0)	138	284	351
Interest income	21,336	16,841	26.7	19,864	7.4	60,064	78,435	95,079
Interest exp	15,493	12,565	23.3	14,622	6.0	44,257	56,135	66,691
Net int. inc. (INR mn)	5,843	4,276	36.7	5,242	11.5	15,807	22,300	28,388
Fee income	3,132	2,114	48.1	2,768	13.2	8,781	11,381	14,619
Other income	3,132	2,114	48.1	2,768	13.2	8,781	11,681	14,919
Operating expenses	3,341	2,402	39.1	3,162	5.7	9,509	13,123	16,909
Staff expense	1,620	1,217	33.1	1,642	(1.4)	4,814	6,579	8,474
Other opex	1,721	1,185	45.3	1,520	13.3	4,695	6,543	8,435
Pre prov op profit (ppop)	5,635	3,988	41.3	4,847	16.2	15,078	20,559	26,098
Provisions	567	224	153.6	317	78.6	1,184	1,647	2,075
Profit before tax	5,068	3,765	34.6	4,530	11.9	13,894	19,211	24,323
Provision for taxes	1,645	1,224	34.4	1,469	11.9	4,509	6,148	7,783
PAT	3,423	2,541	34.7	3,061	11.8	9,385	13,064	16,540
Diluted EPS (INR)	9.4	7.1	32.6	8.6	9.2	25.8	37.0	46.9

Ratios

NII/GII (%)	27.4	25.4		26.4		26.3	28.4	29.9
Cost/income (%)	37.2	37.6		39.5		38.7	38.6	39.0
Provisions / PPOP	10.1	5.6		6.5		7.9	8.0	7.9
Tax rate (%)	32.5	32.5		32.4		32.4	32.0	32.0

Asset quality

Gross NPA	762	721	5.8	1,028	(25.9)		1,980	3,361
Gross NPA (%)	0.2	0.2		0.2			0.4	0.6
Net NPA	156	144	8.0	201	(22.7)		384	637
Net NPA (%)	-	-		0.1			0.1	0.1
Provision coverage (%)	79.6	80.0		80.4			80.6	81.0

Balance sheet data (INR bn)

Advances	439	359	22.3	420	4.4		460	575
Deposits	564	469	20.2	523	7.9		589	713
Investments	78	76	1.7	80	(3.2)		78	81
Casa ratio (%)	18.3	12.6		17.3			19.0	23.0
Capital adequacy (%)	18.0	16.1		17.5			17.9	15.4
Nim(%)	3.0	2.8		2.9			2.8	2.9
CD ratio (%)	78	76.4		80.4			97.1	100.2

Yes Bank – Q3FY13 earnings concall key takeaways

- Deccan Chronicle: 80% of the exposure at INR900mn has been provided on the same. The bank is hopeful of recovering ~20% from this account and another 15-20% can be recovered by taking legal recourse over the next 2 quarters. However, Deccan Chronicle is still technically not an NPA till Dec 31, 2012
- For Financial Advisory Income robust due to 5-6 deal closures. Cost to income in this business will be 20-25%. For some small ticket deals the commission can be as high as 5%. Provision to be one stop shop for all the client requirements is the advantage offered by the bank.
- Received highest number of urban and metro branch approvals from RBI at 146 branches (vis-à-vis 56 for the prior year)
- Buying RBS's retail assets will definitely send out strong signals on retail assets build up intention. However, even without this buyout the bank can build up the business on its own
- Blended cost of SA will be a little short of 7%
- Yield on credit substitutes is 10-10.25%
- More than 80% of the investment book is rated AA and above
- 20-22% growth possible from internal accruals itself. May be 300-400mn USD in 2013
- The bank has hit an inflexion point similar to what HDFC Bank was in 2003-2004
- Internal rating of accounts by banks is taken into consideration for proactive provisioning. While RBI mandates provisioning when a loan is rated 10 (as per the banks' scale) the bank starts providing the moment the account touches 8 (at 7.5-10%) and by the time it touches 9 upto 15-20%
- Sale of corporate debt can be booked under both Financial Markets and Corporate Finance. However, corporate finance will come into the picture in case of loan syndication
- Blended cost of deposits will be ~8.9%
- Over the past one year 15bps of NIM improvement can be attributed to CASA improvement
- No major project in the restructuring pipeline
- Employee/branch will increase in line with peers as the intensity of retail banking increases

Outlook

- NIM will further benefit if repo rate cuts happen and liquidity remains benign
- CASA and retail TD likely to touch 55-60% over the next two years from the current ~38%
- Fee income from retail banking to become one of the biggest fee income contributor by the next two-three years
- Minimum RoE of 20% will be maintained even post equity raising and that means the bank can support 8-10% dilution

- 30% CASA by next 3 years, 30% in retail and SME assets in next three years and 3.5% on NIMs
- Cost-income will unlikely cross the 40% mark

Datapoints

- SLR stands at INR194bn
- Breakup of provisions: Predominantly on account of credit costs of which INR200mn is general and the rest is contingent (on account of Deccan Chronicle)
- RWA at INR600bn. Credit substitutes rated AA attract 30% RW but another hit on account of market risk also needs to be taken
- Retail assets will be broadly INR10bn

Yes Bank – Q2FY13 earnings concall key takeaways

- Deccan Chronicle: Has recovered 1/3rd, has made provisioning for 1/3rd of its exposure (INR 500 mn) and balance is INR 600 mn (which is also largely collateralized by immovable/tangible property). It is the only bank to witness recovery due to the structure of the deal, risk management process etc. It is a performing loan and has received payment from the company in Q2FY13.
- Strong traction in savings deposit mobilization (30% QoQ growth to take contribution to 7.4% of total deposits) - very much on track to get to 30% CASA in consonance with its Version II strategy. Opening 40-45k savings account per month.
- CASA + retail TD is 36.6% of deposits (compared to 28.6% in Q2FY12). Higher focus on improving granular CASA and granular FDs.
- It has successfully raised INR 2 bn of upper Tier II capital and INR 6 bn of lower Tier II capital. Will raise INR 4 bn of hybrid capital in Q3FY13 as well.
- Instead of being small/medium player and being compelled to get into CDR structure, it is better to go in for bilateral restructuring/negotiations as that will be far more effective.
- Retail fee contribution stands at 11% of non-interest income. Objective is to make retail fees a number 1 contributor (minimum of 25% by FY15) – lot of untapped cross-sell potential in newly added savings account.
- Not difficult to build retail loan book once strong retail liability franchise is built – its critical to build more granular and quality book.
- Has been participating in bond raising of Hindalco, Tata Power, Tata Steel etc.
- Investment book will have an element of interest rate structure (balance of risk and return); as rates come down should naturally make money on this as a concurrent outcome but that is not the design of investment book to make trading gain (main purpose is distribution). Irrespective of interest rate cycle, the book will have to churn based on its short term tenor.
- Based on its risk assessment, top 30-40 exposures are intact. Credit cost in worst case could be 1% (during Lehman in one of the quarters it was 85bps). Largest account which would be under stress will be double digit bps of loan book.
- 80% of rated book will be A & above; <2% will be below investment grade (below BBB-) and balance will be between A- & BBB-.

Outlook

- Should target 20% CASA by FY13 and then inspire for 30% by FY15.
- Should achieve 450-475 branch network by FY13.
- AFS INR 110 bn. Duration between 2-3 years.
- Loan book growth will moderate going forward from current 23% level.

Data points

- Breakup of provision: INR 500 mn specific provisions and INR 200 mn of investment depreciation write-back and reversal of provisioning
- RWA is INR 620 bn.
- Tier 1 ratio of 9.5%
- Working capital will be 40% of corporate exposure
- Syndication – INR 15 bn and down-selling – INR 5 bn

Company Description

YES BANK is a private Indian bank promoted by Rana Kapoor and Ashok Kapur with financial support from Rabobank Nederland, and global institutional private equity investors –AIF Capital, and ChrysCapital. It is operational since November 2004 and is the only greenfield bank approved by RBI in last decade. It has market cap of INR 142 bn and balance sheet of ~INR 830 bn. It has branch network of 412 at the end of Q3FY13 and a CASA ratio of >17%. Corporate lending forms 66% of its book, commercial 21% and retail 14%.

Investment Theme

YES BANK is one of the few private sector banks with product depth, sustainable competitive edge, and strong growth. Given the underlying credit demand and small asset book, the loan book is expected to grow at more than 24% for the next two years. The bank's high proportion of fee income enables high return on assets (of 1.5%+) and indicates its potential of generating higher than presently reported RoE (21%+), once the capital ratios normalise. Considering the bank's strong fundamentals reflected in its product width, adept management, and technological prowess, we find it to be the perfect acquisition candidate for a foreign player, once the regulations ease.

Key Risks

Lower CASA can be a negative for the bank at this point of time when most banks are banking on their franchise network.

In the event of demand for credit drying down as in the current scenario, lack of pricing power can impact its margins adversely (due to nascent deposit franchise).

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
Credit growth	17.1	17.0	16.0	17.0
Deposit growth	13.4	15.0	14.0	17.0
CRR	4.8	4.3	4.3	4.3
SLR	24.0	23.0	23.0	23.0
G-sec yield	8.5	7.8	7.4	7.5
Company				
Yield on advances	12.2	12.2	11.8	11.5
Yield on investments	7.9	8.2	8.0	7.9
Yield on asset	10.0	9.9	9.6	9.5
Net interest margins	2.6	2.8	2.9	2.9
Cost of funds	8	7	7	7
Cost of deposits	8.1	7.6	7.2	6.8
Cost of borrowings	8.1	8.2	7.6	7.6
Spread	2.5	2.7	2.7	2.8
Tax rate (%)	32.6	32.0	32.0	32.0
Credit growth	18.4	25.8	25.0	25.0
Deposit growth	7.0	19.8	21.1	21.1
SLR ratio	27.7	28.0	27.0	26.5
Low-cost deposits	15.0	19.0	23.0	26.5
Gross NPA ratio	0.2	0.4	0.6	0.7
Provision coverage	79.2	80.6	81.0	81.3
Incremental slippage	0.2	0.6	0.6	0.6
Net NPA / Equity	0.4	0.7	0.9	1.0
Capital adequacy	17.9	15.4	15.1	14.9

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Interest income	63,074	78,435	95,079	116,202
Interest expended	46,917	56,135	66,691	80,223
Net interest income	16,156	22,300	28,388	35,979
Non interest income	8,586	11,681	14,919	18,681
- Fee & forex income	7,945	11,018	14,153	17,795
- Misc. income	262	363	466	586
- Investment profits	379	300	300	300
Net revenue	24,742	33,981	43,307	54,660
Operating expense	9,325	13,123	16,909	21,479
- Employee exp	4,752	6,579	8,474	10,915
- Other opex	4,574	6,543	8,435	10,564
Preprovision profit	15,417	20,859	26,398	33,181
Provisions	902	1,647	2,075	2,596
Loan loss provisions	523	1,647	2,075	2,596
Investment depreciation	160	-	-	-
Other provisions	219	-	-	-
Profit before tax	14,515	19,211	24,323	30,585
Provision for tax	4,731	6,148	7,783	9,787
Profit After Tax	9,783	13,064	16,540	20,798
Reported PAT	9,783	13,064	16,540	20,798
Diluted EPS (INR)	27.7	37.0	46.9	58.9
Dividend per share (INR)	4.0	4.0	4.0	4.0
Dividend payout (%)	16.7	12.5	9.9	7.8

Growth ratios (%)

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
NII growth	29.6	38.0	27.3	26.7
Fees growth	21.2	38.7	28.5	25.7
Opex growth	37.2	40.7	28.9	27.0
PPOP growth	21.6	36.7	26.9	26.0
PPP growth	29.5	35.3	26.6	25.7
Provisions growth	(8.1)	215.2	25.9	25.1
Net profit	34.5	33.5	26.6	25.7

Operating ratios

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Yield on advances	12.2	12.2	11.8	11.5
Yield on investments	7.9	8.2	8.0	7.9
Yield on assets	10.0	9.9	9.6	9.5
Net interest margins	2.6	2.8	2.9	2.9
Cost of funds	7.6	7.2	6.9	6.7
Cost of deposits	8.1	7.6	7.2	6.8
Cost of borrowings	8.1	8.2	7.6	7.6
Spread	2.5	2.7	2.7	2.8
Cost-income	37.7	38.6	39.0	39.3
Tax rate	32.6	32.0	32.0	32.0

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	3,530	3,530	3,530	3,530	
Reserves & surplus	43,237	54,670	69,580	88,747	
Net worth	46,766	58,200	73,110	92,277	
Sub bonds/pref cap	48,133	68,133	88,133	108,133	
Deposits	491,517	589,073	713,482	864,027	
Borrowings	93,432	156,873	211,873	296,873	
Other liabilities	56,773	51,401	54,191	57,727	
Total liabilities	736,621	923,681	1,140,790	1,419,037	
Loans	379,886	459,663	574,578	718,223	
Cash and equivalents	35,855	44,965	54,571	66,286	
Gilts	161,784	208,865	249,846	307,639	
Others	115,789	171,401	214,124	267,526	
Fixed assets	1,771	1,852	1,852	1,881	
Other Assets	41,535	36,935	45,819	57,482	
Total assets	736,621	923,681	1,140,790	1,419,037	
Credit growth	18.4	25.8	25.0	25.0	
Deposit growth	7.0	19.8	21.1	21.1	
EA growth	22.3	27.6	23.5	24.4	
SLR ratio	27.7	28.0	27.0	26.5	
C-D ratio	92.5	97.1	100.2	103.4	
Low-cost deposits	15.0	19.0	23.0	26.5	
Gross NPA ratio	0.2	0.4	0.6	0.7	
Net NPA ratio	-	0.1	0.1	0.1	
Provision coverage	79.2	80.6	81.0	81.3	
Incremental slippage	0.2	0.6	0.6	0.6	
Net NPA / Equity	0.4	0.7	0.9	1.0	
Capital adequacy	17.9	15.4	15.1	14.9	
- Tier 1	9.9	9.4	9.1	8.8	

RoE decomposition (%)				
Year to March	FY12	FY13E	FY14E	FY15E
Net interest income/assets	2.6	2.8	2.9	2.9
Fees/Assets	1.3	1.4	1.5	1.5
Investment profits/Assets	0.1	-	-	-
Net revenues/assets	3.9	4.3	4.4	4.5
Operating expense/assets	(1.5)	(1.7)	(1.7)	(1.8)
Provisions/assets	(0.1)	(0.2)	(0.2)	(0.2)
Taxes/assets	(0.8)	(0.8)	(0.8)	(0.8)
Total costs/assets	(2.4)	(2.7)	(2.7)	(2.8)
ROA	1.6	1.7	1.7	1.7
Equity/assets	6.7	6.7	6.6	6.7
ROAE (%)	23.1	24.9	25.2	25.2

Valuation parameters				
Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	27.7	37.0	46.9	58.9
Y-o-Y growth (%)	32.3	33.5	26.6	25.7
Book value per share (INR)	132.5	164.9	207.1	261.4
Adjusted book value per share	132.1	164.1	205.9	259.5
Diluted PE (x)	18.7	14.0	11.1	8.8
Price/BV (x)	3.9	3.1	2.5	2.0
Price/ Adj. BV (x)	3.9	3.2	2.5	2.0
Dividend yield (%)	0.8	0.8	0.8	0.8
Price to income (x)	14.3	10.2	7.9	6.3

Peer comparison valuation

Name	Market Cap	Diluted PE (X)		Price/ Adj. BV (X)		ROAE (%)	
	Market Cap	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Yes Bank	3,379	14.4	11.6	3.2	2.6	24.3	24.3
Allahabad Bank	1,660	5.2	4.3	0.9	0.8	16.9	17.9
Axis Bank	10,981	12.0	9.8	2.2	1.9	20.1	20.6
Bank of Baroda	6,551	7.1	5.8	1.2	1.1	17.8	18.7
Federal Bank	1,609	9.8	7.9	1.4	1.3	14.9	16.3
HDFC Bank	28,530	20.6	17.2	4.5	3.9	22.4	22.5
ICICI Bank	24,746	17.2	15.1	2.6	2.3	12.5	12.9
Indian Overseas Bank	1,271	6.6	4.9	0.8	0.7	9.5	11.9
IndusInd Bank	4,095	21.4	16.8	3.1	2.6	17.5	16.6
ING Vysya	1,594	14.3	11.2	2.0	1.7	14.4	16.2
Karnataka Bank	581	9.0	7.8	1.3	1.2	13.0	13.7
Oriental Bank Of Commerce	1,809	6.0	4.9	0.9	0.8	14.0	15.1
Punjab National Bank	5,463	6.2	5.1	1.3	1.0	16.9	17.9
South Indian Bank	680	0.8	0.6	0.2	0.1	24.9	25.2
State Bank of India	29,773	11.1	9.9	2.1	1.8	16.3	16.0
Union Bank Of India	2,623	8.0	6.7	1.1	1.0	15.6	16.7
Median	-	9.4	7.9	1.3	1.1	16.6	16.7
AVERAGE	-	10.6	8.7	1.5	1.3	16.9	17.7

Source: Edelweiss research

Additional Data

Directors Data

Rana Kapoor	Managing Director & CEO	S L Kapur	Director
Ajay Vohra	Director	Radha Singh	Director
Arun K Mago	Director		

Auditors - BSR & Co

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Life insurance corp	4.97	American Funds Ins	4.60
Smallcap world fund	1.99	Merril Lynch capital	1.64
Morgan stanley	1.32	T rowe price	1.31
Goldman sachs invest.	1.30	Wasatch advisors inc	1.28
DB international	1.15	Bajaj alliance life	1.13

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
12 Mar 2012	Khazanah Nasional Berhad	Sell	14670000	362.09
26 Apr 2012	Rabobank International Holding B.V	Sell	12691564	357.03
26 Apr 2012	Citigroup Global Markets Mauritius Pvt Ltd	Buy	2200000	357.00
26 Apr 2012	Bajaj Allianz Life Insurance Company Ltd	Buy	2521000	357.00
28 Jun 2012	Hsbc Iris Investments Mauritius Ltd	Sell	16792999	324.77
16 Oct 2012	Credit Suisse (Singapore) Ltd	Sell	4985913	378.00
16 Oct 2012	Clsa (Mauritius) Ltd	Sell	6358087	378.77

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
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**in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	M
IndusInd Bank	BUY	SP	L	Infrastructure Development Finance Co Ltd	BUY	SO	L
ING Vysya	BUY	SO	L	Karnataka Bank	BUY	SO	M
Kotak Mahindra Bank	REDUCE	SU	M	LIC Housing Finance	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SO	M
Multi Commodity Exchange of India	BUY	SO	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	BUY	SO	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	HOLD	SU	M	Reliance Capital	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	HOLD	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	BUY	SO	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelcap.com

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelweissfin.com	+91 22 4040 7499

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
16-Jan-13	South Indian Bank	Beat due to margin surprise; <i>Result Update</i>	28	Hold
15-Jan-13	Muthoot Finance	Growth picks up as regulatory landscape settles; <i>Result Update</i>	220	Buy
15-Jan-13	Axis Bank	Performance beat street; <i>Result Update</i>	1,424	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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