Equity Research

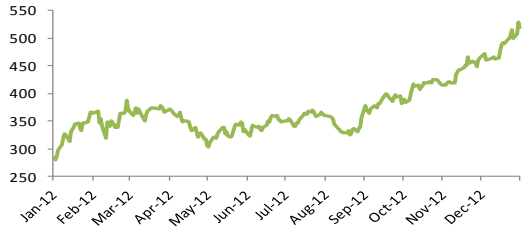
NIRMAL BANG
a relationship beyond broking

Yes Bank Ltd

Recommendation	HOLD
CMP (17/01/2013)	Rs. 524
Target Price	Rs.578
Sector	Banking

Stock Details	
BSE Code	532648
NSE Code	YES
Bloomberg Code	YES IN
Market Cap (Rs cr)	18,530
Free Float (%)	74.20%
52- wk HI/Lo (Rs)	535/278.15
Avg. volume BSE (Quarterly)	509156
Face Value (Rs)	10.0
Dividend (FY 12)	40%
Shares o/s (Crs)	35.61

Relative Performance	1Mth	3Mth	1Yr
Yes Bank	12.4%	35.9%	82.3%
Sensex	2.6%	7.6%	20.4%



Shareholding Pattern	31st Dec 12
Promoters Holding	25.80%
Institutional (Incl. FII)	62.95%
Corporate Bodies	1.41%
Public & others	9.84%

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Strong operating performance; beats estimate once again

Yes Bank reported strong results above expectations on all fronts of net interest income, non interest income, asset quality and overall profitability. The bank reported PAT of Rs.342.3 cr in Q3FY13 resulting in a growth of 34.7% on a YoY basis and 11.8% on QoQ basis. Going forward, we expect Yes Bank to continue to report strong growth in advances and overall profitability. Traction in CASA accounts will continue to drive margin performance. The bank has been able to have a strong foothold on the non interest income front which enables the bank to generate higher return ratios (RoA of 1.5%+ and RoE of 24%+). Driven by the strong performance, we expect the bank's profitability to grow at 30.7% CAGR over FY12-FY14E.

At CMP, the stock is trading at a PE of 14.45x and 12.28x of FY13E and FY14E EPS and at an adjusted P/BV of 3.23x and 2.27x FY13E and FY14E Adj BV. We arrive at a target price of Rs 578 (2.5x FY14E ABV) indicating potential upside of 10.3% from current levels. We continue to maintain our HOLD rating on the stock.

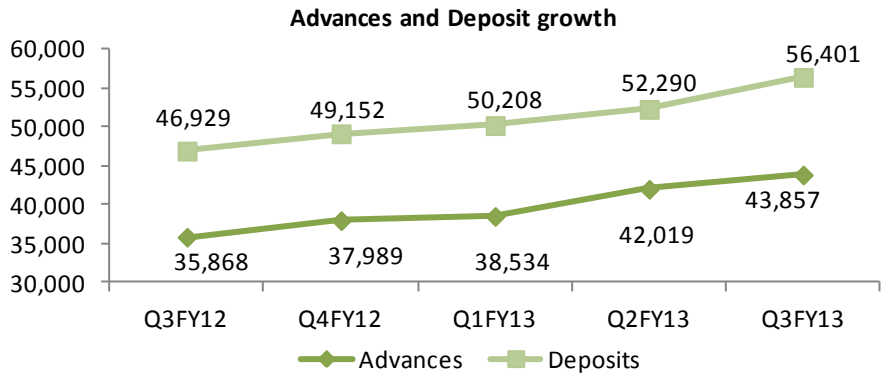
- Total Customer Assets (Loans + Credit Substitutes) grew by 27.4% to Rs 55,750 cr in Q3FY13 from Rs 43,750 cr in Q3FY12.
- CASA deposits increased by 74.9% YoY and 14.5% QoQ to Rs 10,341 cr taking the CASA ratio to 18.3% in Q3FY13.
- Net Interest Income increased by 36.7% YoY to Rs 524 cr in Q3FY13.
- NIM stood at 3% in Q3FY13; an improvement of 20 bps on YoY basis and 10 bps on QoQ basis. The primary reason for improvement in NIMs was reduction of cost of funds by 20 bps on QoQ basis.
- The growth in total income outpaced the growth in total expenses leading to an improvement in cost to income ratio (37.2%) on both QoQ and YoY basis.
- Gross NPA declined 25.9% QoQ to Rs.76.2 Cr in Q3FY13. Gross NPAs and Net NPAs stood at 0.17% & 0.04%, respectively in Q2FY13.
- There was no new restructuring in the current quarter and the bank's restructured assets stood at 0.43% of gross advances at Rs 189.1 cr in Q3FY13.
- The bank has made provisions on the media account and provided ~90 cr (80% of exposure) during Q2/Q3FY13. On remaining 20% the bank does not anticipate further requirement of provisioning. Management expects 10-15% recovery in short-term and another 20-25% in next 3-4quarters.
- Provisioning coverage ratio of the bank (including technical write off) stood at 79.6% in Q3FY13.
- RoA improved to 1.6% in Q3FY13 and RoE stood at 24.1%.
- Capital Adequacy Ratio of the Bank as on Q3FY13 stood at 18% with Tier I ratio of 9.02%.
- The bank added 12 new branches taking the total branch network to 412 in Q3FY13 and added approximately 29 ATMs in Q3FY13 resulting in increase in other operating expenses.

Year	NII (Rs crs)	Growth (%)	PBP (Rs crs)	Margin (%)	PAT (Rs crs)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 11A	1,247	58.2%	1,190	63.7%	727	20.25	25.88	109.1	4.80	21.1%
FY 12A	1,616	29.6%	1,540	62.3%	977	27.24	19.24	132.0	3.97	23.1%
FY 13E	2,180	34.9%	2,092	61.7%	1,292	36.26	14.45	162.3	3.23	24.7%
FY14E	2,759	26.6%	2,695	62.3%	1,668	42.69	12.28	231.2	2.27	22.5%

Growth momentum continues in loan book

Yes Bank's loan book continued to show growth momentum as advances increased 22.9% YoY and 4.4% on a QoQ basis in Q3FY13. Out of the total advances portfolio, Corporate & Institutional Banking accounted for 65.9% vs 67.4% in Q2FY13, Commercial banking accounted for 20.6% vs 17.9% and Retail Banking accounted for 13.5% vs 14.7%. 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).

Total Customer Assets (Loans + Credit Substitutes) grew by 27.4% to Rs 55,750 cr as on December 31, 2012 from Rs 43,750 cr as on December 30, 2011. Management expects traction in advance growth to continue in FY13E and FY14E. We have factored in growth of 36% for customer assets in FY13E and 26.1% in FY14E.

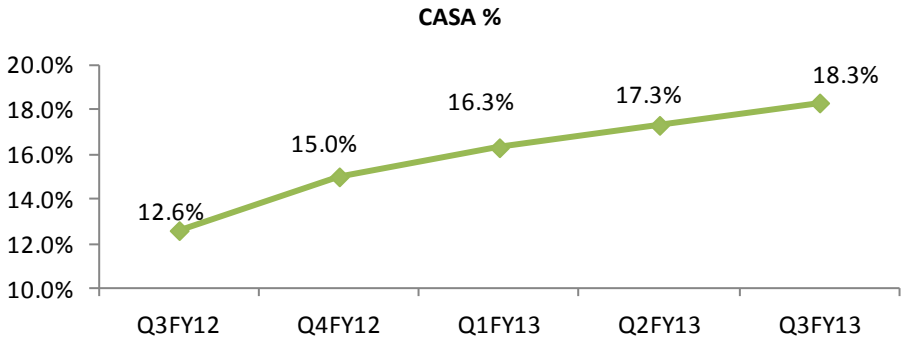


Source: Company data, Nirmal Bang Research

Persistent growth in CASA

The bank's total deposits grew by 7.9% on QoQ basis and 20.2% YoY to Rs 56,400.5 cr in Q3FY13. The CASA growth continued to remain the forerunner on the deposit front. CASA deposits increased by 74.9% YoY and 14.5% QoQ (albeit on a lower base) to Rs 10,341 cr taking the CASA ratio to 18.3% in Q3FY13. The Bank continued to witness increased traction in CASA on the back of enhanced Savings Rate offering and improvements in productivity. As per the management, the customer acquisition in savings account has been witnessing a healthy growth of 5-10% on QoQ basis and the CASA ratio has been continuously improving from the last 5 quarters post the de regulation in savings rate.

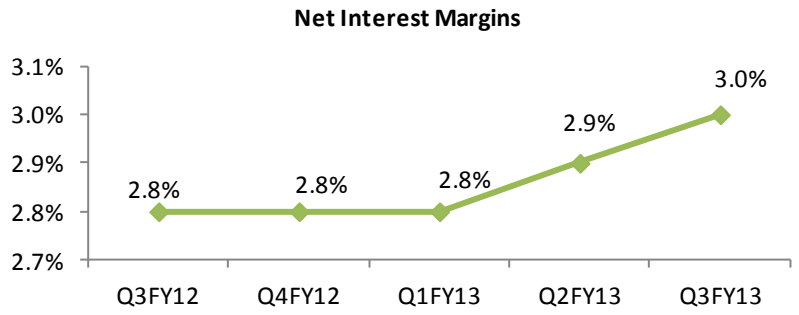
Within CASA, SA increased 26.5% sequentially, and now forms 8.7% of total deposits vs. 7.4% in Q2FY13. We expect CASA ratio to be at 18.7% and 19.2% in FY13E and FY14E.



Source: Company data, Nirmal Bang Research

NIMs witness further improvement

Net Interest Income increased by 36.7% YoY to Rs 584 cr in Q3FY13. Net Interest Margin (NIM) witnessed further expansion sequentially by 10bps in Q3FY13. The primary reason for improvement in NIMs was reduction of cost of funds by 20 bps on QoQ basis. Cost of funds stood at 8.5% in Q3FY13 vs 8.7% in Q2FY13. The 100 bps improvement in CASA % further helped the bank to witness an improvement in NIMs. Management expects improvement in NIMs in Q4FY13 driven by lower wholesale rates and traction in CASA accounts. Going forward, we expect NIMs to be at 2.9% for FY13E and FY14E.

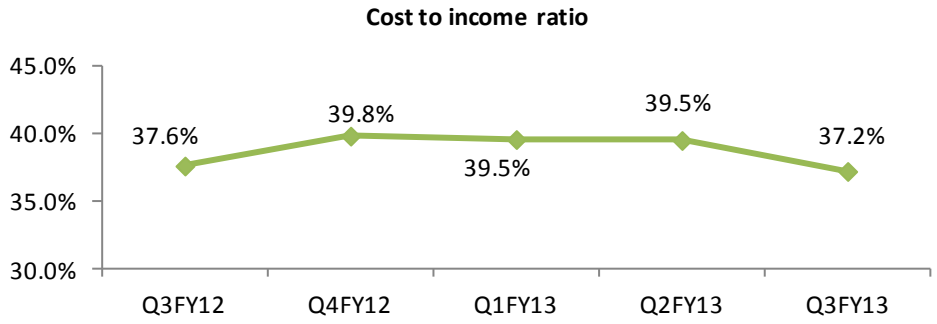


Source: Company data, Nirmal Bang Research

Declining trend in Cost to income ratio

The growth in total income outpaced the growth in total expenses leading to an improvement in cost to income ratio on both QoQ and YoY basis. During the quarter the bank added 12 new branches taking the total branch network to 412 in Q3FY13 and added approximately 29 ATMs in Q3FY13 which resulted in 13.3% QoQ increase in other operating expenses

The bank has received license approval to open 146 branches in metro and urban areas as compared to 56 last year. This is likely to keep operating expenses on the higher side. However, we believe that with increasing traction in revenues and efficiency of the management to keep expenses under check, the cost to income ratio will broadly remain below 40% levels. We expect cost to income ratio to be at 38.3% for FY13E and 37.7% for FY14E.

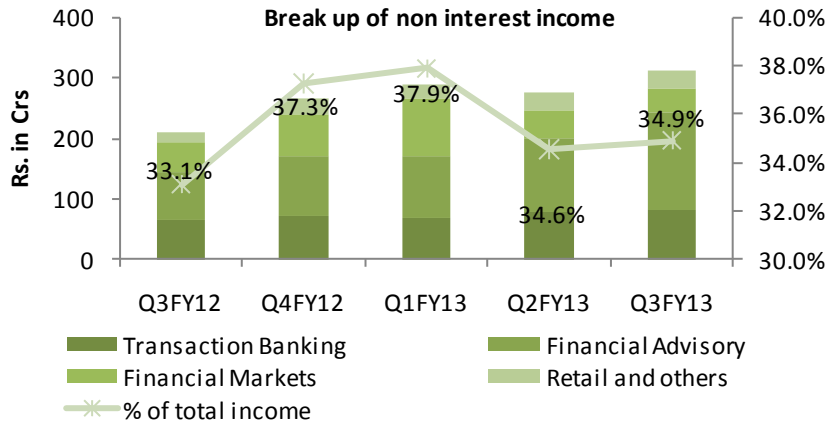


Source: Company data, Nirmal Bang Research

Strong growth in fee income

Non Interest Income increased 48.1% YoY to Rs 313.2 cr in Q3FY13 resulting from growth in Transaction Banking, Retail banking and Financial Advisory. Transaction Banking grew 26% YoY to Rs 81 cr, Financial Advisory grew 101.5% YoY to Rs 162 cr and Retail fees increased 66.3% YoY which offset some decline in Financial Markets (-19% YoY and -17% QoQ). Management expects the current proportion of other income to total income to be sustainable.

We believe that that going forward financial advisory and transaction banking will continue to be the key focus areas for growth in non interest income. We expect non-interest income to grow 41.5% and 29.1% for FY13E and FY14E.



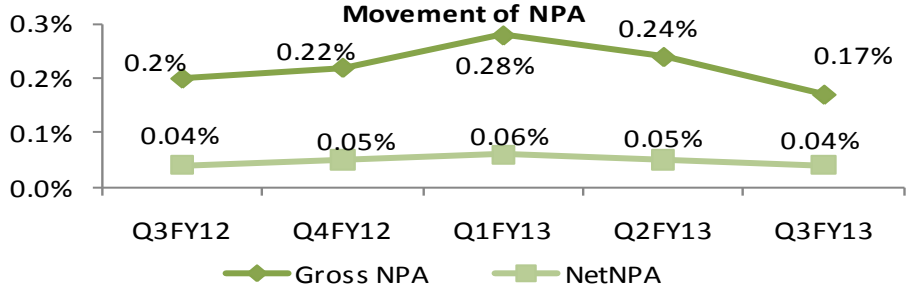
Source: Company data, Nirmal Bang Research

Best in class asset quality

Gross NPA declined 25.9% QoQ to Rs.76.2 Cr in Q3FY13. Yes Bank has continued to maintain minimal Net NPAs. Gross NPAs and Net NPAs stood at 0.17% & 0.04%, respectively as on December 31, 2012. There were no new restructuring/no new slippages in the current quarter. The restructured book stands at 0.43% of advances. Provisioning coverage ratio of the bank (including technical write off) slightly declined to 79.6% in Q3FY13.

As per the Management, Deccan Chronicle continues to remain a standard asset for the bank till Q3FY13. The bank has provided ~90 cr (80% of exposure) during Q2/Q3FY13. On remaining 20% the bank does not anticipate further requirement of provisioning. Management expects 10-15% recovery in short-term and another 20-25% in next 3-4quarters.

We expect Gross NPAs to be at 0.38% and 0.41% for FY13E and FY14E and Net NPAs to be at 0.07% for FY13E and FY14E.



Source: Company data, Nirmal Bang Research

Capital Raising plans

The Board has approved the plans to raise USD300-400 mn capital. Management intends to keep RoE at 20+% post dilution and will accordingly raise capital. We have factored in capital raising of USD 350mn at a price of Rs 500 in our FY14E estimates.

Income Statement	Q3FY13	Q3FY12	YoY (%)	Q2FY13	QoQ (%)
Interest Earned	2,134	1,684	26.7%	1,986	7.4%
Interest Expended	1,549	1,256	23.3%	1,462	6.0%
Net Interest Income	**584**	**428**	36.7%	**524**	11.5%
Other Income	313	211	48.1%	277	13.2%
Total Income	898	639	40.5%	801	12.1%
Payment to employees	162	122	33.1%	164	-1.4%
Other operating expenses	172	118	45.3%	152	13.3%
Total operating expenses	334	240	39.1%	316	5.7%
Profit before provisioning	**563**	**399**	41.3%	**485**	16.2%
Provisions	57	22	153.6%	32	78.6%
Profit before tax	507	376	34.6%	453	11.9%
Tax	164	122	34.4%	147	11.9%
Profit after tax	**342**	**254**	34.7%	**306**	11.8%
EPS	9.6	7.2	32.6%	8.6	11.4%

Source: Company data, Nirmal Bang Research

- In Q3FY13, Bank a growth of 11.4% QoQ and 32.6% YoY in net profit at Rs 342.3 cr mainly due to 36.7% YoY increase in Net interest income and 48.1% YoY increase in other income.
- EPS for Q3FY13 stood at Rs 9.6 while for Q3FY12, it was Rs 7.2.
- RoA improved to 1.6% in Q3FY13 and RoE stood at 24.4%.
- Capital Adequacy Ratio of the Bank as on Q3FY13 stood at 18% with Tier I ratio of 9.02%.
- The branch network stood at 412 and ATM network stood at 723 as on 31st December 2012.

Valuation and Recommendation

Yes Bank has been able to perform consistently with a healthy asset quality, superior profitability and return ratios. Going forward, we expect Yes Bank to report strong growth in advances and overall profitability. The traction in CASA accounts will continue to drive margin performance. The bank is on track with its plans to expand in the retail and SME segment. The bank has been able to deliver strong performance on the non interest income front as well which leads to significant increase in the overall profitability of the bank. The bank's high proportion of fee income enables the bank to generate higher return ratios (RoA of 1.5%+ and RoE of 24%+).Driven by the strong performance, we expect the bank's profitability to grow at 30.7% CAGR over FY12-FY14E.

At CMP, the stock is trading at a PE of 14.45x and 12.28x of FY13E and FY14E EPS and at an adjusted P/BV of 3.23x and 2.27x FY13E and FY14E Adj BV. We arrive at a target price of Rs 578 (2.5x FY14E ABV) indicating potential upside of 10.3% from current levels. We continue to maintain our HOLD rating on the stock.

Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	4,042	6,307	7,911	9,885
Interest expended	2,795	4,692	5,731	7,125
Net interest income	**1,247**	**1,616**	**2,180**	**2,759**
Non interest income	623	857	1,213	1,566
Total income	**1,870**	**2,473**	**3,393**	**4,325**
Operating expenses	680	933	1,300	1,630
Staff costs	362	475	672	806
Other Op Exp	317	457	628	823
Operating profit	**1,190**	**1,540**	**2,092**	**2,695**
Provisions	98	90	164	205
Profit before tax	1,092	1,450	1,928	2,490
Taxes	365	473	636	822
Net profit	**727**	**977**	**1,292**	**1,668**

Quarterly (Rs. Crs)	Mar.12	June.12	Sept.12	Dec.12
Net interest income	448	472	524	584
Non interest income	266	288	277	313
Total income	715	760	801	898
Operating expenses	284	301	316	334
Operating profit	430	460	485	563
Provisions	28	30	32	57
Profit before tax	402	430	453	507
Taxes	130	139	147	164
Net profit	272	290	306	342
Earnings per share	7.6	8.0	8.6	9.6

Profitability Ratios	FY11	FY12	FY13E	FY14E
Cost / Income Ratio	36.3%	37.7%	38.3%	37.7%
Net profit margin	38.9%	39.5%	38.1%	38.6%
RONW	21.1%	23.1%	24.7%	22.5%

Growth Ratios	FY11	FY12	FY13E	FY14E
Advances Growth	54.8%	10.5%	23.4%	21.7%
Deposit Growth	71.4%	7.0%	21.4%	20.1%
NII Growth	58.2%	29.6%	34.9%	26.6%
PAT Growth	52.2%	34.4%	32.2%	29.1%
Pre prov profit growth	37.9%	29.4%	35.8%	28.8%
Non int income growth	8.3%	37.5%	41.5%	29.1%

Valuation Ratios	FY11	FY12	FY13E	FY14E
P/BV	4.79	3.96	3.21	2.26
P/ABV	4.80	3.97	3.23	2.27
P/E	25.88	19.24	14.45	12.28

Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Deposits	45,939	49,152	59,677	71,659
(of which CASA)	*(4,750)*	*(7,392)*	*(11,160)*	*(13,759)*
Borrowings	6,691	14,156	22,854	27,581
Other liab and prov	2,583	5,677	6,529	7,508
Total liabilities	55,213	68,985	89,060	106,748
Equity Share Capital	347	353	353	391
Reserves and Surplus	3,447	4,324	5,412	8,688
Net worth	**3,794**	**4,677**	**5,765**	**9,079**
Total liab and equity	**59,007**	**73,662**	**94,826**	**115,828**
Cash and bank bal	3,496	3,586	3,904	5,845
Investments	18,829	27,757	39,407	47,946
Advances	34,364	37,989	46,871	57,059
Fixed assets	132	177	198	222
Other assets	2,186	4,153	4,444	4,755
Total assets	**59,007**	**73,662**	**94,826**	**115,828**

Key Ratios	FY11	FY12	FY13E	FY14E
Yield Ratios				
Avg Yield on Assets	8.9%	10.6%	10.4%	10.3%
Yield on Advances	10.6%	12.2%	12.1%	12.0%
Yield on Investments	7.1%	7.9%	8.1%	8.1%
Cost of Int Bearing Liab	6.6%	8.1%	7.9%	7.8%
Cost of Deposits	6.2%	7.8%	7.6%	7.4%
Net Interest Spread	2.3%	2.5%	2.5%	2.6%
NIM	2.9%	2.7%	2.9%	2.9%
Balance Sheet Ratios				
Gross NPA	0.23%	0.22%	0.38%	0.41%
Net NPA	0.03%	0.05%	0.08%	0.08%
Return on Assets	1.5%	1.5%	1.5%	1.6%
CASA	10.3%	15.0%	18.7%	19.2%
Loan-deposit ratio	74.8%	77.3%	78.5%	79.6%
CAR	16.1%	17.9%	17.4%	16.1%
Provision cov ratio	86.0%	80.0%	80.0%	81.0%

Per Share Data	FY11	FY12	FY13E	FY14E
EPS	20.25	27.24	36.26	42.69
BVPS	109.3	132.5	163.3	232.3
Adjusted BVPS	109.1	132.0	162.3	231.2
Dividend Per Share	2.50	4.00	5.00	6.00
Dividend yield	0.8%	0.8%	1.0%	1.1%

Source: Company data, Nirmal Bang Research

NOTES

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