

Q3FY13-Fierce growth

CMP: Rs.524
Target Price: Rs.556
Upside/(Downside) % 6%
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	532648
NSE Symbol	YESBANK
Bloomberg	YES IN
Reuters	YESB.BO
BSE Sensex	19964.0
NSE Nifty	6039.2

Market Info

Market Capital	18712 cr
Equity Capital	357.6 cr
Avg. Trading Vol. (NSE Qtly) ('000)	1978.4
52 Wk High/ Low	535/282
Face Value	10

Shareholding Pattern (%) (31st Dec 2012)

Promoters	25.8
Domestic Institutions	14.7
Foreign Institutions	48.3
Public & Others	11.3

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	977	1298	1686
EPS (in Rs)	27.9	36.8	47.8
PE (x)	18.8	14.2	11.0
PABV (x)	4.0	3.2	2.6

YES Bank recorded boisterous earnings performance for the quarter Q3 with strong growth on most of the parameters. PAT beat expectations, NII grew strongly supported by robust customer assets growth and CASA moved up, fee income recorded buoyancy and asset quality only improved. Going ahead, retail loan book enhancement, branch network expansion with SA customer addition, superior core loan growth and consistency in non-interest income buoyancy would stand critical for YES Bank to maintain the all-round performance.

Strong earnings growth supported by growth in customer assets and non-interest income: PAT at Rs 342 crs (35% YoY growth) backed by strong NII performance at Rs 584 crs (37% YoY growth) largely on account of robust growth in customer assets (27% YoY growth) and margins expansion at 3% levels. Stupendous growth in non-interest (48% YoY growth) income was witnessed on account of robust income from financial advisory (102% YoY growth) and retail banking (66% YoY growth) which in turn drove the profitability of the bank. However, the financial advisory revenue stream is deal based and we only expect it to sustain; given the fact that there was lumpiness in this account (one-offs) during Q3.

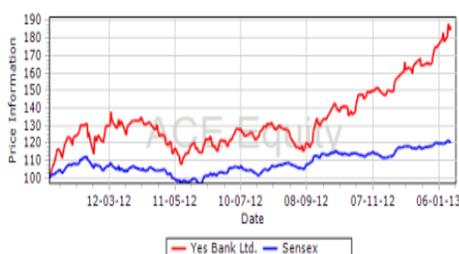
Business dynamics- quite encouraging, sustenance is the key: The business growth trajectory remained strong for YES bank during the quarter. Advances grew 22% YoY, but the mix continues to remain skewed towards corporate lending (27% YoY growth), while retail loan book momentum slowed, yet recorded 9% YoY growth. On the deposits front, the bank reported healthy 20% growth YoY and the CASA deposits grew remarkable 75% YoY taking the CASA ratio to 18% levels (that improved >600 bps YoY). SA momentum remained upbeat with 4 times improvement from a year ago. However, the SA customer addition remains critical and we only expect the bank's cross-sell strategy combined with expanding branch network churn into SA acquisitions.

Margins at 3% levels: The quarter observed margins expansion to 3% levels (10 bps improvement QOQ), aided by reduced costs and CASA uptick. The Management expects no negative surprise on this count and targets 3.5% margins by FY15.

Asset quality stable: The GNPA's at 0.17% came lower 7bps QoQ and NNPA's at 0.04% that remained flattish with adequate provisioning levels indicate stable asset quality for the bank. Credit costs moved up substantially (as high as 154% YoY) on account of adequate provisioning for the stressed media account. The restructured assets stand 43bps of the total loan book. The Management is hopeful of stable asset quality with vigilant risk practices and banking on recoveries.

Outlook: With the bank reporting all-round performance during the quarter, the exponential growth momentum needs to be watched-out for. While we believe, the business dynamics would continue to work in favor of YES bank, improvement in liability franchise, loan composition, consistent balance sheet growth, and superior asset quality sustenance combined with certain off-balance sheet exposures would form part of our watch-list.

The valuations running ahead of fundamentals coupled with upbeat stock momentum is evident of the fact that much has been factored; though price momentum may not necessarily witness downside. Building in superior earnings and margins, healthy business and stable asset quality, we slightly increase our earnings estimates and further tweak the price target to Rs 556 valuing the bank at 2.7X P/ABV FY14E. We reiterate HOLD recommendation on the stock.



January 18, 2013

Generating Wealth. Satisfying Investors.

Q3FY13 EARNINGS SNAPSHOT

Reported Quarterly Results						
Particulars (Rs in Cr)	Q3FY13	Q3FY12	YoY	Q2FY13	QoQ	Comments
Interest Earned	2,134	1,684	27%	1,986	7%	
Interest Expended	1,549	1,256	23%	1,462	6%	
Net Interest Income	584	428	37%	524	11%	Strong NII performance supported by robust growth in customer assets and expansion in margins
Other Income	313	212	48%	277	13%	Stupendous growth (~50%) growth in other income driven by robust income from financial advisory and retail banking which in turn boosted the profits upwards
Other income / Net Income (%)	34.9	33.1		34.6		
Total income	898	639	40%	801	12%	
Employee Expenses	162	122	33%	164	-1%	
Non-Employee expenses	172	118	45%	152	13%	
Operating Expenses	334	240	39%	316	6%	
Cost-income Ratio (%)	37.2	37.6		39.5		C/I ratio under control despite spike in opex
Pre-Prov Profits	563	399	41%	485	16%	
Provisions & Contingencies	57	22	154%	32	79%	Credit costs have fallen
PBT	507	377	35%	453	12%	
Exceptional (Reported)	0	0		0		
Provisions for Tax	164	122	34%	147	12%	
Effective Tax Rate (%)	32.5	32.5	0%	32.4	0%	
PAT (reported)	342	254	35%	306	12%	PAT beat expectations on the back of strong performance across most of the parameters
EPS Basic	9.6	7.2		8.6		
EPS Diluted	9.4	7.1		8.4		
GNPA	76.2	72.1		102.8		
NNPA	15.6	14.4		20.1		
GNPA (%)	0.17	0.20		0.24		GNPA & NNPA moved downwards which is a positive sign
NNPA (%)	0.04	0.04		0.05		
Total CAR (%)	18.0	16.1		17.5		
NIM	3.0	2.8		2.9		NIMs showed upward trajectory due to softening of costs and CASA uptick
Advances	43,860.0	35,867.8	22%	42,019.3	4%	Healthy growth in advances
Deposits	56,400.0	46,929.1	20%	52,290.8	8%	Deposits growth was decent

Source: - Company, Arian Research

Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	4042	6307	7788	9501
- Interest from advances / bills	2989	4427	5337	6594
- Interest on investments	1027	1847	2418	2864
- Interest on balances	19	23	23	28
- Other interest	7	10	10	15
Interest Expenses	2795	4692	5450	6377
Net Interest Income	1247	1616	2338	3124
- growth %	58	30	45	34
Fee-based Income	458	600	834	1160
Treasury Income	102	183	243	321
Other Non-interest Income	63	75	90	108
Total Non-interest Income	623	858	1167	1588
Operating Income	1870	2473	3505	4713
- growth %	36	32	42	34
Operating Expenses	680	933	1353	1903
- Staff Cost	362	475	667	942
- Other Operating Exp.	317	457	686	960
Gross Profits	1190	1541	2152	2810
- growth %	36	29	40	31
Provisions	98	90	146	203
Profit Before Taxes	1092	1450	2006	2607
Taxes	365	473	712	925
Profit After Taxes	727	977	1294	1681
- growth %	49	34	32	30

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	347	353	359	359
Reserves & Surplus	3447	4324	5411	6845
Deposits	45939	49152	59147	71531
- growth %	71	7	20	21
Borrowings	6691	14156	16988	18687
Other liabilities & provisions	2583	5677	7299	10521
TOTAL LIABILITIES	59007	73662	89205	107943
ASSETS				
Cash, Inter-bank, etc	3076	2333	2729	3384
Money at call and short notice	420	1253	828	858
Advances	34364	37989	46726	57940
- growth %	55	11	23	24
Investments	18829	27757	31939	37912
Fixed assets	132	177	336	538
Other assets	2186	4153	6646	7310
TOTAL ASSETS	59,007	73,662	89205	107943

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	21.1	27.9	36.7	47.7
Book Value per share	109.3	132.5	163.6	204.1
Adjusted Book Value	109.0	132.0	162.4	202.4
Dividend per share	2.5	4.0	5.0	6.0
Asset Quality (%)				
Gross NPAs	0.2	0.2	0.3	0.4
Net NPAs	0.0	0.1	0.1	0.1
NPA Coverage	87.0	77.3	72.9	71.4
Delinquency Ratio	0.1	0.2	0.3	0.3
Profitability ratios (%)				
RoAE	21.1	23.1	24.8	25.9
RoAA	1.5	1.5	1.6	1.7
NIM	2.7	2.6	3.1	3.4
Operating Profit Margin	63.7	62.3	61.4	59.6
Net Profit Margin	38.9	39.5	36.9	35.7
Cost to Income	36.3	37.7	38.6	40.4

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	10.6	12.2	12.6	12.6
Yield on investments	7.1	7.9	8.1	8.2
Yield on interest-earning assets	8.8	10.0	10.3	10.4
Cost of deposits	6.6	8.1	7.8	7.7
Cost of borrowings	7.9	7.4	7.0	6.9
Cost of funds	6.6	8.1	7.8	7.7
Spread	2.2	1.9	2.5	2.8
Net Interest Income to AWF	2.6	2.5	3.0	3.4
Non Interest Income to AWF	1.3	1.3	1.5	1.7
Operating Profit to AWF	2.5	2.3	2.7	3.1
Net Profit to AWF	1.5	1.5	1.7	1.8

Valuation ratios (x)				
P/E	24.8	18.8	14.3	11.0
P/BV	4.8	4.0	3.2	2.6
P/ABV	4.8	4.0	3.2	2.6

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254834

Head Office

3rd Floor, Krishna Bhavan,
67 Nehru Road, Vile Parle (East),
Mumbai - 400057
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

Disclaimer:

This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets Ltd.

3rd Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E) Mumbai - 400057

Tel. 022-42254800 Fax. 022-42254880

www.arihantcapital.com