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Result Update
Yes Bank

Q1FY13-Weak balance sheet structure

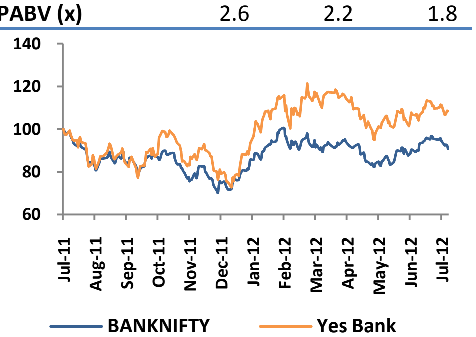
CMP:	**Rs.347**
Target Price:	**Rs.391**
Upside/(Downside) %	**13%**
Recommendation:	**HOLD**

Stock Info	
BSE Group	A
BSE Code	532648
NSE Symbol	YESBANK
Bloomberg	YES IN
Reuters	YESB.BO
BSE Sensex	16639.8
NSE Nifty	5043.0

Market Info	
Market Capital	` 12305.5cr
Equity Capital	` 354.8cr
Avg. Trading Vol. (NSE Qtly)	2655989
52 Wk High/ Low	389/231
Face Value	10

Shareholding Pattern (%)	**(30th June 2012)**
Promoters	26.1
Domestic Institutions	14.2
Foreign Institutions	42.9
Non Promoters Corp.	1.5
Public & Others	14.8
Govt. Holdings	NA

Financials	**FY12**	**FY13E**	**FY14E**
PAT (Rs in Cr)	977	1251	1519
EPS (in Rs)	27.1	35.4	43.0
PE (x)	12.5	9.8	8.1
PABV (x)	2.6	2.2	1.8



July 27, 2012

Generating Wealth. Satisfying Investors.

The quarterly earnings for YES Bank prima facie look quite strong with robust profitability growth of 34% YoY supported by strong traction in Net Interest income that grew 33% YoY and whopping growth of 74% in non-interest income. In nutshell, however, the closer look at the numbers reveal that the bank has recorded modest growth in advances that came due to base effect and growth in credit substitutes. Furthermore, the low-cost deposit base growth was not encouraging with decline in incremental SA momentum. The borrowings for the quarter stood on the higher side with spike in borrowing costs as well. The margins too remained flat due to flattish yields and high bulk deposits resulting in higher cost of funds.

Strong earnings growth supported by growth in credit substitutes and non-interest income: PAT at Rs 290 crs recorded robust YoY growth of 34% backed by strong NII growth of 33% at Rs 472 crs largely on account of growth in credit substitutes that outpaced core credit growth. Moreover, non-interest income at Rs 288 crs grew at a healthy pace recording whopping 74% growth on the back of buoyancy in income from financial markets driven by gains in SLR portfolio which is clearly not a recurring event and the bank will have to lay thrust on granular fee income going ahead.

Weak balance sheet structure: Although advances observed 16% YoY growth, that came due to base effect and the credit substitutes to the tune of Rs 108 bn that grew at a faster pace than the core advances. Moreover, the commercial banking and branch banking segments witnessed sequential decline in growth in Q1 primarily due to shortfall in PSL lending. On the deposits front, the bank reported decent YoY growth at 15% and the CASA ratio at 16%; however; incremental SA and CASA balances have gone down sequentially. Further, the growth in borrowings (20% QoQ, 154% YoY) has surpassed the growth in deposits (2% QoQ, 15% YoY) sharply which is not a positive sign in our view.

Margins disappointed: Growing credit substitutes and no meaningful uptick in CASA balances proved as a dampener for margins during the quarter. Despite improvement in mix and overcoming of costs burden, margin growth appears to be arrested at current levels. NIMs at 2.8% have not moved up. However, the Management is confident to record margins in the range of 3-3.5% by FY13-15 with the benefit of CASA traction and the fact that the costs have peaked out.

Asset quality stable, probability of pressures going ahead cannot be ruled out: The GNPA rose to 0.28% from 0.17% in Q1FY12 and NNPA rose to 0.06% from 0.01% a year ago. While the loan coverage ratio remains fairly strong and restructured book at lower levels, the fact that the bank is expanding the high yielding retail+SME portfolio, it calls for asset quality risks going ahead. Also, the credit costs at Rs 30 crs were on the higher side for the quarter and are expected to remain at elevated levels.

Outlook: YES bank balance sheet structure supported by increased credit substitutes rather than core advances and increased borrowings rather than meaningful growth in deposits particularly low-cost deposit balances leave limited scope for upside in the near term. Also, with the core Tier I standing at lower end at 8.6-8.7% would restrict growth for the current fiscal. In our opinion, the concern areas for the bank are the sustainability of SA traction given the competitive environs, imminent spike in operating costs (with aggressive network expansion), plausible asset quality deterioration (with aggressive loan book expansion), divergence from priority sector lending and the stock being a high beta play. Therefore, we maintain HOLD rating on the stock valuing it at 2.0X P/ABV FY14E with a price target of Rs 391.

Key Takeaways from the Earnings Conference Call:

- The bank has been adopting fairly cautious strategy w.r.t. loan growth.
- Granular liability generation remains the predominant objective for the bank.
- The duration of non-SLR book stands as 2-3 years and is externally rated (AAA and AA+ predominantly)
- No. of SA Accounts added 1000 a day; March quarter was better in terms of SA accretion and hence it remains a seasonal effect. But the underlying momentum was fairly good
- Investment Book: - No take and hold strategy but distribution strategy is used. Income from investment is booked under income from financial markets.
- Cost of Deposits stabilize at 9% (is at peak), benefitted from increase in CASA.
- Increase in fee income comes from financial markets: Govt paper uptick (Rs. 30 to 40 crs from G-sec)
- Other income 74% growth YoY :- All lines grows in line with Balance Sheet

    Financial Markets grown sharply – Driven by gains in SLR portfolio and Financial Advisory

    Transaction Banking- 65% growth YoY

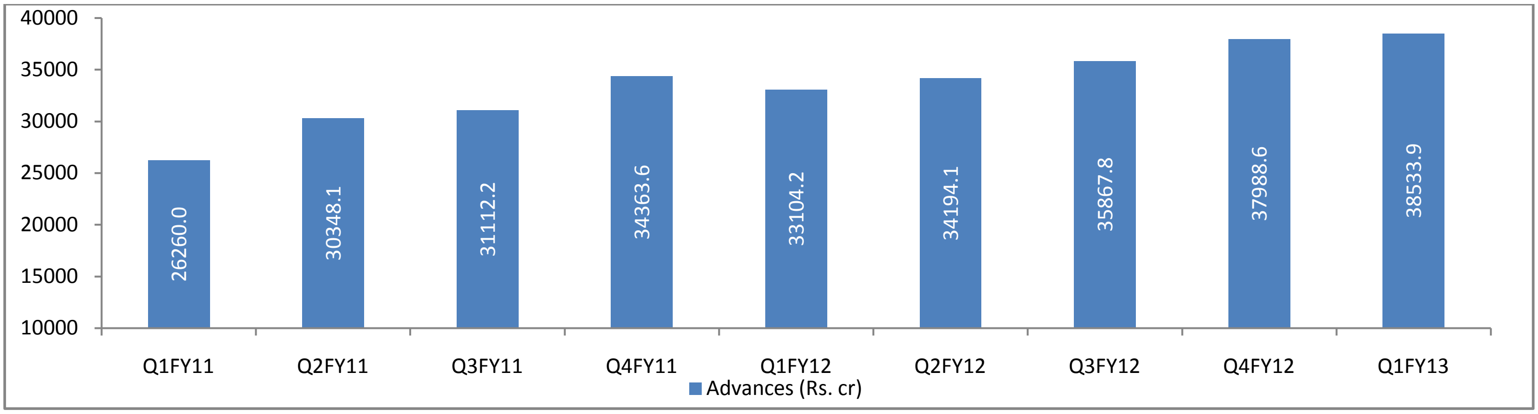
    Retail Banking - 40% growth YoY
- 2/5th of total income comes from non interest income non-interest income performance is expected to remain constant if not at higher levels
- Liabilities and risk management remain the key focus areas

  Liabilities focus areas: – 1. More CASA , 2. More granularities in income, 3. More transactional embedment

  Risk Management focus areas – Debulking /derisking of book
- Loan growth is currently not the priority for the bank
- Amount of credit substitutes has increased in Q1FY13 with Rs 11000 crs as against Rs 5000 to 6000 crs in Q1FY12
- Average cost of borrowing for the bank stood at 8.5%, and quantum of borrowings for the quarter stand at – Rs.16000 to 17000cr. Cost of borrowings to come down going ahead on account of repricing benefits and lower rates from refinancing. However, borrowings for Q1 increased because they have been cheaper than deposits except Tier II
- SME and Retail would continue to be the loan growth drivers for the bank, consumer retail that accounts for 2% of total book remains the focus area segment.
- Margin Outlook for FY13-15 would be in the range of 3 to 3.5% supported by CASA and costs stabilizing and would add 10 to 15 bps margins every year. Margins for Q1 remained stagnant owing to increased costs.
- Promoters Stake clarity:- No deadline from RBI w.r.t. bringing down the promoter stake, currently promoters are holding 26% stake. That said, the promoter's stake is definitely on correction mode.
- Asset quality: QoQ increase in NPLs. Rs.20-30 crs total NPLs added last 3 to 4 quarters before any upgradation and recovery. Total gross addition to NPA's – Rs.30 crs which is similar to last quarter. Credit costs to remain little on the higher side with retail and SME book expansion, however; it would not be detrimental to RoAs.

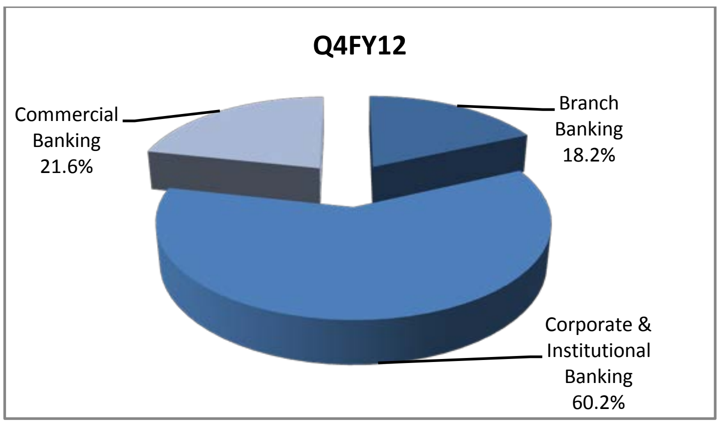
- Credit substitutes amounted to Rs.108bn. Short term trend will be up as loan book growth will not be strong. The bank had deals with business majors like HINDALCO and TATA Steel.
- Core equity Tier I + Profits stands at 8.6 % to 8.7% but is at lower end as compared to other banks. The bank plans to issue capital of Rs 500mn equity in next 12 months if the markets are conducive and there exists growth visibility, but no short term plan in place.
- The bank has budgeted RoE in the range of 20-25% RoE factoring dividend and can maintain 20-25% growth.
- Retail Strategy :- Retail Business focus
  - Leverage and consolidate on retail position
  - Added 175 branches last 10-15 months
  - Added 50% to Headcount
  - Number of ATMs has doubled
  - Mortgage, Educational loans, CE Loans remain the focus segments and B2B2C Strategy
  - The bank is laying emphasis on People, process, infrastructure, and technology as part of its strategy.
- The bank planes to increase share of retail loans from 15% in FY12 to 30% in FY15 and the proportion of SME and Retail would remain equal.
- Loan book did not perform well on sequential basis with Branch Banking QoQ growth down and Consumer Banking QoQ growth also coming down.
  - Priority Sector Lending rundown was the cause for both the above segments getting impacted
- Implications of Priority Sector Lending norms :-
  - Lending to HFC's - Exposure remains only to the tune of Rs. 100crs and hence not a worry atleast for FY13 ; but for FY14 it needs to be worked out
  - Lending to Mid – Large segment – would no longer be the focus area segment and hence the loans extended to these segments earlier to the tune of Rs 300-400 crs will have to be routed elsewhere.
- The opex is estimated to increase by 35% YoY, but that also depends upon how income is shaping up.

Chart 1:- Sequential Advance growth



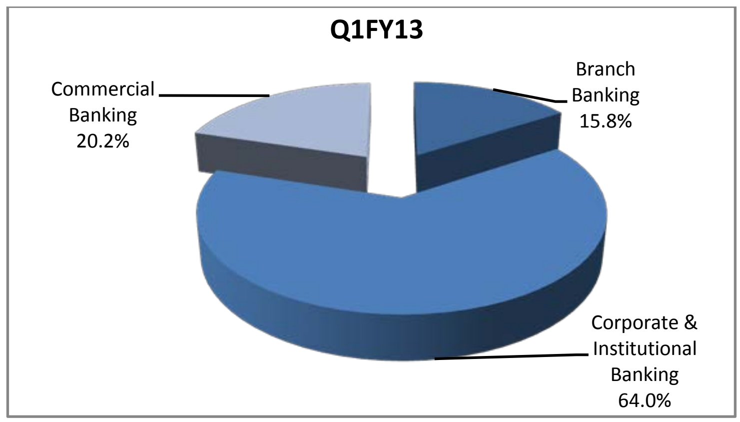
Source: - Company, Arihant Research

Chart 2:- Loan break-up



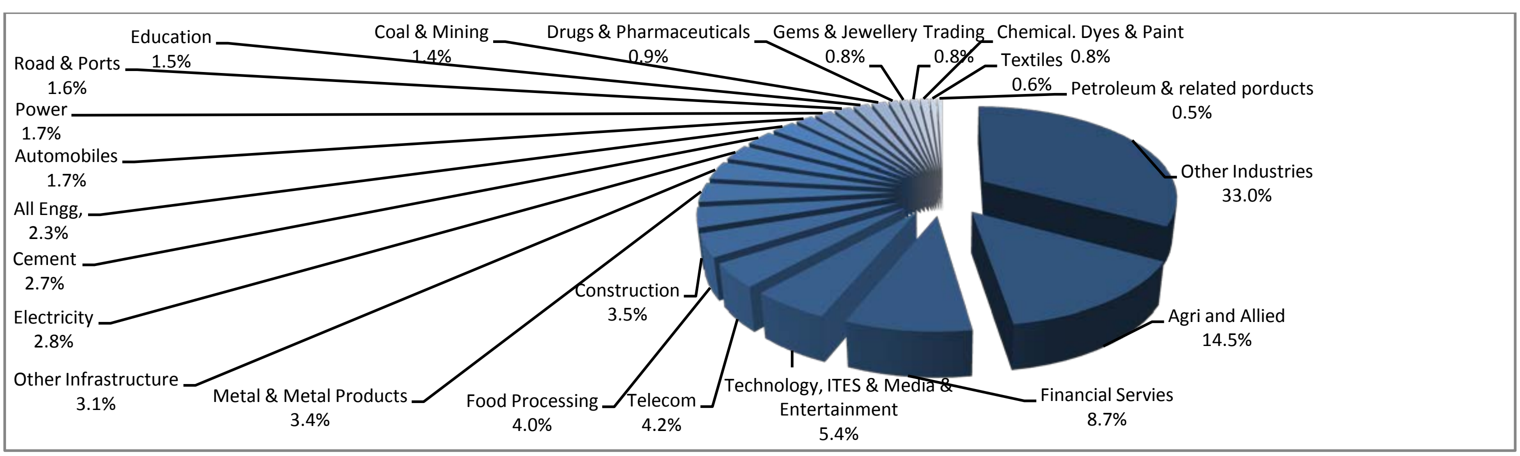
Source: - Company, Arihant Research

Chart 3:- Retail banking yet to pick up



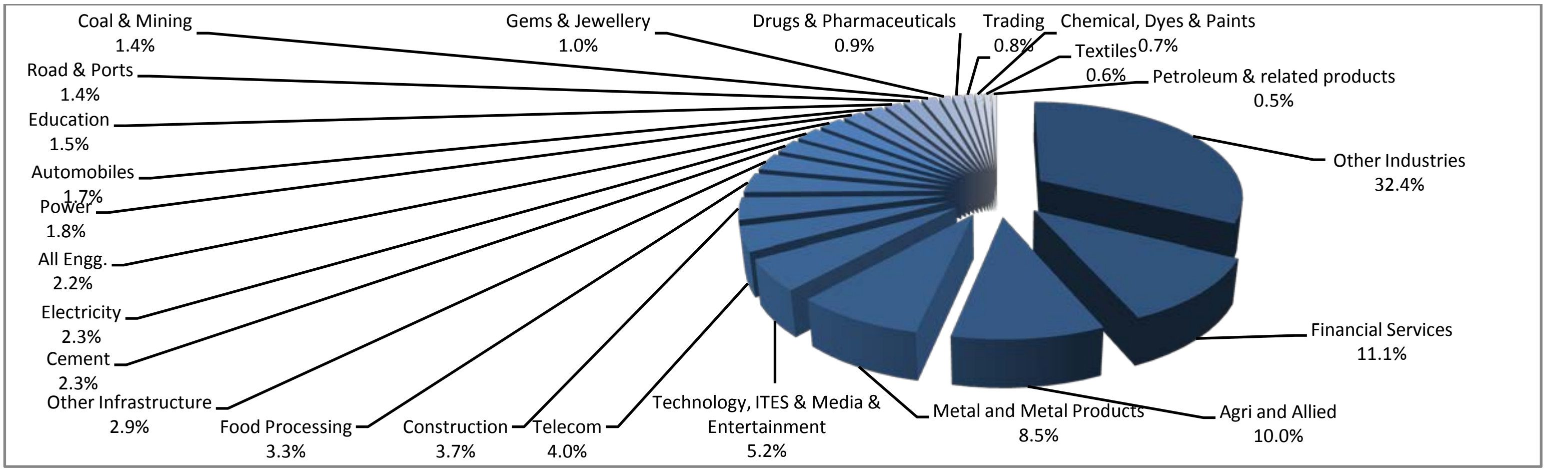
Source: - Company, Arihant Research

Chart 4:- Diversified loan mix (Q4FY12)- Industry-wise:



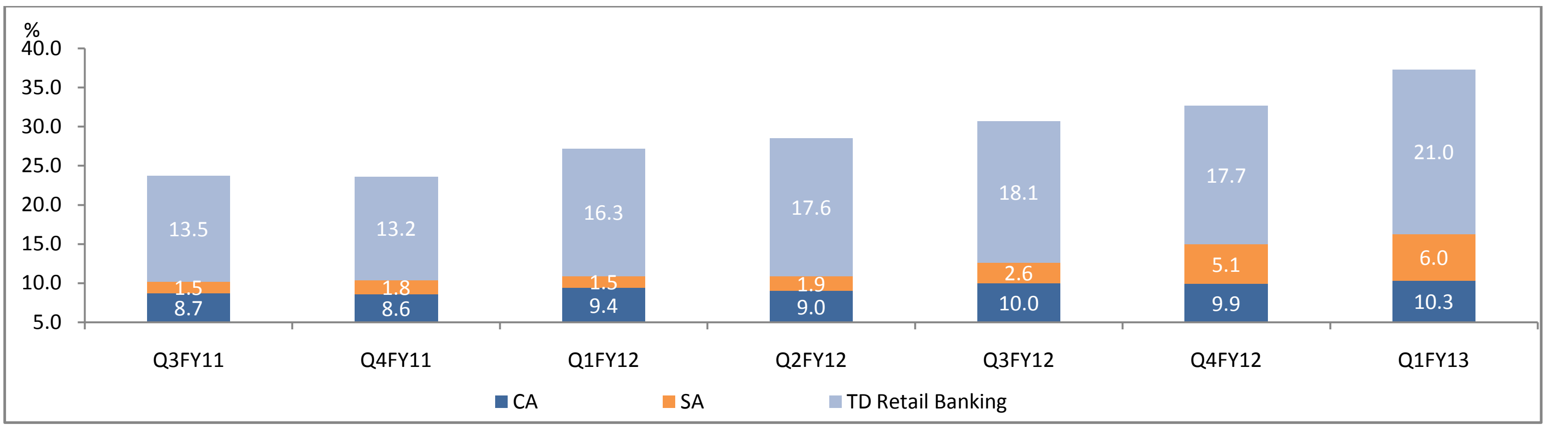
Source: - Company, Arihant Research

Chart 5:- Loan breakup (Q1FY13)



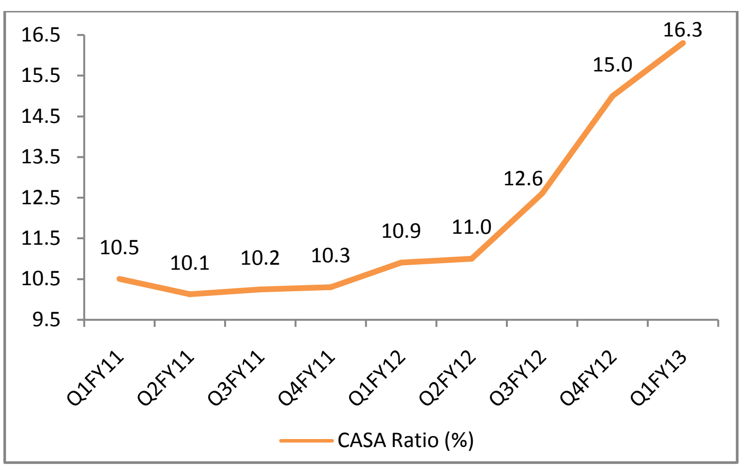
Source: - Company, Arihant Research

Chart 6:- Decomposition of deposits



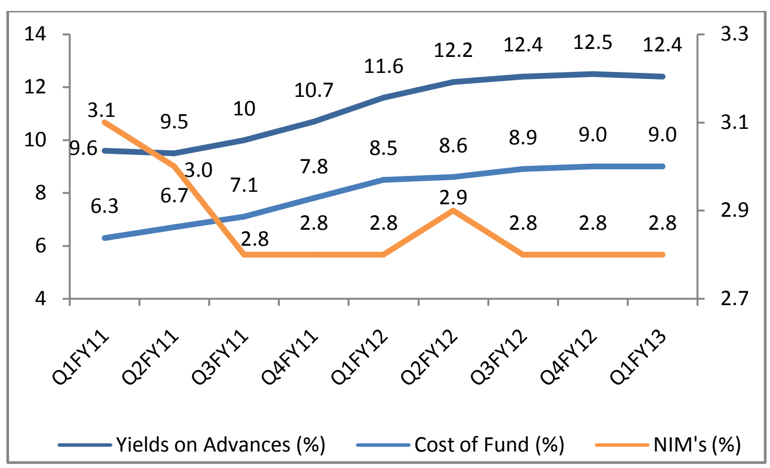
Source: - Company, Arihant Research

Chart 7:- CASA accretion



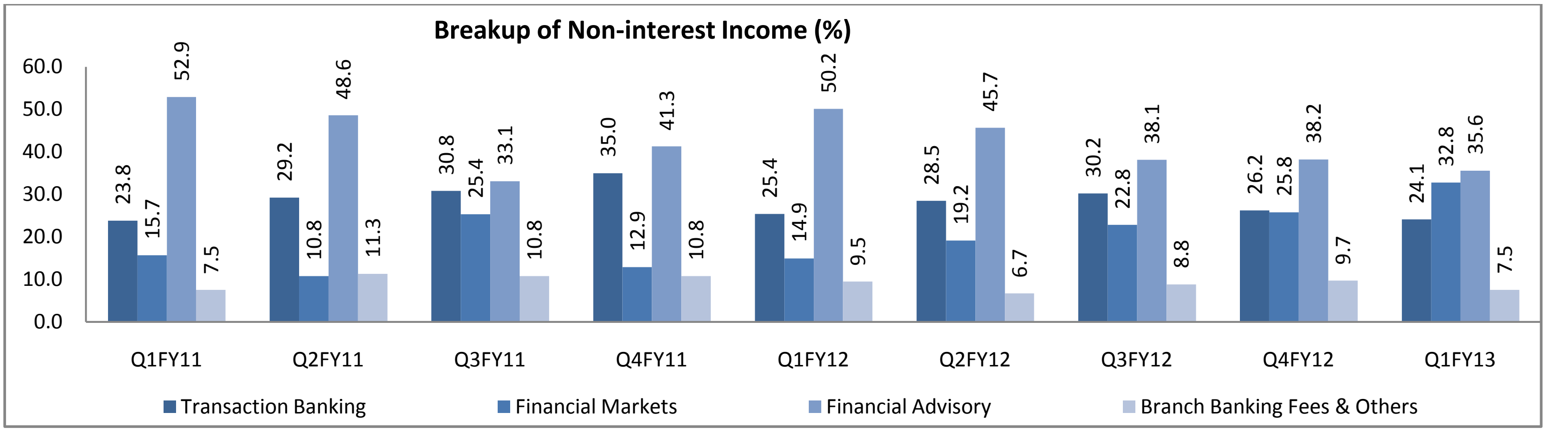
Source: - Company, Arihant Research

Chart 8:- Margins remain stagnant



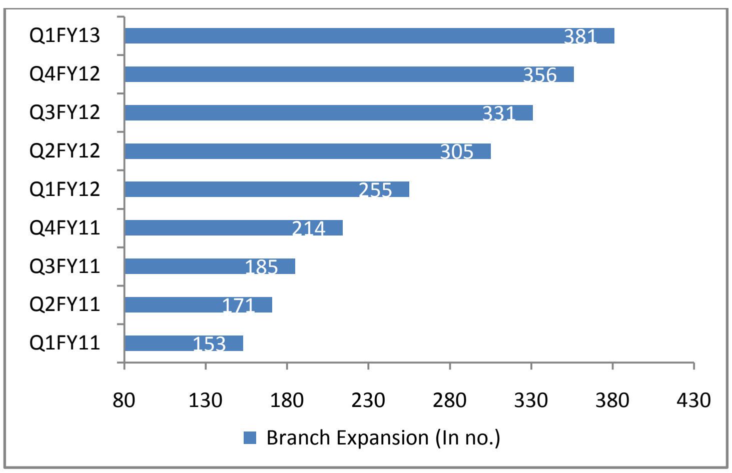
Source: - Company, Arihant Research

Chart 9:- Other income decomposition



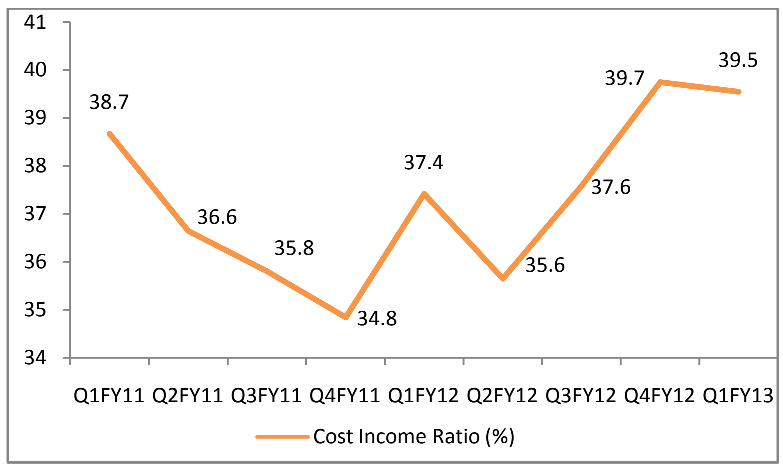
Source: - Company, Arihant Research

Chart 10:- Growing branch network...



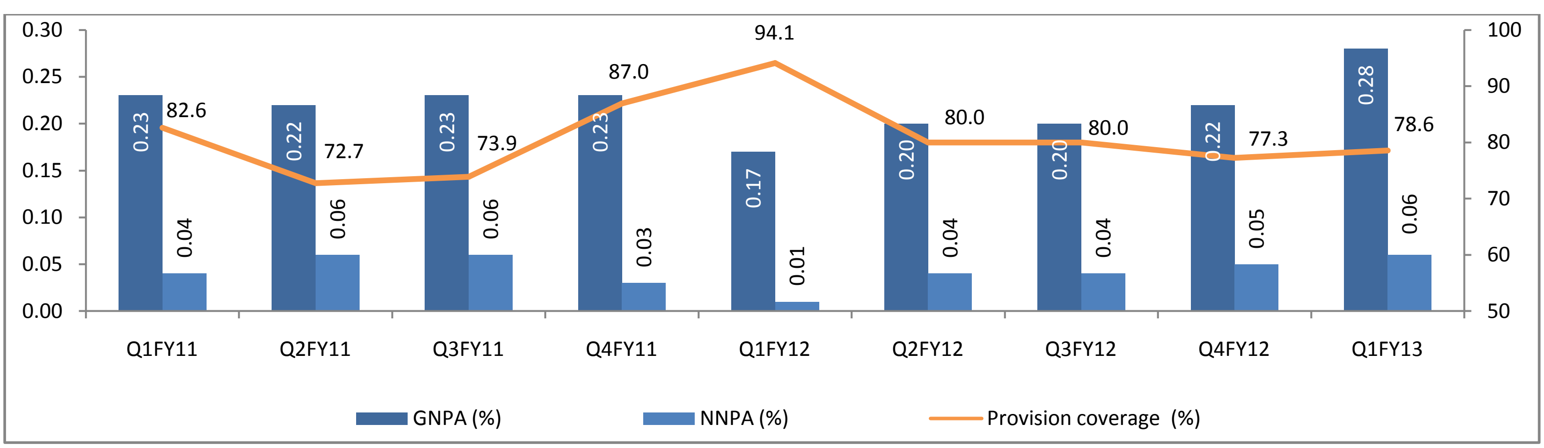
Source: - Company, Arihant Research

Chart 11:- Higher opex kept C/I ratio at elevated levels



Source: - Company, Arihant Research

Chart 12:- Bad loans inched upwards



Source: - Company, Arihant Research

Table 1:- Q1FY13 Earnings

Particulars (Rs in Cr)	Q1FY13	Q1FY12	YoY	Q4FY12	QoQ	Comments
Interest Earned	1,886	1,400	*35%*	1,785	*6%*	
Yield on Advances (%)	*13.0*	*12.2*		*13.0*		
Interest Expended	1,414	1,045	*35%*	1,337	*6%*	
Cost of Funds (%)	*10.8*	*10.9*		*11.1*		
Net Interest Income	**472**	**354**	*33%*	**448**	*5%*	Strong NII growth on YoY basis
Other Income	288	165	*74%*	267	*8%*	Robust growth in other income backed by buoyant income from financial markets drove the profits upwards
Other income / Net Income (%)	*37.9*	*31.8*		*37.3*		
Total income	**760**	**519**	*46%*	**715**	*6%*	
Employee Expenses	155	110	*41%*	134	*16%*	
Non-Employee expenses	145	85	*72%*	151	*-3%*	
Operating Expenses	**301**	**194**	*55%*	**284**	*6%*	Opex stood on the higher side as the network expansion continues
Cost-income Ratio (%)	*39.5*	*37.4*		*39.7*		
Pre-Prov Profits	**460**	**325**	*41%*	**431**	*7%*	
Provisions & Contingencies	30	2	*1887%*	28	*5%*	Credit costs shot up sharply
PBT	**430**	**324**	*33%*	**402**	*7%*	
Exceptional (Reported)	0	0		0		
Provisions for Tax	139	108	*30%*	130	*7%*	
Effective Tax Rate (%)	*32.5*	*33.2*	*-2%*	*32.3*	*0%*	
PAT (reported)	**290**	**216**	*34%*	**272**	*7%*	**PAT above expectation supported by the strong growth in NII & Other income**
EPS Basic	8.2	6.2		7.7		
EPS Diluted	8.0	6.0		7.6		
BVPS	140.7	115.6		132.4		
Adj BVPS	140.7	115.6		132.4		
GNPA	109.5	56.0		83.9		
NNPA	23.7	2.7		17.5		
GNPA (%)	0.28	0.17		0.22		GNPA & NNPAs moved up with the growing Retail+SME portfolio
NNPA (%)	0.06	0.01		0.05		
Total CAR (%)	16.5	16.2		17.9		
Tier 1 (%)	9.2	9.6		9.9		
Tier 2 (%)	7.3	6.6		8.0		
NIM	2.8	2.8		2.8		NIM's remain unchanged owing to higher costs
Advances	38,533.9	33,104.2	*16%*	37,988.6	*1%*	Business growth came up due to low base effect; however, credit substitutes grew at a faster pace
Deposits	50,208.1	43,575.9	*15%*	49,151.7	*2%*	Weak incremental CASA and SA growth

Source: - Company, Arihant Research

Income Statement				
Year to 31st March (Rs.Cr)	**FY11**	**FY12**	**FY13E**	**FY14E**
Interest Income	4042	6307	7773	9378
- Interest from advances / bills	2989	4427	5081	6087
- Interest on investments	1027	1847	2659	3244
- Interest on balances	19	23	23	28
- Other interest	7	10	10	20
Interest Expenses	2795	4692	5569	6760
Net Interest Income	**1247**	**1616**	**2204**	**2618**
- growth %	*58*	*30*	*36*	*19*
Fee-based Income	458	600	811	1123
Treasury Income	102	183	238	314
Other Non-interest Income	63	75	88	105
Total Non-interest Income	623	858	1137	1542
Operating Income	**1870**	**2473**	**3341**	**4160**
- growth %	*36*	*32*	*35*	*25*
Operating Expenses	680	933	1262	1633
- Staff Cost	362	475	667	949
- Other Operating Exp.	317	457	595	684
Gross Profits	**1190**	**1541**	**2079**	**2527**
- growth %	*36*	*29*	*35*	*22*
Provisions	98	90	140	173
Profit Before Taxes	**1092**	**1450**	**1939**	**2355**
Taxes	365	473	688	836
Profit After Taxes	**727**	**977**	**1251**	**1519**
- growth %	*49*	*34*	*28*	*21*

Balance sheet				
As on 31st March (Rs. Cr)	**FY11**	**FY12**	**FY13E**	**FY14E**
LIABILITIES				
Capital	347	353	359	359
Reserves & Surplus	3447	4324	5368	6638
Deposits	45939	49152	56743	66680
- growth %	*71*	*7*	*15*	*18*
Borrowings	6691	14156	21235	23358
Other liabilities & provisions	2583	5677	7830	9712
TOTAL LIABILITIES	**59007**	**73662**	**91534**	**106747**
ASSETS				
Cash, Inter-bank, etc	3076	2333	2729	3384
Money at call and short notice	420	1253	681	800
Advances	34364	37989	44827	53344
- growth %	*55*	*11*	*18*	*19*
Investments	18829	27757	36315	40008
Fixed assets	132	177	336	572
Other assets	2186	4153	6646	8639
TOTAL ASSETS	**59,007**	**73,662**	**91,534**	**106,747**

Ratio Analysis				
	FY11	**FY12**	**FY13E**	**FY14E**
Basic Ratio (Rs.)				
EPS	20.3	27.1	35.4	43.0
Book Value per share	109.3	132.5	162.2	198.2
Adjusted Book Value	109.0	132.0	161.4	196.4
Dividend per share	2.5	4.0	5.0	6.0
Asset Quality (%)				
Gross NPAs	0.23	0.22	0.30	0.38
Net NPAs	0.03	0.05	0.07	0.12
NPA Coverage	87.0	77.3	77.4	68.3
Delinquency Ratio	0.1	0.2	0.3	0.3
Profitability ratios (%)				
RoAE	21.1	23.1	24.0	23.9
RoAA	1.5	1.5	1.5	1.5
NIM	2.7	2.6	2.9	2.9
Operating Profit Margin	63.7	62.3	62.2	60.7
Net Profit Margin	38.9	39.5	37.4	36.5
Cost to Income	36.3	37.7	37.8	39.3

	FY11	**FY12**	**FY13E**	**FY14E**
Spread analysis (%)	10.6	12.2	12.3	12.4
Yield on advances	7.1	7.9	8.3	8.5
Yield on investments	8.8	10.0	10.1	10.3
Yield on interest-earning assets	6.6	8.1	7.9	8.0
Cost of deposits	7.9	7.3	7.1	7.1
Cost of borrowings	6.6	8.1	7.9	8.0
Cost of funds	2.2	1.9	2.2	2.3
Spread	2.6	2.5	2.8	2.9
Net Interest Income to AWF	1.3	1.3	1.5	1.7
Non Interest Income to AWF	2.5	2.3	2.7	2.8
Operating Profit to AWF	1.5	1.5	1.6	1.7
Net Profit to AWF	10.6	12.2	12.3	12.4

Valuation ratios (x)				
P/E	16.4	12.5	9.8	8.1
P/BV	3.2	2.6	2.1	1.8
P/ABV	3.2	2.6	2.2	1.8

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Stock Rating Scale

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