

Yes Bank (YES IN)

Robust performance
OUTPERFORMER
Rs319
Mkt Cap: Rs108.5bn; US\$2.3bn

Q3FY12 result highlights

Quarterly performance: Yes Bank delivered net profit of Rs2.54bn in Q3FY12 – a 33% yoy growth – in-line with our estimates. The bank's performance in the quarter was marked by improvement in CASA ratio, traction in other income and sustenance of strong asset quality. While credit growth appeared to be moderate at 15% yoy, growth in customer assets (advances plus credit substitutes) came in at a robust 28% yoy during the quarter.

Key positives: Yes Bank's saving account balances increased by a robust 40% qoq and 99% yoy led by increase in rate offered by the bank (from 4% to 7%). As a result proportion of CASA deposits jumped to 12.6% from 11% in Q2FY12. Yes Bank's overall other income was healthy at Rs2.1bn – a robust 31% yoy rise. The impetus was led by financial advisory (up 51% yoy) and treasury sales (up 18% yoy and qoq).

Impact on financials

Yes Bank's performance in Q3FY12 was marked by healthy NII, robust other income and stable asset quality. We expect the lender's loan growth to pick up and come in at ~25% in FY13. We maintain our estimates and expect expanding distribution network, robust traction in CASA deposits, non-interest income and stable asset quality to drive a 33% CAGR in PAT over FY11-13E.

Valuations & view

Given the bias of its funding mix, Yes Bank will be a key beneficiary of a decline in wholesale borrowing costs and interest rates. We expect a decline in borrowing rates and strong earnings expansion to drive stock performance. The stock is currently trading at 1.9x FY13E adjusted P/BV. Reiterate Outperformer with 12 month target price of Rs440 (2.7x FY13E adjusted book).

Key financials (quarterly)

(Rs m)	Q3FY11	Q2FY12	Q3FY12	% ch qoq	% ch yoy	% var from est
NII	3,232	3,856	4,276	10.9	32.3	2.7
Non-intt income	1,617	2,141	2,114	(1.2)	30.8	(2.6)
Net revenue	4,848	5,997	6,390	6.6	31.8	0.9
Op expense	1,736	2,138	2,402	12.4	38.4	9.5
Operating profit	3,113	3,859	3,988	3.3	28.1	(3.6)
Provisions	250	379	224	(41.0)	(10.4)	(36.5)
PAT	1,911	2,350	2,541	8.1	32.9	0.5
Advances (Rs bn)	311	342	359	4.9	15.3	
Deposits (Rs bn)	395	441	469	6.5	18.9	

Key valuation metrics

YE 31 March	FY11	FY12E	FY13E
Net profit (Rs m)	7,271	9,750	12,784
<i>yoy growth</i>	52.2	34.1	31.1
Shares in issue (m)	347.1	347.1	347.1
EPS (Rs)	20.9	28.1	36.8
EPS growth (%)	48.9	34.1	31.1
PE (x)	15.2	11.4	8.7
Adj. Bk val (Rs/share)	109.7	133.3	165.3
P/ Adj. Book (x)	2.9	2.4	1.9
RONW (%)	21.1	23.2	24.7

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Quarterly results: Detailed

P&L (Rs m)	Q3FY11	Q2FY12	Q3FY12	FY11	FY12E	FY13E	Comments
Interest income	11,262	14,387	16,841	40,417	63,667	73,461	
Interest expense	8,030	10,530	12,565	27,948	47,259	51,978	
NII	3,232	3,856	4,276	12,469	16,408	21,483	In-line with expectations
yoy growth (%)	53.2	23.1	32.3	58.2	31.6	30.9	
Non-intt income	1,617	2,141	2,114	6,233	8,256	10,111	Traction in financial advisory and treasury sales
yoy growth (%)	26.5	63.4	30.8	8.3	32.5	22.5	
Net revenue	4,848	5,997	6,390	18,702	24,664	31,594	
Operating expense	1,736	2,138	2,402	6,798	8,945	11,081	Opex rises due to opening of 140 new branches in past 12 months
Operating profit	3,113	3,859	3,988	11,904	15,718	20,513	
Provisions	250	379	224	982	1,078	1,319	Robust asset quality; provisions at 0.1% of assets
yoy growth (%)	(1.7)	117.1	(10.4)	(28.2)	9.8	22.3	
PBT	2,863	3,481	3,765	10,922	14,640	19,195	
Tax	952	1,130	1,224	3,650	4,890	6,411	
PAT	1,911	2,350	2,541	7,271	9,750	12,784	1.5% RoA maintained
yoy growth (%)	51.8	33.3	32.9	52.2	34.1	31.1	
Ratios (%)							
NIM (reported)	2.80	2.90	2.80				10bp qoq NIM compression
NIM (calc)*	2.48	2.58	2.56	2.61	2.40	2.48	
Op exp/avg assets	1.3	1.4	1.4	1.4	1.3	1.3	
Cost/Net rev.	35.8	35.6	37.6	36.3	36.3	35.1	Cost ratios remain under control
Prov/avg assets	0.2	0.3	0.1	0.2	0.2	0.2	
Tax/PBT	33.2	32.5	32.5	33.4	33.4	33.4	
RoA	1.5	1.6	1.5	1.5	1.4	1.5	
RoE	21.3	22.6	23.2	21.1	23.2	24.7	Healthy RoE of 20%+
CRAR	18.2	16.0	16.1				
Tier-I CRAR	10.4	9.4	9.2				Tier I ratio including profits at 9.7%
CD ratio	78.9	77.6	76.4				
Balance sheet (Rs bn)							
Credit	311	342	359				Customer assets expand at 28% yoy
yoy change (%)	66.3	12.7	15.3				
Deposits	395	441	469				Traction in CASA ratio; rises to 12.6%
yoy change (%)	79.0	10.2	18.9				

Other Highlights

- **NII in line....slight qoq decline in margins:** NII grew by 32% yoy to Rs4.3bn in Q3FY12, in-line with our expectations. Growth in NII can be attributed to robust growth in customer assets (up 28% yoy; 7% qoq). At the same time, reported margins came off by 10bp qoq to 2.8%. Costs of funds inched up by 30bp qoq to 8.9%, overplaying the impact of 20bp qoq in yield on advances to 12.2%. Increase in cost of funds can be attributed to higher cost of saving deposits and increasing balance sheet leverage. (Exhibit 1)
- **Traction in saving deposits on higher interest rates:** Yes Bank's saving account balances increased by a robust 40% qoq and 99% yoy led by increase in rate offered by the bank (from 4% to 7%). As a result proportion of CASA deposits jumped to 12.6% from 11% in Q2FY12. The liability profile of the bank is well diversified with increasing traction in branch banking deposits (up from 13.2% in FY11 to 18.1% in Q3FY12). (Exhibit 2)
- **Asset growth remains healthy:** While advances growth was modest, the bank saw a sharp rise in credit substitutes (CPs and debentures) during the quarter. Including credit substitutes, credit growth stood at 28% yoy during the quarter. Advances grew by a lower 15% yoy to Rs359bn in Q3FY12. Within advances, growth was robust in SME loans (up 73% yoy and 7% qoq). The proportion of branch banking increased to 15.2% in total advances Q3FY12 from 10.1% in Q3FY11. (Exhibit 4)
- **Strong momentum in non-interest income:** Yes Bank's overall other income was healthy at Rs2.1bn – a robust 31% yoy rise. The impetus was led by financial advisory (up 51% yoy) and treasury sales (up 18% yoy and qoq). (Exhibit 3)
- **Stable asset quality:** Gross NPAs were flat qoq at 0.2% in Q3FY12 - increase of Rs32m in absolute terms. Net NPAs were negligible at 0.04% in Q3FY12. Coverage ratio (excluding write-offs) came in at 80% Q3FY12 as against 80.2% in Q2FY12. Restructured book was flat qoq at Rs1.75bn (0.49% of advances).(Exhibit 5)
- **Provisions under leash:** Yes Bank's provisions came in at Rs224m in Q3FY12 against Rs379m in Q2FY12 (0.1% of assets annualized). The bank has made specific provisions of ~Rs100m, general provisions of ~Rs200m and wrote back provisions of ~Rs120m during the quarter.
- **Operating expenses:** Operating costs increased by 38% yoy (12% qoq), led by 42% yoy increase in other operating expenses. The bank opened 20 new branches during the quarter, taking the total branch network to 325. Employee cost remained stable at Rs1.2bn (up 35% yoy) in Q3FY12.
- **Capital adequacy:** Yes Bank's Tier I ratio came in at 9.7% (including Q3FY12 profits). Overall CAR stood at a healthy 16.1% in Q3FY12.

Exhibit 1: Margins rise qoq

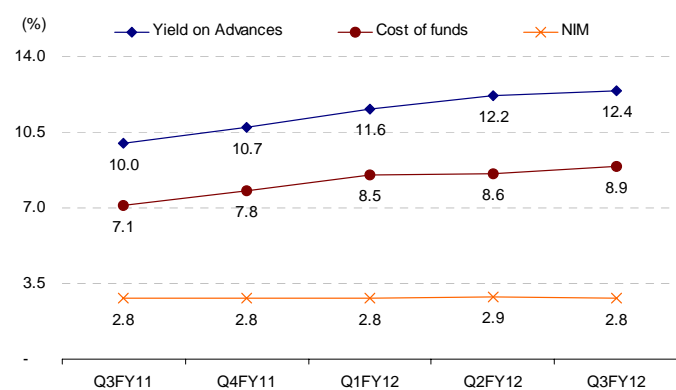


Exhibit 2: CASA ratio

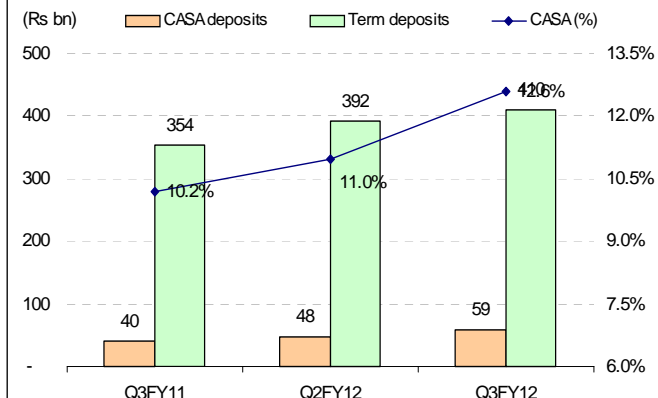


Exhibit 3: Other income break up (Rs m)

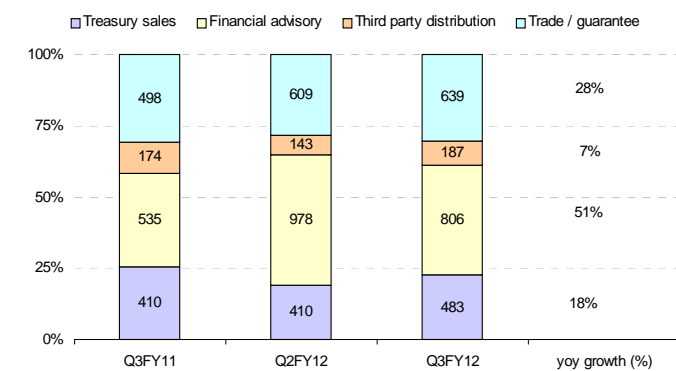


Exhibit 4: Composition of advances book (Rs bn)

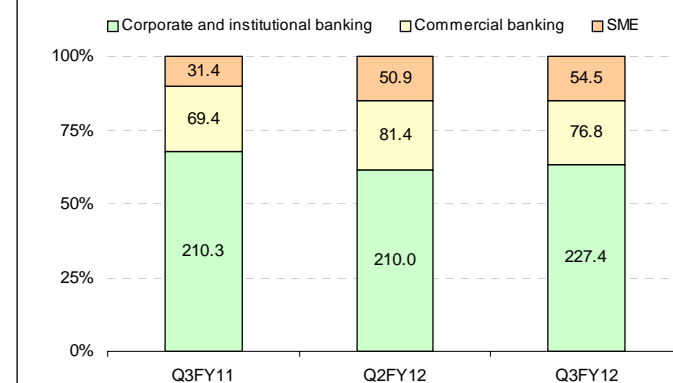


Exhibit 5: Asset quality

	Q3FY11	Q2FY12	Q3FY12	Incremental qoq (Rs mn/ bp)
Gross NPAs (Rs m)	728	688	721	32
Net NPAs (Rs m)	174	136	144	8
Gross NPAs (%)	0.23	0.20	0.20	-
Net NPAs (%)	0.06	0.04	0.04	-
Loan loss coverage (%)	76.1	80.2	80.0	(18)
Restructured loans(Rs m)	837	1,755	1,757	2
As a % of loans	0.27	0.51	0.49	(2)

Income statement

Year to 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Net interest income	7,880	12,469	16,408	21,483
<i>yoy growth (%)</i>	54.1	58.2	31.6	30.9
Other income	5,755	6,233	8,256	10,111
<i>yoy growth (%)</i>	32.3	8.3	32.5	22.5
Trading profits	986	(464)	1,629	1,873
Non trading income	4,769	6,696	6,627	8,238
Net revenue	13,635	18,702	24,664	31,594
<i>yoy growth (%)</i>	44.1	37.2	31.9	28.1
Operating expenses	5,002	6,798	8,945	11,081
<i>yoy growth (%)</i>	19.5	35.9	31.6	23.9
Operating profit	8,633	11,904	15,718	20,513
<i>yoy growth (%)</i>	63.6	37.9	32.0	30.5
Provisions	1,368	982	1,078	1,319
of which NPA provisions	876	393	247	598
PBT	7,265	10,922	14,640	19,195
<i>yoy growth (%)</i>	55.9	50.3	34.0	31.1
Provision for tax	2,487	3,650	4,890	6,411
PAT	4,777	7,271	9,750	12,784
<i>yoy growth (%)</i>	57.2	52.2	34.1	31.1

Balance sheet

As on 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Advances	221,931	343,636	398,618	498,273
<i>yoy growth (%)</i>	78.9	54.8	16.0	25.0
Customer assets	255,339	424,317	531,784	652,042
<i>yoy growth (%)</i>	72.1	66.2	25.3	22.6
SLR portfolio	67,865	107,473	167,403	207,303
Cash & bank balances	26,732	34,960	41,851	51,826
Total assets	363,825	590,070	774,740	954,953
Networth	30,895	37,941	46,228	57,094
Deposits	267,986	459,389	607,187	746,336
- Current %	9.1	8.6	10.0	10.5
- Savings %	1.5	1.8	3.0	4.5
- Term %	89.5	89.7	87.0	85.0
Borrowings	47,491	66,909	90,327	117,425

Key valuation metrics

Year to 31 Mar	FY10	FY11	FY12E	FY13E
Net profit (Rs mn)	4,777.4	7,271	9,750	12,784
<i>yoy growth</i>	57.2	52.2	34.1	31.1
Shares in issue (mn)	339.7	347.1	347.1	347.1
EPS (Rs)	14.1	20.9	28.1	36.8
EPS growth (%)	37.5	48.9	34.1	31.1
PE (x)	22.7	15.2	11.4	8.7
Adj. Book value (Rs/share)	91.1	109.7	133.3	165.3
P/ Adj. Book (x)	3.5	2.9	2.4	1.9
RONW (%)	20.3	21.1	23.2	24.7

Ratio analysis

Year to 31 Mar (%)	FY10	FY11	FY12E	FY13E
Net int. margin/avg assets	2.66	2.61	2.40	2.48
Non-fund rev./avg assets	1.94	1.31	1.21	1.17
Operating exp./avg assets	1.69	1.43	1.31	1.28
Cost/Income	36.68	36.35	36.27	35.07
Prov./avg customer assets	0.43	0.12	0.05	0.10
PBT/Average assets	2.45	2.29	2.15	2.22
RoA	1.61	1.52	1.43	1.48
RoE	20.27	21.13	23.17	24.74
Tax/PBT	34.24	33.42	33.40	33.40
Tier I Capital adequacy	12.85	9.70	8.92	8.50
Growth in customer assets	72.12	66.18	25.33	22.61
Growth in deposits	65.74	71.42	32.17	22.92
SLR ratio	23.4	21.8	24.0	24.0
CASA ratio	10.5	10.3	13.0	15.0

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