

**January 24, 2012**

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Rating	Accumulate
Price	Rs319
Target Price	Rs360
Implied Upside	12.9%
Sensex	16,996
Nifty	5,127

**(Prices as on January 24, 2012)**
**Trading data**

Market Cap. (Rs bn)	110.9
Shares o/s (m)	347.1
3M Avg. Daily value (Rs m)	890.1

**Major shareholders**

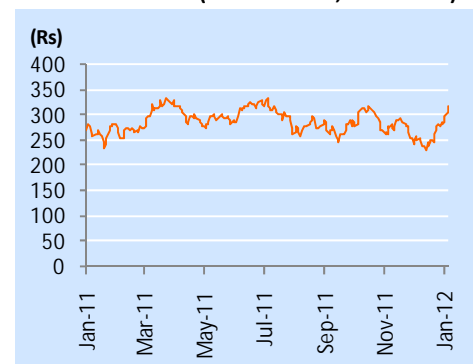
Promoters	26.21%
Foreign	44.48%
Domestic Inst.	15.42%
Public & Other	13.89%

**Stock Performance**

(%)	1M	6M	12M
Absolute	26.7	(2.9)	12.3
Relative	18.8	6.3	23.6

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	34.1	33.0	3.4
2014	43.8	42.0	4.2

**Price Performance (RIC: YESB.BO, BB: YES IN)**


Source: Bloomberg

**Yes Bank reported strong set of Q3FY12 numbers, with stable asset quality and robust fee income momentum. PAT at Rs2.54bn (+33% YoY) was in line with our estimates as lower credit costs more than offsets a marginal miss on margins. Yes Bank is a play on (1) falling rates, given high dependence on wholesale funds and (2) improving liability franchise and with asset quality holding up better-than-expected, we maintain our positive view on Yes bank, with a revised PT of Rs360/share (2.2x FY13 book).**

- Loan growth moderating; fee income holding up well:** Loan growth adjusted for credit equivalents is moderating, with Q3FY12 growth at ~27% YoY. However, management expects to maintain ~25-30% loan growth in FY13. Fee income has been holding up well with debt syndication, FX business and transaction banking reporting strong trends.
- Margins: Expect some pick up from here on:** Margins at 2.8% (down 10bps QoQ) was marginally lower than expectations, but given high dependence on wholesale funds, we expect favourable impact on NIMs in a falling rate environment. Also, saving de-regulation is playing out well for Yes Bank with ~Rs4.0bn SA accretion in 3Q12.
- Asset quality: No signs of stress yet:** Gross NPA trends remained largely stable, with credit costs at <25bps annualised. Yes Bank does not have exposure to cases referred to CDR currently and management sees manageable impact from potential near-term restructuring. Provisions for adverse labelling (downgrades in internal rating) also came off from Q2FY12 levels, indicating very stable trends in asset quality.
- Potential upsides/Catalysts:** (1) Our FY13 estimates factor in ~75bps credit costs v/s <25bps currently and that could be an area of positive surprise. (2) We factor in 2% SA annual accretion and better SA delivery would also be a significant stock catalyst.

Key financials ( Y/e March)	2011	2012E	2013E	2014E
Net interest income (Rs m)	12,469	16,076	20,934	26,998
Growth (%)	58.3	28.9	30.2	29.0
Operating profit (Rs m)	11,904	15,478	21,164	27,616
PAT (Rs m)	7,271	9,643	11,845	15,206
EPS (Rs)	20.9	27.8	34.1	43.8
Growth (%)	—	32.6	22.8	28.4
Net DPS (Rs)	2.5	3.3	4.3	5.3

Profitability & Valuation	2011	2012E	2013E	2014E
NIM (%)	2.61	2.46	2.61	2.64
RoAE (%)	21.1	22.9	23.1	24.2
RoAA (%)	1.52	1.48	1.47	1.48
P / BV (x)	2.9	2.4	2.0	1.6
P / ABV (x)	2.9	2.4	2.0	1.6
PE (x)	15.2	11.5	9.4	7.3
Net dividend yield (%)	0.8	1.0	1.4	1.7

Source: Company Data; PL Research

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**Exhibit 1: Strong overall performance**

	3Q11	2Q12	3Q12	YoY	QoQ
Interest income	11,262	14,387	16,841	49.5%	17.1%
Interest expenses	8,030	10,530	12,565	56.5%	19.3%
<b>Net interest income</b>	<b>3,232</b>	<b>3,856</b>	<b>4,276</b>	<b>32.3%</b>	<b>10.9%</b>
Other income	1,617	2,141	2,114	30.8%	-1.2%
Operating expenses	1,736	2,138	2,402	38.4%	12.4%
<b>Pre prov profit</b>	<b>3,113</b>	<b>3,859</b>	<b>3,988</b>	<b>28.1%</b>	<b>3.3%</b>
Provisions	250	379	224	-10.4%	-41.0%
Profit before tax	2,863	3,481	3,765	31.5%	8.2%
Provision for tax	952	1,130	1,224	28.6%	8.3%
<b>Profit after tax</b>	<b>1,911</b>	<b>2,350</b>	<b>2,541</b>	<b>32.9%</b>	<b>8.1%</b>
<b>NIM</b>	<b>2.8%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>0.0%</b>	<b>-0.1%</b>
NII/GII	28.7%	26.8%	25.4%	-3.3%	-1.4%
Cost to Income	35.8%	35.6%	37.6%	1.8%	1.9%
Provisions/PPOP	8.0%	9.8%	5.6%	-2.4%	-4.2%
Tax rate	33.2%	32.5%	32.5%	-0.7%	0.0%
<b>Balance sheet data</b>					
Advances	311,122	341,941	358,678	15.3%	4.9%
Advances (incl. Credit subs)	341,566	407,600	437,546	28.1%	7.3%
Deposits	394,528	440,759	469,291	18.9%	6.5%
Credit to Deposit	78.9%	77.6%	76.4%	-2.4%	-1.2%
CASA Ratio	10.2%	11.0%	12.6%	2.4%	1.6%
<b>Asset Quality</b>					
Gross NPA	728	688	721	-1.1%	4.7%
Net NPA	174	136	144	-17.1%	5.6%
Gross NPA (%)	0.23%	0.20%	0.20%	0.0%	0.0%
Net NPA (%)	0.06%	0.04%	0.04%	0.0%	0.0%
LLP/Loans	0.32%	0.45%	0.26%	-0.1%	-0.2%
<b>Total Fee income</b>	<b>1,617</b>	<b>2,296</b>	<b>2,115</b>	<b>30.8%</b>	<b>-7.9%</b>
Financial markets	410	410	483	17.8%	17.8%
Financial advisory	535	978	806	50.7%	-17.6%
Transactional banking	498	609	639	28.3%	4.9%
Third-party and retail fees	174	299	187	7.5%	-37.5%

*PAT in line with estimates, with lower credit costs offsetting a small PPOP miss*

*NIMs came off by ~10bps QoQ. Uptick in wholesale borrowing costs in December 2011 could have an impact on cost of funds. We expect positive impact on margins in a falling rate environment*

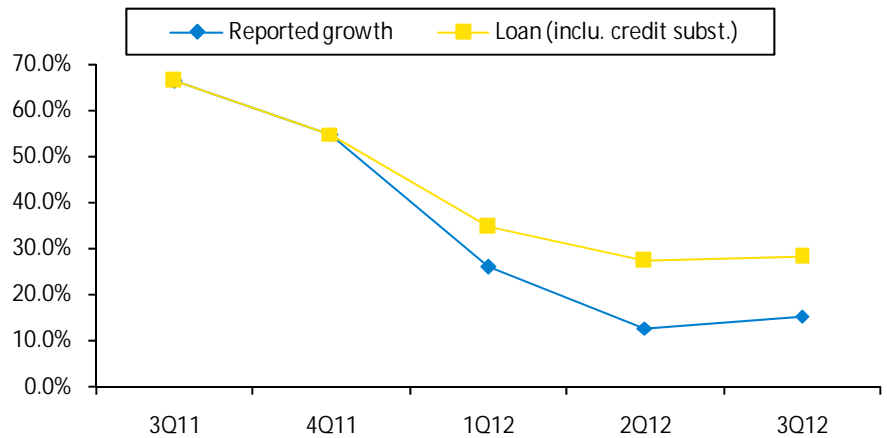
*Loan growth adjusted for credit equivalents at ~28% YoY*

*With continuing strong asset quality, the credit costs remain low*

*Strong debt syndication and transaction banking is aiding ~30% YoY fee income growth*

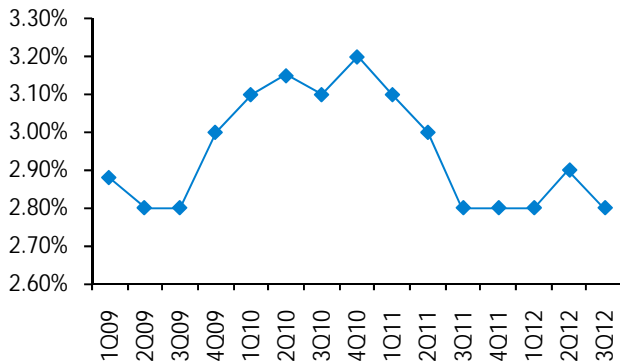
Source: Company Data, PL Research

**Exhibit 2: Loan growth reasonable adjusted for credit substitutes**



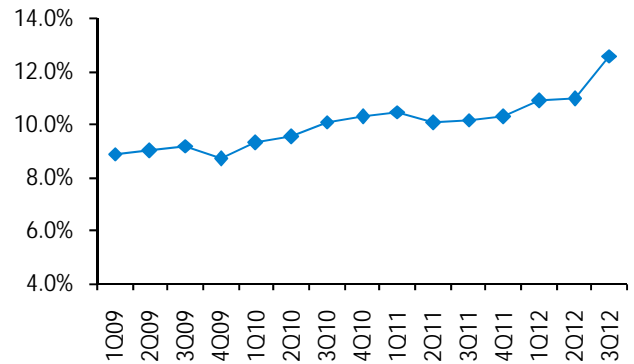
Source: Company Data, PL Research

**Exhibit 3: Margins, we believe, have bottomed out at 2.8%**



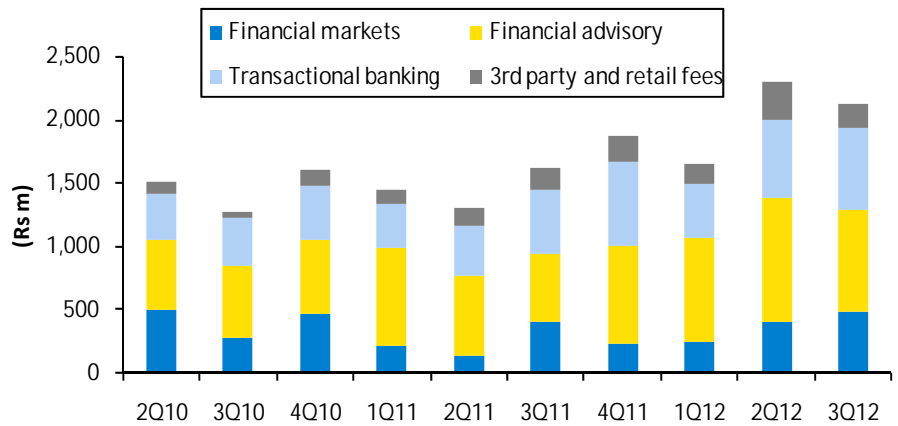
Source: Company Data, PL Research

**Exhibit 4: CASA gets a shot from increase in savings rates**

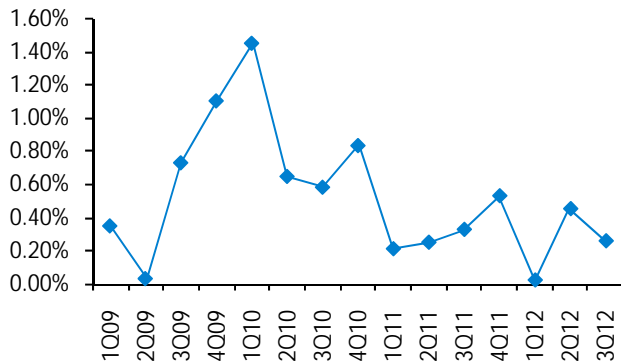


Source: Company Data, PL Research

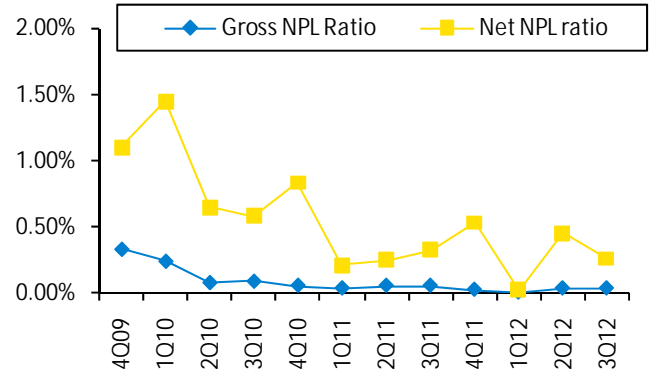
**Exhibit 5: Fee income growth holding up >30% YoY**



Source: Company Data, PL Research

**Exhibit 6: Credit costs continue to surprise**


Source: Company Data, PL Research

**Exhibit 7: ...with asset quality continuing to remain robust**


Source: Company Data, PL Research

**Exhibit 8: ROEs remain one of the best in the industry**

ROE Tree	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
<b>Net Interest Income/Assets</b>	<b>2.96%</b>	<b>2.69%</b>	<b>2.70%</b>	<b>2.48%</b>	<b>2.51%</b>	<b>2.44%</b>	<b>2.58%</b>	<b>2.56%</b>
Fees/Assets	1.94%	1.49%	1.13%	1.24%	1.34%	1.14%	1.43%	1.26%
Investment profits/Assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Net revenues/Assets</b>	<b>4.90%</b>	<b>4.18%</b>	<b>3.83%</b>	<b>3.73%</b>	<b>3.85%</b>	<b>3.58%</b>	<b>4.01%</b>	<b>3.82%</b>
<b>Operating Expense/Assets</b>	<b>-1.78%</b>	<b>-1.62%</b>	<b>-1.40%</b>	<b>-1.33%</b>	<b>-1.34%</b>	<b>-1.34%</b>	<b>-1.43%</b>	<b>-1.44%</b>
Provisions/Assets	-0.52%	-0.13%	-0.15%	-0.19%	-0.31%	-0.01%	-0.25%	-0.13%
Taxes/Assets	-0.91%	-0.83%	-0.76%	-0.73%	-0.73%	-0.74%	-0.76%	-0.73%
Total Costs/Assets	-3.20%	-2.58%	-2.31%	-2.26%	-2.39%	-2.09%	-2.44%	-2.30%
<b>ROA</b>	<b>1.70%</b>	<b>1.60%</b>	<b>1.52%</b>	<b>1.47%</b>	<b>1.46%</b>	<b>1.49%</b>	<b>1.57%</b>	<b>1.52%</b>
Equity/Assets	7.7%	8.2%	7.3%	6.9%	6.7%	6.7%	6.9%	6.6%
<b>ROE</b>	<b>22.1%</b>	<b>19.4%</b>	<b>20.9%</b>	<b>21.3%</b>	<b>21.7%</b>	<b>22.1%</b>	<b>22.6%</b>	<b>23.0%</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Int. Earned from Adv.	29,891	44,864	54,006	68,430
Int. Earned from Inv.	10,273	18,213	22,714	27,664
Others	253	253	329	346
Total Interest Income	40,417	63,330	77,049	96,440
Interest expense	27,948	47,254	56,114	69,443
<b>NII</b>	<b>12,469</b>	<b>16,076</b>	<b>20,934</b>	<b>26,998</b>
<i>Growth (%)</i>	<i>58.3</i>	<i>28.9</i>	<i>30.2</i>	<i>29.0</i>
Treasury Income	(464)	—	1,000	1,300
NTNII	6,696	8,416	11,312	15,397
Non Interest Income	6,233	8,416	12,312	16,697
Total Income	46,650	71,746	89,361	113,137
<i>Growth (%)</i>	<i>58.4</i>	<i>53.8</i>	<i>24.6</i>	<i>26.6</i>
Operating Expense	6,798	9,014	12,082	16,079
<b>Operating Profit</b>	<b>11,904</b>	<b>15,478</b>	<b>21,164</b>	<b>27,616</b>
<i>Growth (%)</i>	<i>37.9</i>	<i>30.0</i>	<i>36.7</i>	<i>30.5</i>
NPA Provisions	914	994	3,373	4,776
Investment Provisions	(72)	—	—	—
Total Provisions	982	994	3,373	4,776
<b>PBT</b>	<b>10,922</b>	<b>14,484</b>	<b>17,792</b>	<b>22,840</b>
Tax Provisions	3,650	4,841	5,947	7,634
<i>Effective Tax Rate (%)</i>	<i>33.4</i>	<i>33.4</i>	<i>33.4</i>	<i>33.4</i>
<b>PAT</b>	<b>7,271</b>	<b>9,643</b>	<b>11,845</b>	<b>15,206</b>
<i>Growth (%)</i>	<i>52.2</i>	<i>32.6</i>	<i>22.8</i>	<i>28.4</i>

**Balance Sheet (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	347	347	347	347
Equity	3,471	3,471	3,471	3,471
Networth	37,941	46,237	56,329	69,376
Adj. Networth	37,849	46,075	55,966	68,718
Deposits	459,389	531,402	673,388	891,493
<i>Growth (%)</i>	<i>71.4</i>	<i>15.7</i>	<i>26.7</i>	<i>32.4</i>
Low Cost deposits	47,509	63,768	101,008	151,554
<i>% of total deposits</i>	<i>10.3</i>	<i>12.0</i>	<i>15.0</i>	<i>17.0</i>
<b>Total Liabilities</b>	<b>590,070</b>	<b>714,904</b>	<b>891,438</b>	<b>1,156,643</b>
Net Advances	343,636	391,745	493,599	656,487
<i>Growth (%)</i>	<i>54.8</i>	<i>14.0</i>	<i>26.0</i>	<i>33.0</i>
Investments	188,288	251,204	307,604	382,289
<b>Total Assets</b>	<b>590,070</b>	<b>714,904</b>	<b>891,438</b>	<b>1,156,643</b>

Source: Company Data, PL Research.

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Interest Income	12,226	13,996	14,387	16,841
Interest Expense	8,741	10,454	10,530	12,565
<b>Net Interest Income</b>	<b>3,485</b>	<b>3,542</b>	<b>3,856</b>	<b>4,276</b>
Non Interest Income	1,868	1,653	2,141	2,114
CEB	—	—	—	—
Treasury	—	—	—	—
<b>Net Total Income</b>	<b>5,353</b>	<b>5,195</b>	<b>5,997</b>	<b>6,390</b>
Operating Expenses	1,865	1,944	2,138	2,402
Employee Expenses	1,030	1,098	1,100	1,217
Other Expenses	835	846	1,038	1,185
<b>Operating Profit</b>	<b>3,488</b>	<b>3,251</b>	<b>3,859</b>	<b>3,988</b>
Core Operating Profit	3,488	3,251	3,859	3,988
Provisions	433	15	379	224
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
<b>Profit before tax</b>	<b>3,055</b>	<b>3,236</b>	<b>3,481</b>	<b>3,765</b>
Tax	1,021	1,075	1,130	1,224
<b>PAT before EO</b>	<b>2,034</b>	<b>2,161</b>	<b>2,350</b>	<b>2,541</b>
Extraordinary item	—	—	—	—
<b>PAT</b>	<b>2,034</b>	<b>2,161</b>	<b>2,350</b>	<b>2,541</b>

**Key Ratios**

Y/e March	2011	2012E	2013E	2014E
CMP (Rs)	319	319	319	319
Equity Shrs. Os. (m)	347	347	347	347
Market Cap (Rs m)	110,879	110,879	110,879	110,879
<i>M/Cap to AUM (%)</i>	<i>18.8</i>	<i>15.5</i>	<i>12.4</i>	<i>9.6</i>
EPS (Rs)	20.9	27.8	34.1	43.8
Book Value (Rs)	109	133	162	200
Adj. BV (75%) (Rs)	109	133	162	200
P/E (x)	15.2	11.5	9.4	7.3
P/BV (x)	2.9	2.4	2.0	1.6
P/ABV (x)	2.9	2.4	2.0	1.6
DPS (Rs)	2.5	3.3	4.3	5.3
<i>Dividend Yield (%)</i>	<i>0.8</i>	<i>1.0</i>	<i>1.4</i>	<i>1.7</i>

**Profitability (%)**

Y/e March	2011	2012E	2013E	2014E
NIM	2.6	2.5	2.6	2.6
RoAA	1.5	1.5	1.5	1.5
RoAE	21.1	22.9	23.1	24.2

**Efficiency**

Y/e March	2011	2012E	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>36.3</i>	<i>36.8</i>	<i>36.3</i>	<i>36.8</i>
<i>C-D Ratio (%)</i>	<i>74.8</i>	<i>73.7</i>	<i>73.3</i>	<i>73.6</i>
Business per Emp. (Rs m)	206	206	226	261
Profit per Emp. (Rs m)	19	22	23	26
Business per Branch (Rs m)	3,752	3,751	4,123	4,756
Profit per Branch (Rs m)	34	39	42	47

**Asset Quality**

Y/e March	2011	2012E	2013E	2014E
Gross NPAs (Rs m)	805	1,425	3,194	5,775
Net NPAs (Rs m)	92	162	364	658
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>0.2</i>	<i>0.4</i>	<i>0.6</i>	<i>0.9</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>—</i>	<i>—</i>	<i>0.1</i>	<i>0.1</i>
<i>NPA Coverage (%)</i>	<i>88.6</i>	<i>88.6</i>	<i>88.6</i>	<i>88.6</i>

Source: Company Data, PL Research.

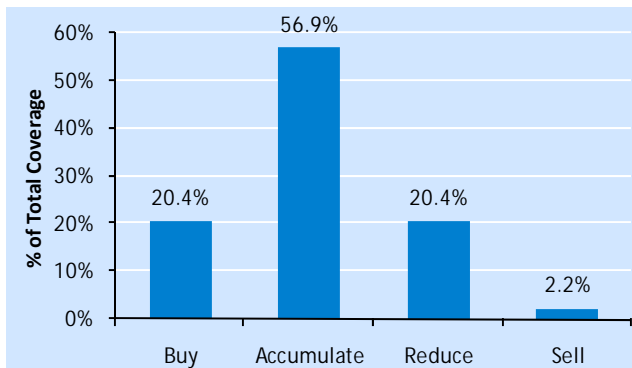


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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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