

3Q/F12 result review

BUY

Current price	Rs	319
Target price	Rs	390
Upside/(downside)	%	22
Earning estimate		Unchanged

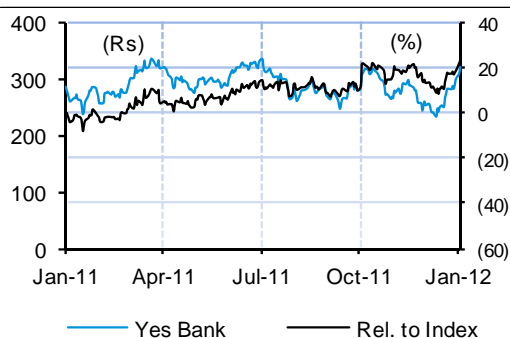
Market data

Mkt capitalisation	Rs bn	112.4
Average daily vol	'000	4762.4
52-week h/w	Rs	341.3 / 230.5
Shares O/S	mn	351.9
Free float	mn	259.7
Promotor holding	%	26.2
Foreign holding	%	44.5
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	8.8	0.6	(9.0)	(10.7)
Stock (abs)	26.7	13.4	(2.9)	12.3
Relative to Index	18.0	12.8	6.0	23.1

Performance



Source: Bloomberg, SSL

Core earnings in line, business muted, but credit substitutes push balance sheet growth

Yes Bank's reported 3QF12 core income - NII and net income in line with SSLe Rs4,201mn and Rs6,291mn, respectively. However, lower-than-expected operating expenses (-3.5%) and non-tax provisions (-22.9%) pushed net profit to Rs2,541mn, 8.8% above SSLe of Rs2,335mn. Business growth returned to positive trajectory though at 3.1% YTD, it is significantly below system growth rate. Overall, movement on earnings remained strong and appears on course to touch SSLe F12 net profit. Reiterate **BUY** with a target price Rs390, an upside of 22.6% from the current levels.

Credit substitutes drive asset growth, CASA improves 160bps QoQ: Yes Bank cited borrowers' preference for credit substitutes over term loan facilities, owing to high interest rates as reasons driving growth in customer assets in investment book. Customer asset growth appears muted in loan book (4.4% YTD), while investments have grown 38.6% YTD. On the liability side, CASA generated meaningful traction, driven by aggressive new customer acquisition. The CASA share expanded 160bps QoQ. While there are challenges on credit growth, the already expanded balance sheet through credit substitutes should support earnings growth going forward.

Loan yields expand 30bps, halt NIM decline to 10bps QoQ, fees robust: Yes Bank realised the full benefit of base rate hike in 3QF12 – loan yields expanded 30bps QoQ, helping it contain NIM decline to 10bps QoQ. NIM was 2.8% in 3QF12 compared to 2.9% in 2QF12. Overall fees, though marginally lower than 2QF12, were still robust at Rs2,115mn, up 30.8% YoY.

Asset quality holding up well: GNPA's grew 4.7% QoQ to Rs720.6mn. However, it remains well covered with a PCR of 80%. In proportion terms, GNPA's was 0.2% and NNPA's was 0.04%. The management did not comment on the extent of a probable stress, citing dynamic operating environment, it felt the overall macroeconomic scenario warrants the need to remain cautious. We believe Yes Bank is adequately positioned on earnings to handle emerging stress on asset quality.

Valuation: Yes Bank trades at 8.6x and 1.8x F13 SSLe EPS and ABV, respectively. Reiterate a **BUY** rating with a TP of Rs390 or 2.25x F13e ABV of Rs172.9.

Financial summary

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Net interest income	7,880	12,469	15,967	22,769
Operating profit	8,633	11,904	14,953	20,468
PAT	4,777	7,271	9,243	12,649
EPS (Rs)	14.1	20.9	27.2	37.2
BV (Rs)	91.0	109.3	139.5	175.0
P/BV (x)	2.7	2.3	1.8	1.4
Dividend yield (%)	0.6	1.0	0.6	0.6
RoE (%)	20.3	21.1	21.5	23.7
RoAA (%)	1.6	1.5	1.4	1.4

Source: SSLe

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Quarterly Results

	Y/E March (Rs mn)	3Q/F12	3Q/F11	YoY (%)	2Q/F12	QoQ (%)	3Q/F12e	Var. (%)
	Interest earned	16,841	11,262	49.5	14,387	17.1	16,237	3.7
Earnings growth from customer assets is better reflected in investments than advances	Interest on advances	11,726	8,178	43.4	10,318	13.7	12,070	-2.8
	Income from investment	5,060	2,993	69.0	3,981	27.1	4,131	22.5
	Int. on bal. with RBI/oth.	49	70	-30.6	41	17.6	0	0.0
	Other interest income	6	21	-72.2	47	-87.8	37	-84.4
NII in-line with expectations	Net interest income	4,276	3,232	32.3	3,856	10.9	4,201	1.8
	Other income	2,114	1,617	30.8	2,140	-1.2	2,090	1.2
Operating income also close to our estimates	Operating income	6,390	4,848	31.8	5,996	6.6	6,291	1.6
Opex lower than estimates	Operating expenses	2,402	1,736	38.4	2,138	12.4	2,489	-3.5
	Staff expenses	1,217	903	34.7	1,100	10.7	1,286	-5.4
	Operating profit	3,988	3,113	28.1	3,859	3.4	3,801	4.9
Healthy asset quality kept provisions low	Non-tax provisions	224	250	-10.4	379	-41.0	290	-22.9
	Profit before tax	3,765	2,863	31.5	3,480	8.2	3,512	7.2
	Taxes	1,224	952	28.6	1,130	8.3	1,176	4.0
	Tax rate (%)	32.5	33.2	-	32.5	-	33.5	-
Net profit beat expectations; lower opex, prov key differentiating factors	Profit after tax	2,541	1,911	32.9	2,350	8.1	2,335	8.8
	Extraordinary income	0	0	0.0	0	0.0	0	0.0
	Profit after tax	2,541	1,911	32.9	2,350	8.1	2,335	8.8

Source: SSLe

	(Rs mn)							
Other income composition (Rs mn)	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12	QoQ (%)	YoY (%)	Comp.
Transaction Banking	498	654	420	609	639	4.9	28.3	30.2
Financial Markets	410	241	248	410	483	17.8	17.8	22.8
Financial Advisory	535	772	828	978	806	(17.6)	50.7	38.1
Retail fees and others	174	201	157	143	187	30.8	7.5	8.8
Total	1,617	1,868	1,653	2,140	2,115	(1.2)	30.8	100.0

Source: Company, SSL

Deposit composition	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12	QoQ (%)	YoY (%)	Comp.
CASA	40,242	47,317	47,468	48,483	59,131	22.0	46.9	12.6
CD's	50,105	50,073	58,356	54,213	53,968	(0.5)	7.7	11.5
FD - Business banking (SME)	0	0	0	0	0	0.0	0.0	0.0
FD - Commercial banking	31,562	34,454	38,759	36,583	29,096	(20.5)	(7.8)	6.2
FD - Govt. backed institutions	39,847	55,586	47,033	47,161	53,499	13.4	34.3	11.4
FD - Retail	53,261	60,639	70,985	77,574	84,942	9.5	59.5	18.1
FD - Wholesale banking	155,050	181,459	149,808	151,180	158,151	4.6	2.0	33.7
Institutional deposits	24,461	29,860	23,081	25,564	30,504	19.3	24.7	6.5
Total fees	394,528	459,389	435,489	440,759	469,291	6.5	18.9	100.0

Source: Company, SSL

Sectoral loan composition	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12	QoQ (%)	YoY (%)	Comp.
Branch banking	31,423	41,236	41,049	50,949	54,519	7.0	73.5	15.2
Commercial banking	69,380	78,693	80,774	81,382	76,757	(5.7)	10.6	21.4
Corporate and instt. banking	210,318	223,707	209,219	209,610	227,402	8.5	8.1	63.4
PSL	0	0	0	0	0	0.0	0.0	0.0
Residual	0	0	0	0	0	0.0	0.0	0.0
	311,122	343,636	331,042	341,941	358,678	4.9	15.3	100.0

Sectoral loan composition	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12	QoQ (%)	YoY (%)	Comp.
Food and agri-business	56,313	68,040	65,546	61,549	46,628	(24.2)	(17.2)	13.0
Infrastructure and logistics	70,625	64,260	61,905	73,175	18,293	(75.0)	(74.1)	5.1
Engineering	67,513	64,604	62,236	46,846	11,836	(74.7)	(82.5)	3.3
Healthcare	14,934	0	0	0	0	0.0	(100.0)	0.0
TMT	44,802	33,333	32,111	21,542	17,575	(18.4)	(60.8)	4.9
Others (residual)	56,935	113,400	109,244	138,828	264,346	90.4	364.3	73.7
	311,122	343,636	331,042	341,941	358,678	4.9	15.3	100.0

Source: Company, SSL

Yield and cost ratios (calculated) (%)	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12	QoQ (%)	YoY (%)
Average yield on advances	10.64	10.85	12.17	12.27	13.39	1.12	2.75
Average yield on investments	8.07	7.68	8.02	8.17	8.52	0.35	0.45
Yield on funds	8.66	8.79	9.65	9.61	10.06	0.45	1.41
Cost of funds	6.17	6.29	7.21	7.04	7.51	0.47	1.33
Spread	2.48	2.51	2.44	2.58	2.56	(0.02)	0.07

Source: Company, SSL

Asset quality	3Q/F11	4Q/F11	1Q/F12	2Q/F12	3Q/F12
GNPA's (Rs mn)	728	805	560	688.3	720.6
Opening	677	728	805	559.6	688.3
Additions	51	77	-	128.7	32.3
Reductions	-	-	(246)	-	-
NNPA's (Rs mn)	174	92	27	136.4	144.1
GNPA's (%)	0.2	0.2	0.2	0.2	0.2
NNPA's (%)	0.1	0.0	0.0	0.0	0.0
NPL coverage (%)	76.1	88.6	95.2	80.2	80.0

Source: Company, SSL

Financials

Income statement

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Interest earned	23,697	40,417	63,105	87,816
Interest expended	15,818	27,948	47,137	65,047
Net interest income	7,880	12,469	15,967	22,769
Growth (%)	54.7	58.2	28.1	42.6
Other income	5,755	6,233	8,038	9,746
Fee-based income	3,791	5,870	6,671	8,291
Forex income	441	686	463	486
Treasury income	986	(464)	247	247
Other miscellaneous income	537	141	657	722
Operating income	13,635	18,702	24,005	32,515
Growth (%)	44.1	37.2	28.4	35.4
Operating expenses	5,002	6,798	9,052	12,047
Staff cost	2,569	3,623	4,676	6,232
Other operating expense	2,130	2,826	3,948	5,294
Depreciation	303	348	428	521
Pre-provision profits	8,633	11,904	14,953	20,468
Growth (%)	63.6	37.9	25.6	36.9
Provisions	1,368	982	1,054	1,447
Profit before taxes	7,265	10,922	13,900	19,021
Taxes	2,487	3,650	4,656	6,372
Tax rate (%)	34.2	33.4	33.5	33.5
Profit after taxes	4,777	7,271	9,243	12,649
Growth (%)	57.2	52.2	27.1	36.8

Balance sheet

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
LIABILITIES				
Capital	3,397	3,471	3,397	3,397
Reserves & surplus	27,499	34,469	43,992	56,055
Deposits	267,986	459,389	622,556	866,687
Borrowings	47,491	66,909	68,605	66,095
Other liabilities & provisions	17,453	25,831	29,156	33,469
Total liabilities	363,825	590,070	767,706	1,025,703
ASSETS				
Cash on hand & with RBI	19,953	30,760	52,394	72,346
Money at call and short notice	6,779	4,200	4,200	6,710
Advances	221,931	343,636	462,481	624,066
Investments	102,099	188,288	230,215	299,150
Fixed assets	1,155	1,324	1,347	1,488
Other assets	11,907	21,861	17,068	21,943
Total assets	363,825	590,070	767,706	1,025,703

Source: SSLe

Ratios

Y/E March (Rs mn)	F 10	F 11	F 12e	F 13e
Per share data (Rs)				
EPS	14.1	20.9	27.2	37.2
Book value per share	91.0	109.3	139.5	175.0
Adjusted book value	90.6	109.0	138.2	172.9
Dividend per share	1.5	2.5	1.5	1.5
Asset quality (%)				
Gross NPAs	0.3	0.2	0.4	0.5
Net NPAs	0.1	0.0	0.1	0.1
NPA coverage	78.4	88.6	76.1	75.7
NNPA/network (%)	0.4	0.2	1.0	1.2
Profitability ratios (%)				
RoE	20.3	21.1	21.5	23.7
RoA	1.6	1.5	1.4	1.4
NIM	2.8	2.7	2.4	2.6
Operating profit margin	29.3	25.5	21.0	21.0
Net profit margin	16.2	15.6	13.0	13.0
C/I ratio	36.7	36.3	37.7	37.1
C/I (excl. treasury gains)	39.5	35.5	38.1	37.3

Earning ratios

Y/E March	F 10	F 11	F 12e	F 13e
Yield on advances	10.2	10.6	11.6	12.2
Yield on investments	6.8	7.1	7.8	8.0
Yield on IEA	8.4	8.8	9.5	10.0
Cost of deposits	5.8	6.3	7.7	8.0
Cost of IBL	6.2	6.6	7.7	8.0
Spread	2.2	2.2	1.8	2.0

Valuations

Y/E March	F 10	F 11	F 12e	F 13e
P/E	22.7	15.2	11.7	8.6
P/BV	3.5	2.9	2.3	1.8
P/ABV	3.5	2.9	2.3	1.8
Dividend yield (%)	0.5	0.8	0.5	0.5

Capital adequacy ratios

Y/E March	F 10	F 11	F 12e	F 13e
Tier-I (%)	12.9	9.7	9.7	8.4
Tier-II (%)	7.7	6.8	5.6	3.8
Total (%)	20.6	16.5	15.3	12.2
Leverage (Asset/NW) (x)	11.8	15.6	16.2	17.3

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Key to investment Ratings

Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2=ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)

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