

Steady progress

CMP:	Rs.361
Target Price:	Rs.391
Upside/(Downside) %	8%
Recommendation:	HOLD

Stock Info

BSE Group	A
BSE Code	532648
NSE Symbol	YESBANK
Bloomberg	YES IN
Reuters	YESB.BO
BSE Sensex	17521.1
NSE Nifty	1580.7

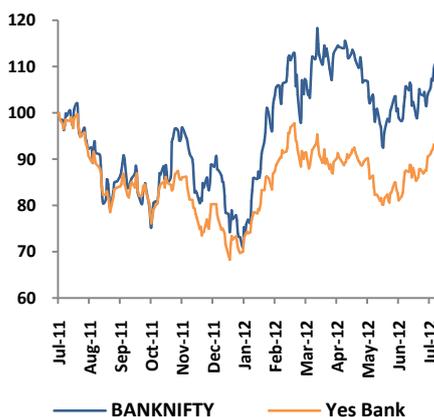
Market Info

Market Capital	12760.2cr
Equity Capital	353.9cr
Avg. Trading Vol. (NSE Qtly)	2732258
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	15.3
Govt. Holdings	-

Financials	FY12	FY13E	FY14E
PAT (Rs in Cr)	977	1248	1512
EPS (in Rs)	27.1	35.4	42.9
PE (x)	12.9	10.2	8.4
PABV (x)	2.7	2.2	1.8



July 9, 2012

We met the Management of YES Bank to gain insights into the latest developments of the bank and to capture the business perspective. Following are the key takeaways from the Meet.

- YES bank is well on track w.r.t. progress on the set Version 2 goals. The bank plans to open 900 branches and 2000 ATMs by 2015. However, the bank consciously plans to slowdown on ATM network expansion; given the small size and the lower customer to ATM ratio.
- The bank expects the first half of the current year to remain lull and the bank would witness substantial business uptick in second half. The bank is poised to record above industry levels business growth for the current fiscal.
- While the loan book would observe above industry average growth, credit substitutes would continue to enhance the growth in total customer assets.
- The loan mix to remain steady for the current year, and the target mix by FY15 stands as 40% large corporate book, 30% mid-corporate and 30% retail + SME. The bank continues to focus on retail and SME loan segment to derive higher yields and enhance the retail franchise in conjunction with liability franchise.
- CASA deposit mobilization continues to be the prime agenda for the bank. The momentum in SA deposits surge witnessed post SA deregulation would remain sustainable aided by cross-selling strategy (for instance: sale of retail assets to corporate customers) and increasing salary and corporate accounts, backed by growing branch network.
- The bank does fall short on PSL target particularly on the weaker-sections front, and would also fail to meet up the same in the current fiscal particularly due to stringent guidelines from the Regulator. We expect the PSL target to be fulfilled by FY14.
- The bank expects to report flat margins for the current fiscal at 3% levels, while targets 3.5% levels by FY15.
- Historically, robust fee income remains a sweet spot for the bank and it would sustain. The bank would endeavour to report fee income at 35-40% of total income by FY15 and is well on track.
- The bank is confident of maintaining stable asset quality for the current year. The credit costs would stand 30-40 bps higher from current levels on prudent grounds. The bank's exposure (Rs 60 crs) to Kingfisher Airlines and jet Airways stands collateralised and the telecom exposure remains to old 2G players and hence the restructured book is no worry.
- At this juncture, the bank is well capitalized, but plans to raise capital towards the year end in the form of GDR+QIP. However, the bank is confident of maintain the RoEs and RoAs underpinned by strong earnings and healthy book quality.

We maintain HOLD rating on the stock; valuing the bank at 2X P/ABV FY14E with a Target Price of Rs 391. We believe the current valuations price in the earnings visibility and further rerating prospects is contingent upon considerable build up of CASA base and high yielding loan book translating into sustainable quality earnings. 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.

Annual Report Analysis

Table 1:- Product Bouquet

Product suite – diversified products under the umbrella of Branch banking segment			
	Branch Banking Individual/Non-Individual	Business Banking	Retail Banking
CORE PRODUCTS	1.Savings Accounts (with multiple variants)	1. Term Loans	1.Car Loans
	2. Current Accounts (with multiple variants)	2. Working Capital	2. Commercial Vehicle Loans
	3. No-frills Accounts	• Overdraft	3. Inventory Finance
	4. Non-Resident Accounts (with multiple variants)	• Order Invoice/Financing	4. Home Loans
	5. Fixed Deposits (for various tenors)	• Supply Chain Finance	5. Education Loans
	6. Tax Efficient Fixed Deposits	3. Account Services	6. Personal Loans
	7. Smart Saver Accounts:	• Operating Accounts	7. Salary Overdraft
	A unique proposition, which combines the high returns of a Fixed Deposit with complete liquidity of a Savings Account	• FCY Accounts	8. Loan Against Property (LAP)
	8. Smart Salary Accounts:	4. Financial Markets	9. Loan Against Shares (LAS)
	An innovative Corporate Salary Programme, backed by superior technology that enables convenience and direct access	5. Corporate Finance	
	9. Capital Market Services	6. Transaction Banking	
	10. Premium Banking & Wealth Management	7. Trade Finance	
	11. Structured Products & Wealth Advisory for Non-Resident Indians		
	12. Social Deposit Account (SDA)		
13. Prepaid Cards/Gift Cards			
CROSS SELL PRODUCTS	1.Transaction Banking Services		YES SWARN
	• Cash Management Services		• Investment in Gold through bars in sizes of 10g, 20g and 50g
	• Trade Services		• Provides an International Certification of 99.99% purity (24K)
	• Trade Finance		
	• Direct Banking		
	2. Wealth Management Services		
	• Life and General Insurance		
	• Mutual Funds/ Portfolio Management Services		
• Demat Accounts			

Source: - Company, Arihant Research

Table 2:- Yes Bank Version 2.0 Objectives to be achieved by FY15

Particulars (Rs. cr)	
Branches	900
ATM's	2000
Employees	12750
Deposit	125000
Loan Book	100000
Balance sheet	150000

Source: - Company, Arian Research

Table 3:- SWOT Analysis

Parameters	Points
Strengths	1. RoA & RoE has been at or above 1.5% & 20% respectively over last 4 Years.
	2. Bank over the past couple of years has increased efficiencies and has unlocked economies of scale to bring down cost to income ratios to 36%- 38% (far below the industry average Cost to income ratio of approx 45%) and retain high profitability per employee as compared to peers.
Weaknesses	1. Bank is suffering from very low market share as its network of branches (356) is lower as compared to peers.
	2. Being new bank awareness among retail customers is lower which has resulted into lower CASA deposits.
	3. The lower level of CASA results in lower NIMs which average at 2.8%.
Opportunities	1. In the next Five Year Plan period (2012-17), over USD 1 trillion of investments would be made on infrastructure sector & bank has already developed specialized skills in the infra financing field and continues to be a leading advisor and syndications bank in the space.
	2. Smaller towns and rural India still provide a huge untapped potential for expansion.
	3. Saving rate deregulation by the RBI has helped the bank to increase its SA deposits.
	4. The ability to cross sell product to retail customers would enhance profitability of the bank over the long run.
Threats	1. The tight monetary policy adopted by the RBI with a view to tame inflation could dampen corporate credit off take.
	2. Business could also be impacted due to rise in NPA due to impact on corporate margins.
	3. Change in RBI regulations requiring banks to set up branches in rural area could result in lower profitability for banks.
	4. RBI is awarding additional license to the banks would lead to more competition.
	5. Further recent regulatory changes including PSL guidelines and BASEL III may affect profitability of bank in future.

Source: - Company, Arian Research

Table 4:- Business summary – steady state

Particulars (Rs. cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
Advances	12403	22193	34364	37989	45206	53796
Deposits	16169	26799	45939	49152	57957	68530
Total Business	28573	48992	80303	87140	103164	122325
Balance Sheet Size	22901	36383	59007	73662	86330	101486

Source: - Company, Arian Research

Table 5:- 4-year CAGR growth (FY11 to FY14E)

Advances	16.1%
Deposits	14.3%
Total Business	15.1%
Balance sheet size	19.8%

Source: - Company, Arihant Research

Table 6:- Maturity pattern across various buckets (FY12)

Particulars	1-14 days	15-28 days	29days-3m	>3m to 6m	>6m to 12m	>1yr to 3yr	>3yr to 5yr	>5yr	Total
Loans & Advances	4.7%	1.4%	13.6%	12.0%	10.3%	34.1%	13.5%	10.6%	100.0%
Investment Securities	0.0%	0.0%	5.3%	7.6%	7.7%	13.5%	17.9%	48.0%	100.0%
Deposits	13.6%	6.0%	18.3%	18.6%	27.8%	4.9%	10.6%	0.2%	100.0%
Borrowings	31.5%	2.3%	7.7%	10.1%	6.3%	7.6%	2.4%	32.0%	100.0%
Liquidity gap (Rs. cr)	(9,392)	(2,728)	(3,464)	(3,897)	(8,511)	13,211	4,511	12,709	2,438

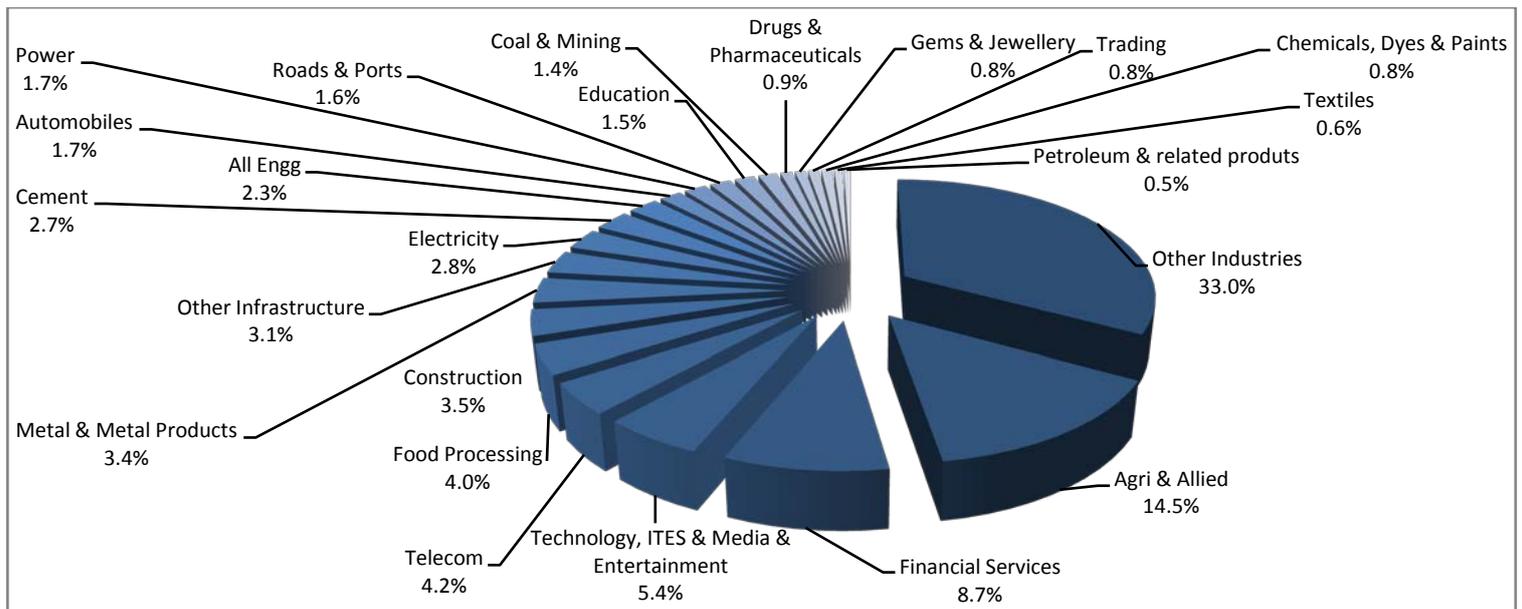
Source: - Company, Arihant Research

Table 7:- Loan mix (tilting towards Branch Banking)

Particulars	FY10	FY11	FY12	FY13E	FY14E
Branch Banking	5.3%	12.0%	18.2%	22.0%	30.0%
Corporate & Institutional Banking	69.1%	65.1%	60.2%	55.0%	45.0%
Commercial Banking	25.6%	22.9%	21.6%	23.0%	25.0%

Source: - Company, Arihant Research

Chart 1:- Industry wise break-up of Customer Assets



Source: - Company, Arihant Research

Table 8:- Industry-wise Credit Exposures –Top 10 Sectors

Industry	% of Total Exposures		
	Fund Based	Non Fund Based	Total
Construction	1.9%	4.1%	6.0%
NBFC	4.9%	0.0%	4.9%
Telecommunications	3.5%	1.2%	4.7%
Chemicals, Dyes & Paints	2.7%	1.0%	3.7%
Electricity	1.2%	1.9%	3.1%
Infrastructure (Others)	2.3%	0.5%	2.8%
All Engg.	1.2%	1.7%	2.8%
Iron & steel	1.2%	1.5%	2.7%
Automobiles including trucks	1.1%	0.8%	1.9%
Other Metal & Metal Products	0.6%	1.3%	1.9%

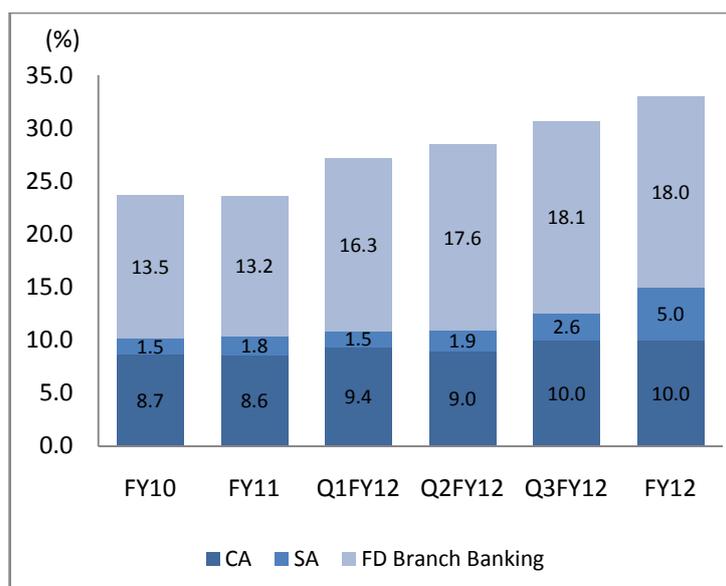
Source: - Company, Arianth Research

Table 9:- Diversification – Liabilities Management

Particulars	FY10	FY11	FY12
CASA	10.0%	10.3%	15.0%
CD	17.0%	10.9%	9.0%
R-Deposits	62.0%	65.6%	58.0%
Br-Deposits	11.0%	13.2%	18.0%

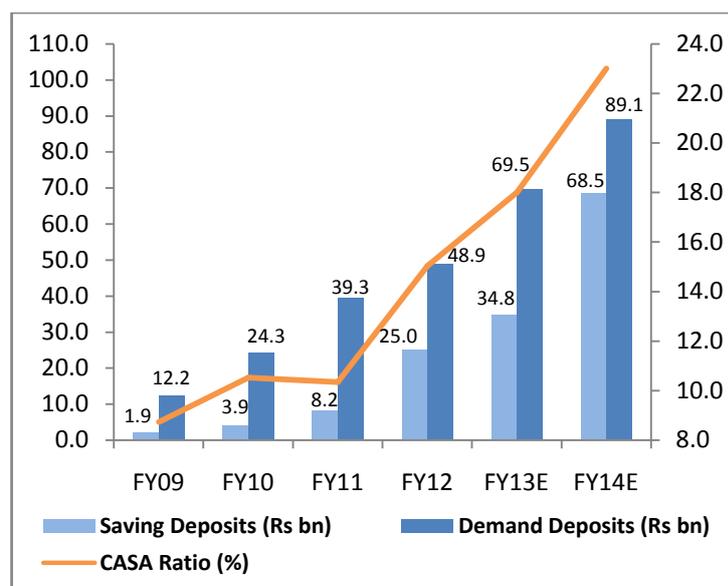
Source: - Company, Arianth Research

Chart 2:- Deposit Breakup (Increase in SA deposits)



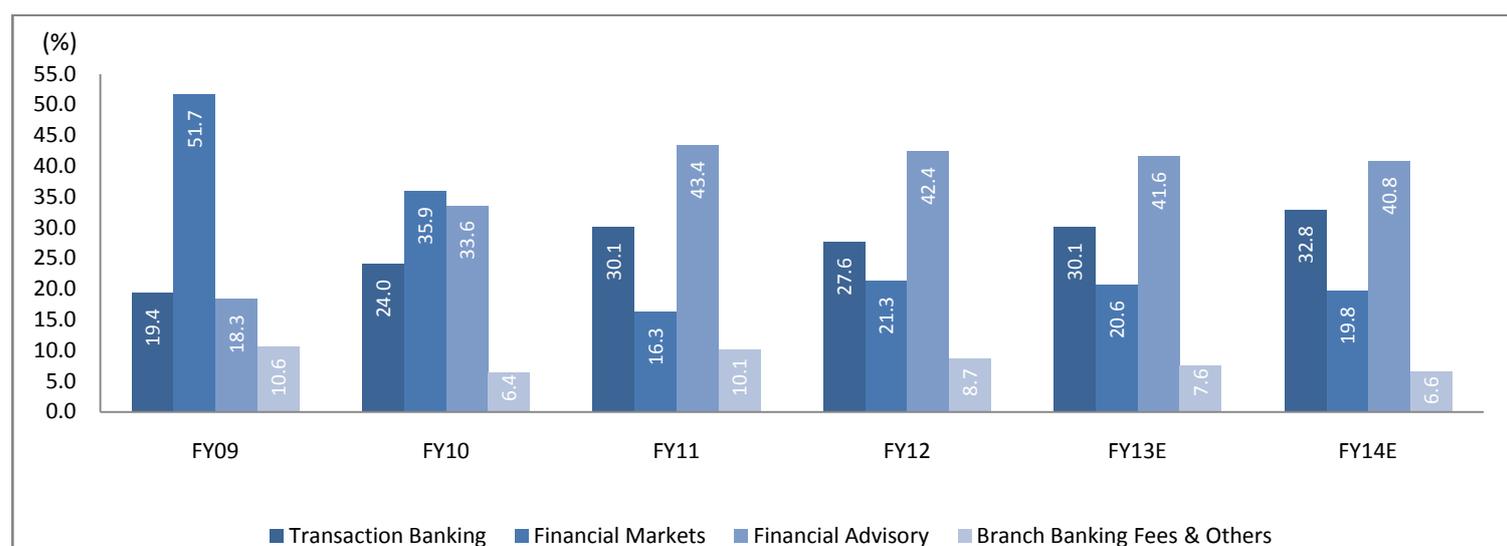
Source: - Company, Arianth Research

Chart 3:- CASA traction



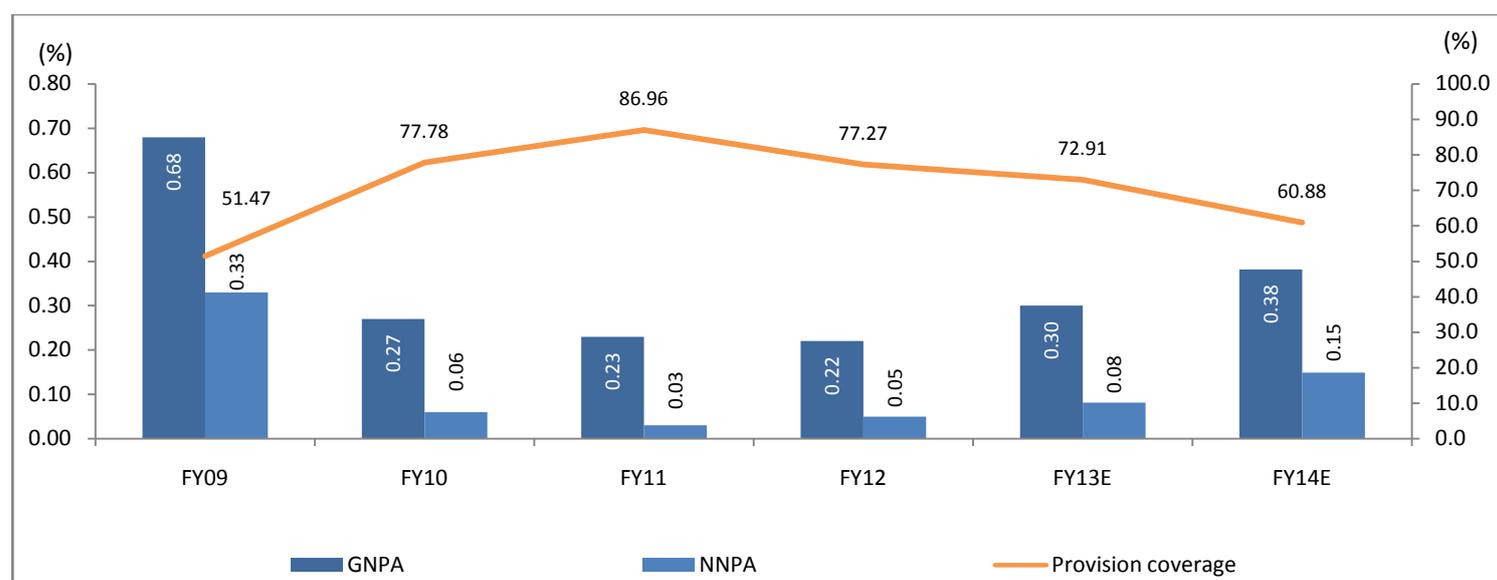
Source: - Company, Arianth Research

Chart 4:- Breakup of Non-Interest Income



Source: - Company, Arianth Research

Chart 5:- Asset Quality status



Source: - Company, Arianth Research

Table 10:- Exposure to Sensitive Sectors

Particulars (Rs. cr)	FY09	FY10	FY11	FY12
Exposure to Real estate	1,024	1,671	2,362	3,591
% Change YoY	2.1%	63.1%	41.4%	52.1%
Exposure to Capital Market	119	276	937	729
% Change YoY	-62.7%	132.8%	239.1%	-22.2%

Source: - Company, Arianth Research

Table 11:- Particulars of Accounts Restructured for FY12

Assets Restructured (Rs.cr)		CDR Mechanism	SME Restructuring	Others	Total
Standard	Amount outstanding	184	0	22	206
	% Total	89.3%	0.0%	10.7%	
	Sacrifice	7	0	1	8
	% Total	90.6%	0.0%	9.4%	
Sub-standard	Amount outstanding	0	0	0	0
	Sacrifice	0	0	0	0
Doubtful	Amount outstanding	0	0	0	0
	Sacrifice	0	0	0	0
TOTAL	Amount outstanding	184	0	22	206
	% Total	89.3%	0.0%	10.7%	
	Sacrifice	7	0	1	8
	% Total	90.6%	0.0%	9.4%	

Source: - Company, Arihant Research

Table 12:- Restructured Loans- Summary

Particulars (Rs. cr)	FY10	FY11	FY12
No. of Borrowers	49	7	13
Total Amount Outstanding	89	91	206

Source: - Company, Arihant Research

Table 13:- Concentration of NPAs

Particulars (Rs. cr)	FY11	FY12
Exposure (Funded+Nonfunded) of the bank to top four NPA	58	59
Provision for above	52	52

Source: - Company, Arihant Research

Table 14:- Sector-wise NPAs

Sectors	% of gross NPAs to gross advances in that sector		
	FY10	FY11	FY12
Agriculture & allied activities	-	-	0.2%
Industry (Micro & small, Medium and large)	0.3%	0.3%	0.3%
Services	0.4%	0.3%	0.1%
Personal loans	1.2%	1.6%	0.1%

Source: - Company, Arihant Research

Table 15:- Branch dynamics

Particulars (No.)	FY09	FY10	FY11	FY12	FY13E	FY14E
Branches	118	150	214	356	406	456
ATM	93	200	250	606	818	1227
Staff	2,671	3,034	3,929	5,642	7,335	9,682

Source: - Company, Arihant Research

Table 16:- DuPont Table

Particulars	FY09	FY10	FY11	FY12	FY13E	FY14E
NII/avg. total assets	2.8%	2.7%	2.5%	2.4%	2.8%	3.0%
Non-Interest Income/Avg. total assets	2.3%	2.0%	1.2%	1.3%	1.5%	1.7%
Core other income / Avg assets	2.1%	2.0%	1.3%	1.2%	1.4%	1.6%
Treasury income /Avg Total Assets	0.2%	0.0%	0.0%	0.1%	0.1%	0.1%
Net Income/avg. total assets	5.1%	4.6%	3.7%	3.7%	4.3%	4.7%
Operating Expenses/avg. total assets	2.3%	1.7%	1.4%	1.4%	-1.7%	-2.0%
Operating Profit /avg. total assets	2.8%	2.9%	2.4%	2.3%	2.6%	2.7%
Provisions/Avg. total assets	0.3%	0.5%	0.2%	0.1%	-0.2%	-0.2%
PBT/Avg assets	2.5%	2.5%	2.2%	2.2%	2.4%	2.5%
(1-tax rate)	34.8%	33.7%	33.4%	32.6%	35.5%	35.5%
Return on Assets	1.6%	1.6%	1.5%	1.5%	1.6%	1.6%
Avg. total assets/average equity (x)	12.7	12.6	14.5	15.6	15.4	14.8
Return on Equity	20.8%	20.7%	21.1%	23.1%	24.0%	23.8%

Source: - Company, Arihant Research

Table 17:- Capital injection history (Aggressive expansion calls for capital requirement)

Period	Capital raising summary
March-04	Started with initial capital of Rs 217 cr. With three promoters holding 52%, Rabo Bank 20% and three private equity investors about 25% and senior management 3%.
July-05	IPO at Rs 45 per share to raise 315crs.
December-06	Private placement to Swiss Reinsurance Co at Rs 120 a share to raise Rs 120 cr.
December-07	Private placement of Orient Global Tamarind Pte. At Rs 225 a share to raise Rs 330.75 cr.
January-10	Share sale to qualified institutional investors at Rs.269.5 per share to raise Rs.1033.88crs.
FY11	Tier I Placement: Rs. 225 cr of Perpetual Tier I Capital through a private placement issue of unsecured, non-convertible, subordinated bonds in the nature of promissory notes
FY12	Bank raised a sum of Rs. 150 cr by way of Tier I Perpetual Bonds, US \$ 75 mn by way of Upper Tier II capital & Rs. 864.5 cr by way of Tier II subordinated bonds.

Source: - Company, Arihant Research

Income Statement				
Year to 31st March (Rs.Cr)	FY11	FY12	FY13E	FY14E
Interest Income	4042	6307	7702	9353
- Interest from advances / bills	2989	4427	5241	6485
- Interest on investments	1027	1847	2427	2820
- Interest on balances	19	23	23	28
- Other interest	7	10	10	20
Interest Expenses	2795	4692	5458	6571
Net Interest Income	1247	1616	2244	2782
- growth %	58	30	39	24
Fee-based Income	458	600	846	1195
Treasury Income	102	183	243	321
Other Non-interest Income	63	75	90	108
Total Non-interest Income	623	857	1178	1623
Operating Income	1870	2473	3422	4405
- growth %	36	32	38	29
Operating Expenses	680	933	1353	1910
- Staff Cost	362	475	667	949
- Other Operating Exp.	317	457	686	960
Gross Profits	1190	1540	2069	2495
- growth %	36	29	34	21
Provisions	98	90	135	151
Profit Before Taxes	1092	1450	1934	2345
Taxes	365	473	687	832
Profit After Taxes	727	977	1248	1512
- growth %	49	34	28	21

Ratio Analysis				
	FY11	FY12	FY13E	FY14E
Basic Ratio (Rs.)				
EPS	20.3	27.1	35.4	42.9
Book Value per share	109.3	132.5	162.2	198.0
Adjusted Book Value	109.0	132.0	161.1	195.7
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	0.08	0.15
NPA Coverage	88.6	79.2	72.9	60.9
Delinquency Ratio	0.1	0.2	0.3	0.3
Profitability ratios (%)				
RoAE	21.1	23.1	24.0	23.8
RoAA	1.5	1.5	1.6	1.6
NIM	2.7	2.6	3.0	3.2
Operating Profit Margin	63.7	62.3	60.5	56.6
Net Profit Margin	38.9	39.5	36.5	34.3
Cost to Income	36.3	37.7	39.5	43.4

Balance sheet				
As on 31st March (Rs. Cr)	FY11	FY12	FY13E	FY14E
LIABILITIES				
Capital	347	353	359	359
Reserves & Surplus	3447	4324	5365	6630
Deposits	45939	49152	57957	68530
- growth %	71	7	18	18
Borrowings	6691	14156	16988	18687
Other liabilities & provisions	2583	5677	5661	7281
TOTAL LIABILITIES	59007	73662	86330	101486
ASSETS				
Cash, Inter-bank, etc	3076	2333	2729	3384
Money at call and short notice	420	1253	695	822
Advances	34364	37989	45206	53796
- growth %	55	11	19	19
Investments	18829	27757	30717	35635
Fixed assets	132	177	336	538
Other assets	2186	4153	6646	7310
TOTAL ASSETS	59,007	73,662	86,330	101,486

	FY11	FY12	FY13E	FY14E
Spread analysis (%)				
Yield on advances	10.6	12.2	12.6	13.1
Yield on investments	7.1	7.9	8.3	8.5
Yield on interest-earning assets	8.8	10.0	10.4	10.8
Cost of deposits	6.6	8.1	7.9	8.1
Cost of borrowings	7.9	7.3	7.9	8.9
Cost of funds	6.6	8.1	7.9	8.1
Spread	2.2	1.9	2.5	2.7
Net Interest Income to AWF	2.6	2.5	2.9	3.2
Non Interest Income to AWF	1.3	1.3	1.5	1.8
Operating Profit to AWF	2.5	2.3	2.7	2.8
Net Profit to AWF	1.5	1.5	1.6	1.7
Valuation ratios (x)				
P/E	17.1	12.9	10.2	8.4
P/BV	3.3	2.7	2.2	1.8
P/ABV	3.3	2.7	2.2	1.8

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Stock Rating Scale

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

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