

October 25, 2013

BSE Code: 532648

NSE Code: YESBANK

Reuters Code: YESB.NS

Bloomberg Code: YES:IN

Yes bank Ltd, India's fourth largest private bank, was founded in 2003. The lender provides its services in Retail, Private Banking and Wealth Management business, along with Corporate and Institutional Banking, Financial Markets, Investment Banking, Corporate Finance, Branch Banking, Business and Transaction Banking, business lines across the country. It operates a network of over 500 branches across 350 cities, with 1050+ ATMs and 2 National Operating Centers in Mumbai and Gurgaon.

Investor's Rationale

Despite sluggish economic environment, the bank has managed to keep its NIM stable at 2.9% in Q2FY'14 on YoY basis. However, with the increased penetration in the mid corporate & retail segments and reduction in cost of deposits, helped by rapid branch expansion and sharp mobilization of low cost CASA deposits, we believe Yes Bank is well poised to achieve its set target of 4% NIM by FY'15E.

Yes Bank continues to deliver impressive profitability growth, with net profit growing 21.3% at ₹3.7 bn in Q2FY'14 on account of tight control over cost, stable NIM and strong asset quality. With strong traction in non-interest income likely to continue and material margin expansion underway, the cost/income ratio is estimated to be contained within 40% in FY'14-15E notwithstanding continued network expansion. The bank's effort to keep cost of funds low would also start showing positive results post completion of currency multi-tenure syndicated loan facility.

With strong risk management strategies, higher provisioning and credit rich clientele, Yes Bank has managed to clock low net NPAs in the Industry in Q1FY14, despite challenging economic environment. Though the increasing focus for higher penetration into the retail segment might be a challenge for the bank to sustain its superior asset quality, we believe the bank will be able to maintain asset quality, thus bolstering the profitability.

Yes Bank has strengthened its presence in states like Assam and Uttar Pradesh in order to leverage the Bank's growing business opportunities in North-eastern and Northern India. The bank will offer comprehensive financial solutions, specifically catering to the requirements of the regions. Currently, the lender has a network of over 500 branches pan India with over 1050+ ATMs. With the opening of these high-tech branches, Yes Bank will showcase cutting edge banking technologies which will achieve YES BANK's objective to transform branches from being just a transaction outlet to a 'Service Oriented Advisory Centers'.

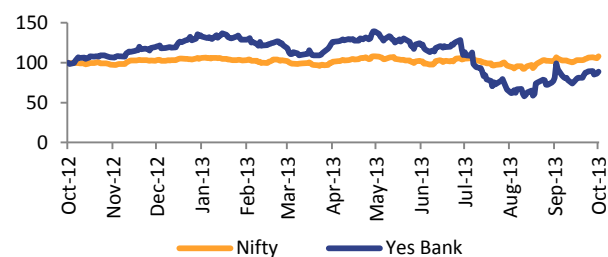
Market Data

Rating	BUY
CMP (₹)	355.4
Target (₹)	500
Potential Upside	~40.7%
Duration	Long Term
Face Value (₹)	10
52 week H/L (₹)	547.7/216.1
Adj. all time High (₹)	541.5
Decline from 52WH (%)	35.1
Rise from 52WL (%)	64.5
Beta	3.0
Mkt. Cap (₹bn)	127.5
Enterprise Value	972.8

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Net Interest	16.2	22.2	27.0	32.7
Net Profit (₹bn)	9.8	13.0	15.4	19.6
Share Capital (₹bn)	3.5	3.6	3.6	3.6
Adj. EPS (₹)	27.7	36.3	43.0	54.5
P/E (x)	12.8	9.8	8.3	6.5
P/BV (x)	2.7	2.2	1.8	1.5
Cost-Income	37.7	38.4	38.1	37.6
RoA(%)	1.3	1.3	1.3	1.3
RoE (%)	20.9	22.4	22.2	22.6

One year Price Chart



Shareholding Pattern

	Sep'13	Jun'13	Diff.
Promoters	25.59	25.64	(0.05)
FII	35.09	46.03	(10.94)
DII	19.36	15.68	3.68
Others	19.96	12.65	7.31

Yes Bank operates mainly in four segments, namely, Treasury, Corporate / Wholesale Banking, Retail Banking and Other Banking Operations.

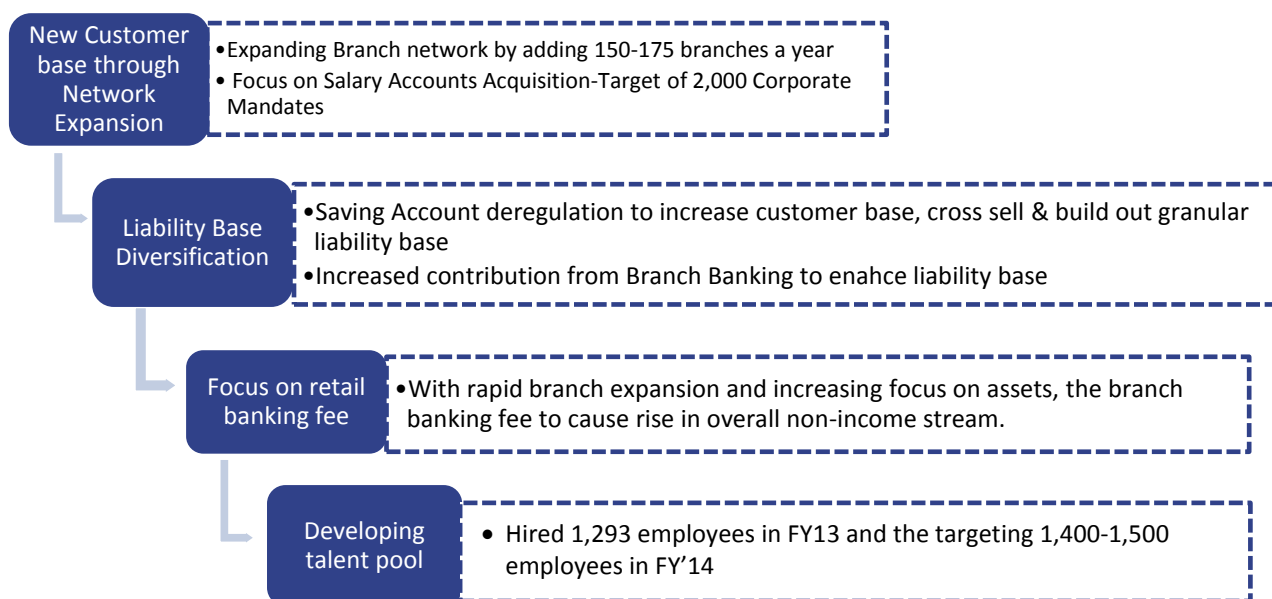
During FY'13, the lender posted 33% YoY increase in net profit to ₹13,006.8 million, driven by strong growth in customer assets and stable NIMs

Yes bank Ltd – the country's new age private sector Bank

Yes Bank Ltd, established in 2003, is India's fourth largest private sector bank. The bank operates primarily in four segments, namely, Treasury, Corporate / Wholesale Banking, Retail Banking and Other Banking Operations. It was an outcome of the professional entrepreneurship of its Founder, Rana Kapoor and his highly competent top management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the "Future Businesses of India". Since its inception in 2004, Yes Bank has fructified into a full service commercial bank that has steadily built Corporate and Institutional Banking, Financial Markets, Investment Banking, Corporate Finance, Branch Banking, Business and Transaction Banking, and Wealth Management business lines across the country, and is well equipped to offer a range of products and services to corporate and retail customers. YES Bank has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers. At present, Yes Bank has a widespread branch network of over 500+ branches across 350 cities, with 1050+ ATMs and 2 National Operating Centers in Mumbai and Gurgaon.

Further, Yes Bank continued to deliver consistent results in FY'13, focusing on execution as a part of its balanced growth strategy, despite of challenging macroeconomic environment. During FY13, the bank posted 33% YoY increase in net profit to ₹13,006.8 mn, driven by strong growth in customer assets and stable NIMs. The net interest income improved 37% YoY to ₹22,187.9 mn, while non-interest income advanced 47% to ₹12,574.3 mn. Further, the Return on Equity (RoE) of the bank @ 24-26% along with profit retention of 84-86% indicating sustained balance-sheet growth. Besides, Yes Bank is the only Greenfield license awarded by the RBI in the last 17 years, associated with the finest pedigree investors.

Strategic growth plan for FY'14E

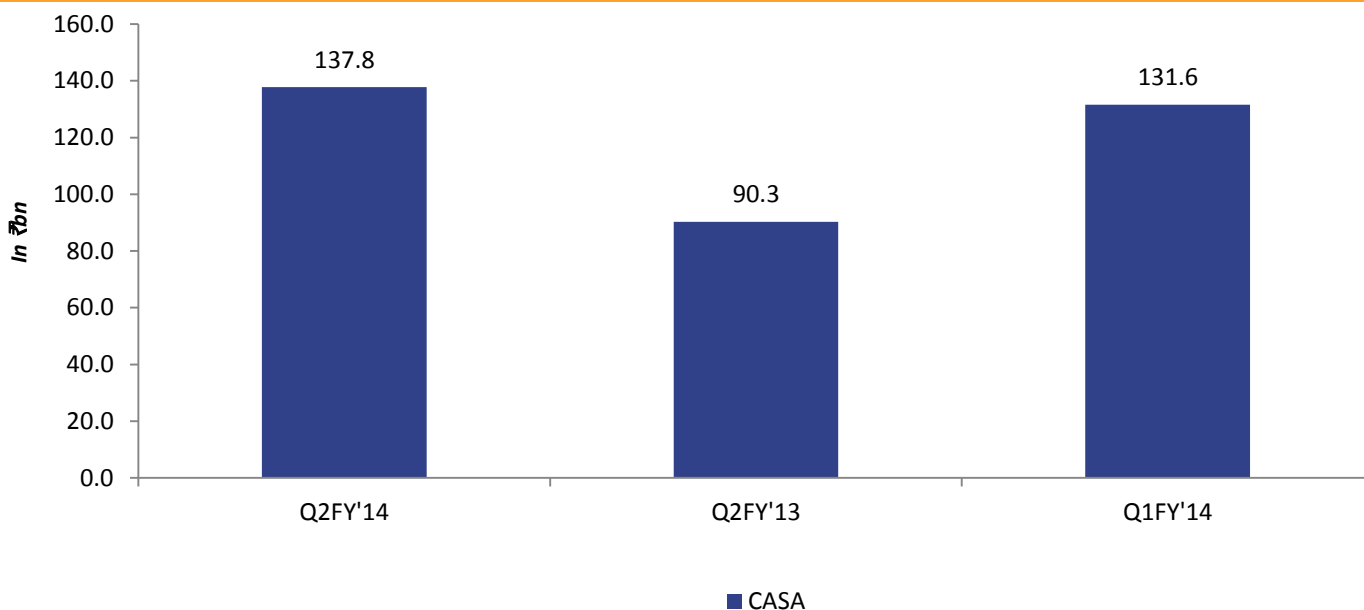


During FY'13, the CASA ratio of Yes Bank improved substantially to 18.9% from 15.0% in the prior year.

Growth momentum in CASA is likely to continue: Bank aims CASA ratio at 30% in the next 3 years

Yes Bank's deposit base grew 5.6x within a time span of 5 year, registering a CAGR of 32.9% over FY'09-FY'13 mainly due to base effect. However, the bank has historically relied more on wholesale deposits to ramp up loan growth. But increasing focus on retail banking led five year CAGR of 55.4% in CASA ratio on account of strong growth in branch franchise and the customer base of the Bank, with deposit at 32.9% CAGR, providing a much needed boost to the bank's NIM. For Q2FY'14, CASA deposits grew by 52.5% YoY to ₹137.8 bn taking the CASA ratio to 20.4%, up from 17.3% in Q2FY'13.

Balanced improvement in CASA



The lower interest rate attached to the CASA accounts in comparison to the term deposit account always creates a cost advantage for the bank, restricting imbalance in the cost structure even in a rate hike scenario.

During FY'13, the CASA ratio of Yes Bank improved substantially to 18.9% from 15.0% in the prior year. The robust traction in CASA deposits during the year, which came in at ₹126.9 bn, reflecting 71.6% growth on YoY basis, mainly driven by accelerated mobilization of savings deposits, bolster the margins outlook. Savings account (SA) deposits of the bank grew 140.5% YoY ₹60,227 mn on strategic initiative to offer higher savings rates of ~6% to customers maintaining balances below ₹100,000 and ~7% to those maintaining balances above ₹100,000, which was significantly higher than the 4% offered by public sector and larger private sector banks. The greater is CASA mix, higher will be the cushion against the NIM. The lower interest rate attached to the CASA accounts in comparison to the term deposit account always creates a cost advantage for the bank, restricting imbalance in the cost structure even in a rate hike scenario. Going further, Yes Bank aims to achieve 30% CASA ratio in the coming 3 years.

Targets to expand branches in the range of 750-900 by FY'15

The private sector lender intends to expand its geographical presence primarily in the north western part of the country, to tap the growing business and financial opportunities in the National Capital Regions (NCRs). During Q1FY'14, the bank added 45 branches, taking its cumulative branch network to 356 from 381 in Q1FY'13. Continuing with its expansion

In August 2013, the bank has reached 500+ branches and is targeting ~700 branches by the end of FY'14E.

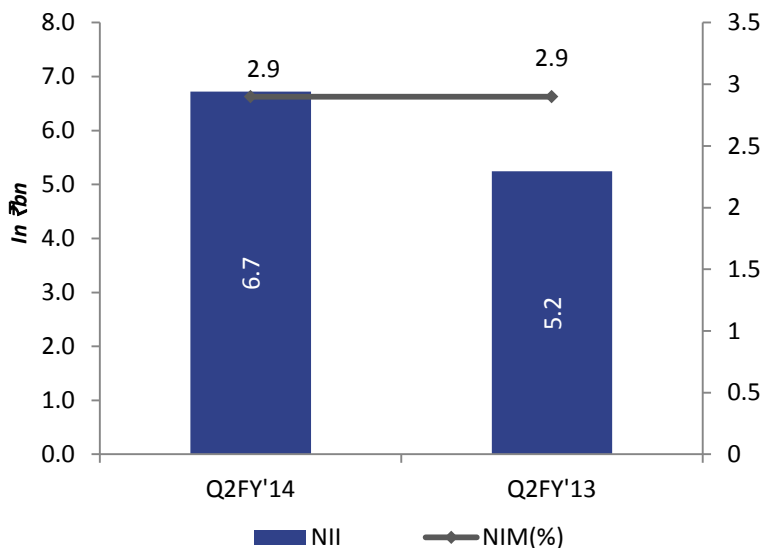
strategy, Yes Bank has revised its branch network target to 900 by FY'15 as against 750 earlier. In August 2013, the bank has reached 500+ branches and is targeting ~700 branches by the end of FY'14E. To achieve this, the bank is aggressively following a unique hub and spokes model, which would mean faster and lower cost rollout of new branches. Of the current branch network, ~180 branches are hubs and the management estimates that to support additional branches, it would need just 25-30 more hubs. Hence, a large number of its branches would be small or mid-size branches. The bank plans to expand its branch network in (tier-II and tier-III cities) areas adjoining the hubs.

NII rose 28.2% YoY to ₹ 6.72 bn on account of firm growth in advances & investments.

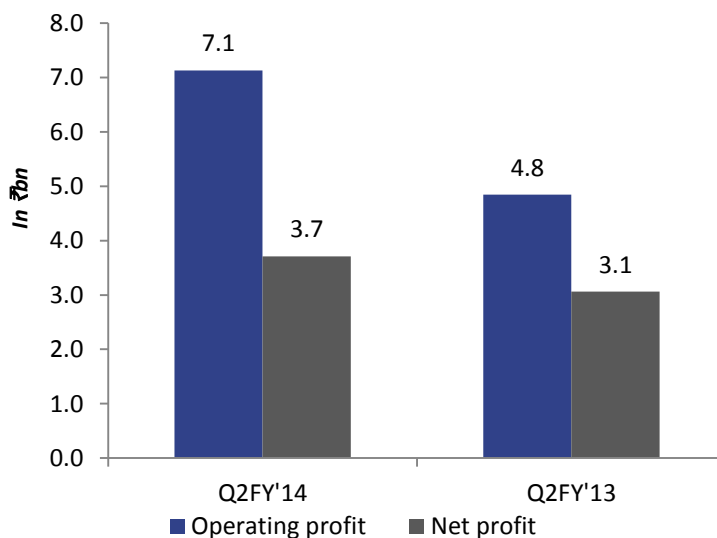
Witnessed moderate growth in Q2FY'14

Yes bank delivered a satisfactory performance in Q2FY'14, despite of a challenging macroeconomic environment. The lender has been able to maintain robust asset quality, growth in infrastructure with branch network crossing the 500-mark milestone, complemented by over 1,100 ATMs. Further, it posted an improved CASA ratio which significantly added to the overall deposit base, improved the overall granularity of deposits, and maintained Net Interest Margin (NIM) despite challenging interest rate and liquidity environment.

Yield on advances helped in maintaining margin



Consistent Net Profit growth



Net Profit in Q2FY'14 was up 21.3% YoY at ₹3.7 bn.

It was reported that Net Interest Income (NII) rose 28.2% YoY to ₹6.7 bn on account of firm growth in advances & investments coupled with stable NIMs at 2.9%. Non-Interest income for the bank increased strongly by 61.2% YoY to ₹4.5 bn backed by continued growth across all the fee income streams – Financial Advisory, Financial Markets, Transaction Banking, and Retail Banking Fees & Others, that showed firm traction YoY. Further, operating profit for Q2FY'14 surged 47.1% YoY to ₹7.1 bn driven by strong growth in NII and Non-Interest Income. Net Profit in Q2FY'14 was up 21.3% YoY at ₹3.7 bn.

During Q2FY'14, Yes Bank's gross non-performing asset (NPA) ratio deteriorated by 4bps YoY to 0.28%, while net bad loan ratio improved by 1bps to 0.04%.

Total advanced registered a growth of 13.6%, while total deposits grew 29.2% YoY, in Q2FY'14.

Asset quality remained stable in Q2FY'14

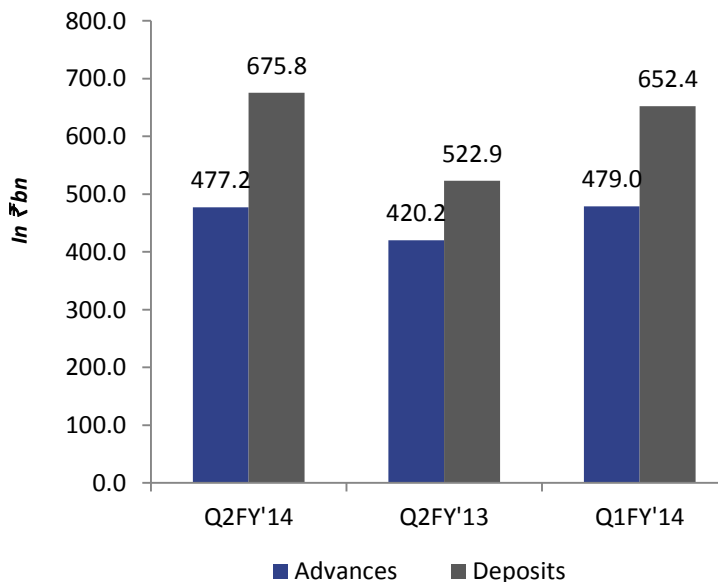
The bank has been able to maintain robust asset quality in Q2FY'14, retaining high specific provision coverage, while further adding to the reservoir of counter-cyclical provisions. For the quarter ended September 2013, the bank witnessed healthy asset quality with Gross NPA at 0.28% and Net NPA at 0.04%. The bank's specific provisioning cover was at 85.3%. Total Restructured Advances (excluding NPAs) stand at ₹1.3 bn, representing 0.26% of the Gross Advances down from 0.46% as in Q2FY'13. There were no fresh restructurings during the quarter. Total counter cyclical provision stood at 0.4% of Advances.

Satisfactory growth in Advances and Deposits

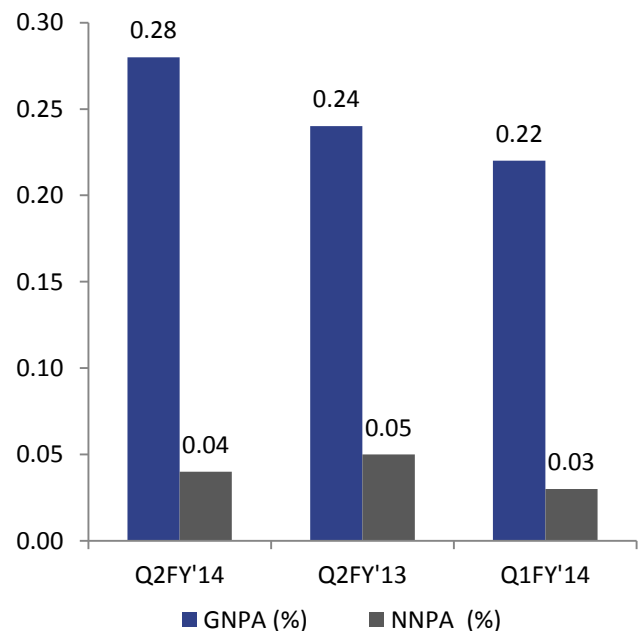
Yes Bank witnessed a growth of 13.6% QoQ in its total advances to ₹477.2 bn in Q2FY'14. Total Deposits grew by 29.2% YoY to ₹675.8 bn during the quarter. The lender's CD ratio stood at 70.6%. While deposits grew by 3.6% QoQ, certificates of deposits declined by 9.9% as the Bank increased its reliance on customer driven deposits which grew by 5.2% QoQ.

Further, Current and Savings Account (CASA) deposits grew by 52.5% YoY to ₹137.8 bn taking the CASA ratio to 20.4% in Q2FY'14 up from 17.3% as in Q2FY'13. The Bank continues to demonstrate strong traction in CASA on the back of an increase in branch network, enhanced Savings Rate offering and improvements in productivity.

Steady credit and deposits growth in Q2FY'14



Asset quality remain healthy



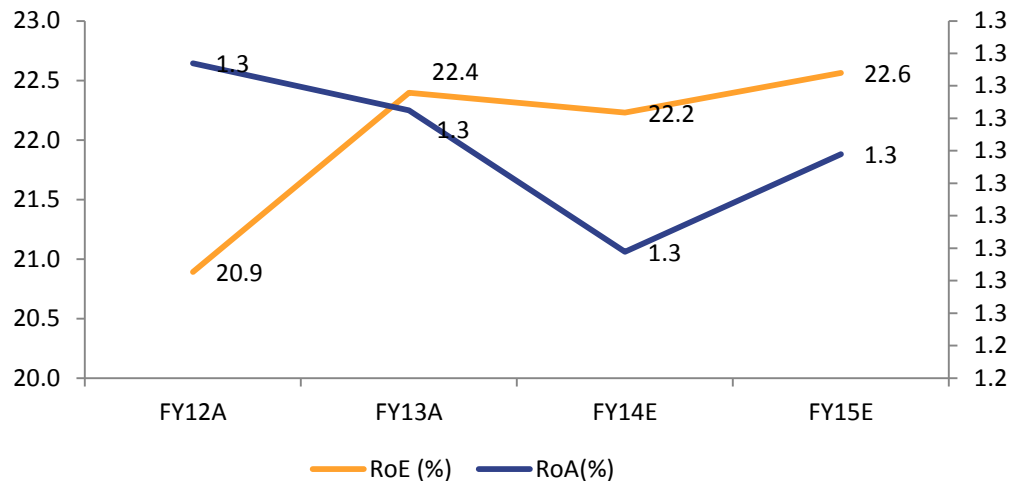
Healthy superior returns to sustain current growth

Yes Bank has generated consistently superior shareholding returns with Return on Assets (ROA) \geq 1.0% and Return on Equity (RoE) \geq 20% over five years. Higher composition of low cost CASA deposit provided certain stability to the bank's

funding patterns, making it less vulnerable to the volatility in interest rates. This in turn has helped the lender to excel the profitability parameters and report higher return ratios on a constant basis. During Q1FY14, The Bank delivered RoE of 23.1% and RoA of 1.5% for Q2FY'14. For the half year ended September 2013, RoE was 24.9% and ROA was 1.5%.

Consistent value creation with high returns

The Bank delivered RoE of 23.1% and RoA of 1.5% for Q2FY'14. RoE was 24.9% and ROA was 1.5% for H1FY'14.



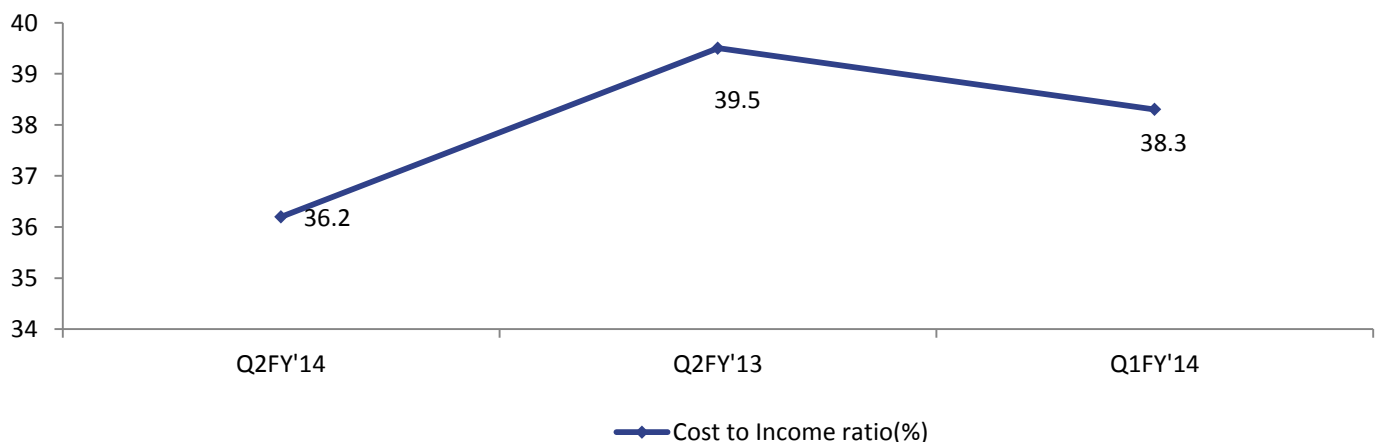
Cost to Income ratio of the bank declined to 36.2% in Q2FY'14 against Q2FY'13.

Emphasis on low-cost operations to aid margin growth

Despite of being in expansion mode, coupled with increasing retail business, the bank has posted commendable control over cost with cost to income (C/I) ratio declining 36.2% in Q2FY'14 from 39.5% in Q2FY'13.

The bank has witnessed low cost deposit base in FY'13, which helped it to sustain and improve the margin growth. For FY'14E, Yes Bank gave a credit cost guidance of 50-60bps which is based on its loan growth and slippage outlook and includes a scope for counter-cyclical buffer. Recently, Yes Bank, has become the first bank to take advantage of the Reserve Bank of India (RBI)'s new swap rules. The bank has raised USD 255 mn via a dual currency, multi-tenor syndicated loan facility. The move comes barely days after RBI allowed banks to raise money (above 50% of their tier-I capital) from foreign markets with a minimum maturity of 3 years and swap the borrowings with it at a subsidized rate for 1 to 3 years. Thus, we believe that the new swap norms are likely to help the lender in reducing its incremental cost of funds.

Cost to Income ratio declined significantly in Q2FY'14



Balance Sheet (Standalone)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Paid up capital	3,530	3,586	3,586	3,586
Total reserve & surplus	43,236.5	54,490.5	65,790.5	83,064.8
Shareholders' fund	46,766.4	58,076.7	69,376.7	86,651.1
Deposit	491,517.1	669,555.9	803,467.0	996,299.1
Borrowings	141,564.9	209,221.5	267,803.5	329,398.3
Other liabilities & provisions	56,408.5	54,187.2	74,797.3	92,748.6
Total Equity & Liabilities	736,256.8	991,041.3	1,215,444.5	1,505,097.1
Cash & Balance with RBI	23,325.4	33,387.6	35,198.6	45,390.4
Money call & short notice	12,530.0	7,270.0	7,664.4	9,883.6
Advances	277,573.5	429,760.4	537,200.5	671,500.7
Investments	379,886.4	469,995.7	563,994.8	699,353.5
Fixed assets	1,771.0	2,295.5	2,754.5	3,085.1
Other assets	41,170.4	48,332.1	68,631.6	75,883.8
Total Assets	736,256.8	991,041.3	1,215,444.5	1,505,097.1

Key Ratios (Standalone)

Y/E	FY12A	FY13A	FY14E	FY15E
Avg. Cost of deposits (%)	9.5	9.1	8.6	7.9
ROE	20.9	22.4	22.2	22.6
ROA	1.3	1.3	1.3	1.3
Interest Expense/ Interest Income	74.4	73.2	72.0	70.7
Investment/Deposit	0.6	0.6	0.7	0.7
Cost-Income Ratio (%)	37.7	38.4	38.1	37.6
C-D Ratio (%)	77.3	70.2	70.2	70.2
BVPS	132.5	161.9	193.5	241.6
P/ BV	2.7	2.2	1.8	1.5
EPS	27.7	36.3	43.0	54.5
P/E	12.8	9.8	8.3	6.5

Profit & Loss Account (Standalone)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Interest income	63,073.6	82,940.0	96,210.4	111,604.1
Interest expense	46,917.2	60,752.1	69,257.4	78,953.4
Net Interest Income	16,156.4	22,187.9	26,953.0	32,650.6
<i>Growth (%)</i>	-	37.3	21.5	21.1
Non-interest income	8,571.2	12,574.3	13,706.0	15,899.0
Operating income	24,727.6	34,762.2	40,659.0	48,549.6
Operating expenses	9,325.3	13,345.4	15,480.6	18,267.1
Profit before provisions	15,402.2	21,416.9	25,178.4	30,282.5
Provisions (include tax)	5,632.2	8,410.1	9,755.7	10,731.2
Net profit	9,770.0	13,006.8	15,422.7	19,551.2

Valuation and view

With Yes Bank's diversified revenue stream, stable assets quality, positive asset liability mismatch, superior cost efficiency and its sustainable return ratios, has resulted in strong business growth momentum in the past fiscals. With deregulated savings deposit rates, strong branch expansion and focused strategies, Yes Bank remains a biggest beneficiary of interest rate reversal. Therefore, we expect the bank's savings deposit traction to remain healthy and also anticipate it to grow its loan book by 20%-24% in FY'14-15E.

At a current market price (CMP) of ₹355.4, we recommend 'BUY' with a target price of ₹500, which implies potential upside of ~40.7% to the CMP from 1 year perspective.



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