



Yes Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,977	YES IN
	REUTERS CODE
S&P CNX: 5,399	YESB.BO

21 July 2010

Buy

Previous Recommendation: Buy

Rs298

Equity Shares (m)	339.7
52-Week Range (Rs)	305/145
1,6,12 Rel.Perf.(%)	4/7/75
M.Cap. (Rs b)	101.2
M.Cap. (US\$ b)	2.2

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABY
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/09A	9,462	3,038	10.2	51.3	29.1	5.4	16.6	20.6	1.5	5.5
3/10A	13,635	4,777	14.1	37.5	21.2	3.3	20.6	20.3	1.6	3.3
3/11E	18,665	6,511	19.2	36.3	15.5	2.8	17.7	19.3	1.5	2.8
3/12E	24,744	8,515	25.1	30.8	11.9	2.3	15.3	21.1	1.4	2.3

Yes Bank posted 1QFY11 PAT growth of 56% YoY to Rs1.6b (against our estimate of Rs1.4b), driven by strong loan growth (up 107% YoY) and other than expected provisions. Non-interest income declined by 10% QoQ and 5% YoY to Rs1.4b due to a fall in financial markets income, however income from financial advisory remains strong. Key highlights

- Loans grew 107% YoY and 18.3% QoQ driven by higher disbursements in the corporate and institutional banking (C&IB) segment. Part of this growth can be attributed to disbursement in the telecom sector (largely short-term) and the infrastructure space.
- NIM declined 10bp QoQ to 3.1% (stable YoY) led by fall in yields on loans. CASA deposits in absolute terms grew 118% YoY resulting in CASA ratio improving 100bp YoY to 10.5%.
- Other income declined by 5% QoQ due to a fall in income from financial markets (a sharp drop in treasury gains and lower volumes in debt capital markets). Core non-interest income was Rs1.4b against Rs1.1b in 1QFY10. While financial advisory showed strong traction QoQ and YoY, a sequential decline in transaction banking income disappointed.
- Asset quality improved with GNPA ratio at 0.23% and net NPA ratio at 0.04%. PCR was 81% (v/s 78% in 4QFY10).

Valuation: Yes Bank trades at 11.9x FY12E EPS of Rs25 and 2.3x FY12E BV of Rs130. RoA is likely to remain strong at ~1.5% and increased leverage will drive RoEs to ~20%+ in FY11 and FY12. Maintain **Buy** with a target price of Rs325.

QUARTERLY PERFORMANCE

(RS MILLION)

	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	5,358	5,269	6,264	6,646	7,392	8,709	10,596	12,884	23,697	39,581
Interest Expense	3,789	3,670	4,154	4,204	4,771	5,964	7,663	9,578	15,818	27,975
Net Interest Income	1,568	1,600	2,109	2,442	2,621	2,745	2,933	3,307	7,880	11,605
% Change (Y-o-Y)	38.8	30.5	69.5	62.9	67.1	71.6	39.0	35.4	54.7	47.3
Other Income	1,521	1,516	1,278	1,601	1,438	1,737	1,844	2,041	5,755	7,060
Net Income	3,089	3,115	3,387	4,043	4,059	4,482	4,777	5,348	13,635	18,665
Operating Expenses	1,111	1,197	1,226	1,467	1,570	1,700	1,815	1,909	5,002	6,994
Operating Profit	1,978	1,918	2,162	2,576	2,490	2,782	2,962	3,439	8,633	11,672
% Change (Y-o-Y)	116.4	95.8	17.2	67.3	25.9	45.0	37.0	33.5	63.6	35.2
Other Provisions	455	234	254	426	126	325	450	831	1,368	1,732
Profit before Tax	1,523	1,684	1,908	2,150	2,364	2,457	2,512	2,608	7,265	9,940
Tax Provisions	522	567	649	750	800	848	867	915	2,487	3,429
Net Profit	1,001	1,117	1,259	1,400	1,564	1,609	1,645	1,693	4,777	6,511
% Change (Y-o-Y)	84.0	75.6	19.0	74.8	56.3	44.0	30.6	20.9	57.2	36.3
Interest Expense/Interest Income (%)	70.7	69.6	66.3	63.3	64.5	68.5	72.3	74.3	66.7	70.7
Other Income/Net Income (%)	49.2	48.7	37.7	39.6	35.4	38.7	38.6	38.2	42.2	37.8
Cost to Income Ratio (%)	36.0	38.4	36.2	36.3	38.7	37.9	38.0	35.7	36.7	37.5
Provisions/Operating Profits (%)	23.0	12.2	11.7	16.5	5.0	11.7	15.2	24.2	15.9	14.8
Tax Rate (%)	34.3	33.7	34.0	34.9	33.9	34.5	34.5	35.1	34.2	34.5

E: MOSL Estimates

RESULTS ANALYSIS (RS M)

	1QFY11	1QFY10	YOY GR. %	4QFY10	QOQ GR. %	FY10	FY11E	FY12E
Interest Income	7,392	5,358	38	6,646	11	23,697	39,581	56,463
Interest Expense	4,771	3,789	26	4,204	13	15,818	27,975	40,943
Net Interest Income (NII)	2,621	1,568	67	2,442	7	7,880	11,605	15,520
Other Income	1,438	1,521	-5	1,601	-10	5,755	7,060	9,223
- Financial Markets	226	919	-75	474	-52	2,008	1,977	2,638
- Financial Advisory	761	253	201	578	32	1,965	2,653	3,183
- Transaction Banking	343	250	37	432	-21	1,406	1,828	2,559
- Third party revenues and others	108	99	9	117	-8	376	602	843
Net Income	4,059	3,089	31	4,043	0	13,635	18,665	24,744
Total Operating Costs	1,570	1,111	41	1,467	7	5,002	6,994	9,420
- Staff Costs	812	612	33	708	15	2,569	3,725	5,215
- Other Opex	758	500	52	759	0	2,433	3,269	4,205
Operating Profit	2,489	1,978	26	2,575	-3	8,633	11,672	15,324
Provisions	126	455	-72	426	-70	1,368	1,732	2,324
PBT	2,364	1,523	55	2,150	10	7,265	9,940	12,999
Tax	800	522	53	750	7	2,487	3,429	4,485
<i>Tax rate %</i>	34	34		35		34	35	35
PAT	1,563	1,001	56	1,400	12	4,777	6,511	8,515
Deposits	302,387	153,423	97	267,986	13	267,986	401,978	562,770
CASA Ratio %	10.5	9.5		10.5		10.5	11.4	12.3
Advances	262,568	126,705	107	221,931	18	221,931	321,800	434,430
Gross NPA	597	614	-3	602	-1	602	987	1,585
Gross NPA %	0.23	0.48		0.27		0.27	0.31	0.36
Net NPA	111	304	-63	130	-15	130	197	317
Net NPA %	0.04	0.24		0.06		0.06	0.06	0.07
Yields on Advances %*	9.6	12.5		9.7		10.2	11.6	11.9
Cost of Funds %*	6.3	8.1		6.3		6.2	7.2	7.5
NIM %*	3.10	3.10		3.20		2.79	2.74	2.65
Tier I CAR %*	11.0	10.3		12.9		12.8	10.8	9.4
Tier II CAR %*	6.3	7.4		7.8		7.8	6.8	5.9
Branches	153	123		150		150	200	250

* Reported, Calculated for full year nos

Stable margins, strong loan growth lead to robust NII growth

NII grew by 67% YoY (7% QoQ) backed by loan book growth of 107% YoY and 18.3% QoQ to Rs262b. Higher disbursements in the corporate and institutional banking (C&IB) segment led the growth. The proportion of loans to the C&IB segment increased from 69% in 4QFY10 to 73.4% in 1QFY11. The management expects loan growth to moderate to 40-45% in FY11 due to repayment of short-tenure loans and higher base.

NIM was stable at 3.1% YoY (but declined 10bp QoQ). Cost of funds declined by 180bp YoY (stable QoQ) to 6.3% and yield on loans declined 290bp YoY (down 10bp QoQ) to 9.6%. In an increasing rate scenario the bank could have a negative impact on NIMs (low CASA mix) but sustained systemic growth could lead to better pricing power on lending and would result in NIMs remaining stable.

CASA ratio improves 100bp YoY

Deposits increased 97% YoY and 12.3% QoQ to Rs268b. CASA deposits grew by 118% YoY and 12% QoQ to Rs31.2b. CASA ratio improved 100bp YoY and was sequentially stable at 10.5%. With branch expansion (100 branches proposed to be opened) and focus on garnering higher retail deposits, CASA ratio is likely to improve.

Mixed performance from different fee income stream

Non-interest income declined by 10% QoQ and 5% YoY to Rs1.4b due to a fall in income from financial markets. Core non-interest income was Rs1.4b against Rs1.1b in 1QFY10. Financial markets related income was Rs226m in 1QFY11 (v/s Rs.919m a year earlier and Rs474m in 4QFY10) due to lower treasury gains and lower volumes in the debt capital markets.

Financial advisory income increased from Rs253m in 1QFY10 to Rs.761m in 1QFY11 (v/s 578m in 4QFY10). Transaction banking fees grew by 37% YoY to Rs.343m (on a lower base), but it was down by 21% sequentially (a negative surprise). The management expects better traction in transaction banking through the addition of new clients.

Cost to income ratio to go up

Operating expenses grew 41% YoY and 7% QoQ to Rs1.6b as the bank raised staff salaries and added about 400 employees in 1QFY11. Employee expenses were up 37% YoY and 15% QoQ. Other operating expenses were sequentially stable as the bank added only three branches during the quarter, taking the total number of branches to 153. Cost to income ratio was (39% against 36% in 4QFY10). Over the past six quarters cost-to-income ratio was below 40% and has been one of the key factors for RoA expansion. The management expects to add 100 branches and about 1,000 employees in one year, which will lead to pressure on the C/I ratio.

Strong asset quality

Asset quality was stable with GNPA in absolute terms remaining flat at Rs602m (Rs614m in 4QFY10). GNPA ratio in percentage terms improved to 0.23% (v/s 0.27% in 4QFY10) and NNPA ratio was 0.04% (v/s 0.06% in 4QFY10). Provision coverage ratio improved from 78% in 4QFY10 to 81% in 1QFY11. Including standard asset provisions, provision coverage ratio improved to 309% in 1QFY11 from 274% in 4QFY10. The bank's restructured loans were steady at Rs0.8b (31bp of the loan book v/s 0.36bp in 4QFY10 and 0.94 bp in 1QFY10).

Comfortable capital position for near term growth

CAR was 16.57%, tier-I was 10.32%. As per RBI guidelines unaudited quarterly profits are not considered in capital funds, or else the CAR would be 70bp higher.

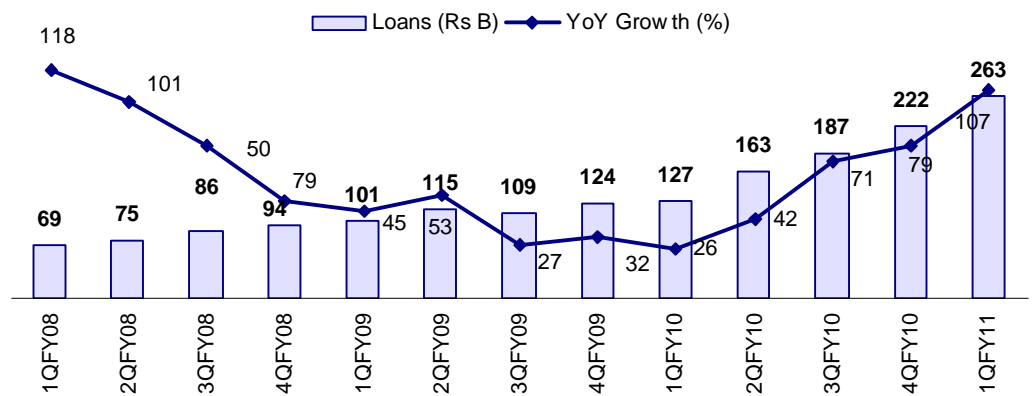
Valuation and view

Yes Bank is well placed to benefit from the economic buoyancy as it offers a diverse range of products and has an experienced and capable top management team with a proven track record. With substantial growth in its branch network in the next couple of years, we expect strong traction in its business to continue.

We believe Yes Bank will be able to maintain RoA of ~1.5% and RoE of 19-20% in FY11 and FY12 backed by: (1) loan growth of 40%, (2) healthy margins of ~3%, improving CASA ratio and pricing power, (3) strong growth in fee income due to higher advisory, forex and third party distribution income, and (4) stable credit costs, as its asset quality is among the best in the industry. Yes Bank trades at 11.9x FY12E EPS of Rs25 and 2.3x FY12E BV of Rs130. Maintain **Buy**.

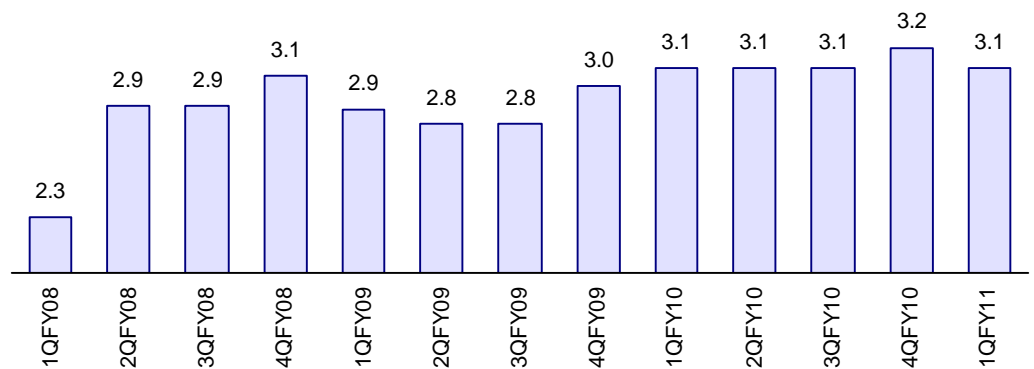
STRONG LOAN GROWTH

Loan growth is driven by disbursement in the telecom and infrastructure sectors

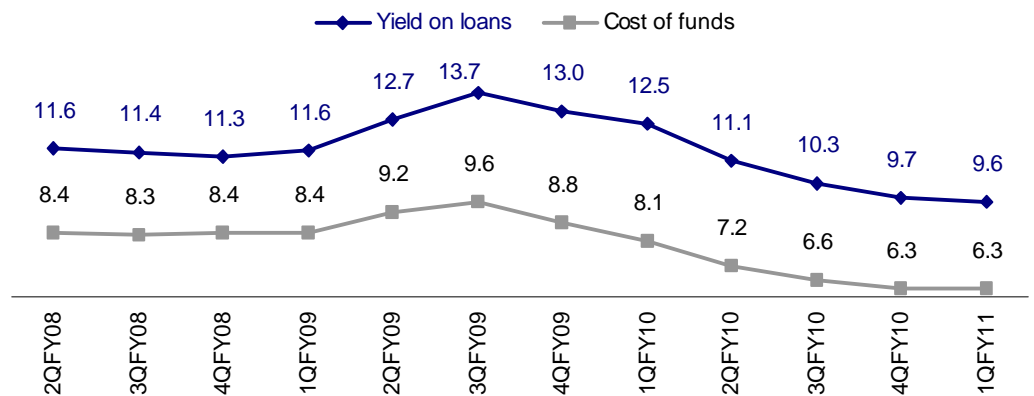


MARGINS DECLINE 10 BP QOQ (%)

Margin decline was led by a drop in yields

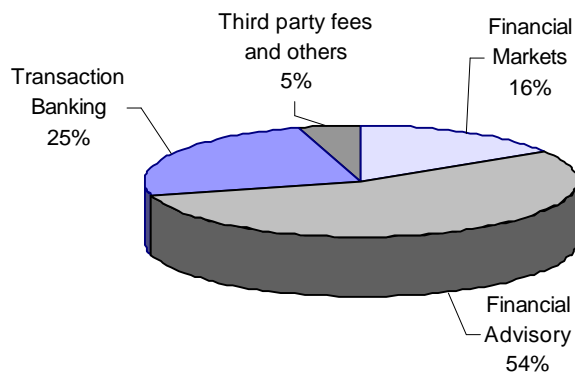


YIELD ON LOANS, COST OF FUNDS (%)



COMPOSITION OF NON-INTEREST INCOME 1QFY11 (%)

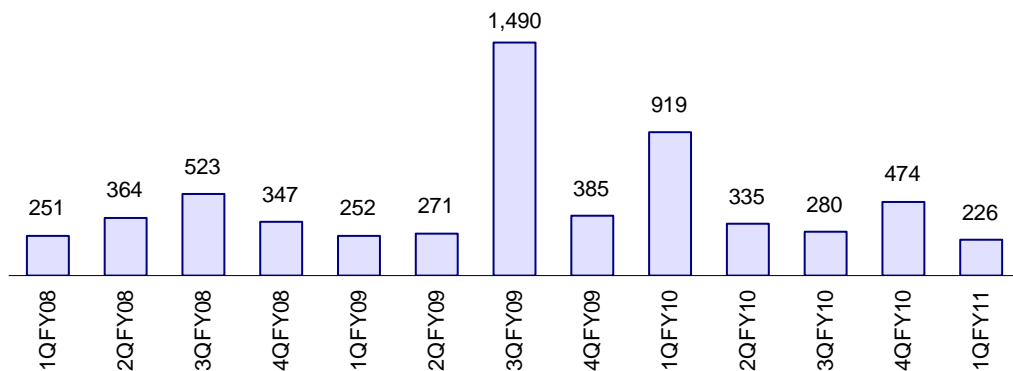
Higher contribution from financial advisory during the quarter



Source: Company/MOSL

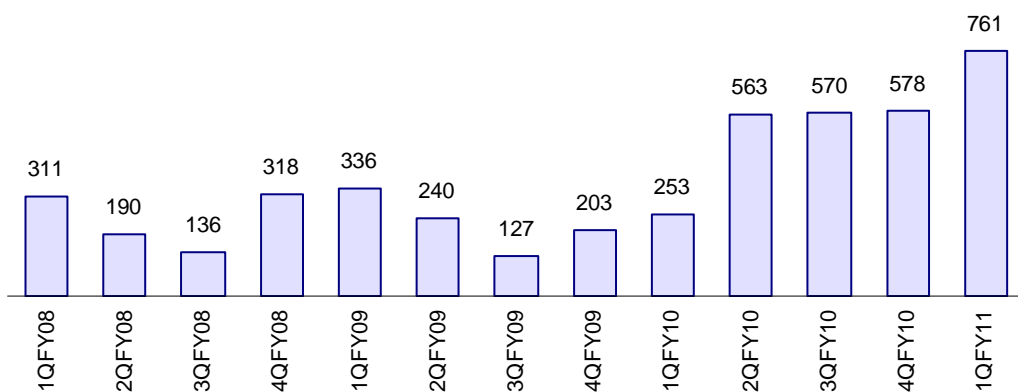
FINANCIAL MARKET INCOME (RS M)

Lower DCM volumes and treasury gains lead to the decline

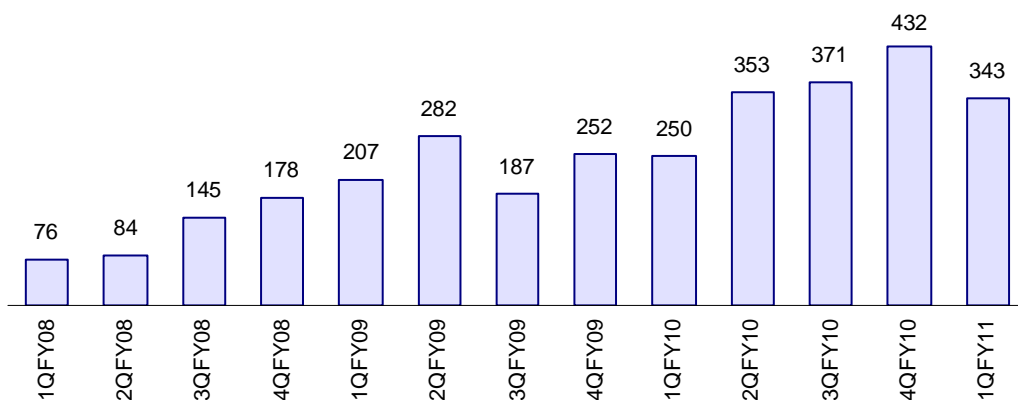


FINANCIAL ADVISORY INCOME (RS M)

Strong capital markets and an up-tick in infrastructure-related activity leads to strong financial advisory income

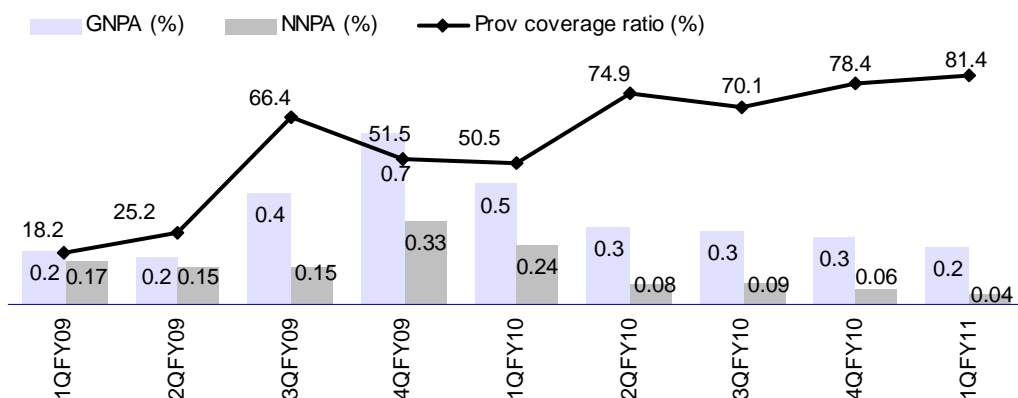


TRANSACTION BANKING REVENUE (RS M)



STRONG ASSET QUALITY

Asset quality is superior, restructured loans decline to 31bp of loans from 94bp in 1QFY10



Source: Company/MOSL

Yes Bank: an investment profile

Company description

Yes Bank began operations in May 2004. Its promoters, who established Rabo India Finance as a leading investment bank in India, have the distinction of obtaining RBI's only green-field banking license in the past decade. Yes Bank has built a strong management team with experience from foreign banks for each of its business units. It has fructified into a "full service" commercial bank with 153 branches and a balance sheet of Rs409b. It aims to scale up its branch network to 250 with a CASA ratio of ~25% by FY12 (currently 10.5%).

Key investment arguments

- Rapid branch network expansion, acquisition of new customers and deepening of existing customer relationships would help ensure that its asset growth is significantly higher than that of the industry.
- Asset quality is robust with GNPA ratio of 0.23% and NNPA ratio of 0.04%.
- Strong asset quality, higher fee contribution and operating efficiency will keep RoA strong at 1.4%+ and ROE at 19%+.

Key investment risks

- Yes Bank's growth plans are heavily dependent on obtaining branch licenses. Any delays in getting branch licenses from RBI, it could adversely impact valuations.

- Inability to improve CASA ratio given high asset growth aspirations would make the bank vulnerable to a liquidity risk.

Recent developments

- Rabo Bank sold 11% stake in the bank for its own banking foray in India.
- Yes Bank announced a maiden dividend of Rs1.5/share for FY10.

Valuation

RoA is likely to remain strong at ~1.5% and increased leverage would drive RoEs to ~20%+ in FY11-12. Yes Bank trades at 11.9x FY12E EPS of Rs25 and 2.3x FY12E BV of Rs130. Maintain **Buy** with a target price of Rs325 (2.5x FY12E BV).

Sector view

- In FY10 loans and deposits grew 17%. We expect loan growth of 20% in FY11 with an upward bias. Deposit growth will be calibrated with loan growth.
- We factor in a 15-20bp improvement in blended margins, led by an improving yield on assets and a higher CASA ratio.
- Our concern over asset quality is diminishing with the improvement in economic activity.
- We prefer banks with a strong core deposit franchise, higher tier-I capital and high provision coverage ratio.

COMPARATIVE VALUATIONS

		YES BANK	AXIS BANK	HDFC BANK
P/E (x)	FY11E	15.5	17.2	23.6
	FY12E	11.9	13.9	18.2
P/BV (x)	FY11E	2.8	2.9	3.8
	FY12E	2.3	2.5	3.3
RoE (%)	FY11E	19.3	18.3	17.1
	FY12E	21.1	19.4	19.2
RoA (%)	FY11E	1.5	1.6	1.6
	FY12E	1.4	1.6	1.7

SHAREHOLDING PATTERN (%)

	JUN-10	MAR-10	JUN-09
Promoter	27.1	27.2	30.9
Domestic Inst	10.0	4.1	8.2
Foreign	51.8	58.1	46.4
Others	11.2	10.7	14.5

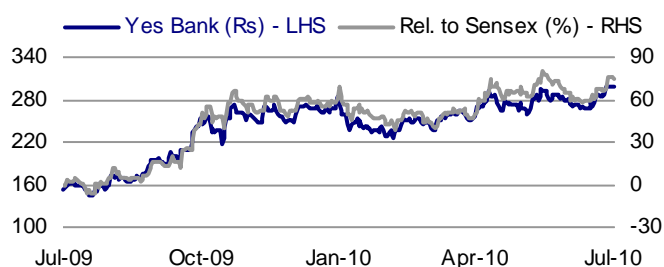
EPS: MOST FORECAST V/S CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY11	19.2	17.1	12.1
FY12	25.1	22.1	13.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
298	325	9.2	Buy

STOCK PERFORMANCE (1 YEAR)



Financials and Valuations

INCOME STATEMENT		(Rs Million)				
Y/E March	2007	2008	2009	2010	2011E	2012E
Interest Income	5,876	13,047	20,014	23,697	39,581	56,463
Interest Expended	4,163	9,741	14,921	15,818	27,975	40,943
Net Interest Income	1,714	3,306	5,093	7,880	11,605	15,520
<i>Change (%)</i>	100.5	92.9	54.1	54.7	47.3	33.7
Other Income	1,946	3,807	4,369	5,755	7,060	9,223
Net Income	3,659	6,912	9,462	13,635	18,665	24,744
<i>Change (%)</i>	100.4	88.9	36.9	44.1	36.9	32.6
Operating Expenses	1,935	3,412	4,185	5,002	6,994	9,420
Operating Income	1,724	3,501	5,277	8,633	11,672	15,324
<i>Change (%)</i>	78.7	103.0	50.7	63.6	35.2	31.3
Other Provisions	288	436	617	1,368	1,732	2,324
PBT	1,436	3,065	4,659	7,265	9,940	12,999
Tax	493	1,065	1,621	2,487	3,429	4,485
<i>Tax Rate (%)</i>	34.3	34.7	34.8	34.2	34.5	34.5
PAT	944	2,000	3,038	4,777	6,511	8,515
<i>Change (%)</i>	79.1	111.9	51.9	57.2	36.3	30.8
Proposed Dividend	0	0	0	510	679	849
PPP	3,659	6,912	9,462	13,635	18,665	24,744
<i>Change (%)</i>	100.4	88.9	36.9	44.1	36.9	32.6

BALANCE SHEET		(Rs Million)				
Y/E March	2007	2008	2009	2010	2011E	2012E
Capital	2,800	2,958	2,970	3,397	3,397	3,397
Reserves & Surplus	5,071	10,231	13,272	27,499	33,215	40,736
Net Worth	7,871	13,189	16,242	30,896	36,611	44,132
Deposits	82,204	132,732	161,694	267,986	401,978	562,770
<i>Change (%)</i>	182.5	61.5	21.8	65.7	50.0	40.0
CASA Deposits	4,739	11,287	14,118	28,182	45,677	69,200
Borrowings	13,459	17,137	37,017	47,491	55,855	65,885
Other Liabilities & Prov.	7,501	6,767	14,055	17,453	22,879	29,988
Total Liabilities	111,034	169,825	229,008	363,825	517,324	702,775
Current Assets	12,928	16,276	19,227	26,732	39,397	58,226
Investments	30,731	50,937	71,170	102,099	137,834	186,076
<i>Change (%)</i>	127.6	65.8	39.7	43.5	35.0	35.0
Advances	62,897	94,303	124,031	221,931	321,800	434,430
<i>Change (%)</i>	161.3	49.9	31.5	78.9	45.0	35.0
Net Fixed Assets	709	1,012	1,311	1,155	2,217	3,145
Other Assets	3,769	7,297	13,269	11,907	16,075	20,897
Total Assets	111,034	169,825	229,008	363,825	517,324	702,775

ASSUMPTIONS	(%)					
Deposit Growth	182.5	61.5	21.8	65.7	50.0	40.0
Advances Growth	161.3	49.9	31.5	78.9	45.0	35.0
Investments Growth	127.6	65.8	39.7	43.5	35.0	35.0
Provision coverage Ratio	0.0	20.0	51.5	78.4	80.0	80.0
Dividend	0.0	0.0	0.0	15.0	20.0	25.0

E: MOSL Estimates

Financials and Valuations

RATIOS

Y/E March	2007	2008	2009	2010	2011E	2012E
Spreads Analysis (%)						
Avg. Yield - Earning Assets	8.0	9.7	10.7	8.4	9.3	9.6
Avg. Cost-Int. Bear. Liab.	6.4	7.9	8.6	6.2	7.2	7.5
Interest Spread	1.7	1.8	2.1	2.2	2.1	2.1
Net Interest Margin	2.3	2.5	2.7	2.8	2.7	2.6

Profitability Ratios (%)

RoE	13.9	19.0	20.6	20.3	19.3	21.1
RoA	1.2	1.4	1.5	1.6	1.5	1.4
Int. Expended/Int. Earned	70.8	74.7	74.6	66.7	70.7	72.5
Other Inc./Net Income	53.2	52.2	46.2	42.2	37.8	37.3

Efficiency Ratios (%)

Op. Exps./Net Income	52.9	49.4	44.2	36.7	37.5	38.1
Empl. Cost/Op. Exps.	60.7	59.3	52.1	51.4	53.3	55.4
Busi. per Empl. (Rs m)	40.6	59.1	96.0	127.8	127.8	143.4
NP per Empl. (Rs lac)	3.9	6.3	11.4	15.7	13.7	14.2

Asset-Liability Profile (%)

Adv./Deposit Ratio	76.5	71.0	76.7	82.8	80.1	77.2
CASA Ratio	5.8	8.5	8.7	10.5	11.4	12.3
Invest./Deposit Ratio	37.4	38.4	44.0	38.1	34.3	33.1
G-Sec/Invest. Ratio	70.0	70.6	65.8	66.5	72.9	75.6
Gross NPAs to Adv.	0.0	0.1	0.7	0.3	0.3	0.4
Net NPA	0	85	412	130	197	317
Net NPAs to Adv.	0.0	0.1	0.3	0.1	0.1	0.1
CAR	13.6	13.6	16.6	20.6	17.7	15.3
<i>Tier 1</i>	8.2	8.5	9.5	12.8	10.8	9.4

VALUATION

Book Value (Rs)	28.1	44.6	54.7	91.0	107.8	129.9
Price-BV (x)	10.6	6.7	5.4	3.3	2.8	2.3
Adjusted BV (Rs)	28.1	44.4	53.8	90.7	107.4	129.3
Price-ABV (x)	10.6	6.7	5.5	3.3	2.8	2.3
EPS (Rs)	3.4	6.8	10.2	14.1	19.2	25.1
EPS Growth (%)	72.7	100.6	51.3	37.5	36.3	30.8
Price-Earnings (x)	88.4	44.1	29.1	21.2	15.5	11.9
OPS (Rs)	6.2	11.8	17.8	25.4	34.4	45.1
OPS Growth (%)	72.3	92.2	50.1	43.1	35.2	31.3
Price-OP (x)	48.4	25.2	16.8	11.7	8.7	6.6

E: MOSL Estimates

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Yes Bank

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.