

RESULT UPDATE ✓

Yes Bank (YESBAN)

WHAT'S CHANGED...

PRICE TARGET.....Changed to Rs 63 from Rs 100
 EPS (FY09E).....Changed to Rs 9.8 from Rs 8.7
 EPS (FY10E).....Changed to Rs 11.2 from Rs 12.9
 RATING.....Changed from Outperformer to Underperformer

Current Price Rs 69	Target Price Rs 62
Potential upside -10%	Time Frame 12-15 months

UNDERPERFORMER

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Growth capped, so is premium multiple...

The high growth for which we knew Yes Bank is now in the phase of consolidation. The macro environment is not conducive for aggressive players. Hence, the management has taken a cautious approach and reduced growth for the bank to sustain itself in these difficult conditions. We have, therefore, built in a moderate growth scenario for this bank in our estimates. We expect the bank to post 23% CAGR growth in B/S size over FY08-FY10E.

Highlight of the quarter

Non-interest income contributed almost 62% to total Income, which is a cause for concern, as core NII income has declined on a sequential basis.

Valuations

At the current price of Rs 69, the stock is trading at 1.05x its FY10E ABV. The challenging macro condition will hamper the pace of over 50% at which the bank was growing earlier. The bank may be unable to expand its branch network to take its tally to 250 branches by 2010 as RBI licences are still awaited. This will affect CASA accumulation, thus keeping the cost of funds on the higher side. This will impact distribution of third-party products and so will moderate fee income growth of the bank, going ahead. There are signals of asset quality starting to deteriorate as provision has risen steeply to Rs 41 crore. The premium that it commanded due to the growth story will be curtailed as exhaustion of capital in Tier II has put the brakes on excessive growth. We have revised the P-ABV multiple from 1.5x to 1.x FY10E ABV, as other private sector banks like Axis Bank are still trading at 1.2x-1.3x FY10E ABV. We rate the stock as **UNDERPERFORMER** with a target price of Rs 62.

Exhibit 1: Key Financials

	Q3FY09	Q3FY09E	Q3FY08	Q2FY09	YoY Gr.	QoQ Gr.	9MFY09	FY09E	FY10E
NII	120.4	114.5	93.0	122.6	29.4%	-1.8%	356.0	505.0	621.9
Other Income	193.5	135.5	96.8	80.3	99.8%	141.0%	345.3	440.3	497.8
Total Income	313.9	250.0	189.9	202.9	65.3%	54.7%	701.2	945.4	1119.6
PPP	184.4	112.2	100.9	98.0	82.6%	88.2%	373.7	497.8	604.6
PAT	105.8	65.8	54.2	63.6	95.0%	66.3%	223.7	289.4	348.0
EPS	3.6	2.2	1.9	2.1	86.4%	66.4%	7.5	9.8	11.2
Key Ratios									
NIMs	2.8%	-	2.9%	2.8%	-	-	-	2.6%	2.6%
RoA	2.2%	-	1.5%	1.4%	-	-	-	1.5%	1.4%
RoE	28.4%	-	20.5%	18.1%	-	-	-	19.8%	19.0%
GNPA	0.4%	-	-	-	-	-	-	0.4%	0.6%
NNPA	0.2%	-	-	0.2%	-	-	-	0.2%	0.1%

Source: Company, ICICIdirect.com Research

Stock data....

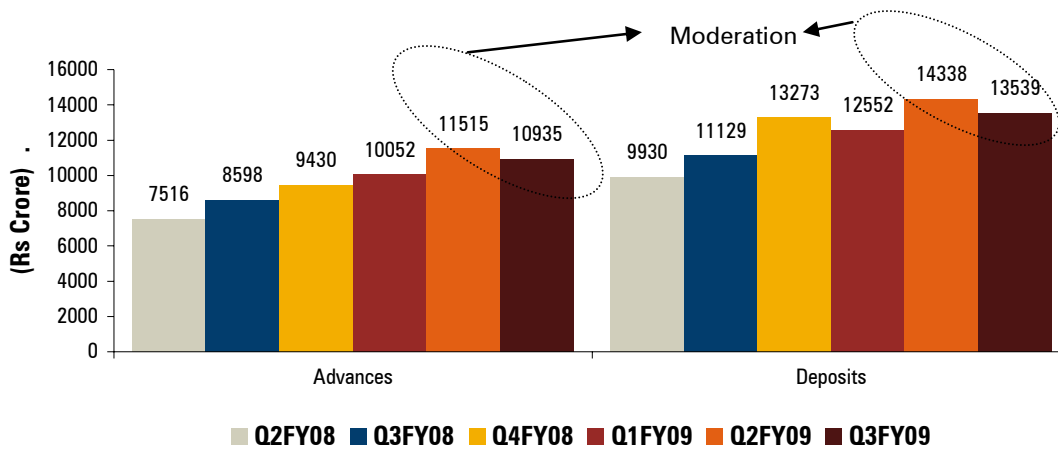
Market Cap.	Rs 2022 Cr
BV/ share	Rs 52 (Dec 08)
52 week H/L	Rs 270 / 55
Equity capital	Rs 296 Cr
Face value	Rs 10
MF Holding	2.10 %
FII Holding	23.47%

Price performance (%)

	Returns (%)			
	1M	3M	6M	12M
Yes Bank	1	-12	-31	-71
South Ind Bank	1	-25	-29	-70

Business Momentum moderating

Exhibit 2: Sequential degrowth in Advances & Deposits



Business momentum is moderating for the bank, since absolute amount of advances and deposits is declining on a sequential basis

Source: Company, ICICIdirect.com Research

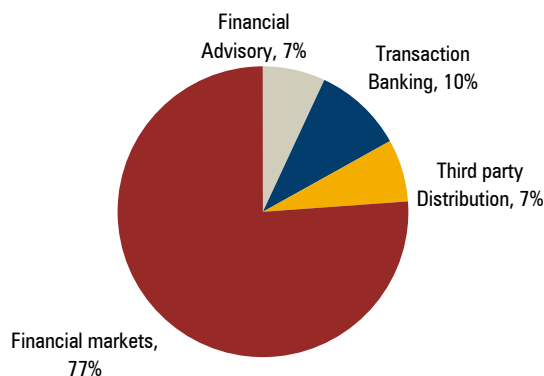
Exhibit 3: NII degrowth for the first time in bank's history

	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09	Y-o-Y	Q-o-Q
NII	91.2	106.7	113.0	122.6	120.4	32.0%	-1.8%
Non Int Income	98.6	107.6	93.9	91.8	193.5	96.1%	110.7%
Total Income	189.9	214.3	206.9	214.4	313.9	65.3%	46.4%
Oper Exp	88.9	93.4	93.1	104.9	129.5	45.7%	23.5%
Oper Profit	100.9	120.9	113.8	109.5	184.4	82.6%	68.3%
Provisions	15.7	22.8	30.8	12.3	20.4	30.0%	66.5%
Tax	31.0	33.6	28.6	33.7	58.1	87.6%	72.8%
PAT	54.2	64.5	54.3	63.6	105.8	95.1%	66.3%

Non Interest income contributing almost 62% to bottom-line, which is a cause of worry. NII degrowth on sequential basis showing deterioration of core income.

Source: Company, ICICIdirect.com Research

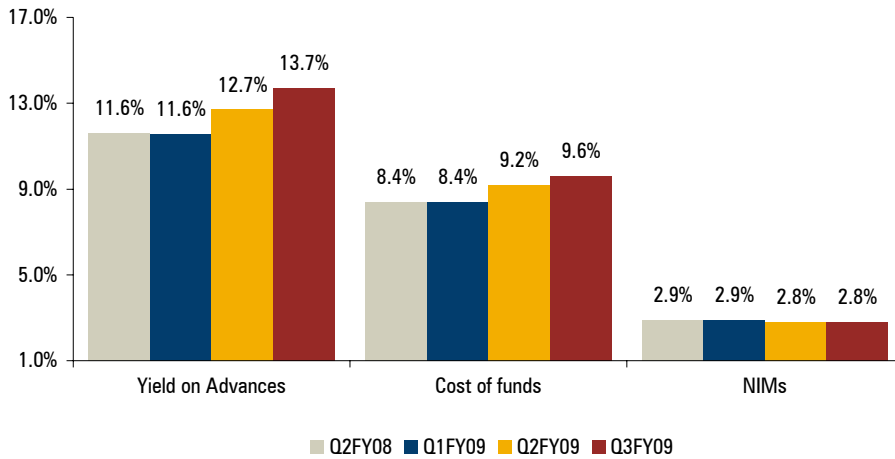
Exhibit 4: Non interest income unsustainable



Composition of non interest Income is also discomfoting with major contributor being financial markets

Source: Company, ICICIdirect.com Research

Exhibit 5: Margins maintained

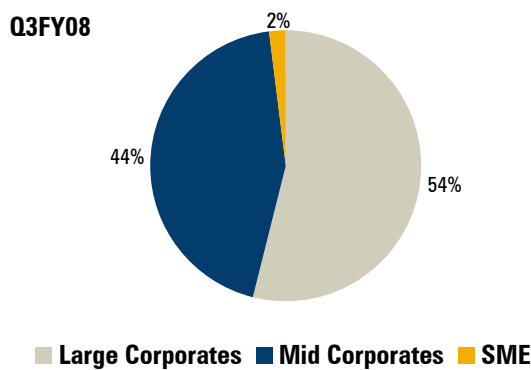


Source: Company, ICICIdirect.com Research

Retail proportion of the loan book is on the rise which can impact the asset quality, going ahead. The bank has made provision to the extent of Rs 41.2 crore in this quarter

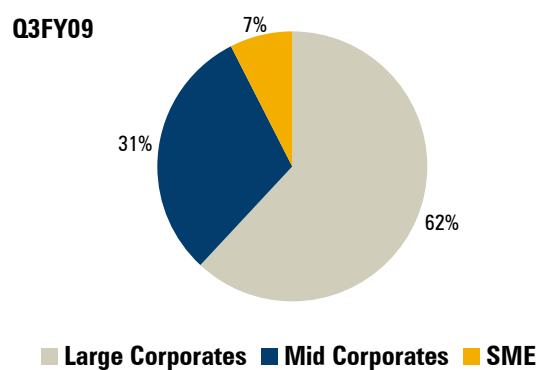
Asset quality

Exhibit 6: Loan book break up



Source: Company, ICICIdirect.com Research

Exhibit 7: SME exposure rising: A concern



Source: Company, ICICIdirect.com Research

Capital Requirement: Key concern area

Capital adequacy for the bank stood at 14.57%, which is very healthy against a regulatory requirement of 9%. The cause for concern here is Tier I capital that stood at 7.81% at the end of Q3FY09. So, the gap between Tier I capital and Tier II capital is almost negligible leaving very little room for growth in such a scenario where sources for raising capital have dried up considerably. The benefits of reducing risk weights for various asset classes should have taken effect in this quarter itself. So, the bank is currently dependent on internal accruals for growth till fresh capital is infused over a period of time. The management feels this capital can suffice for the next 50% growth in balance sheet, going ahead.

Capital

Tier I: Rs 15.4 Bn

Tier II: Rs 12.9 Bn

Valuations

At the current price of Rs 69, the stock is trading at 1.05x its FY10E ABV. The challenging macro condition will hamper the pace of over 50% at which the bank was growing earlier. The bank may be unable to expand its branch network to take its tally to 250 branches by 2010 as RBI licences are still awaited. This will affect CASA accumulation, thus keeping the cost of funds on the higher side. This will, in turn, impact the distribution of third party products and so moderate fee income growth of the bank, going ahead. There are signals of asset quality starting to deteriorate as provisions have risen steeply to Rs 41 crore. The premium that it commanded due to the growth story will be curtailed despite better than industry growth rate for advances and deposits because of the small base. We have revised the P/ABV multiple from 1.5x to 1.x FY10E ABV, as other private sector banks like Axis Bank are still trading at 1.2x-1.3x FY10E ABV. We rate the stock as **UNDERPERFORMER** with a target price of Rs 62.

Exhibit 8: Income Statement

Year to March	Rs Crore				
	Q3FY09	Q3FY08	% change	Q2FY09	% change
Interest Income	532.7	346.4	53.8%	489.7	8.8%
Interest Expended	412.3	253.3	62.7%	367.1	12.3%
Net Interest Income(NII)	120.4	93.0	29.4%	122.6	-1.8%
Non Interest Income	193.5	96.8	99.8%	80.3	141.0%
Operating Expenses	129.5	88.9	45.7%	104.9	23.5%
PBT	184.4	100.9	82.6%	98.0	88.2%
Provisions & contingencies	20.4	15.7	30.0%	0.7	2818.6%
Tax	58.1	31.0	87.7%	33.7	72.8%
PAT	105.8	54.2	95.0%	63.6	66.3%

Source: Company, ICICIdirect.com Research

Exhibit 9: Key Financials

Year to March	FY07	FY08	FY09E	FY10E
Net Profit (Rs crore)	94.4	200.0	289.4	348.3
EPS (Rs)	3.4	6.8	9.8	11.2
Growth (%)	53.2	100.7	44.7	14.6
P/E (x)	20.5	10.2	7.1	6.2
Price / Book (x)	2.5	1.5	1.3	1.0
Price / Adj Book (x)	2.5	1.6	1.3	1.1
GNPA (%)	0.0%	0.1%	0.4%	0.7%
NNPA (%)	0.0%	0.1%	0.2%	0.2%
RoNA (%)	1.2%	1.4%	1.5%	1.4%
RoE (%)	13.9%	19.0%	19.8%	19.0%

Source: Company, ICICIdirect.com Research

We have factored in 5% dilution in FY10 for future growth.

ICICIdirect.com Coverage Universe

Exhibit 10: Valuation Matrix

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	BANIND	CMP	246	FY08	2009.2	38.2	6.4	1.5	1.3%	24.3%
		Target	331	FY09E	2702.1	51.4	4.8	1.2	1.4%	22.8%
Mcap (Rs Cr)	13861	Upside (%)	34.6%	FY10E	3446.3	65.5	3.8	0.9	1.4%	23.5%
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	INDOVE	CMP	64	FY08	1222.8	22.4	2.9	0.8	1.3%	27.6%
		Target	114	FY09E	1410.4	25.9	2.5	0.7	1.3%	26.3%
Mcap (Rs Cr)	3702	Upside (%)	78.1%	FY10E	1571.9	28.9	2.2	0.6	1.3%	24.0%
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	IDBI	CMP	55	FY08	730.8	10.1	5.5	0.7	0.6%	11.2%
		Target	85	FY09E	716.8	9.9	5.6	0.7	0.5%	10.0%
Mcap (Rs Cr)	4458	Upside (%)	54.5%	FY10E	777.5	8.9	6.1	0.6	0.5%	8.8%
Oriental Bank of Commerce					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	ORIBAN	CMP	143	FY08	841.3	33.6	4.3	0.7	1.0%	14.8%
		Target	192	FY09E	838.1	33.5	4.3	0.7	0.9%	14.3%
Mcap (Rs Cr)	3873	Upside (%)	34.3%	FY10E	928.5	37.1	3.9	0.6	0.8%	14.7%
PNB					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	PUNBAN	CMP	427	FY08	2048.8	65.0	6.6	1.2	1.1%	18.0%
		Target	543	FY09E	2482.1	78.7	5.4	1.1	1.2%	19.6%
Mcap (Rs Cr)	14926	Upside (%)	27.2%	FY10E	2885.0	91.5	4.7	1.0	1.2%	21.7%
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	STABAN	CMP	1090	FY08	67.3	106.6	10.2	1.5	1.0%	16.8%
		Target	1434	FY09E	87.1	137.9	7.9	1.4	1.1%	16.5%
Mcap (Rs Cr)	73756	Upside (%)	31.6%	FY10E	101.9	161.4	6.8	1.2	1.2%	16.7%
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	KOTMAH	CMP	274	FY08	293.9	8.5	32.1	2.8	1.2%	11.4%
		Target	476	FY09E	222.3	6.5	42.5	2.7	0.7%	6.1%
Mcap (Rs Cr)	11383	Upside (%)	73.7%	FY10E	316.9	7.7	35.7	2.5	0.6%	6.7%
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	YESBAN	CMP	69	FY08	200.0	6.8	10.9	1.7	1.4%	19.0%
		Target	62	FY09E	255.4	8.6	8.6	1.4	1.3%	17.7%
Mcap (Rs Cr)	2216	Upside (%)	-10.1%	FY10E	285.5	9.7	7.7	1.2	1.2%	16.6%
IDFC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	IDFC	CMP	55	FY08	754.2	5.8	9.4	1.3	3.2%	17.7%
		Target	93	FY09E	849.1	6.2	8.8	1.1	2.7%	13.5%
Mcap (Rs Cr)	7441	Upside (%)	69.1%	FY10E	1048.7	7.7	7.2	0.9	2.8%	13.3%
LICHF					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	LICHF	CMP	219	FY08	387.2	45.6	4.8	1.2	1.8%	22.9%
		Target	311	FY09E	478.5	56.3	3.9	0.9	1.8%	22.9%
Mcap (Rs Cr)	1888	Upside (%)	42.0%	FY10E	578.0	60.2	3.6	0.7	1.8%	21.4%
MOSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	MOTOSW	CMP	61	FY08	162.0	11.4	5.3	1.2	9.6%	22.8%
		Target	55	FY09E	87.3	6.1	9.9	1.1	5.3%	11.6%
Mcap (Rs Cr)	945	Upside (%)	-9.8%	FY10E	97.3	6.9	8.9	1.0	5.7%	11.4%
Rel Cap					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA	RoE
Idirect Code	RELCAP	CMP	390	FY08	1005.7	40.9	10.0	1.5	8.9%	16.9%
		Target	517	FY09E	1032.4	41.9	9.8	1.3	5.8%	14.6%
Mcap (Rs Cr)	10746	Upside (%)	32.6%	FY10E	1173.8	47.7	8.6	1.2	5.5%	14.6%

Source: Company, ICICIdirect.com Research

Peer Valuation

Exhibit 11: Valuation matrix

	CMP	TP	Ratings	M Cap Rs Cr.	EPS (Rs)			P/E (x)			PABV (Rs)			RoNA			RoE		
					FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
South Indian Bank	53	NA	NA	635	12.8	16.1	18.3	5.0	4.0	3.5	0.6	0.6	0.5	1.0%	1.1%	1.0%	15.4%	15.7%	15.7%
Yes Bank (YESBAN)	69	62	UP	2022	6.8	8.6	9.7	10.9	8.6	7.7	1.7	1.4	1.2	1.4%	1.3%	1.2%	19.0%	17.7%	16.6%

Source: Company, ICICIdirect.com Research, Reuters, indiaearnings.com

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