

## Company Focus

SMALL &  
MID CAP

23 April 2009 | 9 pages

# Yes Bank (YESB.BO)

Estimate change ☒

## Sell: 4Q09 Results – Good Quarter; Not All Clear

- Profits up 24%yoy; 11% ahead of estimates** — Yes Bank's 4Q09 earnings were driven by higher margins and sharp cost reductions. Asset quality deterioration, however, continues to rise and core fees (excluding treasury) declined 16% yoy. Easy liquidity, low interest rates and moderating risk aversion are benefits; we believe captured by sharp 90%+ rise in stock price, valuations (1.3x P/BV) given its higher risk profile. We raise earnings 7-9% over FY10-11E to factor in higher FY09 earnings, but maintain Sell (3H) with a target price of Rs75.
- Margins boosted by easy liquidity; but fees moderate** — Yes Bank's NIMs increase about 20bps in 4Q09 boosted by a) excess liquidity in the system and b) its own higher leverage to the lower rate/easy liquidity environment. Continued higher liquidity should provide margin support medium term. Fee income growth (excluding treasury), however, declined 16% yoy, led by a drop in retail (slower environment and employee reductions) and financial advisory.
- Basel 2 releases capital; re-accelerates balance sheet growth in 4Q** — Yes Bank's Tier 1 levels jumped 170bps (9.5% now) on shifting to Basel 2. Balance sheet growth re-accelerated (13% loan growth sequentially after contracting in 3Q) and management has guided to 25-30% loan growth in FY10E.
- Asset deterioration still rising; remain cautious** — Yes Bank's 4Q asset deterioration levels at 1.25% of loans continue to rise; recent acceleration in pace of growth and its mid market book has high economic leverage, which is still on watch rather than all clear. Restructured loans at less than 0.5% of the book (including pipelines), however, provide downside cushion to asset quality.

<b>Sell/High Risk</b>	<b>3H</b>
Price (23 Apr 09)	Rs73.55
Target price	Rs75.00
Expected share price return	2.0%
Expected dividend yield	0.0%
<b>Expected total return</b>	<b>2.0%</b>
Market Cap	Rs21,843M
	US\$434M

### Price Performance (RIC: YESB.BO, BB: YES IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2007A	944	3.43	45.8	21.4	2.6	13.9	0.0
2008A	2,000	6.95	102.5	10.6	1.6	19.0	0.0
2009E	3,038	10.27	47.8	7.2	1.3	20.7	0.0
2010E	3,334	11.27	9.7	6.5	1.1	18.6	0.0
2011E	4,282	14.48	28.4	5.1	0.9	19.7	0.0

Source: Powered by dataCentral

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<sup>1</sup>Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
<b>Valuation Ratios</b>					
P/E adjusted (x)	21.4	10.6	7.2	6.5	5.1
P/E reported (x)	21.4	10.6	7.2	6.5	5.1
P/BV (x)	2.6	1.6	1.3	1.1	0.9
P/Adjusted BV diluted (x)	2.6	1.6	1.3	1.1	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>Per Share Data (Rs)</b>					
EPS adjusted	3.43	6.95	10.27	11.27	14.48
EPS reported	3.43	6.95	10.27	11.27	14.48
BVPS	28.11	44.59	54.86	66.13	80.61
Tangible BVPS	28.11	44.59	54.86	66.13	80.61
Adjusted BVPS diluted	28.11	44.59	54.86	66.13	80.61
DPS	0.00	0.00	0.00	0.00	0.00
<b>Profit &amp; Loss (RsM)</b>					
Net interest income	1,714	3,367	5,112	6,628	8,837
Fees and commissions	1,116	2,051	2,358	3,066	3,986
Other operating Income	891	1,556	2,142	1,903	2,254
<b>Total operating income</b>	<b>3,721</b>	<b>6,974</b>	<b>9,612</b>	<b>11,597</b>	<b>15,077</b>
Total operating expenses	-1,935	-3,412	-4,186	-5,547	-7,237
<b>Oper. profit bef. provisions</b>	<b>1,786</b>	<b>3,562</b>	<b>5,427</b>	<b>6,050</b>	<b>7,840</b>
Bad debt provisions	-254	-204	-617	-974	-1,349
Non-operating/exceptionals	-95	-293	-150	-100	-100
<b>Pre-tax profit</b>	<b>1,436</b>	<b>3,065</b>	<b>4,659</b>	<b>4,976</b>	<b>6,391</b>
Tax	-493	-1,065	-1,621	-1,642	-2,109
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
<b>Attributable profit</b>	<b>944</b>	<b>2,000</b>	<b>3,038</b>	<b>3,334</b>	<b>4,282</b>
Adjusted earnings	944	2,000	3,038	3,334	4,282
<b>Growth Rates (%)</b>					
EPS adjusted	45.8	102.5	47.8	9.7	28.4
Oper. profit bef. prov.	80.1	99.5	52.3	11.5	29.6
<b>Balance Sheet (RsM)</b>					
<b>Total assets</b>	<b>111,034</b>	<b>169,824</b>	<b>210,122</b>	<b>263,084</b>	<b>341,592</b>
Avg interest earning assets	71,280	129,515	175,149	220,394	284,173
Customer loans	62,897	94,324	124,362	160,355	211,379
Gross NPLs	0	106	841	2,218	3,432
<b>Liab. &amp; shar. funds</b>	<b>111,034</b>	<b>169,824</b>	<b>210,122</b>	<b>263,084</b>	<b>341,592</b>
Total customer deposits	82,204	132,732	161,694	202,556	266,448
Reserve for loan losses	0	21	331	988	1,691
Shareholders' equity	<b>7,871</b>	<b>13,189</b>	<b>16,228</b>	<b>19,562</b>	<b>23,844</b>
<b>Profitability/Solvency Ratios (%)</b>					
ROE adjusted	13.9	19.0	20.7	18.6	19.7
Net interest margin	2.40	2.60	2.92	3.01	3.11
Cost/income ratio	52.0	48.9	43.5	47.8	48.0
Cash cost/average assets	2.5	2.4	2.2	2.3	2.4
NPLs/customer loans	0.0	0.1	0.7	1.4	1.6
Reserve for loan losses/NPLs	na	20.0	39.3	44.5	49.3
Bad debt prov./avg. cust. loans	0.6	0.3	0.6	0.7	0.7
Loans/deposit ratio	76.5	71.1	76.9	79.2	79.3
Tier 1 capital ratio	8.2	8.5	9.5	9.1	8.5
Total capital ratio	13.6	13.6	15.6	15.3	14.4

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Figure 1. Yes Bank: 4Q09 Results – Highlights (Rupees Million, Percent)

	4Q09	4Q08	YoY %	3Q09	QoQ%	CIRA Comments
Interest Income	5,663	3,885	45.8	5,327	6.3	Sequential drop in loan yields by about 70 bps; largely offset by a jump in investment yields
Interest Expense	(4,111)	(2,800)	46.8	(4,123)	-0.3	Helped by excess systemic liquidity during the quarter
Net Interest Income	1,552	1,085	43.1	1,204	28.9	Increase in NIMs will likely be sustainable in the near term given continued easy liquidity environment
Non Interest Income	898	1,058	-15.2	1,935	-53.6	Sharp QoQ drop largely due to high trading gains in 3Q09; there is however, a moderation in growth for other retail fees as well
Operating Income	2,450	2,143	14.3	3,139	-22.0	
Operating Expenses	(910)	(934)	-2.5	(1,295)	-29.7	Sharp reduction in employee expenses - management attributes to lower employee base and excess provisioning in 9M09
Pre-Provision Profit	1,539	1,209	27.3	1,844	-16.5	
Charges for Bad Debts	(322)	(228)	40.9	(412)	-21.9	Charge-offs appear to have stabilized - though we believe still needs to be watched carefully
Other Operating Items	0	0	NM	208	NM	
Operating Profit	1,218	981	24.1	1,639	-25.7	
Pre-Tax Profit	1,218	981	24.1	1,639	-25.7	
Tax	(416)	(336)	24.0	(581)	-28.4	
<b>Net Profit</b>	<b>801</b>	<b>645</b>	<b>24.2</b>	<b>1,058</b>	<b>-24.3</b>	<b>11% higher than estimates; better NIMs and strong cost control the key drivers</b>
EPS	2.7	2.2	23.7	3.6	-24.3	
Customer Loans	124,031	94,300	31.5	109,349	13.4	Sharp jump in growth after a low 3Q09, management maintains guidance of 25-30% with risks of upside in case economy recovers early
Customer Deposits	161,694	132,730	21.8	135,391	19.4	Deposit growth largely matched by rise in CASA - overall proportion remains around 9%
AIEA	214,469	141,805	51.2	172,739	24.2	
AIBL	162,233	130,750	24.1	151,929	6.8	
Total Assets	229,008	160,248	42.9	197,470	16.0	
Avg Assets	213,239	155,289	37.3	193,556	10.2	
Non-Performing Loans (NPL)	849	106	703.5	484	75.4	Contributed largely by 1-2 accounts incrementally. Restructuring (including pipeline) is about Rs500m - less than 0.5% of loans
Loan Loss Reserves (LLR)	(438)	(21)	1974.4	(321)	36.2	
Shareholders' Funds	16,242	13,188	23.2	15,441	5.2	
Book Value Per Share	54.7	44.6	22.7	52	5.2	
<b>Key Ratios (%)</b>	<b>4Q09</b>	<b>4Q08</b>	<b>Bps Δ YoY</b>	<b>3Q09</b>	<b>Bps Δ QoQ</b>	
ROAA (annualized)	1.50	1.66	-16	2.19	-68	
ROAE (annualized)	19.73	19.56	17	27.41	-768	
Net Interest Margin (bps)	289	306	-17	279	11	YoY drop in NIMs due to higher float money in 4Q08 - management says current levels appear sustainable. However, will be sensitive to interest rate / liquidity environment
Non-Interest Inc/Op Inc	36.6	49.4	-1274	61.6	-2500	
Op. Cost/ Operating Income	37.2	43.6	-641	41.3	-410	Sharp reduction in costs - targeted levels of around 46-48% in the medium term
Loan-to-Deposit Ratio (LDR)	76.7	71.0	566	80.8	-406	
NPL/Loan Ratio	0.7	0.1	57	0.4	24	
LLR/NPL Ratio	51.5	20.0	NM	66.4	-1,483	Total coverage levels of around 145% provides cushion to incremental loan losses

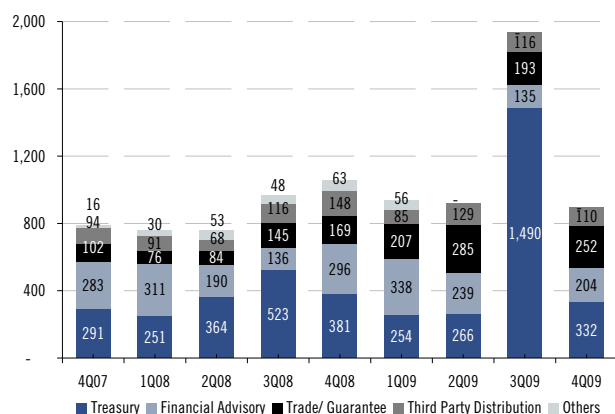
Source: Citi Investment Research and Analysis

Figure 2. Earnings Revision Summary

	Net Profit			EPS			DPS	
	Old	New	% change	Old	New	% change	Old	New
FY09E	2,423	3,038	25.4	8.2	10.3	25.4	0.0	0.0
FY10E	3,098	3,334	7.6	10.5	11.3	7.6	0.0	0.0
FY11E	3,928	4,282	9.0	13.3	14.5	9.0	0.0	0.0

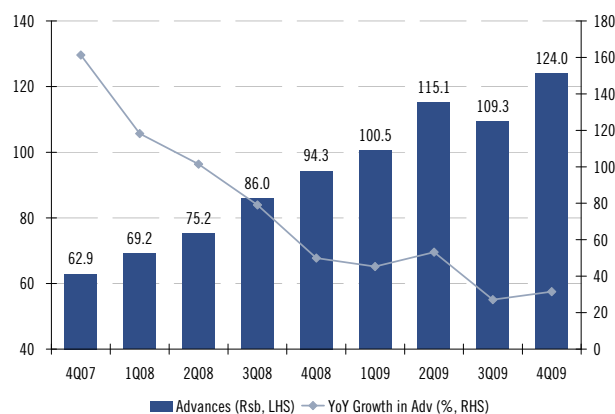
Source: Citi Investment Research and Analysis

Figure 3. Segmental Composition of Non-Interest Income (Rsm)



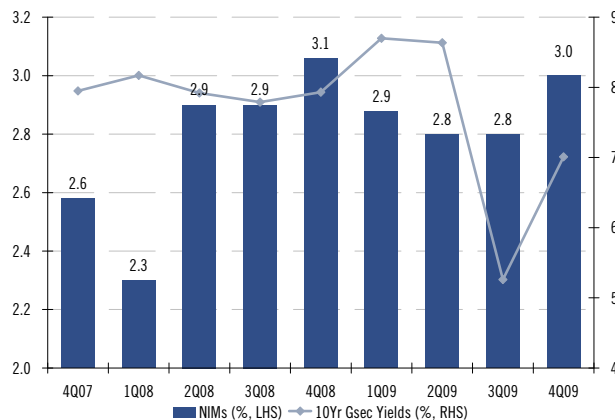
Source: Company Reports

Figure 5. Advances (Rsb, LHS) and its YoY Growth (% , RHS)



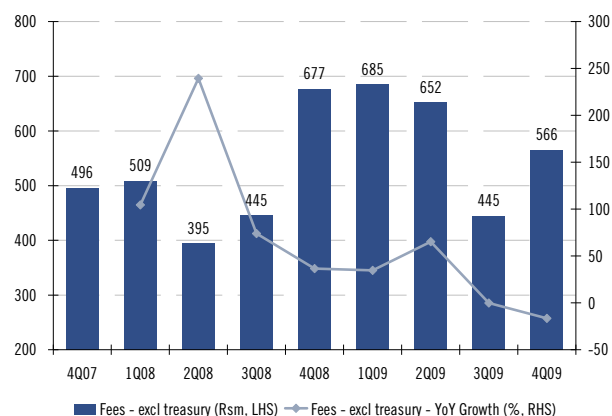
Source: Company Reports

Figure 7. Net Interest Margin (% , LHS) and 10 Year Gov Bond Yield (% , RHS)



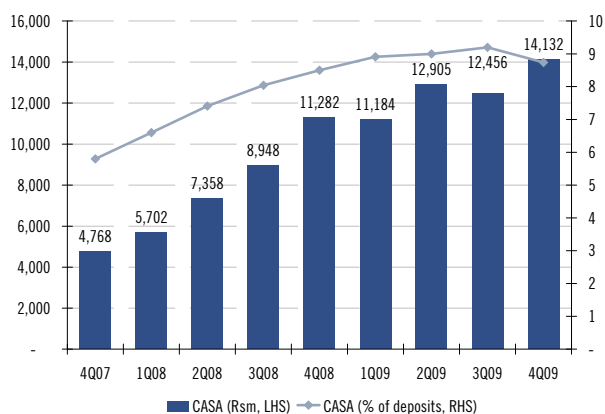
Source: Company Reports

Figure 4. Fees-Excluding-Treasury Income (Rsm) and its YoY Growth (%)



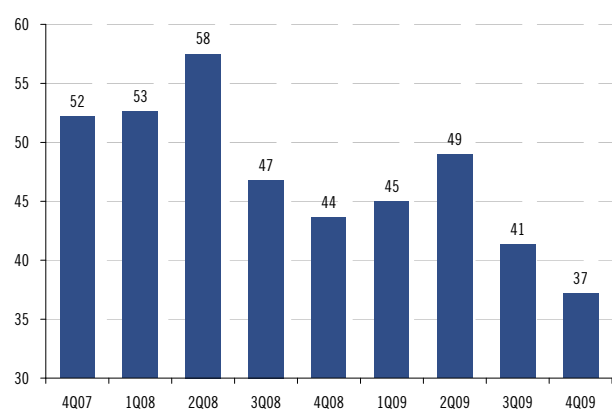
Source: Company Reports

Figure 6. CASA (Rsb, LHS) as a proportion (% , RHS) of Total Deposits



Source: Company Reports

Figure 8. Cost to Income Ratio (%)



Source: Company Reports

## Yes Bank

### Company description

Yes Bank was started in FY05 by Mr. Rana Kapoor and Mr. Ashok Kapur, and is the newest private-sector bank in India. It has grown rapidly since inception and what it lacks in size it makes up with strong growth, quality management, and a rapidly building franchise. The bank has 117 branches and management suggests a target of over 250 branches by December 2010. In FY08, the bank grew total assets by 53% to Rs170bn and net profits by 112% to Rs2bn.

### Investment strategy

We rate Yes Bank Sell/High Risk (3H) with an EVA-based Rs75 target price. Yes Bank has shown aggressive growth, strong execution skills, a focused asset portfolio, strong treasury and advisory income businesses with relatively low NPLs so far. Yes is highly leveraged to a strong economy for its consistently high growth and strong quality. While a step down for the economy will slow loan growth; the key will be asset quality - which is more vulnerable due to its recent high growth and relatively concentrated mid-market exposure. We believe the environment has turned more challenging. Its aggressive growth and wholesale funding makes it vulnerable to a) slower GDP growth; b) questionable asset quality outlook, given its mid-market focus; c) tighter liquidity/interest rates; d) capital market related fee incomes. While there is little pain as of now, risks are clearly up.

### Valuation

We value Yes Bank at Rs75 per share based on our EVA model. Our key assumptions are a) longer-term spreads of 1.6%, slightly lower than most peers (industry average 2.0%) given its structurally lower spreads; b) 110bps loan loss provisioning over the longer term, in line with private banks; and c) 43% longer-term cost-income ratio, in line with peers. Our EVA valuation is premised on an 8.0% risk-free rate, consistent with our assumptions for other Indian banks. We also benchmark our valuations at 1.25x 1yr Fwd PBV, translating into a fair value of Rs72 per share. Our benchmark PBV multiple for Yes Bank is at a sharp discount to best-of-breed private banks like HDFC Bank and Axis, reflecting its much weaker liability franchise and a more concentrated mid-market asset exposure. We prefer EVA as we believe it better captures longer-term value of the business, and is in line with our approach to valuing other banks in the sector.

### Risks

We rate Yes Bank High Risk based on our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key upside risks to the stock price are: a) any reversal in the cautious macro environment, especially a bounce-back in the overall domestic growth; b) reversal in currently challenging asset quality environment; c) stronger capital markets given its relatively high proportion of fees from related activities; and d) easier liquidity and interest rate environment.

# Appendix A-1

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### Yes Bank (YESB.BO)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Manish Chowdhary, CFA  
Covered since September 25 2007

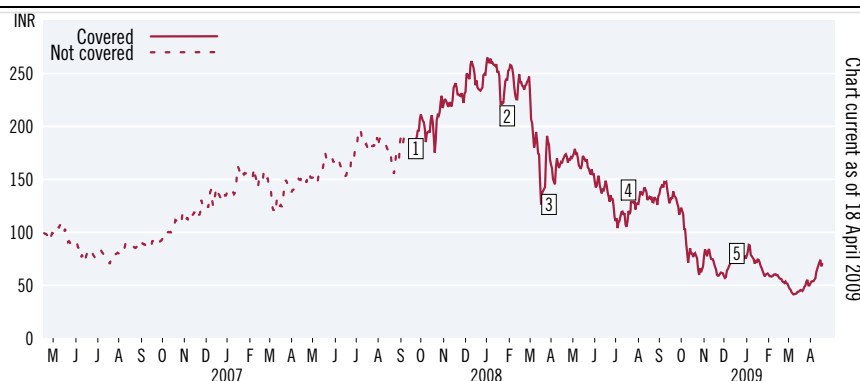


Chart current as of 18 April 2009

Date	Rating	Target Price	Closing Price
1 24-Sep-07	*1M	*230.00	186.95
2 30-Jan-08	1M	*300.00	244.25

Date	Rating	Target Price	Closing Price
3 28-Mar-08	1M	*260.00	182.65
4 18-Jul-08	*3H	*115.00	120.20

Date	Rating	Target Price	Closing Price
5 18-Dec-08	3H	*75.00	78.10

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2009

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