INDIA RESEARCH

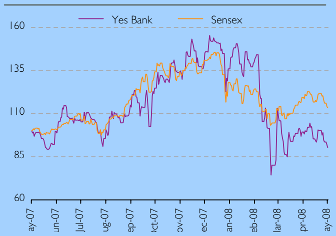
27 May 2007

BSE Sensex: 16276

SECTOR: FINANCIALS

Stock data	
Reuters	YESB.BO
Bloomberg	YES IN
1-yr high/low (Rs)	277.8/120.5
1-yr avg daily volumes ('000)	1.616
Free Float (%)	66.0

Price performance



Performance (%)

	3-mth	6-mth	1-yr	3-yr
Yes Bank	(33.6)	(33.0)	(9.7)	-
Sensex	(11.4)	(14.9)	13.5	142.6

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Initiating coverage

Yes Bank

Rs155
OUTPERFORMER

Say 'Yes' to growth

Mkt Cap: Rs45.7bn; US$1.1bn

A strong growth story is unfolding at Yes Bank. The bank's business model revolves around providing an integrated product offering to clients. Fee income is a large component of revenues, and is driving improvement in the bank's RoA. Expanding geographical coverage and differentiated offerings through sector knowledge are propelling NII momentum. While the focus is on increasing the low CASA ratio, tightness in liquidity conditions and rise in domestic interest rates impart volatility to margins. We expect a 42% CAGR in the bank's earnings over FY08-10, driven by strong performance in core income and operating leverage. RoE is expected to be subdued at ~18% over FY08-10 due to the opportunistic capital raising strategy. Based on CAP model, we assign a 12-month price target of Rs260 (3.4x FY10E book), a potential upside of ~67% from here.

Strong and well- incentivized management: Yes Bank, the only greenfield bank set up in India in the last decade, is well-poised to grow driven by the management's robust execution capabilities and vast experience. The bank has a headstart on the back of existing industry relationships of promoters and the management team. Yes Bank management is well-incentivized and its interests aligned with an ESOP scheme comprising ~7.6% of outstanding share capital.

On a high growth trajectory: Yes Bank has gained critical mass on the back of an integrated product offering for customers, strategic focus on cross-selling, expanding geographical coverage and value-added proposition through sector expertise. Fee income has registered 91% CAGR over FY06-08, which has led to an uptrend in RoA. However, the bank's liability franchise is weak relative to peers given its low share of CASA in deposits. The unique outsourced technology model lends scalability to the bank, with operating leverage expected to kick in as scale increases.

Strong earnings momentum, attractive valuations; Outperformer: We expect strong performance in core income streams and operating leverage to drive 42% earnings CAGR over FY08-10. RoA is set to improve to 1.5% by FY10, while RoE (average of 18% over FY08-10) may remain modest in the near term due to opportunistic capital raising. At 2.4x FY09E and 2x FY10E adjusted book, the stock trades at the lower end of its historic P/B band. Initiating coverage with Outperformer and a 12-month price target of Rs260 (3.4x FY10E adjusted book).

Key valuation metrics

Year to 31 March	FY06	FY07	FY08	FY09E	FY10E
Net profit (Rs mn)	553	944	2,000	2,884	4,048
yoy growth (%)	*(1,571.7)*	*70.6*	*112.0*	*44.2*	*40.4*
Shares in issue (mn)	270.0	280.0	294.7	314.7	314.7
EPS (Rs)	2.0	3.4	6.8	9.2	12.9
EPS growth (%)	(1,190.1)	64.5	101.4	35.0	40.4
PE (x)	75.4	45.8	22.8	16.9	12.0
Book value (Rs/share)	21.2	28.1	44.8	63.8	76.7
Adj. Book value (Rs/share)	21.2	28.1	44.8	63.8	76.7
P/ Adj. Book (x)	7.3	5.5	3.5	2.4	2.0
RONW (%)	14.1	13.9	19.0	17.3	18.3

Content

INVESTMENT ARGUMENT

Yes Bank is geared to join the league of big private banks. A strong and well-incentivized management, coupled with focus on niche segments, has enabled the bank to acquire a footprint despite its late entry in the crowded banking space. A strong fee income based repertoire has been the key foundation of the bank's growth strategy. However, given its low CASA base, Yes Bank is vulnerable to any tightness in liquidity and rise in domestic interest rates. Overall, we expect 42% CAGR in net profit over FY08-10, driven largely by strong performance in the core income streams and benefit of operating leverage playing out. The recent correction provides an attractive entry point to the stock. Considering the high growth potential, we have valued Yes Bank at Rs260 (3.4x FY10E book) based on the CAP model and offers potential upside of ~67% from here. Improving return ratios could lead to further re-rating of the stock.

❑ Strong and well-incentivized management

Sound execution capabilities enriched by promoter credentials

Yes Bank has managed to acquire a footprint in the already crowded banking space on the back of a strong management team with relevant industry expertise to spearhead the different business verticals and functions. Over a period of three years since inception, Yes Bank has developed sound execution capabilities, further enriched by promoter credentials. The bank has well-incentivized employee economics in place, including a stock option plan for senior management and new recruits. As of December 2007, senior management and employees hold 7.59% of the outstanding (fully diluted) capital. With management bandwidth already in place, operating leverage would kick in as the bank gains scale.

❑ A focused approach - one of the key differentiators

Knowledge banking approach – a differentiator for Yes Bank

Yes Bank has achieved success in the banking space through a focused approach towards high-growth segments (including food & agri and infrastructure) and by leveraging the experience, knowledge and operating strengths of the management team. The team is organized into a matrix structure with product teams and sector specialists working in tandem to offer customized financial solutions to clients across business segments. The 'knowledge banking' approach acts as a differentiator for the bank as well as culminates into a more effective cross-sell of products. Another differentiating factor for Yes Bank has been its outsourced technology model. The strategy allows the bank quick access to state-of-the-art technology on the back of strategic relationships with specialized vendors and scalability as the business gains momentum.

❑ Fee income – a cornerstone of the growth strategy

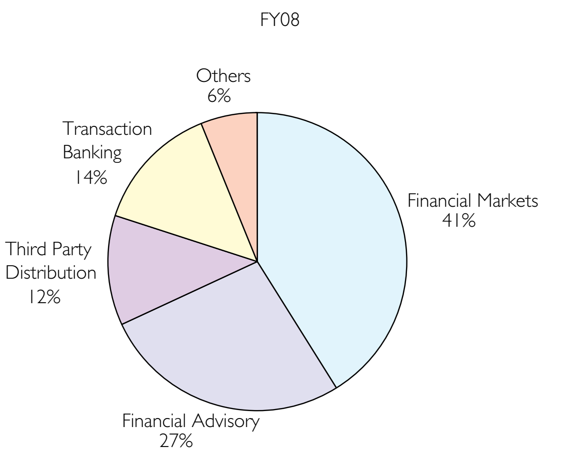
Fee income contributed ~51% to revenues and imparts ability to generate superior RoA

The bank was set up with the strategic objective of becoming 'One Bank' for its customers, and offers an integrated suite of products. The bank has a comprehensive product suite catering to different customer verticals ranging from financial advisory, financial markets to third party distribution. Given its small size, Yes Bank has built a strong fee-income based model. Income from fee-based products is the mainstay of the revenue base and contributes ~51% of the net revenues, thereby imparting the ability to generate superior RoA. Fee income has registered 91% CAGR over the last two years led by increased traction in the financial markets and the capital market advisory segments.

We expect 35% CAGR in fee income over FY08-10

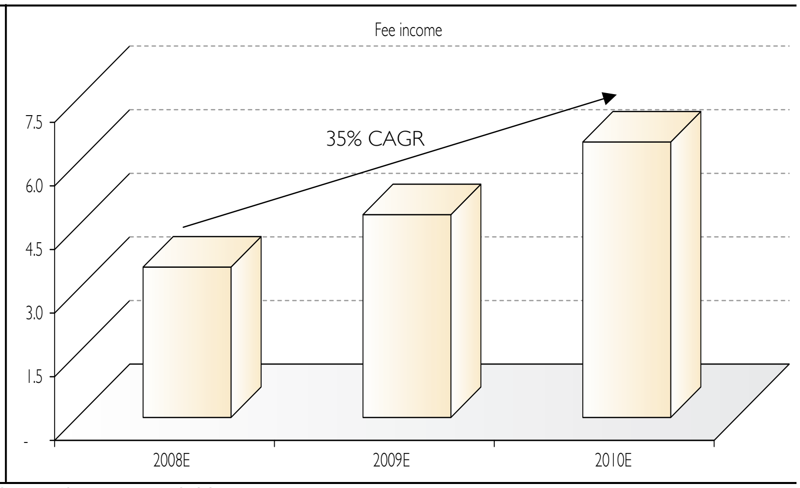
The key risk to the bank's fee based income is its correlation with capital markets (subject to volatility). The recent furor in the forex derivative segments has also put a question mark on sustainability of growth in the fee income business. We expect Yes Bank's fee income to register 35% CAGR over FY08-10, largely driven by fee income from third party product distribution and trade-related fees. We are building in a moderate 20% CAGR in business from the capital market advisory and financial markets.

Exhibit 1: Fee income mix - FY08 (% of total)



Source: Company

Modest traction in fee income built in (Rs mn)



Source: Company, IDFC-SSKI Research Estimates

❑ A weak liability profile

Low share of retail deposits in funding mix; exposed to risk of tight liquidity and rise in domestic interest rates

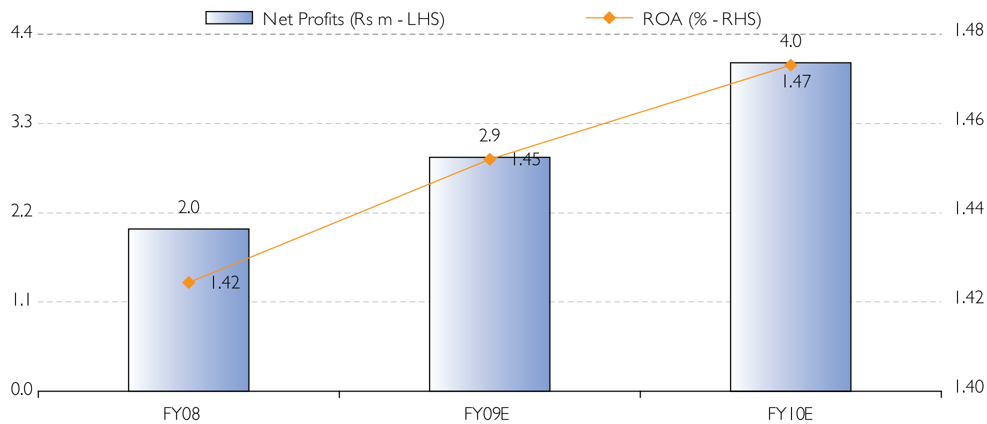
Yes Bank has a low share of retail deposits in its funding mix vis-à-vis some of the other banks, which puts it at a disadvantage. Though we expect the share of CASA to increase from 8.5% in FY08 to 13% in FY10, the bank would still be heavily dependent on wholesale funding. This leaves the bank with relatively higher exposure to any tightness in liquidity and rise in domestic interest rates. The concern was manifested in Q4FY07 and Q1FY08 when due to a general tightness in the market, cost of funds shot up and led to lower margins.

❑ Earnings momentum to be sustained

Sustained growth in NII and operating leverage to drive 42% 2-year CAGR in net profit

We expect 42% CAGR in Yes Bank's net profit over FY08-10, driven by sustained momentum in NII on the back of steady growth in advances and the benefit of operating leverage. We expect margins to expand on the back of increasing share of CASA in deposits and stabilizing yield on advances. The benefit of the imminent capital raising would also lend support to margin growth. However, fee income growth would witness some moderation given the high correlation with the performance of capital market and the recent furor on derivative transactions. Provision costs are expected to increase as the portfolio gets seasoned and the bias tilts towards the SME segment. Overall, the operating metrics (RoA) of the bank are expected to improve from 1.4% in FY07 to 1.5% by FY10. We estimate an average RoE to be restricted to 18% over FY08-10 in view of the capital raising.

Exhibit 2: Traction in earnings



Source: Company, IDFC-SSKI Research

❑ Attractive valuations

Buy with a price target of Rs260 per share based on the CAP model

Given its capable management and sustainable business model, we expect Yes Bank to generate superior RoA over the long term. The market had rewarded the stock with a re-rating on Market Cap/ Assets basis. However, the recent correction offers an attractive entry point as the stock currently trades in the lower band of its historical price/ book band. Considering the strong growth potential, we have valued Yes Bank based on the CAP model. We initiate coverage on the stock with a 12-month price target of Rs260, which corresponds to 3.4x FY10E adjusted book and offers potential upside of ~67% from here. Improving return ratios could lead to further re-rating of the stock.

Exhibit 3: Comparative metrics

(Rs m)	RoA (%)	RoA (%)	Net profit	RoE (%)	P/BV (x)			Tier-I CAR (%)
	FY08	FY10E	FY08-10E	FY10E	FY08	FY09	FY10	Current
HDFC Bank	1.4	1.4	36.5	19.2	3.9	3.5	3.0	10.50
ICICI Bank	1.1	1.3	27.0	12.0	2.2	2.0	1.8	11.76
Axis Bank	1.2	1.1	32.0	17.8	3.4	2.9	2.5	10.17
ING Vysya	0.7	0.8	30.9	14.3	2.1	1.8	1.6	6.80
Yes Bank	1.4	1.5	43.3	17.7	3.6	2.4	2.0	8.52

Source: Companies, IDFC-SSKI Research

❑ Key risks

Low proportion of CASA, concentration risk in fee income coupled with opportunistic capital raising pose key risks

We have identified a few risks to our profit and growth projections for Yes Bank. While the management is focused on improving CASA share, Yes Bank would remain primarily wholesale funded in the near term, and therefore margins are subject to volatility in liquidity levels and interest rates. Also, the portfolio builds in concentration risk on two counts: i) high proportion of fee income correlated directly or indirectly to capital markets, and; ii) geographical reach currently concentrated to a few metros. Also, Yes Bank management's strong execution capabilities are a key growth catalyst, which may be impeded in case of attrition. Further, the bank's opportunistic capital raising strategy (with timing unknown) causes uncertainty of returns for potential investors in the year of capital raising. In other words, the above factors would be the key monitorables going forward.

BUSINESS PROFILE

In the inception years, asset growth at Yes Bank was driven by the large corporates segment. Having gained critical mass in the last few years, the bank is increasingly focusing on emerging corporates and SMEs to achieve a balance between profitability and growth. Given that the liability mix is biased towards wholesale funds, retail customers are not a focus segment for the bank in the near term. A key strategic emphasis for Yes Bank is capitalizing on cross-selling fee products to its large client base across segments. Yes Bank has a strong fee income franchise, which accounts for a dominant portion of the bank's revenues.

CUSTOMER SEGMENTS DEFINED

Yes Bank caters to two broad customer clusters – corporates and retail:

- Corporate segment includes two subgroups -large corporates and SME clients;
- Retail customers (individuals as well as SMEs with turnover below Rs0.05bn).

Exhibit 4: Customer segments defined

Customer Segment	Definition
Large corporates	● Large corporates (including MNCs) & institutions with a turnover exceeding Rs7.5bn
SME clients	● Emerging corporates (ECBs) - turnover: Rs1bn- 7.5bn ● Small & medium enterprises (SME) - turnover: Rs0.05bn- 1bn

Retail customers	● Individual customers segmented based on income:
	  ● Mass affluent (Rs0.5m-2.5m)
	  ● Affluent (Rs2.5m-20m)
	  ● HNIs (>Rs20m)
	● SMEs with turnover below Rs0.05bn

Source: Company

YES BANK: A WHOLESALE BANK

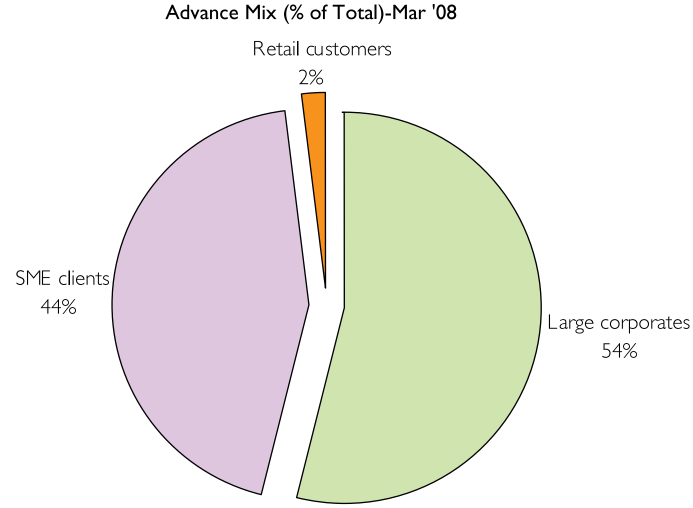
Yes Bank is a wholesale bank, as retail forms a negligible portion of the bank's asset and liability mix. As for any new bank, large corporates form bulk of Yes Bank's asset book. With increasing risk appetite and to achieve a trade-off between growth and margins, the bank is set to grow the SME banking segment, while adopting a selective strategy in the retail space.

❑ Asset mix tilted towards large corporates; SME to drive growth

Yes Bank has a small retail book; management plans to limit exposure to the segment

As of March 2008, large corporates contributed ~54% to the bank's advances. The management's focus on other segments would result in a decline in share of large corporates in the advance mix, logical in the context of lower margins in the business (due to pricing pressures) and the bank's smaller balance sheet size relative to peers. The SME segment is set to emerge as the future growth driver for Yes Bank. Having registered an over 100% yoy growth, the segment constituted ~44% of the bank's advances as of March 2008 (as against ~26% in March 2007). Notably, Yes Bank has a small retail book at ~2% of total advances. In FY09, the management plans to limit its retail exposure due to the higher credit losses suffered in this portfolio by the banking system and higher operating expenses associated with retail, which in turn exert pressure on margins.

Exhibit 5: Large corporates – low-risk business; SME to drive growth



Source: Company, IDFC-SSKI Research

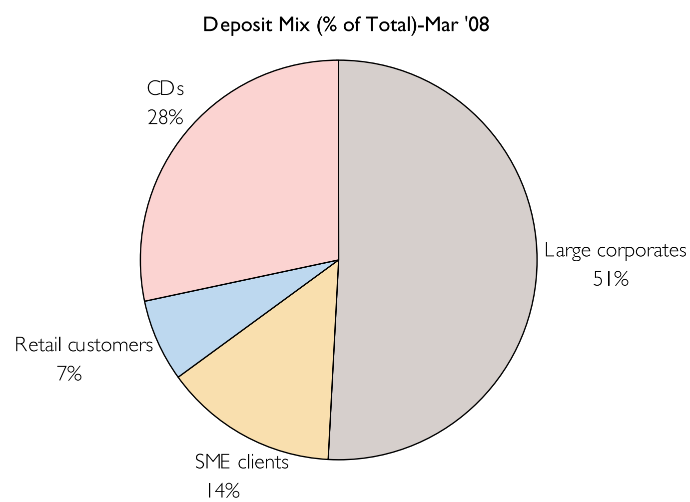
❑ Liability mix –wholesale funded; retail deposits scaleup a challenge

The bank striving to improve funding mix to ease pressure on cost of funds by reducing exposure to interest rates and liquidity

Yes Bank is a wholesale funded bank with low share of CASA deposits. As of March 2008, large corporates and SME clients contributed ~65% of total deposits, while CDs comprised 28% and retail deposits accounted for ~7% of the total. On the other hand, CASA deposits stood at a low 8.5% as of March 2008. One of the primary challenges confronting Yes Bank is to increase the proportion of low-cost CASA deposits in its funding mix. This, in turn, would benefit the bank by: i) easing pressure on cost of funds and therefore NIMs; and ii) reducing vulnerability of funding costs to volatility in interest rates and liquidity in the system.

Though we expect some improvement in the funding mix, the bank would remain largely wholesale funded in the near term.

Exhibit 6: Yes Bank – a whole-sale funded bank



Source: Company, IDFC-SSKI Research

ASSET MIX ACROSS CUSTOMER SEGMENTS

❑ Large corporates – the founding stone

Increasing focus on non-fund income and higher-margin segments

As of March 2008, ~54% of Yes Bank's total advance book is in the large corporates segment. Advances to large corporates have grown to ~Rs51bn as of March 2008, as against ~Rs46bn in March 2007. However, the contribution of large corporates in the lending mix would continue to taper-off with increasing focus on non-fund income and higher-margin segments. Currently, Yes Bank is targeting 800 large corporate customers and 450 government-owned institutions. In addition, the bank differentiates its offerings to large corporates through sector expertise. Going forward, business from metro areas would continue to dominate the mix as large corporates are concentrated in these areas.

Exhibit 7: Growth in advances to large corporates

(Rs m)	FY07	FY08	yoy growth / change (%)
Large corporate advances	45,607	51,115	12.08
% of total advances	*72.5*	*54.2*	*(18.3)*

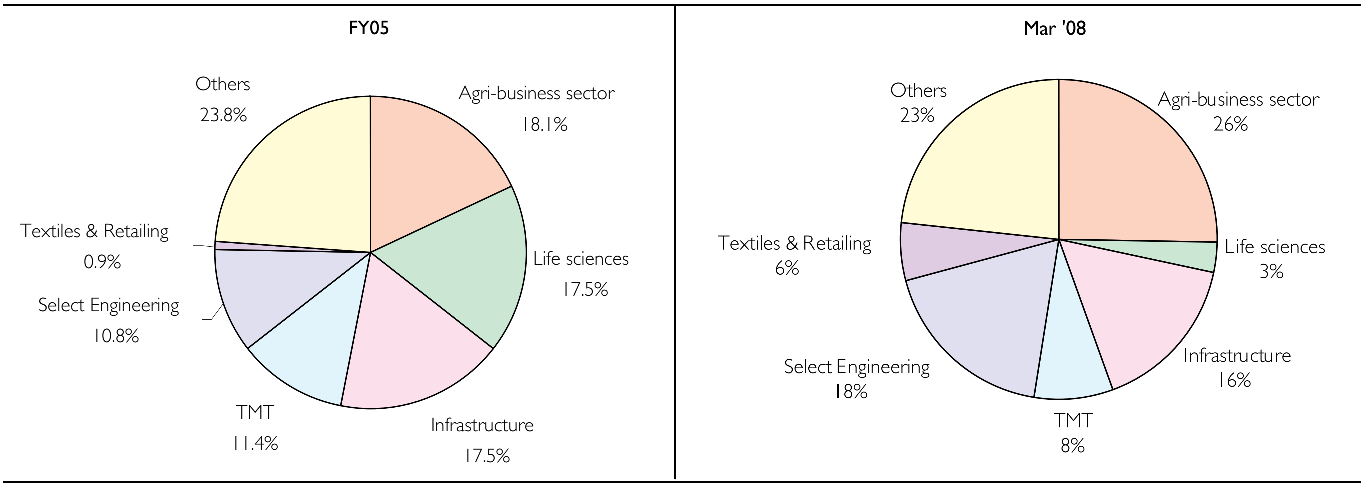
Source: Company

Knowledge banking – sector focus

Sector expertise helps the bank differentiate its offerings

Yes Bank differentiates its offerings to corporate clients on the back of sector expertise. Focus sectors have been identified based on growth opportunities for banking products as well as the experience, knowledge and operating strengths of the management team. Food and agri-business, and infrastructure constitute ~41% of the advances portfolio as of March 2008, with select engineering, TMT, textiles and retailing being the other key sectors. A sector-centric approach enables Yes Bank to offer value-added services to clients, specifically in the financial advisory (investment banking and corporate finance) business.

Exhibit 8: Sector-wise advance portfolio (% of total)



Source: Company, IDFC-SSKI Research

Strong relationships with large corporates provide cross-sell opportunities

Bundling products

Yes Bank benefits from strong relationships with large corporates, which enables additional revenue streams by stapling fee products on top of the plain-vanilla asset and liability products. Financial markets and trade finance are the fee income verticals which are better aligned to the needs of large corporates.

Gaining market share from PSU banks

Yes Bank, along with other private banks, offers better service levels to customers on the back of a robust technology back-end. As a result, these private banks are gaining market share from PSU banks.

A relatively lower-margin and capital-intensive business

Low margins in the business (due to pricing pressure) and Yes Bank's small balance sheet size make this segment relatively less attractive for the bank to undertake fund-based business, specifically in the context of low share of CASA deposits.

❑ SME clients – substantial potential

SME advances grew by 150% yoy in FY08; to drive future growth

Higher margins make the SME client base an attractive segment – which forms ~44% of Yes Bank's total advances as of March 2008. SME advances have increased to ~Rs41.5bn as of March 2008, over 150% yoy increase. The large untapped universe of emerging corporates and SMEs offers immense opportunities to scale this business. As this portfolio gains scale, reining in credit loss would be a key imperative. In conjunction, this segment offers significant opportunity for Yes Bank to strengthen its fee income franchise, specifically corporate finance and third party distribution.

Exhibit 9: Growth in SME advances

(Rs m)	FY07	FY08	yoy growth / change (%)
SME advances	16,476	41,324	150.8
% of total advances	*26.2*	*43.8*	*17.6*

Source: Company

The bank leveraging supply chain partners of large clients and fostering relationships with industry associations

Expanding geographical coverage

SME clients would be a growth driver going forward, as Yes Bank expands geographical coverage. In addition, by aggressively leveraging the supply chain partners of large clients and fostering relationships with industry associations, Yes bank is accelerating access to this under-served client catchment.

Cross-selling opportunities

The SME client base provides opportunities to cross-sell fee products, specifically corporate finance and third-party distribution.

Containing credit losses

While Yes Bank currently disburses credit to only rated emerging corporates and SMEs, it would be critical for the bank to keep a tight rein on credit quality as this relatively riskier segment expands.

High risk of credit losses and higher operational cost prompting the bank to limit its retail book

❑ Retail customers – step by step

Yes Bank has adopted a cautious and calibrated retail strategy. In view of the high credit losses suffered by peer banks in this portfolio, the management intends to limit the retail exposure through FY09. Another specific reason for selective expansion in the retail segment is the higher administrative cost of operating in this segment, which exerts pressure on margins.

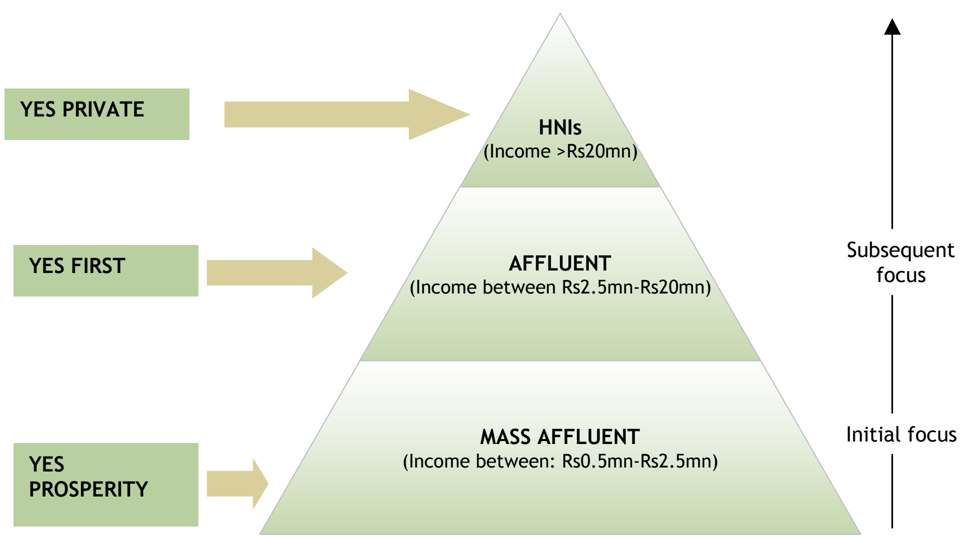
Exhibit 10: Growth in Retail advances

(Rs m)	FY07	FY08	yoy growth / change (%)
Retail advances	815	1864	128.7
% of total advances	*1.3*	*2.0*	*0.7*

Source: Company

Yes Bank has launched retail loan products, namely home equity and personal loans, in a phased manner. As of March 2008, the personal loans portfolio is indicated at about Rs300m. Currently, the bank's focus is on creating value-added propositions for customers by tailoring offerings to suit focus segments – mass affluent, affluent and HNIs. This, in turn, would aid accelerated customer acquisition in the future.

Exhibit 11: Customer segmentation – affluent is the focus segment



Source: Company, IDFC-SSKI Research

Calibrated growth adopted

Yes Bank management has emphasized that retail banking will not be a focus area for the bank in FY09 in the context of increased credit losses experienced by peers and higher administrative costs (branding expenses and more people-intensive nature) associated with operating in this segment.

Sound strategic approach

Retail liability profile being strengthened before scale-up of retail assets

In addition to the calibrated growth approach, Yes Bank management has articulated a well-founded strategy of strengthening its retail liability profile before scaling up retail assets aggressively. This bodes well for margins, though execution challenges remain.

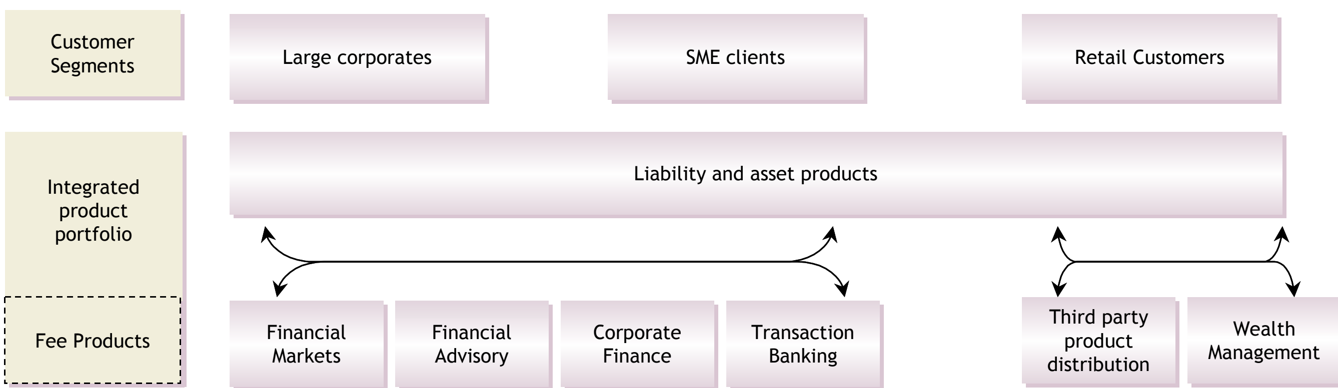
Brand mileage and branch rollout – critical to retail strategy

The management has identified developing the 'Yes' brand and expanding the branch network as crucial to the retail liability strategy. Branches are targeted to increase to 250 by September 2010. Coupled with increased brand visibility, this should aid accretion of CASA deposits, expected to hover around 13% by FY10.

INTEGRATED PRODUCT OFFERINGS

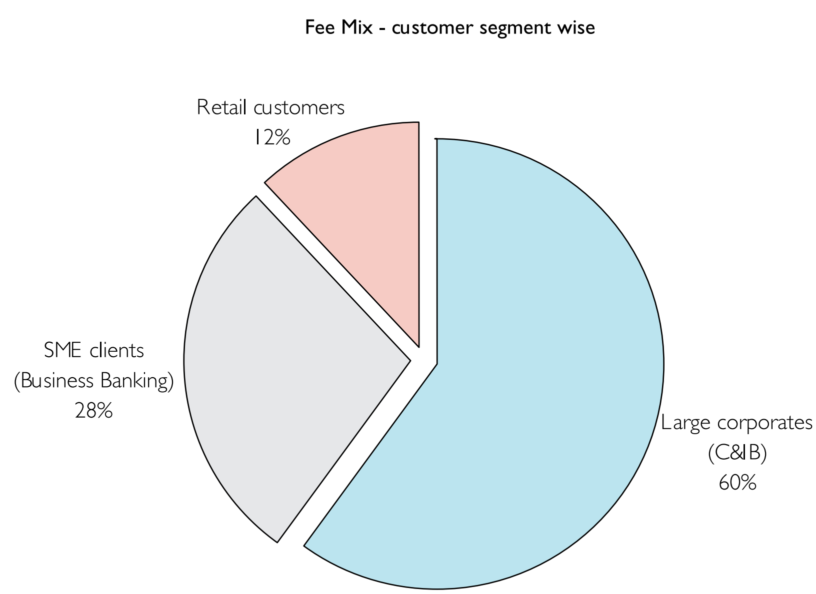
Being 'One Bank' for its customers is defined as one of Yes Bank's strategic goals. To that end, a diversified suite of fee products has been developed to complement the asset and liability products targeted at each customer segment (large corporates, SME clients and retail customers). Fee income has always contributed a dominant share of Yes Bank's revenues – a part of the core strategy given its smaller balance sheet size.

Exhibit 12: Integrated product portfolio



Source: Company, IDFC-SSKI Research

Exhibit 13: Fee income mix- customer segment wise #



Source: Company ; # approximations

Yes Bank tapping its large client base for non-fund income products

❑ Large corporates – significant proportion of fee income

Large clients contribute 50-60% of Yes bank's total fee income. The bank's focus is to tap this customer segment for non-fund income by cross-selling fee products, thereby catering to clients' risk-related and capital market needs. Out of Yes Bank's fee product suite, financial markets, transaction banking and financial advisory are predominantly aligned with the needs of large corporates.

SME customer base projected to expand at an accelerated pace

❑ SME clients – increasing share in fee revenues as coverage expands

For Yes Bank, 25-30% of the total fee income is attributable to the SME segment. Wealth management products are a natural cross-sell for SME clients such as proprietors and partnership firms. In addition, this client base generates revenue for Yes Bank's corporate finance and financial advisory business, given the SME clients' increasingly ambitious growth plans and capable management. As Yes Bank forays into other locations, the SME customer base is projected to expand at an accelerated pace. In this context, we expect a higher proportion of incremental fee revenues to accrue from the segment.

Contribution of third party distribution in non-interest income up by 200bp yoy to 12% in FY08

❑ Retail customers – third party products grow unabated

Third party product distribution is a key growth segment for Yes Bank, majority of which is attributable to retail customers. In FY08, third party distribution contributed 12% of the bank's total non-interest income as against ~10% a year ago. Yes Bank has a tie-up with Max New York Life and Bajaj Allianz to distribute their life and general insurance products respectively. According to the management, while the mutual fund business registered a slowdown in March 2008 due to volatile equity markets, there is no perceptible slowdown in the insurance business.

NON-INTEREST INCOME: KEY REVENUE DRIVER

Income from fee-based products is the mainstay of Yes Bank's revenue base. Traction in non-fund income (91% CAGR over FY06-08) has enabled the bank to report high RoA. Yes Bank has a varied product suite ranging from investment banking, advisory, and treasury to third party distribution. Forex and treasury (including client revenues) income accounts for over 40% of non-interest revenues as of March 2008. In the context of the high volatility associated with the capital market and recent imbroglio regarding exposure to exotic derivative products, we foresee a moderation (though not a drastic slow down) in growth rates. We expect a ~35% CAGR in the bank's non-fund income over FY08-10.

NON-INTEREST INCOME: DOMINANT SHARE IN REVENUES

Yes Bank's core lending business is strongly complemented by its fee-based product portfolio. Fee-based revenues are a part of the core strategy at Yes Bank as it helps the bank report high RoAs. Non-interest income from these fee-based products contributed ~51% of the bank's total income in FY08 (average of 53% over FY06-08) with the remainder attributable to core lending business. Non-fund income registered a 91% CAGR over FY08-10. Trading income constituted 4-6% of non-fund income in FY06 and FY07, which increased to ~11% in FY08 (on the back of buoyant market conditions). In the context of high volatility in the capital market and the derivative imbroglio, we expect growth rates to taper (35% CAGR over FY08-10E).

Exhibit 14: Non-fund income – a predominant share of revenues

(Rs m)	FY06	FY07	FY08	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Non-fund income (Rs mn)	997	1,975	3,545	760	759	968	1,058
Trading income (Rs mn)	40	106	397	(21)	119	205	94
Non-trading Income (Rs mn)	957	1,868	3,148	781	640	763	964
Trading income % of non-fund income	4.0	5.4	11	(2.8)	15.7	21.2	8.9

Source: Company, IDFC-SSKI Research

Exhibit 15: Split of non-interest income

(Rs bn)	FY07	FY08	yoy growth (%)
Financial Markets	0.8	1.5	101.0
Financial advisory	0.6	0.9	44.7
Third Party Distribution	0.2	0.4	115.8
Transaction Banking	0.2	0.5	131.4
Others	0.1	0.2	193.3
Total	**1.9**	**3.5**	**89.7**

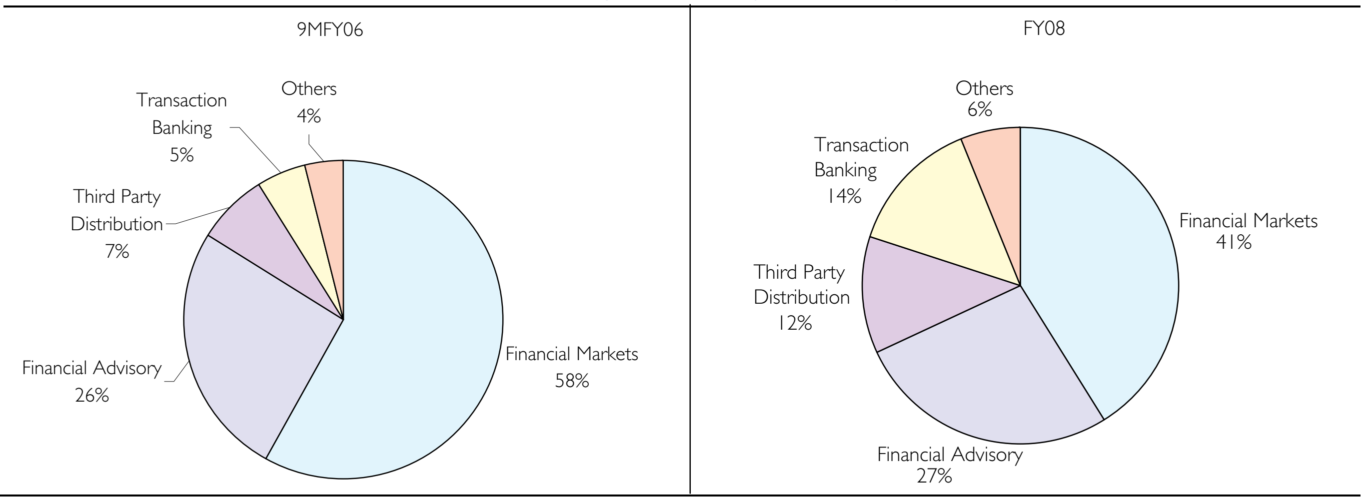
Source: Company

Financial markets continue to dominate the non-interest income pie

BREAK-UP OF NON-INTEREST INCOME

Fee products at Yes Bank are clustered broadly into four groups – forex and derivatives (financial markets), investment banking (financial advisory and corporate finance), transaction banking and third party distribution. Financial markets continue to dominate the non-interest income pie, contributing ~41% of total revenues in FY08, though the share has declined from a high of 58% in 9MFY06. During the same period, transaction banking and third party distribution businesses have gained significant traction, as the bank expands coverage to other locations and achieves deeper penetration in existing locations. Transaction banking and third party distribution are expected to be the future growth drivers, given the uncertainty around the investment banking and forex business in the current volatile capital market conditions.

Exhibit 16: Split of non-interest income – transaction banking and third party distribution gain traction



Source: Company

Exhibit 17: Fee product drill-down

Retail Banking	Whole-Sale Banking	Financial Markets	Corporate Finance
• Fixed Income • Forex business (vanilla & structured) • Derivative (exotics & vanilla)	• Trade finance • Cash management services • Commodity markets • E-payments • Capital market colllections	• Private Equity/ Venture Capital • Mergers & Acquisitions • Merchant Banking • Pre-IPO financing • Distressed Assets	• Infrastructure Banking • Realty Banking • Financial Restructurings • Structured & Project Finance • Project Advisory & Syndication

Source: Company

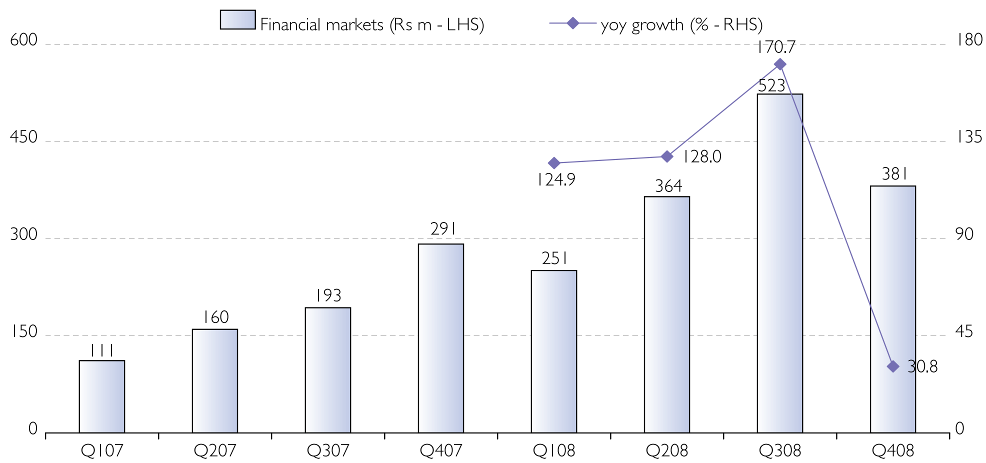
SHIFTING FEE INCOME MIX

❑ Financial markets – the main staple

We expect the segment to register 20% CAGR over FY08-10

Financial markets is the largest constituent with ~41% share of non-interest income in FY08, though lower than the high of 58% in 9MFY06. In absolute terms, income from financial markets has increased to Rs1.5bn in FY08 from ~Rs750m in FY07, registering over 100% yoy growth. Given the direct linkages with capital markets and derivatives, income under this segment is cyclical as well as susceptible to volatility. In FY08, client revenues formed ~64% of total financial markets income (balance being fixed income and equity trading), as against 94% in FY07. Leveraging relationships (large corporates and SME clients) within the bank as well as building a strong technology platform (Murex for pricing and structuring products, and Electronic FX trading service on the Reuters platform) are the key differentiators for Yes Bank. We expect this segment to register a 20% CAGR over FY08-10.

Exhibit 18: Traction in financial markets business



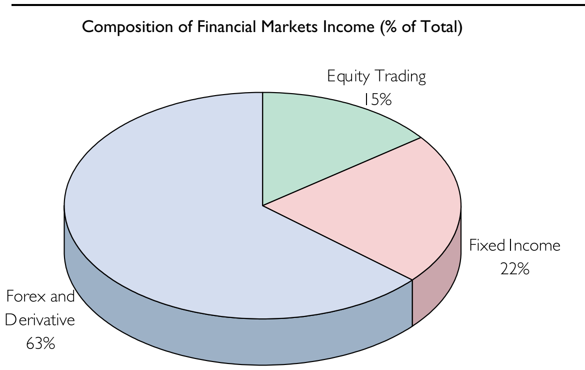
Source: Company, IDFC-SSKI Research

Composition of financial markets income

Forex & derivative business forms ~64% of the bank's total financial markets income

Forex (primarily exchange transactions for clients) and derivatives (products ranging from vanilla to exotics) constitutes ~64% of the total financial markets income for Yes Bank. Fixed income, which includes Yes Bank's G-Sec trading business, contributes ~22% to the total financial markets income, while equity trading gains make up around 15% of the total.

Exhibit 19: Break-up of financial markets income



	(Rs m)		yoy	% of total financial markets	
	FY07	FY08	growth	FY07	FY08
Equity Trading	26	215	726.9	3.2	14.7
Fixed Income	19	315	1557.9	2.3	21.6
Forex and Derivative	773	930	20.3	94.5	63.7
Total FM income	**818**	**1,459**	**78.4**	**100.0**	**100.0**

Source: Company, IDFC-SSKI Research

Currently there are no NPAs in its forex derivative business; court case pending

❑ Forex derivatives business hogging limelight – caught in headwinds

A majority of the derivatives business at Yes Bank comprises forex derivative contracts written to hedge clients' currency exposure (with the remaining being interest rate hedges). The recent unanticipated exchange rate movements have led to several derivative contracts breaching knock-out levels, in turn causing outsized mark-to-market (MTM) losses for banks' clients. While there are no NPAs in Yes Bank's forex derivative business as of March 2008 (majority of contracts mature in 2011 and are linked to Euro-USD), one of the clients has accused the bank of mis-sell and taken legal recourse.

Yes Bank has made a contingent provision of Rs170m in Q4FY08 on the back of higher profits. The bank's total forex derivative income is estimated at Rs436m (~30% of financial markets revenues in FY08). The management has stated that Yes Bank's forex exposure is spread over 130 clients, with ~70% of exposure to C&IB clients and ~30% to SME clients.

Relatively slower growth in exotic derivatives being offset by higher volumes in clients' vanilla exchange business

Further, we believe concerns of a drastic slowdown in the forex derivatives business are exaggerated. Yes Bank's management has also substantiated the view, stating that relatively slower growth in exotic derivatives is being offset by higher volumes in clients' vanilla exchange business.

Exhibit 20: Yes Bank's forex derivative exposure

(Rs m)	FY08
Non-interest income	3,545.3
Treasury income/ Financial markets (40% of non-interest income)	1,453.6
Derivative income (30% of treasury income)	436.1

Source: Company

We expect a 60% CAGR in the transaction banking business over FY08-10

❑ Transaction banking – to drive fee income growth

The transaction banking business has gathered significant scale with its revenue share increasing from 5% of the total non-interest income in 9MFY06 to ~15% in FY08. Traction in the business is a direct function of the bank's expanding C&IB client relationships. The momentum has been strong across transaction banking products including trade finance (letter of credits, bank guarantees, acceptances, etc), cash management services (collections, payments, etc) and e-payment services. We are building in a 60% CAGR in the business over FY08-10.

Exhibit 21: Transaction banking growth trajectory

Source: Company

Exhibit 22: Transaction Banking revenue break-up (Mar-08)

(Rs m)	FY06	FY07	FY08	CAGR	% of total non-interest income (FY08)
Trade Finance	62.36	209.11	488.42	179.9	15.1
LCs	22.37	55.08	156.17	164.2	4.8
BGc	31.45	92.98	158.84	124.7	4.9
Trade acceptances	8.54	61.05	173.41	350.6	5.3
Cash Management Services	0.53	5.45	11.35	362.8	0.3
Total	**62.89**	**214.56**	**499.77**	**181.9**	**15.4**

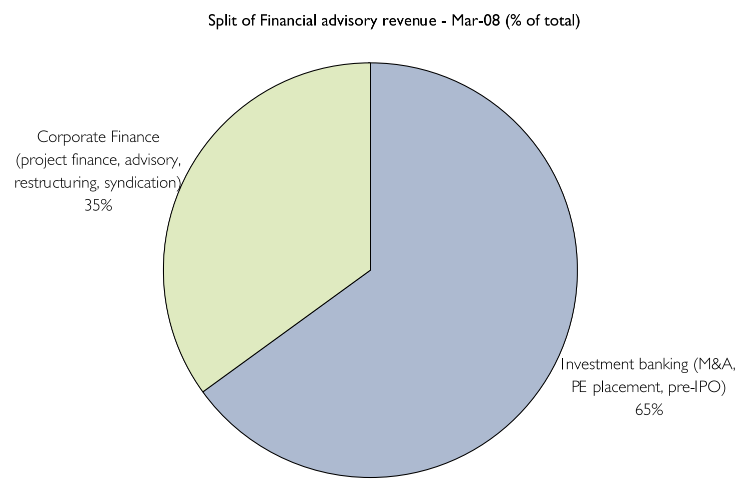
Source: Company

❑ Financial advisory – modest growth expected

Given the high correlation with capital markets, we expect a moderate 20% CAGR in financial advisory income over FY08-10

Financial advisory income as a proportion of non-interest income has evidenced some traction to 28% in FY08 as against 26% in 9MFY06. Given the direct linkages with capital markets, we expect a moderate 20% CAGR in financial advisory income over FY08-10. Currently, around 65% of financial advisory revenues are attributable to investment banking, while the remaining pertain to corporate finance.

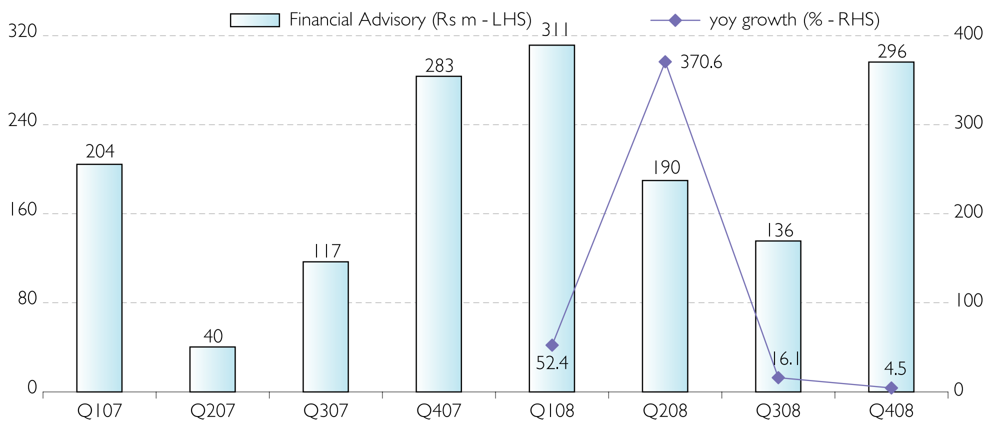
Exhibit 23: Break-up of financial advisory income



Source: Company

- The investment banking team advises clients (primarily large corporates) on transactions ranging from mergers & acquisitions, private equity placement, merchant banking and pre-IPO placements among others. Over the years, Yes Bank has developed strong origination capabilities (for inbound and outbound transactions) for various sectors (textiles, engineering, auto components, pharmaceuticals and logistics).
- The corporate finance team specializes in project finance, advisory & restructurings and syndication. Sector knowledge and product structuring capabilities have enabled Yes Bank's financial advisory team to build a strong franchise. Strong client relationships would be the key growth driver for this segment.

Exhibit 24: Financial advisory business – a decreasing proportion of non-interest income



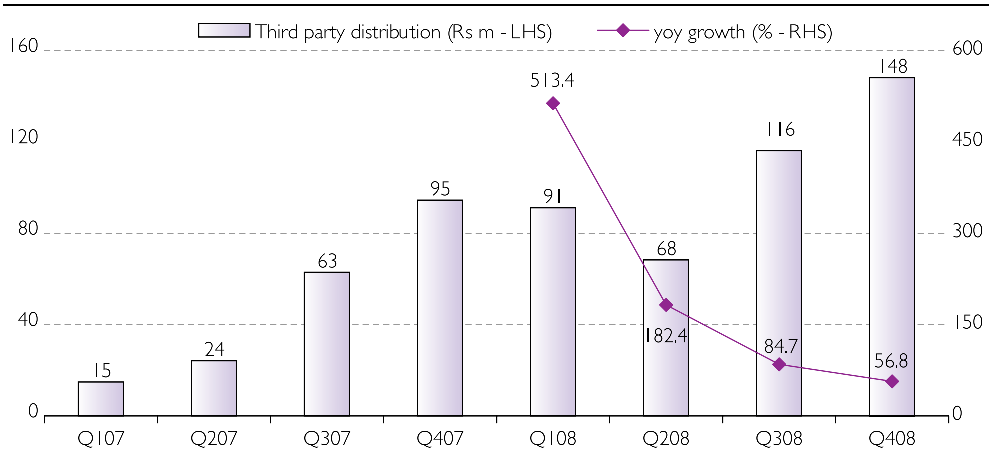
Source: Company

❑ Third party distribution – significant traction ahead

Accelerated customer acquisition to drive 60% 2-year CAGR in third party distribution business

Third party product distribution is a key growth segment for Yes Bank, which contributed 14% of the total non-interest income in Q4FY08 (vis-à-vis 12% a year ago). In FY08, revenues from this segment have grown to Rs440m (against ~Rs200mn in FY07), majority of which is attributable to retail banking customers. The management has indicated that volatile capital markets have led to a slowdown in mutual fund business in March 2008, but there is no perceptible slowdown in the insurance business. The expanding retail liability franchise should result in accelerated customer acquisition, which in turn would drive momentum in third party distribution business (60% CAGR over FY08-10E). Yes Bank has a tie-up with Max New York Life and Bajaj Allianz to distribute their life and general insurance products respectively. Given the focus at Yes Bank to develop the third party product distribution business, the outbound sales force (FOS) and direct selling associates (DSAs) for own loan products should evidence traction.

Exhibit 25: Traction in third party distribution



Source: Company

GROWTH CATALYSTS

Yes Bank's consistent growth trajectory is a direct function of robust execution capabilities stemming from the vast promoter experience, and a strong and well-incentivized management team built over the years. Consistent investment in state-of-the-art technology has augmented the bank's execution capabilities. On the other hand, the bank has been able to constantly attract interest from eminent strategic investors and garner capital resources when required. Customer acceleration is aided by service offerings, differentiated through sector expertise.

❑ Quality human capital

Promoter credentials and Rabo Bank affiliation

The promoters have over 30 years experience in the financial services space

The two Indian promoters of Yes Bank (Mr Ashok Kapur and Mr Rana Kapoor) bring with them vast experience (over 30 years) in the financial services arena as also well-entrenched relationships with companies' senior managements. Prior to assuming their current roles at Yes Bank, Mr Ashok Kapur (non-executive Chairman) and Mr Rana Kapoor (managing director and CEO respectively) were co-shareholders and managing directors of Rabo Bank (India) – a wholesale NBFC part of the Rabo Group – with total assets scaled to Rs20.3bn as of March 2004 since inception in 1998.

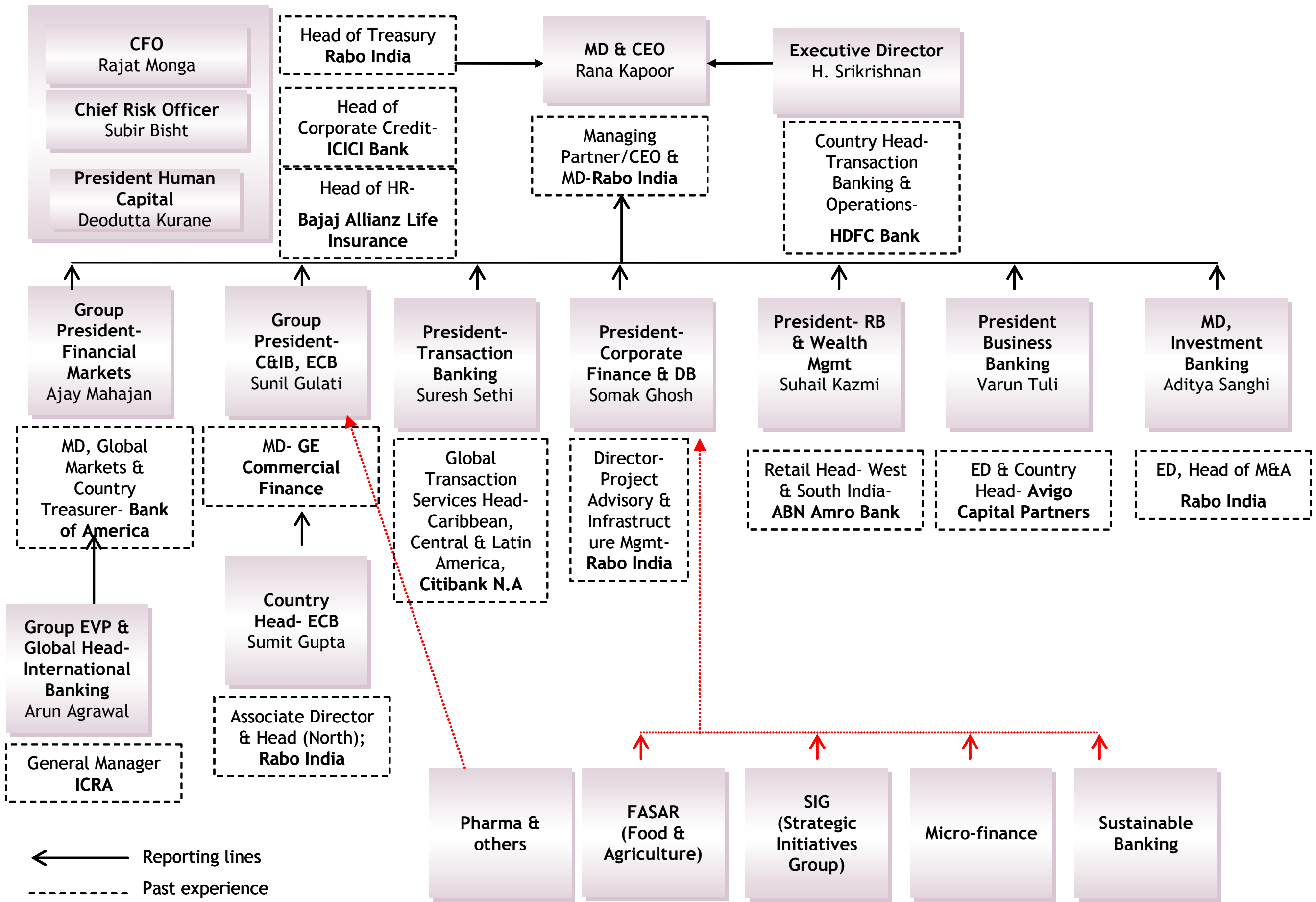
A strong and well-incentivized management

Over the years, Yes Bank has focused on building a strong management team to spearhead the different business segments and functions. Consequently, Yes Bank has developed sound execution capabilities.

ESOP scheme (7.6% of outstanding share capital) aligns management interests

While the management bandwidth is already in place, recruiting and retaining experienced personnel (with banking and sector expertise) remain fundamental to Yes Bank's core strategy. In accordance, Yes Bank has well-incentivized employee economics in place, including a stock option plan for senior management and new recruits. As of December 2007, senior management and employees hold 7.59% of the outstanding (fully diluted) capital. With the key personnel already on board, incremental employee expenses would be less than proportionate relative to growth as the bank expands operations. Therefore, we have factored in the benefit of operating leverage in our forecast numbers.

Exhibit 26: Management bandwidth



Source: Company

The bank has managed to raise capital at premium valuations

Well-capitalized with CAR of 13.64% and Tier I capital at ~8.5%

❑ Ready access to capital

Over the years, Yes Bank has consistently attracted interest from reputed strategic investors, in turn garnering capital resources to fund its growth plans. While this opportunistic approach to raising capital enables Yes Bank to raise capital at premium valuations, since the timing is unknown, there is risk to returns for potential investors in a year of capital raising.

As of March 2008, Yes Bank's capital adequacy ratio (CAR) stands at 13.64% (Tier I: ~8.5%). On inception, the bank was capitalized with Rs2bn with the promoters, Rabo Bank (an AAA rated private bank) and three private equity investors coming together. In July 2005, Yes Bank listed on the bourses and the issue subscribed 30x, garnering Rs3.15bn of capital. Currently, FDI and FII holding stands at ~54% with prominent investors holding stake since inception. The bank continues to raise capital on a need-basis, and has recently placed ~5% of the outstanding equity capital with Orient Global in December 2007.

Customized financial solutions offered to clients across business segments

❑ 'Knowledge Banking' – differentiating through sector specialization

Yes Bank is organized into a matrix structure with product teams and sector specialists working in tandem to offer customized financial solutions to clients across business verticals (C&IB and SME). The 'knowledge banking' approach acts as a differentiator for Yes Bank as well as culminates into a more effective cross-sell of products.

Strong technology platform developed to support each business line and product group

❑ Enhancing execution capabilities through technology

On the back of an outsourced model, Yes Bank has been able to develop a strong technology platform to support each business line and product group. The multiple benefits evident are: a) the variable cost model (i.e. with technology assets off-balance sheet) has placed relatively limited pressure on capital required while the bank is in its initial phase; b) fast pace access to state-of-the-art technology on the back of strategic relationships with specialized vendors; and c) scalability as business gains momentum. Yes Bank is well-poised to leverage the technology platform to further enhance execution capabilities as well as offer a convenience proposition to retail and business banking customers (both segments being future growth drivers).

Financial Analysis

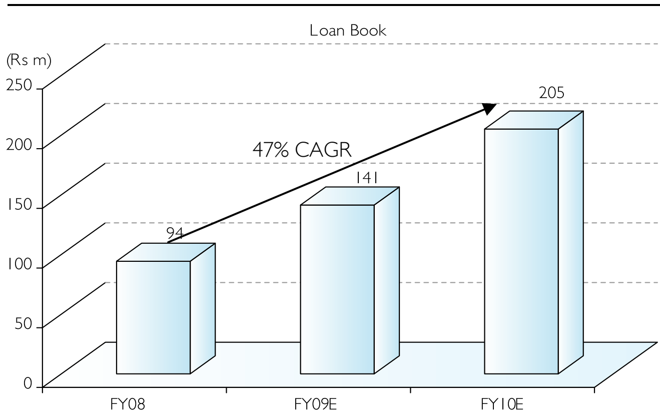
We believe Yes Bank is on a trajectory to further consolidate its financial position. We expect 42% CAGR in the bank's net profit over FY08-10, driven by strong growth in NII and operating leverage. Going forward, NIMs would likely scale up with improving CASA and stabilizing yield on advances, coupled with benefit of the imminent capital raising. Fee income, though expected to be strong, is exposed to the volatility inherent in the capital markets. Provision costs are expected to increase as the portfolio gets seasoned and bias tilts towards the SME segment. Overall, the operating metrics (RoA) of the bank are expected to improve to 1.5% by FY10. We estimate an average RoE of 18% over FY08-10 as further improvement would be restricted due to capital raising.

❑ Advances – moving down the risk spectrum

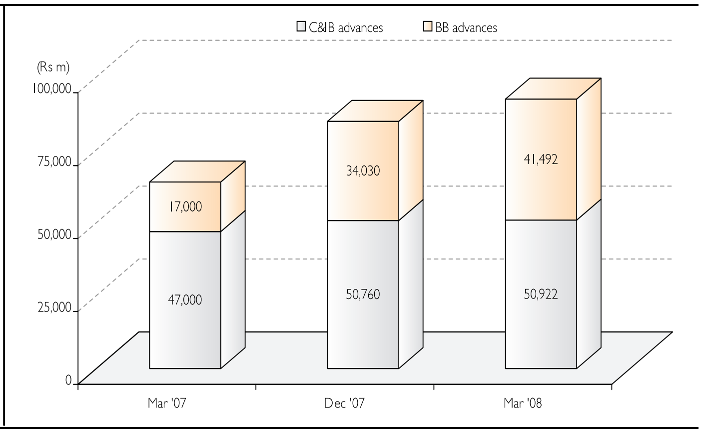
We expect a healthy 47% CAGR in loan book over the next two years

Being a relatively new bank, Yes Bank has shown a consistently healthy growth in its loan book (49% CAGR over the past three years), driven by its strategy of moving down the risk spectrum. In the initial phase of growth, the bank successfully capitalized on the opportunity available in the C&IB segment. Business banking segment has been the key growth driver for the bank in the last few quarters as it successfully achieved a fine balance between growth and margins. The next leg of growth would come from the business-banking segment as the bank spreads its wings by exploring newer cities and further penetrates this segment. In the retail lending space, the bank would look to cautiously foray into the space considering the higher systemic risk and its low CASA base. We expect the bank to continue growing its loan book at a healthy 47% CAGR over the next two years.

Exhibit 27: Traction in loan book…



…driven by business banking



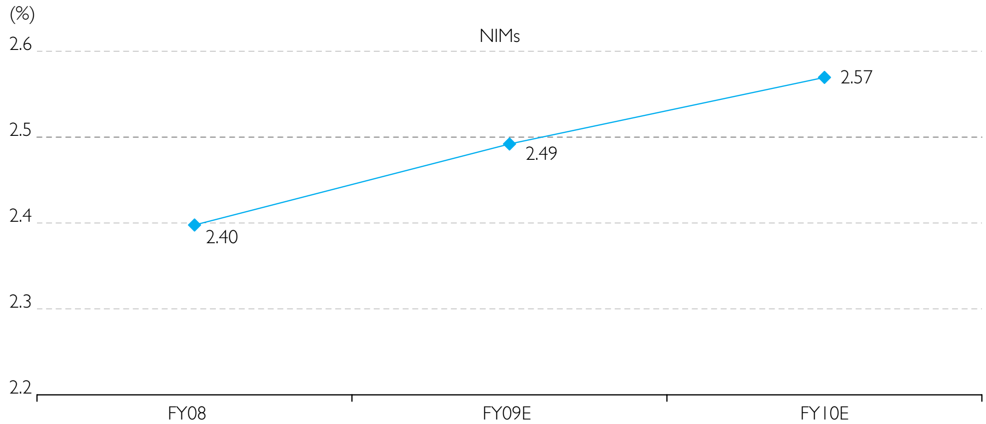
Source: Company, IDFC-SSKI Research

❑ Margin improvement – multiple levers

Spreads to improve on the back of higher share of CASA and a shift towards high-yielding segments

After witnessing margin pressure in Q1FY08 due to high dependence on costly wholesale funds, margins have bounced bank to touch 2.7% in Q4FY08. The recovery can be attributed to rising yield on advances, and capital-raising from private equity players during the year. Going forward, we expect spreads to improve on the back of higher share of CASA and a shift towards high-yielding segments, which will mitigate the impact of a relatively weaker deposit profile. Improving spreads should translate into higher margins, also supported by the imminent capital raising. We expect the bank's margins to improve from 2.4% in FY08 to 2.6% by FY10.

Exhibit 28: Margins to get an uptick



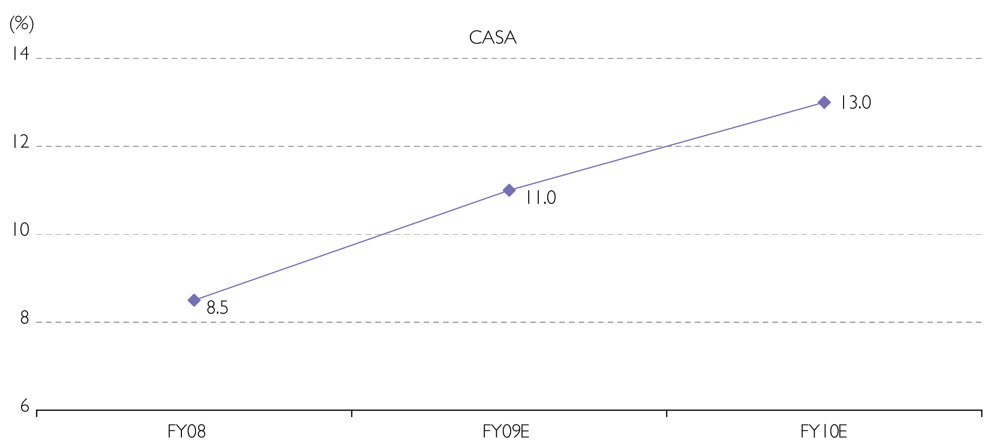
Source: Company, IDFC-SSKI Research

Focus on growing CASA

A >4-fold expansion in branch network by Sep' 10 to drive CASA growth

Going forward, the key focus area for Yes bank is to significantly scale up the share of low-cost deposits. During FY08, the bank has been able to achieve a ~270bp yoy improvement in the share of low-cost deposits to 8.5% as of March 2008. The management has articulated its intention of expanding the branch network from 67 currently to 250 by September 2010. This should significantly support the endeavor to increase the share of low-cost deposits and reduce dependence on wholesale funding. We expect CASA to improve by 450bp to 13% by FY10. This should have a positive impact on margins.

Exhibit 29: CASA – a strategic focus



Source: Company, IDFC-SSKI Research

Moving towards high yielding segments

Rising share of high-yielding business banking segment to lend stability to yield on advances

The increasing share of high yielding business banking segment should lend stability to the yield on advances despite pricing pressure to be evidenced in the segment. On an average, yield in the business-banking segment is running at 13% as compared to 11% in the C&IB segment.

Share of CASA to increase from 8.5% in FY08 to 13% in FY10, but dependence on wholesale funding to remain high

However, a weaker deposit profile would restrict improvement …

Yes Bank has had a low share of retail deposits in its funding mix vis-à-vis some of the other banks, which puts it at a disadvantage. Though we expect the share of CASA to increase from 8.5% in FY08 to 13% in FY10, the bank would still be heavily dependent on wholesale funding. This leaves the bank with relatively higher exposure to any tightness in liquidity and rise in domestic interest rates. The concern was manifested in Q4FY07 and Q1FY08 when, due to the general tightness in the market, cost of funds significantly went up and led to lower margins.

A 10bp improvement in margins on the back of Rs3bn capital raised from private equity players

…aided by capital issuances

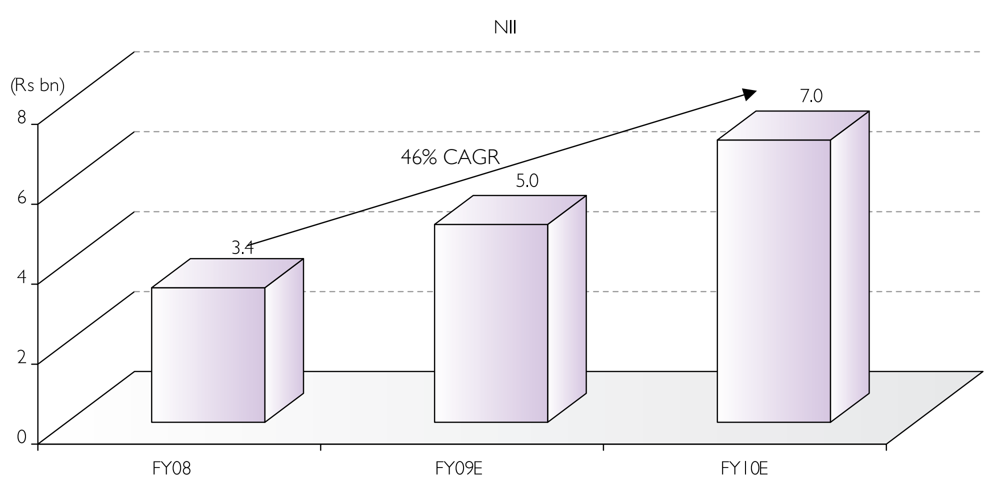
Over the years, Yes Bank has consistently attracted interest from reputed strategic investors, which supported its efforts to garner capital resources to fund growth plans. The bank has entered a phase of high growth, enabling it to raise fresh equity capital at every stage at richer valuations to fund its strong loan expansion. In Q4FY08, the bank registered a 10bp improvement in margins on the back of Rs3bn capital raised from private equity players. Going forward, the imminent capital raising of Rs4bn-5bn (20m shares) in the first half of FY09 would lend support to margins.

❑ Sustained momentum in NII growth

We expect the bank to register 46% CAGR in NII over FY08-10

Yes Bank has shown a consistently healthy growth in NII (96% CAGR over the past two years), driven by a growing balance sheet and coming off a low base. Going forward, we expect the bank to register 46% CAGR in NII over FY08-10 on the back of continued momentum in the investment cycle, deepening penetration in business banking segment and improving margins.

Exhibit 30: NII growth on an uptrend



Source: Company, IDFC-SSKI Research

❑ Fee income – robust, but set to moderate

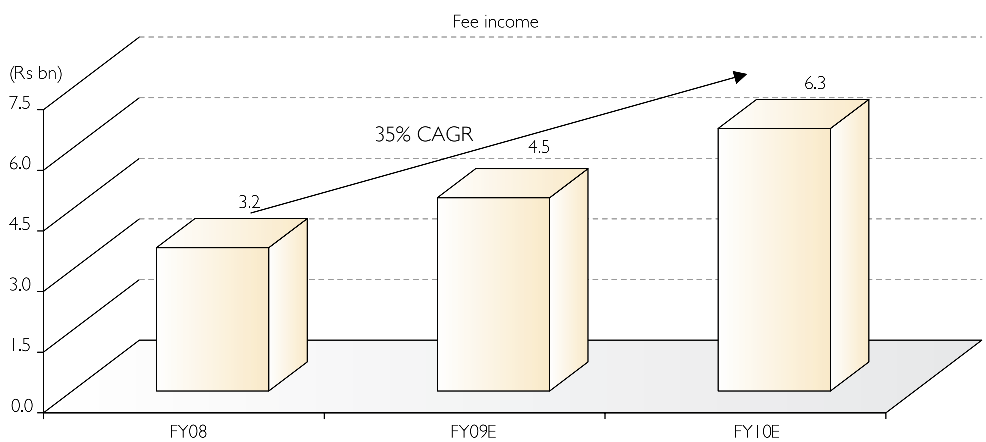
High proportion of fee income enables the bank to earn superior RoA

Focus on non-fund interest income is one of the key pillars of Yes Bank's strategy. Fee income contributes close to 50% of Yes Bank's net revenues, which is among the highest in the industry. Fee income has registered 91% CAGR over the last two years led by increased traction in the financial markets and the capital market advisory segment. Financial markets and capital advisory segments account for ~64% of the bank's total fee income. The high proportion of fee income enables the bank to earn RoA of ~1.5% – comparable with the best of private banks. The key concern in the fee income business pertains to strong linkage with the capital markets.

We expect fee income to register 35% CAGR over FY08-10

The recent furor on a forex derivatives transaction has also put a question mark on sustainability of growth in the fee income business. We expect Yes Bank's fee income to register 35% CAGR over FY08-10, driven largely by fee income from third party distribution and trade-related fees. We are building in a moderate 20% CAGR in business from the capital and financial markets segment; any improvement in market conditions would possibly lead to an upgrade in numbers.

Exhibit 31: Modest traction in fee income built in



Source: Company, IDFC-SSKI Research

❑ Operating expenses – scope for leverage

Expect the operating expenses/ average assets ratio to decline from 2.43% in FY08 to 2.28% in FY10

Yes Bank's cost to income ratio is running high at ~50% – a function of the business being in nascent years of operations. Employee costs are high, as the bank has made a massive investment in recruiting employees. Yes Bank has a policy to keep a check on quality as well as productivity; in this context, the bank prefers to employ the sales force on it own rolls rather than outsource. The bank is very conscious about the productivity levels – as is evident from the retrenchment of around 400 front-end sales staff as part of the regular performance review. On the other hand, Yes Bank has scaled up its management bandwidth.

As the bank moves towards achieving scale, we expect some level of operating leverage kicking in. However, as Yes Bank looks to scale up its branch network to grow the share of low cost deposits, we do not expect significant operating leverage to accrue. We expect the operating expenses/ average assets ratio to decline from 2.43% in FY08 to 2.28% in FY10.

❑ Provisioning on an uptrend

As the portfolio gets seasoned, loan loss provisioning could rise

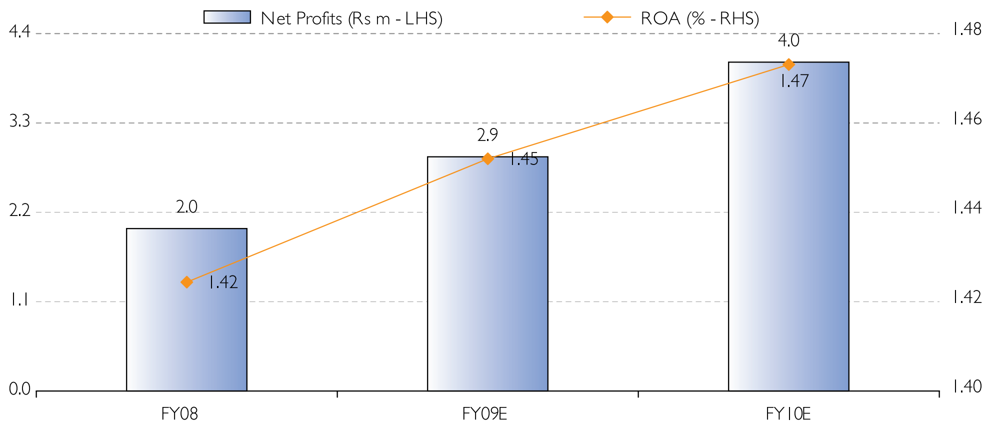
With near-zero NPAs, Yes Bank boasts of an enviable asset quality position. Absence of past baggage, coupled with robust risk systems, has enabled the bank to achieve this position of strength. However, asset quality has deteriorated marginally in Q4FY8. Nevertheless, the bank has set aside Rs170m towards contingencies on derivative related losses. As the portfolio gets seasoned, the loan loss provisioning could build up. We expect the bank's provisioning expenses/ average assets ratio to increase to 0.41% by FY10 from 0.3% currently.

RoA expected to expand from 1.4% in FY08 to 1.5% by FY10

❑ Strong core performance to drive profitability and RoA

We expect Yes Bank's RoA to expand from 1.4% in FY08 to 1.5% by FY10. We expect 43% CAGR in the bank's net profit over FY08-10 driven by strong growth in NII and fee income (though mitigated by higher operating expenses). Given the imminent capital issuance, RoE is likely to remain modest at 18% over the next two years.

Exhibit 32: Momentum ahead



Source: Company, IDFC-SSKI Research

VALUATIONS AND VIEW

Given its capable management and sustainable business model, we expect Yes Bank to generate superior RoA over the long term. The market has rewarded the stock with a re-rating on Market Cap/ Assets basis. However, we see room for further appreciation in the stock price. Considering the strong growth potential, we have valued Yes Bank based on the CAP model. We initiate coverage on the stock with a 12-month price target of Rs260, which corresponds to 3.4x FY10E adjusted book and offers potential upside of ~67% from here. Improving return ratios could lead to further re-rating of the stock.

❑ Improving RoA

We expect a 10bp expansion in RoA to 1.5% by FY10

Intrinsic profitability of the business is expected to improve, led by continued traction in the core operating income and the benefit of operating leverage mitigating the moderate increase in provisioning expenses. This would lead to expansion in the bank's RoA from 1.4% in FY08 to 1.5% by FY10.

❑ Ability to generate high RoE on sustainable basis

Strong momentum in existing businesses and new initiatives to drive expansion in sustainable RoE

Despite the high net interest income, a strong fee income base and superior asset quality (and therefore negligible credit losses), Yes Bank's RoE has remained at 14-16% due to the frequent capital raising. Going forward, we expect RoE to move closer to the 18-20% level driven by continued momentum in the existing businesses and new business initiatives. We believe that the Rs4bn-5bn capital to be raised in the near term should be sufficient to fuel the bank's growth till FY10.

❑ Fair value arrived at using the competitive advantage period model

We have valued the stock at Rs260 – 3.4x FY10E adjusted book

We have attempted to estimate the per share fair value of Yes Bank by using the Competitive Advantage Period (CAP) model, which essentially involves discounting the Economic Value Added (EVA) over estimated CAP with cost of equity used as discounting rate. EVA is defined as the spread between RoE and cost of equity.

Exhibit 33: Key assumptions underlying CAP valuation

Period	2009-13	2014-18	2019-23	2024-28
RoA (%)	1.5	1.4	1.3	1.2
Asset growth (%)	38	27	19	15
Cost of equity (%)	14	14	14	14

Source: IDFC-SSKI Research

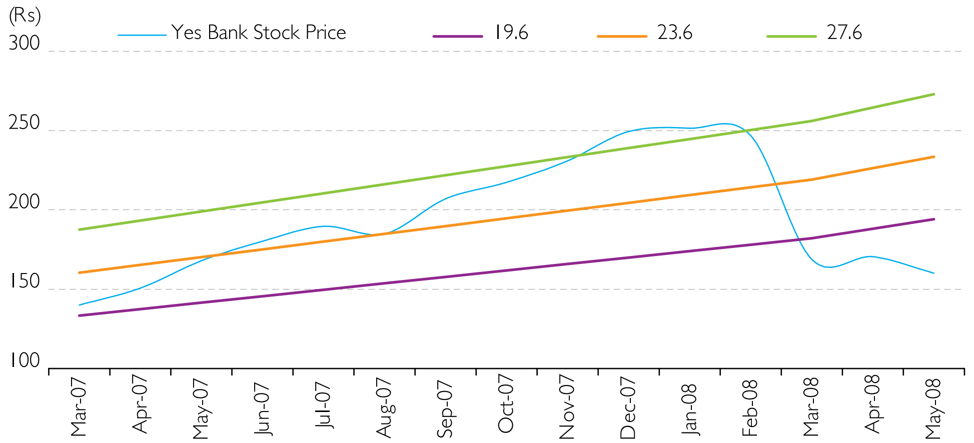
Using these assumptions, we have arrived at a 12-month price target of Rs260 for Yes Bank, which is equivalent to 3.4x its FY10E adjusted book. Our target price represents a potential upside of ~67% from the current stock price. Improving return ratios could lead to a re-rating of the stock, indicating further upside.

❑ Trading at lower band of its historical range

Current valuations provide an attractive entry point

The recent correction in the stock price in the wake of the negative news flow pertaining to the derivative segments, coupled with a general weakness in the banking space, offers an attractive entry point into the stock. The stock currently trades at the lower end of its historical P/B band.

Exhibit 34: At lower end of historic band



Source: IDFC-SSKI Research

❑ Attractive on comparative basis

Yes Bank likely to generate highest profit growth among private banks in the next two years

We have compared Yes Bank with other private sector banks. Considering the size of its balance sheet, Yes Bank is likely to generate the highest growth in profit over the next two years among the banks under consideration, while it is broadly comparable to HDFC Bank and Axis Bank on RoE basis. As the bank's RoA is on an upward trajectory, we expect further re-rating of the bank in terms of market cap/ assets.

Exhibit 35: Comparative valuations

(Rs m)	RoA (%)	RoA (%)	Net profit	RoE (%)	P/BV (x)			Tier-I CAR (%)
	FY08	FY10E	FY08-10E	FY10E	FY08	FY09	FY10	Current
HDFC Bank	1.4	1.4	36.5	19.2	3.9	3.5	3.0	10.50
ICICI Bank	1.1	1.3	27.0	12.0	2.2	2.0	1.8	11.76
Axis Bank	1.2	1.1	32.0	17.8	3.4	2.9	2.5	10.17
ING Vysya	0.7	0.8	30.9	14.3	2.1	1.8	1.6	6.80
Yes Bank	1.4	1.5	43.3	17.7	3.6	2.4	2.0	8.52

Source:IDFC- SSKI Research

Exhibit 36: Market Cap/ Asset comparison

FY09E (%)	RoA	MCAP/Asset
Yes Bank	**1.47**	**21**
ICICI Bank	1.19	21
ING Vsya Bank	0.77	10
HDFC Bank	1.33	26
Axis Bank	1.15	20

Source: IDFC-SSKI Research

KEY RISKS

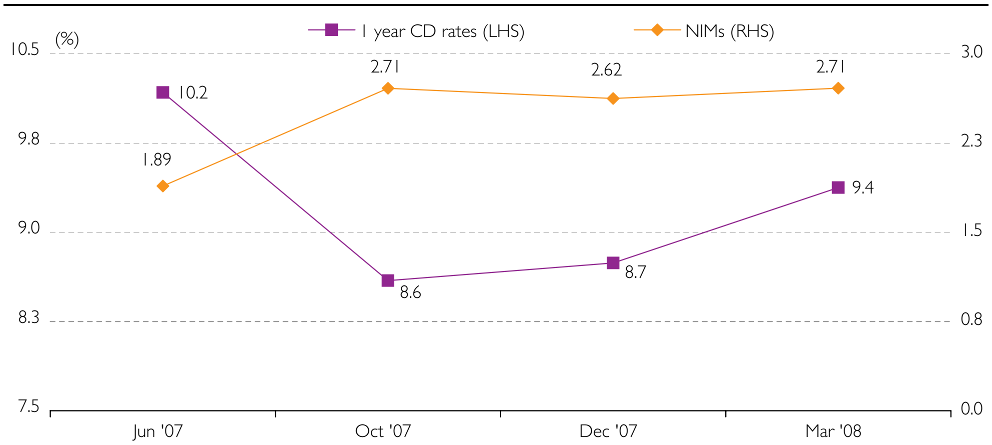
We have identified a few risks to our profit and growth projections for Yes Bank. While the management is focused on improving CASA share, Yes Bank would remain primarily whole-sale funded in the near term, and thereby margins are subject to volatility in liquidity levels and interest rates. Also, the portfolio builds in concentration risk on two counts: i) high proportion of fee income correlated directly or indirectly to capital markets, and; ii) geographical reach currently concentrated to a few metros. Yes Bank management's strong execution capabilities are a key growth catalyst, which may be impeded in case of attrition. Further, the bank's opportunistic capital raising strategy (with timing unknown) causes uncertainty of returns for potential investors in the year of capital raising. In other words, the above factors would be the key monitorables going forward.

❑ Volatility to interest rate movements

A primarily wholesale funded bank; margins vulnerable to liquidity movements

Yes Bank has a low share of CASA deposits (at 8.5% as of March 2008), with 91.5% of total deposits being term deposits. Being primarily wholesale funded exposes Yes Bank to the risk of liquidity movements, which in turn could lead to volatility in the bank's margins. Given the intense competition, increasing the proportion of low-cost deposits in the funding mix remains a challenge for Yes Bank. From low levels of 2.3% in Q1FY06, the bank has been able to scale up CASA deposits to 8.5% in FY08 (having peaked in Q4FY06, aided by current account balances). However, the challenge ahead remains daunting as the management strives to grow CASA to 13% by March 2009.

Exhibit 37: Direct correlation between wholesale rates and margins



Source: Company, Bloomberg; CD rates are quarterly averages of daily rates, NIMs are calculated on quarterly average balances

❑ Concentration in portfolio

Portfolio tilts towards financial markets; presence concentrated in metros

There is concentration risk in Yes Bank's portfolio on two counts: (i) the bank's branch network is currently concentrated in Mumbai and Delhi / NCR region; and (ii) about 41% of the bank's total non-interest income (51% of total income in FY08) accrues from financial markets. Given the direct linkage with capital markets, income under this segment is cyclical as well as susceptible to volatility.

RoE likely to be restricted to 17-18% over FY09-10 due to imminent capital raising

❑ Subdued RoE – capital raised frequently

Yes Bank's RoE, at ~14% in FY06 and FY07, has displayed a muted trend due to capital raised at regular intervals. The bank continues to access capital in small tranches as and when the need arises. While this opportunistic approach enables Yes Bank to raise capital at premium valuations, there is risk to returns for potential investors in a year of capital raising since the timing is unknown. RoE is projected to remain subdued at 17-18% over FY09-10.

Attrition in key management personnel a monitorable

❑ Execution risk

While Yes Bank has strong promoter and management credentials, execution remains a key risk to the bank's performance. Attrition in key management personnel would be a monitorable, and regulatory changes could impact the bank's branch rollout strategy and expansion plans.

A growing SME business likely to increase provisioning requirement

❑ Higher provisions expected

In line with strong asset quality (near-zero), the current provisioning expense in absolute terms is low, while provisioning cover is high at ~99%. With its strategy of growing the SME business, provisions may increase going forward on account of the relatively riskier profile of the segment.

APPENDIX

YES BANK: HISTORIC SNAPSHOT

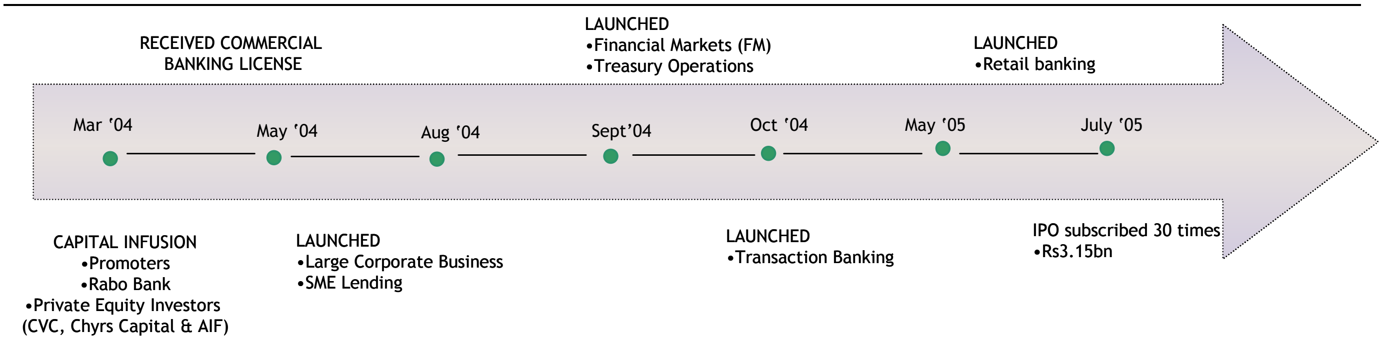
Yes Bank is a new generation Indian private bank, and has the distinction of being the only greenfield bank set up in the last decade. The strategy of focusing on core segments and a strong fee income base, coupled with a well-incentivized management team, has placed the bank on to a high growth trajectory. Since inception, Yes Bank has been able to access private equity finance at regular intervals to invest in strengthening its franchise and building scale. In FY08 (third year of being full operational), Yes Bank reported a net profit of Rs2n, with an asset base of Rs170bn, registering a 137% CAGR over FY05-08.

❑ Only greenfield bank since 1995

Set up with strategic objective of becoming 'One Bank' for customers

Yes Bank has the distinction of being the only greenfield bank to be set up in India since 1995. The promoters, Mr Ashok Kapur and Mr Rana Kapoor, have more than 30 years of experience in the financial services industry and bring to the table superior execution capabilities. The bank was set up with a strategic objective of becoming 'One Bank' for its customers, and offers an integrated suite of products. On inception, the bank was capitalized with Rs2bn with promoters' stake at ~39%, and FDI (primarily Rabo bank) and FII investment aggregating to 44.5%. In addition private equity investors (Citigroup Venture Capital, Chyrs Capital and AIF Capital) held about 10% in the bank.

Exhibit 38: The journey of Yes Bank – from inception to listing



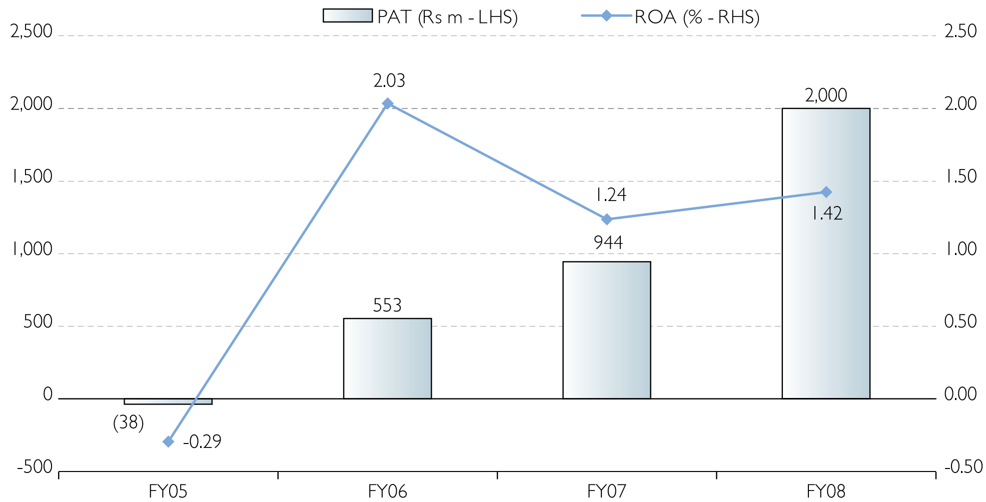
Source: Company

❑ A financial snapshot

Consistent traction in the core business

Yes Bank has reported a net profit of ~Rs2bn in FY08 (its third full year of operations). The asset base has grown to Rs170bn, a 137% CAGR over FY05-08. The bank's margins have demonstrated a stable trend, and have been hovering between 2.7-2.9% for the last few quarters. Yes Bank has built a complementary and diversified suite of fee-based products, which accounted for over 50% of the bank's total income as of March 2008. Currently, Yes Bank is primarily a wholesale funded bank, and the key challenge going forward is to scale its CASA deposits (at 8.5% of total as of March 2008). Unlike peers, Yes Bank has an outsourced technology model, which enables access to latest technology. The bank has an impeccable asset quality record since inception with near-zero NPAs as of end-FY08. Reflecting the traction in the core business, RoA is on an upward trend, which should translate into an improving RoE (~16% over FY06-08; subdued due to capital issuances) as the bank leverages.

Exhibit 39: A financial snapshot (FY05-08)



Source: Company, IDFC-SSKI Research

Exhibit 40: Summary Financials

(Rs m)	FY06	FY07	FY08	CAGR (%)
Income statement				
NII	881	1,713	3,367	95.5
Other Income	971	1,946	3,545	91.1
PAT	553	944	2,000	90.2
Balance Sheet				
Advances	24,071	62,897	94,300	97.9
Deposits	29,104	82,204	132,730	113.6
Asset	41,625	111,034	169,820	102.0

Source: Company

Earnings model

Year to Mar (Rs m)	FY06	FY07E	FY08	FY09E	FY10E
Net interest income	**881**	**1,713**	**3,367**	**4,950**	**7,062**
yoy growth (%)	*385.8*	*94.5*	*96.5*	*47.0*	*42.7*
Other income	971	1,946	3,545	4,781	6,497
yoy growth (%)	*434.5*	*100.3*	*82.2*	*34.9*	*35.9*
Trading profits	40	106	397	250	250
Non trading income	931	1,839	3,148	4,531	6,247
Net revenue	**1,852**	**3,659**	**6,912**	**9,731**	**13,559**
yoy growth (%)	*410.2*	*97.6*	*88.9*	*40.8*	*39.3*
Operating expenses	861	1,935	3,412	4,692	6,264
yoy growth (%)	*115.6*	*124.7*	*76.3*	*37.5*	*33.5*
Provisions	146	287	436	637	1,114
PBT	**844**	**1,437**	**3,065**	**4,403**	**6,181**
yoy growth (%)	*N.A.*	*70.1*	*113.3*	*43.7*	*40.4*
Provision for tax	291	493	1,065	1,519	2,132
PAT	**553**	**944**	**2,000**	**2,884**	**4,048**
yoy growth (%)	*N.A.*	*70.6*	*112.0*	*44.2*	*40.4*

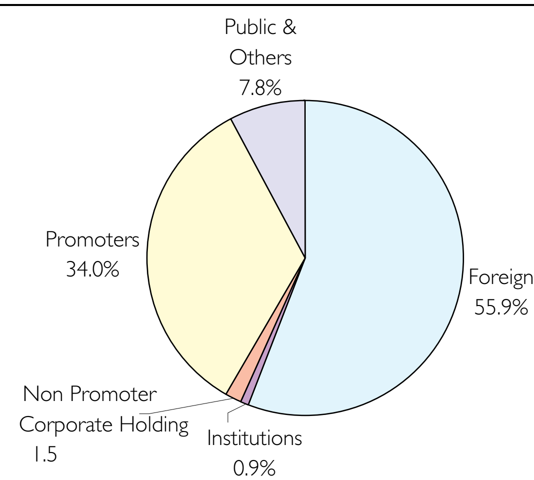
Balance sheet

As on Mar (Rs m)	FY06	FY07E	FY08	FY09E	FY10E
Customer assets	24,071	62,897	94,300	141,450	205,103
yoy growth (%)	216	161	50	50	45
SLR portfolio	8,119	21,526	37,771	50,398	73,125
Cash & bank balances	2,156	12,928	18,100	20,968	28,168
Total assets	**41,625**	**111,034**	**169,820**	**227,412**	**322,243**
Networth	5,727	7,870	13,190	20,074	24,122
Deposits	29,104	82,204	132,730	177,676	261,109
- Current %	10.3	5.1	6.0	6.5	6.5
- Savings %	0.4	0.7	2.5	4.5	6.5
- Term %	89.3	94.2	91.5	89.0	87.0
Borrowings	**5,648**	**13,459**	**16,860**	**21,918**	**28,493**

Ratio analysis

Year to 31 March (%)	FY06	FY07E	FY08	FY09E	FY10E
Net int. margin/avg assets	3.24	2.24	2.40	2.49	2.57
Non-fund rev./avg assets	3.57	2.55	2.52	2.41	2.36
Operating exp./avg assets	3.17	2.54	2.43	2.36	2.28
Cost/Income	46.50	52.88	49.35	48.21	46.20
Prov./avg customer assets	-	-	0.49	0.50	0.62
PBT/Average assets	3.11	1.88	2.18	2.22	2.25
RoA	2.03	1.24	1.42	1.45	1.47
RoE	14.08	13.88	18.99	17.34	18.32
Tax/PBT	34.49	34.32	34.74	34.50	34.50
Tier I Capital adequacy	13.70	8.20	8.52	10.64	8.94
Growth in customer assets	231.81	144.93	44.83	42.16	42.88
Growth in deposits	338.95	182.45	61.46	33.86	46.96

Shareholding pattern



As of March 2008

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Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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