

# Yes Bank (YESBAN)

Rs 252

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 208 to Rs 245  
 EPS (FY10E) ..... Changed from Rs 13.4 to Rs 14.2  
 EPS (FY11E) ..... Changed from Rs 16.8 to Rs 19.6  
 RATING..... Changed from Hold to Book Profits

## Results in line, but fairly valued...

Yes Bank reported its Q2FY10 PAT at Rs 112 crore, up 76% YoY ahead of our estimates of Rs 102 crore. The surprise once again came from non interest income that jumped 65% YoY. Net interest income (NII) was a tad below our estimates, despite good growth in the business mix. Loan book growth of 42% YoY and CASA@9.5%, led to an improvement in the NIM from 2.8% in Q2FY09 to 3.1% in this quarter.

### ■ Late loan book growth in Q2FY10 to lead higher NII from Q3FY10

The bank reported a very healthy 42% and 35% YoY growth in advances and deposits, respectively. The growth in loan book took place at the end of the quarter. Hence, we expect NII to do better from the next quarter onwards.

### ■ Non-interest income growth essential to overall performance

The contribution of non-interest income to total net income ranges from ~45-50% historically and for Q2FY10 it stood at ~49%. Non-interest income grew ahead of our expectation of Rs 121 crore at Rs 152 crore, a growth of 65% YoY. We expect this segment to grow at 28% CAGR over FY09-FY11E to Rs 716 crore.

### ■ Aggressive growth plans - fund raising on anvil

The bank has received shareholders approval for raising another \$250 million by way of QIP. It plans to raise this by the end of this financial year. The bank also plans to expand its branch network to 750 branches by 2015 and expects CASA to reach 40% levels.

## Valuations

At the CMP of Rs 252, the bank is trading at 2.6x FY11E ABV. We are revising our estimates for PAT for FY10E and FY11E, which has resulted in EPS revision by 6% and 16%, respectively, after considering a dilution of 7% in FY11E. We expect the bank to deliver RoE of 23-24%, RoA @ 1.8-1.9%, NIM of ~3.2-3.3% for the next couple of years. We, therefore, value the bank at 2.5x FY11E ABV to arrive at a fair value of Rs 245. As valuations are rich already we advise to **BOOK PROFITS** at current levels.

### Exhibit 1: Performance Highlights

Rs Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	160.0	185.6	122.6	163.7	30.5	-2.3
Other Income	151.6	121.3	80.3	145.2	88.8	4.4
Total Income	311.5	306.9	202.9	308.9	53.6	0.8
PPP	191.8	180.0	98.0	197.8	95.8	-3.0
PAT	111.7	101.5	63.6	100.1	75.6	11.6
EPS	3.4	3.1	2.1	3.4	57.5	0.0

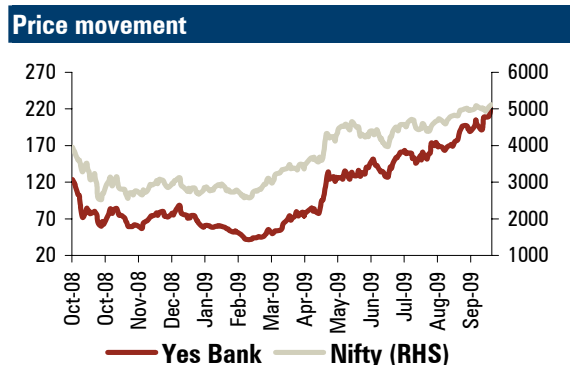
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Book profits
Target	: Rs. 245
Target Period	: 12 months
Potential Upside	: -3 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
NII	336.7	511.2	717.4	1013.7
PPP	350.1	527.7	763.6	1074.1
Net Profit	200.0	303.8	421.3	617.7

Valuation summary				
	FY08	FY09	FY10E	FY11E
EPS (Rs)	6.8	10.3	14.2	19.6
Price / Adj Book (x)	5.7	4.7	3.7	2.6
GNPA (%)	0.1	0.7	0.9	0.9
NNPA (%)	0.1	0.3	0.3	0.3
RoNA (%)	1.4	1.6	1.6	1.9
RoE (%)	19.0	20.7	23.0	23.7

Stock data	
Market Capitalisation	Rs 7648 crore
GNPA (Q2FY10)	Rs 50.0 crore
NNPA (Q2FY10)	Rs 12.6 crore
NIM (Q2FY10)	3.1 %
52 week H/L	262 / 41
Equity capital	Rs 298 Crore
Face value	Rs. 10
MF Holding (%)	7.5
RI Holding (%)	29.2

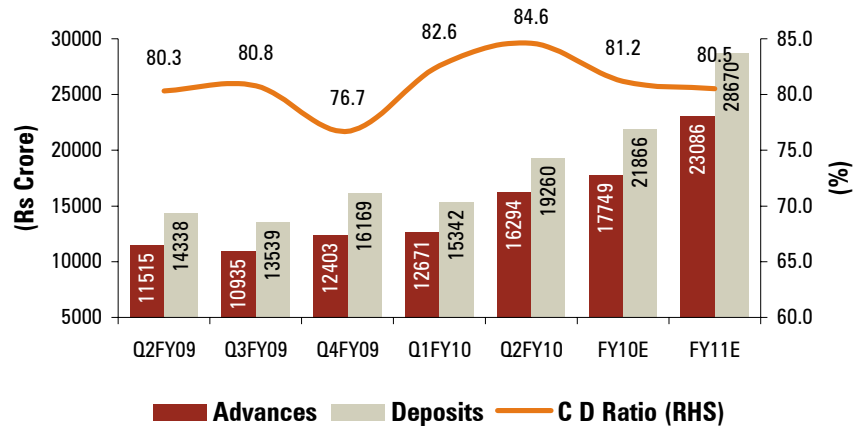


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**Business Highlights**

**Exhibit 2: C/D ratio expected to moderate from current levels**

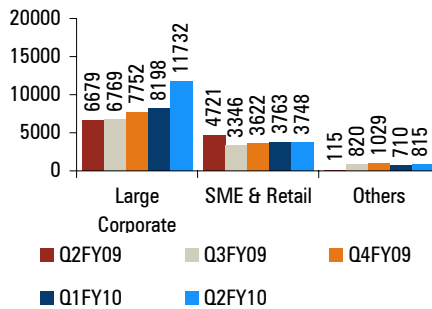
The business momentum will remain strong in the coming quarters. The bank is adequately capitalised for near term growth of 29% CAGR in balance sheet as per our estimates from FY09-FY11E



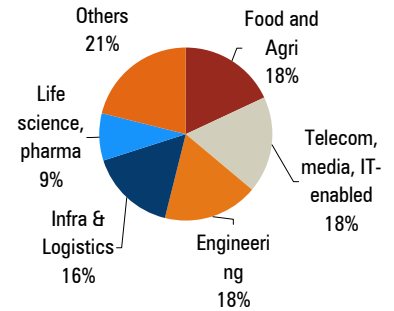
Source: Company, ICICIdirect.com Research

**Exhibit 3: Loan book distribution (Rs crore)**

Corporate book contributed almost entirely to the growth in loan book on a QoQ basis. The bank traditionally has very less exposure to the retail sector, which we feel will enjoy a higher pie in the coming years



**Exhibit 4: Sectoral exposure in Q2FY10**



Source: Company, ICICIdirect.com Research

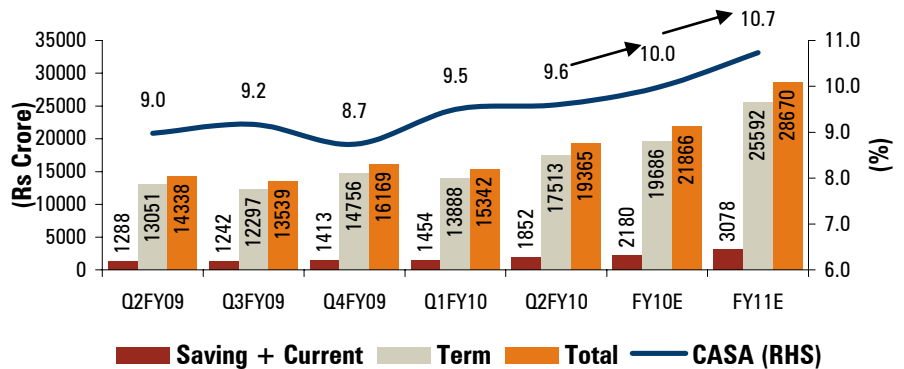
Source: Company, ICICIdirect.com Research

**Asset quality strong**

Asset quality improved QoQ, with both GNPA and NNPA down in absolute and percentage terms on account of recoveries, write-offs and upgradation during Q2FY10. The bank restructured assets worth Rs 45 crore of advances during the quarter, with cumulative restructuring at Rs160 crore or just 0.96% of gross advances. The bank is consistently maintaining a specific coverage ratio at 75% and total provision coverage at 266% of GNPA by Q2FY10. We expect the specific coverage ratio to moderate to 66% levels by FY11E.

**Exhibit 5: CASA expected to improve from current levels**

The bank is aiming at 40% CASA by 2015 on the back of very aggressive expansion plans. We expect CASA to inch up by year end with higher growth coming from current deposits compared to savings deposits

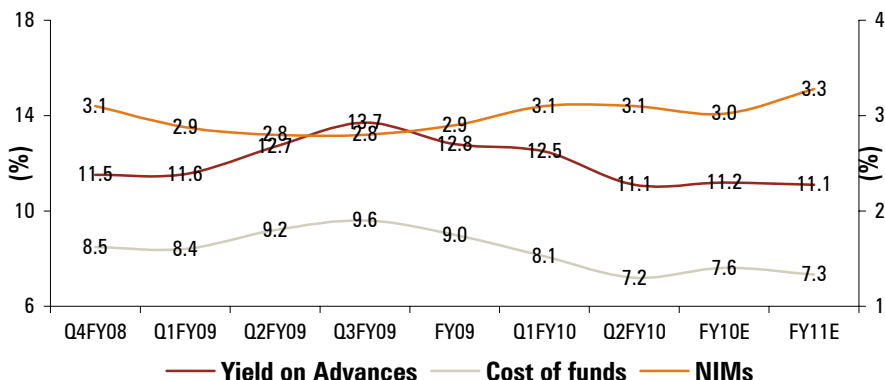


Source: Company, ICICIdirect.com Research

**Efficiency and returns matrix**

**Exhibit 6: NIMs expected to improve from FY11E**

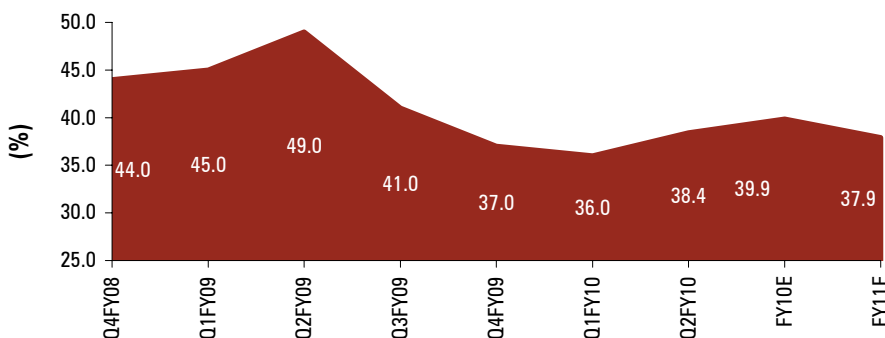
Improvement in CASA deposits and repricing of bulk deposits at lower rates will help the bank to control its cost of funds from FY11E. On the other hand, we expect the yield on advances to stay stable at current levels since we do not see interest rates falling from current levels. Hence, we expect NIMs to improve to 3.3% by FY11E



Source: Company, ICICIdirect.com Research

**Exhibit 7: Cost to income ratio well controlled**

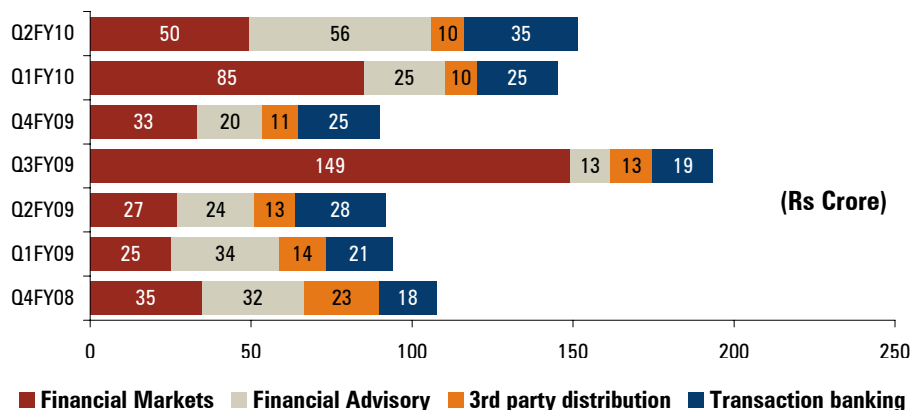
New branch addition will lead to a higher cost to income ratio for the bank in FY10E. Better utilisation of branches from FY11E will keep a check on employee cost and moderate it to near 38-39% levels by FY11E



Source: Company, ICICIdirect.com Research

**Exhibit 8: Break-up of non-interest income**

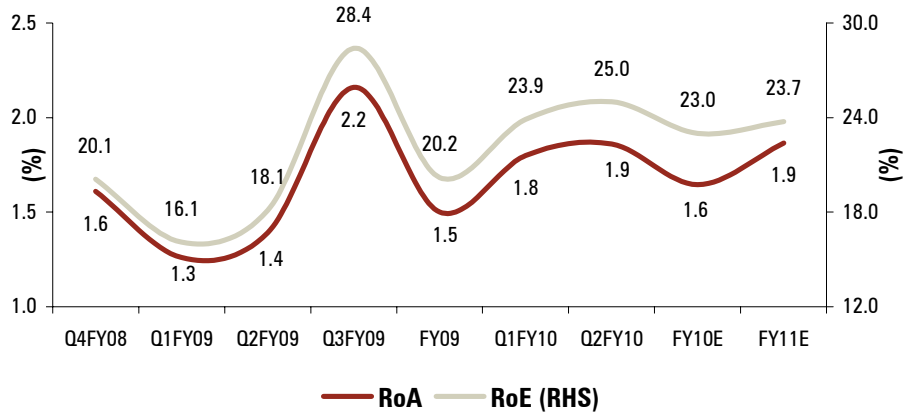
Contribution of non-interest income to total income for the bank always ranged between 45-50%, for Q2FY10. It stands at 49%, which indicates non-interest income is very essential to the growth of the bank, going ahead. We expect this segment to grow at 28% CAGR over FY09-FY11E to Rs 716 crore



Source: Company, ICICIdirect.com Research

**Exhibit 9: Returns parameters going strong on low base**

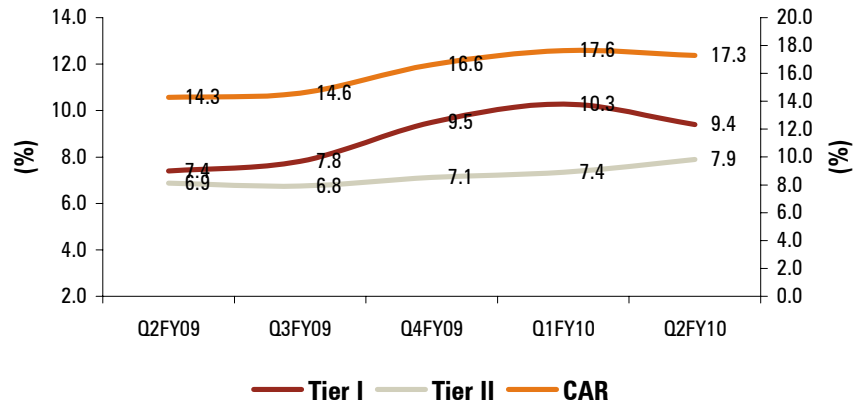
Contribution of non-interest income to total net income is key for the bank. We expect improving efficiencies and operating leverage to improve returns parameters



Source: Company, ICICIdirect.com Research

**Exhibit 10: CAR comfortable for near term growth**

The bank has raised Rs 260 crore of lower Tier II debt in Q2FY10. Yes Bank has received shareholders approval for raising another \$250 million by way of QIP. The bank plans to raise this by the end of this financial year. The gap between Tier I and Tier II capital will reduce to that extent. The bank is adequately capitalised for near term growth of 29% CAGR over FY09-FY11E according to our estimates



Source: Company, ICICIdirect.com Research

We have considered dilution to the tune of 7% in FY11E at a price of Rs 250. This will help the bank to enjoy a very healthy CAR of 15-16% in FY11E.

**ICICI direct.com coverage universe (BFSI)**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	453	FY09	3007.3	57.2	6.9	1.9	1.5	25.0
		<b>Target</b>	350	FY10E	3586.2	68.2	5.8	1.5	1.4	23.9
<b>Mcap (Rs Cr)</b>	24058	<b>Upside (%)</b>	-23	FY11E	4532.0	86.2	4.6	1.3	1.5	25.9
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	56	FY09	2227.2	61.1	7.4	1.3	1.1	18.7
		<b>Target</b>	532	FY10E	2582.0	70.6	6.4	1.2	1.1	18.4
<b>Mcap (Rs Cr)</b>	2097	<b>Upside (%)</b>	850	FY11E	3117.6	85.3	5.3	1.0	1.1	18.7
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	76	FY09	422.6	14.7	3.7	0.8	1.0	21.3
		<b>Target</b>	86	FY10E	488.9	12.6	4.3	0.8	0.9	18.8
<b>Mcap (Rs Cr)</b>	2240	<b>Upside (%)</b>	13	FY11E	572.7	14.8	3.6	0.7	0.9	17.7
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	132	FY09	1325.8	24.3	5.1	1.1	1.2	22.1
		<b>Target</b>	144	FY10E	1292.7*	23.7	5.3	1.1	1.0	17.6
<b>Mcap (Rs Cr)</b>	7191	<b>Upside (%)</b>	9	FY11E	1887.9	34.7	3.6	0.9	1.2	22.3
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	128	FY09	858.5	7.8	15.9	1.4	0.6	12.1
		<b>Target</b>	116	FY10E	925.8	12.8	9.6	1.3	0.5	11.8
<b>Mcap (Rs Cr)</b>	9281	<b>Upside (%)</b>	-13	FY11E	1132.4	14.2	8.7	1.3	0.5	12.7
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	267	FY09	7.7	6.4	0.8	0.6	0.9	13.8
		<b>Target</b>	255	FY10E	13.1	5.6	0.8	0.8	0.8	12.7
<b>Mcap (Rs Cr)</b>	6717	<b>Upside (%)</b>	-13	FY11E	12.4	5.0	0.7	1.3	0.8	13.2
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	864	FY09	3091.3	98.0	8.8	1.9	1.4	22.9
		<b>Target</b>	UR	FY10E	3260.7	103.4	8.4	1.7	1.2	20.4
<b>Mcap (Rs Cr)</b>	27210	<b>Upside (%)</b>		FY11E	4139.5	131.3	6.6	1.5	1.3	22.8
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2368	FY09	91.2	143.7	14.8	2.6	1.1	17.1
		<b>Target</b>	2217	FY10E	99.4	156.5	13.6	2.4	1.0	16.2
<b>Mcap (Rs Cr)</b>	152856	<b>Upside (%)</b>	-6	FY11E	100.0	195.0	10.9	2.0	1.0	17.5
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	272	FY09	1727.6	34.2	6.6	1.4	1.2	21.4
		<b>Target</b>	250	FY10E	1781.2	35.3	6.4	1.2	1.0	18.7
<b>Mcap (Rs Cr)</b>	14088	<b>Upside (%)</b>	-8	FY11E	2165.7	42.9	5.3	1.0	1.1	19.5
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	993	FY09	1815.5	50.6	19.2	3.5	1.4	19.1
		<b>Target</b>	1100	FY10E	2166.2	53.0	18.3	2.5	1.3	16.2
<b>Mcap (Rs Cr)</b>	36213	<b>Upside (%)</b>	11	FY11E	2572.2	62.9	15.4	2.2	1.2	14.7
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1686	FY09	2244.9	52.8	32.1	5.1	1.4	17.2
		<b>Target</b>	1881	FY10E	2843.5	63.0	26.9	3.8	1.4	15.9
<b>Mcap (Rs Cr)</b>	71861	<b>Upside (%)</b>	12	FY11E	3901.0	86.4	19.6	3.5	1.6	17.6
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	806	FY09	275.8	8.0	86.1	6.7	0.9	7.6
		<b>Target</b>	584	FY10E	351.2	9.8	70.7	6.3	1.0	8.6
<b>Mcap (Rs Cr)</b>	28666	<b>Upside (%)</b>	-28	FY11E	497.5	13.0	52.9	6.2	1.3	11.0
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	252	FY09	303.8	10.3	24.5	4.7	1.6	20.7
		<b>Target</b>	245	FY10E	421.3	14.2	17.7	3.7	1.6	23.0
<b>Mcap (Rs Cr)</b>	7648	<b>Upside (%)</b>	-3	FY11E	617.7	19.6	12.9	2.6	1.9	23.7

## Continued...

<b>IDFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	IDFC	<b>CMP</b>	161	FY09	748.0	5.8	25.5	3.1	2.5	12.7
		<b>Target</b>	162	FY10E	884.4	6.9	21.2	2.8	2.7	13.8
<b>Mcap (Rs Cr)</b>	21766	<b>Upside (%)</b>	1	FY11E	1020.0	8.0	18.4	2.5	2.7	14.4
<b>LICHF</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	LICHF	<b>CMP</b>	848	FY09	532.4	62.6	12.1	2.8	2.0	25.3
		<b>Target</b>	710	FY10E	608.9	63.4	12.0	2.3	1.8	21.8
<b>Mcap (Rs Cr)</b>	7247	<b>Upside (%)</b>	-16	FY11E	719.4	74.9	10.1	2.0	1.8	20.5
<b>MOSL</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	166	FY09	93.4	6.6	25.1	3.0	8.3	11.8
		<b>Target</b>	184	FY10E	153.6	10.7	15.4	2.6	8.3	17.0
<b>Mcap (Rs Cr)</b>	2472	<b>Upside (%)</b>	11	FY11E	191.0	13.3	12.4	2.2	8.8	17.6
<b>Rel Cap</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	886	FY08	1334.7	54.2	16.7	2.9	7.7	18.6
		<b>Target</b>	800	FY09	1151.4	46.8	19.3	2.6	5.8	14.0
<b>Mcap (Rs Cr)</b>	21916	<b>Upside (%)</b>	-10	FY10E	1073.5	43.0	21.0	2.3	4.5	11.5

## RATING RATIONALE

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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