

Yes Bank

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Not Rated / Rs 159

We recently met the management of Yes Bank to discuss the company's future strategy and growth prospects and returned with a positive view.

Key takeaways

- Yes Bank is a 2-year young, technology driven private sector bank with 29 fully operational branches and an asset base of Rs 82bn (growth of 6x in 2 years). Advances and deposits stand at Rs 48bn and Rs 55bn respectively as of 3QFY07. Yes Bank has carved out a niche for itself by adopting an integrated strategy of providing banking as well as advisory services (through a very experienced and active investment banking team) with a primary focus on mid-sized corporate and SME segments in India.
- The management has plans to take the number of branches to ~45 by FY07E, ~100 by FY08E and finally to ~250 by FY10E. The existing employee strength stood at 2,161. The bank hires almost 150-175 new employees every month.
- Currently, Yes Bank's major forte lies in corporate banking constituting 63% of total advances portfolio, followed by business banking (emerging corporates and SME) @ 36% and the balance from retail segment. However, the management has set a target (likely by FY10E) of rebalancing the portfolio towards business banking @ ~40% and the rest coming from corporate and retail segments (~30% each).
- Net interest margins stood @ 3% at the end of Q3FY07, witnessing sequential improvement in each of the last three quarters. CASA ratio for the bank stood at 7.3% and the management intends to take it to 20-25% by FY10E (as the benefits from the new branches start accruing). We believe that net interest margins might witness some pressure in the short-to-medium term (as the bank might have to resort to costlier wholesale deposits in its endeavor to maintain the growth momentum). However, in the long term, net interest margin is likely to improve on account of change in the advances portfolio mix towards SMEs and retail segments (resulting in higher yields) and the improvement in the CASA ratio (keeping the rise in cost of deposits under check due to proposed branch expansion).
- Fee income remains a key component of the overall profitability. Non-interest income/Total Income ratio at 50%+ is one of the best among the private banking space (second to ICICI Bank only). The key differentiator is the superior quality (leading to sustainability also) being reflected in the form of low proportion of trading income (~1% in Q3FY07).
- Operating expenses /Total income ratio (50-52%) might continue to remain high in sync with the investments in branch expansion (both in physical and human assets). However, the ratio is likely to improve going forward as the high cost investments have been mostly completed upfront and as the revenue from the new branches start pouring in.
- Asset quality remains impeccable with zero net NPAs till date.
- CAR (%) stood at 14.3%, with Tier-I @ 10.2%. However, we expect an equity dilution of ~10% in FY08E, in perspective of the current balance sheet growth.
- Key concerns remain (i) disappointment on execution front hurting asset growth and margins simultaneously (ii) deterioration in asset quality (not a seasoned portfolio) and (iii) churn in the top management.
- Yes Bank is trading at 32.7x FY08E earnings and 3.4x FY08E adjusted book value (taking into account an equity dilution of 10% @ Rs 180/share). We have a positive view on the stock (as it could very well qualify as a potential acquisition candidate with the opening of the sector in FY09E on back of its superior management, array of financial products encompassing the entire value chain and strong technology platform).

Bloomberg code : YES IN
Reuters code : YESB.BO
www.yesbank.com

BSE Sensex : 14188
NSE Nifty : 4096

Company data

O/S shares :	270mn
Market cap (Rs) :	42.8bn
Market cap (US\$) :	969mn
52 - wk Hi/Lo (Rs) :	170 / 67
Avg. daily vol. (3mth) :	847,709
Face Value (Rs) :	10

Share holding pattern, %

Promoters :	35.9
FII / NRI :	54.0
FI / MF :	2.0
Non Promoter Corp. Holdings :	1.2
Public & Others :	7.0

Price performance, %

	1mth	3mth	1yr
Abs	0.90	32.6	90.4
Rel to BSE	-3.3	21.4	42.0

Price vs Sensex



Source: Bloomberg, Man Financial Research

Valuation summary

Y/E Mar, Rs mn	FY06	FY07E	FY08E	FY09E
Pre-prov ROE (%)	25.1	26.5	28.1	34.8
Pre-prov ROA (%)	3.8	2.8	2.4	2.3
Net Profit	553	934	1,481	2,374
% growth	1571.9	68.9	58.5	60.3
EPS (Rs)	2.0	3.3	4.8	7.7
Adj BVPS (Rs)	21.2	28.1	46.7	54.4
ROE (%)	14.0	13.8	13.3	15.2
P/E (x)	76.8	47.2	32.7	20.4
Adj. P/BV (x)	7.4	5.6	3.4	2.9

Source: Company, Man Financial Preliminary Research Estimates

Yes Bank vis-à-vis its peers

Y/E Mar	FY06	FY07E	FY08E	FY09E
YES BANK				
NIM / AWF (%)	3.3	3.0	2.9	3.0
Core fee income /AWF (%)	3.4	2.4	1.9	1.7
Operating exp. / AWF (%)	3.3	2.8	2.6	2.5
ROAA (%)	2.1	1.5	1.2	1.0
ROAE (%)	14.0	13.8	13.3	15.2
HDFC BANK				
NIM / AWF (%)	4.2	4.1	4.2	4.3
Core fee income /AWF (%)	1.9	2.0	2.2	2.3
Operating exp. / AWF (%)	2.8	2.9	3.0	3.0
ROAA (%)	1.4	1.4	1.5	1.6
ROAE (%)	17.7	19.9	21.7	23.2
ICICI BANK				
NIM / AWF (%)	2.1	2.3	2.4	2.5
Core fee income /AWF (%)	1.8	1.9	2.1	2.1
Operating exp. / AWF (%)	2.3	2.3	2.3	2.2
ROAA (%)	1.3	1.1	1.1	1.1
ROAE (%)	14.3	12.7	15.4	17.4
UTI BANK				
NIM / AWF (%)	2.6	2.8	3.0	3.0
Core fee income /AWF (%)	1.4	1.4	1.5	1.5
Operating exp. / AWF (%)	2.0	2.1	2.1	2.1
ROAA (%)	1.2	1.2	1.1	1.1
ROAE (%) *	18.3	20.8	17.3	15.7

Source: Company, Man Financial Preliminary Research Estimates

* Taking into account equity dilution of 15% (no guidance from management)

Company background

Yes Bank is the only new age private sector bank to be awarded greenfield banking license by RBI in the last 12 years. Yes Bank boasts of a superior management team led by Mr. Rana Kapoor at the helm.

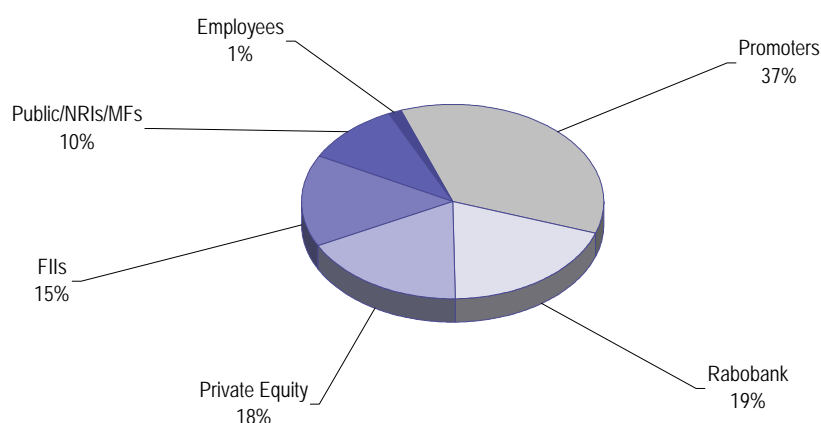
Key Management Personnel

Name	Designation	Previous Assignment
Rana Kapoor	Managing Director & CEO	Managing Partner/CEO & Managing Director - Rabo India
H. Srikrishnan	Executive Director	Country Head - Transaction Banking & Operations - HDFC Bank
Ajay Mahajan	Group President - Financial Markets, Institutions and Investment Management	Managing Director, Global Markets Group & Country Treasurer - Bank of America
Sunil Gulati	Group President - Corporate & Institutional/Emerging Corporates Banking, Risk Management & CDS	Managing Director - GE Commercial Finance
Somak Ghosh	President - Corporate Finance & Development Banking	Director - Project Advisory & Infrastructure Mgmt - Rabo India
Suresh Sethi	President - Branch Operations & Transaction Banking	Global Transaction Services Head - Caribbean, Central & Latin America, Citibank N.A.
Aditya Sanghi	Country Head - Investment Banking	Executive Director, Head of Mergers & Acquisitions - Rabo India
Suhail Kazmi	President - Retail Banking & Wealth Management	Retail Head, West & South India - ABN Amro Bank
Varun Tuli	President - Business Banking	Executive Director and Country Head - Avigo Capital Partners
Sumit Gupta	Country Head - Emerging Corporates Banking	Associate Director & Head (North) - Rabo India
Rajnish Datta	Country Head - Retail Assets	Business Head & Director - AMEX
Sandeep Sarkar	Country Head - Financial Markets	Vice President - Bank of America
Rajat Monga	Chief Financial Officer	Head of Treasury - Rabo India

Source: Company, Man Financial Research

Retention of quality top management is a key to success....

Shareholding Pattern as at Jan 26,2007(%)



Source: Company, Man Financial Research

Private equity investors include Citicorp Venture Capital, Chrys Capital & AIF capital; 3-yr lock-in expiring in May'07

Other key investors are Fidelity (4.8%), Swiss Re (3.6%), HSBC (2.4%) & TIA Crest (1.8%)

Rabobank's 14.8% holding has a lock-in of period of five years expiring in 2010E

Business Overview

Key business segments

Corporate & Institutional Banking

Customer focus

Corporates having turnover exceeding Rs 7.5bn

Products

Array of financial products including corporate finance, transaction banking, treasury products and financial advisory

Client base

379 customers
Target – 800 corporate customers & 360 government owned institutions

Business Banking

Customer focus

Emerging Corporates having turnover between Rs 1 bn – Rs 7.5 bn
SMEs having turnover between Rs 0.05bn and Rs 1 bn

Objective

Partnering tomorrow's large corporates providing host of products; even including wealth management products to business owners

Client base

444 customers

Retail Banking

Initial Customer focus

Mass Affluent segment having income between Rs 0.5mn – Rs 2.5mn

Objective

Targeting the affluent segment via primary differentiation in service quality

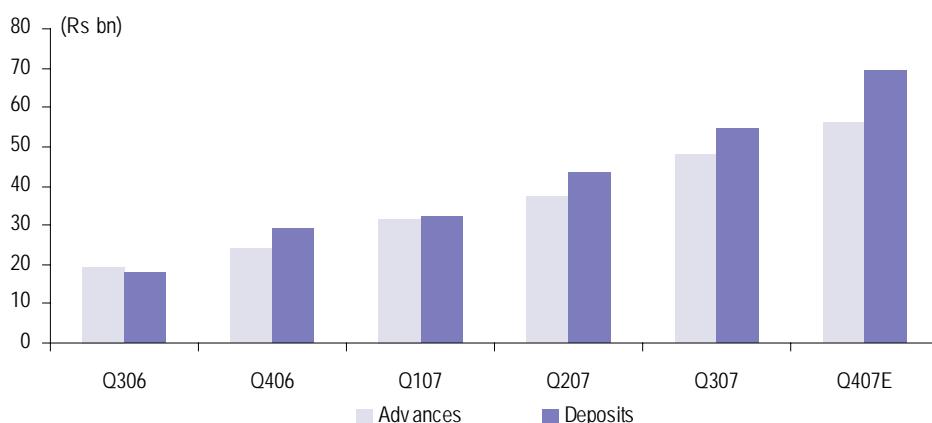
Planning to open new branches in regions with high CASA potential (50%-60% in northern region, followed by 30% in the western region)

Business banking and retail banking to be the key drivers going forward

We believe that NIM is likely to improve on account of shift in the portfolio mix towards SMEs and retail (leading to higher yields) and improvement in CASA ratio (once the benefits of branch expansion start flowing in)

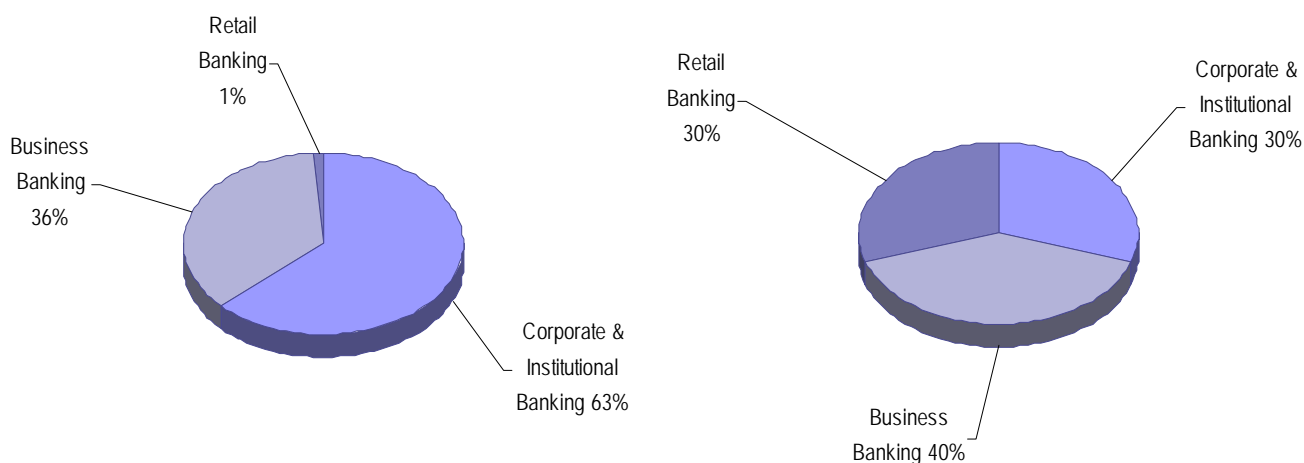
Source: Company, Man Financial Research

Advances & Deposits



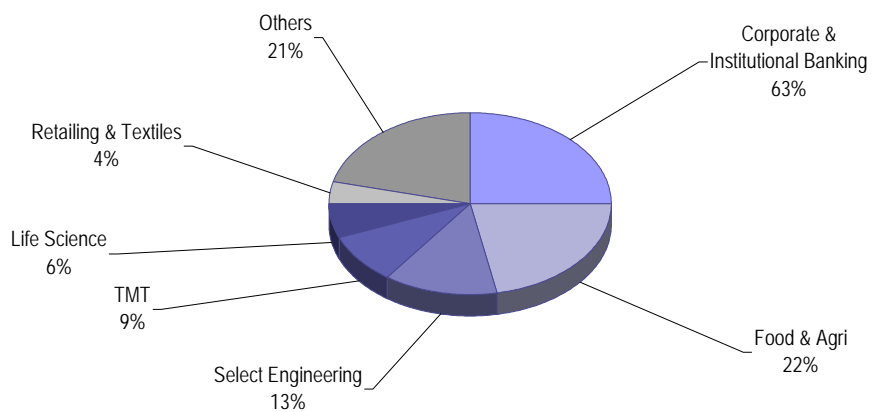
Source: Company, Man Financial Preliminary Research Estimates

Existing & Target (FY10E) segment wise contribution to advances portfolio (%)



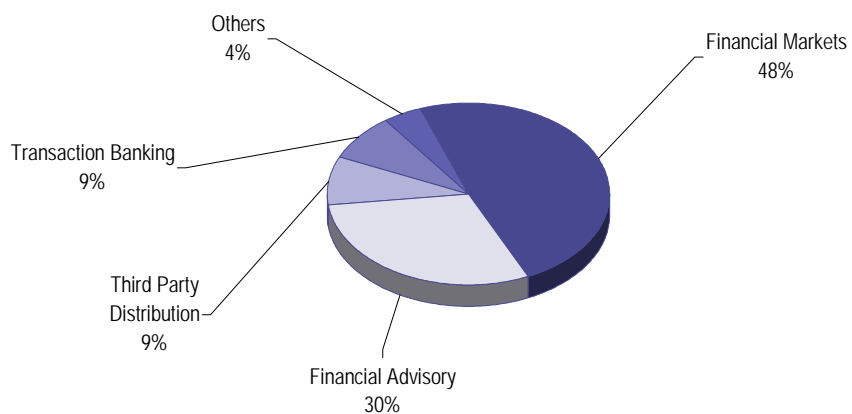
Source: Company, Man Financial Research

Sector wise break-up of advances portfolio (%)



Source: Company, Man Financial Research

Break-up of non-interest income (%)



Source: Company, Man Financial Research

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Income Statement

Y/E Mar (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Interest on Loans	231	1,361	3,879	8,531	16,848
<i>% yield on Avg Loans</i>	6.1%	8.6%	9.7%	10.2%	10.7%
Interest on Investments	62	475	1,188	2,198	3,627
<i>% yield on Avg Investments</i>	3.1%	5.4%	5.8%	5.7%	5.6%
Others	6	65	98	147	221
<i>% yield on Avg Cash and Cash Equivalents</i>	2.3%	4.9%	3.2%	2.6%	2.1%
Total Interest Earned	300	1,902	5,166	10,876	20,696
<i>% of Avg IBA / AWF</i>	4.9%	7.3%	8.1%	8.5%	8.9%
Interest on Deposits	89	851	2,872	6,461	12,793
<i>% cost of Avg deposits</i>	2.7%	4.7%	5.8%	6.3%	6.6%
Interest on Borrowings	29	189	340	476	666
<i>% cost of Avg borrowings</i>	1.6%	4.5%	6.5%	5.6%	5.3%
Interest on Debt	0	7	60	164	271
<i>% cost of Avg Debt</i>	NA	1.5%	1.8%	2.3%	2.6%
Total Interest Expended	118	1,047	3,271	7,101	13,730
<i>% Cost of Avg IBL</i>	2.3%	4.6%	5.7%	6.0%	6.3%
Net Interest Income	181	855	1,894	3,775	6,966
<i>% growth</i>	NA	371.4%	121.7%	99.3%	84.5%
<i>% of Avg IBA / AWF</i>	3.0%	3.3%	3.0%	2.9%	3.0%
Comm, Exch & Brok	78	419	692	1,038	1,505
Gain on Foreign exch	70	477	835	1,462	2,558
Gain on securities trading	26	40	30	40	50
Other Income	8	61	120	180	270
Total non interest income	182	997	1,677	2,719	4,383
<i>% Non+Int Inc (excl'd port gains) / NII</i>	86.1%	112.1%	86.9%	71.0%	62.2%
Total Income	363	1,852	3,571	6,494	11,348
<i>% growth</i>	NA	410.2%	92.8%	81.8%	74.7%
Personnel Expenses	213	501	1,178	2,356	4,123
<i>% of Total expenses</i>	53.3%	58.2%	66.5%	69.8%	69.5%
Other Expenses	187	360	594	1,018	1,807
Total Op expenses	399	861	1,772	3,374	5,929
<i>% growth</i>	NA	115.6%	105.7%	90.4%	75.8%
<i>% of Total Income</i>	118.5%	47.5%	50.0%	52.3%	52.5%
<i>% of AWF</i>	6.6%	3.3%	2.8%	2.6%	2.5%
Net Inc (Loss) before prov	-36	991	1,800	3,120	5,419
<i>% growth</i>	NA	-2818.6%	81.6%	73.4%	73.7%
Provision for NPAs	19	73	215	549	1,180
<i>% of average advances</i>	0.5%	0.5%	0.5%	0.7%	0.8%
<i>% of Total Income</i>	5.2%	3.9%	6.0%	8.5%	10.4%
Provision for Invst deprn	0	73	147	294	587
Net Inc (Loss) before tax	-55	844	1,437	2,278	3,652
<i>% growth</i>	NA	-1622.2%	70.2%	58.5%	60.3%
Provision for Income Tax	-18	291	503	797	1,278
<i>% effective tax rate</i>	32.2%	34.5%	35.0%	35.0%	35.0%
Net Profit	-38	553	934	1,481	2,374
<i>% growth</i>	NA	1571.9%	68.9%	58.5%	60.3%
<i>% of Avg IBA / AWF</i>	-0.6%	2.1%	1.5%	1.2%	1.0%

Net interest margins to improve with rising yields and improving CASA ratio

Fee-based income - a key driver of profitability

Operating-cost-to income ratio to remain high in sync with branch expansion

We expect the provisions to rise in line with the industry standards

We expect the earnings to grow at a CAGR of 59% over FY07E-FY09E

Source: Company, Man Financial Preliminary Research Estimates

Balance Sheet

As at 31 st Mar (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Assets					
Cash & Bal with RBI	530	2,156	4,037	7,427	13,525
<i>% growth</i>	NA	306.5%	87.3%	84.0%	82.1%
<i>% of deposit</i>	8.0%	7.4%	5.8%	5.5%	5.4%
Loans and Adv	7,610	24,071	56,000	112,000	201,600
<i>% growth</i>	NA	216.3%	132.6%	100.0%	80.0%
<i>% of deposit</i>	114.3%	82.3%	80.9%	82.7%	79.9%
Investments	4,028	13,700	27,384	49,819	80,782
<i>% growth</i>	NA	240.1%	99.9%	81.9%	62.2%
<i>% of deposit</i>	60.5%	46.8%	39.6%	36.8%	32.0%
- of which G-Secs	2,687	8,119	18,269	36,537	63,940
<i>% of deposit</i>	40.4%	27.7%	26.4%	27.0%	25.3%
Fixed Assets (Net)	196	347	521	781	1,172
<i>% of total assets</i>	1.5%	0.8%	0.6%	0.4%	0.4%
Other assets	417	1,351	2,500	3,749	5,624
Total Assets	12,782	41,626	90,442	173,777	302,703
<i>% growth</i>	NA	225.7%	117.3%	92.1%	74.2%
Liabilities					
Share capital	2,000	2,700	2,800	3,080	3,080
Reserves and Surplus	170	3,027	5,061	11,302	13,675
Debt	0	1,000	5,550	8,560	12,060
Borrowing	3,697	4,648	5,810	11,222	14,027
<i>% growth</i>	NA	52.7%	101.1%	74.1%	31.9%
<i>% of total liabilities</i>	28.9%	13.6%	12.6%	11.4%	8.6%
Total Deposits	6,659	29,263	69,200	135,410	252,390
<i>% growth</i>	NA	339.5%	136.5%	95.7%	86.4%
<i>% of total liabilities</i>	52.1%	70.3%	76.5%	77.9%	83.4%
- of which Demand Dep	72	3,009	72	3,009	5,536
<i>% of total deposits</i>	1.1%	10.3%	8.0%	10.0%	13.0%
- of which Savings Dep	20	108	1,384	6,771	17,667
<i>% of total deposits</i>	0.3%	0.4%	2.0%	5.0%	7.0%
Other liab incld prov	256	988	2,017	4,204	7,468
Total Liabilities	12,782	41,626	90,438	173,778	302,700
<i>% growth</i>	NA	225.7%	117.3%	92.2%	74.2%
Gross Non performing loans	0	0	0	0	0
<i>Gr.NPLs / Gr.Adv (%)</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Net Non performing Loans	0	0	0	0	0
<i>% Net NPLs / Net Adv</i>	0.0%	0.0%	0.0%	0.0%	0.0%
<i>% Net NPLs to Equity</i>	0.0%	0.0%	0.0%	0.0%	0.0%

36% of investment portfolio in HTM

Duration of AFS portfolio < 1yr (mostly in T-Bills)

Asset quality impeccable with zero NPAs till date

Source: Company, Man Financial Preliminary Research Estimates

Profitability, Productivity, Liquidity and Valuation Ratios

	FY05	FY06	FY07E	FY08E	FY09E
Earnings and Valuation Ratios:					
Pre-provision Operating RoAE (%)	-3.4	25.1	26.5	28.1	34.8
RoAE (%)	(3.5)	14.0	13.8	13.3	15.2
Pre-provision Operating ROA (%)	(0.6)	3.6	2.7	2.4	2.3
RoAA (%)	(0.6)	2.1	1.5	1.2	1.0
EPS (Rs.)	(0.2)	2.0	3.3	4.8	7.7
Book Value (Rs.)	10.9	21.2	28.1	46.7	54.4
Adj BV (Rs.)	10.9	21.2	28.1	46.7	54.4
Dividend per share (Rs.)	0.0	0.0	0.0	0.0	0.0
Revenue Analysis :					
Interest income on IBA (%)	4.9	7.3	8.1	8.5	8.9
Interest cost on IBL (%)	2.3	4.6	5.7	6.0	6.3
NIM on IBA / AWF (%)	3.0	3.3	3.0	2.9	3.0
Core fee Inc / AWF (%)	2.4	3.4	2.4	1.9	1.7
Portfolio gains / Total Inc (%)	7.7	2.2	0.8	0.6	0.4
Op.Exp / TI (%)	118.5	47.5	50.0	52.3	52.5
Op.Exp / AWF (%)	6.6	3.3	2.8	2.6	2.5
Employee exps / Op exps (%)	53.3	58.2	66.5	69.8	69.5
Tax / Pre-tax earnings (%)	32.2	34.5	35.0	35.0	35.0
Asset Quality :					
GNPAs / Gr Adv (%)	0.0	0.0	0.0	0.0	0.0
NNPAs / Net Adv (%)	0.0	0.0	0.0	0.0	0.0
Growth Ratio :					
Loans (%)	NA	216.3	132.6	100.0	80.0
Investments (%)	NA	240.1	99.9	81.9	62.2
Deposits (%)	NA	339.5	136.5	95.7	86.4
Networth (%)	NA	163.9	37.3	82.9	16.5
Net Int Income (%)	NA	371.4	121.7	99.3	84.5
Non-fund based income (%)	NA	514.7	72.0	62.7	61.7
Non-Int Exp (%)	NA	115.6	105.7	90.4	75.8
Profit Before Tax (%)	NA	(1,622.2)	70.2	58.5	60.3
Net profit (%)	NA	1,571.9	68.9	58.5	60.3
Asset / Liability Profile					
Avg CASA/ Deposits (%)	1.4	8.9	10.2	13.3	18.3
Avg Adv / Avg Dep (%)	114.3	88.2	81.3	82.1	80.9
Avg Invst / Avg Dep (%)	60.5	49.4	41.7	37.7	33.7
Incr Adv / Deposits (%)	114.3	72.8	79.9	84.6	76.6
Avg Cash / Avg Dep (%)	8.0	7.5	6.3	5.6	5.4
Capital Adequacy Ratio:					
Tier I (%)	15.0	13.4	9.6	9.2	7.1
Internal Capital Generation rate (%)	NA	25.5	16.3	18.8	16.5
NNPAs to Equity (%)	0.0	0.0	0.0	0.0	0.0

RoE to come down in FY08E on account of equity dilution

Core fee income to average working funds ratio is among the best among the private sector banks

Loan growth to continue on account of low base

CASA ratio to improve as more and more retail branches get operationalised

Equity dilution of 10% factored in at a price of Rs 180/share

Source: Company, Man Financial Preliminary Research Estimates

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