

ACTION

Buy

Yes Bank (YESB.BO)

Return Potential: 37%

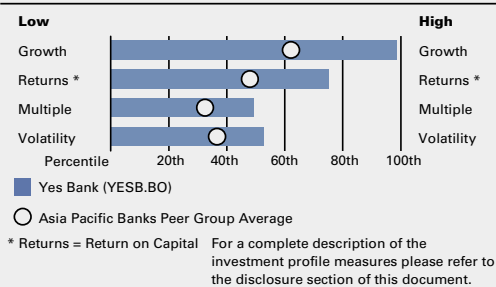
Equity Research

Saying Yes to GARP; upgrading Yes Bank to Buy

Source of opportunity

Concerns of margin pressure from a sharp rise in wholesale rates are reflected in a 29% decline in the share price of Yes Bank (YESB) from its recent peak in September 2010 (and 19% underperformance vs. BSE Sensex). We believe current valuations (2x P/B for ROE of 22%) offer an attractive entry point and we upgrade Yes to Buy from Neutral. We are expecting 23% CAGR in earnings from FY11E-13E strong loan growth but post factoring in margin compression of about 15bp over FY10-FY12E on rising wholesale costs despite a likely uptick in CASA.

Investment Profile



Catalyst

YESB has delivered 53% CAGR in loans over FY08-10 (from a low base), and we expect the strong growth momentum to continue (42% CAGR over FY11E-13E), although this will be moderate vs. the past. YESB's asset quality remains healthy with Gross NPLs at 0.2% of loans and coverage ratio at 76% as of Q3FY11. We forecast addition of 550 branches over FY10-FY15E, which we believe would imply increased ability to attract low-cost liabilities with incremental focus on retail/SME segment, but on a balance sheet basis the change would require growth to moderate. We are building a CASA improvement of about 750bp to about 18.5% by FY13E from current stagnant levels of 10%-11%.

Key data	Current
Price (Rs)	270.35
12 month price target (Rs)	370.00
Market cap (Rs mn / US\$ mn)	93,338.3 / 2,046.0
Foreign ownership (%)	53.4

	3/10	3/11E	3/12E	3/13E
EPS (Rs) New	15.71	21.17	26.55	31.94
EPS revision (%)	0.0	3.5	1.9	2.8
P/B (X)	2.7	2.4	2.0	1.7
P/E (X)	17.2	12.8	10.2	8.5
Dividend yield (%)	0.6	0.7	0.9	1.2
P/POP (X)	10.8	8.0	6.1	4.7
PPOP growth (%)	63.6	35.7	30.1	30.1
Preprovision ROA (%)	2.9	2.5	2.2	2.1
Credit cost (%)	0.6	0.2	0.3	0.4
ROA (%)	1.61	1.54	1.34	1.19
ROE (%)	20.3	21.2	21.7	21.6

Valuation

The stock is currently trading at 2.04X FY12E P/BV and 10.3X FY12E P/E, vs. RoE of 21.7% and RoA of 1.34% for FY2012. Our 12-m target price of Rs370 (unchanged) is arrived at using GS CAMELOT methodology and it implies 38% potential upside. We fine-tune EPS estimates.

Key risks

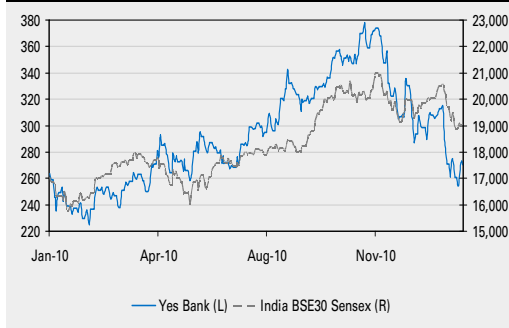
Downside Risk: Faster than expected growth leading to risk of higher NPLs, Rising wholesale borrowing rates, Frequent capital raising

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

Coverage View: Neutral

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(23.6)	(9.2)	2.4
Rel. to India BSE30 Sensex	(18.6)	(14.1)	(8.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 1/21/2011 close.

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Yes Bank: Summary Financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E	Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
Net interest income	7,879.5	12,333.2	17,464.6	24,402.3	Gross loans	222,403.3	355,722.4	515,797.5	724,090.9
Non-interest income	5,755.3	6,260.1	7,644.0	9,746.2	NPLs	602.0	800.8	1,121.1	1,681.7
Operating revenue	13,634.8	18,593.3	25,108.6	34,148.5	Loan loss reserves	472.1	367.9	533.5	1,495.7
Non-interest expense	(5,001.5)	(6,876.0)	(9,866.1)	(14,324.0)	Total interest earning assets	349,936.0	569,390.4	764,494.0	1,045,371.1
Preprovision operating profit	8,633.3	11,717.3	15,242.5	19,824.4	Other non-interest earning assets	13,889.1	18,113.8	19,477.2	21,409.9
Total provision charge	(1,368.4)	(761.7)	(1,460.8)	(3,243.7)	Total assets	363,825.1	587,504.2	783,971.2	1,066,781.0
Associates	0.0	0.0	0.0	0.0	Customer deposits	267,985.7	457,333.8	641,158.2	898,430.4
Pretax profit	7,264.9	10,955.6	13,781.7	16,580.7	Total interest-bearing liabilities	316,716.9	531,863.7	720,175.6	992,439.1
Tax	(2,487.5)	(3,645.8)	(4,616.9)	(5,554.5)	Total equity	30,895.5	38,147.4	46,302.4	55,974.2
Minorities	--	--	--	--	CAMEL ratios (%)	3/10	3/11E	3/12E	3/13E
Net profit	4,777.4	7,309.8	9,164.8	11,026.2	C: Tier 1 capital ratio	12.9	10.4	8.9	7.8
Dividends	509.5	690.5	863.1	1,157.7	C: Equity/loans	13.9	10.7	9.0	7.8
Dividends payout (%)	10.7	9.4	9.4	10.5	C: Equity/assets	8.5	6.5	5.9	5.2
Earnings growth drivers (%)	3/10	3/11E	3/12E	3/13E	A: NPL ratio	0.3	0.2	0.2	0.2
Net interest margin	2.66	2.59	2.55	2.64	A: Loan loss reserves/NPLs	78.4	45.9	47.6	88.9
Provision charge/total loans	0.62	0.21	0.28	0.45	E: Net interest margin	2.66	2.59	2.55	2.64
YoY Growth (%)					E: Non int inc/oper revenues	42.21	33.67	30.44	28.54
Customer deposits	65.7	70.7	40.2	40.1	E: Cost-income ratio	36.7	37.0	39.3	41.9
Loans	78.9	60.0	45.0	40.0	E: ROAA	1.61	1.54	1.34	1.19
Net interest income	54.1	56.5	41.6	39.7	L: Loan/deposit ratio	82.8	77.6	80.3	80.2
Fee income	67.9	35.1	16.3	27.0	Key CAMELOT assumptions	3/10	3/11E	3/12E	3/13E
Non-interest income	32.3	8.8	22.1	27.5	GS CAMELOT implied P/B (X)	--	2.8	--	--
Operating revenue	44.1	36.4	35.0	36.0	GS CAMELOT implied P/E (X)	--	21.2	--	--
Operating expenses	(19.5)	(37.5)	(43.5)	(45.2)	Risk-free rate (%)	8.1	8.1	8.1	8.1
Preprovision operating profit	63.6	35.7	30.1	30.1	Equity risk premium (%)	6.0	6.0	6.0	6.0
Provision charges	51.3	(38.6)	88.1	122.0	CAMELOT beta (X)	--	1.2	--	--
Pretax profit	55.9	50.8	25.8	20.3	Risk-adjusted cost of equity (%)	--	15.3	--	--
Net profit	57.2	53.0	25.4	20.3	3-yr adjusted DPS CAGR (%)	--	25.2	--	--
EPS	53.6	34.8	25.4	20.3	Sustainable ROE estimate (%)	--	13.0	--	--
DPS	--	19.4	25.0	34.1	LT dividend payout estimate (%)	--	61.5	--	--
Market dimensions	3/10	3/11E	3/12E	3/13E	Ex-growth bond-equivalent P/B (X)	--	0.8	--	--
No of branches	150.0	200.0	335.0	450.0	Loan portfolio (%)	3/10	3/11E	3/12E	3/13E
No of staff (000)	3.0	4.0	6.7	9.8	Commercial & corporate	NM	NM	NM	NM
Revenues/staff (US\$)	94,692.9	100,838.6	82,547.6	76,513.3	Mortgages/home loans	NM	NM	NM	NM
Net profit/staff (US\$)	33,178.9	39,644.0	30,130.4	24,705.3	Consumer	NM	NM	NM	NM
DuPont analysis (%)	3/10	3/11E	3/12E	3/13E	Valuation (current price)	3/10	3/11E	3/12E	3/13E
ROE	20.3	21.2	21.7	21.6	P/E basic (X)	17.2	12.8	10.2	8.5
x leverage	8.0	7.3	6.2	5.5	P/B (X)	2.66	2.45	2.02	1.67
=ROA	1.61	1.54	1.34	1.19	P/PPOP (X)	10.8	8.0	6.1	4.7
% of assets	3/10	3/11E	3/12E	3/13E	Dividend yield (%)	0.6	0.7	0.9	1.2
Net interest income	2.66	2.59	2.55	2.64	EPS, basic (Rs)	15.71	21.17	26.55	31.94
Fee income	1.28	1.08	0.87	0.82	EPS, fully-diluted (Rs)	15.71	21.17	26.55	31.94
Non-interest income	1.94	1.32	1.11	1.05	EPS, basic growth (%)	53.6	34.8	25.4	20.3
Operating revenue	4.60	3.91	3.66	3.69	EPS, fully diluted growth (%)	53.6	34.8	25.4	20.3
Operating expenses	1.69	1.45	1.44	1.55	BVPS (Rs)	101.60	110.49	134.11	162.13
Preprovision operating profit	2.91	2.46	2.22	2.14	DPS (Rs)	1.68	2.00	2.50	3.35
Loan loss provisions	0.43	0.16	0.21	0.35					
Pretax profits	2.45	2.30	2.01	1.79					
Taxes	0.84	0.77	0.67	0.60					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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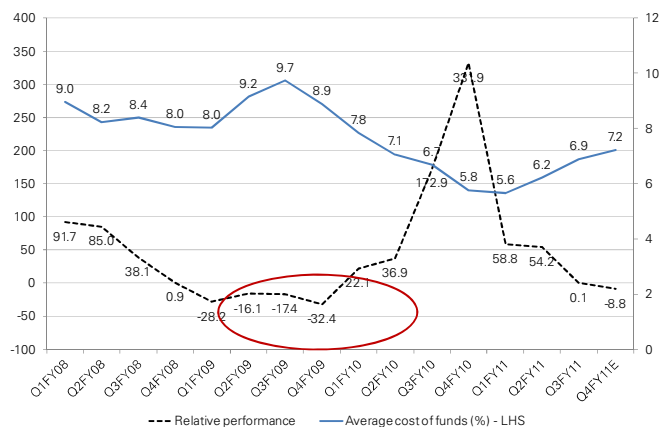
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Exhibit 1: Higher deposit rates and concerns of margin pressure reflected in relative underperformance vs. Sensex

Relative performance of Yes Bank vs. Sensex, Average cost of funds in %



Source: Datastream, Company data, Goldman Sachs Research estimates.

Exhibit 2: YESB is trading at below average P/BV... Price to Book vs ROE in %



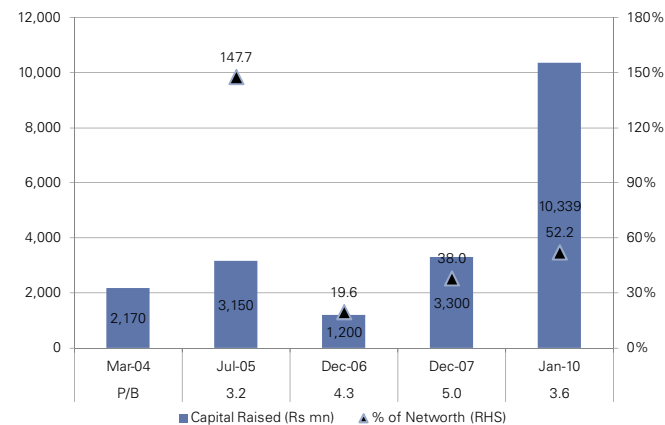
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 3: ...as well as on P/E Price to Earnings vs EPS growth in %



Source: [Exhibit Source]

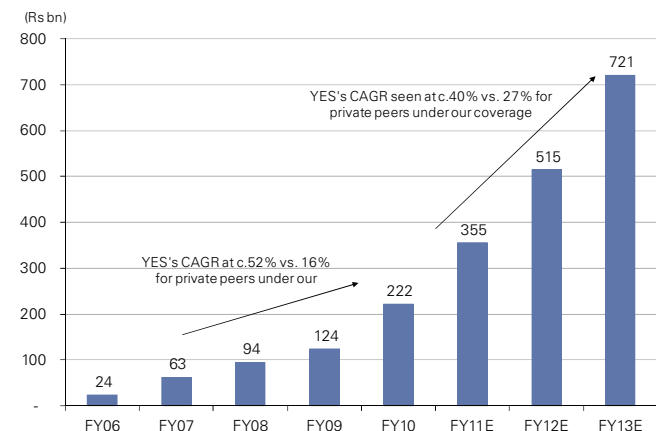
Exhibit 4: Frequent but efficient capital raising Capital raised (Rs mn), % of Networth (pre capital raise), P/B



Source: Company data, Goldman Sachs Research estimates.

Exhibit 5: Growth to remain strong, though moderate v/s historical average

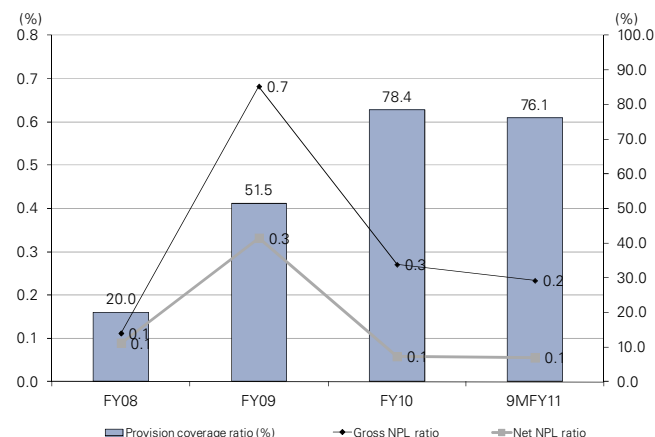
Advances (Rs bn), growth in advances (yoy) in %



Source: Company data, Goldman Sachs Research estimates.

Exhibit 6: Asset quality remains good despite high growth, coverage ratio healthy at 75%+

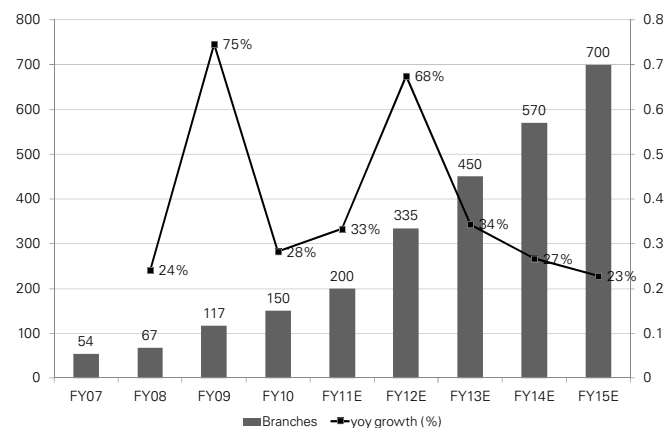
Provision coverage ratio, Gross, Net NPA ratio in %



Source: Company data, Goldman Sachs Research estimates.

Exhibit 7: We expect YESB to add 550 branches over FY10-FY15E

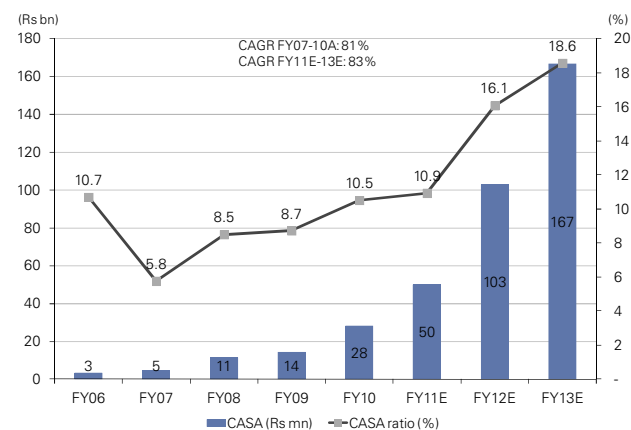
Branches, year growth in branches in %



Source: Company data, Goldman Sachs Research estimates.

Exhibit 8: CASA ratio should likely see an uptick from current stagnant levels

CASA (Rs bn), CASA Ratio in %



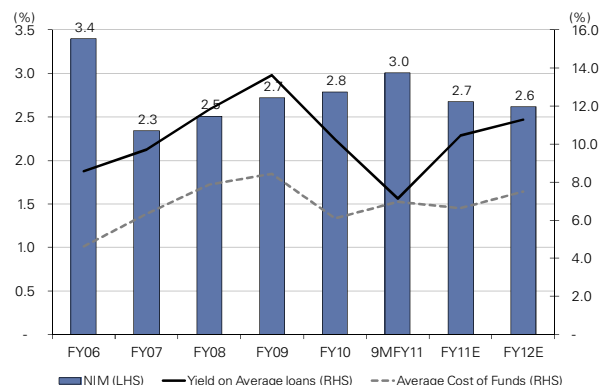
Source: Company data, Goldman Sachs Research estimates.

Exhibit 9: CP/ CD rates have risen sharply over the last year on tight liquidity...a trend likely to continue
CD, CP rates of various maturities in %

%	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Jan-11	Change in 2010 (bps)
CD 3M	3.85	4.95	6.50	7.13	9.00	8.85	515
CD 6M	4.87	5.20	6.65	7.61	9.38	9.20	451
CD 12M	5.85	6.05	6.90	8.07	9.48	9.55	363
CP 3M	4.25	5.75	6.88	7.53	9.48	9.25	523
CP 6M	5.50	6.00	6.98	7.99	9.73	9.55	423
CP 12M	6.55	6.75	7.37	8.48	9.95	9.88	340

Source: Bloomberg.

Exhibit 10: Pressure on margins due to continued rise in wholesale rates built into our estimates. This despite expected increase in CASA
NIMs, Yield on average loans, Average cost of funds in %



Source: Company data, Goldman Sachs Research estimates.

Reg AC

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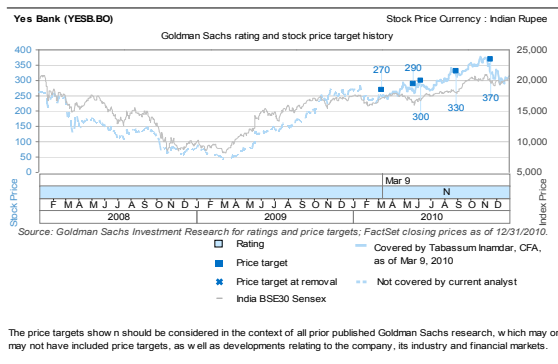
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Price target and rating history chart(s)



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