

**RESULTS REVIEW**
**Share Data**

Market Cap	Rs. 80.6 bn
Price	Rs. 237.9
BSE Sensex	15,973.5
Reuters	YESB.BO
Bloomberg	YES:IN
Avg. Volume (52 Week)	0.89 mn
52-Week High/Low	Rs. 287.90 / 40.8
Shares Outstanding	338.7 mn

**Valuation Ratios**

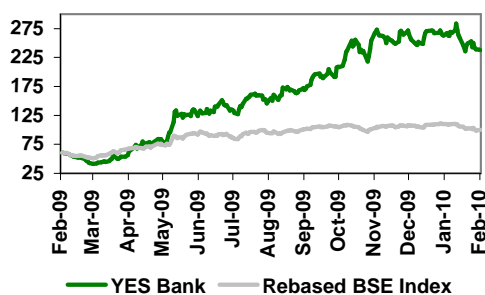
Year to 31 March	2010E	2011E
EPS (Rs.)	12.7	18.5
+/- (%)	25.5%	45.2%
PER (x)	18.7x	12.9x
P / PPP (x)	10.5x	7.7x
P / ABV (x)	2.6x	2.1x

**Shareholding Pattern (%)**

Promoter	31
FII's	35
Institutions	23
Public & Others	11

**Holding >1% (Non-Promoter)**

RaboBank International Holding BV	13.3
Orient Global Tamarind Fund Pte Ltd	4.9
HSBC Financial Services Middle East L	4.8
RaboBank International Holding BV	4.7
Titivangsa Investments Mauritius Ltd	4.7

**Relative Performance**

**Yes Bank**
**Sell**
**Current price more than discounts the near term potential**

Yes Bank reported a modest operating performance in Q3'09 as the net profit increased by 12.7% qoq to Rs. 1.3 bn primarily because of negative growth in non-interest income. We are concerned about the Bank's outlook due to its highly volatile non-interest income, heavy dependence on wholesale funding, one of the lowest CASA ratio in the industry, and a portfolio skewed towards corporate and institutional banking. Further, the stock has advanced significantly in the last few months and given our expectation of further tightening of monetary policy, we do not believe stock justifies a forward P/B of 2.6x. Our DECF valuation suggests a fair value of Rs. 218, indicating a marginal downside of 8% over the current stock price. Thus, we downgrade our rating to sell.

**Margins to be adversely impacted in the coming quarters**

Net Interest Margin (NIM) for the Bank remained flat at around 3.1% (sequentially) in Q3'10 led by lower yielded on advances which has been offset by increase in CASA ratio. We expect the NIM to decline in the coming quarters in response to RBI's hike of CRR by 75bps. The hike will lead to shrink in liquidity and in order to control inflation; we expect further tightening in the monetary policy. Consequently, banks with low CASA ratio like Yes Bank (10.1%) are likely to be adversely impacted in terms of lower margins.

**Volatile Non-Interest Income**

The volatile non-interest income for the Bank is a reason to worry primarily because of over dependence on financial markets and financial advisory, **Key Figures**

Quarterly Data	Q3'09*	Q2'10	Q3'10	YoY %	QoQ%	9M09	9M10	YoY %
(Figures in Rs mn, except per share data)								
Net Interest Income	1,245	1,600	2,109	69.5%	31.9%	3,383	5,346	58.0%
Net Operating Income	3,139	3,115	3,387	7.9%	8.7%	7,066	9,592	35.7%
Pre-Prov Oprtng. Profit	1,844	1,918	2,162	17.2%	12.7%	3,833	6,058	58.1%
<b>Net Profit</b>	1,058	1,117	1,259	12.7%	12.7%	2,237	3,377	51.0%
Cost/Oprtng. Income(%)	41.3%	38.4%	36.2%	-	-	45.8%	36.8%	-
Net Interest Margin	2.8%	3.1%	3.1%	-	-	2.8%	-	-
Gross NPA ratio	0.4%	0.3%	0.3%	-	-	0.4%	0.3%	-
<b>Per Share Data (Rs.)</b>								
PPP per share	6.1	6.3	6.9	13.0%	9.7%	11.8	17.6	49.1%
Diluted EPS	3.5	3.7	4.0	14.8%	9.8%	6.8	10.1	50.2%
BVPS	52.0	65.7	66.0	26.9%	0.5%	52.0	66.0	26.9%

which together accounts for 65.5% of the total non-interest income. We believe this volatile nature of other income to continue in the coming quarters. For the fourth quarter, we expect rise in the non-interest income mainly because of third party distribution which normally picks up in the fourth quarter. In addition, the contributions from the core fee income is lower compare to other private banks because of inadequate branch distribution network and the Banks clientele, which is focussed more towards large corporates.

### Result Highlights

The Bank reported moderate growth figures for the quarter ended Dec'09. The net profit for the bank registered a growth of 12.7% qoq to Rs. 1.2 bn.

- The Bank's Net Interest Income (NII) registered a rise of 31.9% qoq to Rs. 2.1 bn. This can be attributed to a lower rise in interest expense, which increased by 13.2% to Rs. 4.1 bn.
- On a sequential basis, net interest margin for the Bank remained flat at around 3.1% in Q3'10 led by lower yielded on advances which has been offset by increasing CASA ratio.
- The cost to income ratio for the Bank exhibited an improvement as it reduced from 41.3% in Q2'09 to 36.2% during the quarter.
- The bank saw a rise of 14.8% yoy in the advances to Rs. 187.1 bn. The growth in advances was driven by client acquisition in the large corporate segment where the bank witnessed growth post the credit crisis.
- The Bank seems to be well capitalized as the Capital Adequacy Ratio and the Tier 1 Ratio for the Bank stood at 16.2 % and 9%, respectively, well above the minimum industry requirement of 9% and 6%.
- The Bank's gross NPA and net NPA ratios have reduced by 15 and 6 bps yoy to 0.29% and 0.09%, respectively. The total loan loss coverage ratio for Dec'09 quarter was 270%; however, specific loan loss coverage ratio stands at 70.1%.

### Key Event

The Bank has raised USD 225 mn (~Rs 10.34 bn) through private placement of shares to institutional investors in the beginning of the fourth quarter. The Bank has issued 38.4 mn equity shares at Rs. 269.5 per equity share.

### Valuation

We have valued Yes Bank by using the three-stage Discounted Equity Cash Flow model. Our target price of Rs. 218, assumes a 16.16% cost of equity and a 13.84% terminal growth rate, indicating a marginal downside of 8% from the current market price. Further, the stock is trading at forward P/B multiple of 2.6x, which we feel cannot be justified given our expectation of further tightening of monetary policy. Hence, we downgrade our rating to Sell.

### Sensitivity Analysis

	Cost of equity					
	218	15.66%	15.91%	16.16%	16.41%	16.66%
Terminal growth	13.34%	222	197	177	160	145
	13.59%	251	220	195	175	158
	13.84%	287	249	218	194	173
	14.09%	336	285	246	216	192
	14.34%	402	332	282	244	214

### EQUITY RESEARCH

February 09, 2010

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09	FY10E	FY11E
Interest Income	13,047	20,033	24,623	38,520	<b>Per share data (Rs.)</b>				
Interest Expense	9,741	14,921	17,100	27,918	Shares outstanding (mn)	295.8	297.0	338.7	338.7
<b>Net Interest Income</b>	<b>3,306</b>	<b>5,112</b>	<b>7,523</b>	<b>10,602</b>	Basic EPS	7.0	10.2	14.5	19.1
YoY Growth (%)	92.9%	54.6%	47.2%	40.9%	Diluted EPS	6.8	10.1	12.7	18.5
Other Income	3,607	4,350	5,584	8,079	Book value per share	44.6	54.7	92.3	111.4
<b>Net Operating Income</b>	<b>6,912</b>	<b>9,462</b>	<b>13,107</b>	<b>18,681</b>	Adj. book value per share	44.6	54.7	92.3	111.4
YoY Growth (%)	88.9%	36.9%	38.5%	42.5%	<b>Valuation ratios (x)</b>				
Operating Expense	3,412	4,185	5,173	7,812	P/PPP	14.3x	2.8x	10.5x	7.7x
<b>Pre-Provisioning Profit</b>	<b>3,501</b>	<b>5,277</b>	<b>7,933</b>	<b>10,869</b>	P/E	25.0x	4.9x	18.7x	12.9x
Provisions and Contingencies	436	617	1,179	1,061	P/B	3.8x	0.9x	2.6x	2.1x
<b>Profit Before Tax</b>	<b>3,065</b>	<b>4,659</b>	<b>6,754</b>	<b>9,808</b>	P/ABV	3.8x	0.9x	2.6x	2.1x
Tax	1,065	1,621	2,293	3,330	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>2,000</b>	<b>3,038</b>	<b>4,461</b>	<b>6,478</b>	Return on avg. assets	1.4%	1.5%	1.6%	1.7%
YoY Growth (%)	112.0%	51.9%	46.8%	45.2%	Return on avg. net worth	19.0%	20.6%	18.8%	18.8%
<b>Balance Sheet</b>					<b>Balance Sheet ratios (%)</b>				
(Rs mn, as on March 31)	FY08	FY09	FY10E	FY10E	Advances to deposits	71.1%	76.7%	84.5%	85.5%
Cash and balances with RBI	16,276	19,227	18,820	33,971	Borrowings to advances	10.5%	17.6%	19.0%	18.8%
Investments	50,937	71,170	89,860	126,255	Investments to assets	30.0%	31.1%	27.1%	28.2%
YoY Growth (%)	65.8%	39.7%	26.3%	40.5%	Investments to deposits	38.4%	44.0%	37.6%	40.0%
Advances	94,303	124,031	201,535	269,148	Tier I capital adequacy	8.7%	8.8%	10.8%	9.6%
YoY Growth (%)	49.9%	31.5%	62.5%	33.5%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	1,012	1,311	1,878	2,894	Opt. expense per employee	1.1	1.6	1.5	1.5
Other Assets	7,297	13,269	19,608	15,782	Net profit per employee	0.6	1.1	1.3	1.3
<b>Total Assets</b>	<b>169,824</b>	<b>229,008</b>	<b>331,700</b>	<b>448,050</b>	Asset per employee	53.9	85.7	96.4	86.5
Deposits	132,732	161,694	239,119	315,637	<b>Operating ratios (%)</b>				
YoY Growth (%)	61.5%	21.8%	47.9%	32.0%	Operating cost to net income	49.4%	44.2%	39.5%	41.8%
Borrowings	9,862	21,891	38,259	50,502	Operating cost to avg. assets	2.4%	2.1%	1.8%	2.0%
YoY Growth (%)	13.7%	122.0%	74.8%	32.0%					
Other Liabilities & Provisions	14,041	29,181	23,079	44,189					
<b>Total Liabilities</b>	<b>156,635</b>	<b>212,766</b>	<b>300,457</b>	<b>410,328</b>					
Share Capital	2,958	2,970	3,354	3,354					
Reserves & Surplus	10,231	13,272	27,890	34,368					
<b>Total Equity &amp; Liabilities</b>	<b>169,824</b>	<b>229,008</b>	<b>331,700</b>	<b>448,050</b>					
Source: Bank data					Source: Bank data, Indiabulls research				
					Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank				

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