

### RESULTS REVIEW

#### Share Data

Market Cap	Rs. 58.2 bn
Price	Rs. 195.9
BSE Sensex	16,741.3
Reuters	YESB.BO
Bloomberg	YES:IN
Avg. Volume (52 Week)	0.77 mn
52-Week High/Low	203.0 / 40.6
Shares Outstanding	297.0 mn

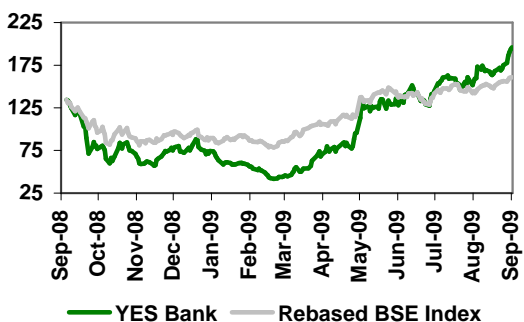
#### Valuation Ratios

Year to 31 March	2010E	2011E
EPS (Rs.)	16.3	22.6
+/- (%)	60.4%	38.9%
PER (x)	12.0x	8.7x
P / PPP (x)	6.7x	5.1x
P / ABV (x)	2.8x	2.1x

#### Shareholding Pattern (%)

Promoter	31
FIs	25
Institutions	29
Public & Others	15

#### Relative Performance



### Yes Bank

Sell

#### Overvalued

Yes Bank's net profit for Q1'10 surged 84.2% yoy to Rs. 1.0bn, driven by a robust rise in non-interest income, which in turn increased primarily because of higher treasury income of Rs. 850mn. During the quarter, the Bank's advances increased 2.2% q-o-q while deposits decreased by 5.1%. Our outlook for the next few quarter is negative for the Bank due to heavy dependence on non-interest income (a key driver of the stock price), a portfolio skewed towards corporate banking, and a volatile deposits base with a low CASA ratio. Our DECF valuation suggests a fair value of Rs. 177, indicating a potential downside of 9.9% over the current stock price. Moreover, the stock is trading around its 52 week high with the P/B ratio of around ~3.3x, which we believe is high given the volatile nature of income and the growth prospects. Thus, we downgrade the stock from Hold to Sell.

**NPAs likely to continue trending upwards:** At the close of Q1'10, the Bank's Gross NPA ratio stood at 0.48% and restructured advances worth Rs. 1.2bn (0.94% of gross advances). However, being conservative, the Bank increased its total provisioning by more than 4 times yoy to Rs 455.3 mn leading to an increase in the coverage ratio from 18.2% in Q1'09 to 50.5% in Q1'10. Our expectation regarding NPAs remains unchanged as the Bank has high exposure to the corporate segment (constitutes 64.7% of wholesale banking), thereby increasing the chances of slippages where the probability of a sharp spike in NPAs is greater due to large-ticket loans. Further, we are yet to observe strong sign of

#### Key Figures

Quarterly Data	Q1'09*	Q4'09	Q1'10	YoY %	QoQ%	FY08	FY09	YoY %
(Figures in Rs mn, except per share data)								
Net Interest Income	1,130	1,552	1,637	44.9%	5.5%	3,306	5,112	54.6%
Net Operating Income	2,069	2,450	3,089	49.3%	26.1%	6,912	9,462	36.9%
Pre-Prov Oprtng. Profit	1,138	1,539	1,978	73.9%	28.5%	3,501	5,277	50.7%
<b>Net Profit</b>	543	801	1,001	84.2%	24.9%	2,000	3,038	51.9%
Cost/Optng. Income(%)	45.0%	37.2%	36.0%	-	-	49.4%	44.2%	-
Net Interest Margin	2.9%	3.0%	3.1%	-	-	2.7%	2.9%	-
NPA ratio	0.2%	0.3%	0.2%	-	-	0.1%	0.3%	-
<b>Per Share Data (Rs.)</b>								
PPP per share	3.0	5.1	6.6	120.0%	29.4%	11.8	17.6	49.1%
Diluted EPS	1.8	2.7	3.3	87.1%	24.7%	6.8	10.1	50.2%
BVPS	46.3	54.7	58.1	25.5%	6.2%	44.6	54.7	22.7%

\* Adjusted for similar comparison

economic growth revival and there exists a lag effect between sluggish economy and the increase in NPAs. Hence, our base case estimate for FY 2010 assumes a gross NPL ratio of ~1.2%.

***Excessive dependence on non-interest income***

During the quarter, non-interest income increased by a whopping 54.6% y-o-y to Rs.1.5bn. The Bank's heavy dependence on non-interest income (constitutes 47.0% of the total income) gives us a reason to worry, as the Bank will not be able to sustain its growth given the volatile nature of the income. Further, the Bank derives around 60% of its non-interest income from the financial market, and the core fee income still contributes a small proportion (experienced a decline in this quarter). We predict that non-interest income for the Bank will show a healthy growth in FY10. However, the growth rate is expected to decline thereafter.

***Pressure on funding shall adversely affect advances growth..:***

Yes Bank's qoq negative growth in deposits was a surprise to us, given that the Bank is in expansion mode and has a low base. This, in our view, was primarily due to corporate bulk deposits. Further, the Bank has a high credit-to-deposit ratio 82.6%. Hence, we believe, the Bank will have to slowdown the advances growth and expect advances to grow by around 25% in FY 2010.

***...However, margins are expected to improve***

Yes Bank's net interest margin (NIM) improved 20 bps yoy to 3.1%, primarily because of lower cost of funds led by increase in CASA ratio and repricing of term deposit at lower rates. We expect the NIM to improve in the next few quarters, as the Bank will be able to reduce its cost of funding due to relatively large proportion of interest-sensitive liabilities. Further, the bank is expanding its branch network which will increase the CASA. Hence, we expect NIM to improve to around 3.15% to 3.25% for FY 2010.

### Valuation

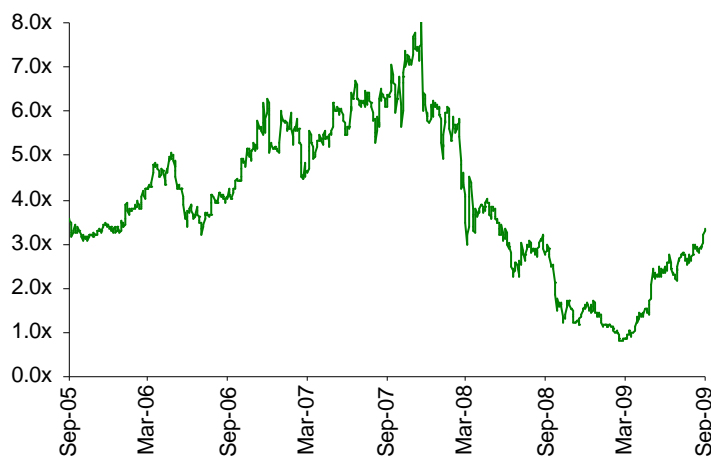
We have valued Yes Bank by using the three-stage Discounted Equity Cash Flow model. Our target price of Rs. 177, assuming a 16.18% cost of equity and a 12.81% terminal growth rate, indicates a downside potential of 9.9% over the current prices. Further, the stock is trading at forward P/B multiple of ~3.3x. Therefore, we downgrade the stock from Hold to Sell.

### Sensitivity Analysis of the Fair Value Estimate

Terminal growth	Cost of equity					
		15.68%	15.93%	16.18%	16.43%	16.68%
12.31%		180	166	153	142	132
12.56%		195	178	164	151	140
12.81%		213	193	177	162	150
13.06%		234	210	191	175	161
13.31%		259	231	208	189	173

Source: Indiabulls research

### Historical P/B



Source: CMIE

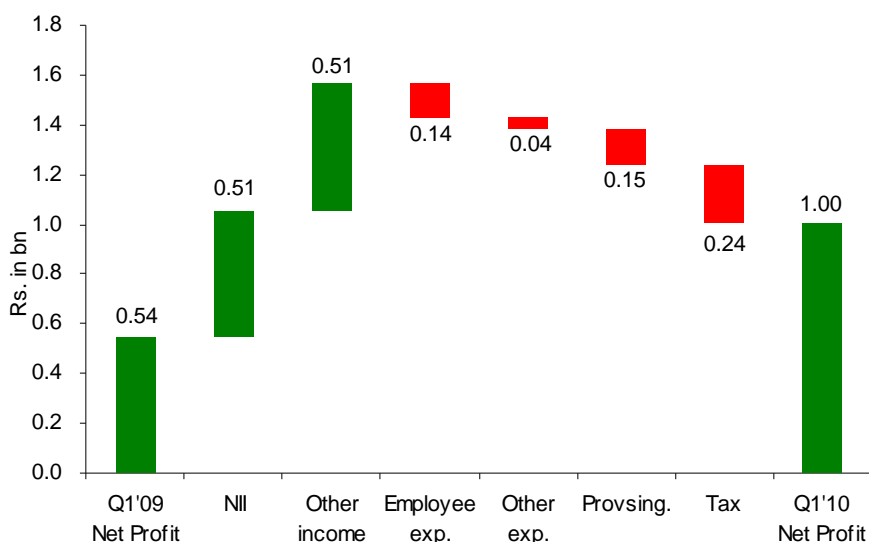
### Result Highlights and outlook

Yes Bank reported an impressive result in Q1'10 with net profit increasing 84.2% yoy to Rs. 1.0bn primarily led by robust increase of 44.9% in Net Interest Income (NII).

- Net Interest Income grew by 44.9% yoy to Rs. 1.6bn, as net interest margin increased by 20 bps to 3.1% and advances growth increased by 26.1% yoy led by large and mid-corporate lending.
- Corporate banking segment proved to be the major contributor to the bank's revenues by constituting 56.4% of the total revenue, whereas the treasury segment expanded its share in the total revenue to 37.6% as on March 31, 2009.
- Net interest margins increased by 20bps qoq as well as yoy to 3.1% due to increasing CASA ratio and repricing of term deposit at lower rates.
- Non-interest income was a significant component of the bank's total income in this quarter as it constituted 47.0% of the total income. In Q1FY10, the income increased 54.6% yoy and 61.8% q-o-q to Rs. 1.5bn.
- Operating expenses increased 19.4% yoy and 22.1% qoq to Rs. 1.1bn but the cost-to-income ratio decreased from 45.0% in Q1FY09 to 36.0% in Q1FY10. This decrease is attributed to a relatively sharp increase in operating income than the decrease in operating expenses.
- Gross and net NPAs increased 188.26% and 74.2% yoy to Rs. 614 and 304 mn respectively. Therefore, coverage ratio increased from 18.2% in Q1'09 to 50.5% in Q1'10.
- The Bank has a healthy asset profile with extremely low gross and net NPA ratios at 0.48% and 0.24% respectively as at June 30, 2009. This is attributed to low exposure to retail assets and toxic international assets, which led to minimal impact of derivatives/reality assets deterioration.

- The Bank is well capitalized with Tier I capital ratio at 10.28% and total capital adequacy at 17.63%, which provides significant growth opportunities.
- The Bank has healthy ROE and ROA ratios at 23.9% and 1.8% respectively.
- During the quarter, the Bank added 6 branches to reach to 123 branches. Further, the Bank targets to augment the number of branches to 250 by December, 2010 and 400 by 2012.

### YoY Net Income Walk



Source: Company data

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY08	FY09	FY10E	FY11E		FY08	FY09	FY10E	FY11E
Interest Income	13,047	20,033	22,592	29,186	<b>Per share data (Rs.)</b>				
Interest Expense	9,741	14,921	15,875	20,751	Shares outstanding (mn)	295.8	297.0	297.0	297.0
<b>Net Interest Income</b>	<b>3,306</b>	<b>5,112</b>	<b>6,717</b>	<b>8,434</b>	Basic EPS	7.0	10.2	16.5	22.9
YoY Growth (%)	92.9%	54.6%	31.4%	25.6%	Diluted EPS	6.8	10.1	16.3	22.6
Other Income	3,607	4,350	7,555	10,578	Book value per share	44.6	54.7	71.2	94.0
<b>Net Operating Income</b>	<b>6,912</b>	<b>9,462</b>	<b>14,272</b>	<b>19,012</b>	Adj. book value per share	44.6	54.7	71.2	94.0
YoY Growth (%)	88.9%	36.9%	50.8%	33.2%	<b>Valuation ratios (x)</b>				
Operating Expense	3,412	4,185	5,434	7,448	P/PPP	14.3x	2.8x	6.7x	5.1x
<b>Pre-Provisioning Profit</b>	<b>3,501</b>	<b>5,277</b>	<b>8,838</b>	<b>11,564</b>	P/E	25.0x	4.9x	12.0x	8.7x
Provisions and Contingencies	436	617	1,402	1,235	P/B	3.8x	0.9x	2.8x	2.1x
<b>Profit Before Tax</b>	<b>3,065</b>	<b>4,659</b>	<b>7,437</b>	<b>10,329</b>	P/ABV	3.8x	0.9x	2.8x	2.1x
Tax	1,065	1,621	2,549	3,540	<b>Performance ratio (%)</b>				
<b>Net Profit</b>	<b>2,000</b>	<b>3,038</b>	<b>4,888</b>	<b>6,789</b>	Return on avg. assets	1.4%	1.5%	2.0%	2.3%
YoY Growth (%)	112.0%	51.9%	60.9%	38.9%	Return on avg. net worth	19.0%	20.6%	26.2%	27.7%
<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%	82.8%	83.3%
Cash and balances with RBI	16,276	19,227	10,207	18,995	Borrowings to advances	10.5%	17.6%	21.9%	19.4%
Investments	50,937	71,170	78,556	105,713	Investments to assets	30.0%	31.1%	30.1%	31.7%
YoY Growth (%)	65.8%	39.7%	10.4%	34.6%	Investments to deposits	38.4%	44.0%	41.8%	45.0%
Advances	94,303	124,031	154,604	193,948	Tier I capital adequacy	8.7%	8.8%	9.1%	9.4%
YoY Growth (%)	49.9%	31.5%	24.6%	25.4%	<b>Productivity ratio (Rs. mn)</b>				
Fixed Assets (Net)	1,012	1,311	1,968	2,916	Opt. expense per employee	1.1	1.6	1.4	1.4
Other Assets	7,297	13,269	15,411	11,746	Net profit per employee	0.6	1.1	1.2	1.3
<b>Total Assets</b>	<b>169,824</b>	<b>229,008</b>	<b>260,745</b>	<b>333,317</b>	Asset per employee	53.9	85.7	65.0	64.3
Deposits	132,732	161,694	187,933	234,917	<b>Operating ratios (%)</b>				
YoY Growth (%)	61.5%	21.8%	16.2%	25.0%	Operating cost to net income	49.4%	44.2%	38.1%	39.2%
Borrowings	9,862	21,891	33,828	37,587	Operating cost to avg. assets	2.4%	2.1%	2.2%	2.5%
YoY Growth (%)	13.7%	122.0%	54.5%	11.1%					
Other Liabilities & Provisions	14,041	29,181	17,846	32,888					
<b>Total Liabilities</b>	<b>156,635</b>	<b>212,766</b>	<b>239,608</b>	<b>305,392</b>					
Share Capital	2,958	2,970	2,970	2,970					
Reserves & Surplus	10,231	13,272	18,167	24,956					
<b>Total Equity &amp; Liabilities</b>	<b>169,824</b>	<b>229,008</b>	<b>260,745</b>	<b>333,317</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

## Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.