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Update

22<sup>nd</sup> July2010

**Yes Bank Ltd**

**Neutral**

(Medium risk Medium return)

**CMP: - Rs 298.6**

<i>Rs in Crore</i>	<i>Q1F10</i>	<i>Q1FY11</i>	<i>%y-o-y</i>	<i>Q4FY10</i>	<i>%q-o-q</i>
<i>Interest earned</i>	543	739.19	36.2%	665	11.2%
<i>other income</i>	145	143.84	-0.9%	160	-10.2%
<i>Total income</i>	688	883	28.4%	825	7.1%
<i>Interest expense</i>	379	477.09	25.9%	420	13.5%
<i>Operating Expense</i>	111	156.99	41.3%	147	7.0%
<i>Total Expense</i>	490	634	29.4%	567	11.8%
<i>Profit bfr tax &amp; prov.</i>	198	249	25.9%	258	-3.3%
<i>Provisions</i>	46	12.56	-72.4%	43	-70.5%
<i>prov.forTax</i>	52.19	80	53.3%	75	6.7%
<i>Net profit</i>	100	156	56.3%	140	11.7%
<i>NII (Rs)</i>	164	262	60.1%	244	7.3%
<i>GNPA</i>	61	60	-2.8%	480	-87.6%
<i>GNPA%</i>	0.48	0.23		0.89	
<i>NNPA</i>	30	11	-63.5%	97	-88.6%
<i>NNPA%</i>	0.24	0.04		0.18	
<i>CAR %</i>	17.6	16.6		13.2	
<i>Equity</i>	297	341		341	
<i>EPS (Rs)</i>	3.37	4.59		4.11	
<i>CMP (Rs)</i>	299	299		299	
<i>P/BV(x)</i>	5.1	3.1		3.3	
<i>P/E(x)</i>	22	16		18	

### Q1FY11 Result highlights:

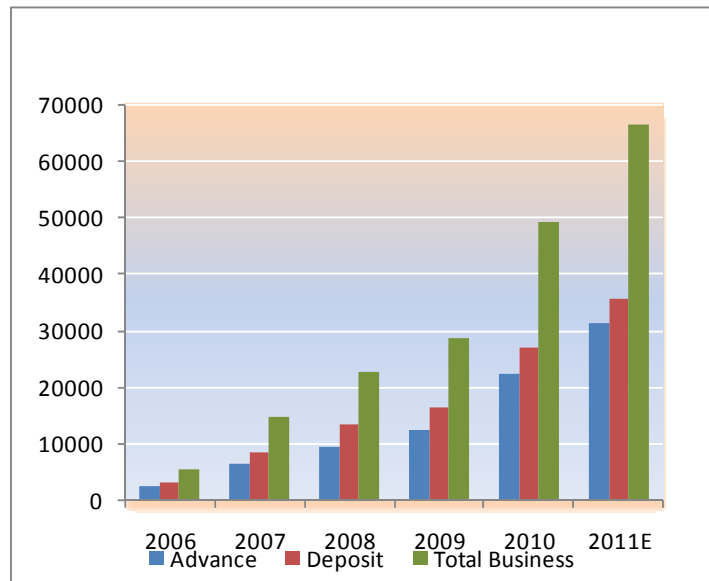
- In Q4FY11 yes bank has posted impressive results with 56% y-o-y growth in net profit to Rs 156cr.
- NII grew by 60% y-o-y to 262cr in Q1FY11on account of strong advance growth of 107% and decline in cost of funds by 180bps.

- During Q1FY11 advances grew 107.2% y-o-y to 26257cr while deposits grew by 97% y-o-y to 30239cr
- Management is expecting a credit growth of around 40-45% during FY11.
- In Q1FY11 NIM stood at 3.1%, but the management expecting a margin of 3% during 2010-11.
- Presently CASA ratio stood at 10.5% flat as Q4FY10. YBL expecting a better CASA ratio during the end of the FY11 when the 100 more branches will get operationalised.
- Non interest income declined by 1% y-o-y in Q1FY11 although there is a significant growth in financial advisory business by 200% y-o-y contributing 50% of the non interest income in Q1FY11.
- YBL has improved its asset quality further with reduction in GNPA% and NNPA% to 0.23% & 0.04% respectively in Q1FY11. Present NPA level of YBL is much lower than the industry average.
- To increase the retail reach bank is going to open 100 new branches over FY11 involving an outlay of about 75-80cr.
- YBL is planning to add 1,000 employees over the next nine months

### Investment Rationale:

**Growth of business above the industry average:** Yes bank's growth trajectory is impressive. Its core business has grown at a CAGR of 74% over FY06-10 with advances and deposits growing at CAGR of 74% during that period. During FY09 YBL had a lower growth rate on account of lower credit growth owing to global financial turmoil but it has regained its growth trend in FY10 registering 71% growth in total business. We are expecting the growth to moderate a bit in FY11.

Rs in cr	2006	2007	2008	2009	2010	2011E
Advances	2407	6290	9430	12403	22193	31070
Deposits	2910	8220	13273	16169	26799	35374
Total Business	5317.47	14510	22704	28573	48992	66444
Growth%		172.88%	56.47%	25.85%	71.46%	35.62%



**Strong capital base:** The bank has placed share through a QIP in Jan 2010 at a rate of Rs 269/sh and raised about Rs 1033cr. To augment its long term capital resources and to meet the requirement of its growth plans, during FY10 yes bank has raised Tier-I perpetual bond and upper and lower tier-II subordinate bonds :

- Rs. 82cr of Hybrid Tier I debt through private placement in Q4FY10
- Rs. 300cr subordinated Lower Tier II debt through private placement in January 2010
- Rs 260cr Lower Tier II debt through private placement in Q2FY10
- USD 20 mn (Rs. 93cr) of Upper Tier II Debt from Proparco, private sector investment arm of leading French multilateral development finance agency.

Presently Yes bank has a CAR of 20.6% with 12.9% of Tier-I ratio.

**Aggressive Branch expansion to strengthen retail segment:** To strengthen retail segment and CASA level recently bank has adopted a strategy of aggressive branch expansion. In initial years it was focusing on large corporate deposits and wholesale deposits ignoring retail business due to its limited branch presence. It is now aggressively focusing on branch expansion to strengthen its retail business. YBL has recently got approval for 91 additional branch licenses with an intention to expand their retail reach. As on 31st March YBL has 150 operational branches across India which it plans to expand to 300 and 750 by 2012 and 2015 respectively.

**Rising Fee income:** Fee income grew by 32% y-o-y to Rs576cr in FY10 led by a strong growth in the Transaction banking business, financial advisory business, Third party distribution income and retail fees income.

**Healthy Asset quality:** On account of effective credit appraisal and superior risk management Yes Bank is the one of the few banks to maintain a healthy asset quality. During FY10 asset quality showed notable improvement as GNPA's declined to 0.27% and NNPA's declined to 0.06% as compared to 0.68% and 0.33% in FY09 respectively. On the back of lower NPA's amount of total restructured loan also declined to Rs80cr as against Rs134cr in FY09.

**Maiden Dividend of 15% recommended:** On account of encouraging financial performance over last 5 years the bank has recommended maiden dividend of 15% in FY 2010.

#### **Other developments:**

- The bank has shared its plan for 2010-2015 to take off into next phase of growth to further accelerate its business growth across Commercial Banking, Retail, SME, Liabilities generation, Transaction and Payment Products with an aim to achieve a balance sheet size of Rs. 1, 50,000cr and a pan India branch network of 750 with a human capital base of 12,000 by 2015.
- Yes Bank has signed a pact with two companies -- leading mobile phone vendor, Nokia and Obopay India -- for providing mobile money services.

#### **Risk and concerns:**

- Tightening of liquidity can impact the profits of the banks.
- New entrants may increase the competition in the banking space.
- CASA level is lower than the industry.
- Hardening of interest rates may cause deterioration in asset quality.
- Bank may not be able to continue the same high growth rate as earlier.

## Recommendation:

With a strong capital base and healthy asset quality yes bank is recognized as a fastest growing bank compared to its peers. High fee income has contributed to its growth and is expected to improve further with growing business activity and capital market performance. Higher capital base will give the bank enough resources to expand. Retail expansion of the bank would be helpful to reduce the cost of the funds. At CMP Rs 299 the stock is trading at forward earning multiple of 14.1x of FY11E and 3.2x of FY11E BV. The stock offers value to the long term investors. The medium term target is Rs 330.

<b>Earnings Table</b>				
<i>(Rs Cr)</i>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>
Interest earned	1311	2001	2370	3436
<i>Change %</i>		52.69%	18.40%	45.00%
<i>Other Income</i>	355	437	576	748
<b>Total Income</b>	1665	2438	2945	4184
<i>Interest Expense</i>	974	1492	1582	2357
<b>Total Expenses</b>	1315	1911	2082	2967
<i>profit befor Prov&amp; Cont</i>	350	528	863	1217
<i>Provisions</i>	44	62	137	109
<i>Tax</i>	106	162	249	388
<b>Reported PAT</b>	200	304	478	720
<i>Change %</i>		51.90%	57.23%	50.72%
<i>NII</i>	337	509	788	1079
<i>Change %</i>		51.26%	54.71%	36.97%
<i>EPS</i>	6.8	10.2	14.1	21.2
<i>Equity</i>	296	297	340	340
<i>BV</i>	45	55	91	110
<i>CMP(Rs)</i>	299	299	299	299
<i>P/E(x)</i>	44.2	29.2	21.2	14.1

<b>Key Ratios</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>
<i>Cost/Income %</i>	49.4	44.2	36.7	38.0
<i>Credit/deposit%</i>	71.0	76.7	82.8	87.8
<i>Prov.cov ratio%</i>	NA	51.5	78.4	78.0
<i>CASA%</i>	8.5	8.7	10.5	12.0
<i>NIM%</i>	NA	2.90	3.10	3.00
<i>CAR%</i>	12.0	16.6	20.6	20.0
<i>GNPA%</i>	0.1	0.7	0.3	0.2
<i>NNPA%</i>	0.1	0.3	0.1	0.0
<i>ROE%</i>	19.0	20.7	20.3	19.2
<i>RoA(%)</i>	1.4	1.5	1.6	1.5

<b>Balance Sheet</b>				
<i>(Rs Cr)</i>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>
<i>cash &amp; balance with RBI</i>	959	1278	1995	2608
<i>Investments</i>	5094	7117	10210	13681
<i>Advances</i>	9430	12403	22193	31070
<i>change%</i>		31.52%	78.93%	40.00%
<i>Fixed Asset (Net)</i>	97	131	114	142
<i>Other assets</i>	1402	1972	1870	1251
<b>Total Assets</b>	16982	22901	36383	48753
<i>Share capital</i>	296	297	340	340
<i>Reserves</i>	1023	1327	2750	3411
<i>Deposits</i>	13273	16169	26799	35374
<i>change%</i>		21.82%	65.74%	32.00%
<i>Borrowings</i>	986	2189	2564	3538
<i>change%</i>		121.97%	17.12%	38.00%
<i>Other lib&amp; Prov</i>	1404	2918	3931	6090
<b>Total Liabilities</b>	16982	22901	36383	48753

<b>Valuations</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11E</b>
<i>EPS (Rs)</i>	10.1	10.2	14.1	21.2
<i>Book Value Per Share</i>	93.1	54.7	91.0	110.4
<i>Dividend per share</i>	0.0	0.0	1.5	1.5
<i>P/E</i>	29.7	29.2	21.2	14.1
<i>P/BV</i>	3.2	5.5	3.3	2.7
<i>M-Cap/Sales</i>	0.0	4.4	4.3	3.0

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