Prabhudas Lilladher

Yes Bank

On the right trajectory

Company Update

April 27, 2009

Rating	Accumulate
Price	Rs76.5
Target Price	Rs93.9
Implied Upside	22.8%
Sensex	11,329

(Prices as on April 24, 2009)

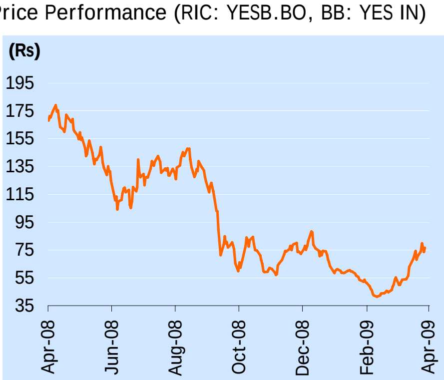
Trading Data	
Market Cap. (Rs bn)	22.7
Shares o/s (m)	297.0
Free Float	67.4%
3M Avg. Daily Vol ('000)	1,014.0
3M Avg. Daily Value (Rs m)	64.9

Major Shareholders	
Promoters	32.6%
Foreign	26.5%
Domestic Inst.	26.3%
Public & Others	14.6%

Stock Performance

(%)	1M	6M	12M
Absolute	38.4	27.7	(54.9)
Relative	25.6	(5.4)	(21.0)

Price Performance (RIC: YESB.BO, BB: YES IN)



Source: Bloomberg

- **Core income growth to remain healthy, with an upward bias on margins:** Yes Bank has only 9% of its deposits in CASA and with 30-40% of its liabilities getting re-priced in the coming six months, the bank will benefit the most in the falling interest rate environment. This, coupled with some improvement in the capital markets environment, will contribute strongly to fee income.
- **Asset quality to weaken, but remedies available:** More than 92% of the bank's non-priority sector advances are towards large and mid-corporate clients. The bank has exposure of less than 10% of advances in the stressed sector. High duration of the HTM portfolio (5 years) is likely to provide comfort in case excess provisioning is required.
- **Opportune time to expand branches and CASA:** With declining property rentals, low interest rates and comfortable capital adequacy, the bank is in a sweet spot to execute its branch expansion plans. The bank will have reasonable time to build its CASA deposit before the rates inch upwards.
- **Comfortable CAR position to achieve 20-25% business growth:** The bank is adequately positioned for business expansion of about 20-25%, with the current CAR of 16.6% and 9.5% under Tier I, without any need for equity infusion for atleast the next 15-18months.
- **On the right trajectory:** We believe Yes Bank will be a large beneficiary of the decline in bulk deposit rates and easy liquidity in the system. It is comfortable on capital adequacy and has an experienced top management which is building up a decent franchise. Its strategic focus on certain key sectors should help it to avoid significant NPL build-up and in case of eventualities, high HTM duration will stabilise the impact. Despite the recent run-up in the stock price, we believe there is some upside left. At the CMP, the stock is trading at 1.2x FY10E P/ABV and 6.3x FY10 P/E. We initiate our coverage with an '**Accumulate'** rating and a price target of Rs93.

Key financials (Rs m)	FY08	FY09	FY10E	FY11E
Net interest income	3,367	5,112	7,101	9,084
Growth (%)	*96.5*	*51.8*	*38.9*	*27.9*
Operating profit	3,503	5,616	6,630	8,241
PAT	2,003	3,038	3,610	4,410
EPS (Rs)	6.8	10.2	12.2	14.8
Growth (%)	*100.8*	*51.1*	*18.9*	*22.1*
Net DPS (Rs)	-	-	-	-

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
*NIM (%)**	*2.5*	*2.7*	*2.9*	*3.0*
RoAE (%)	*19.0*	*20.6*	*20.0*	*20.0*
RoAA (%)	*1.4*	*1.5*	*1.4*	*1.4*
P / BV (x)	1.7	1.4	1.1	0.9
P / ABV (x)	1.7	1.4	1.2	1.0
PE (x)	11.3	7.5	6.3	5.1
Net divided yield (%)	-	-	-	-

Source: Company Data; PL Research: ** calculated on average interest earning assets.*

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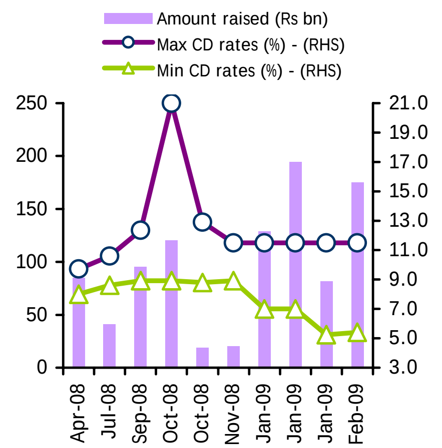
Investment Argument

Trend in CD rate



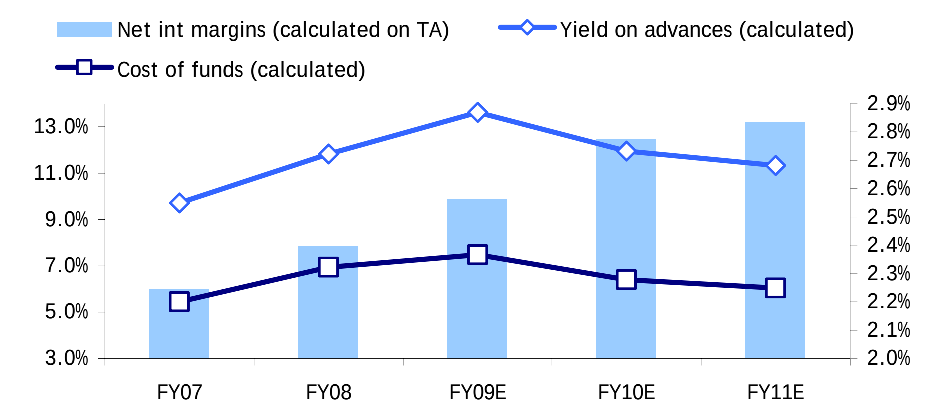
Source: RBI, PL Research

Core income growth to remain healthy, with an upward bias on margins

Margins to expand - driven by a fall in the bulk deposit rate, liability side re-pricing and high yielding investment book

The bulk rates have declined by around 300bps from their peak rate in November 2008. Yes Bank has only 9% of its deposits in CASA and hence, will benefit the most in the falling interest rate environment, with 30-40% of its liabilities getting re-priced in the coming six months. This will translate to cost of deposits coming down by 150-200bps and improvement in NIMs by 20bps for FY10. High investment yields due to non-SLR yields of 11%, coupled with around five-year duration, will keep the margins high.

Outlook on margin, yield on advances and cost of funds



Source: Company Data, PL Research

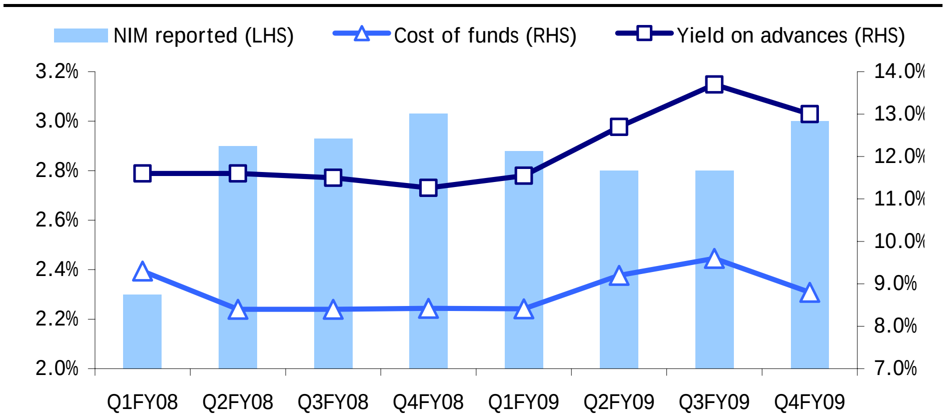
Q4FY09 NII driven by asset growth and better margins

Advances grew by 31.5% YoY and 13.4% QoQ, leading to a NII growth of 43.1% YoY and 28.9% QoQ.

Deposit growth was robust at 21.8% YoY and 19.4% QoQ. However, this led to a slight slippage in the CASA levels QoQ basis.

NIM improved by 20bps to 3.0% due to a decline in the cost of funds by 80bps QoQ

Quarterly trend in margin, yield on advances and cost of funds

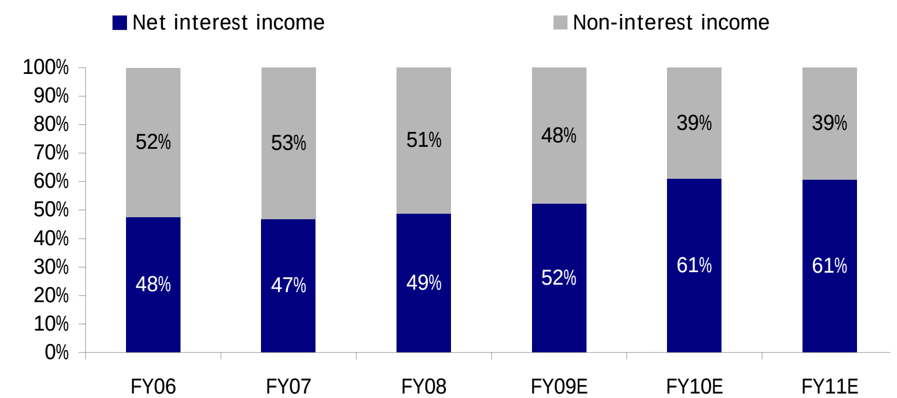


Source: Company Data, PL Research

Outlook on fund and non-fund based income

The banks income is roughly split in the ratio of 50:50 between fund-based and fee-based income. We expect this split to improve in the favour of fund-based income, as the bank leverages on the current equity and the strong CAR position it is in currently and lack of opportunities in the capital market activities. Fund-based income is likely to contribute around 61% of the net income by FY11 as compared to around 50% in the past four years providing more stability to earnings.

Trend in NII and non-interest income split



Source: Company Data, PL Research

Non-interest income growth muted for the quarter

Other income, after excluding financial markets, remained muted. It declined by 16.1% YoY to Rs2.34bn due to lack of capital market activity during the year. The bank had also decided to rationalize cost and this in turn, affected its third-party distribution fees.

We expect the bank to improve on its fee income going forward, as the credit markets have more or less stabilized and the bank is again focused on branch expansion and tapping growth opportunity.

Other income details **(Rs m)**

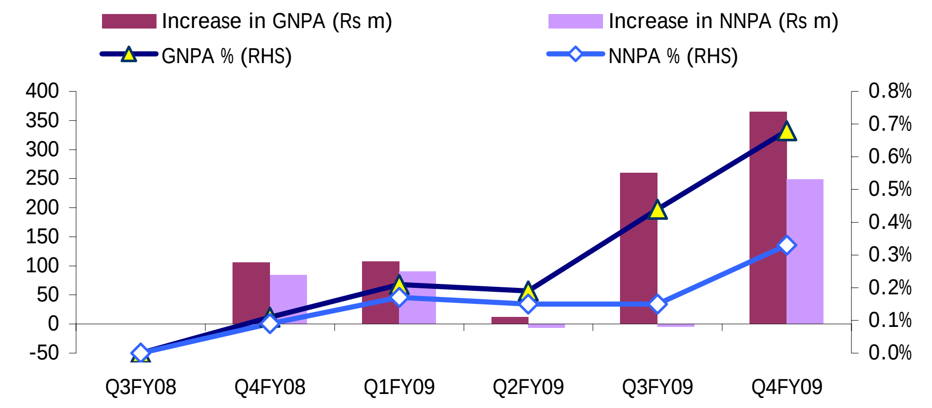
	Q4FY09	*YoY gr. (%)*	*QoQ gr. (%)*	FY08	FY09E	FY10E	FY11E
Transaction Banking	252	*41.6*	*34.8*	496	928	928	1,206
Financial Markets	332	*(4.3)*	*(77.7)*	1,453	2,345	1,993	2,591
Financial Advisory	204	*(35.8)*	*60.6*	957	907	862	1,120
3rd party dist & others	110	*(52.8)*	*(16.0)*	638	510	638	829
Total	**898**	*(16.5)*	*(53.6)*	**3,543**	**4,690**	**4,420**	**5,747**

Source: Company Data, PL Research

Asset quality to weaken, but remedies available

NNPA at 0.33% and GNPA at 0.68% of advances have increased by Rs327m and Rs743m, respectively on QoQ basis. The bank's overall asset quality seems to be under control; firstly, due to low exposure in both SME's at 6%, secondly negligible exposure in retail at 1% of loans and finally manageable exposure to stressed sectors such as steel, real estate, textiles at 10% of advances. NPAs have arisen due to few chunky accounts in textiles and retail trade sector. However, on an aggregate basis, the asset quality remains good.

QoQ growth in gross and Net NPA



Source: Company Data, PL Research

Loan book break-up - in favour of large and mid-corporates

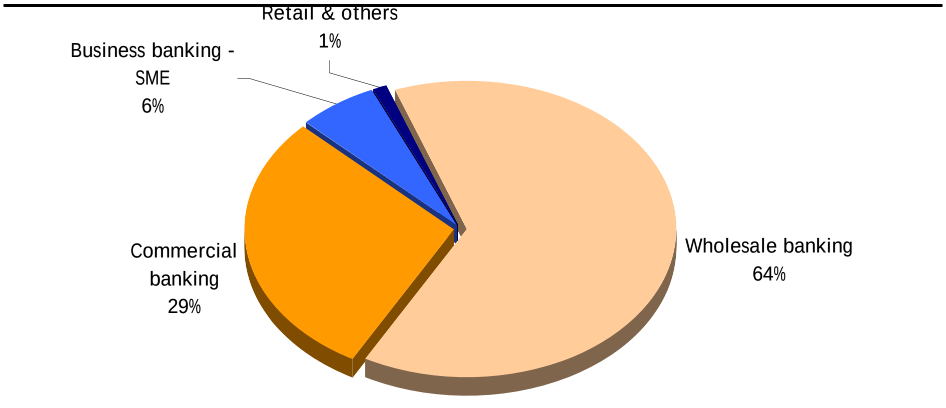
More than 92% of the bank's non-priority sector advances are towards large and mid-corporate clients. SME at 6% of the loan book is fully collateralized and the bank has no exposure to credit cards, mortgages or auto loans, which is a major positive.

Classification of corporates based on avg. turnover

Wholesale banking	18bn
Commercial banking	4.3bn
Business banking - SME	50-100mn

Source: Company Data, PL Research

Loan book break-up

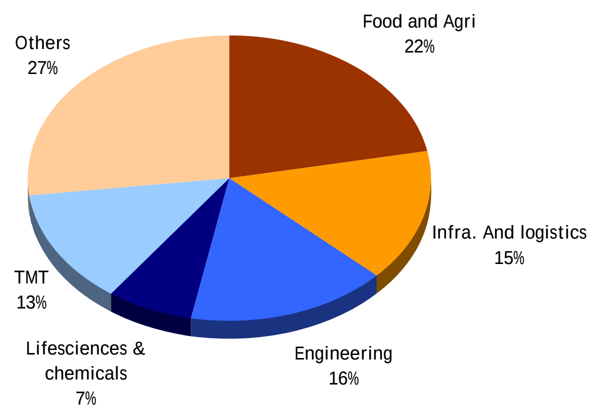


Source: Company Data, PL Research

Focus areas - food, agriculture and infrastructure where asset quality stress is relatively much lower

Yes Bank's focus area has been towards high-growth segments (including food & agri and infrastructure). The bank differentiates itself by using the '*knowledge banking*' approach under which it can achieve more effective cross sell of its product offering. A sector-centric approach enables Yes Bank to offer value-added services to clients, specifically in the financial advisory (investment banking and corporate finance) business.

Advances portfolio sectoral split



Source: Company Data, PL Research

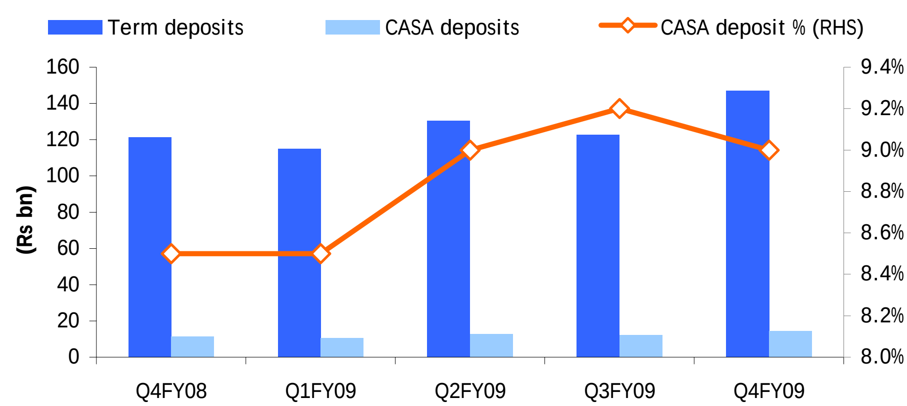
Re-structuring remains under acceptable levels

Re-structured standard advances stood at Rs200m (0.2% of loans), with around Rs200m standard and around Rs400m NPAs pending for re-structuring. As per the management, advances under re-structuring are still not significant and hence, will not pose any significant risk to asset quality.

Opportune time to expand branches and CASA

Total deposit grew by 21.8% YoY, with biggest chunk of the growth of around 19.4% coming in the last quarter. The CASA deposit growth was, however, slightly muted at 13.5% QoQ. The slow rate of CASA growth can be largely attributed to interest rate tightening by RBI and fewer branches. The bank is planning to increase the branch network to 250 branches by December 2010 from 117 currently. However, the branch expansion plan is subject to grant of licenses from RBI as it only has around 20 branch licenses in place. We expect the bank to receive a healthy number of approvals.

Trend in deposit composition and growth

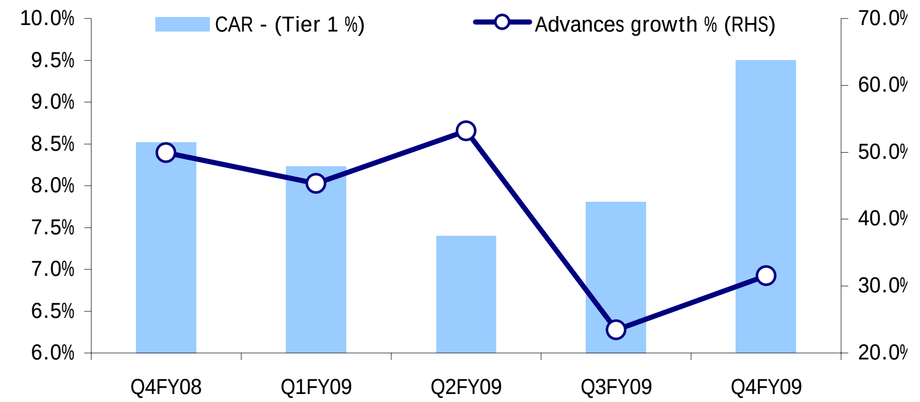


Source: Company Data, PL Research

Comfortable CAR position to achieve 20-25% business growth

Capital adequacy comfortable - transitioning to BASEL II and IPDI raising providing headroom: The bank has raised Rs7.2bn of IPDI and Upper Tier II capital during the year, improving the total CAR to 16.6% and 9.5% under Tier I. Eighty percent of the bank's externally rated exposure is in the 'A' and above category, resulting in 13% reduction in total risk weighted assets and 210bps improvement in CAR to 16.6% under BASEL II as compared to 14.53% under BASEL I. The management expects the existing capital to easily fund 15-18 months of 30% asset growth without any equity infusion.

Advances growth trend v/s CAR (Tier I)



Source: Company Data, PL Research

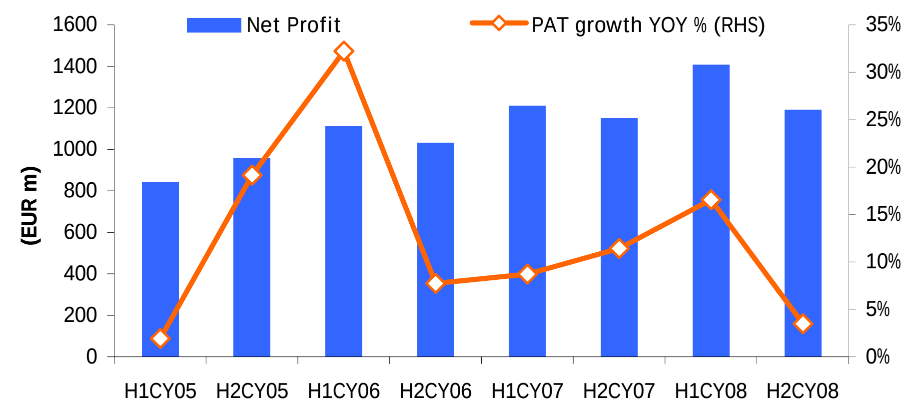
Buy-out plan unlikely to materialize soon

Rabo Bank is the single largest shareholder in Yes Bank, with 18.2% of the total shareholding. Yes Bank is a very strong buy-out candidate, if Rabo Bank plans to expand its foot print in India. Some of the M&A premium in Yes Bank might have got diluted due to lack of clarity by RBI in its FY10 annual monetary policy pertaining to the opening of the sector to foreign banks.

Snapshot on Rabo Bank - on solid footing

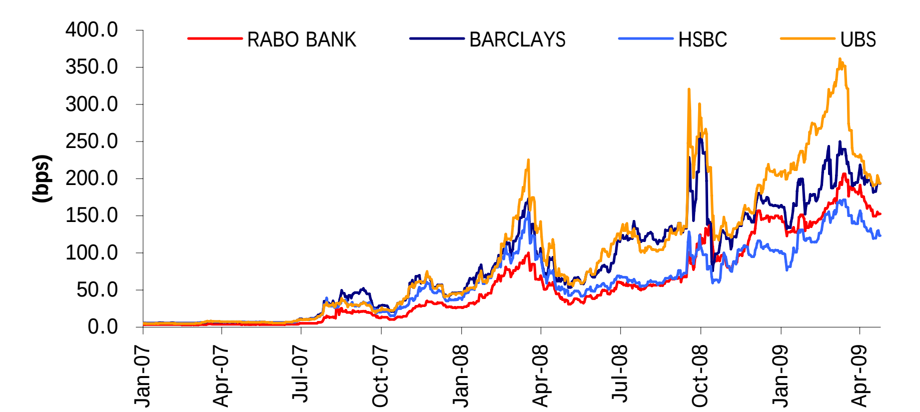
Rabo Bank is one of the few banks not impacted by the current turmoil and is still delivering strong PAT growth. The bank has a very diverse business model and more than 50% of its PAT is generated from domestic retail banking. Hence, it has largely escaped unscathed from the current global crisis. This is reflected in the CDS spread, which have come-off substantially since the recent highs.

Trend in net Profit for RABO Bank **(EUR m)**



Source: Company Data, PL Research

European banks CDS spreads – do not indicate major concerns in Rabo Bank



Source: Company Data, PL Research

Key risks

Loan portfolio may not be fully seasoned

Yes Bank has around five years of experience since inception and this is the first down cycle for the bank. The credit costs might substantially go up if the current down cycle persists longer-than-expected. The bank also does not have the comfort of written-off assets, as the case is with other private banks which are the hidden reserves.

Stiff competition from private players to prolong branch break-even

The new private sector banks have been very aggressive, with branch expansion plans in the past three to five years and hence, have better accessibility and visibility compared to Yes Bank in the present situation. This aggressive competition will definitely prolong the break-even mark for the new branches, limiting business growth.

Higher portfolio concentration

The bank branch network is mainly concentrated in the Tier I cities and NCR region. The risk profile, hence, is not diverse enough, given its high revenue share from services-related sector such as capital markets. Any downturn in the urban sector might impact the bank adversely, both in income generation and asset quality.

Hardening of interest rates

Currently the bank stands to gain because of its lower CASA ratio, as its bulk deposits will get re-priced at lower rates. The bank is likely to face severe pressure on margins in a rising interest rate scenario, as the cost of deposits will get re-priced quickly as 90% of the deposits are term deposits, with an average maturity of around 15 months.

Historical snapshot

Yes Bank is the only bank being set up in the past 14 years. The bank's strategic objective is to position itself as 'One-bank' and provide integrated product offering under one roof. The bank is one the few banks in which the top management are both owners and partners, with prior experience of working with foreign banks.

The bank was capitalized with Rs2bn, with promoters' stake at ~39%, and FDI (primarily Rabo bank) and FII investment aggregating to 44.5%. In addition, other prominent private equity investors held about 10% in the bank. The bank successfully launched its IPO in July 2005 and oversubscribed 30 times.

Valuation

With an improvement in the overall business conditions, rapid decline in cost of deposits and strong capital adequacy position, we feel there is still some value in the stock despite the current run-up in price. At the CMP of 76.5, the stock trades at 6.3xFY10 EPS and 1.2x FY10 PABV. We initiate coverage on the stock with an '**Accumulate**' rating and a price target of Rs93.9.

Comparative Valuations

Valuation	Price (Rs)	Mcap (Rs m)	FY10E ABV (Rs)	P/ABV (x)	FY10E EPS (Rs)	PE (x)
Federal Bank Ltd.	178	29,103	274.8	0.6	31.1	5.7
ING Vysya Bank Ltd.	144	14,989	164.8	0.9	21.8	6.6
Jammu & Kashmir Bank Ltd.	315	14,524	556.8	0.6	88.0	3.6
Karnataka Bank Ltd.	87	10,528	120.8	0.7	26.9	3.2
Karur Vysya Bank Ltd.	240	13,139	300.6	0.8	47.0	5.1
South Indian Bank Ltd.	62	7,018	117.6	0.5	20.7	3.0
Axis Bank	529	169,504	321.0	1.6	60.4	8.8
HDFC Bank	1,110	463,392	431.0	2.6	62.5	17.8
ICICI Bank *	433	445,270	386.0	0.8	34.3	12.6
IndusInd Bank Ltd.	44	14,857	36.7	1.2	2.4	18.6
Kotak Mahindra Bank Ltd.	397	127,646	258.7	1.5	19.7	20.8
Yes Bank	**76**	**22,719**	**64.8**	**1.2**	**12.2**	**6.3**

Source: Bloomberg, PL Research **Rs 55 per share reduced for investment in subsidiaries from Book Value & Rs 111 per share reduced from the CMP for value of subsidiary*

Financials

Q4FY09 Result Overview (Rs m)

Y/e March	Q4FY09	Q4FY08	*YoY gr. (%)*	Q3FY09	FY09	FY08	*YoY gr. (%)*
Interest Income	5,663	3,885	*45.8*	5,327	20,033	13,108	*52.8*
Interest on Advances	4,007	2,757	*45.4*	4,040	14,878	9,304	*59.9*
Income on investments	1,587	1,086	*46.2*	1,294	4,997	3,668	*36.2*
Bal with RBI & others	69	43	*45.4*	(7)	158	136	*59.9*
Interest Expense	4,111	2,800	*46.8*	4,123	14,921	9,741	*53.2*
Net Interest Income	**1,552**	**1,085**	*43.1*	**1,204**	**5,112**	**3,367**	*51.8*
Non-Interest Income	**898**	**1,058**	*(15.1)*	**1,935**	**4,690**	**3,545**	*32.3*
Treasury Income	332	347	*(4.3)*	1,490	2,345	749	*213.0*
Other Income	566	711	*(20.4)*	445	2,345	2,796	*(16.1)*
Net total Income	**2,450**	**2,143**	*14.3*	**3,139**	**9,802**	**6,912**	*41.8*
Operating Expenses	910	934	*(2.5)*	1,295	4,186	3,412	*22.7*
Employee	402	473	*(15.0)*	736	2,180	2,024	*7.7*
Other operating expenses	509	461	*10.3*	559	2,005	1,388	*44.5*
Operating profit	**1,540**	**1,209**	*27.3*	**1,844**	**5,616**	**3,501**	*60.4*
Core operating profits	1,208	862	*40.1*	354	3,271	2,751	*18.9*
Provisions	322	228	*40.9*	204	958	436	*119.7*
Profit before tax	**1,218**	**981**	*24.2*	**1,639**	**4,658**	**3,065**	*52.0*
Tax	416	336	*24.0*	581	1,621	1,065	*52.2*
Net Profit after tax	**801**	**645**	*24.3*	**1,058**	**3,038**	**2,000**	*51.9*
Asset Quality							
Gross NPA's	849	106	*703.5*	484	849	106	*703.5*
Gross NPA's %	*0.68*	*0.11*		*0.44*	*0.68*	*0.11*	
Net NPA's	412	85	*386.5*	163	412	85.60	*380.8*
Net NPA's %	*0.33*	*0.09*		*0.15*	*0.33*	*0.09*	
Provision Coverage	51.5	20.0		66.4	51.5	19.0	
Capital Adequacy (%)							
CAR	*16.6*	*13.6*		*14.6*	*16.6*	*13.6*	
Tier 1	*9.5*	*8.5*		*7.8*	*9.5*	*8.5*	
NIM (%)							
Reported	*3.00*	*3.03*		*2.80*	*2.90*	*2.74*	
Calculated	*2.91*	*2.55*		*2.54*	*2.56*	*2.40*	
Balance Sheet Items							
Deposits	161,694	132,732	*21.8*	135,390	161,694	132,732	*21.8*
CASA	14,552	11,282	*29.0*	12,456	14,552	11,287	*28.9*
Advances	124,031	94,303	*31.5*	109,350	124,031	94,303	*31.5*
Investments	71,170	50,937	*39.7*	69,530	71,170	50,937	*39.7*
Total Assets	229,007	169,832	*34.8*	197,470	229,007	169,832	*34.8*

Income Statement (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Interest Earned from Advances	4,226	9,304	14,878	16,516	20,390
Interest Earned from Investments	1,511	3,668	4,997	6,261	7,019
Others	139	136	158	788	1,086
Total Interest Income	**5,876**	**13,108**	**20,033**	**23,564**	**28,495**
Interest expense	4,163	9,741	14,921	16,463	19,411
NII	**1,714**	**3,367**	**5,112**	**7,101**	**9,084**
Growth	*94.5%*	*96.5%*	*51.8%*	*38.9%*	*27.9%*
Treasury Income	701	1,453	2,345	1,993	2,591
NTNII	1,245	2,095	2,345	2,556	3,303
Non Interest Income	**1,946**	**3,548**	**4,690**	**4,549**	**5,894**
Growth	*169.8%*	*112.9%*	*48.4%*	*13.7%*	*22.3%*
Operating Expense	1,935	3,412	4,186	5,020	6,737
Operating Profit	**1,725**	**3,503**	**5,616**	**6,630**	**8,241**
Growth	*74.1%*	*103.1%*	*60.3%*	*18.1%*	*24.3%*
NPA Provisions	-	24	265	512	621
Total Provisions	288	436	958	1,043	1,411
PBT	**1,437**	**3,067**	**4,658**	**5,588**	**6,830**
Tax Provisions	493	1,065	1,621	1,977	2,421
Effective Tax Rate	*34.3%*	*34.7%*	*34.8%*	*35.4%*	*35.4%*
PAT	**944**	**2,003**	**3,038**	**3,610**	**4,410**

Balance Sheet (Rs m)

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Par Value	10	10	10	10	10
No. of equity shares	280	296	297	297	297
Equity	2,800	2,958	2,970	2,970	2,970
Networth	5,727	7,871	13,189	16,242	19,852
Adj. Networth	5,727	7,785	12,778	15,154	18,349
Deposits	82,204	132,732	161,694	197,267	246,583
Growth	*182.5%*	*61.5%*	*21.8%*	*22.0%*	*25.0%*
Low Cost deposits	4,739	11,287	14,132	21,186	31,415
% of total deposits	*5.8%*	*8.5%*	*8.7%*	*10.7%*	*12.7%*
Total Liabilities	**111,049**	**169,832**	**229,007**	**282,756**	**355,541**
Net Advances	62,897	94,303	124,031	157,423	205,123
Growth	*161.3%*	*49.9%*	*31.5%*	*26.9%*	*30.3%*
Investments	30,731	50,937	71,170	78,907	93,702
Total Assets	**111,049**	**169,832**	**229,007**	**282,756**	**355,541**

Key ratios

Y/e March	FY07	FY08	FY09	FY10E	FY11E
Valuation					
CMP	76	76	76	76	76
Market Cap to AUM	19.3%	13.3%	9.9%	8.0%	6.4%
EPS	3.4	6.8	10.2	12.2	14.8
Book Value	28.1	44.6	54.7	66.8	81.7
Adjusted Book Value	28.1	44.4	54.0	64.8	79.1
P/E	22.7	11.3	7.5	6.3	5.1
P/BV	2.7	1.7	1.4	1.1	0.9
P/ABV	2.7	1.7	1.4	1.2	1.0
DPS	0.0	0.0	0.0	0.0	0.0
Payout ratio (incl. Div Tax)	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Profitability					
Cost of Deposit	5.9%	7.9%	9.1%	7.1%	6.7%
Yield on advances	9.7%	11.8%	13.6%	11.7%	11.2%
Yield on Investments	6.8%	9.0%	8.2%	8.3%	8.1%
NIM	2.3%	2.5%	2.7%	2.9%	3.0%
RoAA	1.2%	1.4%	1.5%	1.4%	1.4%
RoAE	13.9%	19.0%	20.6%	20.0%	20.0%
Efficiency					
Cost-Income ratio	52.9%	49.3%	42.7%	43.1%	45.0%
C-D ratio	76.5%	71.0%	76.7%	79.8%	83.2%
Business per Employee	59.4	72.1	107.0	103.1	101.7
Net Profit per Employee	0.4	0.6	1.1	1.0	1.0
Business per Branch	3627.5	3388.6	2442.1	2062.1	2034.7
Net Profit per Branch	23.6	29.9	26.0	21.0	19.9
Asset Quality					
Gross NPAs	0	106	849	1,979	2,891
Net NPAs	0	86	412	1,088	1,503
Gross NPAs to Gross Advances	0.0%	0.1%	0.7%	1.3%	1.4%
Net NPAs to Net Advances	0.0%	0.1%	0.3%	0.7%	0.7%
NPA Coverage %	-	19.0%	51.5%	45.0%	48.0%

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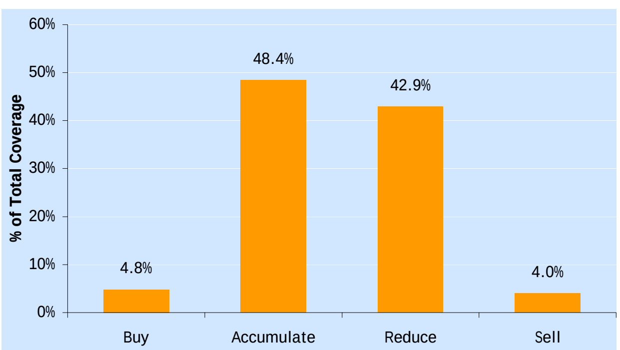
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly