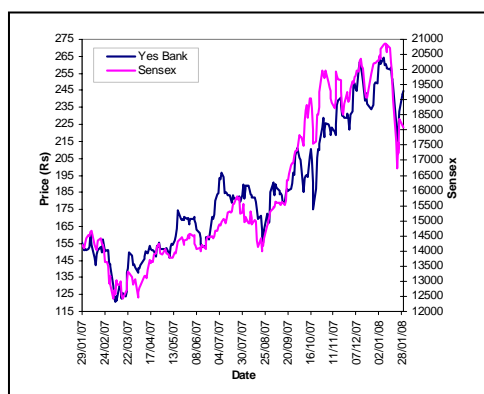


Yes Bank
CMP: Rs245
Buy
**Target Price: Rs289
(12 Months)**
Vaibhav Agrawal
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Sector	Banking
Market Cap (Rs cr)	7,232
Beta	0.92
52 WK High / Low	278/117
Avg Daily Volume	381531
Face Value (Rs)	10
BSE Sensex	18,092
Nifty	5,281
BSE Code	532648
NSE Code	YESBANK
Reuters Code	YESB.BO
Bloomberg Code	YES IN

Shareholding Pattern (%)

Promoters	35.0
MF/Banks/Indian FIs	4.0
FII/ NRIs/ OCBs	52.0
Indian Public	9.0

Share Price Vs Sensex

3QFY2008 Result Update
Performance Highlights

- Strong business growth:** The Bank maintained the growth momentum in its Wholesale business (though growing slower than expected sequentially), with Advances growing 79% yoy to Rs8,598cr and Deposits growing 104% yoy to Rs11,129cr.
- NIM maintained:** NIM remained stable on a qoq and ttm basis (at about 2.5%). This enabled the Bank deliver 85% yoy growth in Net Interest Income (NII) to Rs93cr, lower than expected mainly due to slower business growth.
- Strong growth in Non-Interest Income:** The Bank's Financial Markets (Treasury) and Financial Advisory (Investment Banking) Divisions contribute a large portion of its Income. While growth in Treasury Income (customer-oriented) was very strong at 171% yoy to Rs36cr, Investment Banking (by its nature lumpy from quarter to quarter) was subdued vis-à-vis the past few quarters, growing 16% yoy to Rs14cr (as against Rs31cr in 1QFY2008 and Rs19cr in 2QFY08). Overall, Non-Interest Income grew 119% yoy to Rs97cr and contributed 51% of Total Income.
- Net Profit grows 116%:** The Bank maintained its scorching pace of Earnings growth, with Net Profits growing 116% yoy to Rs54cr. The Bank also maintained its track record of Zero NPAs since inception.

Exhibit 1 : Key Financials

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
NII	171.4	326.7	619.5	1,004.2
% chg	94.6	90.7	89.6	62.1
Net Profit	94.4	198.5	317.0	463.1
% chg	70.4	110.3	59.7	46.1
NIM (%)	2.3	2.1	2.3	2.5
EPS (Rs)	3.4	6.6	9.9	13.6
P/E (x)	72.7	37.0	24.7	18.0
P/BV (x)	8.7	5.1	3.4	2.4
P/ABV (x)	8.7	5.1	3.4	2.4
RoAA (%)	1.2	1.3	1.2	1.1
RoANW (%)	13.9	17.9	16.9	16.2

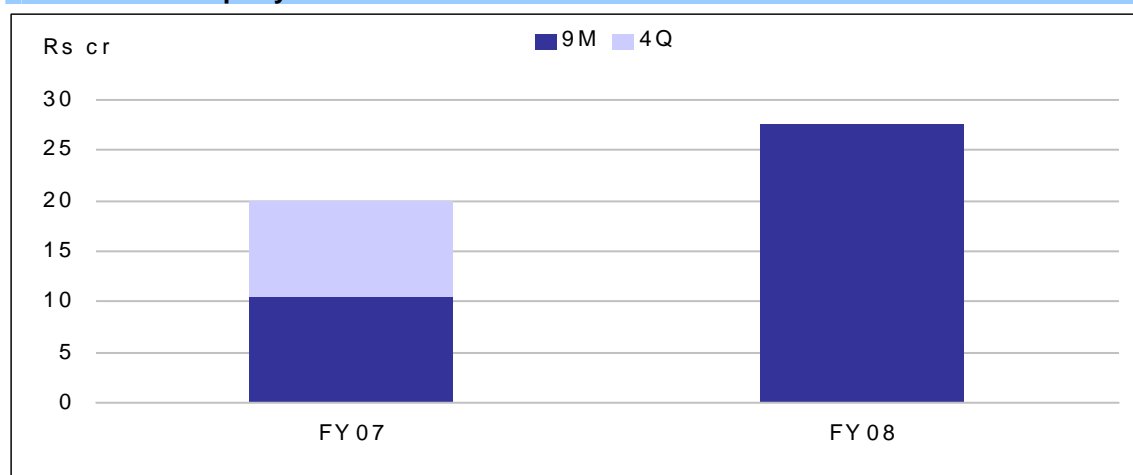
Source: Company, Angel Research

■ **Retail business – Execution risks v/s Sequential performance:** We have a positive view on the Bank's overall strategy for this business (which is at incubation stage). The management's track record and pedigree also inspires confidence in its ability to build up scale. However, execution risks are high and progress needs to be tracked closely.

■ **Branches:** The total number of operational branches remained at 60 (same as 2QFY2008). Over the next two quarters, the Bank targets is to open 57 branches (for which it already has licenses) in various Tier II cities, especially in North and West India.

■ **CaSa and Third party distribution:** The Bank's low-cost Deposits as a % of Total Deposits were 8% in 3QFY2008. We believe this represents a key challenge for the Bank and expect this ratio to improve only gradually. While Income from Third party distribution grew 85% yoy to Rs12cr, a large portion of this business occurs in the latter part of the financial year – the strength of the Bank's 'Push-based' Bancassurance model will be further tested in 4QFY2008.

Exhibit 2: Third party Commission Income



Source: Company, Angel Research

■ **Operating expenses:** The Bank continued to increase its human resource strength though slower sequentially as new branch roll-outs are still in process. Total number of employees increased from 3,236 in 2QFY2008 to 3,542 in 3QFY2008. Staff expenses increased 96% yoy to Rs53cr. Total Operating expenses also grew at a similar rate to Rs89cr yoy but, were flat sequentially. The Bank's Cost-to-Income ratio was, therefore only 47%. However, as the Bank continues to roll out its Retail operations, we expect the Cost-to-Income ratio to revert back to 55% + levels.

■ **Capital adequacy:** The Bank completed Preferential Equity Placement of 1.47cr shares at Rs225 per share (aggregating Rs331cr as against earlier indicative capital raising plans for FY2008 through equity of Rs450cr). This took the Bank's Net Worth to Rs1,253cr and Capital Adequacy to 14.2%. The Board further authorised issue of 2cr shares via QIP, preferential allotment or other means as required for future expansion. This increase in capital raising plans is to meet capital adequacy, enhance borrower limits and facilitate improvement in credit ratings as well.

Outlook and Valuation

At the CMP of Rs245, the stock is trading at 18x FY2010E EPS of Rs13.6 and 2.4x FY2010E Adjusted Book Value of Rs100.2. We believe the Bank's pool of intellectual capital and promising growth trajectory make the stock attractive at current valuations. **Hence, we maintain a Buy on the stock, with a 12-month Target Price of Rs289.**

Exhibit 3: 3QFY2008 Performance

Y/E March (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Interest Earned	346.4	161.4	114.7	922.3	381.5	141.8
Interest Expenses	253.3	111.2	127.9	694.1	260.2	166.7
Net Interest Income	93.0	50.2	85.3	228.2	121.3	88.2
Non-Interest Income	96.8	44.3	118.6	248.7	119.6	108.0
Total Income	189.9	94.5	100.9	476.9	240.8	98.0
Operating Expenses	88.9	46.7	90.6	247.8	128.2	93.3
Pre-Prov Profit	100.9	47.9	111.0	229.2	112.6	103.5
Provisions & Cont.	15.7	9.8	60.7	20.8	16.1	29.0
PBT	85.2	38.1	123.9	208.4	96.5	115.9
Provision for Taxes	31.0	13.0	138.1	72.9	33.1	120.2
PAT	54.2	25.1	116.4	135.5	63.4	113.7
EPS (Rs)	1.8	0.9	105.6	4.6	2.3	103.0
Cost to Income ratio (%)	46.8	49.4		52.0	53.2	
Effective Tax Rate (%)	36.4	34.2		35.0	34.3	
Net NPA (%)	-	-				

Source: Company, Angel Research


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