

March 26, 2008

BUY

Price **Rs191** Target Price **Rs260**

Sensex **16,087**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(20)	(18)	(3)	29
Rel. to Sensex	(12)	1	2	5

Source: Capitaline

Stock Details

Sector	Banks
Reuters	YESB.BO
Bloomberg	YES@IN
Equity Capital (Rs mn)	2957
Face Value	10
52 Week H/L	278/121
Market Cap	Rs64.1bn/US\$1.6bn
Daily Avg Volume (No of shares)	1.3mn
Daily Avg Turnover (US\$)	6.9

Shareholding Pattern (%)(31st Dec.'07)

Promoters	34.1
FII	52.5
Institutions	4.1
Private Corp.	2.3
Public	7.0

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Yes Bank

Company Update

Upgrade to BUY

We spoke to the management of Yes Bank to understand the impact of the recent volatility in the foreign exchange market and currency derivatives on the operations of the bank. Here are key takeaways.

Risk of asset quality deterioration low

Of the total derivatives exposure of the bank, 70% exposure is to large clients. The exposure to medium sized corporates is about 30% which is also scattered over about 53 clients. The management has also clarified that based on the *internal scoring* method of the bank, all the clients in the derivatives segment are either A rated or above.

Large corporates take major pie; in medium size exposure on large client base

Client	% of total exposure	No of clients
Turnover > Rs7.5bn	70	68
Turnover > Rs2bn but < Rs7.5bn	30	53
Turnover < Rs2bn	0	3
Total	100	124

Source: Company, Emkay Research

Periodical cash flows happening on time on swaps

The management also confirmed that the periodical cash flows which happen in a regular cross currency/interest rate swap were on time which means that there have been no default on the client side despite sharp appreciation in currencies like Swiss Franc and Japanese Yen vis-à-vis US dollar.

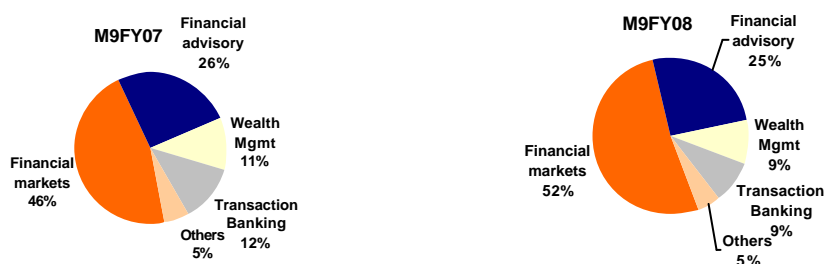
However, large exposure to Swiss Franc

Currency	% exposure
USD/Euro	48.8
Swiss Franc	35.6
Others	15.6
Total	100.0

Source: Company, Emkay Research

Exposure in terms of earnings is low at ~11%

Yes Bank derives significant amount of non-interest income from the financial market transactions. The proportion of the financial market segment has reduced from 52% in M9FY07 to 46% in M9FY08. The segment businesses like foreign exchange, derivatives, swaps and treasury income. Within the segment, forex derivatives contribute about 25% of the income, which is equivalent to ~11% of the non-interest income.

Proportion of financial market income has reduced in non-interest income

Source: Company, Emkay Research

Upgrade to BUY

The stock has seen significant correction over last few days over the concerns of over exposure to the forex derivatives market. We believe that the current valuations of the stock at 12x FY10E EPS and 2.3x FY10E ABV are attractive. We are not changing our earnings estimates as we do not see significant threat to the same. We upgrade the stock from ACCUMULATE to BUY and retain our price target of Rs260.

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
FY2007	3,677	900	3.2	28.0	1.2	13.3	66.8	6.8
FY2008E	7,357	1,959	6.6	43.3	1.4	19.0	30.7	4.4
FY2009E	11,764	3,092	9.8	69.3	1.4	17.9	19.4	2.8
FY2010E	17,389	5,043	16.0	83.0	1.7	21.0	11.9	2.3

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