

July 21, 2009

Rating	BUY
Price	Rs153
Target Price	Rs200
Implied Upside	30.3%
Sensex	15,062

(Prices as on July 21, 2009)

### Trading Data

Market Cap. (Rs bn)	45.6
Shares o/s (m)	297.1
Free Float	69.1%
3M Avg. Daily Vol ('000)	1,507.5
3M Avg. Daily Value (Rs m)	169.1

### Major Shareholders

Promoters	30.9%
Foreign	25.0%
Domestic Inst.	29.0%
Public & Others	15.1%

### Stock Performance

(%)	1M	6M	12M
Absolute	15.2	125.3	30.9
Relative	11.4	53.8	22.1

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



Source: Bloomberg

- Core income in line with expectation:** Yes Bank reported Q1FY10 at Rs1.0bn up 84.2% YoY which was significantly higher than our estimates. This was led by 237% YoY increase in treasury income at Rs850m. The other positive takeaways were 10bps improvement in NIMs on QoQ basis and ~27% reduction in GNPA and NNPA QoQ. Tier I capital adequacy stands at robust 10.3% puts the bank in a very strong position to benefit from the economic recovery going forward.
- NII improvement led by margin expansion despite muted asset growth:** Total assets declined by 5.5% QoQ with deposits and investments declining 5.1% and 9.9% respectively. Cost of funds declined by 70bps QoQ as the bank retired significant high cost deposits translating to 20bps YoY and 10bps QoQ margin improvement.
- Other income considerably high due to sell down of treasury book:** Income from fees continued to remain slow declining 12% YoY but improving 6.4% QoQ with 24% QoQ growth in financial advisory. Treasury income increased 237% YoY largely on account of investment book unwinding to the tune of 9.9% QoQ.
- Asset quality still under control:** High provisioning at Rs455m has enabled the bank to reduce GNPA (0.48% of advances) and NNPA (0.24% of advances) by 27% to Rs614m and Rs304m respectively. The bank re-structured loans worth Rs614m during the quarter taking the total cumulative re-structuring to Rs1.2bn (0.94% of advances) which is commendable considering the stress in the economy.
- Valuation:** At the CMP, the stock is trading at 1.8x FY11E P/BV, 1.9x FY11E P/ABV and 8.5x FY10 P/E. Our view is that Yes Bank is comfortably placed with CAR (10.3% Tier I) and robust asset quality. This along with its high fee generating business model due to its strong presence in advisory and M&A give it an edge from the improvement in the primary markets. Due to better earnings visibility and improved operating performance we have revised our FY10E and FY11E earnings upwards by 4.8% and 13.8% respectively and upgrade the stock to BUY with revised price target of Rs200 (rolling over to FY11E).

Key financials (Rs m)	FY08	FY09	FY10E	FY11E
Net interest income	3,367	5,112	7,461	9,998
Growth (%)	96.5	51.8	46.0	34.0
Operating profit	3,503	5,616	7,870	10,361
PAT	2,003	3,038	4,054	5,374
EPS (Rs)	6.8	10.2	13.6	18.1
Growth (%)	100.8	51.1	33.5	32.6
Net DPS (Rs)	-	-	-	-

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
NIM (%)*	2.5	2.7	3.0	3.2
RoAE (%)	19.0	21.2	23.2	24.2
RoAA (%)	1.4	1.5	1.6	1.7
P / BV (x)	3.4	2.9	2.3	1.8
P / ABV (x)	3.5	3.0	2.4	1.9
PE (x)	22.7	15.0	11.2	8.5
Net divided yield (%)	-	-	-	-

Source: Company Data; PL Research:

\* calculated on average interest earning assets.

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Q1FY10 Result Overview

(Rs m)

Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Interest Income	5,427	4,147	30.9	5,663	23,538	20,033	17.5
Interest on Advances	3,944	3,125	26.2	4,007	16,359	14,878	10.0
Income on investments	1,400	1,061	32.0	1,587	6,392	4,997	27.9
Bal with RBI & others	83	(39)	26.2	69	787	158	10.0
Interest Expense	3,789	3,017	25.6	4,111	16,077	14,921	7.7
<b>Net Interest Income</b>	<b>1,637</b>	<b>1,130</b>	<b>44.9</b>	<b>1,552</b>	<b>7,461</b>	<b>5,112</b>	<b>46.0</b>
<b>Non-Interest Income</b>	<b>1,452</b>	<b>939</b>	<b>54.6</b>	<b>898</b>	<b>5,593</b>	<b>4,690</b>	<b>19.2</b>
Treasury Income	850	252	237.3	332	2,707	2,345	15.4
Other Income	602	687	-12.4	566	2,886	2,345	23.1
<b>Net total Income</b>	<b>3,089</b>	<b>2,069</b>	<b>49.3</b>	<b>2,450</b>	<b>13,054</b>	<b>9,802</b>	<b>33.2</b>
Operating Expenses	1,111	931	19.4	910	5,184	4,186	23.9
Employee	500	475	5.2	402	2,553	2,180	17.1
Other operating expenses	612	456	34.1	509	2,631	2,005	31.2
<b>Operating profit</b>	<b>1,978</b>	<b>1,138</b>	<b>73.9</b>	<b>1,540</b>	<b>7,870</b>	<b>5,616</b>	<b>40.1</b>
Core operating profits	1,128	886	27.4	1,208	5,163	3,271	57.8
Provisions	455	308	47.9	322	1,599	958	66.9
Profit before tax	1,523	830	83.5	1,218	6,271	4,658	34.6
Tax	522	286	82.2	416	2,217	1,621	36.8
<b>Net Profit after tax</b>	<b>1,001</b>	<b>543</b>	<b>84.2</b>	<b>801</b>	<b>4,054</b>	<b>3,038</b>	<b>33.5</b>
<b>Asset Quality</b>							
Gross NPA's	614	213	188.3	849	1,230	849	44.8
<i>Gross NPA's %</i>	<i>0.48</i>	<i>0.21</i>		<i>0.68</i>	<i>0.80</i>	<i>0.68</i>	
Net NPA's	304	174	74.4	412	676	412	64.3
<i>Net NPA's %</i>	<i>0.24</i>	<i>0.17</i>		<i>0.33</i>	<i>0.44</i>	<i>0.33</i>	
Provision Coverage	50.5	18.2		51.5	45.0	51.5	
<b>Capital Adequacy (%)</b>							
<i>CAR</i>	<i>17.6</i>	<i>15.0</i>		<i>16.6</i>	<i>15.7</i>	<i>16.6</i>	
<i>Tier 1</i>	<i>10.3</i>	<i>8.2</i>		<i>9.5</i>	<i>9.5</i>	<i>9.5</i>	
<b>Yield Measurement ratios (%)</b>							
<i>NIM - reported</i>	<i>3.10</i>	<i>2.88</i>	<i>0.22</i>	<i>3.00</i>	<i>--</i>	<i>2.90</i>	
<i>NIM calculated</i>	<i>2.94</i>	<i>2.62</i>	<i>0.32</i>	<i>2.92</i>	<i>2.92</i>	<i>2.57</i>	
<b>Balance Sheet Items</b>							
Deposits	153,423	125,522	22.2	161,694	197,267	161,694	22.0
CASA	14,500	11,184	29.6	14,132	21,186	14,132	49.9
Advances	126,705	100,517	26.1	124,031	153,168	124,031	23.5
Investments	64,094	50,715	26.4	71,170	82,852	71,170	16.4
Total Assets	216,694	175,000	23.8	228,244	282,419	228,244	23.7



## Highlights

### Margins improve considerably driven by re-pricing of bulk deposits

Yes Bank has only 9.5% of its deposits in CASA and has benefited the most in the falling interest rate environment with around 50-60% of its liabilities being re-priced by H1FY10. This has led to around 20bps improvement in margins on YoY basis for the current quarter with the benefits likely to accrue going ahead till the liquidity in the system remains abundant and most of the liabilities get re-priced.

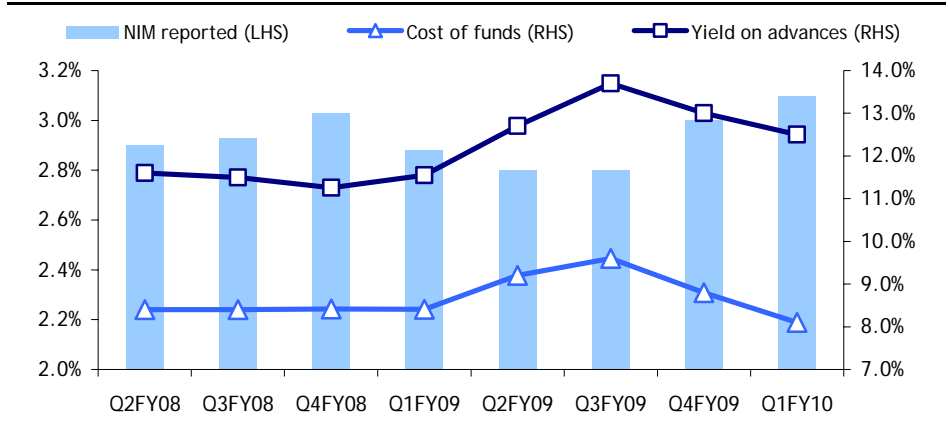
*Q1FY10 NII driven better margins with muted asset growth*

*Advances grew by 26.1% YoY and 2.2% QoQ, however investment book fell by 9.9% QoQ but still grew by 26.4% YoY*

*Deposits de-grew 5.1% QoQ due to some retirement of bulk deposits. However YoY the growth was still impressive at 22.2%.*

*NIM improved by 10bps QoQ and 20bps YoY to 3.1% due to a decline in the cost of funds by 70bps QoQ despite 50bps QoQ decline in Yield on advances.*

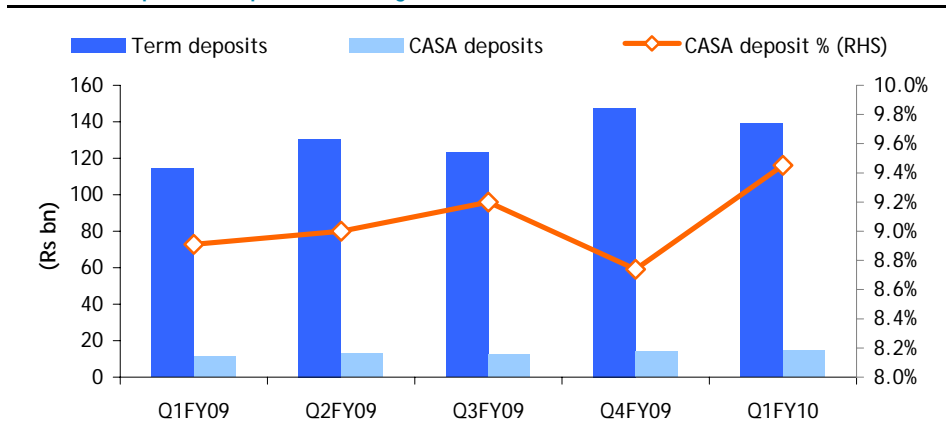
#### Quarterly trend in margin, yield on advances and cost of funds



Source: Company Data, PL Research

Yes Bank increased CASA during the quarter by 2.6% YoY was largely on account of increase in current account balances which was inline with banks strategy to target accounts which assist in cross sell of product to generate fee based income. Term deposits however declined by 5.9% QoQ due to retirement of bulk deposits.

#### Trend in deposit composition and growth



Source: Company Data, PL Research

### Strong treasury income drives non-interest income growth

Other income, after excluding financial markets, de-grew by 12.4% YoY but improved QoQ led by improvement in financial advisory (deals involving corporates such as Wockhardt and Suzlon Energy). Transactional banking remained flat QoQ and improved by 20.8% YoY which is still commendable considering the slowdown in the overall economic scenario.

#### Other income details

(Rs m)

Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	QoQ gr. (%)
Transaction banking	250	207	20.8	252	(0.8)
Financial markets	850	252	237.3	332	156.0
Financial Advisory	253	336	(24.7)	204	24.0
3rd party distribution	99	144	(31.3)	110	(10.0)
<b>Total</b>	<b>1,452</b>	<b>939</b>	<b>54.6</b>	<b>898</b>	<b>61.7</b>

Source: Company Data, PL Research

#### Loan book break-up - no significant change QoQ

More than 94% of the bank's non-priority sector advances are towards large and mid-corporate clients. There has been no significant shift in the banks structure on QoQ basis in terms of loan book mix.

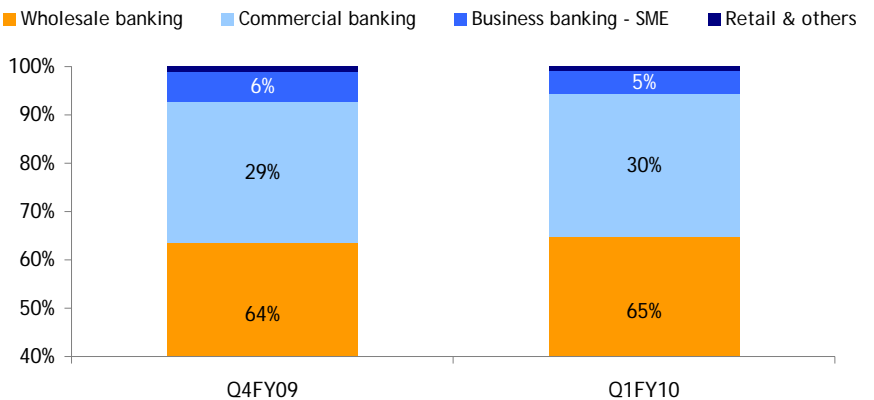
The bank has increased exposure towards engineering (from 16% to 19%), infrastructure and logistics (from 15% to 17%) and technology, media and telecom (from 13% to 15%) with de-growth in food and agricultural advances (from 22% to 18%) on QoQ basis.

#### Classification of corporates based on avg. turnover

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

Source: Company Data, PL Research

#### QoQ trend in loan book break-up



Source: Company Data, PL Research

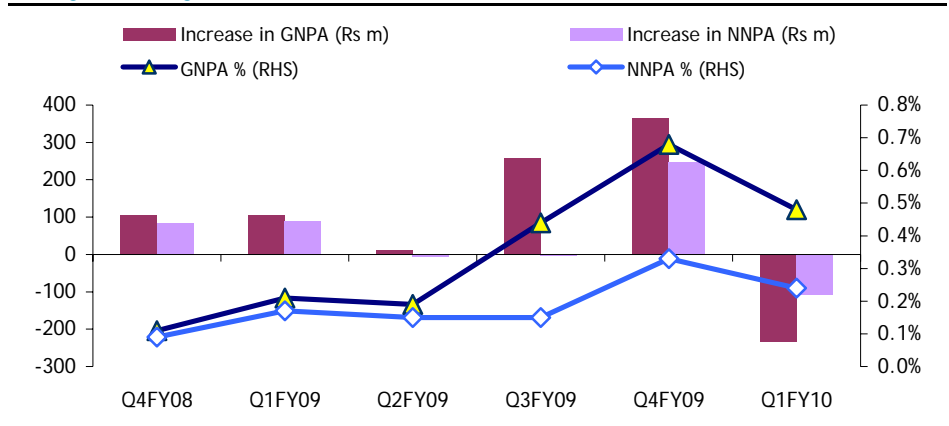
### Asset quality still stable - nothing alarming as yet

NNPA at 0.24% and GNPA at 0.48% of advances have decreased by Rs107m and Rs235m, respectively on QoQ basis. The bank's overall asset quality seems to be under control; due to low exposure in both SME's at 4.7%, negligible exposure in retail at 0.9% of loans and manageable exposure to stressed sectors such as iron & steel, textiles and auto at 4% of advances. NPAs have arisen due to few chunky accounts however the bank has provided aggressively and also has written-off some accounts as regular NPA management exercise.

### Re-structuring remains under acceptable levels

Re-structured standard advances stood at Rs1.2bn (0.96% of loans), with around Rs614m loans re-structured during the quarter. This compared to most other banks at around 3-4% of advances is under control and does not pose any significant risk to the asset quality.

### QoQ growth in gross and Net NPA



Source: Company Data, PL Research

### Valuation

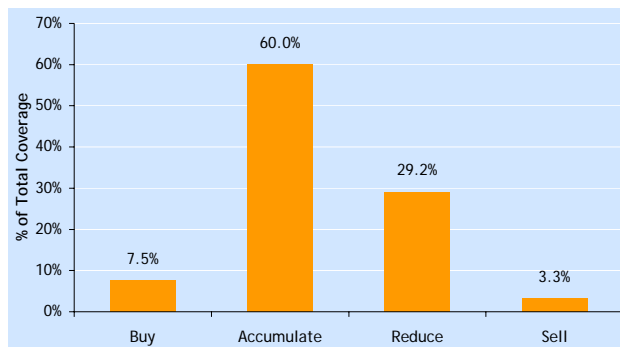
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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

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

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