

YES BANK LTD.

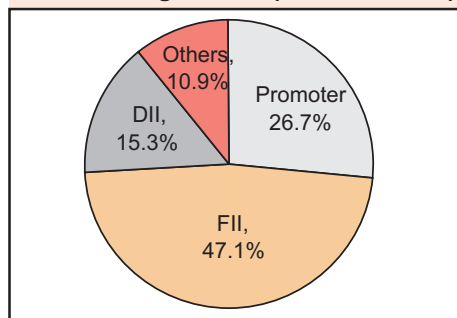
Q3FY11 Result Update

January 24, 2011

Key Stock Data	
Sector	Private Bank
CMP	₹270.35
52-wk High / Low	₹388 / 223
Market Cap	₹91.83bn (\$2018.2mn)
Avg 6m daily vol.	387851
BSE Sensex	19007.53
Reco:	'BUY'
Target Price:	₹338

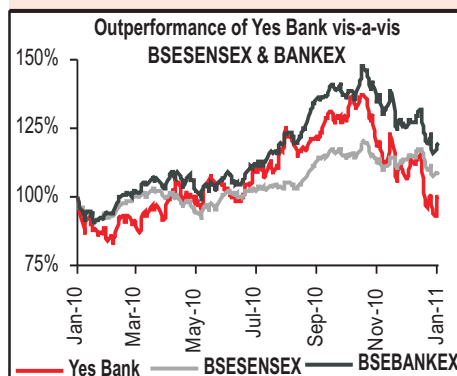
Stock Codes	
Bloomberg Code	YES.IN
Reuters Code	YESB.BO
BSE Code	532648
NSE Code	YESBANK
Face Value	₹10per share

Shareholding Pattern (31st Dec, 2010)



Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-5.8%	-22.5%	-8.7%	0.2%

Stock Price Performance



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Yes Bank has delivered another successful quarter of financial performance despite heightened event risks and market volatility. The stable net interest income and sustained fee income growth enhance the relationships in Corporate Segments of the bank. The bank has reported highest ever Net Profit up by 52% at ₹191.12cr in the 3QFY11 and outperformed the market expectations. Growth in NII was healthy at ₹323.16cr up by 53%, mainly on account of robust growth in the advances book. Further, the other income increased by 27% at ₹161.67cr and 40 bps dip in the cost to income ratio has led 44% jump in the operating profit at ₹311.25cr and 52% growth in Net Profit on y-o-y basis.

Key Performance Highlights

➤ **Robust business growth**

The bank's total Advances grew by 66.3% to ₹31112.2cr as at Dec 31, 2010 from ₹18710.4cr as at Dec 31, 2009. Out of the total advances, Corporate & Institutional Banking accounted for 67.6%, Commercial Banking accounted for 22.3% and Branch Banking around 10.1%. Its total Deposits grew by 79.0% to ₹39452.8cr as at Dec 31, 2010 from ₹22038.6cr as at Dec 31, 2009. Hence, this consistent growth in its total business would result in maintaining its CD ratio around 78% going forward.

Total Business

(₹Cr)

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
Deposits (₹)	8220.39	13273.16	16169.42	26798.56	41537.77	51506.83
% growth	182.5%	61.5%	21.8%	65.7%	55.0%	24.0%
Advances (₹)	6289.74	9430.27	12403.09	22193.12	32356.69	40809.27
% growth	161.3%	49.9%	31.5%	78.9%	45.8%	26.1%

(E- Keynote Capitals Institutional Research Estimates)

(continued...)

Key Quarterly Updates

(₹Cr)

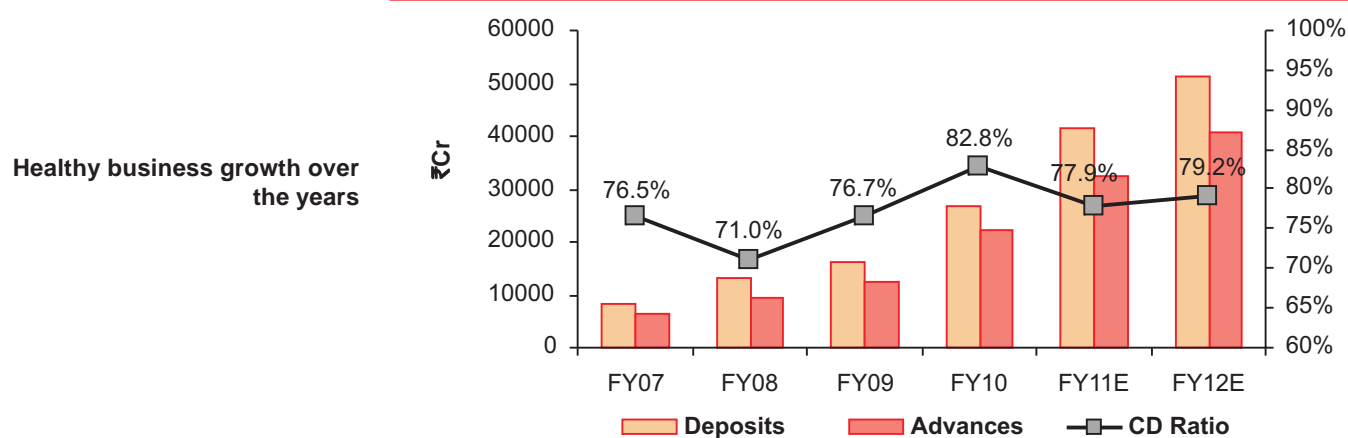
Particulars	Q3 FY10	Q2 FY11	Q3 FY11	% change y-o-y	% change q-o-q
Net Interest Income	210.92	313.16	323.16	53.2%	3.2%
% of total operating income	60.4%	53.0%	51.3%		
Non-Interest Income	127.8	131	161.67	26.5%	23.4%
% of total operating income	37.7%	29.5%	33.4%		
Net Total Income	338.72	444.16	484.83	43.1%	9.2%
Operating expenses	122.56	162.75	173.58	41.6%	6.7%
% of total operating income	36.2%	36.6%	35.8%		
Employee cost	62.71	87.76	90.33	44.0%	2.9%
% of total operating income	51.2%	53.9%	52.0%		
Operating Profit	216.16	281.41	311.25	44.0%	10.6%
Provisions and Contingencies	25.38	17.44	24.95	-1.7%	43.1%
% of Pre. Prov. Profit	11.7%	6.2%	8.0%		
Profit before tax	190.78	263.97	286.3	50.1%	8.5%
Tax expense	64.85	87.71	95.18	46.8%	8.5%
% tax rate	34.0%	33.2%	33.2%		
Profit after Tax	125.93	176.26	191.12	51.8%	8.4%
EPS (₹)	3.71	5.19	5.51	48.7%	6.2%

(E- Keynote Capitals Institutional Research Estimates)

Key Performance Highlights (continued)

Chart 1

Business Mix



(E: Keynote Capitals Institutional Research Estimates)

➤ **Stable growth in Net Interest Income (NII)**

The bank's NII grew by 53.2% yoy to ₹323.1cr in line with our expectations. On account of efficient asset- liability management, NIM of the bank stood at 2.9% in 3QFY11. Nearly 95% to the bank's advances are either below 1 year tenure or linked to base rate or PLR. As a result the reprising can be done easily and the management expects to hold the margins at the same rate even in the rising interest rate cycle. The yield on advances stood at 10.0% while that of cost of funds at 7.1% in the quarter under review. The management expects yields on advances to move up in coming quarter.

➤ **Active on the non-interest income**

Non Interest Income grew at 26.5% y-o-y to ₹161.7cr in Q3FY11 as against ₹127.8cr in Q3FY10. This was on the back of steady growth in Financial Markets, Transaction Banking and Branch Banking Fees & Others business streams that displayed healthy traction y-o-y and sequentially.

Transaction banking, third party distribution and financial advisory have more revenue visibility vis-à-vis financial markets products, which are volatile in nature

Movement of Non-Interest Income

(₹Cr)

Particulars	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Transaction Banking	37.10	43.20	34.30	38.30	49.80
Financial Markets	28.00	47.40	22.60	14.10	41.00
Financial Advisory	57.00	57.80	76.10	63.70	53.50
Branch Banking fees & Others	5.70	11.70	10.80	14.90	17.40
Total Non-Interest Income	127.80	160.10	143.80	131.00	161.70

(Source: Company & Keynote Capitals Institutional Research)

The bank's income from Transaction banking grew at 34.2% y-o-y to ₹49.8cr in Q3FY11 from ₹37.1cr in Q3FY10. Going forward, we expect to see continued traction in transaction banking, viz. cash management services, letters of credit, bank guarantees, etc. With contribution of SME to loan book on an increasing trend, more of transaction services will be required on a daily basis and its growth is expected to be in line with the growth in balance sheet-size. Third-party distribution is linked to branch network. With expansion in branch network, this income stream will gather momentum.

Financial markets grew by 46.6% to ₹41.0cr in Q3FY11 from ₹28.0cr in Q3FY10. The bank facilitated debt fund raising for pedigree clients including top Indian Corporates, PSUs and Public Sector Banks through the Debt Capital Markets route in Q3FY11.

% Break-up of non-interest income portfolio

Particulars	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Transaction Banking	29.0%	27.0%	23.9%	29.2%	30.8%
Financial Markets	21.9%	29.6%	15.7%	10.8%	25.4%
Financial Advisory	44.6%	36.1%	52.9%	48.6%	33.1%
Branch Banking fees & Others	4.5%	7.3%	7.5%	11.4%	10.8%

(Source: Company & Keynote Capitals Institutional Research)

Investment Banking, Corporate Finance advisory and other advisory income marginally decreased to ₹53.5cr in Q3FY11 from ₹57.0cr in Q3FY10. In 3QFY11, the bank was:

- Co-Book Running Lead Manager for the ₹7.76bn Initial Public Offering of A2Z Maintenance & Engineering Services Limited (A2Z) comprising of a fresh issue and offer for sale of shares of the company.
- Sole underwriter and arranger for NCDs of ₹5.00bn to Leading Urban Infrastructure Group for financing the long term capex plan of the company.
- Sole Advisor and Mandated Lead Arranger for ₹3.16bn Project Finance to Leading Power Generation Company for its 208 MW Combined Cycle Power Plant in South India.
- Exclusive Advisor to DEG, investment arm of the Federal republic of Germany, for divestment of its entire shareholding in Ballarpur Industries Ltd.

Branch Banking Fees and Others was up 204.4% to ₹17.4cr in Q3FY11 from ₹5.7 million in Q3FY10. Significant potential is being tapped in this income stream with increasing focus on branch banking businesses - Liabilities, SME & Retail Assets.

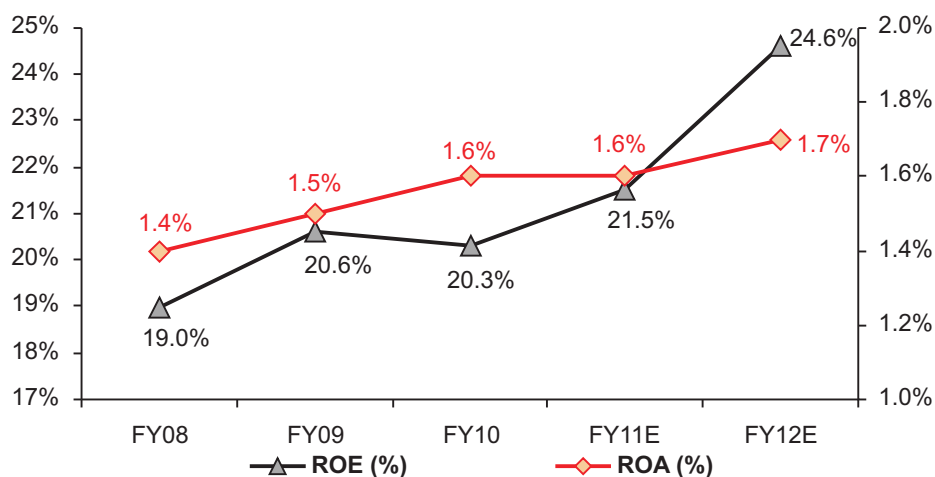
➤ **Increase in earnings**

Operating profit in Q3FY11 was up by 44.0% to ₹311.2cr as compared to ₹216.2cr in Q3FY10. The Cost to Income ratio was 35.8% in Q3FY11 versus 36.2% Q3FY10. PAT in Q3FY11 was up 51.8% to ₹191.1cr from ₹125.9cr for Q3FY10. The Bank delivered ROE of 21.3% (annualized) and ROA of 1.5% (annualized) for Q3FY11. The Bank has delivered an ROA at or above 1.5% and ROE around 20% over past couple of years. It is also well capitalized for growth with Tier I Capital Ratio of 10.4% and Total Capital Adequacy of 18.2% as at Dec 31, 2010.

Cost to income ratio to stabilize at ~40%

Chart 2

Return Ratios (%)



(E: Keynote Capitals Institutional Research Estimates)

Asset Quality	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	FY10	FY10	FY10	FY10	FY11	FY11	FY11
Gross NPA (₹Cr)	61.41	50.02	54.17	60.20	59.70	67.73	72.83
Net NPAs (₹Cr)	30.37	12.56	16.17	12.99	11.09	17.16	17.38
Provision Coverage Ratio (%)	50.5%	74.9%	70.1%	78.4%	81.4%	74.7%	76.1%
Gross NPA (%)	0.5%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Net NPA (%)	0.2%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%

(Source: Company & Keynote Capitals Institutional Research)

New developments and future plans

➤ Strategic Alliances

- Entered into a strategic partnership with National Collateral Management Services Limited (NCMSL), a major agri-infrastructure player, for collateral management and warehousing services.
- Signed a Memorandum of Understanding with Shinsei Bank Limited, a leading diversified financial institution in Japan to advise Indian and Japanese companies on cross-border deals between the two countries.

➤ Expansion Initiatives

- The bank has total branches of 185 across 149 cities as of Dec-10. It added 14 new branches across 8 locations during the 3QFY11 and an additional 9 branches under progress along with two National Operating Centres in Mumbai and Gurgaon. It has also expanded its Corporate Offices in Mumbai, New Delhi, Chennai, Bangalore and Kolkata.

➤ Other recent developments

- The bank received its maiden International Investment Grade rating of Baa3 long-term and Prime-3 short-term global local-currency deposit rating from Moody's Investor Services. The Baa3 rating is an investment grade rating, at par with India's Sovereign Debt Rating.
- It received India's Best Mid-sized Bank (balance sheet < 50,000 cr) award at the Business Today-KPMG Best Bank Survey & Awards 2010. It also received an award for being the No. 1 Mid-sized Bank on the parameters of Growth, Strength and Quality of Assets. Also attained the Fastest Growing Bank award (balance sheet between ₹30000cr – ₹100000cr) at the Businessworld Best Bank Awards 2010.

Concerns

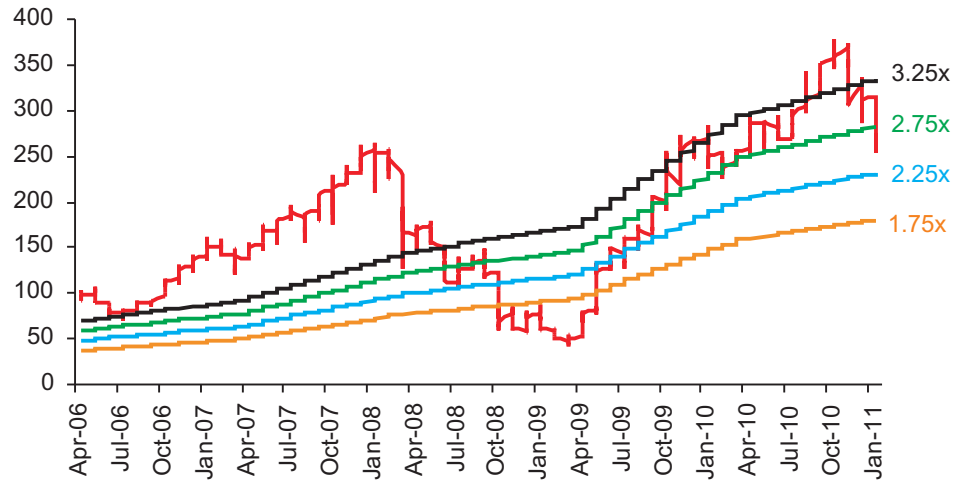
- Retaining corporate clients may be difficult with implementation of base rate system.
- Growing share of retail book may put asset quality under pressure.
- Low CASA ratio vis-à-vis other private sector banks.

Valuations

The bank's total business and multiple sources of sustainable fee-income, distribution network enable it to leverage significant business opportunities in the current rising interest rate scenario. This along with a balanced loan portfolio will help the bank to earn better margins compared to its peers. Considering the above factors, we arrive at a target price of ₹338 per share by assigning a multiple of 2.65x FY12E price to adjusted book for the period of one year, with a 'Buy' recommendation. At CMP of ₹270.35 the stock is trading at 2.98x FY10 price to adjusted book and is expected to trade at 2.57x FY11E and 2.11x FY12E price to adjusted book.

Chart 3

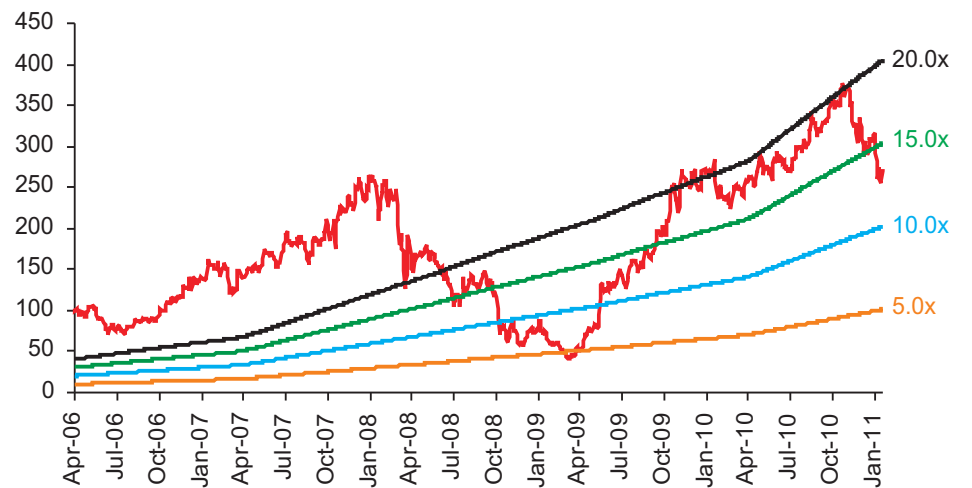
P/ABV Bands



(Source: Keynote Capitals Institutional Research)

Chart 4

PE Bands



(Source: Keynote Capitals Institutional Research)

Quarterly Performance Trends

(₹Cr)

Particulars	Q3-FY10	Q4-FY10	Q1-FY11	Q2-FY11	Q3-FY11
Interest Earned	626.36	664.60	739.19	953.79	1126.15
Interest on advances	470.62	490.03	557.88	725.15	817.75
Income from Investment	150.83	171.82	176.58	224.46	299.33
Interest on RBI balances & others	3.62	1.86	2.92	2.82	7.02
Others	1.29	0.89	1.81	1.36	2.05
Interest expended	415.44	420.43	477.09	640.63	802.99
Net Interest Income	210.92	244.17	262.10	313.16	323.16
Non-Interest Income	127.80	160.14	143.84	131.00	161.67
Net Total Income	338.72	404.31	405.94	444.16	484.83
Operating Expenses	122.56	146.74	156.99	162.75	173.58
Staff costs	62.71	70.84	81.23	87.76	90.33
Other expenses	59.85	75.9	75.76	74.99	83.25
Pre-provisioning profit (PPP)	216.16	257.57	248.95	281.41	311.25
Provisions and Contingencies	25.38	42.56	12.56	17.44	24.95
PBT	190.78	215.01	236.39	263.97	286.30
Tax	64.85	74.98	80.02	87.71	95.18
PAT	125.93	140.03	156.37	176.26	191.12
EPS (₹)	3.71	4.12	4.60	5.19	5.51
Paid-up Equity Share Capital	295.79	296.98	339.67	346.8	346.8
Cost to Income ratio (%)	36.2%	36.3%	38.7%	36.6%	35.8%
NIM (%)	3.1%	3.2%	3.1%	3.0%	2.8%
RoA (Annualized) (%)	1.8%	1.7%	1.6%	1.5%	1.5%
RoE (Annualized) (%)	26.3%	20.4%	19.7%	20.9%	21.3%
% Gross NPAs to Gross Advances	0.3%	0.3%	0.2%	0.2%	0.2%
% Net NPAs to Net Advances	0.1%	0.1%	0.0%	0.1%	0.1%
Provision Coverage (%)	70.15%	78.42%	81.42%	74.66%	76.14%

(Source: Company & Keynote Capitals Institutional Research)

Financials

Profit & Loss Statements						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Interest Earned	1304.68	2001.99	2376.60	4041.99	5550.75	
Interest on advances	930.37	1487.81	1771.50	2992.13	3900.57	
Income from Investment	360.68	499.60	586.34	1025.14	1624.89	
Interest on RBI balances & others	10.52	11.51	8.69	19.50	25.29	
Others	3.11	3.07	10.07	5.22	0.00	
Interest expended	974.11	1492.14	1581.76	2775.02	3700.85	
Net Interest Income	330.57	509.85	794.84	1266.97	1849.90	
Non-Interest Income	361.71	436.35	568.64	606.26	750.34	
Net Total Income	692.28	946.20	1363.48	1873.24	2600.24	
Operating Expenses	341.16	418.55	500.15	691.15	977.05	
Staff costs	202.41	218.02	256.89	366.64	536.40	
Other expenses	138.75	200.53	243.26	324.51	440.64	
Pre-provisioning profit (PPP)	351.12	527.65	863.33	1182.09	1623.19	
Provisions and Contingencies	44.64	61.73	136.84	89.00	121.16	
PBT	306.48	465.92	726.49	1093.09	1502.03	
Tax	106.46	162.07	248.75	365.56	500.93	
PAT	200.02	303.85	477.74	727.53	1001.10	
EPS (₹)	6.76	10.23	14.06	21.42	29.47	
Book Value (₹)	44.59	54.69	90.96	105.76	128.49	
Adjusted Book Value (₹)	44.30	53.31	90.57	105.22	127.89	

(E - Keynote Capitals Institutional Research Estimates)

Balance Sheets						(₹Cr)
Particulars	FY08	FY09	FY10	FY11E	FY12E	
Sources of Funds						
Paid-up Equity Share Capital	295.79	296.98	339.67	346.8	346.8	
Reserves	1023.13	1327.24	2749.88	3320.99	4109.36	
Net Worth	1318.92	1624.22	3089.55	3667.79	4456.16	
Deposits	13273.16	16169.42	26798.56	41537.77	51506.83	
Borrowings	986.21	3701.68	4749.08	5466.91	6513.12	
Other Liabilities & Provisions	1404.93	1405.47	1745.32	1578.83	1508.49	
Total Liabilities	16983.22	22900.79	36382.51	52251.29	63984.60	
Applications of Funds						
Cash & Balances with RBI	959.24	1277.72	1995.31	2135.51	2907.64	
Bal with Banks & money at call	668.33	644.99	677.94	683.36	697.83	
Investments	5093.71	7117.02	10209.94	15784.35	18027.39	
Advances	9430.27	12403.09	22193.12	32356.69	40809.27	
Fixed Assets	101.17	131.11	115.47	118.47	121.44	
Other Assets	730.50	1326.86	1190.73	1172.91	1421.02	
Total Assets	16983.22	22900.79	36382.51	52251.29	63984.60	

(E - Keynote Capitals Institutional Research Estimates)

Return Ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
Net Interest Margin (NIM)	0.0%	2.9%	3.1%	2.9%	3.1%
Yield on Advances	0.0%	12.8%	10.8%	10.0%	10.0%
Yield on Investments	8.8%	8.2%	6.8%	7.9%	9.6%
Cost of Deposits	0.0%	0.0%	6.8%	6.9%	7.2%
Return on Average Assets	1.4%	1.5%	1.6%	1.6%	1.7%
Return on Average Net worth/ROAE	19.0%	20.6%	20.3%	21.5%	24.6%
Effective tax rate	34.7%	34.8%	34.2%	33.4%	33.4%

(E: Keynote Capitals Institutional Research Estimates)

Per share Data

	FY08	FY09	FY10	FY11(E)	FY12(E)
EPS (₹)	6.76	10.23	14.06	21.42	29.47
Book Value (₹)	44.59	54.69	90.96	105.76	128.49
Adjusted Book value (₹)	44.30	53.31	90.57	105.22	127.89

(E: Keynote Capitals Institutional Research Estimates)

Valuation ratios (%)

	FY08	FY09	FY10	FY11(E)	FY12(E)
P/e (x)	39.98	26.42	19.22	12.62	9.17
P/BV (x)	6.06	4.94	2.97	2.56	2.10
P/ABV (x)	6.10	5.07	2.98	2.57	2.11

(E: Keynote Capitals Institutional Research Estimates)

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