

Market Data as on 12th April 2007

Recommendation	Buy
Target Price	241
CMP	148
S&P Nifty	3829.85
52 Week High/Low	170.50/67.00
Equity Capital	270 crore
Market Capital	4193 crore
Book Value	21.21
P/E	53.29

Codes

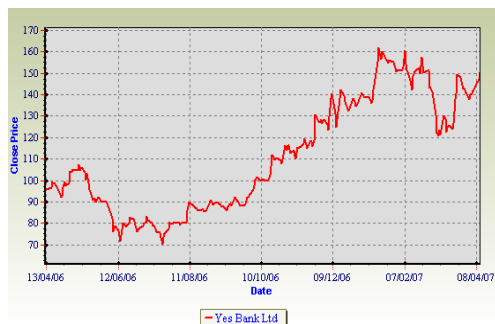
NSE	YESBANK
BSE	532648

Shareholding pattern as on March 07

Promoters	35.88%
Foreign	53.98%
Institution	1.95%
Non Promoters	1.2%
Public & others	6.98%

Financial snapshot

Rs crore	FY06	FY07E	FY08E
Total Income	289.9	768.49	1722.46
Net Profit	55.32	97.1	216.66
EPS(Rs.)	2.05	3.59	8.02
PE	47.21	40.00	30.00



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COMPANY OVERVIEW

YES BANK, headquartered in Mumbai, is a private Greenfield Indian bank promoted by Mr. Rana Kapoor and Mr. Ashok Kapur with the financial support of Rabobank Nederland, the world's only AAA rated private Bank, and three respected global institutional private equity investors, CVC Citigroup, AIF Capital and ChrysCapital.

YES BANK offers banking and financial solutions. YES Bank has been conceived in the spirit of professional entrepreneurship, with an unstinted commitment to establish a high quality, technology driven, state-of-the-art private Indian Bank catering to 'Emerging India'. Following is the timeline of Yes Bank since its inception:

- License to commence commercial banking on May 24, 2004 from RBI.
- Launched banking operations in August 2004.
- Allotment of 7 crore shares in IPO was completed on July 5, 2005
- Shares were listed at the BSE and NSE on July 12, 2005, resulting in a net increase in the net worth of the Bank by Rs. 304 crore.
- November 2006, the bank successfully raised Rs180 crore (\$40 million) of subordinated Tier II debt through private placement issue of unsecured, redeemable, non-convertible, subordinated bonds.
- Private placement of 10 million equity shares at Rs 120 each to Swiss Reinsurance Company, Zurich, Switzerland on 22 December, 2006.

INDUSTRY OVERVIEW

The banking sector witnessed strong growth in deposits and advances during the year 2004-05. As of March 2005, the number of commercial banks stood at 289. The aggregate deposits of SCBs increased from US\$ 331 billion in March 2004 to US\$ 374 billion in March 2005; credit increased from US\$ 185 billion to US\$ 242 billion; and investments swelled from US\$ 149 billion to US\$ 162 billion.

Net domestic credit in the banking system has witnessed a steady increase of 17.5



per cent from US\$ 445 billion on January 21, 2005 to US\$ 523 billion on January 20, 2006. The growth in net domestic credit during the current financial year up to January 20, 2006 was 14.4 per cent.

Nationalised banks were the largest contributors to total bank credit at 47.8 per cent as of September 2005. While foreign banks' contribution to total bank credit was low at 6.7 per cent, the contribution of State Bank of India and its associates accounted for 23.8 per cent of the total bank credit. Credit extended by other SCBs stood at 18.9 per cent.

INVESTMENT RATIONALE

MANAGEMENT

Rana Kapoor is the Founder/ Managing Director & CEO of YES BANK. Prior to establishing YES BANK, Mr Kapoor was CEO & Managing Director, and main Managing Partner of Rabo India Finance (RIF) Pvt. Ltd., responsible for all its business activities (a corporate finance and investment banking organization, 1998-2003). He successfully spearheaded RIF as a foreign joint venture financial services organization in partnership with Rabobank in India, and thereafter sold his shareholdings to Rabobank in early 2003. Prior to joining Rabo India, he was the General Manager & Country Head: ANZ Grindlays' Investment Bank (ANZIB, from 1996-98). Under his leadership, ANZIB emerged as one of the strongest investment banks in India which was widely recognized in India and by Asian financial journals. Prior to ANZIB, Mr. Kapoor spent 15 years at Bank of America (1980-1995), where he last headed the Bank's Wholesale Banking businesses and held several positions of increasing responsibility in his 15 years career including assignments in Asian countries.

H. Srikrishnan is the Executive Director of YES BANK and is responsible for all Retail Banking and Transactional Banking activities as well as developing the various technological and operational infrastructure for the Bank. A veteran banking professional for 25 years, Srikrishnan brings with him a plethora of Commercial Banking experience along with an astute understanding of cutting edge banking technology and business processes.

Additionally, all of the banks top and middle management is highly qualified and experienced as well.



MANAGEMENT GUIDANCE

According to Mr Rana Kapoor (during the last quarter conference call) the bank will see close to 100% growth for the coming three year. He also stated the bank has 29 branches as of December 2006. It is there objective to take the number of branches to 60 15th of July latest and to 100 by March 08, physical year ending and it remains managements fullest intent to take the number of branches overall to 250 by 31st of March 2010. The bank have experimented with 7-11 banking in one of its branches in which the branch is open from 7am to 11pm. It is management's intention to do 7-11 banking across the nation once the results are clear from the initial tests.

ORGANIC GROWTH

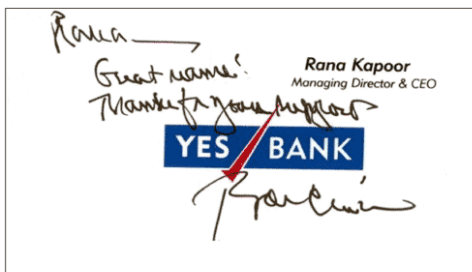
1. **Retail Asset Sales:** The bank has no intentions of fully entering the retail asset segment in the short term. Currently they are driving about 1% revenues from home and small business (unsecured) loans. The management believes that the retail asset business model in India has yet to see some correction from the market and RBI, and the bank would wait till these corrections have taken place.
2. **Micro financing:** The bank indicated that their micro financing business will be operation in mid 2008 to 2009. It is currently lending to other Micro Financial Institutions and is getting decent returns. They plan to start with Urban slums and move to simi-urban areas and eventually go into rural market. The strategy is to replace some of the low return loans in Priority Sectors with high return Micro Finance loans.

BRANCH NETWORK GROWTH STRATEGY

The bank plans to have 60 branches by July 2007, 100 by March 08 and 250 by March 2010. The management expects an investment of about 60 lakhs to a crore 10 lakhs in each branch and expects the cost of infrastructure to increase accordingly in the coming years.

The banks strategy is to create high density in north (Delhi & NCR) region and then move on to other regions of the country. RBI requires the bank to have 25% of the branches in semi urban areas so that is a mandatory step. Otherwise the bank plans to have roughly 50-60% of its branches in north, 30%

Bill Clinton's comment on YES BANK



Transcript of the card
 "Rana,
 Great Name!
 Thanks for your support.
 Bill Clinton,"
 (42nd President of USA)



in the west and rest between south to east. In the coming 2-3 years the management indicates interest to make acquisitions in South India as most of the targets are in that part of the country.

Technology: One of the head-starts that YES BANK had over competition is the absence of legacy systems. YES BANK's state-of-the-art technology and product platform is flexible, scalable and adaptable and is aimed at delivering solutions that take into account the present and future needs of customers.

Others: The bank is increasing the head count by 10-15% every month. Currently they have approximately 2200 employees and would be adding around 600 more in the first quarter of FY08.

FINANCIAL ANALYSIS

Rs. Crore	Q3FY07	Q3FY06	Growth%
Total Income	205.69	81.74	152%
Operating Expense	46.65	25.73	81%
Operating Profit	47.89	26.16	83%
Provisions & Contingencies	9.78	4.28	128%
Provision For Tax	13.01	7.38	76%
Profit After Tax	25.1	14.5	73%

Rs. Crore	Q3FY07	Q3FY06	Growth %
Advances	4800	1911	151%
Investments	2219	1161	91%
Shareholders' funds	756	552	37%
Deposits	5461	1778	207%
Borrowings	1194	363	229%
Balance Sheet Size	8161	3798	115%

Total income for Q3-FY2007 was up 152% to Rs. 205.69 crore as compared to Rs. 81.74 crore for Q3-FY2006. Operating profit for Q3-FY2007 was up 83% to Rs. 47.89 crore as compared to Rs. 26.16 crore for Q3-FY2006. Profit after tax for Q3-FY2007 was up 73% at Rs. 25.10 crore as compared to Rs. 14.50 crore for Q3-FY2006. Total Advances grew by 151% to Rs. 4,800 crore from Rs. 1,911 crore as at December 31, 2005. Total Deposits grew by 207% to Rs. 5,461 crore from Rs. 1,778 crore as at December 31, 2005.

Other Performance Highlights and Ratios:

- Advances at Rs. 4,800 crore; Growth of 151% over December 31, 2005.
- Deposits at Rs. 5,461 crore; Growth of 207% over December 31, 2005.
- Return on Assets of 1.4% and Return on Equity of 14.6% in Q3-FY2007

- Capital Adequacy Ratio of 14.3% (Tier I – 10.2%) at December 31, 2006.
- Book value per share of Rs. 27.01 as at December 31, 2006 and Basic EPS (not annualized) of Rs. 0.93 for Q3-FY2007.

FUTURE ESTIMATES

	FY2006	FY2007(E)	FY2008(E)
TOTAL INCOME	289.91	768.49	1722.46
Interest Expended	104.71	404.60	930.13
Operating Expenses	86.12	187.05	378.94
TOTAL EXPENDITURE	190.83	591.65	1309.07
OPERATING PROFIT	99.08	176.84	413.39
NET PROFIT	55.32	97.10	216.66
EPS (Basic)	2.05	3.60	8.02
P/E Ratio	47.21	40.00	30.00
Market Price (End of March)	101	144	241 (Estimate)

We are giving Yes Bank a price target of Rs 144 by end of FY2007 (March 2007) and Rs 220 by end of FY2008 (March 2008). The bank is expecting increase in its retail branch presence to 60 branches by June 2007 and 100 by March 2008 from current level of around 30. Looking at the banks key promoter Mr. Rana Kapoor's past record and the banks recent growth we have used the following assumption while estimating future stock price:

1. Total Income will grow by 20% each quarter.
2. Interest Expended as percentage of Total Income remains at the current level.
3. Operating Expenses as percentage of Total Income remains at the current level.
4. Net Profit as a percentage of Operating Profit remains at the current level.
5. P/E ratio will decline from its current level of 47.21 to 30 as the growth slows down.

Average Trailing Twelve Month P/E of 103 private sector banks is approximately 23.9, considering Yes Bank is even able to maintain a P/E ratio of 30 from its current level of 47.21 the stock price should cross Rs. 240 by end of FY2008 (March 2008).

Disclaimer

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