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India's YES Bank Expects 'Terrific' Growth; Shares Surge

By Sumit Sharma

July 12 (Bloomberg) — YES Bank Ltd., the first Indian lender to open in more than a decade, will post “terrific” growth over the next three years, Chief Executive Officer Rana Kapoor said. The company’s shares rose as much as 56%.

Mumbai-based YES Bank will expand assets 18 times to \$3 billion within three years and further expand its branch network, Kapoor said in an interview before the lender’s debut on the Mumbai stock exchange. “There’s a terrific growth opportunity that I haven’t seen in my 25 years in banking,” Kapoor said. India’s economy has never been as robust as “we have on hand today.”

YES Bank, ICICI Bank Ltd. and other lenders are benefiting from increased demand for credit from companies, consumers and farmers in Asia’s fourth-largest economy, which the government expects to grow 7% in the year to March. The benchmark Sensitive index has risen 11 percent this year and is trading close to a record high.

The lender, in which Rabobank Groep of the Netherlands and Citigroup Inc. have stakes, received demand for 30 times the 70 million shares it offered investors last month to fund expansion.

It sold shares at 45 rupees apiece, raising 3.15 billion rupees (\$72.3 million).

“It has the advantage of not inheriting any bad debts or treasury losses,” leaving it free to pursue expansion and making it attractive for investors, said U.P. Bhat, who manages the equivalent of \$505 million in equity and debt at Canbank Mutual Fund and bought YES Bank shares.

‘Bullish Undertone’

YES Bank shares rose to as high as 70 rupees and were trading at 62 rupees at 10:13 a.m., according to Bloomberg data.

Kapoor said he expects the stock to “do well” given the “bullish undertone” in the market.

India’s economy grew 6.9% in the year to March 2005, a pace that’s encouraging companies to expand and consumers to spend more on durables such as homes and automobiles. Bank loans in India rose 31% to 11.42 trillion rupees in the year ended March 31, according to central bank data — the biggest rise since 1971 when it started recording the figure.

“We are expecting credit growth to be 20% to 22% over the next two years so that would result in higher core operating income,” said Mihir Marfatia, an analyst at Batlivala & Karani Securities in Mumbai. “There’s huge potential in housing, agriculture.”

The 17-member Bankex of the Mumbai stock exchange has gained 77% over the past 12 months, outpacing a 48% rise in the broader Sensitive index.

‘Best Growth’

YES Bank, which opened its doors in September, plans to focus on agriculture, healthcare, biotechnology,

telecommunications and information technology as well as consumer banking.

“The issue on hand is the vast opportunity across retail and corporate banking and structured lending to India’s agri-landscape,” Kapoor said. YES Bank’s loans have been expanding by about 25% to 30% each quarter, he said.

Kapoor, a career banker, and his partner Ashok Kapur, have a combined 20.4% stake in the bank. Rabobank has a 14.8% stake and Citigroup owns 7.4%.

The lender, which started with four branches and has \$171 million of assets, aims to have 30 branches by March next year and to double its workforce to 550 and install 90 cash dispensers.

‘Tremendous Competition’

Still, YES Bank is competing with 27 state-owned lenders and 31 private-sector banks, in addition to 18 foreign rivals such as HSBC Holdings Plc and Standard Chartered Plc. State Bank of India, the nation’s largest lender, has about 9,000 branches and 200,000 employees and the equivalent of \$144 billion in assets.

“There is tremendous competition in the retail space,” said Marfatia at Batlivala & Karani. “Banks that do not have a regional presence will not be able to garner more liabilities — low-cost deposits — and in such a scenario, margins are expected to be under pressure.”

YES Bank was the first new lender to open in India since a raft of private banks were licensed by the central bank in 1994.

It will have 100 branches in three years, Kapoor said.

“It has the flexibility of being a new bank, though it’s got a long way to go,” said Jon Thorn, who manages \$170 million at the India Capital Fund in Hong Kong and bought YES Bank shares.

Bank Stocks Rally

YES Bank joins lenders including HDFC Bank Ltd., Dena Bank, Punjab National Bank, Allahabad Bank, Oriental Bank Ltd. and UTI Bank Ltd., which raised a combined 80.3 billion rupees selling shares this year, in tapping stock-market investors.

“Banks should show good profit for the quarter to June 30,” said Amandeep Chopra, who manages 73 billion rupees (\$1.7 billion) at UTI Asset Management Co. “Also, some money could be shifting to the safer bank stocks from stocks of oil, gas and other commodities.”

Shares of ICICI Bank Ltd., India’s second-largest lender by assets, HDFC Bank Ltd., the third-biggest by market value, Housing Development Finance Corp., the largest mortgage lender, and Kotak Mahindra Bank all rose to a record yesterday.