



CMP Rs.312

Recommendation BUY

Target Price Rs.436

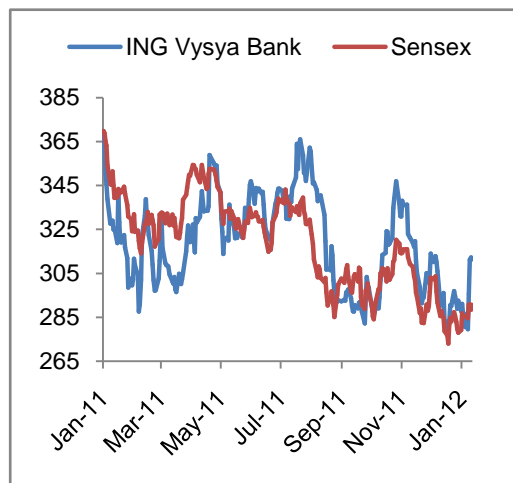
Sector: BFSI

Key Data

Market Cap (Rs. cr)	4,673
Market Cap (US\$ mn)	905
O/S Shares, cr	15.00
Face Value, Rs.	10
2 Wk Avg Vol, NSE	57,420
52 Wk High	377
52 Wk Low	275
Rs/US\$	51.65
Bloomberg	VYSB IN
Reuters	VYSA.BO
NSE	INGVYSYABK
BSE	531807

Shareholding Pattern

%	Q3 FY12	Q3 FY11
Promoters	43.8	43.4
FII	25.2	23.9
Inst Inv	12.8	12.2
Public	18.2	20.6



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Q3 FY12 Result Update

ING Vysya Bank reported net profit of Rs.119.5 cr up 44% YoY (4% QoQ) in line with our expectations (Rs.118.5 cr). Also, Net interest income (NII) grew by 32% YoY (7% QoQ) to Rs.324 cr moderately above our expectations of Rs.314 cr due to increase in yield on advances.

Strong loan growth continues to be above industry average

In Q3 FY12 loan (net advances) grew by 23% YoY to Rs.26,298 cr well above the industry average (16% as on 30th Dec 2011) which was led by wholesale banking up 28% YoY and 8% QoQ, and business banking (one of the key focus area) up 33% YoY and 6% QoQ. Mortgage loans moderately grew 10% YoY and flat QoQ resulted decline in mortgage as a % of consumer portfolio to 83% from 85%. We expect bank to grow faster than the industry and, estimate its loan book growth at 23% in FY12E.

Surprise improvement in NIMs

NIMs improved to 3.49% from 3.35% QoQ led by increase in yield on advances by 29bps better than increase in cost of deposits by 6bps in Q3 FY12. Also, credit-deposit ratio improved to 83% from 81% QoQ supported the improvement in margins. Management expects slight moderation in margins in Q4 FY12E due to priority sector lending (low yield). Also, guided NIMs for FY12E to be at FY11 level with upward bias (3.25%-3.35% as against 3.15%-3.25% earlier).

Asset quality remains healthy in current economic scenario

Asset quality improved as GNPA% of advances decline to 2.01% from 2.02% QoQ. In absolute terms GNPA increased by 5% QoQ due to MFI portfolio buyout. Also, bank provided completely for MFI buyout which led to increase in provision in Q3 FY12 (Rs.33 cr vs Rs.17 cr QoQ) a one-time charge. With no significant exposure to airlines and power sector, we believe asset quality would not deteriorate in quarters ahead.

Operating efficiency boosts profitability

Operating expenses grew by 11% YoY (2% QoQ) as against NII+Other income growth of 20% YoY (6% QoQ) resulted operating profit (PPP) to grow by 33% YoY (12% QoQ). Operating efficiency resulted in cost to income ratio to decline to 57% in Q3 FY12 from 59% QoQ. Management targets cost to income ratio to further decline and be at par (50% -51%) with industry in next 3-4 years. We believe gradual decline in cost to income ratio will be one of the growth drivers ahead for the improvement in RoA. In Q3 FY12 bank reported slight sequential improvement in RoA (annualised) to 1.13% from 1.12%.

CASA ratio stable sequentially

Current deposits grew by 6% QoQ (21% YoY) while saving deposits remained flat QoQ (up 6% YoY) as against 3% QoQ growth in total deposits. Thus CASA ratio remained stable at 33.6% QoQ. Bank has applied for 35 branch license for year 2012. Deposits grew by 16% YoY to Rs.31,654 cr led by 18% YoY growth in term deposits as investors are moving towards high interest rate fixed deposits.

Outlook & Valuation

Strong loan growth with better asset quality, improvement in margins and decline in cost to income ratio were the key highlights of the stellar Q3 FY12 performance. We expect profitability (PAT) to grow at CAGR of 27% over FY11-13 and RoA to remain above 1% in FY13E.

At CMP Rs.312 ING Vysya Bank is trading at P/B multiple of 1.2x its FY12E BV of Rs.259 and 1.09x its FY13E BV of Rs.287. We value the bank at its 5-Year average P/BV multiple of 1.52x on its FY13E BV of Rs.287 and maintain our target price of Rs.436. We reiterate **BUY** on ING Vysya Bank with an investment horizon of 12 months and an upside potential of 40%.

Exhibit 1: Standalone Income Statement (Quarterly)

Particulars Rs. cr	Dec-11	Sep-11	Dec-10	YoY%	QoQ%
Interest Earned	992	933	691	44%	6%
Income on Investments	254	240	161	57%	6%
Int. on Balances With RBI Other Inter Bank Funds	0	0	1	-	-
Interest / Discount on Advances / Bills	737	692	523	41%	7%
Others	0	1	5	-	-
Interest Expended	668	629	445	50%	6%
Net Interest Income (NII)	324	304	246	32%	7%
Other Income	170	162	167	2%	5%
NII + Other Income	494	466	413	20%	6%
Operating Expenses	282	277	253	11%	2%
Payment To Provisions For Employees	170	161	145	17%	6%
Other Operating Expenses	112	115	108	4%	-3%
Operating Profit before Prov.& Cont.	211	189	159	33%	12%
Provisions and Contingencies	33	17	34	-1%	91%
PBT	178	172	126	41%	3%
Tax	58	57	43	36%	3%
Profit After Tax	120	115	83	44%	4%
EPS, Rs.	7.98	7.71	6.88	16%	4%

Source: Company, SIHL Research

Exhibit 2: Ratio Analysis (Quarterly)

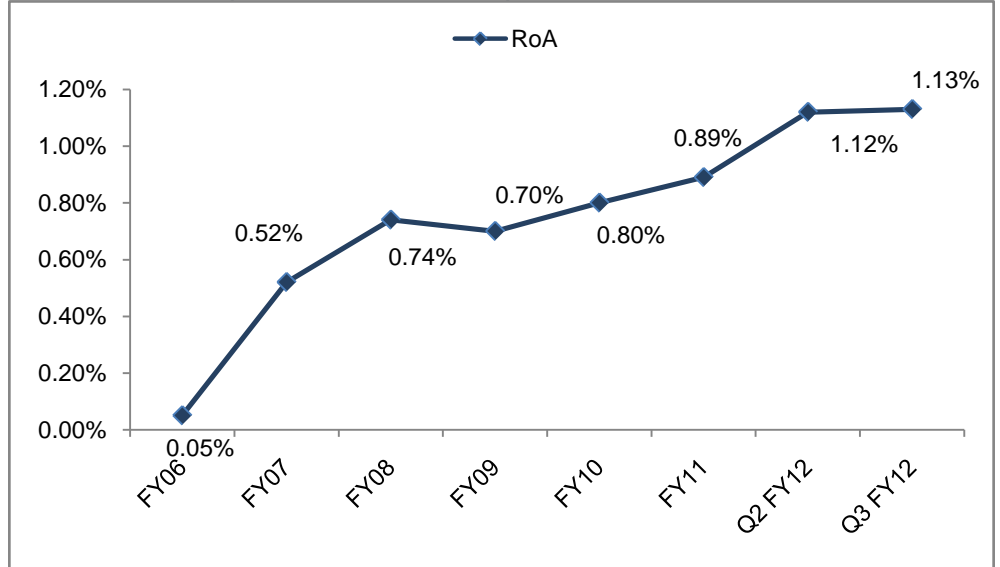
Ratio Analysis (%)	Dec-11	Sep-11	Dec-10	YoY	QoQ
Tier I	10.99	11.79	8.82	2.17	-0.80
Tier II	3.09	3.21	3.87	-0.78	-0.12
CAR Basel II	14.08*	15.00	12.69	1.39	-0.92
Return on Assets (Annualized)	1.13	1.12	0.88	0.25	0.01
NIM	3.49	3.35	3.10	0.39	0.14
Gross NPA	2.01	2.02	2.66	-0.65	-0.01
Net NPA	0.31	0.31	0.64	-0.33	0.00
Provision Coverage Ratio	84.98	84.80	76.41	8.57	0.18
CASA	32.59	32.55	33.47	-0.88	0.04
Yield on Advances	11.66	11.37	10.13	1.53	0.29
Cost of Deposits	6.94	6.88	5.44	1.50	0.06
Cost/Income	57.18	59.36	61.37	-4.19	-2.18

Source: Company, SIHL Research

*CAR figure of 14.08% as of Dec 2011 does not include accumulated profits for Q1, Q2 and Q3 FY12, while RWA figure is as of end of Q3 FY12.



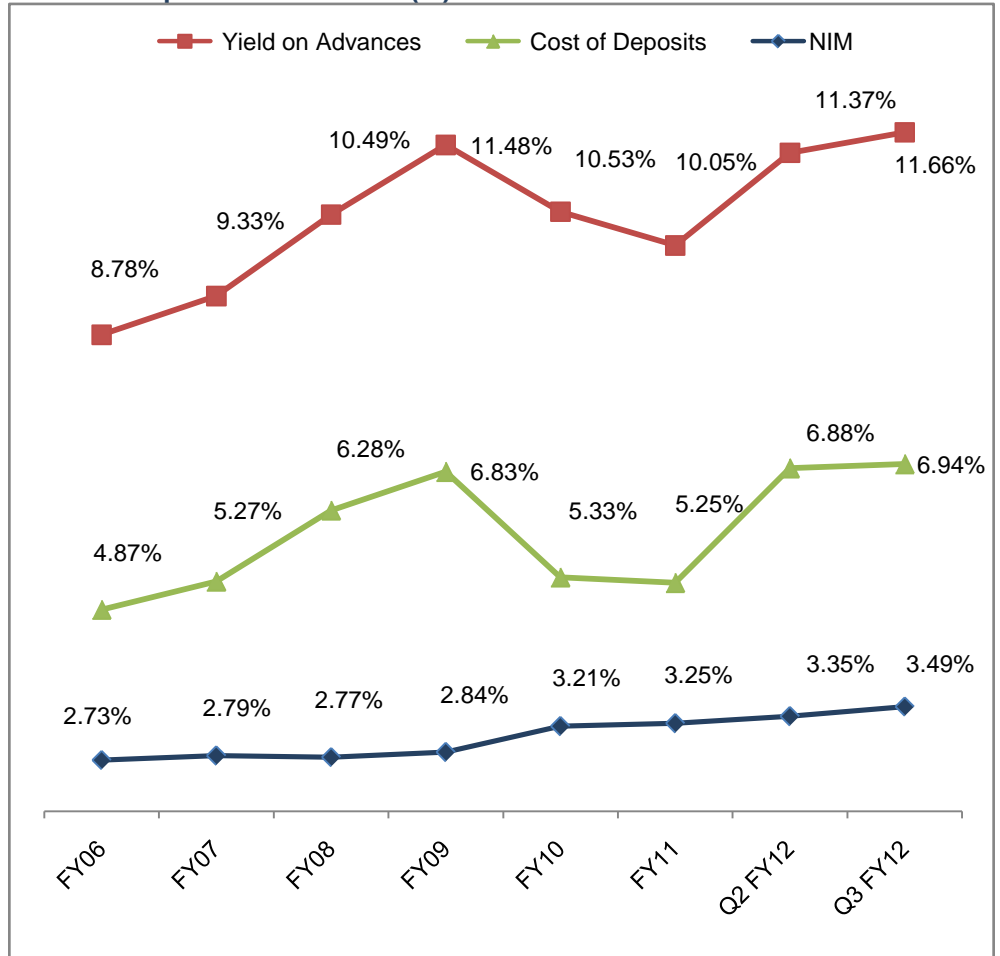
Exhibit 3: RoA % (maintained above 1%)



Operating efficiency boosted profitability which led to improvement in RoA.

Source: Company, SIHL Research

Exhibit 4: Improvement in NIMs (%)

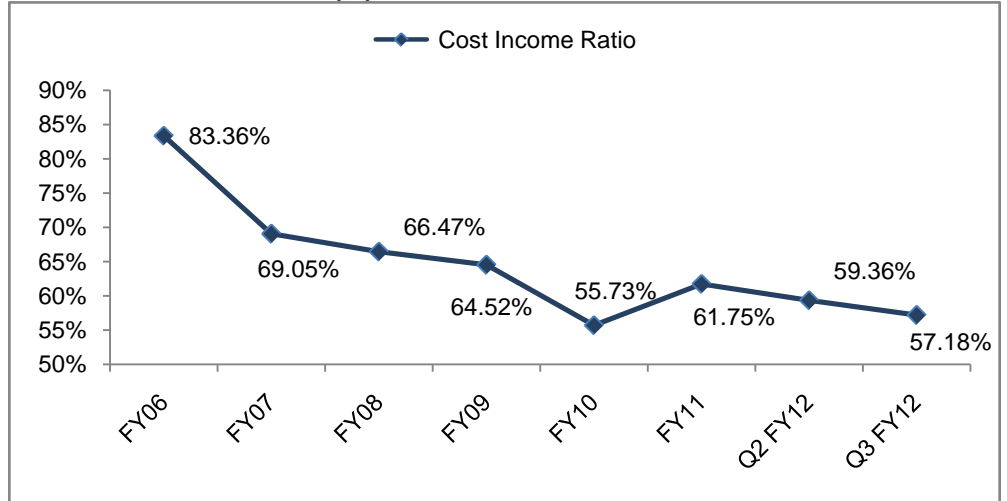


NIMs improved led by containment of cost of deposits and improvement in yield on loan; and also increase in credit-deposit ratio. NIMs guidance improved from 3.15-3.25% to 3.25-3.35%

Source: Company, SIHL Research



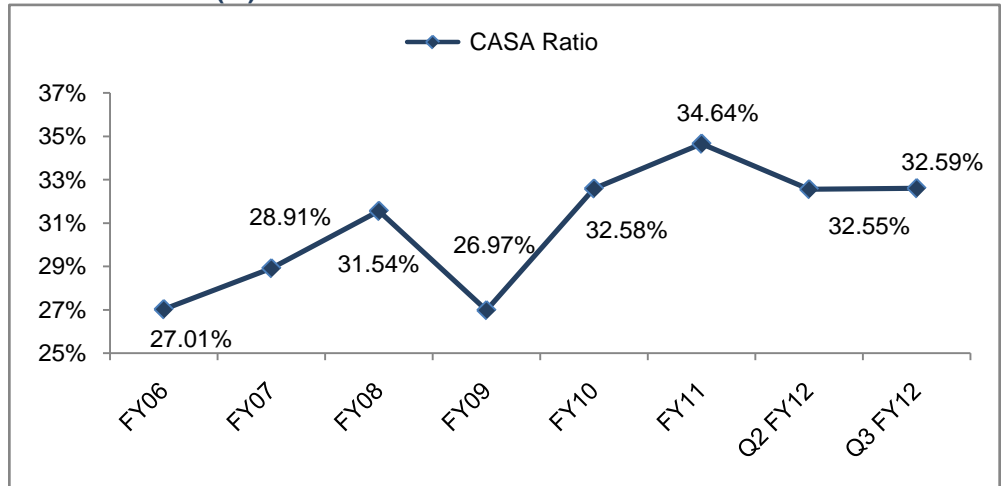
Exhibit 5: Cost to income (%)



Cost to income ratio continues to decline sequentially. It is one of the key drivers for improvement in RoA.

Source: Company, SIHL Research

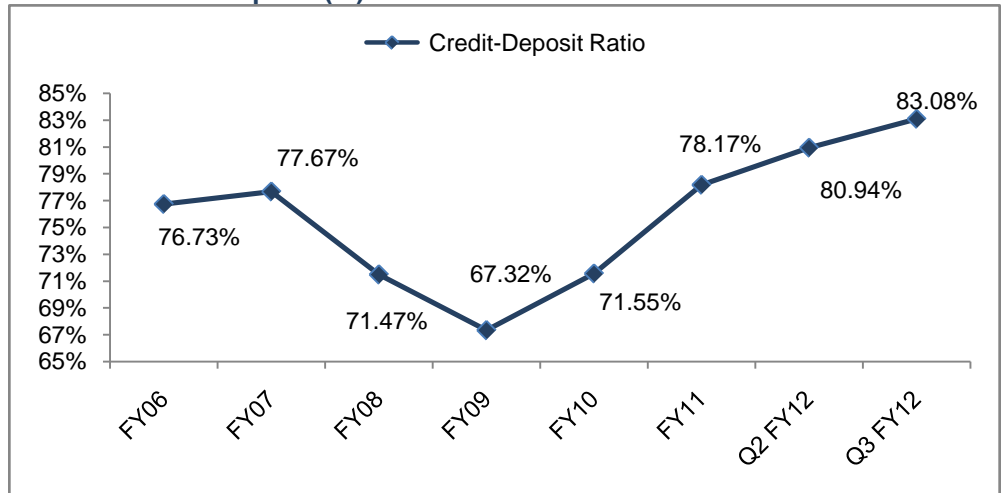
Exhibit 6: CASA (%)



CASA ratio stable at 33.6% with no new branch expansion during Q3 FY12.

Source: Company, SIHL Research

Exhibit 7: Credit-Deposit (%)

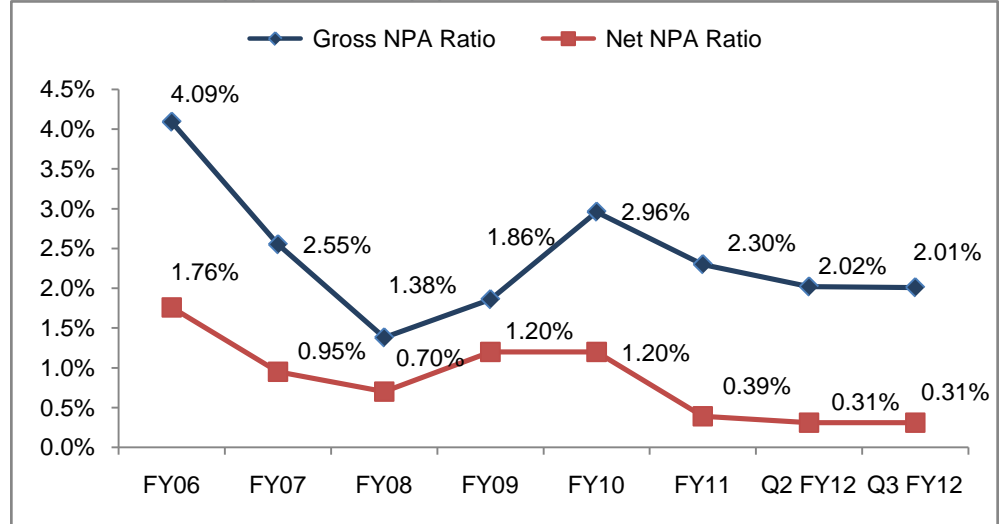


Credit –deposit increased to 83% which provided cushion to margins (NIMs).

Source: Company, SIHL Research



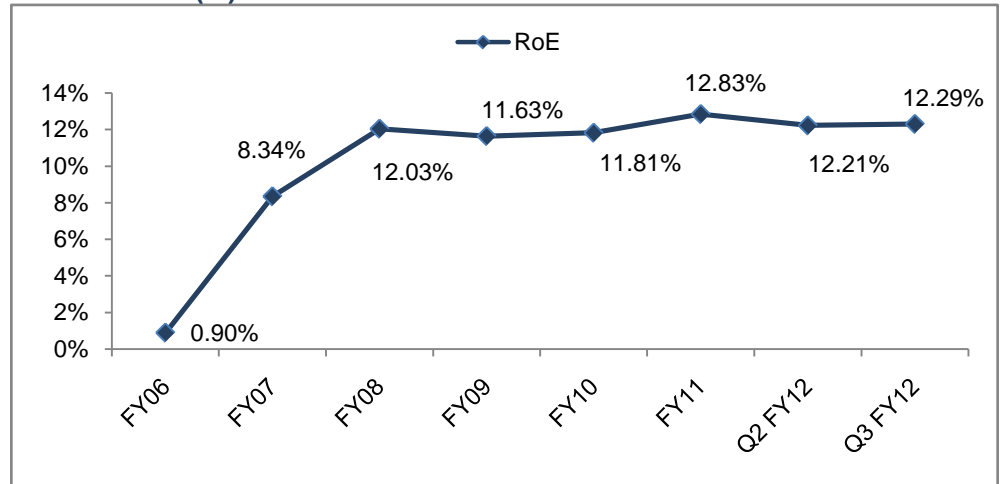
Exhibit 8: GNPA (%) and NNPA (%)



Source: Company, SIHL Research

Asset quality remains healthy as no significant exposure to risky sectors (high NPAs) such as airlines and power sector.

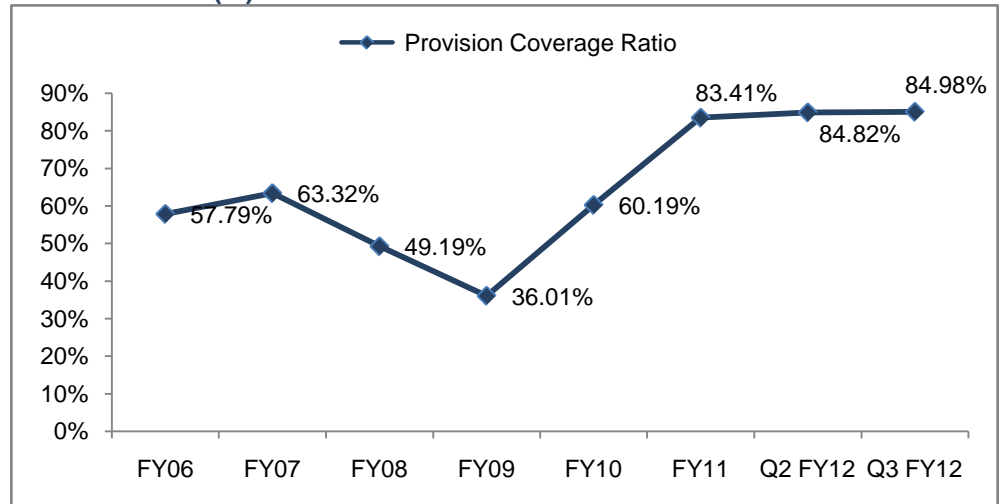
Exhibit 9: RoE (%)



Source: Company, SIHL Research

RoE remains stable with high base as capital infused in June 2011.

Exhibit 10: PCR (%)

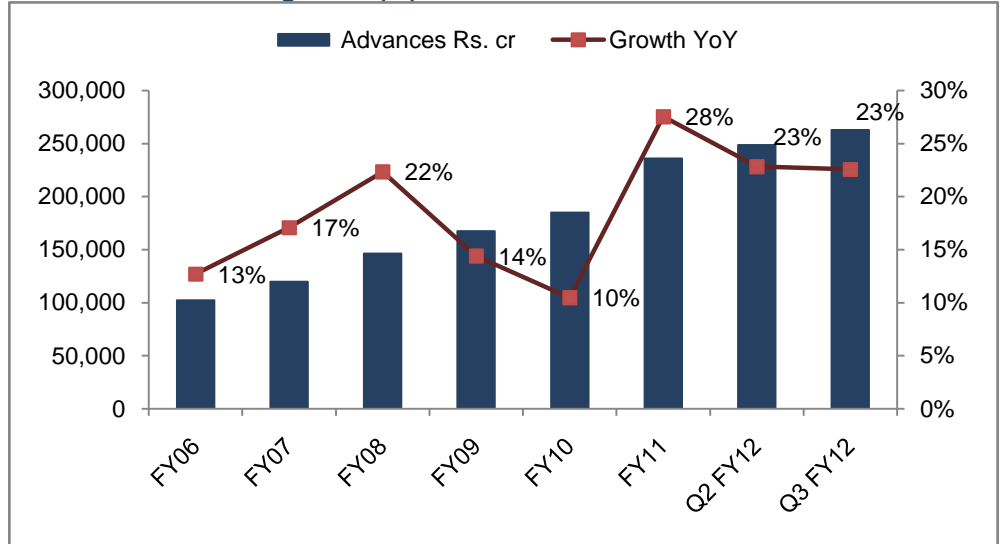


Source: Company, SIHL Research

High PCR indicates bank's conservative approach and prepares for any adverse situations of NPAs in future.



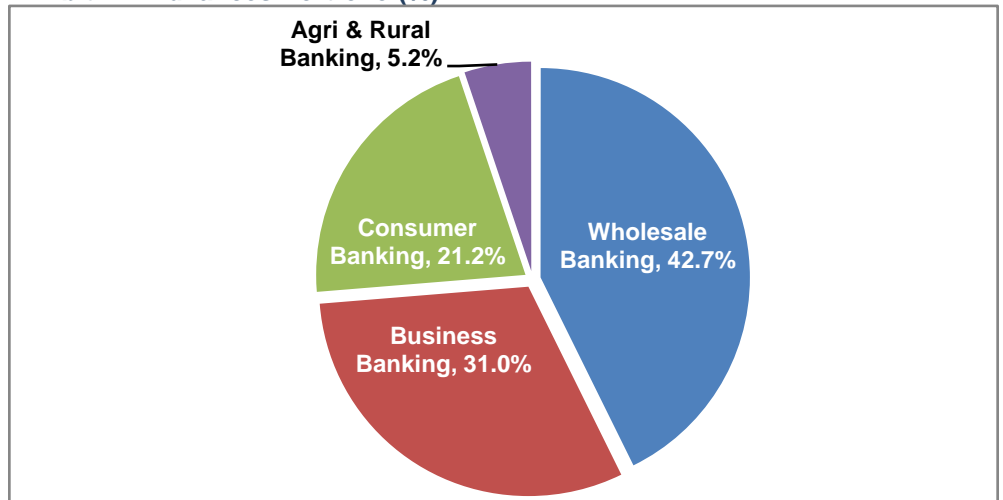
Exhibit 11: Advances growth (%)



Advances growth maintained above industry average (16% as on 30th dec 2011).

Source: Company, SIHL Research

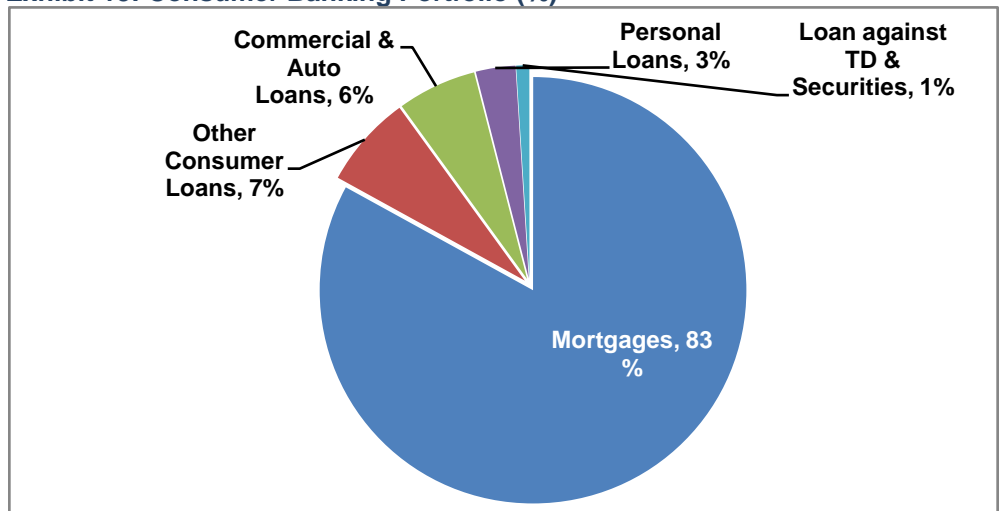
Exhibit 12: Advances Portfolio (%)



Well diversified advance portfolio with large corporate, business banking and mortgages key growth drivers ahead.

Source: Company, SIHL Research

Exhibit 13: Consumer Banking Portfolio (%)



Consumer banking portfolio primarily focused towards mortgages. Outstanding mortgages consist of 20% LAP and 80% home loans.

Source: Company, SIHL Research



Exhibit 14: Standalone Profit and Loss Statement

Particulars Rs. Cr	FY09	FY10	FY11	FY12E	FY13E
Interest Earned	2,240	2,233	2,694	3,964	4,528
Interest Expended	1,590	1,403	1,688	2,736	3,060
Net Interest Income (NII)	650	830	1,007	1,228	1,468
% Growth	30%	28%	21%	22%	20%
Other Income	548	620	655	661	790
Total Income	1,197	1,450	1,661	1,889	2,259
Operating Expenses	772	808	1,026	1,115	1,310
Provisions and Contingencies	130	270	152	116	176
Profit Before Tax	295	372	484	658	773
Taxes	106	129	165	224	263
Profit After Tax	189	242	319	435	510
% Growth	20%	28%	32%	36%	17%
EPS	18.4	20.2	26.3	29.1	34.2

Source: Company, SIHL Research

Exhibit 15: Standalone Balance Sheet Statement

Particulars Rs. Cr	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS:					
Share Capital	103	120	121	149	149
Share Warrants & Outstanding	4	3	2	2	2
Total Reserves	1,596	2,208	2,501	3,819	4,260
Deposits	24,889	25,865	30,194	35,630	41,331
Borrowings	3,185	3,671	4,147	4,889	5,672
Other Liabilities & Provisions	2,086	2,013	2,049	2,408	2,794
Total Liabilities	31,864	33,880	39,014	46,898	54,207
APPLICATION OF FUNDS :					
Cash and balance with Banks	2,282	3,027	2,521	3,418	2,576
Investments	10,496	10,473	11,021	12,343	14,071
Advances	16,756	18,507	23,602	29,031	35,127
Other Assets	1,893	1,377	1,367	2,106	2,433
Total Assets	31,864	33,880	39,014	46,898	54,207

Source: Company, SIHL Research



Exhibit 16: Ratio Analysis

	FY09	FY10	FY11	FY12E	FY13E
Spread Analysis					
Yield on Earning Assets	7.6%	7.3%	7.8%	9.7%	9.4%
Cost of funds	5.9%	4.5%	5.0%	6.9%	6.6%
Interest Spread	1.7%	2.7%	2.8%	2.8%	2.8%
Net Interest margin	2.2%	2.7%	2.9%	3.0%	3.0%
Profitability Ratios					
RoE	12.5%	12.7%	13.5%	13.6%	12.5%
RoA	0.6%	0.7%	0.9%	1.0%	1.0%
Interest Expense/Interest Income	71.0%	62.8%	62.6%	69.0%	67.6%
Non-Interest Income/Total Income	45.7%	42.8%	39.4%	35.0%	35.0%
Efficiency Ratios					
Cost/Income	64.5%	55.7%	61.8%	59.0%	58.0%
Employee cost/Operating Expenses	50.8%	53.1%	59.0%	59.0%	60.0%
Asset-Liability Ratios					
Credit/Deposit	67.3%	71.6%	78.2%	81.5%	85.0%
CASA/Deposit	27.0%	32.6%	34.6%	35.0%	35.0%
Investment/Deposit	42.2%	40.5%	36.5%	34.6%	34.0%
Valuation Ratios					
Book Value (Rs.)	154.9	185.0	208.1	258.9	286.6
P/BV (x)	2.0	1.7	1.5	1.2	1.1
EPS (Rs.)	18.4	20.2	26.3	29.1	34.2
P/E (X)	16.9	15.4	11.8	10.7	9.1
Dividend (Rs.)	2.0	2.5	3.0	3.3	3.9
Dividend Yield	0.6%	0.8%	1.0%	1.1%	1.3%

Source: Company, SIHL Research

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