

ING Vysya Bank



BSE SENSEX 19,092
S&P CNX 5,724

Rs342

Buy

Bloomberg	VYSB IN	YEAR	NET INCOME	PAT	EPS	EPS	P/E	BY	PIBY	PIABY	ROAA	ROAE
Equity Shares (m)	120.0	END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(RS)	(X)	(X)	(%)	(%)
52-Week Range	444/235	3/10A	14,501	2,423	18.5	0.6	18.5	185.3	1.8	2.0	0.7	11.6
1,6,12 Rel.Perf.(%)	-3/-7/10	3/11E	16,385	3,045	25.4	37.2	13.5	207.2	1.7	1.7	0.8	12.9
M.Cap. (Rs b)	45.1	3/12E	18,504	3,838	32.0	26.0	10.7	235.1	1.5	1.5	0.9	14.5
M.Cap. (US\$ b)	0.9	3/13E	22,216	4,990	41.6	30.0	8.2	272.0	1.3	1.3	1.0	16.4

ING Vysya Bank's PAT grew 37% YoY to Rs8.3b in 3QFY11, led by strong growth in net interest income and fall in provisions. PAT was ~10% higher than we had expected due to higher than estimated non interest income.

Positives: (1) Continued momentum in loan growth (+6% QoQ and +23% YoY), (2) QoQ decline of ~7% in GNPA in absolute terms and QoQ improvement in PCR to 76% v/s 73%, and (3) Fee income growth of 21% YoY and ~6% QoQ.

Negatives: (1) Reported margins declined 24bp QoQ, led by 59bp increase in cost of deposits; however, adjusted for income from MF, NIM declined to 3.26% v/s 3.39% in 2QFY11 and 3.37% in 1HFY11, (2) Fall in core CASA ratio to 33.5% v/s 34.8% a quarter ago, and (3) Continued high cost to income ratio of 60%+.

Valuation and view

Over FY11-13, we expect operating profit to grow at a CAGR of 19% and PAT to grow at a CAGR of 28% on the back of (1) strong loan growth, (2) improving fee income growth, and (3) lower credit cost. RoA is likely to improve from 0.7% in FY10 to ~1% by FY13, and RoE from 11.6% in FY10 to ~18% by FY13.

ING Vysya Bank (IVB) is a play on increasing return ratios backed by improvement in core operating performance and improving balance sheet profile. IVB trades at 10.7x FY12E EPS of Rs32 and 8.2x FY13E EPS of Rs41.6, and at 1.5x FY12E BV of Rs235.1 and 1.3x FY13E BV of Rs272. Strong growth coupled with improving return ratios could result in a re-rating. We reiterate **Buy** with a target price of Rs475 (2x FY12E BV).

QUARTERLY PERFORMANCE

									(RS MILLION)	
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	5,831	5,389	5,430	5,679	5,876	6,388	6,907	7,721	22,329	26,892
Interest Expense	4,112	3,475	3,235	3,208	3,496	3,846	4,448	5,265	14,030	17,055
Net Interest Income	1,719	1,914	2,194	2,471	2,380	2,542	2,459	2,456	8,299	9,838
% Change (Y-o-Y)	8.8	22.2	27.3	52.2	38.5	32.9	12.1	-0.6	27.8	18.5
Other Income	1,597	1,516	1,303	1,784	1,244	1,933	1,688	1,703	6,202	6,547
Net Income	3,316	3,430	3,497	4,255	3,624	4,475	4,127	4,158	14,501	16,385
Operating Expenses	1,894	1,994	2,039	2,153	2,138	2,633	2,533	2,620	8,081	9,924
Operating Profit	1,422	1,436	1,458	2,102	1,486	1,842	1,594	1,539	6,420	6,461
% Change (Y-o-Y)	35.9	56.7	37.0	72.2	4.5	28.3	9.4	-26.8	51.1	0.6
Other Provisions	487	626	528	1,063	439	698	336	374	2,704	1,847
Profit before Tax	935	810	930	1,039	1,047	1,145	1,258	1,165	3,716	4,614
Tax Provisions	332	275	324	362	356	392	428	393	1,293	1,569
Net Profit	603	535	606	677	691	753	830	772	2,423	3,045
% Change (Y-o-Y)	48.3	13.8	16.6	37.8	14.6	40.8	37.0	14.0	28.3	25.7
Extra Ordinary Item	0	0	0	203	0	0	0	0	203	0.0
Adj.Net Profit	603	535	606	474	691	753	830	772	2,220	3,045
% Change (Y-o-Y)	48.3	13.8	16.6	-3.5	14.6	40.8	37.0	62.9	17.6	37.2
Interest Exp/Interest Income (%)	70.5	64.5	59.6	56.5	59.5	60.2	64.4	68.2	62.8	63.4
Other Income/Net Income (%)	48.2	44.2	37.3	41.9	34.3	43.2	40.4	40.9	42.8	40.0
Cost/Income Ratio (%)	57.1	58.1	58.3	50.6	59.0	58.8	61.4	63.0	55.7	60.6
Provisions/Operating Profits (%)	34.3	43.6	36.2	50.6	29.6	37.9	21.1	24.3	42.1	28.6
Tax Rate (%)	35.5	34.0	34.8	34.8	34.0	34.2	34.0	33.7	34.8	34.0

E: MOSL Estimates

RESULTS ANALYSIS (RS M)

	3QFY11	3QFY10	YOY GR. %	2QFY11	QOQ GR. %	FY10	FY11E	FY12E
Interest Income	6,907	5,430	27	6,388	8	22,329	26,892	33,301
Interest Expense	4,448	3,235	37	3,846	16	14,030	17,055	21,903
Net Interest Income (NII)	2,459	2,194	12	2,542	-3	8,299	9,838	11,398
Other Income	1,668	1,303	28	1,933	-14	6,202	6,547	7,105
- Fees	1,310	1,080	21	1,240	6	4,523	4,872	5,795
- Treasury Gains	120	90	33	630	-81	797	1,000	500
- Others	238	133	79	63	280	882	675	810
Net Income	4,127	3,497	18	4,475	-8	14,501	16,385	18,504
Total Operating Costs	2,533	2,039	24	2,633	-4	8,081	9,924	11,139
- Staff Costs	1,454	1,112	31	1,601	-9	4,289	5,790	6,658
- Other Opex	1,079	927	16	1,032	5	3,793	4,134	4,481
Operating Profit	1,594	1,458	9	1,842	-13	6,420	6,461	7,365
Provisions	336	528	-36	698	-52	2,704	1,847	1,550
PBT	1,258	930	35	1,145	10	3,716	4,614	5,814
Tax	428	324	32	392	9	1,293	1,569	1,977
Tax Rate %	34	35		34		35	34	34
PAT	830	606	37	753	10	2,423	3,045	3,838
Deposits	272,680	234,620	16	260,690	5	258,653	297,451	359,916
Core CASA Ratio (%)**	34	32		35		33	34	33
Loans	214,580	175,150	23	202,416	6	185,072	229,489	284,567
Gross NPA (Rs M)	5,619	5,225	8	6,015	-7	5,572	5,747	6,316
Gross NPA %	2.7	3.0		2.8		3.0	2.5	2.2
Net NPA (Rs M)	1,373	2,924	-53	1,639	-16	2,218	1,437	1,579
Net NPA %	0.6	1.7		0.8		1.2	0.6	0.6
Yield on Loans %**	10.1	10.2		9.8		9.7	9.8	10.0
Cost of Deposits %**	5.4	5.0		4.9		4.6	5.1	5.6
NIM %**	3.1	3.4		3.3		2.7	2.9	2.8
Tier I CAR %	8.8	9.8		9.4		10.1	9.1	8.8
Tier II CAR %	3.9	4.7		4.1		4.8	4.2	3.9
Branches	491	474		475		469	532	582

** Reported for Quarterly and calculated for yearly

Margins decline sharply QoQ - a negative surprise

Adjusted for income from MF, margins declined 13bp QoQ to 3.26%. Income from MF during the quarter stood at Rs120m v/s Rs25m a quarter ago. In 9MFY11, adjusted NIM was 3.33% v/s 3.21% in 9MFY10. Reported NIM declined 24bp QoQ and 31bp YoY to 3.1%, led by sharp increase in cost of deposits. Rising interest rate and fall in proportion of CASA led to 59bp QoQ increase in cost of deposits whereas YoL improved 35bp QoQ.

NII grew 12% YoY and 3% QoQ to Rs2.46b (6% lower than our expectation of Rs2.6b). Adjusted for income from MF, NII grew 18% YoY. With increase in bulk deposit rates and retail term deposit rates over the last six months, pressure on cost of deposits is likely to increase further. However, banks' strong pricing power will provide a cushion to margins.

Loan growth in line with industry

Loan book grew 23% YoY and 6% QoQ to ~Rs215b. Composition of loans remained stable QoQ. On a sequential basis, home loans grew ~9% while SME loans were up 10%. However, decline in unsecured retail loans (15% QoQ) led to some drag on overall loan growth. Going ahead, SME and secured retail loans would continue to be the key growth drivers.

Deposits grew 5% QoQ and 16% YoY to ~Rs273b. CASA deposits declined 2.5% QoQ (up ~21% YoY) to Rs91b, lagging overall deposit growth. Current account deposits declined 4% QoQ (up ~18% YoY) and savings deposits remained flat on a sequential basis, leading to 240bp decline (calculated) in CASA ratio. However, core CASA ratio declined 130bp QoQ. CD ratio stood at 78.7% v/s 77.6% a quarter ago and 74.7% a year ago.

Fee income grew 20%+; C/I ratio up QoQ

Core fee-based income grew ~6% QoQ and 21% YoY to Rs1.3b. Recoveries during the quarter were stable at Rs70m QoQ (Rs100m in 3QFY10). Treasury income was lower at Rs120m v/s Rs630m in 2QFY11 (the bank had booked profit on stake sale of CARE). During the quarter bank booked Rs120m on account of sale of property. We expect fee income growth to be in line with loan growth on the back of expanding geographical coverage, customer base, product portfolio and increased focus on cross-selling.

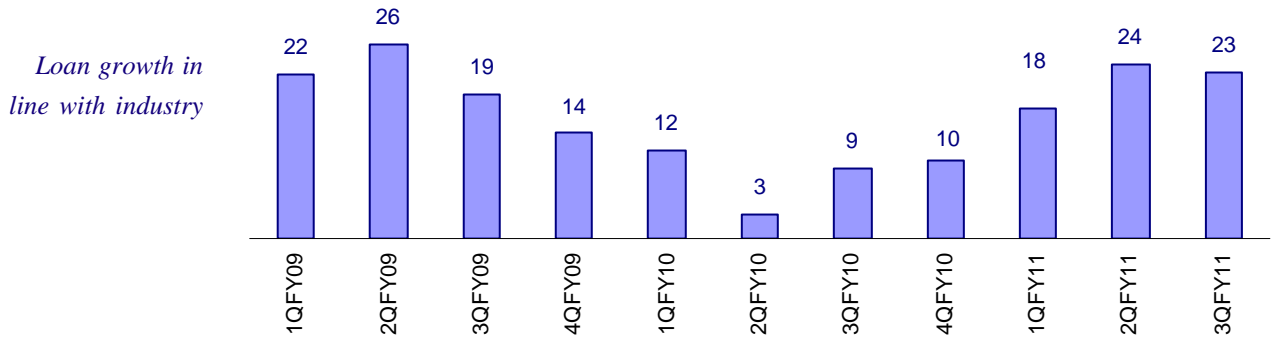
Operating expenses grew 24% YoY but declined 4% QoQ. Core cost to income ratio remains high at 60%+, as the bank continues to expand its presence. During the quarter, IVB expanded its branch network by 16 to 491. While it has not disclosed its liability arising out of enhancement in gratuity limit, it is providing adequately to cover this amount. IBA has sought approval from RBI to amortize this liability over a period of five years or set off against reserves.

Asset quality improves QoQ

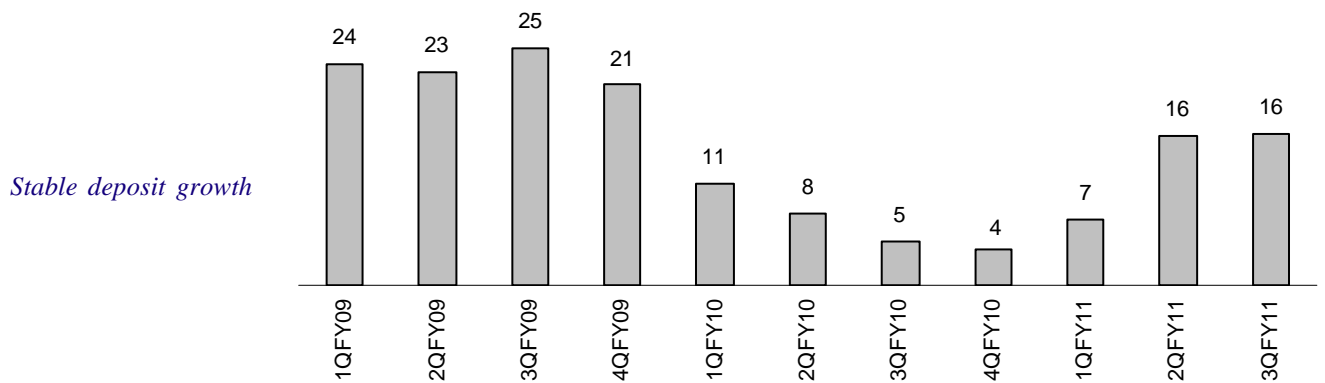
GNPA ratio improved QoQ to 2.66% in 3QFY11 (down 15bp QoQ, and stable YoY). Even in absolute terms, GNPA declined 7% QoQ to Rs5.6b. NNPA ratio declined to 0.64% (down 17bp QoQ and 103bp YoY). NNPA in absolute terms declined 53% YoY and 16% QoQ to Rs1.4b. Provision coverage ratio improved to 76%, up from 73% in 2QFY11 and 38% in 3QFY10.

Provisions remained high in 1HFY11, as the management made accelerated provisions to increase the PCR to 70%+. With conservative approach adopted for NPA recognition in FY10 and PCR at 76%, we expect credit cost to be significantly lower in FY12, giving a fillip to profitability. During the quarter, the bank made additional provision of Rs174m for dual rate housing loan scheme, which translates into dual rate loan proportion of ~Rs10b (~22% of the outstanding mortgage loans). For making this provision, the bank has reversed Rs141m of excess standard asset provision made earlier.

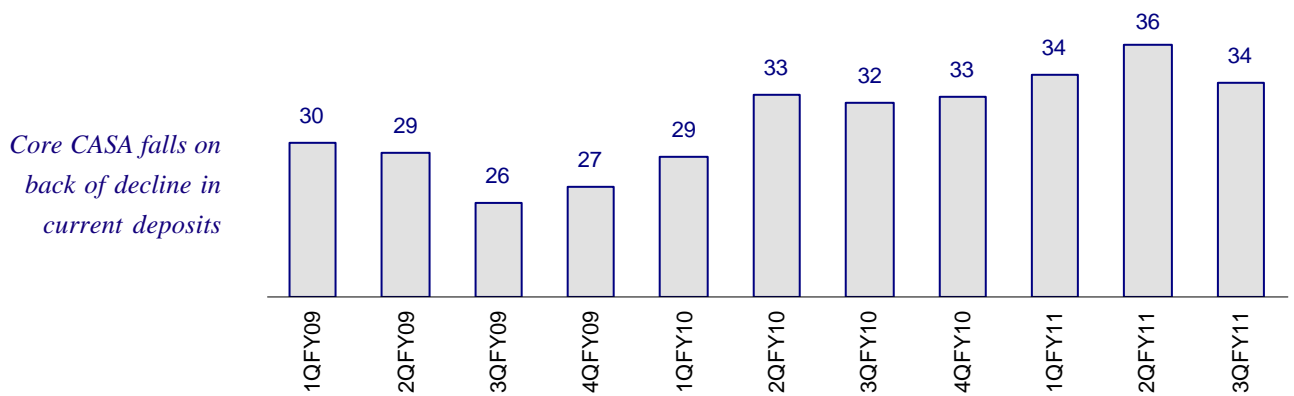
Trend in loan growth (YoY, %)



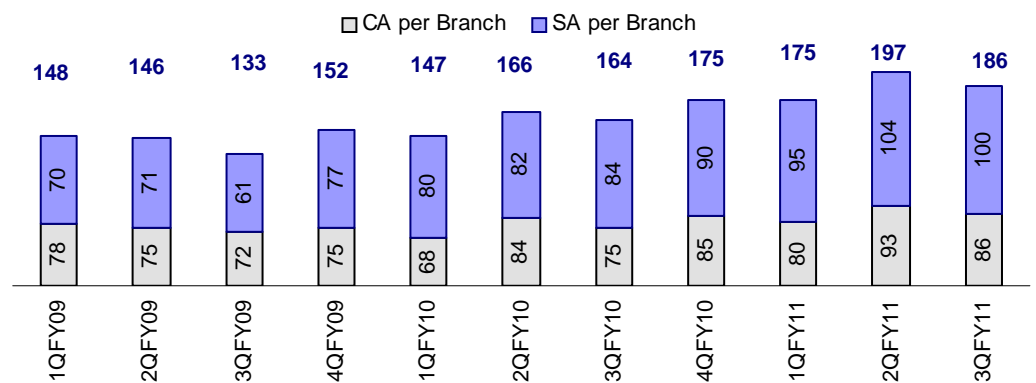
Trend in deposit growth (YoY, %)



Trend in CASA ratio (%)



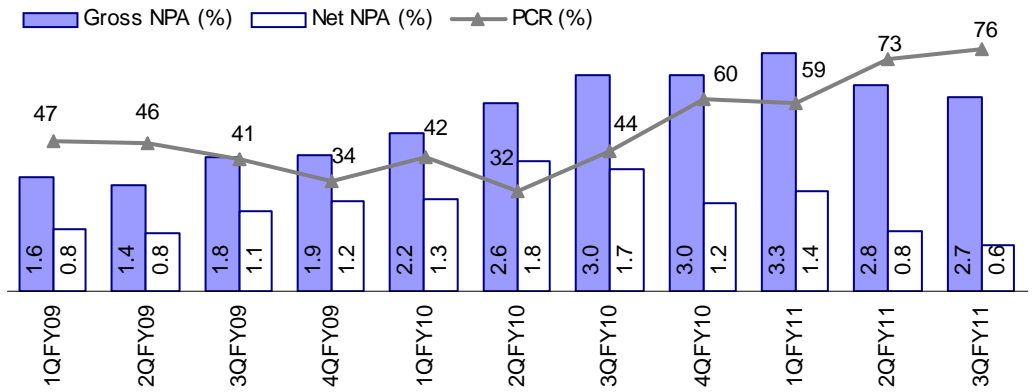
Trend in CASA per branch (Rs m)



Source: Company/MOSL

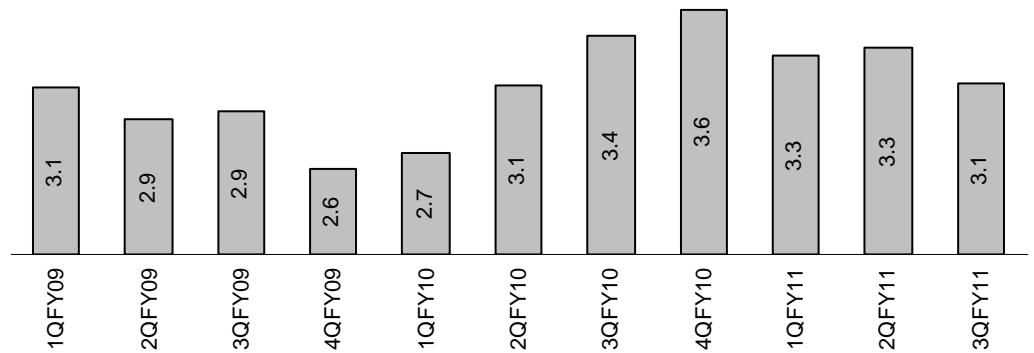
Trend in NPA

Asset quality improves further; PCR at ~76%



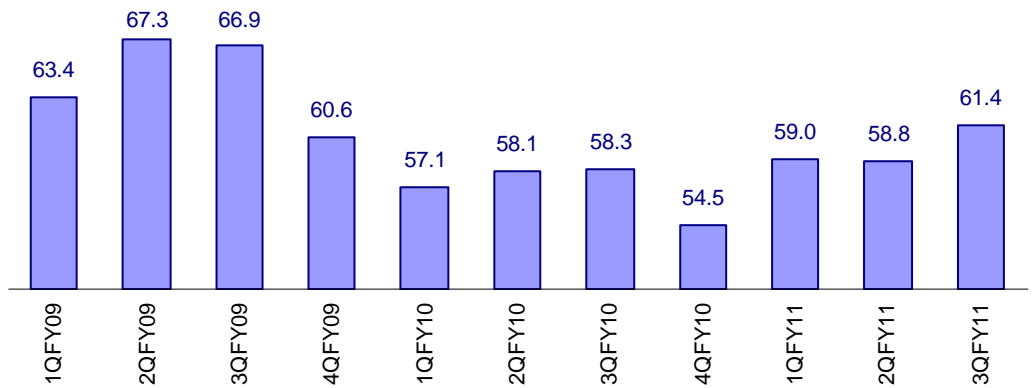
Quarterly trend in margins (%)

Reported margins declined 24bp QoQ, led by 59bp increase in cost of deposits; however, adjusted for income from MF, NIM declined to 3.26% from 3.37% in 1HFY11



Trend in C/I ratio (%)

Core cost to income ratio remains high at 60%+, as the bank continues to expand its presence



Source: Company/MOSL

ING Vysya Bank: an investment profile

Company description

ING Vysya Bank (IVB, earlier known as Vysya Bank) is one of India's oldest private sector banks with operating history of 80 years. As of December 2010, it had a branch network of 491 and customer base of 2m. ~75% of its branches are in South India, which accounts for ~50% of its total business. SME and Indian trading community has been the traditional strength of the bank. In 2002, ING acquired 43.8% stake in the bank and took over management control.

Key investment arguments

- With systems and processes in place and increasing risk appetite, IVB should grow faster than industry.
- IVB's focus on raising branch and employee productivity is leading to improvement in cost to core income (C/I) ratio and RoA.
- With strong improvement in economic environment and seasoned loan book, we believe NPAs have peaked and credit cost will fall, driving strong earnings growth.

Key risks

- If due to some unforeseeable circumstances, there is a delay in opening of branches, it could limit the bank's ability to expand its low-cost deposit base.
- Increasing exposure to high yielding segment may result in higher credit cost, impacting profitability.

Recent developments

- ING Vysya Bank and Angel Broking have entered into a strategic tie-up to offer customers a savings account, a demat account and an Angel trading account on a single platform.
- Mr Arun Thiagarajan has been appointed as part-time Chairman for a period of three years (with effect from 9 August 2010).

Valuation and view

- IVB trades at 10.7x FY12E EPS of Rs32 and 8.2x FY13E EPS of Rs41.6, and at 1.5x FY12E BV of Rs235.1 and 1.3x FY13E BV of Rs272. Strong growth coupled with improving return ratios could result in a re-rating. **Buy** with a target price of Rs475.

Sector view

- Loan growth remains strong. However, rising inflation and increasing interest rates are the near-term headwinds for the sector.
- Our economist expects current tightness in liquidity to start easing in 4QFY11, allaying the pressure of significant NIM compression.
- We believe that margins would start compressing, but gradually. With strong loan growth and high CD ratio, there is strong pricing power with banks.
- Banks with high CASA deposits and lower proportion of bulk deposits will be preferred bets.

Comparative valuations

		ING Vysya	Yes Bank	Federal Bank
P/E (x)	FY11E	13.5	12.3	11.2
	FY12E	10.7	9.5	9.6
P/BV (x)	FY11E	1.7	2.4	1.2
	FY12E	1.5	1.9	1.1
RoE (%)	FY11E	12.9	21.0	11.5
	FY12E	14.5	22.3	12.3
RoA (%)	FY11E	0.8	1.6	1.2
	FY12E	0.9	1.4	1.2

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	43.4	43.5	44.8
Domestic Inst	12.2	11.1	15.5
Foreign	27.8	28.2	24.5
Others	16.6	17.1	15.3

EPS: MOST forecast v/s Consensus (Rs)

	MOST Forecast	Consensus Forecast	Variation (%)
FY11	25.4	26.2	-2.9
FY12	32.0	32.9	-2.6

Target price and recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
342	475	38.9	Buy

Stock performance (1 year)



Financials and Valuations

INCOME STATEMENT						(Rs Million)
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Interest Income	16,804	22,399	22,329	26,892	33,301	41,551
Interest Expense	11,820	15,903	14,030	17,055	21,903	27,632
Net Interest Income	4,984	6,496	8,299	9,838	11,398	13,919
<i>Change (%)</i>	11.9	30.3	27.8	18.5	15.9	22.1
Non Interest Income	4,186	5,477	6,202	6,547	7,105	8,297
Net Income	9,170	11,973	14,501	16,385	18,504	22,216
<i>Change (%)</i>	25.4	30.6	21.1	13.0	12.9	20.1
Operating Expenses	6,095	7,725	8,081	9,924	11,139	13,007
Pre Provision Profits	3,075	4,248	6,420	6,461	7,365	9,209
<i>Change (%)</i>	35.9	38.2	51.1	0.6	14.0	25.0
Provisions (excl tax)	560	1,302	2,704	1,847	1,550	1,648
PBT	2,515	2,947	3,716	4,614	5,814	7,561
Tax	945	1,059	1,293	1,569	1,977	2,571
<i>Tax Rate (%)</i>	37.6	35.9	34.8	34.0	34.0	34.0
PAT	1,569	1,888	2,423	3,045	3,838	4,990
<i>Change (%)</i>	76.5	20.3	28.3	25.7	26.0	30.0
Extra Ordinary Item	135	0	203	0	0	0
Adjusted PAT	1,435	1,888	2,220	3,045	3,838	4,990
<i>Change (%)</i>	114.8	31.6	17.6	37.2	26.0	30.0
Equity Dividend	154	205	300	360	420	480
Core PPP*	2,226	3,175	4,741	4,786	6,055	7,807
<i>Change (%)</i>	88.8	42.6	49.3	1.0	26.5	28.9
<i>*Core PPP is (NII+Fee income-Opex)</i>						
BALANCE SHEET						(Rs Million)
Y/E MARCH	2008	2009	2010	2011E	2012E	2013E
Equity Share Capital	1,025	1,026	1,200	1,200	1,200	1,200
Reserves & Surplus	14,332	16,003	22,109	24,734	28,080	32,509
Net Worth	15,357	17,029	23,309	25,933	29,280	33,709
Deposits	204,576	248,895	258,653	297,451	359,916	446,295
<i>Change (%)</i>	32.7	21.7	3.9	15.0	21.0	24.0
of which CASA Dep	64,524	67,125	84,270	100,283	119,195	144,383
<i>Change (%)</i>	44.8	4.0	25.5	19.0	18.9	21.1
Borrowings	17,467	31,853	36,714	50,252	53,253	50,051
Other Liabilities & Prov.	17,999	20,860	20,126	22,127	24,395	26,982
Total Liabilities	255,399	318,637	338,802	395,764	466,844	557,037
Current Assets	31,848	22,816	30,270	29,386	32,114	39,442
Investments	62,933	104,955	104,729	117,297	129,026	141,929
<i>Change (%)</i>	39.0	66.8	-0.2	12.0	10.0	10.0
Loans	146,495	167,564	185,072	229,489	284,567	352,863
<i>Change (%)</i>	22.3	14.4	10.4	24.0	24.0	24.0
Fixed Assets	3,992	4,372	4,959	4,443	4,473	4,473
Other Assets	10,131	18,929	13,772	15,149	16,664	18,330
Total Assets	255,399	318,637	338,802	395,764	466,844	557,037
ASSET QUALITY						
GNPA (Rs M)	2,032	3,132	5,572	5,747	6,316	7,142
NNPA (Rs M)	1,032	2,004	2,218	1,437	1,579	1,785
GNPA Ratio	1.38	1.86	2.96	2.46	2.18	1.99
NNPA Ratio	0.70	1.20	1.20	0.63	0.55	0.51
PCR (Excl Tech. write off)	49.2	36.0	60.2	75.0	75.0	75.0
PCR (Incl Tech. Write off)			60.2	75.0	75.0	75.0

E: MOSL Estimates

Financials and Valuations

RATIOS

Spreads Analysis (%)

Avg. Yield-Earning Assets	8.0	8.4	7.3	7.8	8.2	8.5
Avg. Yield on loans	9.7	11.1	9.7	9.8	10.0	10.4
Avg. Yield on Investments	6.5	5.6	4.9	5.7	5.9	5.9
Avg. Cost-Int. Bear. Liab.	6.0	6.3	4.9	5.3	5.8	6.1
Avg. Cost of Deposits	5.8	6.2	4.6	5.1	5.6	5.8
Interest Spread	2.0	2.1	2.5	2.5	2.5	2.4
Net Interest Margin	2.4	2.4	2.7	2.9	2.8	2.9

Profitability Ratios (%)

RoE	11.9	12.5	11.6	12.9	14.5	16.4
RoA	0.6	0.7	0.7	0.8	0.9	1.0
Int. Expense/Int.Income	70.3	71.0	62.8	63.4	65.8	66.5
Fee Income/Net Income	44.4	42.5	37.3	33.9	35.7	35.1
Non Int. Inc./Net Income	45.6	45.7	42.8	40.0	38.4	37.3

Efficiency Ratios (%)

Cost/Income*	73.2	70.9	63.0	67.5	64.8	62.5
Empl. Cost/Op. Exps.	49.6	50.8	53.1	58.3	59.8	61.4
Busi. per Empl. (Rs m)	55.8	63.5	68.9	69.5	72.5	82.0
NP per Empl. (Rs lac)	0.3	0.3	0.4	0.4	0.5	0.6

* ex treasury

Asset-Liability Profile (%)

Loans/Deposit Ratio	71.6	67.3	71.6	77.2	79.1	79.1
CASA Ratio	31.5	27.0	32.6	33.7	33.1	32.4
Investment/Deposit Ratio	30.8	42.2	40.5	39.4	35.8	31.8
G-Sec/Investment Ratio	77.6	88.2	78.2	73.5	75.3	81.8
CAR	10.2	11.7	14.9	13.3	12.7	12.2
Tier 1	6.8	6.9	10.1	9.1	8.8	8.6

VALUATION

Book Value (Rs)	139.2	155.4	185.3	207.2	235.1	272.0
Change (%)	27.5	11.6	19.3	11.8	13.5	15.7
Price-BV (x)	2.5	2.2	1.8	1.7	1.5	1.3
Adjusted BV (Rs)	132.6	142.7	173.3	199.4	226.5	262.3
Price-ABV (x)	2.6	2.4	2.0	1.7	1.5	1.3
EPS (Rs)	14.0	18.4	18.5	25.4	32.0	41.6
Change (%)	90.5	31.4	0.6	37.2	26.0	30.0
Price-Earnings (x)	24.4	18.6	18.5	13.5	10.7	8.2
Dividend Per Share (Rs)	1.5	2.0	2.5	3.0	3.5	4.0
Dividend Yield (%)	0.4	0.6	0.7	0.9	1.0	1.2

E: MOSL Estimates

N O T E S



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