

RESULT UPDATE

MID CAP

Share Data

Reuters code	VJBK.BO
Bloomberg code	VJYBK IN
Market cap. (US\$ mn)	725
6M avg. daily turnover (US\$ mn)	5.5
Issued shares (mn)	473
Target price (Rs)	60

Performance (%)	1M	3M	12M
Absolute	(10)	(24)	(12)
Relative	(8)	(20)	(15)

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	12.0	15.6
+/- (%)	3.5	30.7
ABV (Rs)	67.0	77.4
+/- (%)	11.8	15.4
PER (x)	5.3	4.1
PABV (x)	0.9	0.8
Dividend/Yield (%)	3.9	3.9

Major shareholders (%)

Promoters	58
FII's	6
MF's	1
BFSI's	10
Public & Others	25

Financial highlights

(Rs mn)	1QFY11	1QFY12	YoY(%)	FY11	FY12E	YoY(%)	FY13E	YoY(%)
Interest Earned	13,495	17,850	32.3	58,441	78,357	34.1	90,985	16.1
Interest Expended	9,046	13,619	50.6	38,973	58,517	50.1	66,864	14.3
Net Interest Income	4,449	4,230	(4.9)	19,468	19,841	1.9	24,121	21.6
Other Income	1,707	1,684	(1.3)	5,332	5,762	8.1	6,143	6.6
Total Income	15,203	19,534	28.5	63,772	84,119	31.9	97,128	15.5
Total Net Income	6,156	5,915	(3.9)	24,800	25,603	3.2	30,264	18.2
Staff Expenses	2,061	1,695	(17.8)	10,104	7,611	(24.7)	8,865	16.5
Other operating expenses	953	965	1.2	4,228	4,546	7.5	5,626	23.8
Operating Profit	3,143	3,255	3.6	10,467	13,445	28.5	15,773	17.3
Provision & Contingencies	608	2,313	280.5	4,387	5,700	29.9	5,217	(8.5)
Provision for tax	800	220	(72.5)	841	2,091	148.5	3,167	51.4
Reported Profit	1,735	722	(58.4)	5,238	5,654	7.9	7,390	30.7

Vijaya Bank

Maintain Underperformer

Price: Rs 64

BSE Index: 18,314

01 August 2011

1QFY12 Result – Weak show continues; asset quality major concern

Vijaya Bank's (VJYBK) profit declined sharply by ~58% YoY to Rs 0.7 bn (est. Rs 1.1 bn) due to higher provisions (up ~280% YoY) and subdued NII growth (down ~5% YoY), partly moderated by healthy treasury gains. NIMs contracted sharply by 50 bps QoQ to 2.32%. GNPA's up further 15% QoQ and GNPA ratio by 27 bps QoQ to 2.8%, due to higher slippages (5.8% annualised).

- **Strong growth, but NIMs plummet:** Loans grew strong at ~5% QoQ (~22% YoY); however, bank continued to fund most of its growth through term deposits (up ~6% QoQ) leading to 155 bps decline in CASA ratio to ~23.8%. NIMs remain highly volatile falling sharply by 50 bps QoQ, as rise in yields (~106 bps QoQ) could not catch up with rising deposit costs (~140 bps QoQ).
- **Asset quality shows no sign of respite:** Despite management claim of migrating loans on system in last year, slippages remain elevated during the quarter at Rs ~6 bn. However, higher recoveries/upgrades contained rise in GNPA at ~15% QoQ to ~Rs 14 bn and 27 bps in GNPA ratio to 2.8%. PCR incl. technical w/off remained stable at 63.4%. Provisions were significantly high at Rs 2.3 bn impacting profits due to Rs 1.1 bn NPA provision led by change in IRAC norms and ~Rs 0.8 bn MTM losses on investment.

Outlook

Bank has embarked upon growth drive since past 3 quarters (expect 20-22% growth); however, NIMs have come-off sharply by more than 100 bps with NPAs showing no signs of cooling-off. Given ensuing economic slowdown and rising risk-impairment risk, we expect bank to register relatively moderate ~18% growth over FY11-13. We believe that bank's margins will remain volatile given bank's still weak funding structure with lower CASA and higher dependence on bulk deposits. We have cut our earnings estimates for FY12/FY13 by 12%/6% respectively, factoring in margin pressures and higher credit cost. Maintain Underperformer with a revised target price of Rs 60.

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Interest income	52,007	58,441	78,357	90,985
Interest expense	(37,516)	(38,973)	(58,517)	(66,864)
Net interest income	14,491	19,468	19,841	24,121
<i>Growth (%)</i>	<i>28.8</i>	<i>34.3</i>	<i>1.9</i>	<i>21.6</i>
Non-interest income	6,795	5,332	5,762	6,143
Operating income	21,285	24,800	25,603	30,264
Operating expenses	(10,716)	(14,333)	(12,157)	(14,491)
- Staff expenses	(7,056)	(10,104)	(7,611)	(8,865)
Pre-provisions profit	10,570	10,467	13,445	15,773
Core operating profit	7,735	9,292	12,623	14,704
<i>Growth (%)</i>	<i>30.1</i>	<i>20.1</i>	<i>35.8</i>	<i>16.5</i>
Provisions & Contingencies	(3,558)	(4,387)	(5,700)	(5,217)
Pre-tax profit	7,012	6,080	7,745	10,556
(before non-recurring items)				
Pre-tax profit	7,012	6,080	7,745	10,556
(after non-recurring items)				
Tax (current + deferred)	(1,939)	(841)	(2,091)	(3,167)
Net profit	5,073	5,238	5,654	7,390
Adjusted net profit	5,073	5,238	5,654	7,390
<i>Growth (%)</i>	<i>93.3</i>	<i>3.3</i>	<i>7.9</i>	<i>30.7</i>
Net income	5,073	5,238	5,654	7,390

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash and balance with RBI/Banks	55,493	54,236	61,590	73,095
Investments	211,074	251,386	282,817	335,513
Advances	415,217	487,186	583,631	700,396
Interest earning assets	681,784	792,808	928,039	1,109,004
Fixed assets (Net block)	4,932	4,860	5,048	5,460
Other assets	15,505	19,238	19,730	22,486
Total assets	702,221	816,906	952,817	1,136,951
Deposits	619,318	732,483	857,858	1,020,038
Other interest bearing liab.	19,386	20,254	22,004	24,179
Total Interest bearing liab.	672,469	780,736	912,475	1,090,702
Other liabilities and prov.	33,766	27,999	32,612	46,485
Share capital	4,335	4,727	4,727	4,727
Reserves & surplus	25,416	31,443	35,615	41,522
Shareholders' funds	29,751	36,170	40,342	46,248
Total equity & liab.	702,221	816,906	952,817	1,136,951

Key Ratios

Yr end 31 Mar	FY10	FY11	FY12E	FY13E
Valuation ratios (Rs)				
Adjusted EPS	11.7	11.6	12.0	15.6
BVPS	61.4	70.3	79.3	92.1
Adjusted Book NAV /share	52.6	60.0	67.0	77.4
PER (x)	5.4	5.5	5.3	4.1
Price/Book (x)	1.0	0.9	0.8	0.7
Price/Adjusted book (x)	1.2	1.1	0.9	0.8
Dividend Yield (%)	3.9	4.0	3.9	3.9
Du-Pont ratios				
NII/Avg. Assets (%)	2.2	2.6	2.2	2.3
Non-interest income/Avg Assets	1.0	0.7	0.7	0.6
- Fee income / Avg Assets	0.2	0.2	0.2	0.2
- Trading gains / Avg Assets	0.4	0.2	0.1	0.1
Cost / Avg Assets	1.6	1.9	1.4	1.4
Non-tax Provisions / Avg Assets	0.5	0.6	0.6	0.5
Tax Provisions / Avg Assets	0.3	0.1	0.2	0.3
RoA (%)	0.8	0.7	0.6	0.7
Leverage	26.6	25.4	25.0	25.8
RoE (%)	20.4	17.5	16.0	18.2
Balance Sheet ratios (%)				
Loan growth	17.1	17.3	19.8	20.0
Deposit growth	13.6	18.3	17.1	18.9
Loans/Deposits	67.0	66.5	68.0	68.7
Investments/Deposits	34.1	34.3	33.0	32.9
CASA ratio	24.6	25.3	25.3	25.3
Profitability ratios (%)				
NIMs	2.3	2.7	2.3	2.4
Interest spread	1.9	2.4	2.0	2.1
Yield on advances	10.1	9.4	11.1	10.8
Cost of deposits	6.1	5.4	7.0	6.8
Efficiency/other P/L ratios (%)				
Non-interest income/Net income	31.9	21.5	22.5	20.3
Trading income/Net income	13.3	4.7	3.2	3.5
Cost/Income	50.3	57.8	47.5	47.9
Asset quality ratios (%)				
Gross NPLs	2.4	2.6	2.7	2.7
Net NPLs	1.4	1.5	1.5	1.5
Net NPLs/Net worth	20.0	20.9	22.0	22.6
Loan provisions/Avg loans	1.2	0.9	1.0	0.7
Provisions cover	41.5	41.1	45.0	45.0
Capitalisation ratios (%)				
Tier I cap.adequacy	7.7	9.9	0.8	1.6
Total cap.adequacy	12.5	13.9	0.9	1.9

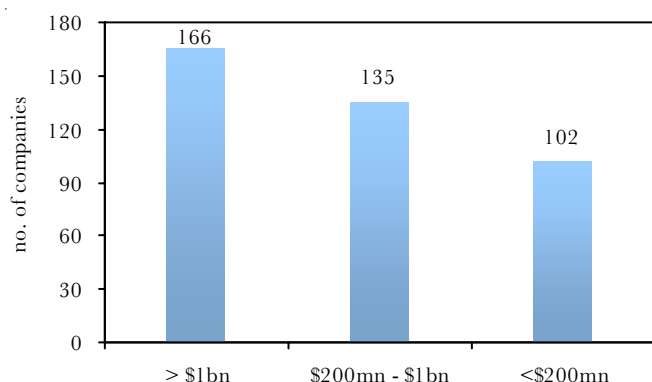
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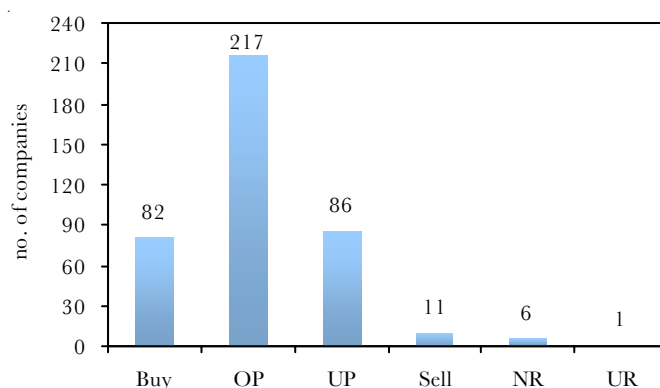
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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