



INDIA RESEARCH

# ING Vysya Bank

**Rs292**  
**OUTPERFORMER**
**RESULT NOTE**
**Mkt Cap: Rs29.9bn; US\$645mn**

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**Result:** Q2FY10

**Comment:** Margins expand; asset quality a key monitorable!

**Revision:** Lowering FY10 earning estimates by 2%

**Key valuation metrics**

Year to March 31 (Rs m)	NII	yoy chg (%)	Net profit	yoy chg (%)	EPS (Rs)	Adj. Bk Val (Rs/ share)	P/ Adj.Bk (x)	PER (x)	RoE (%)
FY07	4,456	2.4	889	886.6	9.8	95.9	3.0	29.9	9.4
FY08	4,984	11.9	1,569	76.6	15.3	126.2	2.3	19.1	13.0
FY09	6,496	30.3	1,888	20.3	18.4	137.2	2.1	15.9	12.5
FY10E	7,731	19.0	2,400	27.1	20.1	176.0	1.7	14.5	12.6
FY11E	9,530	23.3	3,050	27.1	25.6	201.8	1.4	11.4	12.9

**HIGHLIGHTS OF Q2FY10 RESULTS**

ING Vysya Bank ('VYSB') delivered net profit growth of Rs535mn (as against our estimate of Rs583mn), a growth of ~14% yoy. The underperformance was primarily attributable to higher provisions (of which ~34% were on account of one large restructured account).

- **Robust NII growth; as margins expand:** NII came in at Rs1.9bn, a ~22% yoy and ~11% qoq increase, ahead of our estimates, owing to strong expansion in margins. NIMs improved by 25bp qoq to 3.1% buoyed by (i) declining cost of funds as high-cost deposits re-priced at lower rates; (ii) CASA evidenced an uptick; and (iii) benefit of capital raised. (Exhibit 1 & 2)
- **Gross NPAs rise; 0.9% of incremental restructurings:** Gross and Net NPAs increased by 50-55bp qoq to 2.57% and 1.78% respectively. In absolute terms, Gross NPAs rose by Rs1bn qoq. Consequently, provision coverage declined by over ~600bp qoq to 31.5%. VYSB continues to hold excess general provisions of ~Rs400mn. In Q2FY10, 0.9% of outstanding advances (Rs1.5bn) were restructured. Since Mar '09, cumulative restructured assets stood at ~Rs3.1bn, amounting to 1.9% of net advances. (Exhibit 6)
- **Higher provisions dampen bottom-line:** VYSB made Rs626mn of total provisions, of which Rs210mn pertain to one large restructured account (~20% of loan amount). The higher than expected provisions in turn dampened bottom-line growth.
- **Loan growth muted, CD ratio improves:** Loan book growth was muted at ~3% yoy and 1.5% qoq to ~Rs164bn. Concurrently, deposit growth was also at a calibrated pace of ~8% yoy (a marginal de-growth qoq) leading to a 140bp qoq rise in CD ratio. Loan mix remained stable sequentially with retail comprising ~58% of total book, the balance being wholesale. The bank's personal loan book remains small at ~Rs3bn, ~2% of total loan book as of Sept '09. (Exhibit 2 & 5)

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- **Fee income holds up:** Other income grew by ~23% yoy to Rs1.52bn, contributing ~44% of net revenues. During the quarter, the bank booked profit on sale of investments of ~Rs220mn (~15% of operating profit). Non-trading income held up at Rs1.3bn (up by ~9% yoy), driven by higher recoveries of Rs130mn (Rs80mn in Q2FY09) and ~33% yoy growth in wealth management fees. Derivates & forex fees was lower sequentially (Exhibit 4)
- **Operating leverage continues to accrue:** Expenses increased by ~6% yoy to ~Rs2bn, with non-employee expenses remaining flat yoy. Employee expenses were seen to increase at a higher pace of ~12% yoy due to higher provision for employee benefits. Consequently, while cost ratios have shown a significant decline on a yoy basis, there was some uptrend qoq. Cost to income ratio has declined by ~240bp over Mar '09 levels to ~58% in Q2FY10.
- **Uptick in CASA...as deposits de-grow; saving balances rise:** CASA improved by ~230bp qoq to 31.1% as term deposit de-grew by 6% qoq. In Q2FY10, year-end current account flows/ short-term deposits led to reported CASA being elevated at 32.7%. Saving deposits increased by 5.5% qoq. (Exhibit 3)

## VALUATIONS & VIEW

In Q2FY10, ING Vysya Bank reported NII performance ahead of our estimates, whilst bottom-line was dampened by higher provisions on one large corporate account. Key operating metrics demonstrated an encouraging trend sequentially with NIMs up 25bp and CASA up 230bp. However, the bank's asset quality remains a key monitorable as NPLs rose by ~55bp qoq and provision coverage slipped by ~600bp qoq to 31.5%. Going forward we see an improving ROA trend on the back of improving margins (buoyed by an increasing CASA share), accelerated credit growth (after a muted Q2FY10), strategic focus on cross-selling fee based products as well as growing retail loan book. However, we are building in conservative level of NPA provisions and lower asset growth, thereby lowering our FY10 earning estimates by 2%. A strong management team and continued parent support further reinforce our view. We expect a 27% CAGR in the bank's earnings over FY09-11E (also buoyed by operating leverage), with RoA rising to ~0.8% by FY11. Stock is currently trading at 1.4x FY11E adjusted book. Reiterate Outperformer with a 12-month price target of Rs360 (~1.8x FY11E adjusted book).

## Quarterly results

Rs m	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	FY09	FY10E	FY11E	Comments
<b>Interest income</b>	<b>5,316</b>	<b>6,202</b>	<b>6,097</b>	<b>5,831</b>	<b>5,389</b>	<b>22,399</b>	<b>23,576</b>	<b>29,150</b>	
Interest expense	3,751	4,475	4,473	4,112	3,475	15,903	15,845	19,620	
Net Interest income	1,566	1,727	1,624	1,719	1,914	6,496	7,731	9,530	Ahead of estimates as NIMs expand 25bp qoq; volumes remain muted
<i>yoy growth (%)</i>	43.5	19.2	15.6	8.8	22.2	30.3	19.0	23.3	
Non-interest income	1,236	1,491	1,471	1,597	1,516	5,477	6,501	7,332	Rs220mn of trading gains; Rs45mn last year
Fee income	1,191	1,391	1,331	1,347	1,296	5,177	5,901	7,082	Driven by higher wealth mgmt fees & recoveries
Net revenue	2,801	3,218	3,095	3,316	3,430	11,973	14,232	16,862	
Operating expenses	1,885	2,153	1,874	1,894	1,994	7,725	8,373	9,547	Employee expenses appear relatively higher due to yoy rise in retirement benefits. Other expenses flat yoy
<b>Operating profit</b>	<b>916</b>	<b>1,065</b>	<b>1,221</b>	<b>1,422</b>	<b>1,436</b>	<b>4,248</b>	<b>5,860</b>	<b>7,314</b>	
Provisions	216	216	455	487	626	1,302	2,168	2,622	Rs210mn pertains to one large restructured account; excess general provisions of Rs400mn
<b>PBT</b>	<b>700</b>	<b>849</b>	<b>766</b>	<b>935</b>	<b>810</b>	<b>2,947</b>	<b>3,692</b>	<b>4,692</b>	
Tax	230	329	274	332	275	1,059	1,292	1,642	
<b>PAT</b>	<b>470</b>	<b>520</b>	<b>491</b>	<b>603</b>	<b>535</b>	<b>1,888</b>	<b>2,400</b>	<b>3,050</b>	Lower than estimates due to higher provisions
<i>yoy growth (%)</i>	2.2	21.8	14.6	48.3	13.8	20	27	27	
<b>Ratios (%)</b>									
NIMs - reported	2.9	2.9	2.8	2.9	3.1				Buoyed by lower cost of funds, float from capital raised, and uptick in CASA
NIMs – calc*	2.4	2.5	2.1	2.2	2.6	2.3	2.3	2.4	
Non fund rev/Avg assets	1.9	2.1	1.9	2.1	2.0	1.9	1.9	1.9	
Prov/avg assets	0.3	0.5	0.6	0.6	0.8	0.5	0.6	0.7	Remains a key monitorable
Op Exp / Avg assets	2.9	3.1	2.5	2.5	2.7	2.7	2.5	2.4	
Cost/Net revenue	67.3	66.9	60.6	57.1	58.1	64.5	58.8	56.6	Operating leverage accrues over the year
RoA	0.7	0.7	0.6	0.8	0.7	0.7	0.7	0.8	
Tax/PBT	32.9	38.7	35.8	35.5	34.0	35.9	35.0	35.0	
CRAR	10.5	10.7	11.7	12.2	14.5				
Tier-I CRAR	6.7	7.0	6.9	7.4	9.7				Rs4.15bn of capital raised through QIP and preferential allotment
CD ratio	75.9	71.5	67.3	71.4	72.8				As term deposits retired (down ~6% qoq), CD ratio improves despite muted credit growth
<b>Balance Sheet (Rs bn)</b>									
Advances	158.7	160.1	167.5	161.5	163.8				Credit growth muted at 1.5% qoq reflecting the environment and cautious stance given rising NPLs
<i>yoy growth (%)</i>	26.3	19.4	14.3	11.9	3.3				
Deposit	209.0	224.0	248.9	226.1	225.0				flat qoq driven by ~6% de-growth in term deposits; Current up ~22% and Savings up by 5.5% qoq
<i>yoy growth (%)</i>	22.7	25.4	21.4	10.9	7.7				

\* On average quarterly balances

Exhibit 1: Margins expand...

%	Q2FY09	Q1FY10	Q2FY10	yoy chg	qoq chg
<b>Calculated*</b>					
Yield on advances	11.07	10.90	10.24	(0.83)	(0.66)
Yield on investments	6.71	5.47	5.38	(1.33)	(0.09)
Blended yield	9.78	8.88	8.52	(1.27)	(0.36)
Cost of funds	6.73	6.36	5.64	(1.09)	(0.72)
Loan spreads	4.33	4.54	4.60	0.26	0.06
Spreads	3.05	2.52	2.87	(0.18)	0.36
NIMs	2.37	2.24	2.58	0.20	0.34
<b>Reported</b>					
Yield on advances	11.17	11.26	10.51	(0.66)	(0.75)
Cost of deposits	6.67	6.35	5.47	(1.20)	(0.88)
Spreads	4.50	4.91	5.04	0.54	0.13
NIMs	2.87	2.85	3.10	0.23	0.25

- Deposit re-pricing, higher CASA and capital raised in Q2 lead to lower funding costs
- Yields come-off as asset re-price at lower rates

\* Calculated on average quarterly balances; # yoy and qoq change in basis points

Exhibit 2: ...CD ratio improves

Rs bn	Q2FY09	Q1FY10	Q2FY10	Incr qoq (% / bps)	yoy gwth (% / bps)	qoq gwth (% / bps)
Advances	158.7	161.5	163.8	2.3	3.3	1.5
Deposits	209.0	226.1	225.0	(1.1)	7.7	(0.5)
CD ratio (%)	75.9	71.4	72.8	1.4	(309.4)	(140.0)

- Credit growth muted reflecting the challenging macro-economic environment and management's cautious strategy
- Deposits also grown at a calibrated pace, with 6% qoq decline in term deposits. Consequently, CD ratio increases by 140bp qoq

Exhibit 3: Uptick in CASA

Rs bn	Q2FY09	Q1FY10	Q2FY10	Incr Qoq (% / bps)	yoy gth (% / bps)	qoq gth (% / bps)
Savings Deposits	31.4	35.1	37.1	1.9	18.2	5.5
Current Deposits	29.4	29.9	36.4	6.5	23.7	21.9
Term Deposits	148.2	161.1	151.5	-9.6	2.2	-6.0
<b>Deposits</b>	<b>209.0</b>	<b>226.1</b>	<b>225.0</b>	<b>-1.1</b>	<b>7.7</b>	<b>-0.5</b>
CASA ratio (%)*	29.1	28.8	32.7	3.9	357.92	391.45
CASA deposits	60.8	65.0	73.5	8.5	20.9	13.0

- Adjusted for quarter-end flows, CASA improved by 230bp qoq in Q2FY10 to 31.1%
- Saving deposits grew 5.5% qoq, term deposits down by 6% qoq

\* Adjusted for quarter-end current account flows, stands at 31.1% as of Sept '09

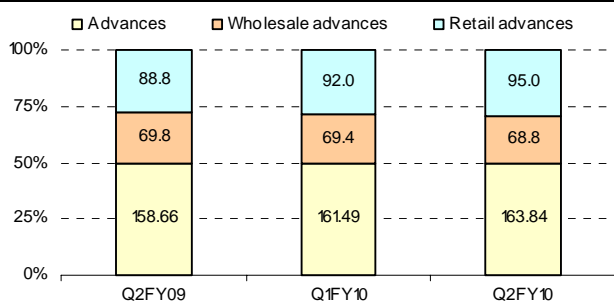
Exhibit 4: Fee income break-up (Rs mn)

Rs mn	Q2FY09	Q1FY10	Q2FY10	yoy gth (%)	qoq gwth (%)
Trade & CMS	220	210	200	(9.1)	(4.8)
Derivatives & Forex	175	260	180	2.9	(30.8)
Asset processing	245	150	230	(6.1)	53.3
Wealth management	150	110	200	33.3	81.8
Profit on sale of investments	45	250	220	388.9	(12.0)
Other income (liabilities & remittances)*	321	537	240	(25.2)	(55.3)
Recoveries & Misc	80	80	246	207.4	207.4
<b>Non-trading income</b>	<b>1,191</b>	<b>1,347</b>	<b>1,296</b>	<b>8.8</b>	<b>(3.8)</b>
<b>Total non-fund income</b>	<b>1,236</b>	<b>1,597</b>	<b>1,516</b>	<b>22.7</b>	<b>(5.1)</b>

- Non-trading income contributes ~44% of net revenue
- Growth buoyed by wealth management fees, higher recoveries and trading gains

\* balancing figure

Exhibit 5: Loan book composition stable (Rs bn)



- Loan mix stable qoq with retail comprising ~58% of total book
- ~3.3% yoy growth in advances, led by 7% yoy growth in retail book

Exhibit 6: Gross NPAs inch-up; coverage declines

	Q2FY09	Q1FY10	Q2FY10	yoy chg	qoq chg
Gross NPAs (Rs mn)	2,307	3,295	4,251	1,944	956
Gross NPA (%)	1.44	2.02	2.57	113	55
Net NPAs (Rs mn)	1,241	2,058	2,911	1,671	853
Net NPA (%)	0.78	1.27	1.78	100	51
Coverage (%)	46.2	37.5	31.5	(1,471)	(603)

- Gross NPAs and Net NPAs inch-up by 50-55bp qoq, while coverage declined by ~600bp qoq to 31.5%; Including write-offs and excess general provisions, the coverage ratio is higher
- Incremental restructurings remain low at Rs1.5bn (0.9% of net loans)

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