

## Investment idea

September 21, 2012

### ING Vysya Bank

**BUY**  
CMP ₹391

#### ING Vysya Bank (IVB) is on right track

Since 2009, IVB has emerged stronger with a structurally improved balance sheet and regional profile. Bank delivered earnings CAGR of 37% and RoA expansion of 30bps over FY10-12. In spite of increasingly challenging macro, we believe IVB would continue to perform well due to following

**Robust loan profile:** Pre-dominantly a working capital bank in wholesale/SME segments (combined ~75% of book). Well-diversified credit profile with low exposure to ailing sectors. Largely secured retail book.

**Resilient NIM outlook:** Portfolio spread has displayed impressive resilience. CASA ratio to improve driven by acceleration in savings growth. Favorable product mix shift and decline in wholesale rates to also support margin.

**Huge headroom for opex leverage:** Shedding of legacy-related employee cost and productivity improvement to drive lower-than-asset opex growth. Cost/income ratio expected to improve from 59% in FY12 to 54% by FY14.

**Strong asset quality:** Gross NPL ratio declined sharply over FY10-12 aided by benign slippages. Restructuring has been minimal (~1.4% of loans). Outlook on slippages/restructuring remains non-perturbing.

**Comfort from high PCR:** Counter-cyclical buffer build over past two years (PCR at 90%); Net NPL/Networth at just 1.3%. Opex leverage benefits to fully transmit to bottomline; earnings to witness a brisk 23% CAGR over FY12-14.

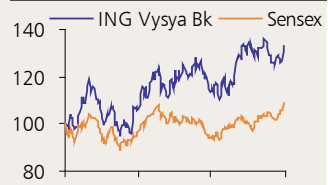
**Secular RoA improvement:** Stable margins, decline in cost/income ratio and modest credit cost to underpin continued RoA expansion. Most banks are facing a declining RoA curve. Bank well-capitalized with Tier-1 ratio at 10.7%.

#### IVB fits in our theme of 'Buying Certainty' v/s 'Buying Valuation'

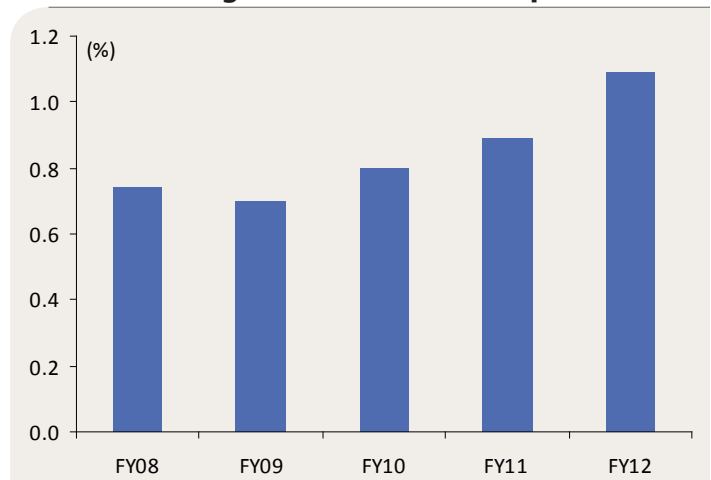
Despite structural RoA improvement and displaying an impressive resilience in asset quality, IVB's valuation has remained subdued. We believe an improving RoA metric differentiates the bank from most others and therefore stock valuation could see a sharp re-rating in the medium term. IVB fits in our theme of 'Buying Certainty' v/s 'Buying Valuation' in the sector as we see increasing challenges both on growth and asset quality front.

Investment comfort is further reinforced by critical similarities IVB shares with HDFC Bank viz. lower exposure to project loans/stressed industries, lesser accretion in stressed assets, resilient NIM/fee income franchise, high PCR/negligible Net NPL ratio, low stock of restructured assets and resilient earnings growth outlook. While high preference for certainty has enriched valuation of few large private banks, IVB has been ignored despite robust fundamentals. Initiate coverage with a BUY rating and 9-month price objective of ₹460 based on a target multiple of 1.45x FY14 P/adj.BV. IVB is also our Top Pick in mid-cap banking universe.

Sector: Financials		Shareholding pattern	
BSE code:	531807	June'12	(%)
NSE code:	INGVYSYABK	Promoters	43.7
52 Week h/l (₹):	405 / 275	Institutions	39.1
Market cap (₹cr):	5,762	Non promoter corp	5.3
FV (₹):	10	Public & others	11.8

Performance rel. to sensex				Share price chart	
(%)	1m	3m	1yr		
ING Vysya Bk	(5.2)	2.5	24.2	Sep-11	Jan-12
YES Bank	(1.3)	(1.2)	19.8	May-12	Sep-12
HDFC Bank	(0.2)	5.2	16.0		
ICICI Bank	4.4	14.4	8.9		

#### RoA has seen significant structural improvement



Source: Company, India Infoline Research

#### Financial summary

Y/e 31 Mar (₹ m)	FY11	FY12	FY13E	FY14E
Total operating income	16,615	18,781	21,818	25,688
Yoy growth (%)	14.6	13.0	16.2	17.7
Pre prov op. profit	6,355	7,679	9,495	11,763
Net profit	3,187	4,563	5,545	6,911
yoy growth (%)	31.6	43.2	21.5	24.6
EPS (₹)	26.3	30.4	36.9	46.0
Adj. BVPS (₹)	200.6	254.6	283.0	317.8
P/E (x)	14.5	12.5	10.3	8.3
P/Adj.BV (x)	1.9	1.5	1.3	1.2
ROE (%)	13.4	14.3	13.5	14.9
ROA (%)	0.9	1.1	1.1	1.1

Source: Company, India Infoline Research

# India Infoline Weekly Wrap

## Market Outlook

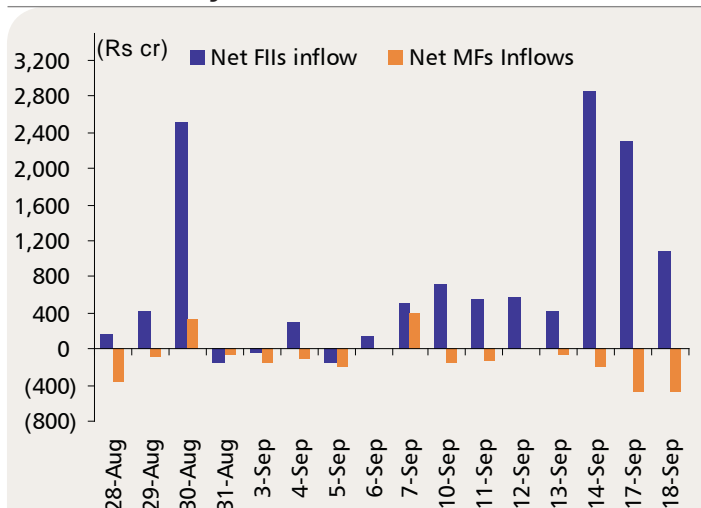
Indian stocks ended near 52-week highs on the back of a ~2% surge on Friday. Indian stock indices were among the best-performing ones globally. This week's ascent can be attributed entirely to the Government's new-found enthusiasm on economic reforms. Last week's announcements were followed up with formal notification of FDI norms for various sectors.

The Government also slashed withholding tax on overseas borrowings to attract critical foreign capital flows, besides approving an equity market scheme for smaller investors. The rupee too benefited from the UPA's reforms push.

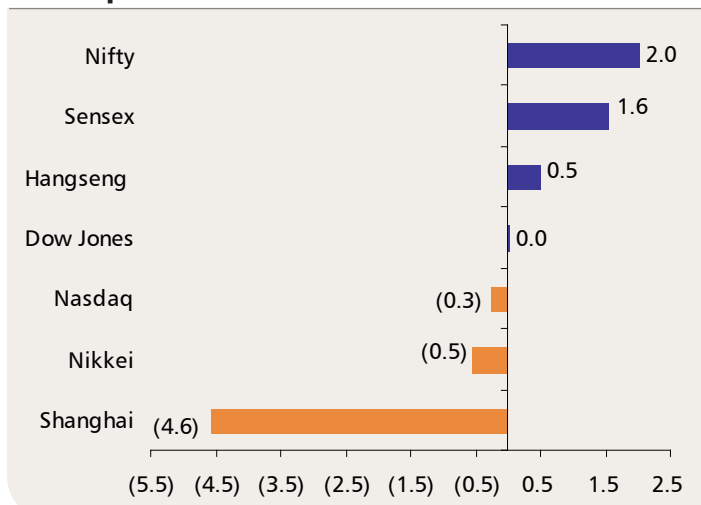
The issue of UPA Government's stability was also settled after the Samajwadi Party said it will support the Congress-led regime from outside. With the troublemaker TMC out of the way, the Government seems all the more emboldened to go ahead with pending reforms. Markets could rise further if the bottlenecks to fresh domestic investments are removed. Global markets also need to be supportive.

However, one must be careful as inflation remains sticky and the RBI may take a while before slashing rates. The external situation also remains fragile, especially in Europe and China.

### FII/MFs activity



### Global performance



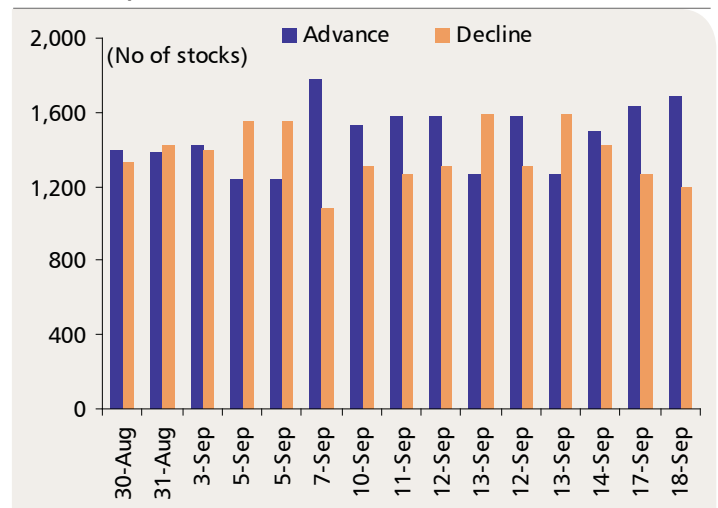
### Technical View

Markets for the week made smart comeback on Friday on back of renewed political strength in the center, which led to Nifty closing at 52 week high. Indian market has been outperforming the global markets due to acceleration in reform process and 5450 has evolved as new support for the markets with resistance seen at 5800 levels in the near term. Coming week, the trend would be decided by global cues and profit booking is not ruled out near 5800 levels.

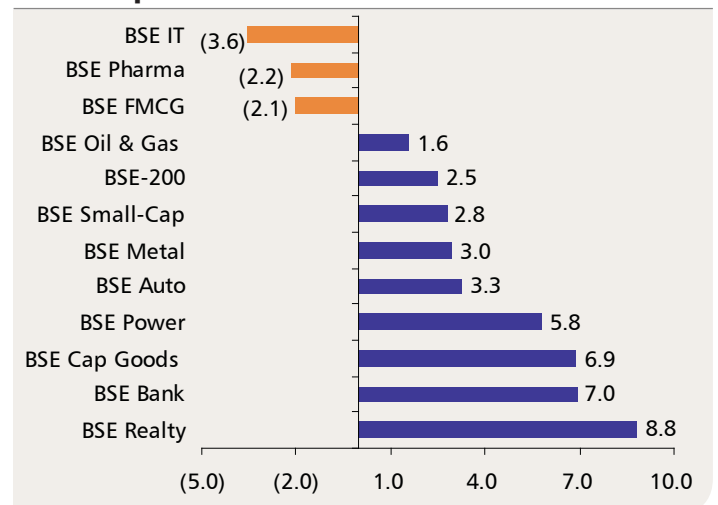
### F&O View

Nifty rallied almost 7-9% in this September contract. The weighted average price for Nifty is at 5360 and Bank Nifty at 10400. Huge index options of around 100bn in September by FII followed by spike in VIX to 19 implies VIX can rally up to 23 in the short term. Huge put buying of around 2mn was seen in Nifty sep 5700. We expect Nifty to trade in 5800-5500 in the short term.

### Advance/Decline



### Sectoral performance



# India Infoline Weekly Wrap

## Technical Check

### Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
RCOM	62	21.4	Jyoti Structures	48	29.6
PNB	837	18.1	Canara Bank	430	26.0
RPower	95	16.4	Union Bank India	201	21.8
Reliance Infra	544	15.5	Lanco Infra	14	21.7
Jindal S&P	427	14.4	Kemrock Inds	98	21.4
BHEL	232	13.5	RCOM	62	21.4
Reliance Cap	400	13.5	IFCI	33	20.6
JP Assoc	83	13.0	HDIL	88	20.5
SBI	2,213	12.3	PTC India	66	20.2
Axis Bank	1,125	11.4	Ansal Prop.	30	19.9

### Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
TCS	1,304	(7.7)	Tulip Telecom	53	(18.5)
Dr Reddy	1,644	(5.9)	Panacea Biotech	117	(18.5)
Wipro	378	(3.5)	DCHL	10	(9.2)
HUL	530	(3.3)	MTNL	38	(7.9)
ITC	262	(2.5)	TCS	1,304	(7.7)
HCL Tech	570	(2.2)	Amtek India	91	(7.3)
Cipla	361	(2.2)	Dr Reddy	1,644	(5.9)
Ranbaxy Lab	531	(1.8)	ERA Infra	132	(5.2)
Infosys	2,593	(1.5)	HSIL	118	(4.9)
Cairn India	350	(1.4)	Glaxosmithkline	2,923	(4.8)

### Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Indian Hotel	63	61	1.2	0.6
Essar Oil	52	50	8.0	4.3
NMDC	197	190	1.0	0.4
Exide Ind.	149	144	2.4	1.0
Reliance Ind.	850	817	7.4	4.9

### Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Cipla	361	376	4.3	2.6
Nestle India	4350	4522	1.1	0.0
Balrampur Chini	65	68	4.6	1.8
Colgate Pal.	1191	1228	0.2	0.1
Opto Circuits	130	134	4.4	4.0

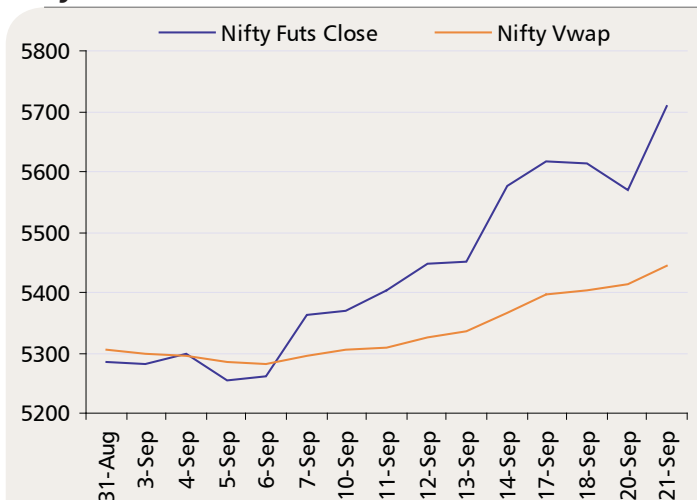
### Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price (₹)
17-Sep	Citigroup Global	HDIL	B	42.1	80.0
18-Sep	Reliance MF	Supreme Infra	B	1.9	285.0
18-Sep	Swiss Fin Mauritius	TTK Prestige	B	0.6	3,846.0
20-Sep	GMO Energizing	Kajaria Ceramics	B	8.9	179.0

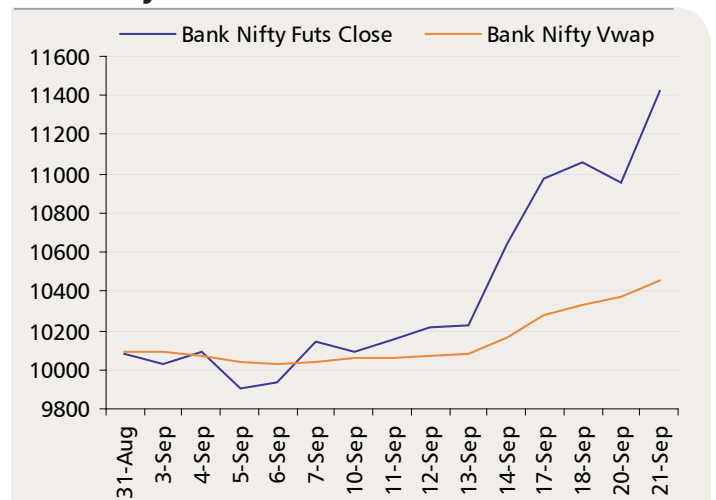
### Book closure and record date

Company	Date	Purpose
Amara Raja	25 Sep 2012	Stock Split
Shiv Vani Oil	25 Sep 2012	Dividend
Rajesh Exports	26 Sep 2012	Dividend
Acrysil	27 Sep 2012	Bonus 1:2
Hester Bio	27 Sep 2012	Bonus 1:2
Tantia Construction	28 Sep 2012	Dividend

### Nifty Future VWAP



### Bank Nifty Future VWAP



# India Infoline Weekly Wrap

## Commodity Corner

### Base metals

LME traded firm this week, underpinned by ECB initiative of unlimited bond buying programme and monetary expansion by the US Federal Reserve. However, flow of manufacturing activity across the globe has not been supportive for the complex. In the meantime, International Lead & Zinc Study Group has reported that global zinc and lead markets were in surplus by 135,000 and 49,000 tons respectively during the first seven months of this year. Slowing demand across the globe has kept most of the non-ferrous physical markets in over supplied conditions.

Looking ahead, we tend to remain cautious on the non-ferrous complex, as the recent gains could fade, considering the subdued economic growth in the world's largest metal consuming nation. We infer that the prevalent macroeconomic landscape will take charge of the situation, especially after the easing euphoria fades away.

### Precious metals

Precious metals traded uneventful this week after the impressive performance during the recent sessions. The complex has garnered strength from US Federal Reserve decision to expand its balance sheet aggressively. In addition, gold remains underpinned by the monetary policy initiative from the Bank of Japan. The apex body has unexpectedly announced that it would expand its asset-purchase fund by US\$126bn. The bank also said it will abandon minimum yield targets for its monthly government-bond purchases, implying that negative yields on Japanese debt.

Gold is the best hedge against monetary expansion and inflation. In the prevalent scenario, economic regimes across the globe are expanding monetary supply in order to stimulate slumping growth. Such conditions are congenial for the yellow metal to trade firm in the medium-long term horizon. However in the near term, gold prices face a stiff resistance around US\$1,793/ounce levels and a breach of these levels on a closing basis can only ascertain extension of an uptrend in the near term.

*Note: This market commentary is written at 12:30 PM IST*

### LME prices

Base Metals (US\$/ton)	High	Low	LTP*	Chg(%)
Copper	8,422	8,176	8,270	(1.3)
Nickel	18,236	16,921	17,895	0.7
Zinc	2,154	2,041	2,110	(0.3)
Aluminium	2,200	2,100	2,110	(4.1)
Lead	2,307	2,179	2,265	-

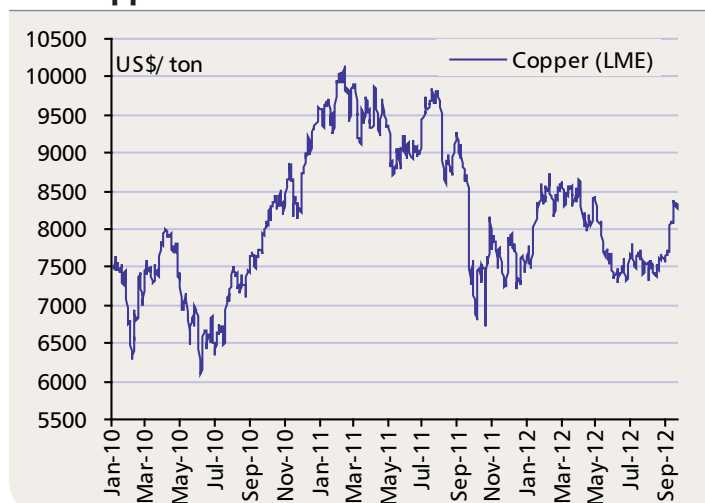
Precious Metals (US\$/ounce)	High	Low	LTP*	Chg(%)
Spot Gold	1,780	1,752	1,773	0.2
Spot Silver	35	32	35	2.8

\* Last Traded Price

### Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	219,475	2,300	1.1
Nickel (LME)	120,852	(24)	(0.0)
Zinc (LME)	976,900	49,750	5.4
Aluminium (LME)	5,085,850	76,875	1.5
Lead (LME)	283,625	(9,575)	(3.3)
Tin (LME)	11,990	115	1.0
Shanghai Copper	166,829	10,428	6.7
Shanghai Zinc	302,325	(75)	(0.0)
Shanghai Aluminium	396,475	9,299	2.4

### LME Copper



### COMEX Gold



# India Infoline Weekly Wrap

## Mutual Fund Round-up

### India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on Sep 21, 2012							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200(G)	10,692	207.5	3.6	4.5	7.3	3.7	6.9	(6.8)	24.1	54.3
ICICI Pru Dynamic(G)	4,130	110.0	1.7	3.8	7.3	4.4	11.2	1.8	34.9	47.1
IDFC Sterling Equity(G)	1,061	19.7	(0.6)	1.4	9.2	8.7	8.2	(0.9)	49.3	-
Fidelity Tax Advt(G)	1,203	22.0	1.1	3.0	8.4	4.6	5.5	(6.3)	32.4	42.2
HDFC Prudence(G)	6,356	221.1	3.0	3.7	5.6	3.8	6.5	1.2	40.8	66.3
Reliance Equity Oppor-Ret(G)	3,193	39.9	2.2	3.3	10.5	10.8	16.5	3.0	58.2	63.7
IDFC Premier Equity-A(G)	2,345	34.9	0.9	3.3	8.1	6.5	6.4	(1.5)	50.0	85.4

### Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	99.2
Latest NAV	₹207.5	Debt	0.0
NAV 52 high/low	₹218.7/168.1	Cash/call	0.8
Latest AUM (cr)	₹11,190	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	8.2
Class	Equity - Diversified	ICICI Bank Ltd.	6.7
Options	Growth & dividend	ITC Ltd.	6.2
Min investment	₹5,000	Infosys	5.2
Benchmark	BSE 200	Larsen & Toubro	4.0
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Banks	26.7
Expense ratio	1.8%	Energy	13.9
Exit load	1% before 1 year	FMCG	8.5

### Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Shailesh Raj Bhan	Equity	97.4
Latest NAV	₹39.9	Debt	0.0
NAV 52 high/low	₹40.3/29.3	Cash/call	2.6
Latest AUM (cr)	₹3,473	Top 5 holdings (%)	
Type	Open-ended	Divi's Labs	7.8
Class	Equity - Diversified	HDFC	6.8
Options	Growth, Dividend & Bonus	SBI	4.9
Min investment	₹5,000	ICICI Bank	4.6
Benchmark	BSE 100	Infosys	3.9
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Healthcare	14.7
Expense ratio	1.85%	IT	11.8
Exit load	1% before 1 year	Banks - Private	7.3

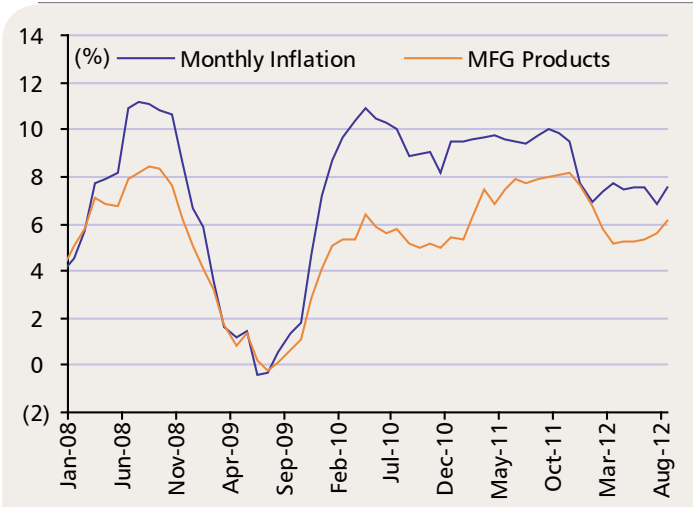
### NFO update

Fund Name	Close	Type	Class
Principal Pnb Fixed Maturity Plan - Series B2 - 1098 Days	25-Sep	CE	Debt
DWS Fixed Maturity Plan-Series 16	26-Sep	CE	Debt
JPMorgan India Fixed Maturity Plan Series 502	28-Sep	CE	Debt

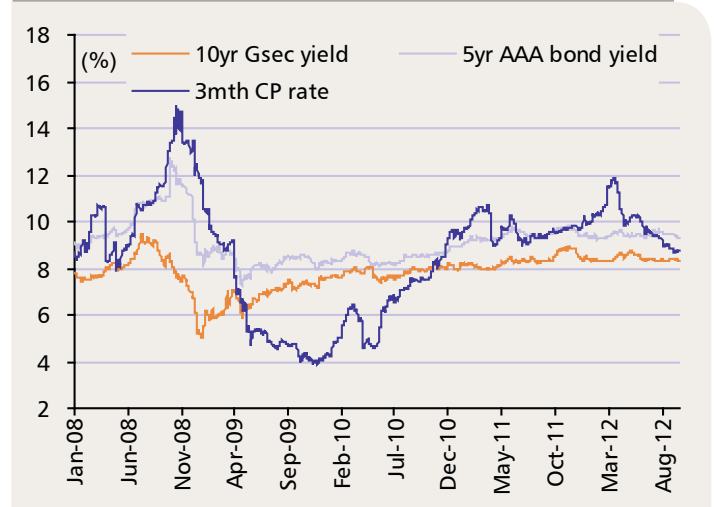
# India Infoline Weekly Wrap

## Chartbook

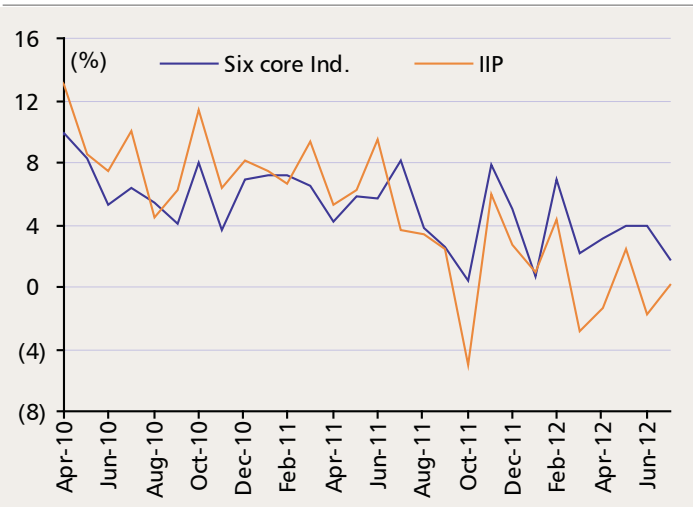
### Inflation



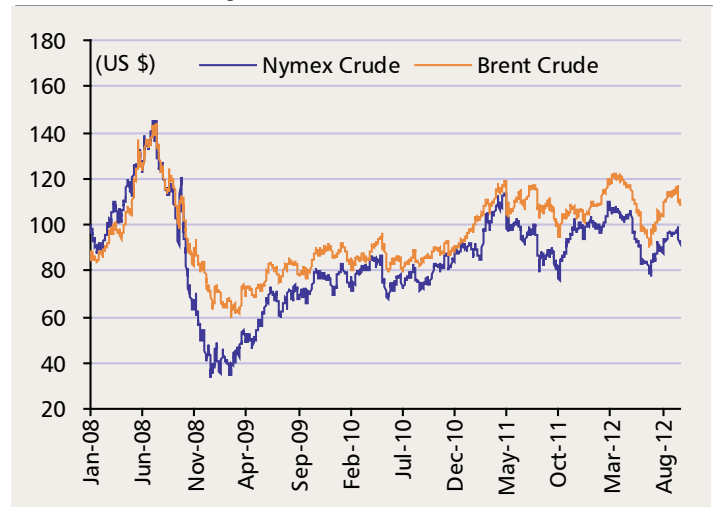
### Interest Rate



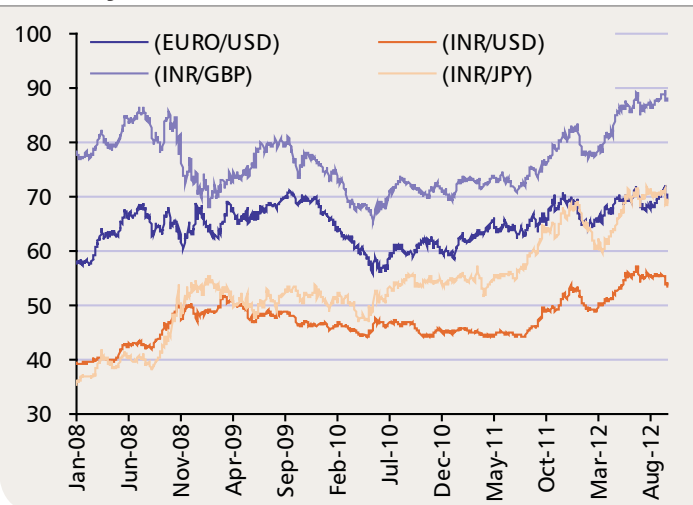
### IIP and Six core Industries



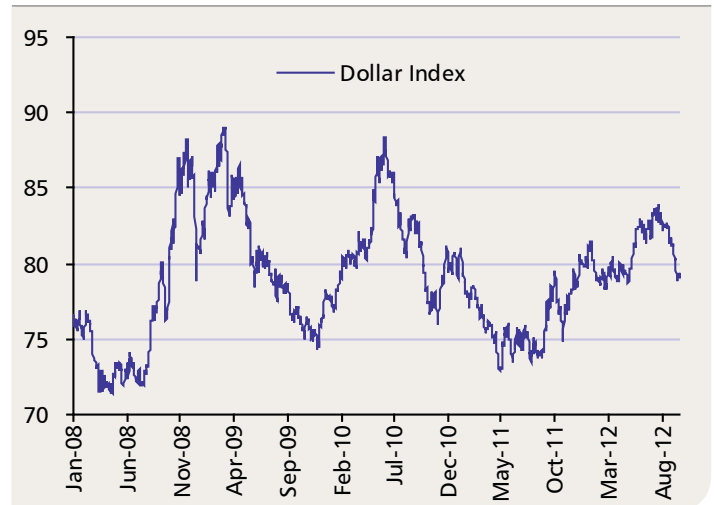
### Crude (Brent/ Nymex)



### Currency Movements



### Dollar Index

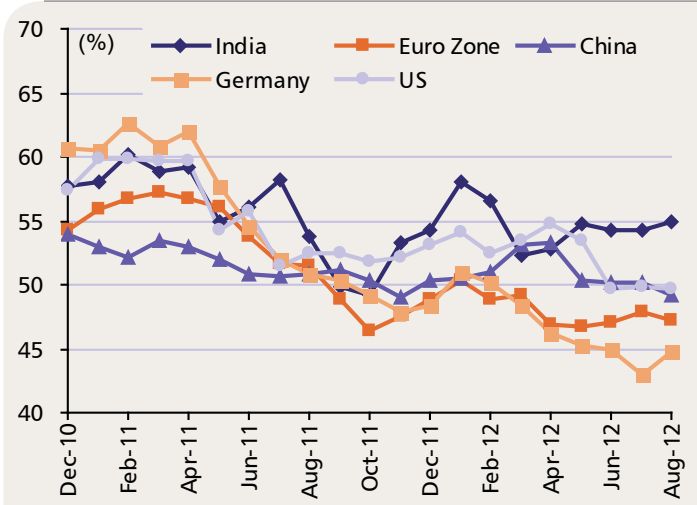


Source: Bloomberg

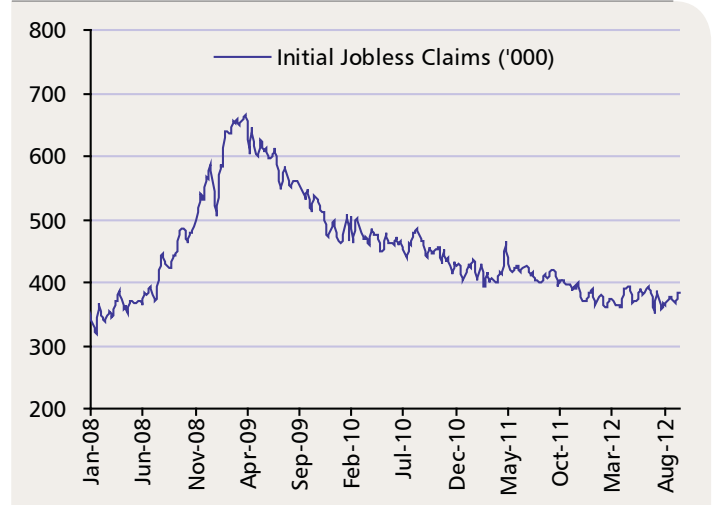
# India Infoline Weekly Wrap

## Chartbook...

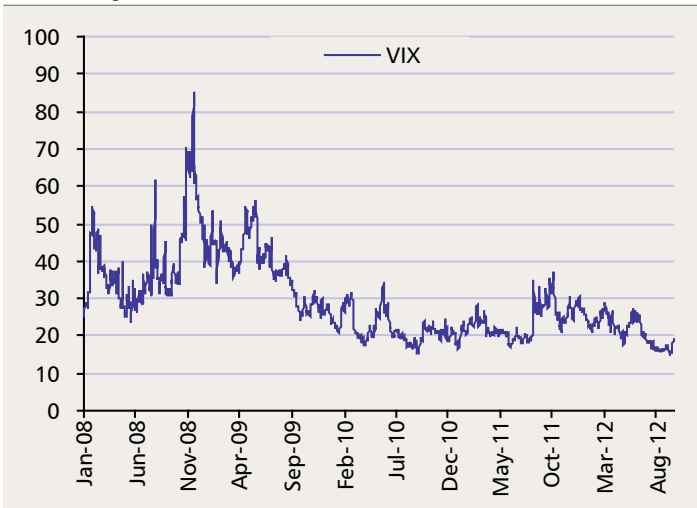
### PMI



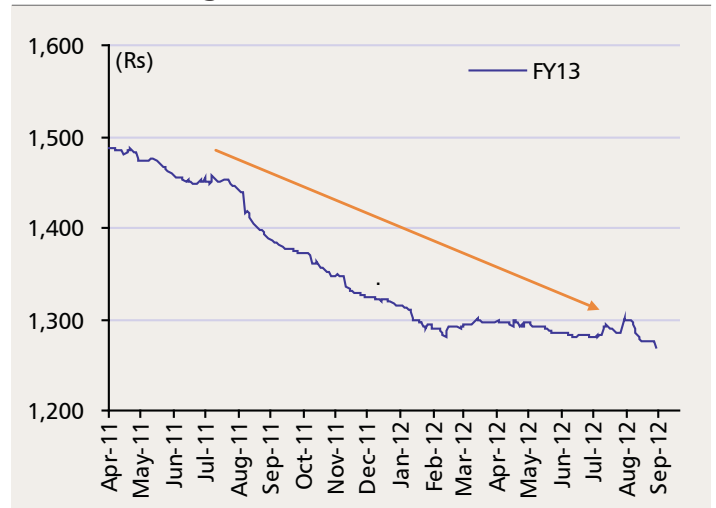
### US Initial Jobless Claims



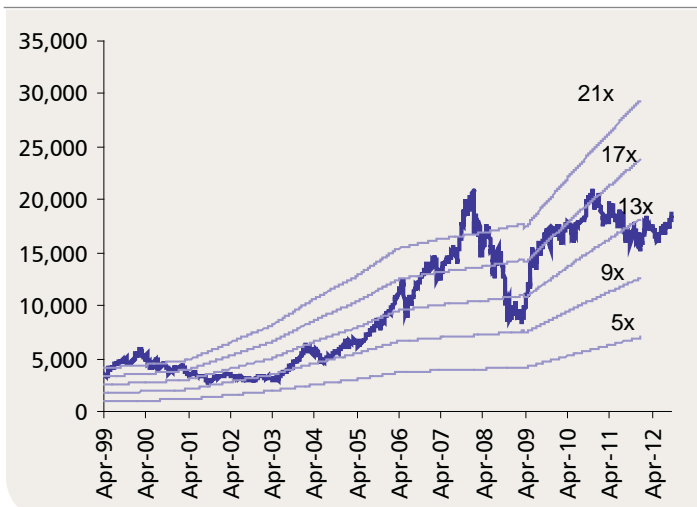
### Volatility Index



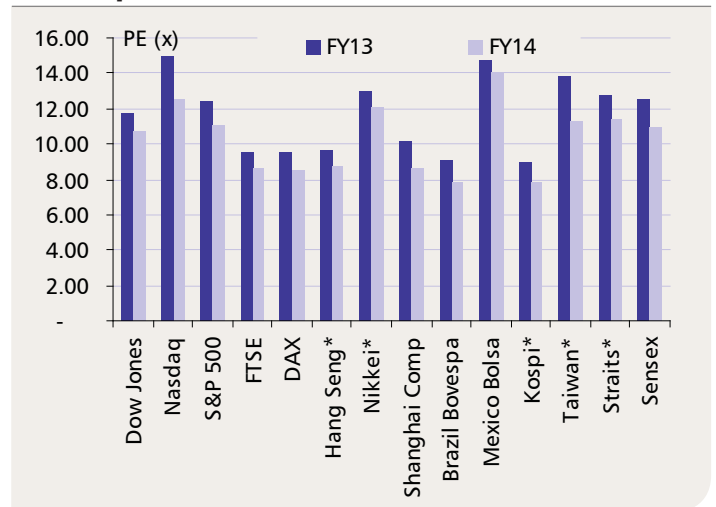
### Sensex Earning Estimates



### Sensex PE Band



### PE Comparison



Source: Bloomberg

# India Infoline Weekly Wrap

## News Recap

RBI cut CRR by 25 bps to ease the liquidity conditions while holding the repo rate steady citing sticky inflation. India Inc. was once again disappointed with the RBI's move. The Government formally notified FDI in Retail, Aviation, Broadcasting & Power Exchanges, reaffirming commitment to a renewed reforms drive. The NDA sponsored all-India Bandh against UPA's reforms received mixed response even as **Mulayam Singh said the Samajwadi Party will support UPA govt from the outside** to keep communal forces at bay.

**Trinamool Congress ministers in the Union Cabinet submitted their resignations to the Prime Minister** in protest against the fuel price hike and FDI in multi-brand retail. "We need to revive investments to achieve 12th Plan target of 8.2% GDP growth, the PM said. The Finance Minister said that Government's spending on major subsidies is likely to rise to 2.4% of GDP. **Q2 advance tax mop-up by Top 100 firms went up by 10% YoY. India's CPI inched back above 10% in August mainly due to a sharp uptick in vegetable prices.**

Govt cleared nine road projects worth ₹ 115.97bn while reports said that the Centre is also mulling a stake sale in NTPC. The inter-ministerial group (IMG) de-allocated coal blocks allocated to Ambuja Cements, Grasim and others. Jairam Ramesh sought fast-track courts to settle land issues

in Naxal areas. The IRDA issued draft IPO norms for general insurers. **Vodafone said it is ready to pay ₹ 80bn to settle the long-standing tax row with the Indian Govt.** Hindalco Industries said it has achieved a financial closure for its Aditya Aluminium project while Reliance Infrastructure launched cement under brand name "Reliance Cement". Tata Motors Group global wholesales grew by 13%. Tata Motors also launched six first-of-its-kind Heavy Trucks.

Tata Motors won an order for 1314 trucks from Siddhivinayak Logistics while Mahindra group announced a strategic partnership with LeapFrog for providing insurance to under-served consumers. **RCOM shares spurted on a 25% tariff hike.** Geometric gained as Rakesh Jhunjhunwala bought additional stake. Future Ventures acquired Express Retail for ₹ 613.5mn. Mahindra unveiled Quanto, its first ever compact SUV.

**China's 'flash' manufacturing PMI improved slightly** while the Eurozone composite PMI shrank further in September. **The Bank of Japan announced additional monetary stimulus.** Japan's exports fell for a third straight month while the trade gap widened.

## Event Calendar

### Period : 24<sup>th</sup> – 28<sup>th</sup> September

#### US

- Sep Consumer Confidence (25 Sep)
- Q2 GDP QoQ (27 Sep)
- Aug Pending Home Sales YoY (27 Sep)

#### China

- Sep HSBC Flash Manufacturing PMI (22-25 Sep)
- MNI September Business Sentiment Indicator (28 Sep)

#### Eurozone

- Aug Euro-Zone M3 (27 Sep)
- Sep Euro-Zone Consumer Confidence (27 Sep)
- Sep Euro-Zone CPI Estimate YoY (28 Sep)

### Period : 1<sup>st</sup> – 5<sup>th</sup> October

#### US

- Sep ISM Manufacturing (1 Oct)
- Minutes of FOMC Meeting (3 Oct)
- Sep Change in Nonfarm Payrolls (5 Oct)
- Sep Unemployment Rate (5 Oct)

#### India

- **Aug Exports & Imports YoY% (1 Oct)**
- **Aug CPI YoY (18 Sep)**
- **India September Markit Services PMI (4-5 Oct)**

#### China

- Sep Manufacturing PMI (1 Oct)
- Sep HSBC Manufacturing PMI (1 Oct)

#### Eurozone

- Aug Euro-Zone Unemployment Rate (1 Oct)
- Aug Euro-Zone PPI YoY (2 Oct)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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