

4 September 2012

ING Vysya Bank

Key takeaways from management meet

From our recent interaction with the ING Vysya management, we gather that it remains focused on higher-than-industry credit growth, productivity improvement and maintaining robust asset quality. On an enhanced RoE of ~16.9% by FY15e (14.2% in FY12), we reiterate a Buy.

- Better-than-industry credit growth guidance.** Management remains confident of achieving higher-than-industry credit growth. We expect its credit to grow at 22% in FY13, with a positive bias towards retail loans, wherein the bank has recently introduced three new retail products viz. gold loans, new CV finance and personal loans.
- Focus on productivity, leverage existing setup.** Cost-income and cost-assets in FY12 at 59.1% and 2.6%, respectively, are higher than peers with significant scope for improvement. With investments towards, creation of a pan India network and robust systems, almost over, the bank intends to bring down its cost-income to ~50% by FY15 by leveraging its existing infrastructure. We expect asset growth to outpace operating expenses growth, with cost-assets improving to 2.3% by FY15.
- Stable asset quality, adequate capitalization.** Asset quality has remained largely stable despite deterioration in the macro economy. This is attributable to better underwriting standards, conscious policy decision of zero exposure to airlines, oil and project finance, and no bilateral restructuring. Management is confident on its telecom exposure, completely backed by guarantees. Additionally, best-in-class NPA coverage (91%) will hold the bank in good stead. Capital adequacy of 13.4% (Tier-1: 10.7%) is sufficient to sustain a 23.3% loan CAGR over FY12-15e.
- Valuation.** At our Sep '13 price target, the stock would trade at a PABV of 1.6x FY13e and 1.4x FY14e. Our target is based on the two-stage DDM (CoE: 15.0%; beta: 0.8; Rf: 8.0%). **Risk:** Slower-than-expected economic growth could impair loan growth and credit quality.

Key financials (YE Mar)	FY11	FY12	FY13e	FY14e	FY15e
Net interest income (₹m)	10,065	12,084	15,340	19,013	23,713
PAT (₹m)	3,186	4,563	5,845	7,261	9,356
EPS(₹)	26.3	30.4	38.2	47.0	59.9
EPS Growth (%)	30.4	15.4	25.6	23.0	27.6
PE (x)	13.9	12.0	9.6	7.8	6.1
PABV (x)	1.7	1.4	1.3	1.1	1.0
RoE (%)	13.8	14.2	13.8	15.1	16.9
RoA (%)	0.9	1.1	1.1	1.1	1.2
Dividend yield (%)	0.8	1.1	1.2	1.4	1.5
Net NPA (%)	0.4	0.3	0.4	0.4	0.4

Source: Company, Anand Rathi Research

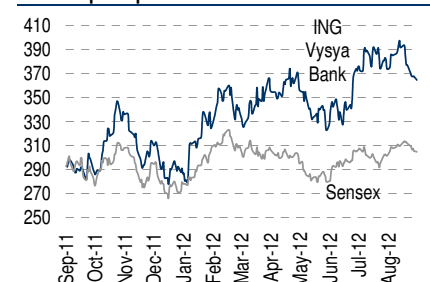
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Rating: **Buy**
 Target Price: ₹449
 Share Price: ₹365

Key data	VYSB IN / VYSA.BO
52-week high / low	₹414 / ₹275
Sensex / Nifty	17384 / 5254
3-m average volume	US\$0.5m
Market cap	₹56bn / US\$1m
Shares outstanding	151.1m

Shareholding pattern (%)	Jun-12	Mar-12	Dec-11
Promoters	43.7	43.8	43.8
- of which, Pledged	-	-	-
Free Float	56.3	56.2	56.2
- Foreign Institutions	25.2	25.2	25.2
- Domestic Institutions	13.9	13.7	12.8
- Public	17.2	17.3	18.2

Relative price performance



Source: Bloomberg

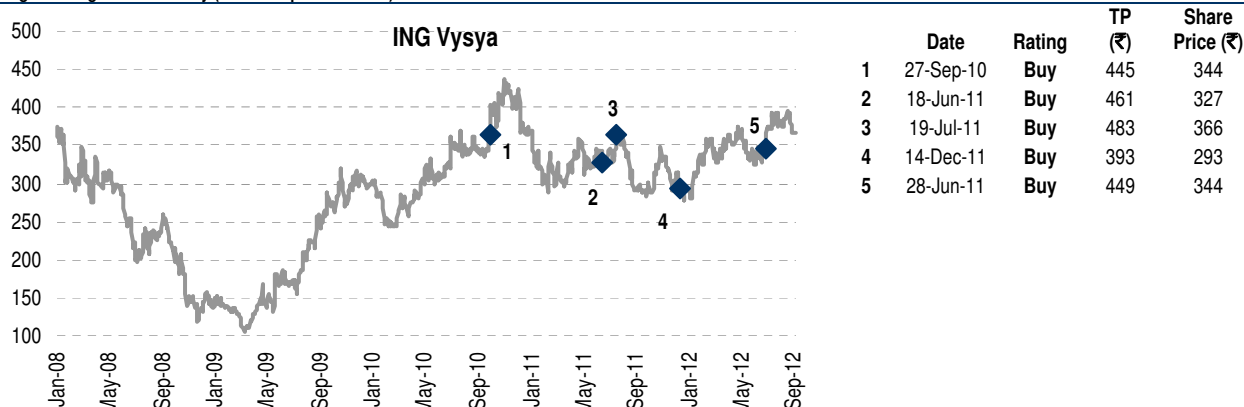
Appendix

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Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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	Buy	Hold	Sell
Anand Rathi Research stock coverage (127)	74%	13%	13%
% who are investment banking clients	5%	6%	0%

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