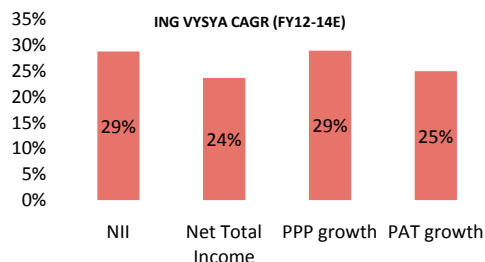


Banking
Sector Outlook - Neutral



Recommendation	Not Rated
CMP (₹)	355
Price Target (₹)	NR
Upside (%)	NR
52 Week H / L ₹	379/275
BSE 30	17170

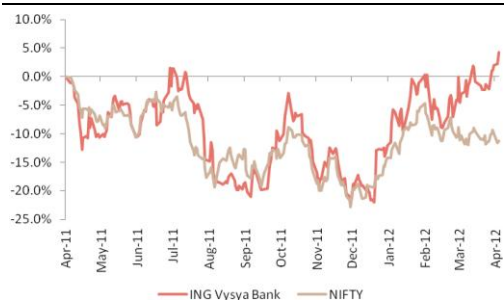
Key Data

No. of Shares, Mn.	150
Mcap, ₹ mn	53286
Mcap, USD Mn @ ₹50	1066
2 W Avg Qty, (BSE+NSE)	93700

Share holding, Mar'12

Promoters	43.8
FII	25.2
DII	13.7
Public & Others	17.3

Performance	1 M	3 M	6 M	12 M
Stock Return %	7.5	13.4	15.9	4.3
Relative Return %	8.6	11.5	13.5	15.6



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ING Vysya Bank reported a PAT of ₹1273.9 mn up 40% yoy and 7% qoq. Bottom-line stood in line with our expectations. NII came off by 1.4% qoq due to a 20 bps sequential deterioration in the NIM which was largely seasonal in nature. Provisions increased sequentially despite asset quality improvement as the bank used one off tax deductions to shore up its coverage ratio.

NIM compresses by 20 bps sequentially

ING Vysya Bank reported a NIM of 3.3% for Q4FY12, which was a sequential NIM compression of 20 bps. The NIM deterioration was largely seasonal in nature on account of priority sector lending and subscription to RIDF bonds which led to a 9 bps qoq decline in the yield on advances. In FY13, the NIM is likely to be in line with that of the previous year.

Strong loan book growth led by PSL lending

Advances grew by 22% yoy and 9.3% qoq. Sequential loan book growth was led by the agricultural and rural banking business which grew by 18% yoy on account of priority sector lending. On a yoy basis loan book growth was led by the business banking division. Going ahead the loan book will continue to grow ahead of the industry.

Non-interest grows on the back of growth in forex and core fee income growth

Non-interest income increased by 15.4% yoy and 15.8% qoq. The increase in other income was on account of a strong growth in forex and core fee income.

Asset quality improves sequentially

The asset quality of the bank improved sequentially with %GNPAs coming off by 8 bps qoq though up 4.6% qoq on an absolute basis. Slippages came off sequentially and stood at ₹600 mn or a slippage rate of 0.9%. The bank used the onetime tax benefits that accrued to it during the quarter to shore up its provision coverage ratio. Hence provisions increased by 69% qoq which led to a 569 bps improvement in the PCR to 90.7%. Due to higher provisions, NNPAs came off by 35% qoq and %NNPAs came off by 12 bps sequentially to 0.2%. The bank has managed to maintain its asset quality despite strong growth in its SME portfolio.

Restructured book at 1.4% of advances

The banks restructured book stood at 1.4% of advances which stood largely in line with that of the previous quarter.

Valuation and view

At the CMP of ₹355 the bank trades at 1.3x its FY13E ABV and 1.1x its FY14E ABV. At these valuations the bank trades below its long term one year forward P/ABV multiple. The bank is a strong re-rating candidate given its sound asset quality and improving cost to income ratios which will lead to an improvement in return ratios going ahead.

Financials	NII ₹mn	PAT ₹mn	ABV ₹	P/E x	P/ABV x	ROA %	ROE %
FY10	8,298	2,422	166.8	17.6	2.1	0.7%	12.0
FY11	10,065	3,186	200.7	13.5	1.8	0.9%	12.9
FY12P	12,084	4,563	254.7	11.7	1.4	1.1%	13.8
FY13E	16,768	5,891	283.7	9.0	1.3	1.1%	13.9
FY14E	20,054	7,127	319.6	7.5	1.1	1.2%	14.8

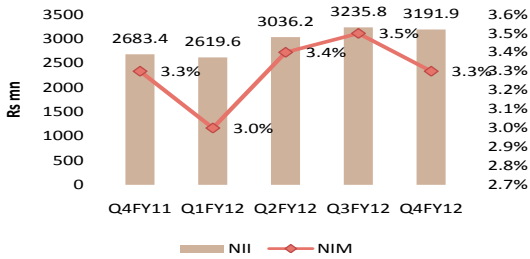
Source: Company, Sunidhi Research



NIM compresses by 20 bps sequentially

ING Vysya Bank reported a NIM of 3.3% for Q4FY12, which was a sequential NIM compression of 20 bps. The NIM deterioration was largely seasonal in nature on account of priority sector lending and subscription to RIDF bonds which led to a 9 bps qoq decline in the yield on advances. In FY13, the NIM is likely to be in line with that of the previous year.

Exhibit 1: Trend in NII and NIM



Source: Company, Sunidhi Research

Exhibit 2: Trend in yields and costs

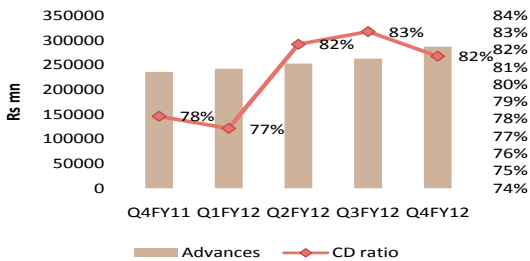
Yield /Cost	Q4FY12	Q4FY11	yoy bps	Q3FY12	qoq bps
Yield on advances - C	11.4%	10.5%	94	11.5%	-9
Yield on Inv - C	9.0%	6.6%	236	8.8%	18
Yield on Assets - C	9.4%	8.2%	122	9.4%	0
Cost of Funds - C	7.6%	6.1%	149	7.4%	22
NIM - C	3.2%	3.2%	1	3.5%	-27
NIM - R	3.3%	3.3%	-1	3.5%	-20

Source: Company, Sunidhi Research

Strong loan book growth led by priority sector lending

Advances grew by 22% yoy and 9.3% qoq. Sequential loan book growth was led by the Agri and rural banking business which grew by 18% yoy on account of priority sector lending. On a yoy basis loan book growth was led by the business banking division. Going ahead the loan book will continue to grow ahead of the industry.

Exhibit 3: Trend in loan growth and CD ratio



Source: Company, Sunidhi Research

Exhibit 4: Trend in loan book mix

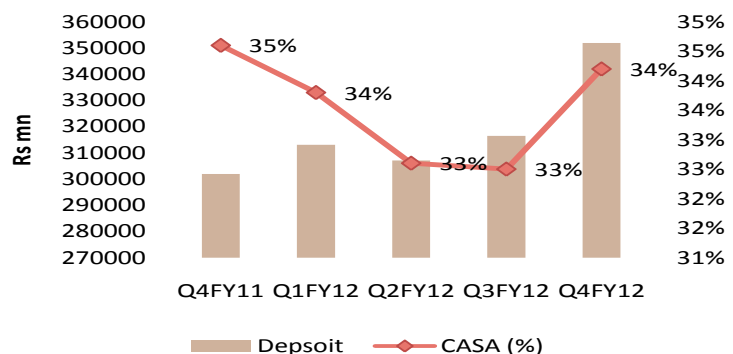
Advances (₹ mn)	Q4FY12	Q4FY11	yoy	Q3FY12	Qoq
Wholesale	122131.8	98657.9	23.8%	112294.2	8.8%
Business Banking / SME	91095.2	66086.0	37.8%	81525.0	11.7%
Consumer Banking	57761.7	54285.9	6.4%	55753.6	3.6%
Agri & Rural Banking	16093.5	16994.5	-5.3%	13675.2	17.7%
Total	287367.7	236021.4	21.8%	262984.0	9.3%

Source: Company, Sunidhi Research

CASA improves sequentially

The bank reported a deposit growth of 16.6% yoy and 11.2% qoq. CASA deposits grew by 17% qoq which led to a sequential improvement in the CASA ratio to 34.2% from 32.5% in Q3FY12. Going ahead CASA ratio is likely to improve as term deposits rates start to come off.

Exhibit 5: Trend in deposit growth and CASA ratio



Source: Company, Sunidhi Research

**Non-interest grows on the back of growth in forex and core fee income growth**

Non-interest income increased by 15.4% yoy and 15.8% qoq. The increase in other income was on account of a strong growth in forex and core fee income.

Asset quality improves sequentially

The asset quality of the bank improved sequentially with %GNPAs coming off by 8 bps qoq though up 4.6% qoq on an absolute basis. Slippages came off sequentially and stood at ₹600 mn or a slippage rate of 0.9%. The bank used the onetime tax benefits that accrued to it during the quarter to shore up its provision coverage ratio. Hence provisions increased by 69% qoq which led to a 569 bps improvement in the PCR to 90.7%. Due to higher provisions, NNPA's came off by 35% qoq and %NNPA's came off by 12 bps sequentially to 0.2%. The bank has managed to maintain its asset quality despite strong growth in its SME portfolio.

Exhibit 6: Trend in asset quality

Asset Quality	Q4FY12	Q4FY11	yoy	Q3FY12	Qoq
GNPA	5628.7	5532.4	1.7%	5,380.6	4.6%
%GNPA	1.9%	2.3%	-38	2.0%	-8
NNPA	524.9	917.8	-42.8%	808.0	-35.0%
%NNPA	0.2%	0.4%	-21	0.3%	-12
PCR	90.7%	83.4%	726	85.0%	569

Source: Company, Sunidhi Research

Restructured book at 1.4% of advances

The bank's restructured book stood at 1.4% of advances which stood largely in line with that of the previous quarter. The bank does not restructure any accounts bilaterally and all restructured accounts are those cases which have been referred to CDR. Assets restructured during FY12 stood at ~ ₹1000mn, over half of which was due to micro finance institutions.

Branch expansion to remain measured during FY13

The bank added 17 branches during FY12, all of which were done in Q1FY12 and the remaining three quarters of the financial year saw no new branch additions. The bank is currently evaluating its branch expansion strategy before it embarks on its next investment phase. In FY13 branch expansion will remain measured. Management has guided towards ~30 branch additions during FY13.

Tier 1 CAR at 11.2%

The bank appears well capitalized with a tier 1 CAR at 11.2% and a total CAR of 14%

Valuation and view

At the CMP of ₹355 the bank trades at 1.3x its FY13E ABV and 1.1x its FY14E ABV. At these valuations the bank trades below its long term one year forward P/ABV multiple. The bank is a strong re-rating candidate given its sound asset quality and improving cost to income ratios which will lead to an improvement in return ratios going ahead.



Q4FY12 Financial highlights (Standalone)

(Amounts in mn)	Q4FY12	Q4FY11	% yoy	Q3FY12	% qoq	FY12	FY11	% yoy
Income Statement								
Interest earned	10614.6	7769.1	36.6%	9915.1	7.1%	38568.1	26940.6	43.2%
Interest on advances	7,867.1	5,913.60	33.0%	7,370.9	6.7%	28678.2	20326.3	41.1%
Interest on investments	2,727.6	1,801.20	51.4%	2,538.8	7.4%	9818.7	6463.0	51.9%
Interest on balances with RBI, others	3.1	7.2	-56.9%	0.7	342.9%	5.8	20.5	-71.7%
Others	16.8	47.1	-64.3%	4.7	257.4%	65.4	130.8	-50.0%
Interest expended	7422.7	5,085.7	46.0%	6679.3	11.1%	26484.6	16875.4	56.9%
Net Interest income	3191.9	2683.4	18.9%	3235.8	-1.4%	12083.5	10065.2	20.1%
Non-interest income	1,968.4	1,705.10	15.4%	1699.4	15.8%	6697.6	6549.7	2.3%
Total Income	5160.3	4388.5	17.6%	4935.2	4.6%	18781.1	16614.9	13.0%
Operating expenses	2957.0	2,956.5	0.0%	2822.0	4.8%	11102.1	10260.2	8.2%
Cost-income ratio	57.3%	67.4%		57.2%		59.1%	61.8%	
Operating profit	2203.3	1432.0	53.9%	2113.2	4.3%	7679.0	6354.7	20.8%
Provisions	566	42.7	1225.5%	334.4	69.3%	1137.3	1516.0	-25.0%
Profit before tax	1637.3	1389.3	17.9%	1778.8	-8.0%	6541.7	4838.7	35.2%
Tax provisions	363.4	476.3	-23.7%	583.6	-37.7%	1978.7	1652.2	19.8%
Tax Rate	22.2%	34.3%		32.8%		30.2%	34.1%	
Profit after tax	1273.9	913.0	39.5%	1195.2	6.6%	4563.0	3186.5	43.2%

Balance Sheet (₹ mn)	Q4FY12	Q4FY11	% yoy	Q3FY12	% qoq
Capital and reserves	39797.9	26242.8	51.7%	39276.0	1.3%
Deposits	351954.2	301942.5	16.6%	316545.0	11.2%
Borrowings	56964.9	41469.1	37.4%	54117.0	5.3%
Other Liabilities and Provisions	21288.4	20485.3	3.9%	21145.0	0.7%
Total Liabilities	470005.4	390139.7	20.5%	431083.0	9.0%
Cash inter bank etc	32305.6	25214.2	28.1%	25875.0	24.9%
Investments	127155.0	110206.7	15.4%	115725.0	9.9%
Advances	287366.7	236021.4	21.8%	262984.0	9.3%
Fixed Assets	5008.0	5028.4	-0.4%	5005.0	0.1%
Other Assets	18170.1	13669.1	32.9%	21494.0	-15.5%
Total Assets	470005.4	390139.7	20.5%	431083.0	9.0%

Source: Company, Sunidhi Research



Financials (Standalone)

Profit & Loss Account (₹ mn)	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Interest Earned	22328.9	26940.6	38568.1	44697.5	49877.1
Interest expended	14030.5	16875.4	26484.6	27929.3	29823.2
Net interest income	8298.4	10065.3	12083.5	16768.3	20053.9
Non-interest income	6202.2	6549.6	6697.6	7431.0	8666.4
Net total income	14500.6	16614.8	18781.1	24199.2	28720.3
Operating expenses	8081.0	10260.2	11102.1	13619.9	15951.8
Pre- provisioning profit (PPP)	6419.5	6354.7	7679.0	10579.4	12768.5
Provision & Contingency	2704.5	1516.0	1137.3	1786.2	2131.6
PBT	3715.0	4838.6	6541.7	8793.2	10636.9
Tax	1292.9	1652.2	1978.7	2901.8	3510.2
PAT	2422.2	3186.5	4563.0	5891.5	7126.7

Balance Sheet (₹ mn)	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Liabilities					
Equity Capital	1,199.7	1,209.9	1,501.2	1,501.2	1,501.2
Reserves	22,079.6	25,014.2	38,280.8	43,386.9	49,641.1
Networth	23,309.2	26,242.8	39,797.9	44,888.1	51,142.3
Deposits	258,653.0	301,942.5	351,954.2	425,864.6	506,778.9
Borrowings	36,713.9	41,469.1	56,964.9	64,650.8	73,064.9
Other Liabilities & Provisions	20,126.4	20,485.3	21,288.4	22,877.3	33,220.7
Total Liabilities	338,802.4	390,139.7	470,005.4	558,280.8	664,206.8
Assets					
Cash & Balances with RBI	23,295.9	21,837.8	19,823.7	23,580.6	28,274.3
Balances with Banks & money at Call	6,974.6	3,376.4	12,481.9	14,847.4	17,802.8
Investments	104,729.3	110,206.8	127,155.0	152,870.7	183,279.3
Advances	185,071.9	236,021.4	287,366.7	347,713.7	413,779.3
Fixed Assets	2,883.3	4,892.5	5,008.0	5,343.4	5,679.2
Other Assets	13,771.5	13,669.1	18,170.1	13,925.0	15,392.0
Total Assets	338,802.5	390,139.8	470,005.4	558,280.8	664,206.8

Growth Matrix	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Growth (YoY) (%)					
Deposits	3.9%	16.7%	16.6%	21.0%	19.0%
Advances	10.4%	27.5%	21.8%	21.0%	19.0%
Total Assets	6.3%	15.2%	20.5%	18.8%	19.0%
NII	27.7%	21.3%	20.1%	38.8%	19.6%
Non-interest income	13.2%	5.6%	2.3%	10.9%	16.6%
Operating expenses	4.6%	27.0%	8.2%	22.7%	17.1%
Operating profits	51.1%	-1.0%	20.8%	37.8%	20.7%
Provisions	107.8%	-43.9%	-25.0%	57.1%	19.3%
PAT	28.3%	31.6%	43.2%	29.1%	21.0%

Source: Company, Sunidhi Research



Yields/Costs	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Yield on advances	9.7%	9.7%	11.0%	10.5%	9.6%
Yield on investments	4.9%	6.0%	8.0%	8.0%	7.8%
Yield on int earning assets	7.8%	8.3%	9.9%	9.5%	8.8%
Yield on average assets	6.8%	7.4%	9.0%	8.7%	8.2%
Cost of deposits	4.6%	4.8%	6.6%	6.0%	5.3%
Cost of funds	4.9%	5.3%	7.0%	6.2%	5.6%
Net int margin	2.9%	3.1%	3.1%	3.6%	3.5%

Efficiency Ratios	FY2010	FY2011	FY2012P	FY2013E	FY2014E
NIM	2.9%	3.1%	3.1%	3.6%	3.5%
Cost to income	55.7%	61.8%	59.1%	56.3%	55.5%
Business per branch	922.5	1054.8	1213.1	1388.8	1555.0
Business per employee	71.0	76.4	87.9	100.6	112.6
CASA per branch	175.2	205.1	228.6	260.0	299.6
CASA ratio	32.6%	34.6%	34.2%	34.0%	35.0%

Asset Quality Ratios	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Provisioning / avg assets	0.7%	0.4%	0.3%	0.3%	0.3%
GNPA (%)	3.0%	2.3%	1.9%	1.9%	2.0%
NNPA (%)	1.2%	0.4%	0.2%	0.4%	0.5%
PCR	60.2%	83.4%	90.6%	81.7%	74.6%
Slippage Ratio	2.4%	1.3%	0.7%	1.0%	1.0%
Credit Costs	1.3%	0.7%	0.5%	0.5%	0.5%

Valuation table	FY2010	FY2011	FY2012P	FY2013E	FY2014E
Net profit (₹ mn)	2422.2	3186.5	4563.0	5891.5	7126.7
Shares in issue (mn)	120.0	121.0	150.1	150.1	150.1
EPS (₹)	20.2	26.3	30.4	39.2	47.5
EPS growth (%)	10%	30%	15%	29%	21%
PE (x)	17.6	13.5	11.7	9.0	7.5
P/PPP (x)	6.6	6.8	6.9	5.0	4.2
Book value (₹/share)	194.3	216.9	265.1	299.0	340.7
P/BV (x)	1.8	1.6	1.3	1.2	1.0
Adj book value (₹/share)	166.8	200.7	254.7	283.7	319.6
P/ABV (x)	2.1	1.8	1.4	1.3	1.1
ROAA (%)	0.7%	0.9%	1.1%	1.1%	1.2%
ROE (%)	12.0%	12.9%	13.8%	13.9%	14.8%
ROE (adj for reval reserve) (%)	12.7%	13.4%	14.3%	14.3%	15.2%
Dividend Yield (%)	0.7%	0.8%	1.1%	1.3%	1.4%

Source: Company, Sunidhi Research



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

BUY	Absolute Return >20%
ACCUMULATE	Absolute Return Between 10-20%
HOLD	Absolute Return Between 0-10%
REDUCE	Absolute Return 0 To Negative 10%
SELL	Absolute Return > Negative 10%

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

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