

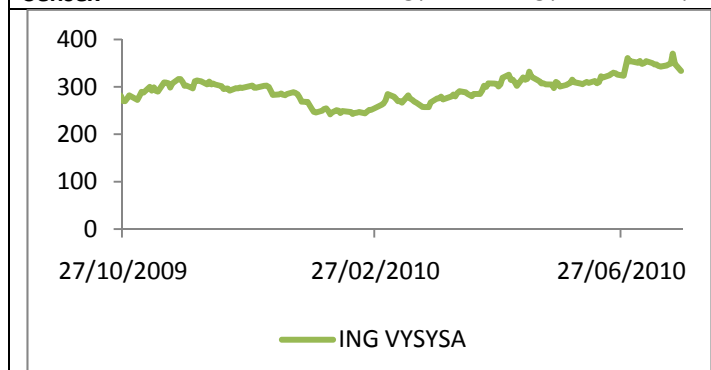
## Quarterly Result Update

## ING VYSYA BANK LTD

<b>Recommendation</b>	<b>Buy</b>
<b>CMP (27/07/2010)</b>	<b>Rs.336</b>
<b>Sector</b>	<b>Banking</b>

<b>Stock Details</b>	
BSE Code	531807
NSE Code	INGVYSYABK
Bloomberg Code	VYSB IN
Market Cap (Rs. cr)	4.040
Free Float (%)	55.34%
52- wk HI/Lo	376/192
Avg. volume BSE (Quarterly)	59636
Face Value	Rs.10
Dividend (FY10)	25%
Shares o/s (No.)	11.99 Cr

<b>Relative Performance</b>	<b>1Mth</b>	<b>3Mth</b>	<b>1 Yr</b>
<b>ING VYSYA Bank</b>	2.5%	8.9%	58.2%
<b>Sensex</b>	2.5%	1.9%	17.2%



<b>Shareholding Pattern as of 30/06/2010</b>	
Promoters Holding	44.66%
Institutional (Incl. FII)	34.17%
Corporate Bodies	4.62%
Public & others	16.55%

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<b>Year</b>	<b>NII</b>	<b>Growth %</b>	<b>Op profit</b>	<b>Margin %</b>	<b>PAT</b>	<b>EPS</b>	<b>PE</b>	<b>P/ABV</b>	<b>ROE(%)</b>
FY 09A	650	35.0%	425	15.3%	189	15.8	21.3	2.5	11.6%
FY 10A	830	27.8%	613	21.7%	244	20.3	16.5	1.9	11.8%
FY 11E	1008	21.4%	718	20.4%	346	28.9	11.6	1.7	14.0%

### Quarterly Result Analysis

ING VYSYA bank (IVBL) results were below our expectations. Net profit of the bank grew at 15% on a YOY basis and 2% on QOQ basis (In Q4 there was an extraordinary income of Rs.30 crore). On a YOY basis increase in profits was due to higher net interest income (39% on a YOY basis) and marginal decline in provisions. However decline in other income and increase in operating expenses resulted in subdued growth in net profits.

### Key highlights of the result -

NII of the bank grew 39% on a YOY basis, led by strong growth in advances, improvement in NIM's due to improvement in CASA deposits and reduction in cost of funds. However on a QOQ basis net interest income decline by 4% due to reduction in NIMs by 30 basis point.

Increase in cost to income ratio to 59% in Q1FY11 from 57% in Q1FY09 and 54% in Q4FY10 resulted in only marginal increase in operating profits on YoY basis and 17% decline on a QoQ basis.

CASA deposits of the bank were up 27% at the end of Q1FY11 on a YOY resulting in improvement in CASA ratio from 29% in Q1FY10 to 34% in Q1FY11.

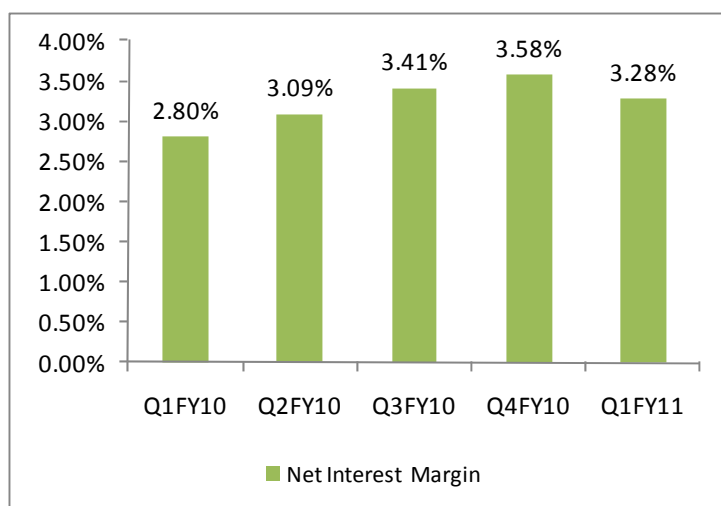
Provisioning coverage ratio of the bank stood at 59% for the current quarter. However the bank has applied to RBI for extension of time till September 2011 to achieve the provision coverage ratio of 70%.

Gross NPA of the bank rose 30 basis point sequentially due to slippage of one account of Rs. 70 crore. However net NPA of the bank was down by 40 basis point ( in percentage terms)

**We believe that less than expected Q1FY11 performance was one off on account of deliberately not lending to telecom companies and one midsize account getting bad. We believe that the growth in advances will bounce back from second quarter onwards and the gross NPA's have also peaked in Q1. Stable NIM, improvement in CASA, improvement in cost to income ratio & advances growth will drive performance in coming period. As compared to its peer Indusind Bank & Yes bank, IVBL is trading at a discount at 1.8x P/ABV. We recommend to buy stock at current price.**

**NIM's stable aided by declining in cost of deposits**

Net Interest Margin (NIM) of the bank was at 3.28% in Q1FY11 compared to 2.66% in Q4FY09. The increase in NIM was achieved on the back of significant decline in the cost of deposits which improved to 4.7% in the current quarter from 6.4% in the same quarter last year on account high growth witnessed in CASA deposits. However on sequential basis NIM showed a decline of 30 basis point due to change in savings interest rate calculation and additional reserve requirement due to CRR hike. Going forward we believe sustainable NIM to be around 3.1%-3.3% for the year FY2011.

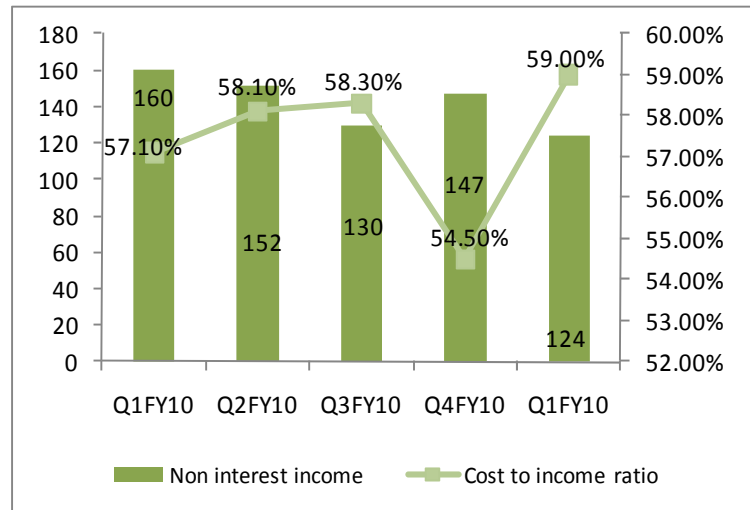


**Operating Expenses increase, resulting in higher Cost to income ratio**

Cost to income ratio of the bank stood at 59% for Q4FY10, as compared to 57% in Q1FY10 and 54% in Q4FY10. Operating expenses of the bank increased by 13% on a YOY basis due to incremental hiring by the bank in the current quarter and change in the gratuity act, resulting in higher provisions for the same. However if the bank had not accounted for the gratuity provisions, adjusted cost to income ratio for the current quarter would be down by 200 basis point. Going forward management has guided that the ratio would be heading southwards.

**Other income declining due to fall in treasury profits.**

Bank showed a decline in other income both sequentially as well as on a YOY basis. Reason for decline in other income was primarily on account of significantly higher treasury income during the same quarter last year on account of bond redemptions (Rs. 28 crore) and decline in FX & derivative segment. However going forward we believe that other income would grow in line with growth in balance sheet.



**Advances growth below expectation**

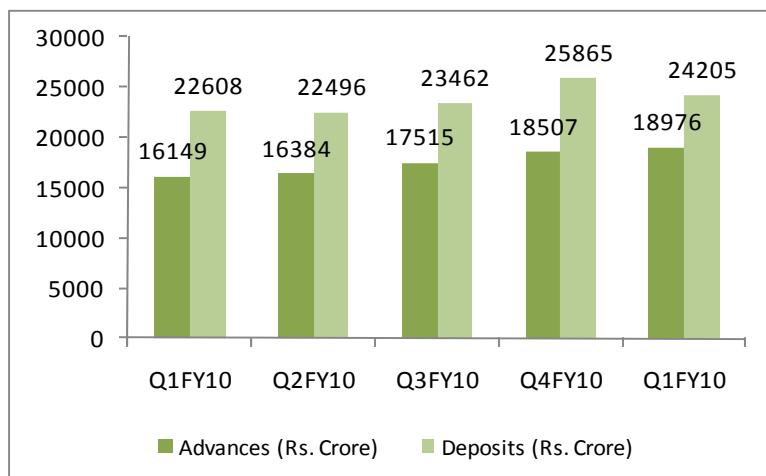
Advances grew by 17.5% on a YOY basis and 3% sequentially aided by traction in business banking segment. However as compared to its industry peers, growth in advances was quite subdued as the bank did not increase exposure significantly to telecom sector. Also due to seasonality in the first quarter, credit growth did not grow in line with industry growth.(normally in first quarter banks advances growth is subdued). On deposit front CASA ratio of the bank also improved significantly and stood at 34% at the end of Q1FY11 as compared to 29% in Q1FY09 and 32.6% in Q4FY10. Loan to deposit ratio of the bank stood at 71.4% in Q1FY10 as compared to 78.4% in Q1FY11.

We believe that bank will be able to grow its advances higher than the industry growth rate. Management has also guided a healthy traction in advances in the coming quarters and loan growth to be around 25% to 30%. Bank also expects its term deposits to pick up in coming quarters, with the pickup in credit growth.

## Quarterly Result Update

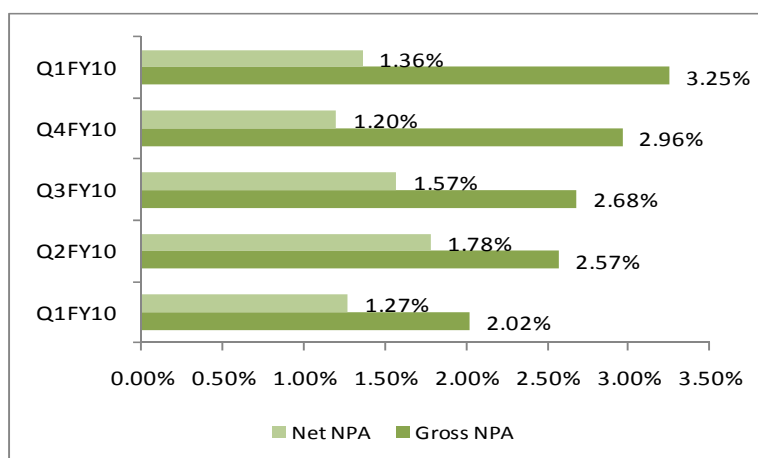
## ING VYSYA BANK LTD

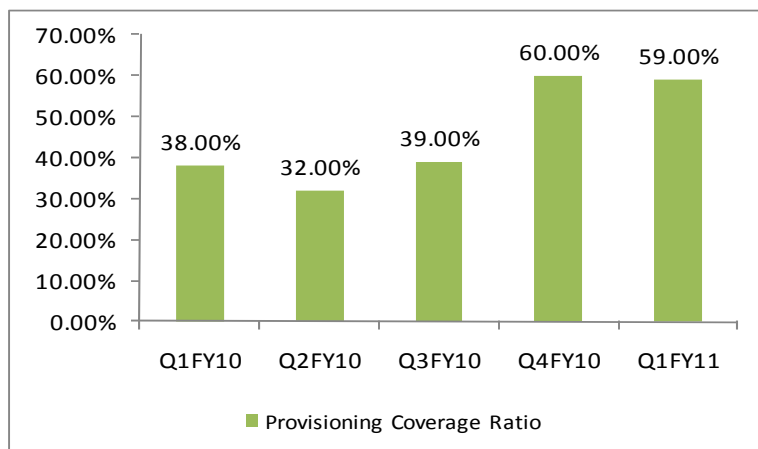
Segments	Q1 FY11	Q4 FY10	Q3 FY10	Q4 FY10
Wholesale Banking	42%	42%	43%	42%
Agri & Rural	9%	10%	10%	9%
Business Banking	24%	25%	24%	24%
Consumer Banking	23%	23%	23%	25%



### Asset Quality fears receding.

Gross NPA were high on a sequential basis by 13% due to one off slippage in mid corporate segment amounting to Rs.70. However Net NPA declined by 30 basis point on QOQ basis (in percentage terms). Management believes that NPA levels have peaked and concerns over asset quality is receding going forward. Provisioning coverage ratio of the bank stood at 59% for the current quarter. However the bank has applied to RBI for extension of time till September 2011 to achieve the provision coverage ratio of 70%.





ROE of the bank for Q1FY11 stood at 11.74% as compared to 13.97% in Q1FY10. The adjusted book value of IVBL stood at Rs. 179 for the year Q1FY11.

### Quarterly Financials

#### Condensed Income Statement

All figures in INR cr, unless specified	Q1FY11	Q1FY10	YOY (%)	Q4FY10	QOQ (%)
Interest Earned	587.6	583.1	0.8%	567.9	3.5%
Interest Expended	349.6	411.2	(15.0%)	320.7	9.0%
Net Interest Income	238.0	171.9	38.5%	247.2	(3.7%)
Other Income	124.4	159.7	(22.1%)	147.9	(15.9%)
Total Income	362.4	331.6	9.3%	395.1	(8.3%)
Payment to employees	124.4	99.3	25.2%	113.9	9.2%
Other operating expenses	89.4	90.0	(0.6%)	101.4	(11.8%)
Total operating expenses	213.8	189.3	12.9%	215.3	(0.7%)
Profit before provisioning	148.6	142.3	4.4%	179.8	(17.4%)
Provisions	43.9	48.7	(9.8%)	106.3	(58.7%)
Exceptional Items				30.7	
Profit before tax	104.7	93.6	11.8%	104.2	0.4%
Tax	35.6	33.2	7.2%	36.2	(1.7%)
Profit after tax	69.1	60.4	14.4%	68.0	1.5%
EPS* (quarterly)	5.8	5.9	(1.7%)	5.7	4.5%

Source: Company data

We believe that less than expected Q1FY11 performance was one off on account of deliberately not lending to telecom companies and one midsize account getting bad. We believe that the growth in advances will bounce back from second quarter onwards and the gross NPA's have also peaked in Q1. Stable NIM, improvement in CASA, improvement in cost to income ratio & advances growth will drive performance in coming period. As compared to its peer Indusind Bank & Yes bank, IVBL is trading at a discount at 1.8x P/ABV. We recommend to buy stock at current price.

### *Financials*

Condensed Income Statement					
All figures in INR cr, unless specified	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Interest income	1,402	1,680	2,240	2,233	2,833
Interest expense	859	1,182	1,590	1,403	1,825
Net interest income	542	499	650	830	1,008
Non interest income	191	423	548	590	681
Fee based income	183	233	329	379	462
Other income	8	190	219	194	219
Total income	733	922	1,197	1,420	1,689
Operating expense	500	610	772	807	971
Staff costs	248	303	392	457	526
Other operating expense	252	307	380	350	446
Operating profit	233	312	425	613	718
Provisions	102	57	130	270	187
Exceptional Itmes				31	
Profit before tax	131	256	295	374	530
Taxes	42	94	106	130	185
Net profit	89	161	189	244	346

## Quarterly Result Update

## ING VYSYA BANK LTD

### Forecast balance sheet

All figures in INR cr, unless specified	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Total cash and bank balances	1,592	3,185	2,282	3,027	3,048
Investments	4,528	6,291	10,493	10,473	11,200
Advances	11,976	14,650	16,751	18,507	23,157
Fixed assets	286	284	322	398	473
Other assets	795	1,016	1,898	1,475	1,917
Total assets	19,176	25,426	31,747	33,880	39,795
Deposits	15,419	20,456	24,886	25,865	31,685
Borrowings	844	1,250	2,152	3,671	3,500
Other liabilities and provisions	1,920	2,294	3,114	2,013	2,003
Total liabilities	18,183	24,000	30,153	31,549	37,188
Equity capital	993	1,426	1,594	2,331	2,607
Total liabilities and equity	19,176	25,426	31,747	33,880	39,795

Source: Company & Nirmal Bang Research

### Financial Ratios

Valuation Ratios	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Earnings per share	9.84	16.05	15.80	20.29	28.85
Book value per share	109	139	155	195	218
Adjusted book value per share	97	129	135	176	200
Return on equity	8.9%	13.6%	11.8%	11.6%	14.0%
P/E	32.0	19.6	19.9	15.5	10.9
P/ABV	3.3	2.4	2.3	1.8	1.6

Yield Ratios	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Yield on advances	9.3%	9.7%	11.1%	10.5%	11.0%
Yield on investments	7.5%	6.5%	5.6%	5.7%	4.9%
Cost of deposits	5.6%	6.2%	6.8%	5.3%	5.9%

Balance Sheet Ratio	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Gross NPA	2.6%	1.4%	1.9%	3.0%	2.9%
Net NPA	1.0%	0.7%	1.2%	1.2%	0.9%
Provisioning coverage ratio	63.3%	49.2%	34.2%	60.0%	70.0%
CASA	28.9%	31.5%	27.0%	32.0%	31.7%
SLR - deposits ratio	24.9%	22.5%	34.2%	24.4%	25.9%
Loan - deposit ratio	77.7%	71.6%	67.3%	71.6%	73.1%

Profitability Ratio	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011E
Cost - income ratio	68.2%	65.9%	64.5%	56.8%	57.5%
Operating profit margin	14.6%	14.8%	15.3%	21.7%	20.4%
Net profit margin	5.6%	7.7%	6.8%	8.6%	9.8%

**NOTE**

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