

ING Vysya Bank

Recommendation	BUY
CMP (17/01/2012)	Rs. 318
Target Price	Rs.491
Sector	Banking

Stock Details

BSE Code	531807
NSE Code	INGVYSYABK
Bloomberg Code	VYSB IN
Market Cap (Rs cr)	4798
Free Float (%)	60.0%
52- wk HI/Lo (Rs)	374.4/275
Avg. volume BSE (Quarterly)	15,731
Face Value (Rs)	10.0
Dividend (FY 11)	30%
Shares o/s (Cr)	15.00

Relative Performance	1Mth	3Mth	1Yr
Ing Vysya Bank	10.65%	-0.37%	-1.76%
Sensex	5.27%	-4.91%	-14.26%



Shareholding Pattern	31 st Dec 11
Promoters Holding	43.8%
Institutional (Incl. FII)	38.0%
Corporate Bodies	6.4%
Public & others	11.8%

Silky Jain (+91 22 3926 8178)
 Research Analyst (silky.jain@nirmalbang.com)
Bhavya Sundesha (+91 22 3926 8021)
 bhavya.sundesha@nirmalbang.com

In line with expectations

ING VYSYA bank (IVBL) results were broadly in line with expectations. Net profit of the bank in Q3FY12 increased 3.5% QoQ and 44.0% YoY at Rs 119.5 crs on account of higher net interest income and lower cost to income ratio. Although the banks Gross NPAs increased marginally on an absolute basis, asset quality remained fairly stable.

➤ NIM's demonstrated significant improvement both QoQ and YoY

Net Interest Income increased by 31.6% on a YoY basis and 6.6% QoQ in Q3FY12 to Rs 324 crs. Net Interest Margin (NIM) of the bank stood at 3.49% in Q3FY12 as compared to 3.35% in Q2FY12 and 3.1% in Q3FY11. Management mentioned NIMs for FY12E will be broadly maintained in the range of 3.25%-3.35%.

➤ Non-interest income remains flat

Non interest income increased 4.6% and 1.9% on QoQ and YoY basis respectively to Rs 169.9 crs. Management expects non interest income to show improvement in the current quarter with traction in asset processing fee and income from trade finance.

➤ Cost-to-income ratio shows improvement

Cost to income ratio of the bank stood at 57.2% for Q3FY12, as compared to 59.4% in Q2FY12 and 61.4% in Q3FY11. Management expects to bring down the cost to income ratio to ~50% in the next 3-4 years driven by the expansion in business and cost efficiencies.

➤ Advances continue to maintain growth momentum

Advances grew by 22.2% on a YoY basis aided by traction in wholesale and business banking segment. Management expects the advance growth to be in the range of 20%-22% for FY12E.

➤ Asset quality remains reasonably healthy

The asset quality continues to be healthy with Gross NPAs increasing marginally on QoQ basis. The bank reported an increase in provisions mainly on account of provisions for standard assets and MFI buyout pool where the bank has adopted a conservative approach and has fully provided for the entire buyout pool. Going forward the bank does not expect any major stress on its asset quality.

Valuation & Recommendation

The bank has continued to show an improvement in its financial and operational parameters and we believe that the bank will continue to impress with its strong financials. At CMP, the stock is trading at 1.19x and 1.05x FY12E and FY13E Adj BVPS respectively and therefore we maintain our BUY rating on the stock. Our target price for the stock is Rs 491 based on a P/ABV multiple of 1.65x on its FY13E adjusted book value of Rs.297.6 per share.

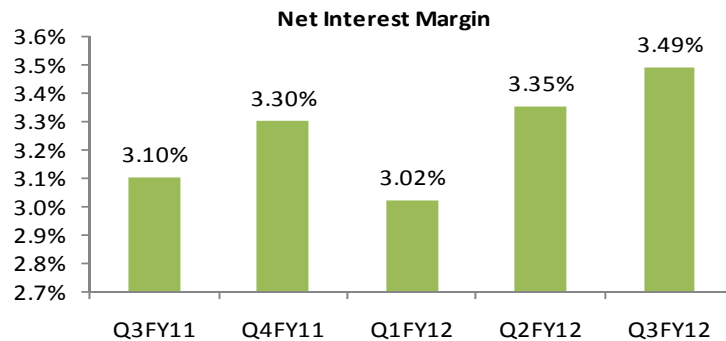
Year	NII (Rs crs)	Growth (%)	PBP (Rs crs)	Margin (%)	PAT (Rs crs)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 10A	830	27.7%	612	43.1%	212	21.00	14.92	181.9	1.72	12.0%
FY 11A	1,006	21.2%	635	38.2%	318	26.38	11.88	211.8	1.48	12.8%
FY 12E	1,226	21.8%	765	40.8%	458	30.61	10.24	262.5	1.19	13.8%
FY 13E	1,514	23.6%	995	45.0%	600	40.08	7.82	297.6	1.05	14.1%

ING Vysya Bank

NIM’s demonstrated significant improvement both QoQ and YoY

Net Interest Income increased by 31.6% on a YoY basis and 6.6% QoQ to Rs 324 crs in Q3FY12 due to increase in yield on advances and higher CD ratio. Net Interest Margin (NIM) of the bank stood at 3.49% in Q3FY12 as compared to 3.35% in Q2FY12 and 3.1% in Q3FY11.

Management mentioned NIMs for FY12E will be broadly maintained in the range of 3.25%-3.35%. The current quarter may see some decline in margins owing to the seasonal impact as the bank has to meet up its priority sector lending. Consequently we expect NIMs to be at 3.1% for FY12E and 3.2% in FY13E.

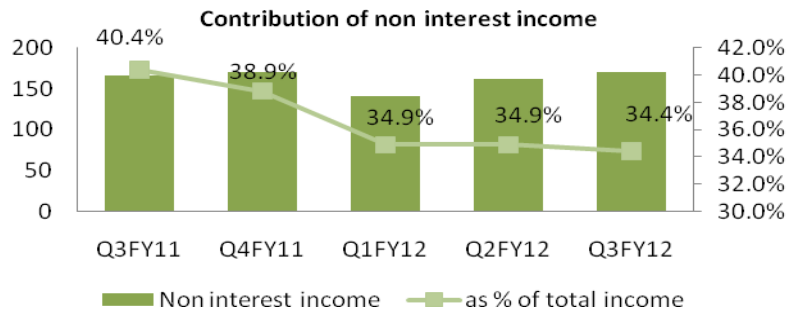


Source: Company data, Nirmal Bang Research

Non-interest income remains flat

Non interest income increased 4.6% and 1.9% on QoQ and YoY basis to Rs 169.9 crs in Q3FY12. The share of non interest income as a percentage of total income has remained flat sequentially in Q3FY12.

Management has mentioned that the non interest income will show some improvement in the current quarter with traction in asset processing fee and income from trade finance. However we have adopted a cautious approach and have further reduced our estimates for non interest income from Rs 701 crs to Rs 652 crs for FY12E.

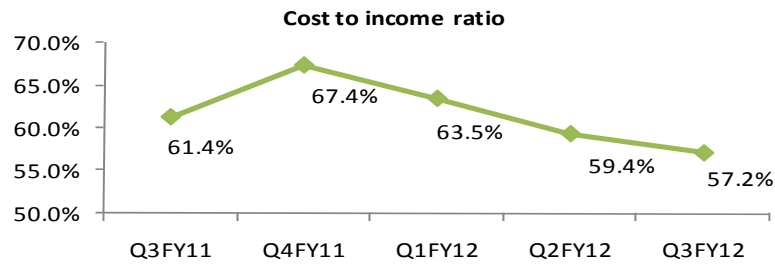


Source: Company data, Nirmal Bang Research

Cost-to-income ratio shows improvement sequentially

Cost to income ratio of the bank stood at 57.2% for Q3FY12, as compared to 59.4% in Q2FY12 and 61.4% in Q3FY11. Management expects to bring down the cost to income ratio to ~50% in the next 3-4 years driven by the expansion in business and cost efficiencies. We expect cost to income ratio to come down to 59.2% in FY12E from FY11 levels and further to 55.0% in FY13E reflecting operational efficiencies.

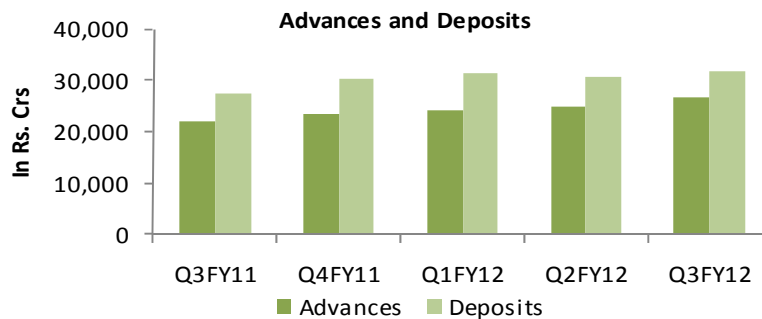
ING Vysya Bank



Source: Company data, Nirmal Bang Research

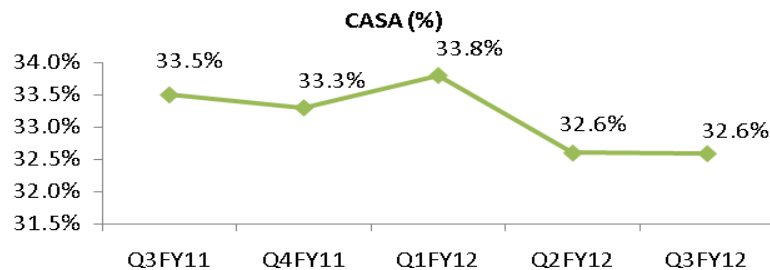
Advances continue to maintain growth momentum

Advances grew by 22.2% on a YoY basis aided by traction in wholesale and business banking segment. On a sequential basis the bank witnessed growth of 8.4%. Management expects the advance growth to be around 20-22% for FY12E. We have factored in 21.7% and 25.6% YoY growth in the banks advance portfolio for FY12E and FY13E respectively.



Source: Company data, Nirmal Bang Research

The bank's deposits grew 16.1% YoY and 3.1% on sequential basis. Loan to deposit ratio of the bank stood at 84.5% in Q3FY12. CASA ratio of the bank declined on a YoY basis whereas it remained flat on sequential basis and stood at 32.6% at the end of Q3FY12 as compared to 32.6% in Q2FY12 and 33.5% in Q3FY11. We expect CASA ratio to remain flat in FY12E to 32.8% for FY12E and then improve to 33.0% for FY13E.



Source: Company data, Nirmal Bang Research



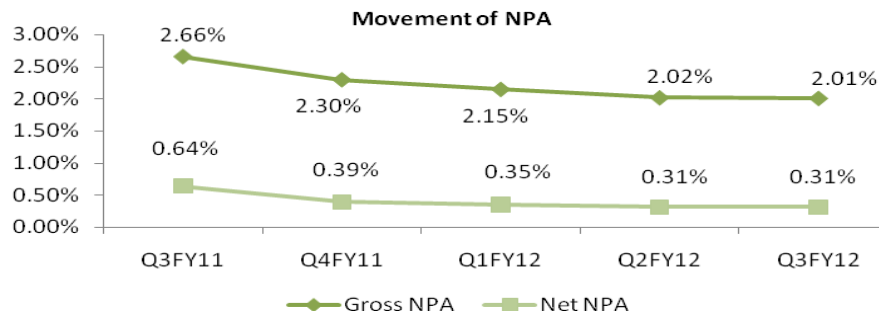
ING Vysya Bank

Asset quality remains reasonably healthy

The asset quality continues to be healthy with Gross NPAs increasing marginally on QoQ basis. The bank reported an increase in provisions mainly on account of provisions for standard assets and MFI buyout pool where the bank has adopted a conservative approach and has fully provided for the entire buyout pool. Provisions for the quarter stood at Rs. 33.4 crs. The bank had a MFI buyout portfolio of Rs 44 crs of which 8 crs had already been classified as NPA and the bank has classified the remaining 36 crs in this quarter as NPA.

The restructured book of the bank stood at around 1.3% of net advances. Gross NPA ratio and Net NPA ratio were at 2.01% and 0.31% respectively in Q3FY12. Provision coverage ratio improved to 85.0% in Q3FY12 from 76.4% in Q3FY11. Going forward the bank does not expect any major stress on its asset quality.

We expect the bank's Gross NPAs to come down to 1.96% and 1.69% in FY12E and FY13E respectively and Net NPAs to be at 0.34% and 0.29% in FY12E and FY13E respectively. As the bank has reported a significant increase in provision in Q3FY12, our estimates for provisions have been increased from Rs 67 crs to Rs 84 crs for FY12E.



Source: Company data, Nirmal Bang Research

ING Vysya Bank

Income Statement (Rs cr)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Interest Earned	991.5	690.7	43.5%	933.1	6.3%
Interest Expended	667.9	444.8	50.2%	629.5	6.1%
Net Interest Income	323.6	245.9	31.6%	303.6	6.6%
Other Income	169.9	166.8	1.9%	162.5	4.6%
Total Income	493.5	412.7	19.6%	466.1	5.9%
Payment to employees	170.4	145.4	17.2%	161.2	5.7%
Other operating expenses	111.8	107.9	3.6%	115.4	(3.1%)
Total operating expenses	282.2	253.3	11.4%	276.7	2.0%
Profit before provisioning	211.3	159.4	32.5%	189.4	11.6%
Provisions	33.4	33.6	(0.6%)	17.5	91.3%
Profit before tax	177.9	125.8	41.4%	171.9	3.5%
Tax	58.4	42.8	36.4%	56.5	3.3%
Profit after tax	119.5	83.0	44.0%	115.5	3.5%
EPS	8.0	6.9	15.9%	7.7	3.2%

Source: Company data, Nirmal Bang Research

- Net Profit has shown a growth of 3.5% QoQ and 44.0% YoY at Rs 119.5 crs mainly due to 31.6% YoY increase in net interest income and 3.1% QoQ decline in other operating expenses.
- EPS for Q3FY12 stood at Rs 8.0 while for Q3FY11, it was Rs 6.9.
- RoA improved to 1.13% in Q3FY12 as compared to 0.88% Q3FY11.
- Capital Adequacy Ratio (CAR) of the Bank as on Q3FY12 improved to 14.1% from 12.7%, as on Q3FY11.

Valuation and Recommendation

The bank has shown consistent improvement in its financial and operational parameters and we believe that the bank will continue to impress with its strong financials. We expect the bank's profitability to grow at 37.3% CAGR over FY11-FY13E.

On valuation front the bank is trading at a significant discount to its peers and thus is trading at an attractive level. We maintain our BUY rating on the stock with a target price of Rs 491 indicating a potential upside of 57%. At CMP, the stock is trading at 1.19x and 1.05x FY12E and FY13E Adj BVPS respectively.

ING Vysya Bank

Financials

Profitability (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Interest earned	2,233	2,694	3,757	4,163
Interest expended	1,403	1,688	2,531	2,649
Net interest income	830	1,006	1,226	1,514
Non interest income	590	655	652	697
Total income	1,420	1,661	1,877	2,212
Operating expenses	808	1,026	1,112	1,217
Staff costs	429	606	661	721
Other Op Exp	379	420	451	496
Profit before prov	612	635	765	995
Provisions	270	152	82	87
Profit before tax	341	483	683	908
Taxes	129	165	226	309
Net profit	212	318	458	600

Quarterly (Rs. Crs)	Mar.11	June. 11	Sept. 11	Dec. 11
Net interest income	268	262	304	324
Non interest income	171	141	162	170
Total income	439	402	466	494
Operating expenses	296	256	277	282
Operating profit	143	147	189	211
Provisions	4	6	17	33
Profit before tax	139	141	172	178
Taxes	48	47	56	58
Net profit	91	94	115	120

Profitability Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Cost / Income Ratio	56.9%	61.8%	59.2%	55.0%
Net profit margin	17.1%	19.2%	24.4%	27.1%
RONW	12.0%	12.8%	13.8%	14.1%

Growth Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Advances growth	10.4%	27.5%	21.7%	25.6%
Deposit growth	3.9%	16.7%	21.0%	22.0%
NII growth	27.7%	21.2%	21.8%	23.6%
PAT growth	28.4%	31.2%	43.9%	30.9%
Pre prov profit growth	43.9%	3.8%	20.5%	30.0%
Non interest inc growth	7.7%	11.1%	(0.5%)	7.0%

Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
P/BV	1.61	1.44	1.17	1.04
P/ABV	1.72	1.48	1.19	1.05
P/E	14.92	11.88	10.24	7.82

Balance Sheet (Rs. Crs)	FY 2010	FY 2011	FY 2012E	FY 2013E
Deposits	25,865	30,194	36,543	44,584
(of which CASA)	(8,427)	(10,055)	(11,986)	(14,713)
Borrowings	3,671	4,147	4,004	4,056
Other liab and prov	2,013	2,049	3,124	3,436
Total liabilities	31,549	36,390	43,671	52,077
Equity capital	2,331	2,624	3,989	4,519
Reserves and surplus	399	419	475	673
Net worth	2,730	3,043	4,464	5,192
Total liab and equity	33,880	39,014	47,660	56,595
Cash and bank bal	3,027	2,521	4,073	3,823
Investments	10,473	11,021	12,398	14,070
Advances	18,507	23,602	28,722	36,084
Fixed assets	496	503	561	617
Other assets	1,377	1,367	1,906	2,001
Total assets	33,880	39,014	47,660	56,595

Key Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
------------	---------	---------	----------	----------

Yield Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Avg Yield on Assets	7.4%	7.9%	9.4%	8.7%
Yield on Advances	9.7%	9.7%	10.8%	10.0%
Yield on Investments	4.9%	6.0%	7.8%	7.0%
Cost of Int Bearing Liab	4.9%	5.3%	6.8%	5.9%
Cost of Deposits	4.7%	4.8%	6.5%	5.7%
Net Interest Spread	2.5%	2.6%	2.6%	2.8%
NIM	2.7%	3.0%	3.1%	3.2%

Balance Sheet Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
Gross NPA	2.96%	2.30%	1.96%	1.69%
Net NPA	1.20%	0.39%	0.34%	0.29%
Return on Assets	0.7%	0.9%	1.1%	1.2%
CASA	32.6%	33.3%	32.8%	33.0%
Loan-deposit ratio	71.6%	78.2%	78.6%	80.9%
CAR	14.9%	12.9%	14.1%	13.5%
Dividend yield	0.8%	1.0%	1.1%	1.3%

Valuation Ratios	FY 2010	FY 2011	FY 2012E	FY 2013E
EPS	21.00	26.38	30.61	40.08
BVPS	194	217	267	302
Adjusted BVPS	182	212	262.5	297.6

Source: Company data, Nirmal Bang Research



Disclaimer:

This Document has been prepared by Nirmal Bang Research (A Division of Nirmal Bang Securities PVT LTD). The information, analysis and estimates contained herein are based on Nirmal Bang Research assessment and have been obtained from sources believed to be reliable. This document is meant for the use of the intended recipient only. This document, at best, represents Nirmal Bang Research opinion and is meant for general information only. Nirmal Bang Research, its directors, officers or employees shall not in anyway be responsible for the contents stated herein. Nirmal Bang Research expressly disclaims any and all liabilities that may arise from information, errors or omissions in this connection. This document is not to be considered as an offer to sell or a solicitation to buy any securities. Nirmal Bang Research, its affiliates and their employees may from time to time hold positions in securities referred to herein. Nirmal Bang Research or its affiliates may from time to time solicit from or perform investment banking or other services for any company mentioned in this document.

Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001
Fax. : 022 3926 8010