

BUY

CMP Rs.500

Target Price Rs.593 (earlier 449)

Upside 19%

BFSI Sector**Key Data**

Size Segment	Mid Cap
Market Cap (Rs. cr)	7,565
Market Cap (US\$ mn)	1,385
O/S Shares, cr	15
Free Float Factor	0.57
Face Value, Rs.	10
2 Wk Avg Vol, NSE	117,920
52 Wk High/Low	509 / 276
Rs/US\$	54.63
Bloomberg	VYSB IN
Reuters	VYSA.BO
NSE	INGVYSYABK
BSE	531807

Source: Shah Investor's Research

Shareholding Pattern %

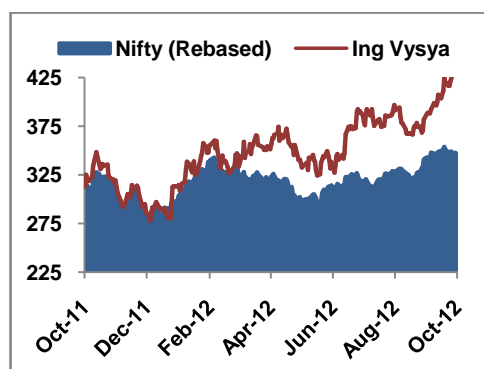
	Q2 FY13	Q2 FY12
Promoters	43.40	43.86
FII	25.01	25.15
Inst Inv	13.44	13.15
Public	18.15	17.84

Source: BSE, Shah Investor's Research

Institutional Holding %

Institutions	Q2 FY13	Q2 FY12
Aberdeen Global Indian	4.80	4.40
Warhol Ltd	3.65	2.69
Morgan Stanley Mauritius	2.28	2.32

Source: BSE, Shah Investor's Research



Source: Ace Equity, Shah Investor's Research

Bunty Chawla (Research Analyst)

bunty.chawla@sihl.in**“Consistency in performance to continue; Upgrade target price”****Management Meet Update**

We met with one of the key personnel in the management of ING Vysya Bank. The key takeaways from the discussion are given hereunder.

Strong credit growth to continue above industry average

ING Vysya Bank has reported strong credit growth led by Business Banking portfolio (SME) which is the key focus area for the bank. As a result business banking segment % of total advances inched up from 28% as of end of FY11 to 32.5% as of Q2 FY13. Credit growth for the bank remains largely in the range of 22% - 23% in previous five quarters as against slowdown in industry average (from 21% in Q2 FY12 to 16% in Q2 FY13). Management is quite confident in maintaining credit growth above industry average with key driver would be retail assets including Personal loans, Gold loans, CV loans along with continuing focus on Business banking and Corporate loan book. We estimated loan book to grow at 22.5% CAGR (FY12 – FY14E).

Margins to improve in FY13

Bank reported improvement in margins in H1 FY13 as compared to H1 FY12 as well as whole of FY12. Margin improvement was led by increase in yield on advances (which offset the increase in cost of deposits), stable CASA ratio and improvement in credit deposit ratio. Management guided at the beginning of the year NIMs to be in the range of 3.3% (+/-) 10bps/15bps in FY13E. Also, for the last 2 years average NIMs had been in the range of 3.3%. In H1 FY13, NIMs improved to 3.37% as against 3.19% in H1 FY12 and 3.30% in FY12. We expect NIMs to be in the higher side of the guided range in FY13E. Also, RBI is expected to cut repo rate by 25 – 50 bps by the end of FY13E which would support margins at current levels.

Asset quality to remain robust

Asset quality for the bank improved significantly over the years although macro environment has produced challenges. Management's decision to avoid sectors such as Airline (no exposure), Real estate (no exposure), Power (not significant exposure) etc for the growth has worked well for the bank. Also, if these high lending sectors are avoided, bank is left with little room (less sectors to focus on) to grow. Although bank has grown above industry average with robust asset quality shows bank's capability to grow under tough macro environment. SME portfolio (key driver) which is the key concern for the large nationalized bank has behaved well during the recent economic downturn, aided by experienced underwriting and a largely collateralized portfolio. We expect asset quality to remain robust with economy seems to be bottoming out. GNPA % declined to 1.9% in Q2 FY13 from 4.09% in FY06. PCR at 93% (second best in the Indian Banking industry) bodes well for any adverse situation of NPA in future.

CASA ratio to remain stable

CASA ratio remains stable in the range of 33% - 34% in spite of no change in interest rate on SA deposits with slight shift in weight-age towards CA from SA. In Q2 FY13 CA % of total CASA increased to 18% from 16% in Q2 FY12 while SA % declined to 15% in Q2 FY13 from 17% in Q2 FY12. However, new salary accounts increased to 67,000 in Q2 FY13 from 59,000 QoQ and 45,000 YoY which would bode well for bank in the longer run. We expect CASA ratio to remain stable at current levels in FY13E.

Operating leverage to boost RoA further

Operating efficiency (productivity) resulted improvement in cost to income ratio from more than 80% in FY06 to around 57% in Q2 FY13. Thus boosted RoA to all time high at 1.26% in Q2 FY13. RoA for H1 FY13 improved to 1.19% as against 1.04% YoY. Branch expansion to resume in 2013 which stopped in Q2 FY12 could put pressure on pace of decline in cost to income. However, this is likely to be partially offset by the improving productivity. The declining trend in cost to income ratio expected to continue and reach early 50s in next 3 – 4 years. We expect improvement in productivity to boost RoA to newer levels in future ahead.

Outlook & Valuation

We expect RoA to improve further in future led by above industry average credit growth supported by robust asset quality along with operating leverage or improvement in productivity.

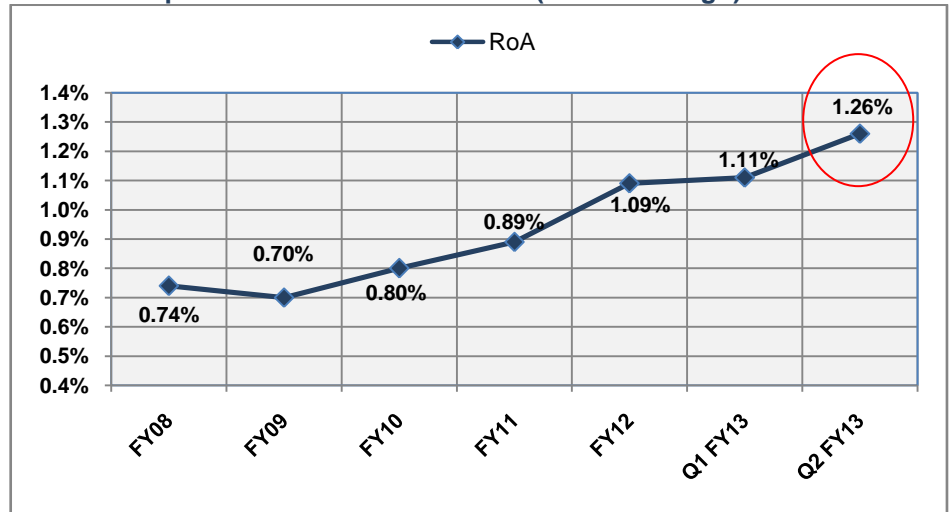
We observed that improvement in RoA led to re-rating of the bank.

Market Price Rs.	Quarterly update	P/BV (FY14E)
360	Year end FY12 Result Update	1.1X
383	Q1 FY13 Result Update	1.2X
448	Q2 FY13 Result Update	1.4X
500	Currently	1.5X

We expect re-rating to continue in quarters ahead with improvement in operating performance.

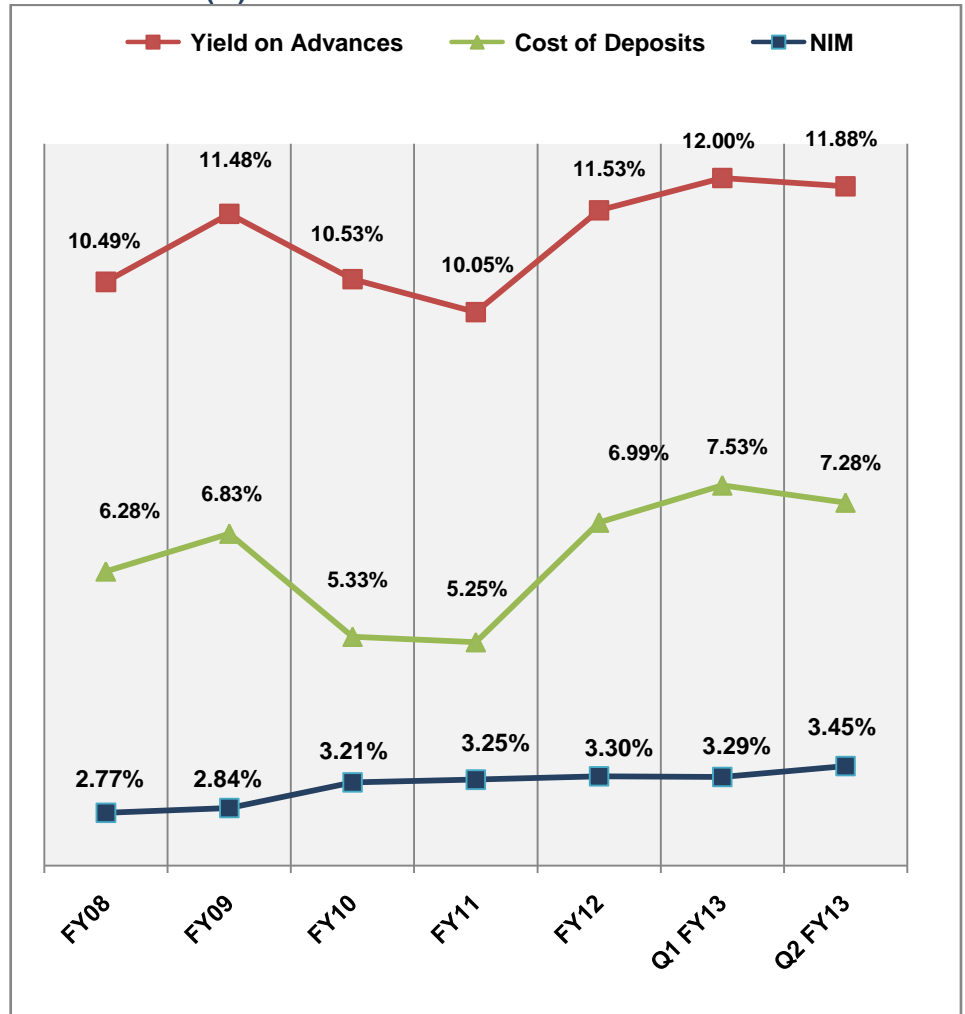
At CMP Rs.500 ING Vysya Bank is trading at P/B multiple of 1.7x its FY13E BV of Rs.294 and 1.5x its FY14E BV of Rs.329. We value the bank at its P/BV multiple of **1.8x (earlier 1.5X)** on its FY14E BV of Rs.329 and raise our target price to **Rs.593 (earlier Rs.490)**. We reiterate **BUY** on ING Vysya Bank with an upside potential of 19%.

Exhibit 1: Improvement in RoA continues (@ all time high)



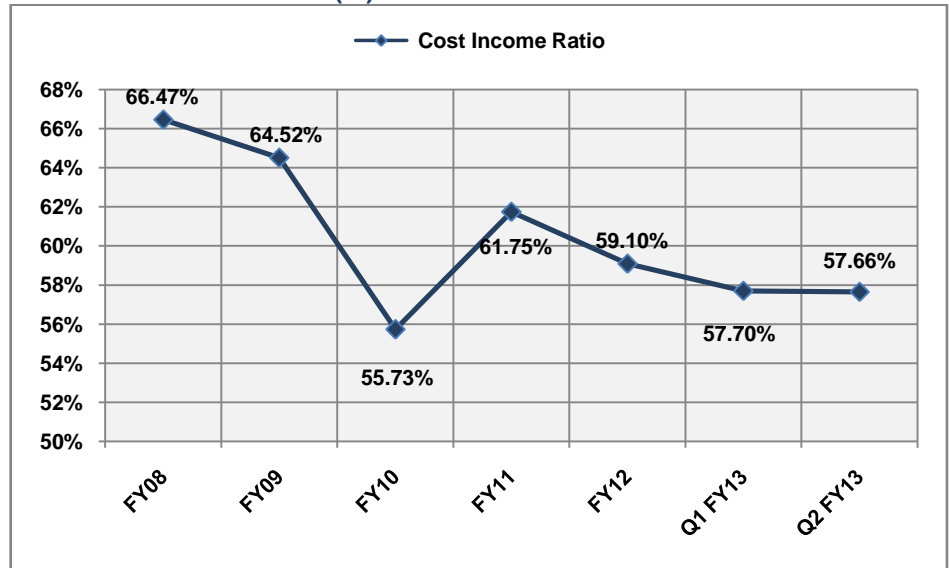
Source: Company, Shah Investor's Research

Exhibit 2: NIMs (%)



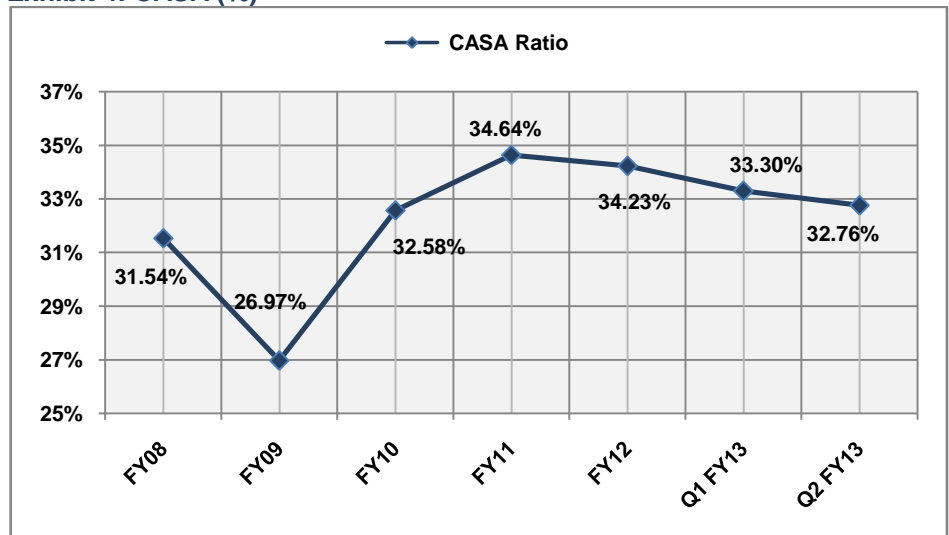
Source: Company, Shah Investor's Research

Exhibit 3: Cost to Income (%)



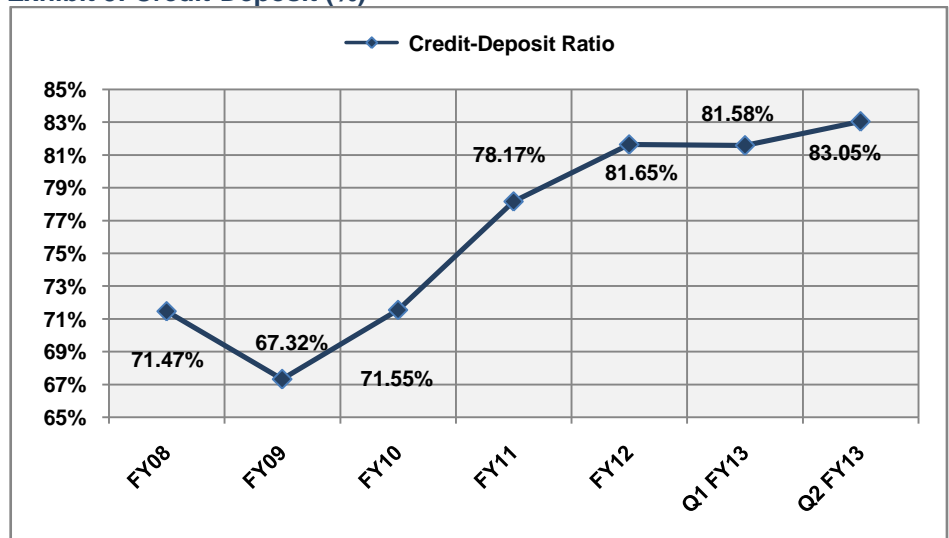
Source: Company, Shah Investor's Research

Exhibit 4: CASA (%)



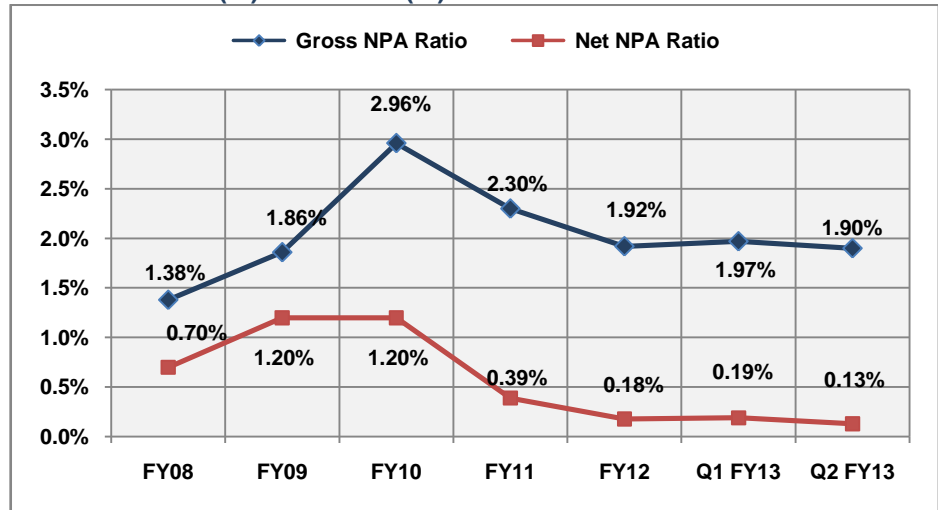
Source: Company, Shah Investor's Research

Exhibit 5: Credit-Deposit (%)



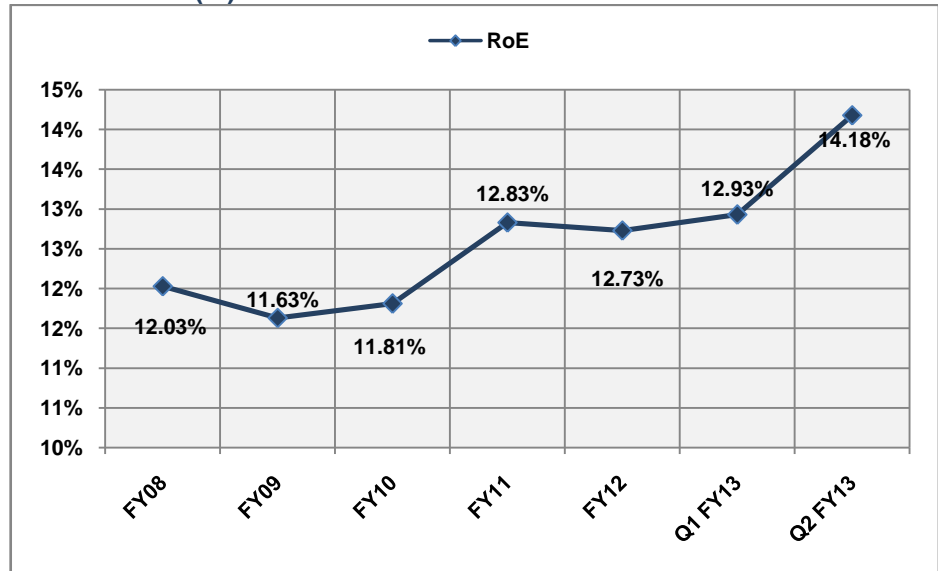
Source: Company, Shah Investor's Research

Exhibit 6: GNPA (%) and NNPA (%)



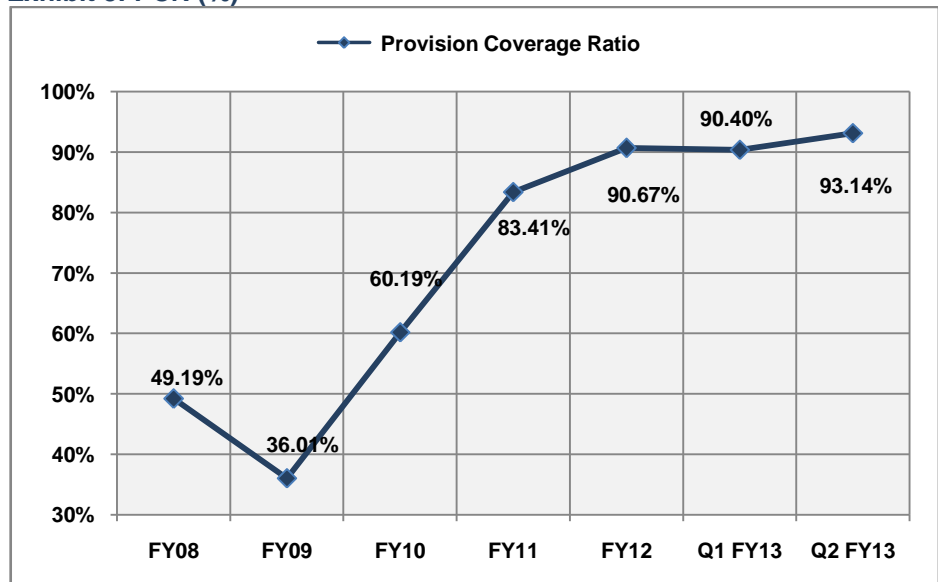
Source: Company, Shah Investor's Research

Exhibit 7: RoE (%)



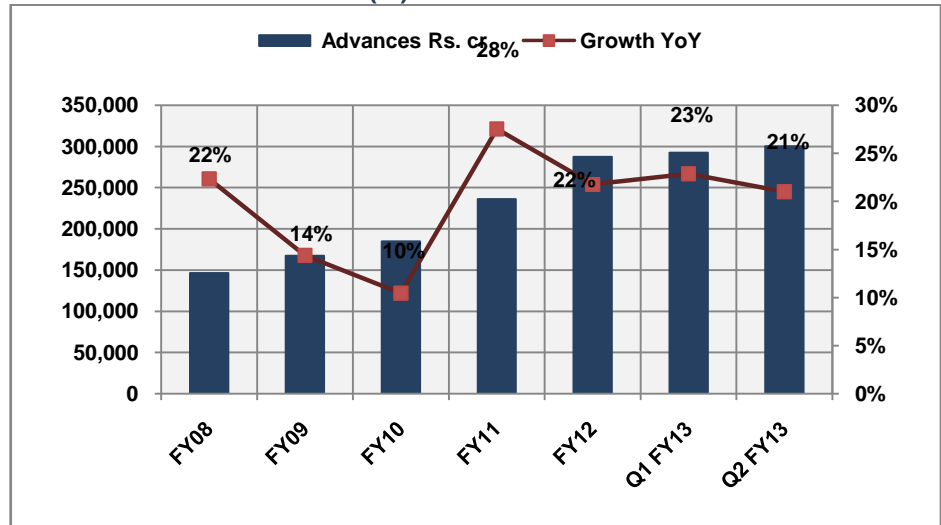
Source: Company, Shah Investor's Research

Exhibit 8: PCR (%)



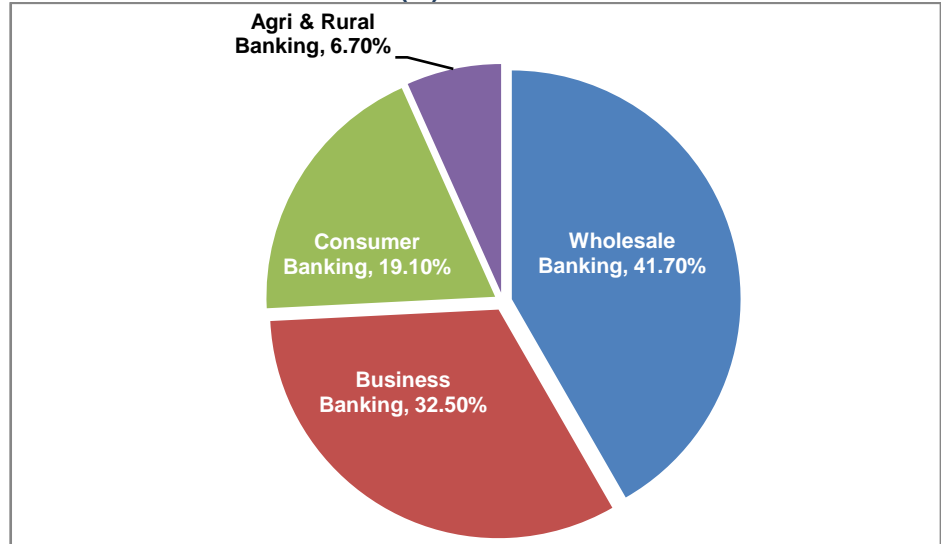
Source: Company, Shah Investor's Research

Exhibit 9: Advances Growth (%)



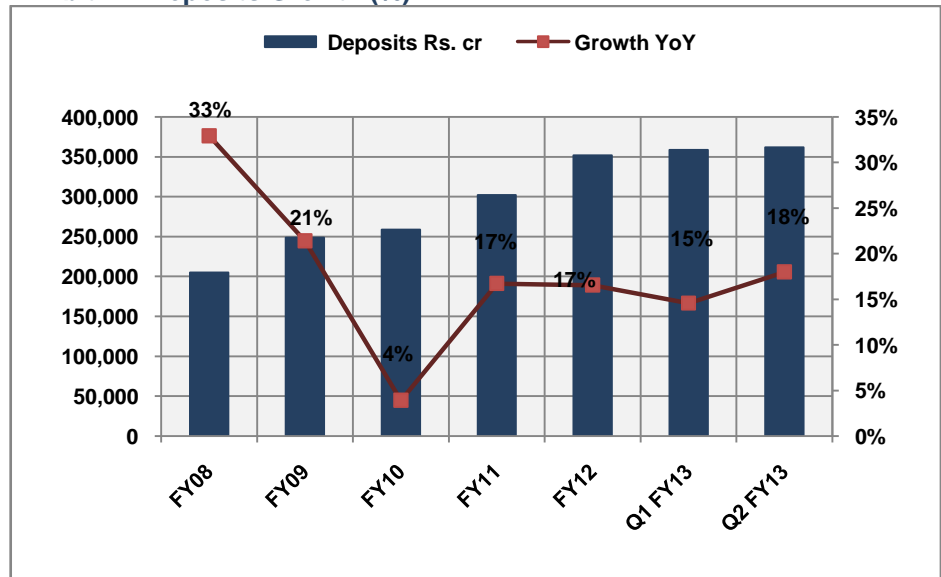
Source: Company, Shah Investor's Research

Exhibit 10: Advances Portfolio (%)



Source: Company, Shah Investor's Research

Exhibit 11: Deposits Growth (%)



Source: Company, Shah Investor's Research

Exhibit 12: Standalone Income Statement

Particulars Rs. Cr	FY10	FY11	FY12	FY13E	FY14E
Interest Earned	2,233	2,694	3,857	4,627	5,335
Interest Expended	1,403	1,688	2,648	3,063	3,518
Net Interest Income (NII)	830	1,007	1,208	1,564	1,817
Other Income	620	655	670	842	978
Total Income	1,450	1,661	1,878	2,406	2,795
Operating Expenses	808	1,026	1,110	1,383	1,593
Provisions and Contingencies	270	152	114	140	194
Profit Before Tax	372	484	654	882	1,008
Taxes	129	165	198	282	333
Profit After Tax	242	319	456	600	675
EPS	20.2	26.3	30.4	40.0	45.0

Source: Company, Shah Investor's Research

Exhibit 13: Standalone Balance Sheet Statement

Particulars Rs. Cr	FY10	FY11	FY12E	FY13E	FY14E
SOURCES OF FUNDS:					
Share Capital	120	121	150	150	150
Share Warrants & Outstanding	3	2	2	2	2
Total Reserves	2,208	2,501	3,828	4,337	4,909
Deposits	25,865	30,194	35,195	40,827	47,359
Borrowings	3,671	4,147	5,243	6,005	7,443
Other Liabilities & Provisions	2,013	2,049	2,582	2,957	3,666
Total Liabilities	33,880	39,014	47,001	54,277	63,529
APPLICATION OF FUNDS :					
Cash and balance with Banks	3,027	2,521	3,231	2,284	1,028
Investments	10,473	11,021	12,716	14,496	16,525
Advances	18,507	23,602	28,737	35,059	43,122
Other Assets	1,377	1,367	2,318	2,439	2,853
Total Assets	33,880	39,014	47,001	54,277	63,529

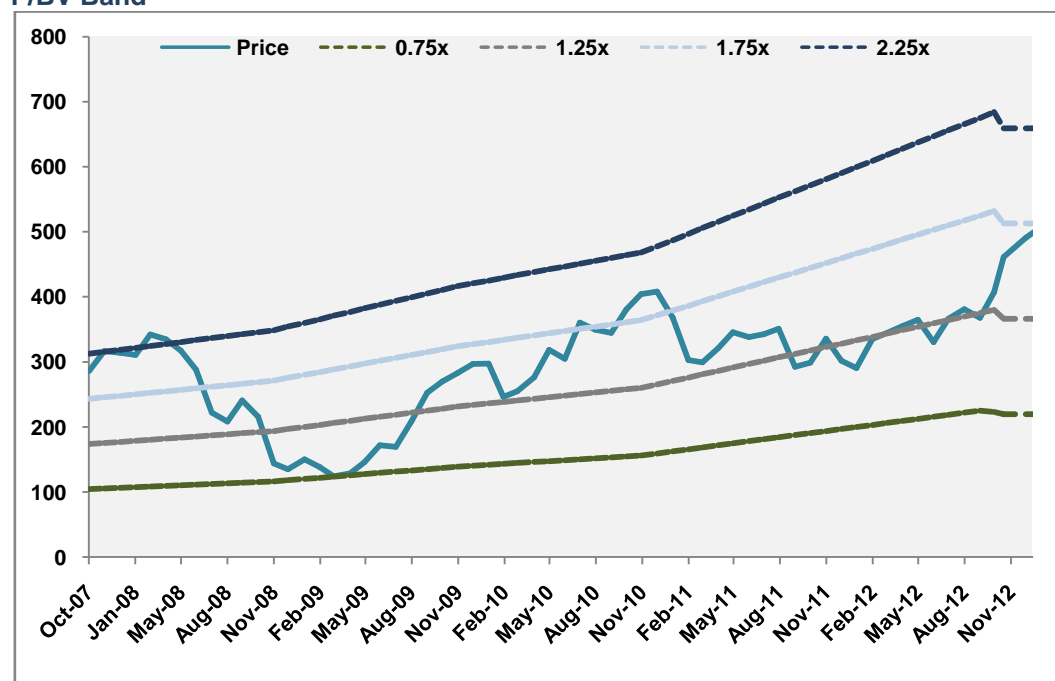
Source: Company, Shah Investor's Research

Exhibit 14: Ratio Analysis

	FY10	FY11	FY12	FY13E	FY14E
Spread Analysis					
Yield on Earning Assets	7.3%	7.8%	9.4%	9.6%	9.5%
Cost of funds	4.5%	5.0%	6.7%	6.6%	6.5%
Interest Spread	2.7%	2.8%	2.8%	3.0%	3.0%
Net Interest margin	2.7%	2.9%	3.0%	3.2%	3.2%
Profitability Ratios					
RoE	12.7%	13.5%	14.1%	14.4%	14.4%
RoA	0.7%	0.9%	1.1%	1.2%	1.1%
Interest Expense/Interest Income	62.8%	62.6%	68.7%	66.2%	65.9%
Non-Interest Income/Total Income	42.8%	39.4%	35.7%	35.0%	35.0%
Efficiency Ratios					
Cost/Income	55.7%	61.8%	59.1%	57.5%	57.0%
Employee cost/Operating Expenses	53.1%	59.0%	58.6%	60.0%	60.0%
Asset-Liability Ratios					
Credit/Deposit	71.6%	78.2%	81.6%	85.9%	91.1%
CASA/Deposit	32.6%	34.6%	34.2%	34.5%	35.0%
Investment/Deposit	40.5%	36.5%	36.1%	35.5%	34.9%
Valuation Ratios					
Book Value (Rs.)	185.0	208.1	261.6	293.6	329.2
P/BV (x)	2.7	2.4	1.9	1.7	1.5
EPS (Rs.)	20.2	26.3	30.4	40.0	45.0
P/E (X)	24.8	19.0	16.4	12.5	11.1
Dividend (Rs.)	2.5	3.0	4.0	5.2	5.8
Yield	0.5%	0.6%	0.8%	1.0%	1.2%

Source: Company, Shah Investor's Research

P/BV Band



Source: Company, Shah Investor's Research

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