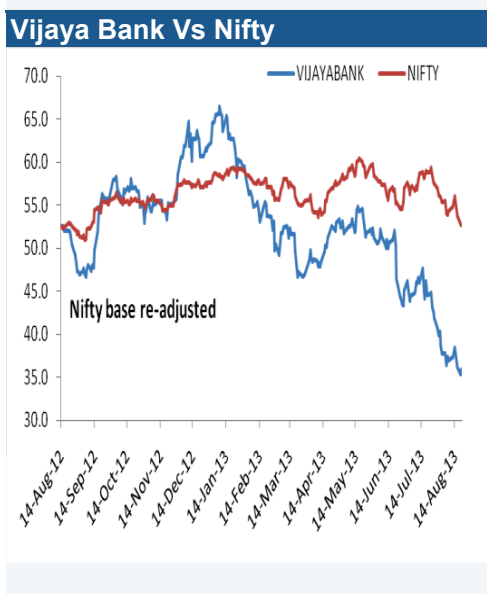


Result update	BUY
CMP	35.9
Target Price	41
Previous Target Price	-
Upside	14
Change from Previous	-

Market Data	
BSE Code	532401
NSE Symbol	VIJAYABANK
52wk Range H/L	67/34
Mkt Capital (Rs Cr)	1776
Average Daily Volume	84.86
Nifty	5401

Stock Performance			
	1M	1yr	YTD
Absolute	-19.8	-31.7	-24.2
Rel.to Nifty	-9.3	-32.1	-27.0

Share Holding Pattern-%			
	Current	4QFY13	3QFY1
Promoters	55.0	55.0	55.0
FII	4.5	4.4	4.3
DII	14.0	14.1	15.2
Others	26.5	26.5	25.5



*In current scenario where currency has depreciated almost 17% in this fiscal and Government's 10 year bond yield crossed 9.5%, most of banks treasury income would be impacted. During quarter most of banks reported more than double fold of other income largely supported by treasury income. We believe banks' with lower dependency in treasury income and stable asset quality would do better and may generate alpha in investment portfolio. We can't ruled out Vijaya bank's hurting of treasury gain and but has stable asset quality in comparison to peers. Bank is trading at significantly lower side of valuation band (0.3 times of one year forward book). We recommend buy with price target of Rs.41.*

## Treasury income would be impacted due to currency depreciation and bond yield

Post correction most of PSU banks are trading in the range of 0.3 to 0.5 times of one year forward book which we believe at attractive valuation. But at present macroeconomic scenario where rupees has depreciated almost 17% in this fiscal and 10 years Government yield crossed 9.5%, we believe banks' treasury income would be impacted. During quarter, most of banks reported non- interest income of double fold boosted by treasury income and made higher provision with the support of other income. But in coming quarters treasury gain would be impacted due to currency depreciation and bond yield. Hence profitability might be impacted in quarters to come.

## Banks provisions were supported by non interest income

In asset quality front, banks reported deterioration in asset quality on sequential basis. Hence banks which have stable asset quality and reported improvement in operating metrics on sequential basis may generate alpha in investment portfolio. Currently Vijaya bank is trading at 0.3 times of one year forward book and has stable asset quality. Moreover most of banks reported 40 to 80% increased in provision during quarter whereas bank reported 32% YoY and 57% QoQ declined in provision. However we can not rule out the bank's treasury gain would be impacted in line with industry. During quarter bank reported treasury gain of Rs.141 cr as against Rs.20 cr in 1QFY13.

## Financials

					Rs, Cr
	2011	2012	2013	2014E	2015E
NII	1947	1904	1878	2549	3179
Total Income	2480	2432	2485	3156	3786
PPP	1047	1230	1122	1389	1666
Net Profit	524	581	586	520	640
EPS	11.1	11.7	11.8	10.5	12.9

(Source: Company/Eastwind)

## **Treasury income boosted revenue growth**

During quarter bank reported earnings growth of 19% YoY to Rs.132 cr largely due to support of other income and lower provisions. During quarter bank reported moderate NII growth of 5.7% YoY to Rs.481 cr and other income of Rs.267 cr versus Rs.123 cr mainly boosted by treasury gain of Rs.141 cr as against Rs.20 cr in corresponding quarter last year. With the support of other income, total revenue registered growth of 29.4% YoY Rs.748 cr.

## **Strong operating profit despite of higher CI ratio**

Operating profit grew by 27.6% YoY to Rs.330 cr. In 1QFY14, employee cost and other operating expenses increased by 31.7% and 29.5% YoY respectively. Due to higher operating expenses (31% YoY), cost income ratio increased by 473 bps sequentially to 55.8%.

## **Stable asset quality led provision declined**

Provisions declined by 32% YoY and 56.7% QoQ to Rs.89 cr largely due to stable asset quality in comparison to other banks. Vijaya bank reported GNPA increased of 8% and net NPA increased of 7% on sequential basis. In absolute term GNPA and net NPA stood at 2.4% and 1.4% respectively. Provision coverage ratio during the quarter was 40.9% versus 40.6% in 4QFY13 and 42.2% in 1QFY13.

## **Higher non interest income, lower provision and lower tax rate supported profit growth**

The earnings grew by 18.9% YoY to Rs.132 cr boosted by higher treasury gain and lower provisions and lower effective tax rate. In 1QFY14, effective tax rate was 45% as against 13.2% reported in 1QFY13. Return ratio like ROA and ROE of the bank stood at 0.5% and 10.7% respectively.

## **Loan and deposits growth in line with industry average**

On business growth parameters, bank reported deposits growth of 22% YoY of which demand deposits and saving deposits grew by -7% and 14% YoY respectively. Deposits growth was boosted by term deposits which grew by 26% YoY taking overall CASA ratio declined by 243 bps YoY to 18.8% due to slower pace growth of current deposits. Loan grew by 15% YoY to Rs.680 bn. Credit deposits ratio was declined to 64.5% from 68.6% in 1QFY13 and 71.9% 4QFY13 due to lower growth in loan (-3% QoQ).

# Vijaya Bank

## Margin declined on sequential basis due to lower loan yield as compare to deposits cost

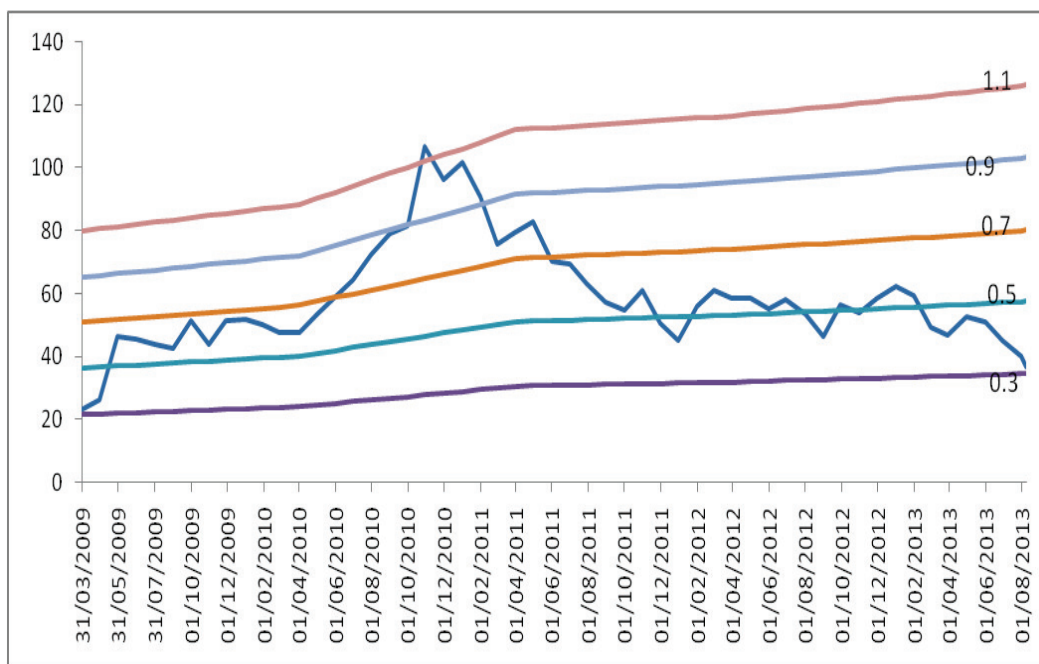
Net Interest Margin declined by 31 bps QoQ to 2% led by 28 bps QoQ declined in loan yield while cost of deposits declined by 12 bps sequentially. Higher declined of advance yield as compare to cost of deposits along with lower CD ratio led NIM declined on sequential basis.

## Valuation & View

In current scenario where currency has depreciated almost 17% in this fiscal and Government bond yield crossed 9.5%, most of banks treasury income would be impacted. During quarter most of banks reported more than double fold of other income largely supported by treasury income. We believe banks' with lower dependency in treasury income and stable asset quality would do better and may generate alpha in investment portfolio. We cant ruled out Vijaya bank's hurting of treasury gain and but has stable asset quality in comparison to peers. Bank is trading at significantly lower side of valuation (0.3 times of one year forward book). We recommend buy with price target of Rs.55.

## Valuation Band

### One Year forward P/BV



Source: Eastwind/Company

# Vijaya Bank

## Quarterly Result( Rs Cr)

	1QFY14	4QFY13	1QFY13	% YoY Gr	% QoQ Gr
Interest/discount on advances / bills	1805	1784	1675	7.8	1.2
Income on investments	577	567	514	12.2	1.7
Interest on balances with Reserve Bank of India	2	1	0	5700.0	152.2
Others	48	52	8	521.3	-7.2
Total Interest Income	2432	2404	2197	10.7	1.2
Others Income	267	277	123	117.6	-3.5
Total Income	2699	2680	2320	16.3	0.7
Interest Expended	1951	1886	1742	12.0	3.4
NII	481	517	455	5.7	-7.0
Other Income	267	277	123	117.6	-3.5
Total Income	748	794	578	29.4	-5.8
Employee	263	245	199	31.7	7.2
Other Expenses	155	160	119	29.5	-3.6
Operating Expenses	417	406	319	30.9	2.9
PPP( Rs Cr)	330	388	259	27.6	-14.9
Provisions	89	205	131	-31.8	-56.6
PBT	241	183	128	88.0	31.9
Tax	109	-41	17	540.5	-364.1
Net Profit	132	224	111	18.9	-40.9

## Balance Sheet Data (Rs Cr)

Deposits	105369	97017	86464	21.9	8.6
of which Curent Deposits	4581	5216	4949	-7.4	-12.2
Saving Deposits	15275	15133	13441	13.6	0.9
Net Loan	67964	69766	59306	14.6	-2.6

## Asset Qaulity

GNPA (Rs Cr)	1654.08	1533	1693	-2.3	7.9
NPA (Rs Cr)	977.33	910	979	-0.2	7.4
% GNPA	2.4	2.2	2.9		
% NPA	1.4	1.3	1.7		

Source: Eastwind/Company