

VIJAYA BANK

HOLD

11-May-17

INDUSTRY - BANKING
BSE Code - 532401
NSE Code - VIJAYABANK
NIFTY - 9407

Company Data

CMP	93
Target Price	98
Previous Target Price	
Upside	6%
Change from Previous	
52wk Range H/L	97/29
Mkt Capital (Rs Cr)	9254
Av. Volume (,000)	823

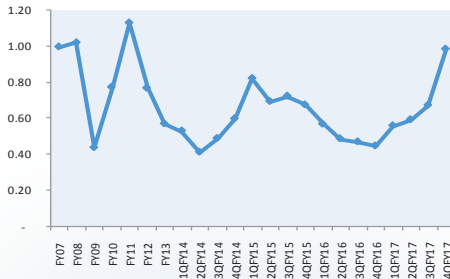
Share Holding Pattern %

	4QFY17	3QFY17	2QFY17
Promoters	70.3	70.3	70.3
DII	14.5	14.5	14.7
FII	2.4	2.4	3.2
Others	12.9	12.8	11.8

Key Highlights of the report:

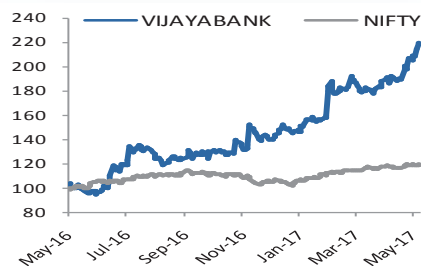
- ✓ Vijaya bank continues to report healthy results amid dismal numbers among its public peer banks.
- ✓ Credit growth has shown positive sign with growth of 6% YoY on the back of strong retail credit growth.
- ✓ Vijaya bank has lowest stressed assets among all public sector banks and has declined for consecutive two quarters. However we remain extremely cautious on assets quality front for PSU banks.
- ✓ With the less stress assets on balance sheet margins and profitability has continuously improved for vijaya bank.
- ✓ **We initiated this stock at the price of Rs 48 which has almost doubled till now. The stock is currently trading at (1.3x/1.2x PV FY17/FY18E) and valuation has got stretched which leaves us with little upside, hence we recommend to partly book profit on this stock and hold for the rest with the target price of Rs 98.**

Vijaya bank is trading at its higher range of P/B



Stock Performance %

	1Mn	1Yr	YTD
Absolute	29.8	194.1	97.1
Rel. to Nifty	27.9	174.5	82.1



DEEPAK KUMAR

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Financials/Valuation	FY15	FY16	FY17	FY18E	FY19E
Nil	2,292	2,761	3,506	4,054	4,701
PPP	1,912	2,086	2,737	2,784	3,127
PAT	439	382	750	904	1,338
NIM %	1.8	2.1	2.5	2.7	2.8
EPS (Rs)	5.1	4.1	7.5	8.2	12.2
EPS growth (%)	26.4%	-20.0%	83.5%	9.5%	48.0%
ROE (%)	7.5	6.1	11.1	11.7	15.0
ROA (%)	0.3	0.3	0.5	0.6	0.8
BV	69	70	70	77	86
P/B (X)	0.7	0.4	1.0	1.2	1.1
P/E (x)	9.4	7.7	9.2	11.3	7.6

Recent Development : Key Highlights of Result Update

- ✓ Vijaya bank continues to report healthy performance in 4Q FY17 as per our expectation.
- ✓ PAT increased by 3 times to Rs 204 Cr in 4Q FY17.
- ✓ NIM improved to 3.10% from 2.27% on 4Q FY16.
- ✓ Advances grew by 6.3% YoY on the back of healthy growth in retail advances.
- ✓ Assets quality has further improved on sequential basis with GNPA at 6.59% against 6.98%
- ✓ CASA ratio remained healthy at 28% against 23% a year back.
- ✓ With the Tier 1 ratio at 9.96% and CRAR at 12.73% management plans to Raise Rs 1000 Cr core capital in FY18.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	2,956	3,060	3,128	3,137	3,055	3.3%	-2.6%	12,084	12,379	2.4%
Interest Exp.	2,287	2,277	2,300	2,231	2,065	-9.7%	-7.4%	9,323	8,873	-4.8%
NII	668	783	828	906	989	48.0%	9.2%	2,761	3,506	27.0%
Other Income	273	235	388	577	450	65.0%	-22.0%	874	1,651	89.0%
Total Income	941	1,018	1,216	1,484	1,440	53.0%	-3.0%	3,635	5,158	41.9%
Ope Exp.	627	559	645	795	737	17.5%	-7.4%	2,086	2,737	31.2%
PPP	314	459	571	688	703	123.7%	2.1%	1,549	2,421	56.3%
Provisions	653	268	390	417	432	-33.9%	3.6%	1,391	1,507	8.4%
PBT	(339)	191	181	271	271	-180.0%	-0.2%	158	914	477.5%
Tax	(411)	29	27	41	67	-116.3%	62.7%	(223)	164	-173.4%
Net Profit	72	162	155	230	204	183.9%	-11.4%	382	750	96.6%

Robust NII growth on the back of NIM expansion.

Strong profitability continues in 4Q FY17.

- ✓ Vijaya bank continues to report healthy performance in 4Q FY17 as per our expectation. PAT almost increased by 3 times on the back of lower PAT base in 4Q FY16.
- ✓ NII grew by robust rate of 48% YoY backed by NIM expansion.
- ✓ Other income grew by 65% YoY backed by heavy treasury gain which increased by 14x YoY. However fee income also remained healthy and registered 99% growth YoY.
- ✓ Operating expenses grew by 17% YoY which led to decline in C/I ratio to 51% from 53.4% on sequential basis.
- ✓ Provisions declined by 34% YoY on the back of stable assets quality performance.
- ✓ NIM improved to 3.10% from 2.27% on 4Q FY16. Cost of fund declined by 134 bps to 5.43% mainly benefitting from improved CASA ratio due to demonetization. Yield on earning assets decreased to 8.03% against 8.77% on 4Q FY17.

Profitability Metric	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	66.6	54.9	53.1	53.6	51.2	-15.44	-2.44	57.4	53.1	-4.33
Empl. Cost/ Tot. Exp. %	58.5	61.0	63.8	64.4	65.6	7.02	1.20	59.8	63.9	4.09
Other Exp/Tot. Exp.%	41.5	39.0	36.2	35.6	34.4	-7.02	-1.20	40.2	36.1	-4.09
Provision/PPP %	207.8	58.4	68.3	60.6	61.5	-146.4	0.89	89.8	62.2	-27.55
Tax Rate %	121.2	15.3	14.6	15.2	24.7	-96.46	9.56	-141.1	17.9	159.03
Int Exp./Int Inc. (%)	77.4	74.4	73.5	71.1	67.6	-9.78	-3.50	77.2	71.7	-5.48
Other Inc./Net Inc. %	29.0	23.1	31.9	38.9	31.3	2.28	-7.64	24.0	32.0	7.97
PAT/ Net Income %	7.6	15.9	12.7	15.5	14.2	6.54	-1.35	10.5	14.6	4.05
PAT Growth %	-27.3	13.4	34.1	337.7	183.9	211.2	-153.8	-13.1	96.6	109.67
NII Growth % (YoY)	6.9	18.2	19.5	22.9	48.0	41.16	25.17	20.4	27.0	6.57
Operating Profit Growth	0.0	16.8	43.1	55.5	123.7	123.73	68.24	23.0	56.3	33.30
RoE %	6.1	9.8	9.1	13.2	11.6	5.47	-1.60	6.1	11.1	4.97
RoA %	0.3	0.5	0.4	0.6	0.5	0.23	-0.08	0.3	0.5	0.25

Cost to Income remained at higher side. A lot of scope form improvement.

Consecutive Improvement in Non-performing assets.

- ✓ Assets quality has further improved on sequential basis with GNPA at 6.59% against 6.98% and NNPA at 4.36% against 4.74%.
- ✓ However slippages increased significantly during this quarter to Rs 713 Cr against Rs 200 in 3Q FY17. Management highlighted that slippages were mostly from retail and MSME accounts (Demonetization) which was not recognized in 3Q FY17 as per dispensation scheme of RBI.
- ✓ Recoveries & Up-gradation was Rs 213 Cr against Rs 172 Cr.
- ✓ PCR has increased to 58% against 55% on sequential basis.
- ✓ Restructured assets declined to Rs 1524 Cr against 1969 Cr sequentially.

Healthy Retail advances and CASA growth.

- ✓ Advances grew by 6.3% YoY on the back of healthy growth in retail advances.
- ✓ Retail advance grew by 24.3% YoY, agri portfolio increased by 13.5% YoY whereas MSME advances grew by 6.7% YoY.
- ✓ Under the retail advances housing loan grew by 29% YoY. Retail advances constitute 30% of the loan portfolio and management is focused to increase share of retail advances going forward.
- ✓ Total deposits grew by 6% YoY whereas CASA deposit registered healthy growth of 28% YoY. CASA ratio remained healthy at 28% against 23% a year back but it declined marginally by 60 bps sequentially. Under CASA both current and saving deposits grew by 28% YoY.

Concall Highlights :

Slippages were due to demonetization which got deferment during 3Q FY17 on account of dispensation scheme of RBI. However management said that they saw good recovery in MSME accounts from mid of April. There was only one large account from S4A which slipped to the tune of Rs 60 to 70 Cr. Steel and Iron advances is Rs3711 Cr and NPA in this Rs 2000 Cr which constitute 31% of total GNPA. Engineering constitute 8.3% of GNPA, Power is 9.65%, textile is 4.8%, Road is 5.7% of total GNPA. Expect 9%-10% credit growth on the back of retail, agri and MSME sector in FY18. NIM target is 2.8%-3%. Expect to cross PCR of 65% in FY18.

Management expects slippages run rate of Rs 250-300 Cr per quarter in FY18.

S4A exposure is Rs 836 Cr, SDR is Rs 222 Cr (4 a/c) of which Rs 192 is NPA, 5/25 is Rs 1972 Cr of which Rs 982 Cr is already NPA.

One account to the tune of Rs 400 Cr from electronic company is showing stress.

Restructured book reduced due to conversion of discom exposure of Rs 400 Cr from Tamil Nadu and Telengana.

View and Valuation

Focus of management on retail banking has helped the operating profitability to improve significantly. The balance sheet has tilted towards more on retail banking both on assets side as well as liability side. Focus on CASA deposits and shedding the bulk deposits has helped the cost of fund to decline significantly. We expect NIM to improve further in FY18 to 2.75%. Focus of management is growing retail book going forward hence we expect 8 to 10 percent credit growth in FY18. Assets quality is likely to continue to improve going forward but we are cautious for the whole scenario of assets quality in PSU banking. With the Tier 1 ratio at 9.96% and CRAR at 12.73% management plans to Raise Rs 1000 Cr core capital in FY18. With this we expect RoE and RoA of 11.7% and 0.6% respectively in FY18.

We initiated this stock at the price of Rs 48 which has almost doubled till now. The stock is currently trading at (1.3x/1.2x PV FY17/FY18E) and valuation has got stretched which leaves us with little upside, hence we recommend to partly book profit on this stock and hold for the rest

Non-Performing Assets

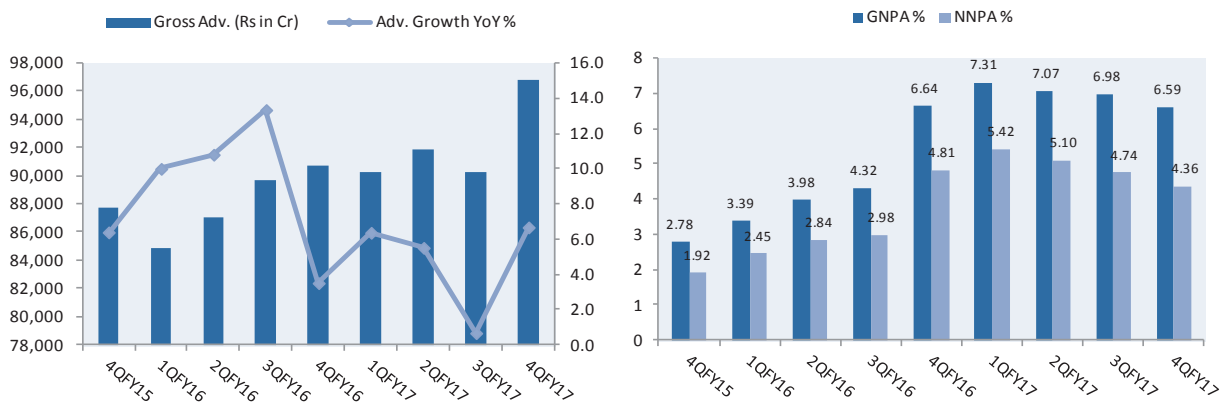
	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs)	6,027	6,589	6,490	6,305	6,382	5.9%	1.2%	6,027	6,382	5.9%
GNPA %	6.6	7.3	7.1	7.0	6.6	-0.05	-0.39	6.6	6.6	-0.05
NNPA (Rs)	4,277	4,793	4,587	4,182	4,118	-3.7%	-1.5%	4,277	4,118	-3.7%
NNPA %	4.8	5.4	5.1	4.7	4.4	-0.45	-0.38	4.8	4.4	-0.45
Slippages (Rs)	3,016	1,244	736	200	713	-76.4%	256.5%	5,836	2,893	-50.4%
Restructured Ast.(Rs)	2,155	9,670	2,285	1,969	1,524	-631.00	-445.00	2,155	1,524	-631.00
PCR %	50.1	48.6	51.3	55.4	58.2	8.07	2.71	50.1	58.2	8.07

Advances Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Gross Adv. (Rs in Cr)	87,692	84,800	87,026	89,696	90,765	90,199	91,821	90,290	96,821
Adv. Growth YoY %	6.4	10.0	10.8	13.3	3.5	6.4	5.5	0.7	6.7
>> Growth QoQ %	10.8	-3.3	2.6	3.1	1.2	-0.6	1.8	-1.7	7.2

Deposits Performance

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Deposits (Rs in Cr)	126343	127640	123286	125475	125441	120477	127785	128299	133012
Growth YoY %	1.6	7.6	0.1	1.1	-0.7	-5.6	3.6	2.3	6.0
>> Growth QoQ %	1.8	1.0	-3.4	1.8	0.0	-4.0	6.1	0.4	3.7
CASA (Rs)	25,721	24,285	25,311	25,992	29,125	27,975	28,953	36,816	37,373
>>CASA Growth YoY %	12.5	6.9	8.4	9.8	13.2	15.2	14.4	41.6	28.3
>> Growth QoQ %	8.7	-5.6	4.2	2.7	12.1	-3.9	3.5	27.2	1.5
CASA %	20.4	19.0	20.5	20.7	23.2	23.2	22.7	28.7	28.1
CA %	5.3	4.2	4.6	4.9	5.3	5.0	4.6	6.3	6.4
SA %	15.1	14.8	15.9	15.9	17.9	18.2	18.0	22.4	21.7
Credit Deposit Ratio	69.4	66.4	70.6	71.5	72.4	74.9	71.9	70.4	72.8



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