

Sensex 26,687      Nifty 8,165      Price: INR 460      Target Price: INR 500      **OUTPERFORMER**

**Background:** Karur Vysya Bank (KVB) is one of the mid-sized banks in the private sector space, operates through a network of 667 branches and about 1,655 ATMs. KVB's business - 82% is concentrated in South India with about 73% of its branch footprint in Tamil Nadu and Andhra Pradesh. As of 4QFY16 the total business stood at INR 895bn. The bank is capitalized with a total CAR of 12.17% (Basel III). Gross NPAs were reported at 1.3% with provision coverage ratio (PCR) of ~83%.

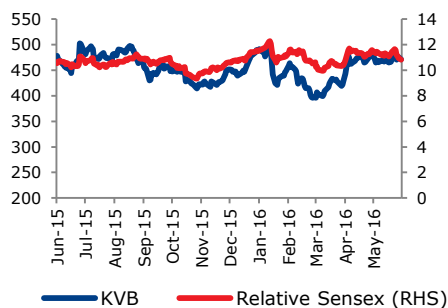
52 Week High/Low	INR 517/394
Bloomberg / Reuters	KVB IN / KARU.BO
Equity (shares in mn)	121.9
Mkt. Cap in bn	INR 56.1/ \$ 0.8
Avg. Daily Vol. ('000)	125.7
Avg. Daily Vol. (mn)	INR 57.8/\$ 0.9

Shareholding	Dec-14	Sep-15	Dec-15
Promoters (%)	2.18	2.16	2.16
FII (%)	28.34	23.96	6.70
DII (%)	18.12	21.03	38.10
Others (%)	51.36	52.84	53.04
Pledge (% of promoter holding)	8.74	9.00	8.85

### Valuation Summary (INR bn)

Y/E March	2016	2017E	2018E
Net Interest Inc	17.8	19.3	22.1
Other Inc	7.1	7.9	9.3
Pre Prov Profit	9.1	13.6	14.8
PAT	5.7	6.6	8.3
EPS	46.6	54.1	68.4
% growth	97.7	16.1	26.5
PE	10.0	8.6	6.8
P/ BV	1.2	1.1	1.0
Div Yield (%)	2.8	3.0	3.6
ROA (%)	1.0	1.1	1.2
ROE (%)	12.9	13.7	15.9
CAR (%)	12.2	13.9	13.8
Tier I (%)	11.3	12.5	12.4

Performance %	1M	3M	12M
KVB	1.3	18.8	-89.5
Sensex	5.9	12.4	-3.3



Praveen I +91-44-30007363  
praveeni@chola.murugappa.com

Hemanth Reddy +91-44-30007344  
hemanthrrg@chola.murugappa.com

### Asset quality improves on aggressive asset sale

- KVB's advances grew steadily despite tight credit policy at (7.6% YoY, 4.2% QoQ) to INR 395bn led by Commercial (8.4% YoY, 4.8% QoQ), Agriculture (12.7% YoY, 12.5% QoQ) & Retail (12.2% YoY, 4.3% QoQ) with Corporate advances showing a muted growth (2.7%YoY). Consequently, their share in loan mix was noted at 32.3%, 17.8%, 15.0% and 34.9% respectively. Management expects to maintain loan book growth at 15% in FY17.
- Industry wise textiles - (forming 8.9% of advances) grew 26.8% YoY, while Power loans (forming 2.9% of advances) and Metals loan (forming 3.9% of advances) contracted 20% YoY and 16% YoY respectively. Jewel loans contracted by 9.9% YoY as traction for the segment remained low given the volatility in gold prices.
- Deposits registered a stable growth (12.1% YoY, 5.8% QoQ) to INR 500bn with Time deposits growing at 10.2% YoY. CASA deposits (forming 23.3% in FY16 Vs 22.0% in FY15) grew (18.6% YoY, 5.4% QoQ) with higher growth in SD at (21.1% YoY, 7.9% QoQ).
- NIM increased (40bps YoY, 8bps QoQ) to 3.55% supported by drop in cost of funds (76bps YoY, 45bps QoQ) to 6.88% due to trimming of bulk deposits. Yield on advances decreased (43bps YoY, 31bps QoQ) to 11.3% amidst reduction in base rates.
- Asset Quality improved strongly with GNPA's at 1.30% (-55bps YoY) as absolute GNPA's showed a strapping decrease by 24.6%YoY to INR 5.1bn, while NNPA's decreased by 23.1%YoY to INR 2.1bn or 0.55% which was a result of KVB selling assets worth INR 8bn to ARCs at a deep discount of ~60% and the loss on sale amounting to INR 4.37bn would be amortized over the next seven quarters. Slippages increased sharply to INR 6.75bn largely driven by textile & steel sector (Nil slippages from restructured books) in 4QFY16 as compared to INR 1.84bn in 3QFY16. Outstanding restructured loans reduced by (37% QoQ) to INR 13.55bn (3.4% of advances) with fresh recasting of INR 0.34bn.
- Operating profit and PAT remained flat YoY in the current quarter at INR 2.6bn and 1.4bn respectively. However, both the operating profit and PAT registered sequential de-growth of 20.6% & 9.8% respectively. Cost/income ratio shot up to 59.5% led by accounting for loss on sale to ARCs as operating expenses to the extent of INR 0.63bn during the quarter and also one-off items excluding which the C/I ratio stands close to 47%.

**Valuation:** Considering the firm loan book growth and factoring the muted earnings due to the one-offs, we maintain an OUTPERFORMER rating for the stock with target price of INR 500, implying a P/BV of 1.1X FY18E.

**Risks:** Slower than expected loan growth, increase in slippages might impact earnings.

### Results Summary 4QFY16

Y/E March ( INR bn)	4QFY16	4QFY15	YoY Growth	3QFY16	QoQ Growth
<b>Net Interest Income</b>	4.73	3.97	19.1%	4.48	5.6%
<b>Other Income</b>	1.66	1.80	-7.8%	1.73	-4.0%
<b>Pre Provisioning Profit</b>	2.59	2.60	-0.4%	3.26	-20.6%
<b>PAT</b>	1.38	1.38	0.0%	1.53	-9.8%
<b>Cost / Income (%)</b>	59.5	54.9		47.5	
<b>Gross NPA (%)</b>	1.30	1.85		1.91	
<b>Net NPA (%)</b>	0.55	0.78		0.96	
<b>Prov Coverage ratio (%)</b>	82.5	75.2		75.2	
<b>CAR (%)</b>	12.17	14.62		12.90	
<b>Tier 1 (%)</b>	11.26	13.56		11.96	

**Cholamandalam Securities Limited**

Member: BSE,NSE,MSE

Regd. Office: Dare House,2 (Old) # 234) N.S.C Bose Road, Chennai – 600 001.

Website :www.cholawealthdirect.com

Email id – customercarewm@chola.murugappa.com

CIN U65993TN1994PLC028674

Chola Securities is a leading southern India based Stock broker. Our focus area of coverage within the Indian market is Mid and small caps with a focus on companies from southern India.

Our Institutional Equities services are carried out in partnership with RCCR, a boutique Investment research and Corporate Advisory firm founded by a team with extensive experience in the Asset management industry.

RESEARCH			
Sathyanarayanan M	Consumption	+91-44 - 3000 7361	sathyanarayananm@chola.murugappa.com
Mugilan K	Auto Ancillary, Technicals	+91-44 - 3000 7353	mugilank@chola.murugappa.com
Praveen I	Banking & Financial Services	+91-44 - 3000 7363	praveeni@chola.murugappa.com
Hemanth Reddy	Associate - Banking & Financial Services	+91-44 - 3000 7344	hemanthrg@chola.murugappa.com
Ashish M	Associate - IT	+91-44 - 3000 7360	ashishm@chola.murugappa.com
Sreedevi K	Associate	+91-44 - 3000 7266	sreedevik@chola.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FII Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Lakshmanan T S P	Chennai	+91-9840019701	lakshmanantsp@chola.murugappa.com
Kishore K Ganti	Mumbai	+91-22-26597239	kishorekg@chola.murugappa.com
Bhavesh Katariya	Mumbai	+91-9860297739	bhaveshgk@chola.murugappa.com
Sudhanshu Kumar	Institutional Equities*	+91 - 9953175955	sudhanshuk@chola1.murugappa.com
RETAIL SALES			
Nikesh	AHMEDABAD	079 – 30002968 / 69	nikeshds@chola1.murugappa.com
Sathyanarayana N	BANGLORE	080-22211160/61/62/63/64	sathyanarayanaN@chola.murugappa.com
Muthiah A N	CHENNAI - HO	044 – 3000 7371	muthiahn@chola.murugappa.com
Baskaran S	CHENNAI - Nungambakkam	044 – 28240052 / 54	baskarans@chola.murugappa.com
Saravanan	CHENNAI - Adyar	044 - 2452 2111 / 2333	saravananmk@chola.murugappa.com
A Jaganathan	CHENNAI - Ambattur	044-42022155/26251141/42	jaganathana@chola.murugappa.com
V Kumar	COIMBATORE	0422-4292041 / 4204620	kumarv@chola.murugappa.com
Maneesh Gupta	DELHI	011 - 30461161 / 62 / 63	maneeshg@chola.murugappa.com
Srinivasa Reddy D V	HYDERABAD	040-40126821 / 22	srinivasardv@chola.murugappa.com
SudiptaBhaumik	KOLKATA	033-44103638 / 39	sudiptab@chola.murugappa.com
Riken B Mehta	MUMBAI	022-22617210 / 7203	rikenbm@chola.murugappa.com
Pravin S	MADURAI	0452-2601195 / 96	pravinsn@chola.murugappa.com
SumukhSaurabh	PUNE	020- 30225432 / 34	sumukhs@chola1.murugappa.com
Varadharajan G	SALEM	0427-2313226/4040226	varadharajg@chola.murugappa.com
M N Chandra Sekhar	VIZAG	0891-6642718	chandrasmn@chola.murugappa.com
Balaji H	Compliance Officer	044 - 30007226	balajih@chola.murugappa.com

\*Employees of Business Partner - RCCR

## DISCLAIMER:

This report is for private circulation and for the personal information of the authorized recipient only, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not provide individually tailor-made investment advice and has been prepared without regard to any specific investment objectives, financial situation, or any particular needs of any of the persons who receive it.

The research analyst who is primarily responsible for this report certifies that: (1) all of the views expressed in this report accurately reflect his or her personal opinions about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of Cholamandalam Securities Limited makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete.

The views expressed are those of the analyst and the Company may or may not subscribe to all the views expressed therein Cholamandalam Securities Limited reserves the right to make modifications and alterations to this statements as may be required from time to time without any prior approval. Cholamandalam Securities Limited, its affiliates, directors and employees may from time to time, effect or have effect an own account transaction in or deal as agent in or for the securities mentioned in this report. The recipient should take this into account before interpreting the report.

All investors may not find the securities discussed in this report to be suitable. Cholamandalam Securities Limited recommends that investors independently evaluate particular investments and strategies. Investors should seek the advice of a financial advisor with regard to the appropriateness of investing in any securities / investment strategies recommended in this report. The appropriateness of a particular investment or strategy will depend on an investor's individual preference. Past performance is not necessary a guide to future performance. Estimates of future prospects are based on assumptions that may not be realized. Re-publication or redistribution in any form, in whole or in part, is prohibited.

No part of this material may be duplicated in any form and/or redistributed without Cholamandalam Securities Limited prior written consent.

The news items appearing in this are collected from various media sources and we make no representations that it is complete or accurate