

Karur Vysya Bank

Sector: Banking /Small-Cap | Earnings Update – 1QFY20

MARKETPERFORMER

26 July 2019

Background: Karur Vysya Bank (KVB) is one of the mid-sized banks in the private sector space, operates through a network of 778 branches and ~ 2,177 ATMs and cash recyclers. KVB's business - 82% is concentrated in South India with about 68% of its branch footprint in Tamil Nadu and Andhra Pradesh. As of 1QFY20 the total business stood at INR 1108bn. The bank is capitalized with a total CAR of 15.9% (Basel III). Gross NPAs were reported at 9.17% with provision coverage ratio (PCR) of ~59.05%.

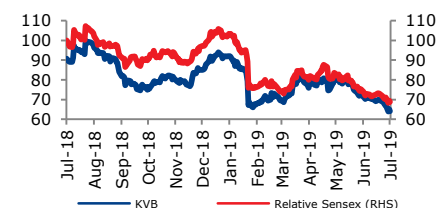
Sensex	37,883
Nifty	11,284
Price	INR 66
Target Price (12 months)	INR 68
Recommendation	MARKETPERFORMER
52 Week High/Low	INR 100.95/63
Bloomberg / Reuters	KVB IN / KARU.BO
Equity (shares in mn)	799.31
Mkt. Cap in bn	INR 62.1/ \$ 0.89
Avg. Daily Vol. ('000)	1379.3
Avg. Daily Vol. (mn)	INR 90.2/\$ 1.3

Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	2.08	2.11	2.08
FII (%)	19.53	17.38	18.10
DII (%)	20.65	23.49	23.70
Others (%)	57.74	57.02	56.12
Pledge (% of promoter holding)	0.00	23.78	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Net Interest Inc	23.6	25.6	28.9
Other Inc	9.6	8.8	8.9
Pre Prov Profit	17.1	16.2	18.2
PAT	2.1	6.0	5.4
EPS	2.7	7.5	6.8
% growth	(50.4)	184.3	(10.4)
PE	25.6	9.0	10.1
P/ ABV	1.4	1.3	1.1
Div Yield (%)	0.9	1.5	1.5
ROA (%)	0.5	0.8	0.6
ROE (%)	5.4	9.1	7.5
CAR (%)	16.1	15.6	15.4
Tier I (%)	14.1	13.6	13.2

Performance %	1M	3M	12M
KVB	-10	-18	-29
Sensex	-3	-3	2



Growth and Asset quality are key concerns

- During 1QFY20, KVB's advances, showed a growth of 3% YoY (-3% QoQ) to INR 491bn. Growth was predominantly led by Retail (32% YoY and 27% YoY excluding IBPC), and Jewel Loans (7% YoY) segments. The loan mix was noted at Corporate- 28%, Commercial- 33%, Agriculture- 17% & Retail -22%. The focus of the management, is to grow smaller ticket size loans (<2crs.) which represent 56% of the retail book.
- Deposits grew moderately at 7% YoY (3% QoQ) to INR 617bn, underpinned by term deposits (8% YoY). In the face of significant competition in the market, the CASA deposits grew by 9% YoY, maintaining the CASA ratio at 30% from earlier quarter.
- Net Interest income remained flat YoY (down 5% QoQ) at INR 5.84bn due to heavy interest reversals (albeit lower sequentially). NIMs dropped by 39bps sequentially, led by carrying impact of IBPC and a non-recurring component. We expect the NIMs to get back to ~4.8% level in a couple of quarters and the PAT to get further push once a gain is attained on the Treasury book.
- Asset quality worsened, once more, this quarter with the GNPA's rising by 38bps QoQ to 9.17% and NNPA dropped to 4.94%. The management highlighted asset quality and growth being their key concern going forward.
- Other income grew by a healthy 6% YoY (-1% QoQ) to INR 2.7bn. However due to an 8% rise in opex and a flat NII, operating profits de grew by 3% YoY (down 4% QoQ) at INR 4.45bn. Cost to Income ratio remained flat at 47%.
- Sequentially, provisions declined by 22% YoY to INR 3.3bn, maintaining the PCR at 59.05%. Consequently, PAT surged by 59% YoY to INR 730mn. Despite operating efficiencies arising from digitization, we expect muted NIMs and higher credit costs to drag profits in the near term.

Valuation: The management sounded confident of growing the retail book led by digitization. Over the near term we expect the corporate book to reduce in size which will impact NIMs, and despite good growth in other income, could dent the earnings growth going forward. Hence, we give the stock an MARKETPERFORMER rating with a revised target price of INR 68, assigning a P/ABV of 1.1X FY21E.

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

Results Summary 1QFY20

Y/E March (INR bn)	1QFY20	1QFY19	YoY Growth	4QFY19	QoQ Growth
Net Interest Income	5.84	5.84	0.1%	6.19	-6%
Other Income	2.70	2.55	6%	2.73	-1%
Pre Provisioning Profit	4.45	4.60	-3%	4.65	-4%
PAT	0.73	0.46	59%	0.61	19%
Cost / Income (%)	47.87	45.18		47.88	
Gross NPA (%)	9.17	7.44		8.79	
Net NPA (%)	4.94	4.50		4.98	
Prov Coverage ratio (%)	59.05	56.50		56.86	
CAR (%)	15.99	14.08		16.00	

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