

CoD decline and lower credit costs aid earnings growth

Karnataka Bank (KBL) reported Net Profits of Rs 135 cr, higher than our estimate of Rs 119cr led by decline in Cost of Deposits (CoD) of 66/11bps YoY/QoQ to 5.4% and lower provisions of Rs 214cr, down 32/34% YoY/QoQ. NIM expanded by 43bps to 3.26% leading NII growth of 21/7% YoY/QoQ, even as yields moderated and loan growth declined by 3% to Rs 53,187cr. The bank continues to run down its large corporate book which stood at 15.5% of loan mix vs. 25.2% a year ago. Mix of Retail and mid corporate loan improved to 51/33% vs 47/28% YoY. Deposits growth of 3% was led by CASA, up ~13.5% YoY. CASA ratio improved to 30.1% vs 27.4/29.2% YoY/QoQ. Non-interest income growth was muted down 32/17% YoY/QoQ on lower trading profits. C-I was up at 50.6% from ~45% YoY/QoQ on higher employee costs (on superannuation costs). Provisioning came down 32/34% YoY/QoQ to Rs 214cr.

Asset quality movement was benign on Supreme court's NPA standstill. Without this dispensation, GNPA would have been 3.95% from 3.16% while NNPA at 2.42% vs 1.74%. Proforma slippages stood at Rs 427cr, (~3.2% of loans). Morat book has come down to 1.7% from 11.4/51.1% in Q1/Q2FY21. Restructured advances during the quarter stood at Rs 690cr, ~1.3% of advances. YTD provisions are ~2% of the book which looks adequate.

Uptick in NIM, improved CASA and lower credit costs were the key operational positives in Q3FY21. However, the lagging loan growth is a dampener. Asset quality buffers look adequate though tailwind risks exist. On undemanding valuations, we maintain a Buy with a TP of Rs 75 (0.30x FY23E ABV)

Key Concall Takeaways

- Moratorium book reduced to 1.74% from 11.4/51.1% with exposure in retail/medium corporates at ~3.1/1.6%.
- Proforma slippages stood at Rs 427cr (~3.2% of book), if SC standstill had not been in place.
- Restructuring portfolio stood at ~Rs690cr as onDec'20. Cumulative One time restructuring stood at Rs 1030cr (includes Rs 427 of proforma slippages).
- Overall loan growth was down 3% YoY. However, traction was seen in Retail/SME loans up 7/13.5% YoY. Corporate book degrew by 40.5%. The bank continues to focus on retail book.
- Growth in retail was led by gold/home loans up 32/7% YoY.
- Deposit traction of 3% YoY to Rs 73,826cr was led by CASA deposit, up 13.5%. CASA ratio has now improved to 30.1% vs 27.4/29.2% YoY/QoQ.
- Improvement in NIM from 2.83/3.08% YoY/QoQ to 3.26% was led by decline in cost of deposits from 6.1/5.5% YoY/QoQ to 5.4%.
- Non-interest income was muted on lower treasury gains.

Key Financials (Standalone)

(Rs. cr)	FY20	FY21E	FY22E	FY23E
NII	2,030	2,342	2,693	3,178
PPOP	1,657	2,081	2,253	2,513
Net Profit	432	616	755	1,179
EPS (Rs.)	13.9	19.8	24.3	37.9
ABV	135.6	159.9	191.1	249.0
P/ABV	0.3	0.3	0.3	0.2
ROAA	0.5	0.6	0.7	0.8
NNPA (%)	3.1	3.5	3.0	2.8

Source: Company, Axis Research9

(CMP as of Jan12, 2021)

CMP (Rs)	67
Upside /Downside (%)	12%
High/Low (Rs)	75/34
Market cap (Cr)	2106
Avg. daily vol. (6m) Shrs.	11,34,232
No. of shares (Cr)	31.09

Shareholding (%)

	Sep-20	Jun-20	Mar-20
Promoter	0.0	0.0	0.0
FIs	7.3	8.7	12.8
MFs / UTI	0.6	2.0	4.6
Banks / FIs	0.0	0.7	0.4
Others	93.1	88.6	82.3

Financial & Valuations

Y/E Mar (Rs. cr)	2021E	2022E	2023E
NII	2,342	2,693	3,178
PPOP	2,081	2,253	2,513
Net Profit	616	755	1,179
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ABV	159.9	191.1	249.0
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ROAA	0.6	0.7	0.8
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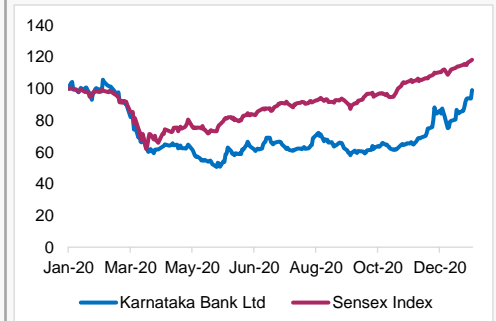
Change in Estimates (%)

Y/E Mar	FY21E	FY22E
NII	7.4	12.3
PPOP	-8.8	-1.1
PAT	32.8	-17.2

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	14.9	29.3
Consensus	16.3	22.0
Mean Consensus TP (12M)	65.8	

Relative performance



Source: Capitaline, Axis Securities

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Change in FY22 Estimates
(Rs cr)

	Revised		Old		%Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	2,342	2,693	2,180	2,398	7.4	12.3
PPOP	2,081	2,253	2,281	2,279	-8.8	-1.1
PAT	616	755	464	912	32.8	-17.2
EPS	19.8	24.3	14.9	29.3	33.0	-17.1

Source: Company, Axis Research

Valuation & Outlook

Key positives from the Q3 management commentary was the decline in morat book to 1.7% and adequate provisioning for slippages expected. Uptick in NIM, improved CASA and lower credit costs were the operational positives for the quarter. Steady improvement in PCR (45.8% excl w/off) and Tier 1/CAR – 11.4/13.8% are other positive indicators. However, the lagging loan growth is a dampener. Asset quality buffers look adequate though tailwind risks exists. **We have revised downwards our loan growth and credit costs for FY21E. On undemanding valuations, we maintain a Buy with a TP of Rs 75 (0.30x FY23E)**

Result Update (Standalone)
(Rs cr)

Y/E March	Q3FY21	Q3FY20	% YoY	Q2FY21	% QoQ
Net Interest Income	614	508	20.9	575	6.8
Non Interest Income	273	402	-32.1	330	-17.2
Operating expenses	449	408	10.1	404	11.1
Staff Cost	267	186	43.3	205	30.6
Pre provision profits	438	502	-12.7	500	-12.5
Provisions and contingencies	214	315	-31.9	322	-33.5
PBT	224	187	19.6	178	25.5
Provision for Tax	88	64	38.2	59	50.2
PAT	135	123	9.9	119	13.3
Deposits	73826	71356	3.5	72,929	1.2
Advances	53188	54911	-3.1	54,099	-1.7
CD ratio (%)	72	77		74	
NIM (%)	3.3	2.8		3.1	
Cost-Income ratio (%)	50.6	44.9		44.7	
Gross NPAs (%)	3.2	5.0		4.0	
Net NPAs (%)	1.7	3.8		2.2	
Slippages	1.4	637		2.2	

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net Interest Income	2,030	2,342	2,693	3,178
Other Income	1,396	1,422	1,493	1,568
Total Income	3,427	3,764	4,186	4,746
Total Operating Exp	1,770	1,683	1,933	2,233
PPOP	1,657	2,081	2,253	2,513
Provisions & Contingencies	1,135	1,249	1,127	754
PBT	522	832	1,127	1,759
Provision for Tax	90	216	372	580
PAT	432	616	755	1,179

Source: Company, Axis Securities

Balance Sheet

(Rs cr)

Y/E March	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	311	311	311	311
Reserves	5,660	6,276	7,030	8,209
Shareholder's Funds	5,971	6,587	7,341	8,520
Total Deposits	71,785	75,157	79,666	87,633
Borrowings	4,065	4,268	4,482	4,482
Other Liabilities & Provisions	1,493	1,425	1,439	1,453
Total Liabilities	83,314	87,436	92,928	1,02,088
APPLICATION OF FUNDS				
Cash & Bank Balance	2,920	4,835	6,658	5,982
Investments	17,545	18,664	19,597	21,557
Advances	56,964	55,534	60,411	67,660
Fixed Assets & Other Assets	5,884	6,068	6,262	6,889
Total Assets	83,314	87,436	92,928	1,02,088

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
VALUATION RATIOS				
EPS	13.9	19.8	24.3	37.9
Earnings Growth (%)	-21.4	42.6	22.5	56.1
BVPS	192.0	211.9	236.1	274.0
Adj. BVPS	135.6	159.9	191.1	249.0
ROAA (%)	0.5	0.6	0.7	0.8
ROAE (%)	7.3	8.7	10.1	13.1
P/E (x)	4.8	3.4	2.8	1.8
P/ABV (x)	0.35	0.32	0.28	0.24
COSTS				
Cost-Asset (%)	1.84	2.12	1.92	2.08
Cost-Income (%)	50.1	51.6	44.7	46.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	3.9	-2.5	8.8	12.0
Deposit Growth (%)	4.9	4.7	6.0	10.0
C/D Ratio (%)	79.4	73.9	75.8	77.2
CAR	12.7	13.5	12.6	12.4
ASSET QUALITY				
Gross NPLs (%)	4.8	5.1	4.8	4.4
Net NPLs (%)	3.1	3.5	3.0	2.8
Slippage	2.9	3.0	2.5	2.3
SPREADS				
Yield on Advances	9.2	9.1	9.1	9.1
Cost of Deposits	6.0	5.7	5.8	5.9
NIM	2.8	3.0	3.0	2.9

Source: Company, Axis Securities

About the analyst**Analyst:** Siji Philip**Contact Details:** siji.philip@axissecurities.in**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC sector and stock markets.**Disclosures:**

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