

## Outlook weak on higher moratorium and low CAR

Karnataka Bank (KBL) reported a weak Q4FY20 performance with advances/ deposits growth at 3.9/4.9% YoY, opex growth of 29/42% YoY/QoQ and high moratorium of 47%. Asset quality improved slightly with G/NNPAs at 4.8/3.1% vs 5/3.8% QoQ. Reported PCR improved to 64.7% compared to 59.3% QoQ. NII was up 10/4% YoY/QoQ to Rs 529cr. Other income was higher at Rs 440cr due to higher trading profits. Opex went up on account of higher employee costs, which was up on account of higher retirement benefits as per IBA provisions. Consequently, Cost-Income ratio went up 59.6% vs 58/44.9% YoY/QoQ. Provisions of Rs 356cr included Covid-19 provisions of Rs 25cr. PAT was down 56/76% YoY/QoQ to Rs 27cr. Capital adequacy stood at 12.66% which capital raise approval in place. We believe capital adequacy and high moratorium will weigh on the stock. We have cut our FY21/22 estimates to factor in higher credit cost and slight moderation in business growth. We revised our target price to Rs 37 (0.2x FY22E ABV)

## Key Concall Takeaways

- ~47% of the book is under moratorium (as on May end) which is on the higher side. Of this MSME is ~60%, Retail is 53%, Agri is ~40% and corporate is 35%. Bank expects this moratorium number to increase further.
- NBFCs opting for moratorium were largely housing finance companies and stood at ~10% of the loan book and ~5% of borrowers.
- Jump in employee costs was due to IBA wage revision provisions and superannuation benefits. Salary cost grew ~16% YoY while superannuation benefits for Q4FY20 stood at Rs165cr vs Rs 25cr YoY. On full year basis, superannuation benefits stood at Rs 211cr compared to Rs 3cr in FY19.
- FY21 credit growth guidance of 8-9% which we believe will be tough in this kind of macro environment.
- CAR stood at 12.66%. Capital ratios are maintained minimum 1% above RBI stipulated requirements. Approval on additional capital rise in place
- SMA2 book has improved to Rs 23.7cr vs 168.4cr YoY
- The 4 fraud accounts reported is part of consortium lending and includes DHFL Rs 180cr, Religare Finvest Rs 43cr, LEEL Electricals Rs 21cr and Fedders Electric at Rs 41cr.
- Externally D rated accounts that are standard have an internal rating of KB3/4 and include sectors such as infra, internal trading, education institute and energy generation industries. Bank is not providing loans to new borrowers in this category.

## Key Financials (Standalone)

(Rs. cr)	FY19	FY20P	FY21E	FY22E
NII	1,905	2,030	2,062	2,121
PPOP	1,450	1,657	1,495	1,536
Net Profit	500	432	226	454
EPS (Rs.)	17.7	13.9	7.3	14.6
ABV	146.5	135.6	165.2	183.1
P/ABV	0.21	0.20	0.19	0.18
ROAA	0.7	0.5	0.3	0.5
NNPA (%)	3.0	3.1	2.8	2.4

Source: Company, Axis Research9

(CMP as of Jun 08, 2020)

CMP (Rs)	41
Upside /Downside (%)	-10%
High/Low (Rs)	104/34
Market cap (Cr)	1337
Avg. daily vol. (6m) Shrs.	8,22,980
No. of shares (Cr)	31.09

## Shareholding (%)

	Mar-20	Dec-19	Sep-19
Promoter	0.0	0.0	0.0
FIIIs	12.8	13.5	13.7
MFs / UTI	4.6	4.5	5.0
Banks / FIs	0.4	0.4	0.5
Others	82.3	81.6	80.8

## Financial & Valuations

Y/E Mar (Rs. cr)	2020	2021E	2022E
NII	2,030	2,062	2,121
PPOP	1,657	1,495	1,536
Net Profit	432	226	454
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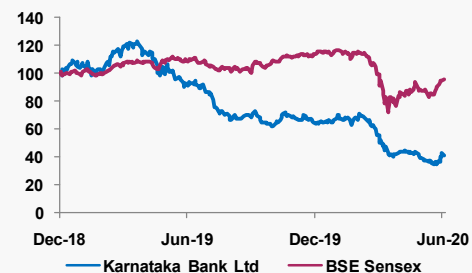
## Change in Estimates (%)

Y/E Mar	FY21E	FY22E
NII	-2.5	-5.7
PPOP	0.7	-2.6
PAT	-46.3	-22.6

## Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	7.3	14.6
Consensus	16.3	22.0
<b>Mean Consensus TP (12M)</b>	<b>65.8</b>	

## 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	2,062	2,121	2,114	2,250	-2.5	-5.7
PPOP	1,495	1,536	1,484	1,577	0.7	-2.6
PAT	226	454	420	587	-46.3	-22.6
EPS	7.3	14.6	13.5	18.9	-46.2	-22.7

Source: Company, Axis Research

**Valuation & Outlook**

We expect overall loan growth to get affected due to reduced economic activity and the ongoing lockdown and the guidance of 8-9% advance growth in FY21 difficult to achieve. Management further expects moratorium number to increase from 47%. We expect credit costs to remain elevated due to Covid-19 related provisioning. We cut our FY21/22E earning estimates as we factor in the higher credit cost and slight moderation in business growth. We expect the boundary line capital adequacy of 12.66% will weigh on the stock and also the high moratorium book. We recommend a Sell with a revised TP of Rs 37 (0.2x FY22E ABV).

**Result Update (Standalone)**
**(Rs cr)**

Y/E March	Q4FY20	Q3FY20	% QoQ	Q4FY19	% YoY
Net Interest Income	529	481	10.1	508	4.2
Non Interest Income	440	291	51.5	402	9.5
Operating expenses	578	447	29.3	408	41.7
Staff Cost	370	204	82.0	187	98.6
Pre provision profits	392	324	20.8	502	-22.0
Provisions and contingencies	357	218	63.8	315	13.3
PBT	35	107	-67.1	187	-81.3
Provision for Tax	8	45	-82.8	64	-88.0
PAT	27	62	-55.8	123	-77.8
Deposits (Rs bn)	71,785	68,452	4.9	71,356	0.6
Advances (Rs bn)	56,964	54,828	3.9	54,911	3.7
CD ratio (%)	79	80		77	
NIM (%)	2.9	2.9		2.8	
Cost-Income ratio (%)	59.6	58.0		44.9	
Gross NPAs (%)	4.8	4.4		5.0	
Net NPAs (%)	3.1	3.0		3.8	

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs cr)

Y/E March	FY19	FY20E	FY21E	FY22E
<b>Net Interest Income</b>	1,905	2,030	2,062	2,121
<b>Other Income</b>	1,002	1,396	1,167	1,218
<b>Total Income</b>	2,907	3,427	3,229	3,339
<b>Total Operating Exp</b>	1,457	1,770	1,735	1,802
<b>PPOP</b>	1,450	1,657	1,495	1,536
Provisions & Contingencies	820	1,135	1,213	968
<b>PBT</b>	630	522	282	568
Provision for Tax	131	90	56	114
<b>PAT</b>	500	432	226	454

Source: Company, Axis Securities

### Balance Sheet

(Rs cr)

Y/E March	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>				
Share Capital	283	311	311	311
Reserves	5,503	5,660	6,441	6,782
<b>Shareholder's Funds</b>	5,785	5,971	6,751	7,092
<b>Total Deposits</b>	68,452	71,785	74,657	78,389
Borrowings	3,326	4,065	4,268	4,482
Other Liabilities & Provisions	1,483	1,493	1,425	1,606
<b>Total Liabilities</b>	79,046	83,314	87,101	91,229
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	3,610	2,920	4,835	4,958
Investments	16,185	17,545	18,664	19,597
Advances	54,828	56,964	57,534	60,411
Fixed Assets & Other Assets	4,423	5,884	6,068	6,262
<b>Total Assets</b>	79,046	83,314	87,101	91,229

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>				
EPS	17.7	13.9	7.3	14.6
Earnings Growth (%)	42.6	-21.4	-47.8	101.4
BVPS	204.7	192.0	217.2	228.1
Adj. BVPS	146.5	135.6	165.2	183.1
ROAA (%)	0.7	0.5	0.3	0.5
ROAE (%)	8.9	7.3	3.5	6.6
P/E (x)	2.3	3.0	5.7	2.8
P/ABV (x)	0.21	0.20	0.19	0.18
<b>PROFITABILITY</b>				
NIM (%)	2.8	2.8	2.7	2.7
Cost-Income Ratio	50.1	51.6	54.0	53.9
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	16	3.9	1.0	5.0
Deposit Growth (%)	8.9	4.9	4.0	5.0
C/D Ratio (%)	80.1	79.4	77.1	77.1
CAR	13.2	12.7	12.6	12.6
<b>ASSET QUALITY</b>				
Gross NPLs (%)	4.4	4.8	5.1	4.8
Net NPLs (%)	3.0	3.1	2.8	2.4
Slippage	2.8	2.9	3.2	2.5
<b>SPREADS</b>				
Yield on Advances	9.2	9.2	9.1	9.1
Cost of Deposits	5.8	6.0	5.8	5.8
NIM	2.8	2.8	2.7	2.7

Source: Company, Axis Securities

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