

KARUR VYSYA BANK

BANKING

Q2FY17: Margins improved; however asset quality deteriorated

Karur Vysya Bank (KVB) reported poor operating performance delivering a PAT of Rs.126cr for Q2FY17 (down 11% YoY) against Rs. 142 cr YoY. Loan growth declined to 5% YoY in H1 FY17 as against 8% YoY in FY16 led by decline in corporate book. During the current quarter, cost to income for the bank improved to 55% against 56% QoQ (45% YoY). Consequently, NIMs improved during the same period at 3.61% compared to 3.53% QoQ. However, asset quality deteriorated, as GNPA % increased to 2.3% from 1.8% QoQ (2.0% YoY).

Outlook:

We like the bank considering its diversified asset book and gradual improvement in liability franchise, inclined towards retail deposits. Also, bank reported loan growth at 5% YoY however Retail and Agri book grew at 11% and 10% respectively. KVB is currently trading at 1.2x FY17 adj. P/ABV. We value the bank at 1.25x FY18E adj. P/ABV. We retain **BUY** rating on the stock with a **target price** of Rs. 551 implying 14% upside.

01 NOV 2016

Quarterly Update

BUY

Target Price: Rs 551

CMP : Rs 482
Potential Upside : 14%

MARKET DATA

No. of Shares : 12.1 cr
FV (Rs) : 10
Market Cap : Rs 5,900 cr
52-week High / Low : Rs 541 / Rs 394
Avg. Daily vol. (6mth) : 145,734 shares
Bloomberg Code : KVB IN
Reuters Code : KARU.BO
BSE Code : 590003
NSE Code : KARURVYSYA

Key Highlights

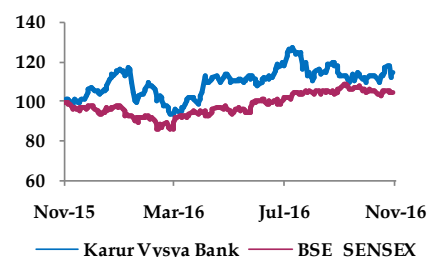
- **Credit Growth remian muted:** KVB's advances growth declined in H1 FY17, expanding by 5% YoY from 8% in FY16 to Rs. 39,537 cr. This was mainly on account of decline of 3% YoY in corporate portfolio (34% of loan book) however, strong growth of 11% & 10% YoY in the Retail & Agri segment respectively. The management attributes this to its cautious approach in the wake of cleaning up its balance sheet, and Slowdown in overall economic activities. The management lower the guidance of loan growth to 12% (versus 15% earlier) in FY17E. It highlighted that corporate loan book would be under pressure till the overall economy revives, although some improvement in gold loan portfolio.
- **Slippages increased QoQ:** Gross slippages came in at Rs.425 cr (4.3% of loans, annualised) compared to Rs.240 cr (2.4% of loans, annualised) in Q1FY17. Slippages of Rs.280 cr came from Watch-list. There were not much fresh restructuring during the quarter as well as Rs.34 cr slipped to NPA which resulted standard restructured advances to reduce to Rs.1,245 cr i.e. ~3.14% of net advances. Management expects recoveries to outpace slippages going ahead, though guides that credit cost is likely to remain elevated in FY17.
- **Margins and Cost / Income ratio improved:** For the current quarter, reported NIMs improved to 3.61% on QoQ basis largely on account of decline in cost of funds. However, Cost to Income ratio for the bank is slowly cooling off from high of 59.5% in Q4 FY16 to 55% as on Q2FY17 on the back of lower increase in employee expenses.

FINANCIAL SUMMARY

Y/E	PAT	EPS	Change	P/E	BV	P/BV	Net NPA	Adj BV	P/Adj.BV	RoE	RoA
Mar	(Rs. Cr)	(Rs.)	YoY (%)	(x)	(Rs.)	(x)	(%)	(Rs.)	(x)	(%)	(%)
FY15	464	39.9	5	11.6	349	1.3	0.78	326	1.4	12	0.9
FY16	568	46.6	17	9.9	375	1.2	0.56	358	1.3	13	1.0
FY17E	659	54.2	16	8.5	414	1.1	0.57	394	1.2	14	1.1
FY18E	767	63.1	16	7.3	461	1.0	0.47	441	1.0	14	1.1

Source: Company and Axis Securities

PRICE PERFORMANCE



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Results Update

Karur Vysya Bank	Quarterly					Yearly			
Fig in Rs.Cr	Q2FY17	Q2FY16	Y-o-Y Ch (%)	Q1FY17	Q-o-Q Ch (%)	FY 16	FY 17E	FY 18E	CAGR FY16- 18
Interest income	1392.9	1364.5	2.1	1385.0	0.6	5443.4	5941.4	6697.3	10.9
Interest expended	898.0	927.1	-3.1	903.9	-0.7	3662.0	4003.9	4501.8	10.9
Net interest income	495.0	437.4	13.2	481.1	2.9	1781.4	1937.5	2195.5	11.0
NII as a % of Net income	69.4	68.0	-	74.8	-	71.6	71.4	72.0	-
Other income	217.9	205.7	5.9	162.3	34.2	706.8	777.5	855.3	10.0
Total income	1610.8	1570.3	2.6	1547.3	4.1	6150.2	6718.9	7552.6	10.8
Net total income (3+4)	712.8	643.2	10.8	643.4	10.8	2488.2	2715.0	3050.8	10.7
Operating expenses	393.3	287.9	36.6	360.4	9.1	1252.8	1357.5	1525.4	10.3
Personnel exp	154.4	133.0	16.0	140.0	10.3	547.4	610.9	732.2	15.7
Other exp	238.9	154.9	54.3	220.4	8.4	705.4	746.6	793.2	6.0
Profit before tax & prov.	319.5	355.2	-10.1	283.0	12.9	1235.4	1357.5	1525.4	11.1
Provisions & contingencies	119.2	126.0	-5.4	66.9	78.1	323.8	350.2	352.4	4.3
PBT	200.3	229.2	-12.6	216.1	-7.3	911.6	1007.3	1173.0	13.4
Tax	74.0	87.0	-14.9	69.8	6.1	344.0	348.5	405.9	8.6
Profit after tax	126.3	142.2	-11.2	146.4	-13.7	567.6	658.8	767.1	16.3
Extra ordinary Item	0.0	0.0	-	0.0	-	-	0.0	0.0	-
Reported PAT	126.3	142.2	-11.2	146.4	-13.7	567.6	658.8	767.1	16.3
Equity	121.9	121.9	-	121.9	-	121.9	121.6	121.6	-0.1
Cap. adequacy ratio (Basel-II)	11.44	13.00	-	11.67	-	12.17	11.80	13.80	-
EPS (Rs)	10.4	11.7	-11.1	12.0	-13.7	46.6	54.2	63.1	16.3
NIM (%)	3.6	3.4	-	3.5	-	3.4	3.3	3.3	
CASA (%)	24.9	23.4	-	24.3	-	23.3	23.0	24.0	
Gross NPA (%)	2.3	2.0	-	1.8	-	1.3	1.5	1.3	
Net NPA (%)	1.44	0.96	-	0.79	-	0.55	0.60	0.50	
Provisional Coverage (%)	68.3	75.1	-	78.5	-	82.5	72.7	72.7	
NII/ Operating expenses	1.3	1.5	-	1.3	-	1.4	1.4	1.4	

Source: Company and Axis Securities

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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