

Current	Previous
CMP : Rs.553	CMP : Rs.504
Rating : BUY	Rating : BUY
Target : Rs.633	Target : Rs.620

STOCK INFO

BSE	590003
NSE	KARURVYSYA
Bloomberg	KVB IN
Reuters	KARU.BO
Sector	Banking-Private
Face Value (Rs)	10
Equity Capital (Rs Mn)	1209
Mkt Cap (Rs Mn)	66,787
52w H/L (Rs)	572/310
Avg Daily Vol (BSE+NSE)	180,552

SHAREHOLDING PATTERN

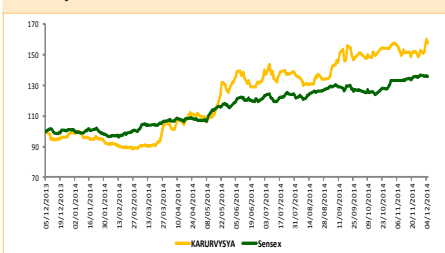
	%
(as on Sep. 2014)	
Institutions	46.3
Others, Incl Public	51.5
Promoters	2.2

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
KARURVYSYA	2	11	58
SENSEX	2	5	36

Source: Capitaline, IndiaNivesh Research

KVB v/s SENSEX



Source: Capitaline, IndiaNivesh Research

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We had recommended BUY on Karur Vysya Bank (KVB) in our Stock Idea report dated 9th Sep. 2014, at then prevailing CMP of Rs 504 for target price of Rs 620.

Company Background

KVB, founded in 1916, is mid size private sector bank based in Tamil Nadu. Bank has total branch network of 599 branches out of which 313 branches (52% of total) are located in Tamil Nadu and rest 286 branches are spread across the country. The Bank has loan book of Rs 355 bn as on September 2014.

Investment rationale

Loan growth likely to pick up... largely led by SME and retail: KVB's loan book has grown 3.3x in last 5 years at CAGR of 27% in FY09-14. Earlier the bank's loan book was largely skewed towards Corporate loans as it used to contribute one fourth to the overall loan book in FY12. However since then the management has changed its strategy of focusing on retail and SME. This is clearly visible in changing loan mix with significant increase in Retail loan book to 13% currently from 8% in FY12 and equivalent decline in Corporate loan book to 37% from 42% in FY12. In FY14 and Q2FY15, KVB's loan book grew by 15% and 11% yoy respectively. We believe loan growth for KVB is likely to pick up from here on at 14% CAGR with focus on Retail and SME lending.

CASA ratio has improved, focusing on retail deposits over bulk deposits: Bank has done a remarkable job in strengthening its liability franchise as CASA ratio has started picking up again from low of 19.2% in FY12 to 23.5% in Q2FY15. This was led by the fact that bank has opened chunk of branches in FY12 and FY13 (82 in FY12 and 100 in FY13) which has started to yield results. As per management, Bank is targeting to reach CASA of 25% in next 2 to 3 years which we believe is achievable.

ROEs will be back to 14% by FY16E: ROE of KVB was subdued at 13% in FY14 led by 22% yoy decline in net profit in FY14 on back of higher slippages and both lower NII and other income growth. However with 14% CAGR in loan book, we expect Operating / Net profit growth of 16% / 17% CAGR over FY14-16E resulting in ROE of 14% by FY16E. This is despite the fact that KVB has raised capital of Rs 6.3 bn via QIP in Q2FY15.

Risks and Concerns

(1) Significant correction in Gold loans; (2) Lower growth / Slower recovery than anticipated and (3) Significant deterioration in asset quality

Valuation

KVB's strategy of moving its loan book from high risk assets to less riskier assets of SME / Retail has played well. Loan mix has moved towards retail and SME as these segments continue to do well for bank. We continue to prefer KVB amongst mid size private sector banks as we believe bank is likely to show faster improvement in business once the economic recovery starts. With increasing efficiency in terms of declining cost to income and improving NIMs, we expect operating profit / net profit growth to remain higher than asset growth. We initiate coverage on KVB with BUY rating with target price of Rs 633, valuing it at 1.8x FY16E ABV. **We had recommended BUY on KVB in our Stock Idea report dated 9th Sep. 2014, at then prevailing CMP of Rs 504 for target price of Rs 620.**

Financial Highlights

YE March (Rs mn)	NII	Net Profit	EPS (Rs)	BV (Rs)	ABV (Rs)	ROE (%)	ROA (%)	P/BV (x)	P/ABV (x)
FY13	11,585	5,503	51.3	287.9	277.7	19.0	1.3	1.9	2.0
FY14	12,837	4,296	40.1	310.4	297.3	13.4	0.9	1.8	1.9
FY15E	14,232	4,318	35.8	338.6	316.2	11.7	0.8	1.6	1.7
FY16E	16,997	5,916	49.1	368.9	342.3	13.9	1.0	1.5	1.6

Source: Company, IndiaNivesh Research

Investment Rationale

SME and Retail to drive loan growth

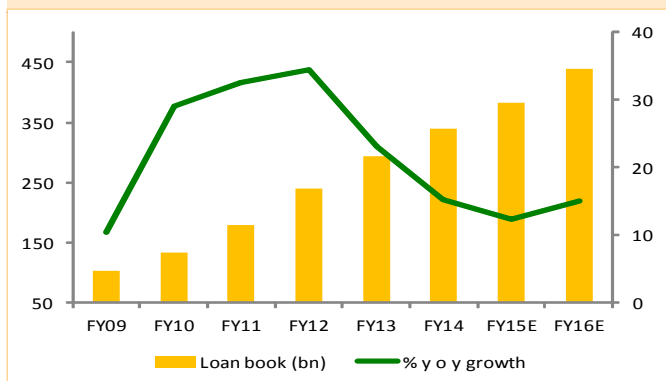
Loan growth likely to pick up... largely led by SME and retail:

KVB's loan book has grown 3.3x in last 5 years at CAGR of 27% in FY09-14. Earlier the bank's loan book was largely skewed towards Corporate loans as it used to be one fourth of the overall loan book in FY12. However since then the management has changed its strategy of focusing on retail and SME. This is clearly visible in changing loan mix with significant increase in Retail loan book to 13% currently from 8% in FY12 and equivalent decline in Corporate loan book to 37% from 42% in FY12. This was driven by the fact that corporate segment continues to struggle during this period from increasing number of defaults and restructuring. KVB never stopped lending to corporate as it continues to grow (at 12% CAGR) its corporate loan book selectively taking reasonable risk. During this period, the bank has increased its focus on working capital loans which now constitute 88% as against 68% in FY10. Further there is a continuous decline in concentration risk in terms of top 20 borrowers which now constitute 12% of loan book as compared to 26% in FY10. In FY14 and Q2FY15, KVB's loan book grew by 15% and 11% yoy respectively. Although management is confident of growing its loan book at high teen growth, we will wait for 1 or 2 quarters to build in higher assumptions as in Q2FY15 growth was at 11% yoy. As of now we are building in loan growth of 14% CAGR for FY14-16E.

Loan Book (bn)	FY12	FY13	FY14	Q1FY15	Q2FY15
Retail	19.8	35.4	42.8	44.0	46.2
% of total	8.2	11.9	12.5	12.7	13.0
Agri	38.1	54.4	60.6	64.1	62.5
% of total	15.7	18.3	17.7	18.5	17.6
Commercial	82.3	96.0	111.2	112.6	114.4
% of total	34.0	32.3	32.5	32.5	32.2
Corporate	101.9	111.7	127.7	125.8	132.1
% of total	42.1	37.6	37.3	36.3	37.2
Total	242.1	297.1	342.3	346.6	355.2

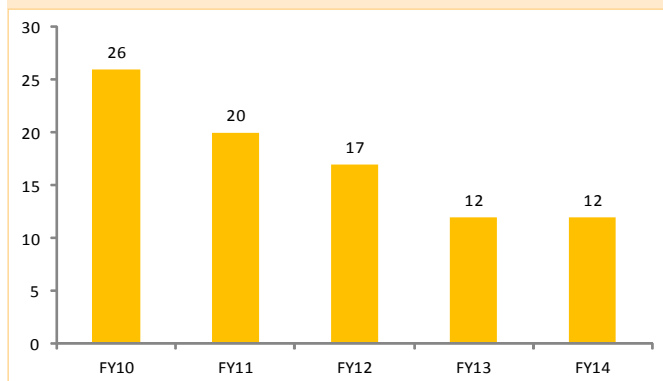
Source: Company, IndiaNivesh Research

Loan book (bn) / % y o y growth



Source: Company, IndiaNivesh Research

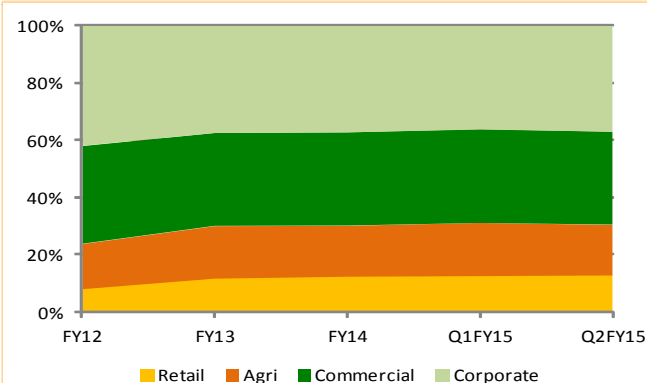
Top 20 borrowers (as % of loan book)



Source: Company, IndiaNivesh Research

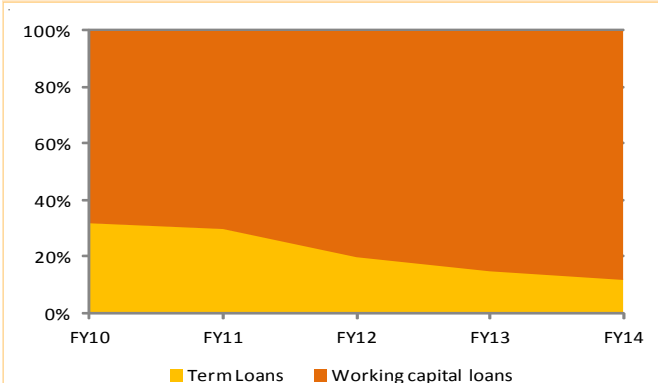
Bank has 20% loan book in traditional product such as gold loan. Bank categorises gold loans in both Retail and Agri category. These loans are having LTVs (Loan to Value) of 65% vs 70% earlier and ATS (Average Ticket Size) of Rs 83000/-. Bank enjoys different yields in its gold loan book like Gold loan in agri is having yields of ~11.3%, Gold loan under Personal loan and commercial loan categories earns yields of 13%. Proportion of Gold loan to overall loan book has come down from high of 26% in FY13 to 24% in FY14 and further to 22% in Q2FY15. Management is targeting to keep it at 20% over longer term.

Segmental Break Up (% of loan book)



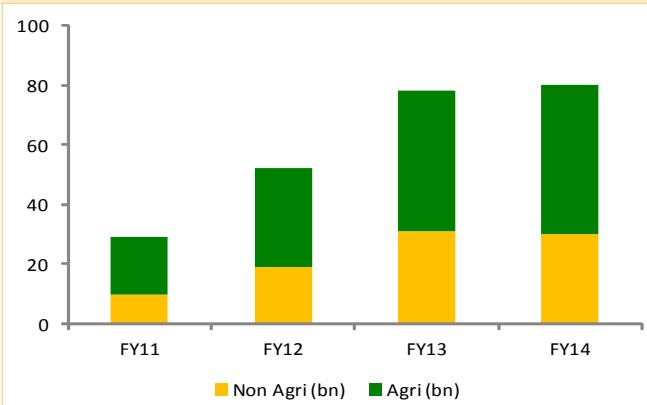
Source: Company, IndiaNivesh Research

Term loan / Working Capital Loans (As % of loan book)



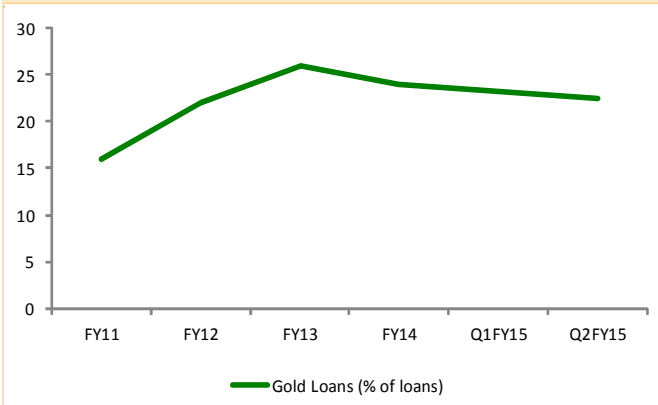
Source: Company, IndiaNivesh Research

Non Agri (bn) / Agri (bn) - Gold Loan



Source: Company, IndiaNivesh Research

Gold Loans (% of loans)



Source: Company, IndiaNivesh Research

... No significant increase in exposure to any industry:

Exposure to industry has come down from 39% in FY12 in to 34% in Q2FY15 which is mainly due to change in strategy. Exposure to various industries has been largely flat (as a % of loan book) or it has come down. Key positive is the significant decline in exposure to Infra and Power from 12.3% and 7.4% in FY12 to 9.3% and 4.1% in Q2FY15 respectively.

Industrywise exposure (Rs mn)	% of Loan book	FY12	% of Loan book	FY13	% of Loan book	FY14	% of Loan book	Q1FY15	% of Loan book	Q2FY15
Infra	12.3	29840	9.9	29480	9.2	31360	9.0	31080	9.3	33010
Power	7.4	17990	5.0	14990	4.1	14090	3.9	13430	4.1	14580
Road	1.3	3150	1.1	3130	1.0	3420	1.0	3430	1.0	3490
Telecommunication	0.3	630	0.2	620	0.2	520	0.2	520	0.1	510
Infra Others	3.3	8070	3.6	10740	3.9	13330	4.0	13700	4.1	14430
Textiles	7.3	17770	6.9	20570	7.6	25960	7.5	25890	7.4	26370
Basic Metals	4.8	11540	4.8	14380	4.6	15840	4.3	14730	4.1	14480
Food Processing	3.6	8630	3.4	10100	3.3	11340	3.2	11240	3.1	11090
Chemicals	2.0	4940	1.6	4730	2.0	6980	2.3	7820	1.9	6850
All Engineering	1.1	2700	1.3	3860	1.2	4240	1.3	4430	1.3	4690
Gems & Jewellery	0.9	2170	0.8	2520	1.0	3560	1.2	4070	1.1	4010
Transport	1.1	2560	0.7	2140	0.9	3130	0.9	3130	1.0	3430
Rubber, plastic & their produc	0.8	1950	0.7	2090	0.7	2500	0.8	2640	0.8	2700
Mining & quarrying	0.9	2140	0.6	1930	0.6	2130	0.6	2100	0.6	2170
Wood & wood products	0.5	1130	0.5	1540	0.6	1980	0.5	1670	0.5	1690
Construction	0.4	1050	0.5	1340	0.8	2760	0.7	2330	0.7	2540
Total Industry exposure	38.8	93900	34.5	102,600	34.9	119,300	34.4	119140	33.9	120260

Source: Company, IndiaNivesh Research

CASA ratio has improved, focusing on retail deposits over bulk deposits:

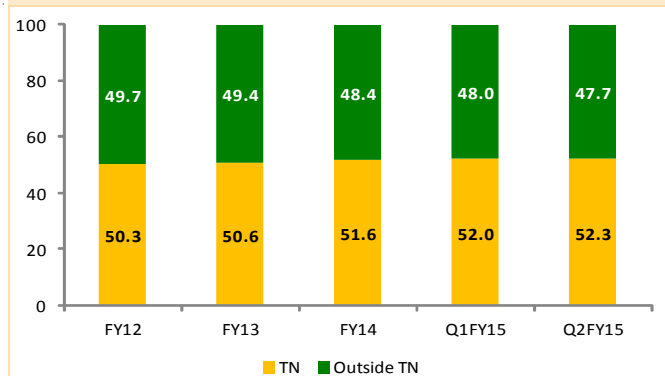
CASA ratio improved to 23.5% from 21.9% in FY09

Bank has done a remarkable job in strengthening its liability franchise as CASA ratio has started picking up again from low of 19.2% in FY12 to 23.5% in Q2FY15. This was led by the fact that bank has opened chunk of its branches in FY12 and FY13 (82 in FY12 and 100 in FY13) which has started to yield results. Bank continues to focus on retail deposits both in CASA and term deposits. On CASA front, Retail CASA is doing exceptionally well and now bank is focusing on institutional CASA. As per management, Bank is targeting to reach CASA of 25% in next 2 to 3 years which we believe is achievable.

	FY09	FY10	FY11	FY12	FY13	FY14	Q1FY15	Q2FY15
CASA (%)	21.9	23.5	23.3	19.2	19.2	20.5	22.5	23.5
CASA Deposits	33	45	58	62	74	90	110	129
Current Deposits	15	21	25	25	31	36	42	46
Saving Deposits	18	25	33	37	44	54	68	83
Term Deposits	118	147	190	260	312	348	377	418
Total Deposits	151	193	247	321	387	438	486	547
Branches	312	335	369	451	551	572	588	599
Additions	24	23	34	82	100	21		

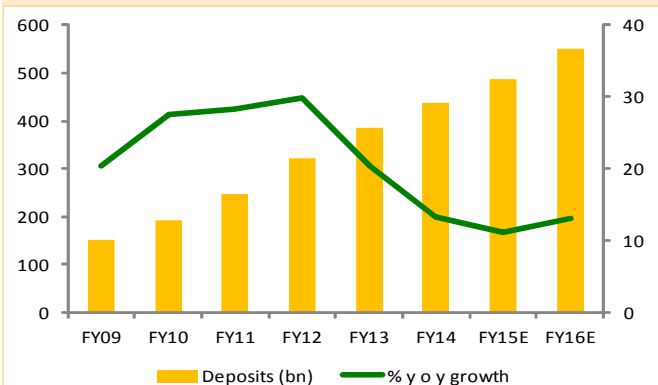
Source: Company, IndiaNivesh Research

TN / Outside TN



Source: Company, IndiaNivesh Research

Deposits (bn) / % y o y growth

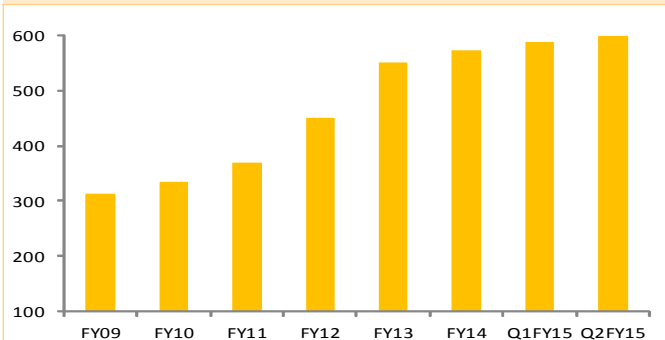


Source: Company, IndiaNivesh Research

Recently added branch started yielding results:

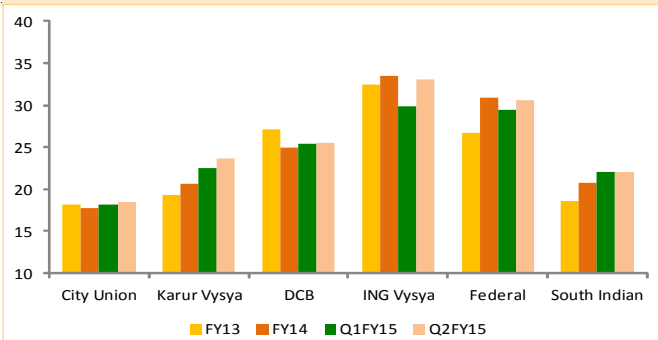
Bank has almost doubled its branch network since FY09 to 599 branches in Q2FY15. In last 3 years, the bank has added 230 branches which have started yielding results. On an average, it takes 18 months for branches to start generating business and breakeven. Proportion of Tamil Nadu branches and Non Tamil Nadu branches has been largely stable. While CASA ratio for most of the peers have been either stable or decline since FY13, KVB's CASA ratio has improved.

Branches (no)



Source: Company, IndiaNivesh Research

Peers CASA Ratio (%)



Source: Company, IndiaNivesh Research

Branch expansions has resulted in higher opex / Cost to income:

Branch expansion has led to significant increase in operating expense (31% CAGR FY09-14). This along with lower NII / Non Interest growth due to slowdown in economy (higher NPAs) has led to jump in cost to income ratio to as high as 56% from 38% in past. Starting FY15, opex has stabilized with low double digit / single digit growth (on yoy basis). Although management is targeting cost to income ratio of 45-46% over long term, we have estimated it to come down gradually to 52% by FY16E.

	FY09	FY10	FY11	FY12	FY13	FY14	Q1FY15	Q2FY15	FY15E	FY16E
Cost to Income (%)	38.1	42.9	41.8	42.7	47.3	54.7	53.4	56.2	55.1	52.2
Operating Expense (mn)	2576	3487	4306	5416	7622	10104	2445	2663	10826	12140
% YoY	19.1	35.3	23.5	25.8	40.7	32.6	11.1	7.5	7.2	12.1

Source: Company, IndiaNivesh Research

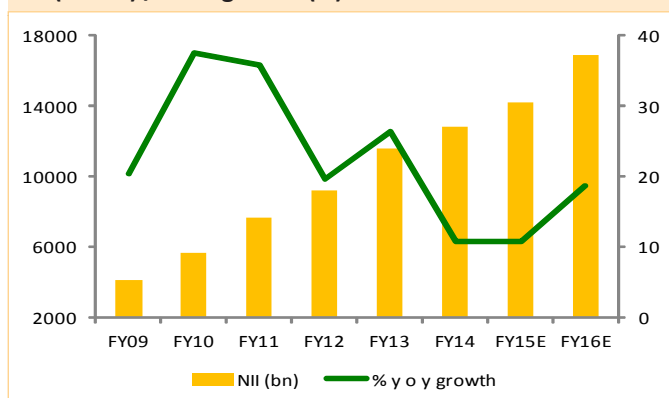
NIMs to improve marginally by FY16E:

NIMs of KVB were impacted mainly due to 1) significant increase in cost of deposits / interest expense and 2) interest income reversal on back of slippages and restructuring. However NIMs (rep) has started improving after making low of 2.5% in Q2FY14 to 2.7% in Q2FY15. Management has specified that NIMs are likely to improve from hereon as cost of deposits is likely to trend downwards and asset quality to stabilize. We expect NIMs to remain stable in FY15E and improve gradually in FY16E with NII growth of 15% CAGR for FY14-16E.

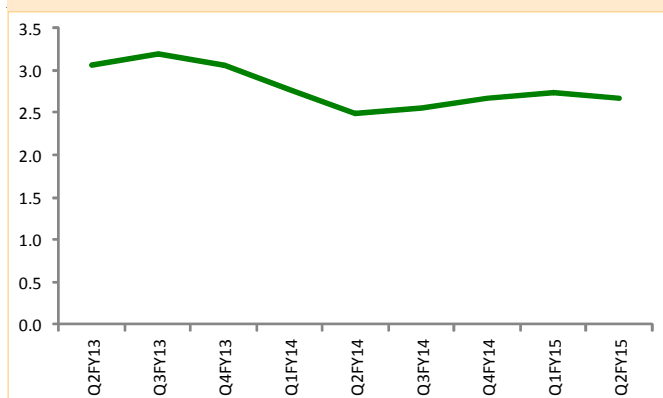
NIMs / Yields / Cost (%)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Yields (%)	10.3	10.0	9.7	10.9	10.9	11.3	11.0	11.0
Cost (%)	7.4	6.8	6.4	7.9	8.0	8.5	8.3	8.3
NIMs (%)	2.9	3.2	3.4	3.1	3.0	2.8	2.8	3.0

Source: Calculated Nos, IndiaNivesh Research

NII (Rs mn) / Y o Y growth (%)

Source: Company, IndiaNivesh Research

NIM (%)

Source: Company, IndiaNivesh Research

Fee income remains healthy:

Non interest income growth of KVB was healthy in FY14 at 25% yoy mainly because the bank has booked investment income in Q1FY14 to the extent of Rs 1 bn. However core fee income growth remains healthy at 24% and 28% yoy in FY14 and Q2FY15 respectively. Overall Non interest income growth is expected to remain muted for FY15 mainly led by higher base of FY14 (due to higher investment income) and likely to grow by 17% in FY16 which is slightly ahead of asset growth.

(Rs. mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	FY14	Q1FY15	Q2FY15
Fee Income	754	651	760	831	2995	865	938	912	1007	3721	1006	1199
Investment Income	139	94	129	521	884	1032	-3	6	3	1037	30	37
Other Income	150	105	166	226	647	172	127	138	448	886	144	123
Total	1043	850	1055	1578	4526	2069	1062	1056	1457	5645	1180	1360

Source: Company, IndiaNivesh Research

Asset quality has stabilized:

Asset quality of KVB was impacted in last 2 quarters as few of the large accounts have turned NPAs. Gross and Net NPA went to 1.6% and 0.5% in Q2FY14 respectively and has gradually come down to 0.8% and 0.4% in FY14. However in FY15, it has moved up to 1.4% and 0.6% due to seasonality of higher Gross and Net NPA in H1. Historically recoveries and upgradations of KVB are higher in H2 of the fiscal and hence Gross and Net NPA number looks higher for H1 as compared to H2. Fresh slippages in FY13 were Rs 3.8 bn which has increased marginally to Rs 4.1 bn in FY14. In Q1FY15 fresh slippages for KVB were higher at Rs 2 bn (2.7% ann) and Q2FY15 it was at Rs 1.6 bn (2% ann).

Restructuring for KVB has increased in past 2 years wherein it restructured Rs 8.8 bn in FY14 as against Rs 6.8 bn in FY13. However pace of additions to restructuring has slowed to Rs 1.99 bn in Q2FY15 from Rs 2.6 bn in Q1FY15 and Rs 2.9 bn in Q2FY14. Outstanding restructuring book has increased to 4.6% in Q2FY15 from 4.1% in FY14, however it is lower than 5% in Q2FY14. As per management, most of the restructuring of stressed accounts is behind and there is only one or two accounts which are under watch list and likely to come for restructuring which will be in the range of Rs 1-1.5 bn.

Management's conscious decision (strategy) of not increasing exposure in stressed sectors is clearly visible in its sectoral exposure. Infrastructure sector exposure has come down from 12.3% in FY12 to 9.3% currently and Power from 7.4% to 4.1% over the same period.

	FY13	FY14	Q2FY14	Q1FY15	Q2FY15	% y o y
Gross NPA (mn)	2860	2792	4949	4510	4807	-2.9
Gross NPA (%)	0.96	0.82	1.55	1.30	1.36	
Net NPA (mn)	1087	1399	1613	1825	2076	28.7
Net NPA (%)	0.37	0.41	0.51	0.53	0.59	
Fresh Slippages (mn)	3781	4136	1095	2055	1571	43.5
Slippage rate (%)	1.6	1.4	1.7	2.7	2.0	
PCR (%)	75.2	75.0	75.1	75.0	75.0	
Restructured (mn)	10880	13900	15660	14909	15990	2.1
% of Loan book	3.7	4.1	5.0	4.3	4.6	
Loan Book	297060	342260	319090	346580	355210	11.3

Source: Company, IndiaNivesh Research

Quarterly trend

	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15
Gross NPA (mn)	3532	2859	2859	4664	4949	4849	2792	4510	4807
Gross NPA (%)	1.29	0.96	0.96	1.51	1.55	1.47	0.82	1.3	1.36
Net NPA (mn)	1018	1087	1087	1545	1613	1582	1399	1825	2076
Net NPA (%)	0.38	0.37	0.37	0.5	0.51	0.48	0.41	0.53	0.59
PCR (%)	75.0	75.2	75.2	75.0	75.1	75.1	75.0	75.0	75.0
Restructured (mn)	9013	10880	10880	12190	15660	12080	13900	14909	15990
% of Loan book	2.7	3.7	3.7	3.9	5.0	3.8	4.1	4.3	4.6
Loan Book	261557	294801	294801	309820	314744	314744	339921	346580	351185

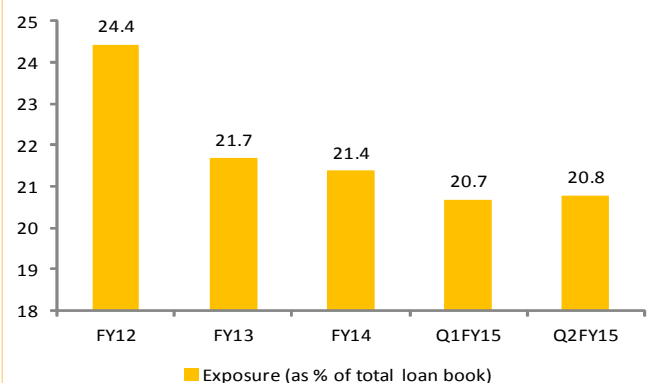
Source: Company, IndiaNivesh Research

Exposure to stressed sectors	FY12	FY13	FY14	Q1FY15	Q2FY15
Textiles	17770	20570	25960	25890	26370
% of Loan book	7.3	6.9	7.6	7.5	7.4
Infra	29840	29480	31360	31080	33010
% of Loan book	12.3	9.9	9.2	9.0	9.3
Power	17990	14990	14090	13430	14580
% of Loan book	7.4	5.0	4.1	3.9	4.1
Road	3150	3130	3420	3430	3490
% of Loan book	1.3	1.1	1.0	1.0	1.0
Telecommunication	630	620	520	520	510
% of Loan book	0.3	0.2	0.2	0.2	0.1
Infra Others	8070	10740	13330	13700	14430
% of Loan book	3.3	3.6	3.9	4.0	4.1

Source: Company, IndiaNivesh Research

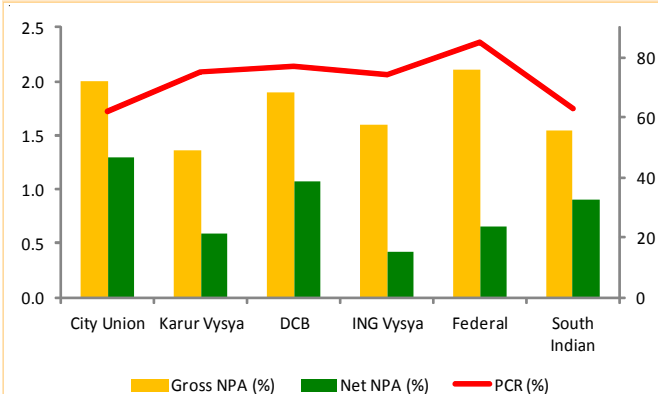
Exposure to stressed sectors (Infra, Textiles, Metals) putting together has come down from 24.4% in FY09 to 20.8% currently.

KVB's exposure to stressed sectors (Infra, Textiles, Metals)



Source: Company, IndiaNivesh Research

Peers - GNPA / NNPA / PCR (%)



Source: Company, IndiaNivesh Research

Capital Adequacy:

KVB is well capitalized with Capital adequacy ratio of 14.4% as per Basel III with Tier I capital of 13.5%. Bank has raised Rs 6.3 bn in Q2FY15 at Rs 466 per share which has boosted its capital adequacy.

	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15
CAR (Basel II)	13.1	12.7	12.8	12.5	14.4
Tier I	11.8	11.5	11.6	11.6	13.1
Tier II	1.3	1.2	1.2	0.9	1.3
CAR (Basel III)	12.8	12.5	12.6	12.6	12.5
Tier I	11.7	11.5	11.6	11.6	11.6
Tier II	1.1	1.0	1.0	1.0	0.9

Source: Company, IndiaNivesh Research

ROEs will be back to 14% by FY16E:

FY15 ROE to be at 12% & FY16 to improve to 14%

ROE of KVB was subdued at 13% in FY14 led by 22% yoy decline in net profit in FY14 on back of higher slippages and both lower NII and other income growth. However with 14% CAGR in loan book, we expect Operating / Net profit growth of 15% / 17% CAGR over FY14-16E resulting in ROE of 14% by FY16E. This is despite the fact that KVB has raised capital of Rs 6.3 bn via QIP in Q2FY15.

Dupont Analysis

	FY12	FY13	FY14	FY15E	FY16E
NII (%)	2.8	2.7	2.6	2.6	2.7
Non Int Inc (%)	1.1	1.1	1.1	1.0	1.0
Operating Inc (%)	3.8	3.8	3.8	3.6	3.8
Operating Exp (%)	1.6	1.8	2.1	2.0	2.0
Pre Provision profit (%)	2.2	2.0	1.7	1.6	1.8
Provision (%)	0.3	0.3	0.9	0.7	0.6
ROA (%)	1.5	1.3	0.9	0.8	1.0
Avg total Assets / Avg equity (x)	13.7	14.6	15.3	14.8	14.5
ROE (%)	20.8	19.0	13.4	11.7	13.9
Avg total assets (Rs mn)	329402	421963	491892	548724	620106
Avg Equity (Rs mn)	24114	28967	32058	37047	42660

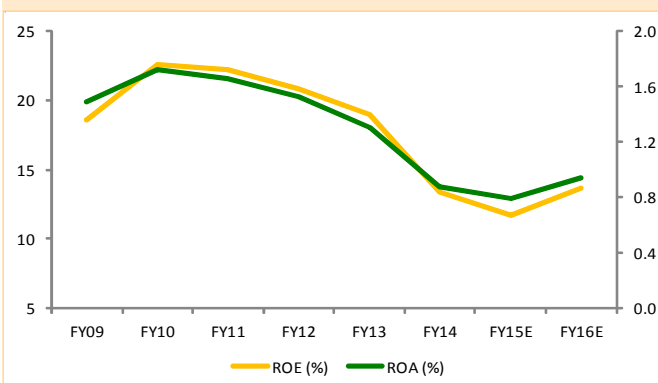
Source: IndiaNivesh Research

Net Profit (mn) / % y o y growth



Source: Company, IndiaNivesh Research

ROE (%) / ROA (%)



Source: Company, IndiaNivesh Research

Q2FY15 Results Highlights

KVB's Q2FY15 results which were inline with expectation with Net Interest income growth of 13% yoy to Rs 3.37 bn, largely inline with expectation of Rs 3.43 bn. NIMs were stable qoq at 2.7%. Loan book grew by 11% yoy to Rs 355 bn. CASA ratio improved to 21.8% from 19.2% in Q2FY14.

Operating profit was ahead of expectation by 4.5% led by higher Non interest income growth of 28% yoy to Rs 1.4 bn. Operating expense grew by 8% yoy.

Net profit was inline with expectation at Rs 905 mn vs our expectation of Rs 913 mn. Asset quality was stable sequentially with Gross / Net NPA of 1.35% / 0.59% to Rs 4.8 bn / 2 bn respectively vs 1.3% / 0.53% respectively.

Rs mn	Q2FY15	Q2FY14	% YoY	Q1FY15	% QoQ	H1FY15	H1FY14	% YoY
Interest Income	13589	12727	6.8	13445	1.1	27034	24952	8.3
Interest Expense	10215	9743	4.8	10045	1.7	20259	18650	8.6
Net Interest Income	3374	2984	13.1	3400	-0.8	6775	6303	7.5
Non Interest Income	1360	1062	28.0	1180	15.3	2539	3131	-18.9
Net Income	4734	4046	17.0	4580	3.4	9314	9434	-1.3
Total Income	14949	13789	8.4	14624	2.2	29573	28084	5.3
Total Expenses	2663	2478	7.5	2445	8.9	5108	4679	9.2
Pre Provisioning Profit	2071	1568	32.1	2135	-3.0	4206	4755	-11.6
Provisions	931	1185	-21.4	864	7.7	1795	2816	-36.3
Profit Before Tax	1140	383	197.3	1271	-10.3	2411	1939	24.3
Tax	235	-446	NMF	50	NMF	285	-93	-406.8
Net Profit	905	829	9.2	1221	-25.9	2126	2032	4.6
EPS (Rs)	7.5	7.7	-3.0	11.4	-34.1	18.9	19.0	-0.3
Advances	355210	319090	11.3	346580	2.5			
Deposits	448616	433720	3.4	454780	-1.4			
Total Business	803826	752810	6.8	801360	0.3			
Gross NPA	4807	4949	-2.9	4510	6.6			
Net NPA	2076	1613	28.7	1825	13.8			

Key Ratios (%)	bps		bps	
NIM	2.7	2.5	18	-6
Cost of Deposits	8.2	8.3	-9	11
Cost of Funds	8.3	8.3	-4	7
Yield on Funds	10.4	10.7	-30	-2
Yield on Investments	7.6	7.6	2	2
Cost to Income Ratio	56.2	61.2	-499	286
CASA	21.8	19.2	260	80
CAR	14.4	12.8	160	192
Tier I Capital	13.5	11.7	172	191
GNPA	1.4	1.6	-19	6
NNPA	0.6	0.5	8	6
PCR	75.0	75.1	-5	-2
ROE	8.7	10.0	-136	-547
ROA	0.69	0.7	3	-25

Source: Company, * calculated, IndiaNivesh Research

Risks and Concerns

Significant correction in Gold loans:

Currently KVB's 22% loan book constitutes Gold Loans. Although these are small ticket loans with lower LTV than its NBFC peers but significant decline in gold prices will impact its asset quality and earnings.

Lower growth / Slower recovery than anticipated:

We are building in very conservative loan growth of 14% CAGR for FY14-FY16E as against management guidance of 18-20% for FY15. Lower growth than our conservative estimate on back of slower recovery remains the risk to our numbers and target price.

Significant deterioration in asset quality:

We are not building in any significant change in asset quality in FY15E. On the contrary it is expected to improve marginally in FY16E. Any adverse change in asset quality remain the risk.

Valuation

KVB's strategy of moving its loan book from high risk assets to less riskier assets of SME / Retail has played well. Loan mix has moved towards retail and SME as these segments continues to do well for bank. We continue to prefer KVB amongst mid size private sector banks as we believe bank is likely to show faster improvement in business once the economic recovery starts. While management remains positive as far as pick up in credit growth is concerned, we remain conservative and build in lower growth than what it has done in past (over 20% yoy growth). With increasing efficiency in terms of declining cost to income and improving NIMs, we expect operating profit / net profit growth to remain higher than asset growth. We initiate coverage on KVB with BUY rating with target price of Rs 633, valuing it at 1.8x FY16E ABV.

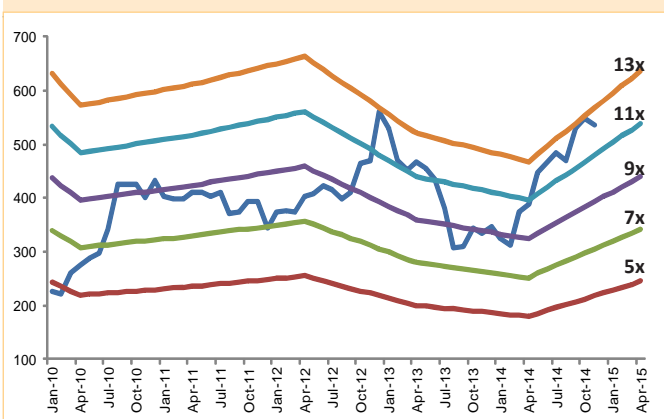
We had recommended BUY on KVB in our Stock Idea report dated 9th Sep. 2014, at then prevailing CMP of Rs 504 for target price of Rs 620.

Peer Comparison

(Rs mn)	CUB*		KVB		ING Vysya*		Federal Bank		DCB	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Net Interest Income	8344	9788	14232	16997	20129	23893	24527	29066	5070	6134
Pre Provisioning Profit	6703	7852	8829	11202	12685	15824	16334	19670	2826	3517
Net Profit	3975	4740	4318	5916	7444	9654	9974	12039	1624	1779
EPS (Rs)	6.9	8.2	35.8	49.1	39.5	51.1	11.7	14.1	5.8	6.3
ABV (Rs)	40.5	47.4	316.2	342.3	391.3	432.3	87.2	95.6	52.6	58.3
ROA (%)	1.5	1.6	0.8	1.0	1.1	1.3	1.2	1.3	1.0	0.9
ROE (%)	16.7	16.7	11.7	13.9	10.3	12.0	13.6	14.9	10.4	10.2
P/E (x)	13.4	11.3	15.4	11.3	21.7	16.8	12.5	10.4	18.2	16.6
P/ABV (x)	2.3	2.0	1.7	1.6	2.2	2.0	1.7	1.5	2.0	1.8

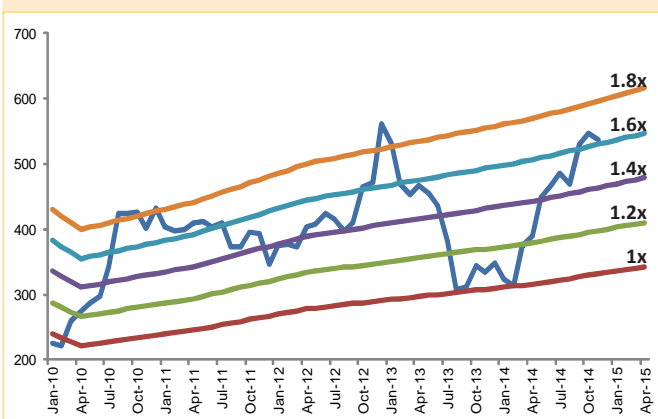
Source: Company, IndiaNivesh Research, *Bloomberg

PE Band



Source: Capitaline, Company, IndiaNivesh Research

P/ABV Band



Source: Capitaline, Company, IndiaNivesh Research

Income Statement (Rs Mn)	FY13	FY14	FY15E	FY16E
Interest Earned	42,424	51,160	55,675	63,399
Interest Expended	30,840	38,323	41,443	46,402
Net Interest Income	11,585	12,837	14,232	16,997
Other Income	4,526	5,645	5,424	6,344
Net Income	16,110	18,482	19,655	23,342
Total Income	46,950	56,804	61,098	69,743
Total Expenses	7,622	10,104	10,826	12,140
Pre Provision Profit	8,488	8,378	8,829	11,202
Provisions	1,234	4,423	3,657	3,941
Profit before tax	7,254	3,955	5,173	7,261
Tax	1,751	-341	855	1,345
Profit after tax	5,503	4,296	4,318	5,916

Source: IndiaNivesh Research

Balance Sheet (Rs Mn)	FY13	FY14	FY15E	FY16E
Liabilities				
Equity	1,072	1,072	1,206	1,206
Reserves and Surplus	29,780	32,192	39,625	43,284
Net Worth	30,852	33,263	40,830	44,490
Deposits	386,530	437,577	486,318	549,550
Borrowings	39,993	32,933	40,973	47,115
Other Liabilities & Provisions	10,093	12,543	13,012	17,923
Total Liabilities	467,468	516,316	581,133	659,078
Assets				
Cash and Bank Balance	17,960	26,782	26,994	27,591
Investments	138,373	132,470	152,597	171,064
Advances	294,801	339,921	382,382	439,707
Fixed & Other Assets	16,334	17,142	19,160	20,716
Total Assets	467,468	516,316	581,133	659,078

Source: IndiaNivesh Research

Valuation Ratios	FY13	FY14	FY15E	FY16E
Earning Per Share (Rs)	51.3	40.1	35.8	49.1
Book Value Per Share (Rs)	287.9	310.4	338.6	368.9
Adj Book Value Per Share (Rs)	277.7	297.3	316.2	342.3
Dividend Per Share (Rs)	14.0	13.0	13.0	13.0
P/E (x)	10.8	13.8	15.4	11.3
P/BV (x)	1.9	1.8	1.6	1.5
P/ABV (x)	2.0	1.9	1.7	1.6
Balance Sheet Ratios (%)				
CAR	14.4	12.6	13.3	13.2
Tier I	13.1	11.6	12.5	12.5
Credit/Deposit	76.3	77.7	78.6	80.0
CASA	19.2	20.5	22.5	23.7
Growth Y-o-Y (%)				
Advances	23.1	15.3	12.5	15.0
Deposits	20.4	13.2	11.1	13.0
Net Interest Income	26.3	10.8	10.9	19.4
Other Income	29.2	24.7	-3.9	17.0
Net Profit	9.7	-21.9	0.5	37.0
Return Ratios (%)				
ROA	1.3	0.9	0.8	1.0
ROE	19.0	13.4	11.7	13.9
Yield / Margin (%)				
Yield on Funds	10.9	11.3	11.1	11.1
Cost of Funds	8.0	8.5	8.3	8.3
Interest Spread	2.9	2.8	2.7	2.8
Net Interest Margin	3.0	2.8	2.8	3.0
Net Profit Margin	11.7	7.6	7.1	8.5
Other Ratios (%)				
Cost / Income	47.3	54.7	55.1	52.0
Gross NPA	1.0	0.8	1.2	1.2
Net NPA	0.4	0.4	0.7	0.7

Source: IndiaNivesh Research

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2.	Details of Disciplinary History of INSPL	No disciplinary action is / was running / initiated against INSPL
3.	Details of Associates of INSPL	<ol style="list-style-type: none"> 1. IndiaNivesh Limited 2. Siddhi Multi-Trade Private Limited 3. IndiaNivesh Commodities Private Limited 4. IndiaNivesh Insurance Brokers Private Limited 5. IndiaNivesh Investment Advisors Private Limited 6. IndiaNivesh Fund Managers Private Limited 7. Sneh Shares & Securities Private Limited 8. IndiaNivesh Financial Advisors Private Limited 9. Balashri Commercial Limited 10. IndiaNivesh Capitals Limited
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13.	Has research analyst or INSPL engaged in market making activity for the subject company	No
14.	Other disclosures	No



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