

Karur Vysya Bank

Refer to important disclosures at the end of this report

Headline NPA deterioration takes a break; strong focus on retailization

- KVB's earnings missed our estimate in Q2. It reported PAT at Rs633mn vs. our est. of Rs804mn, mainly due to higher loan loss provisions, although offset in part by lower tax expenses as the bank migrated to a new tax regime.
- Overall loan growth was low at 1% yoy, mainly due to corporate unwinding but retail growth came in healthy at 33% yoy with its share now at 24% vs. 19% a year ago. We believe this is positive from a long-term perspective.
- Asset quality improved with GNPA ratio falling by 28bps qoq to 8.9% due to higher recovery/write-offs. SMA 1/SMA 2 increased to 1.8% of loans from 0.84% of loans in Q1, indicating some stress build up in corporate book.
- We maintain Hold with a revised TP of Rs64 (Rs66 earlier) factoring in its increased focus on retail orientation, healthy capital position unlike peers, reasonable valuations and slow but steady expected improvement in return ratios. No weight in EAP.

Subdued growth in corporate de-bulking; retail going strong: Overall loan growth now slipped to 1% yoy on KVB's conscious run-down of its corporate and commercial lending book (-8% yoy). As part of the bank's corporate de-bulking strategy, corporate loan share (>Rs1bn) has fallen to 27%. Retail loan growth remained strong at 33% yoy with a 24% share now from 19% a year ago. Within retail, home and personal loans continue to grow strongly. The bank has created a 'Bank within a Bank – KVB Neo', a specialized entity equipped with specialists to focus on retail (organic/co-origination) and third-party engagement to drive business. NIMs (reported) slipped a bit to 3.46%, which management believes should improve gradually, driven by increased retailization.

Headline NPA ratio moderates after long: Fresh slippages remain elevated at Rs5.0bn (4.3%), mainly due to the higher NPA formation in corporate/SME from its guided stress pool and also outside pool. However, higher write-offs/recovery resulted in a 28bps qoq fall in GNPA ratio to 8.89%. The bank has shored up its non-technical PCR to 51.8% from 48.5% in Q1, which we believe is a positive development. Its restructured book now stands at Rs1.64bn (0.3% of loans) and SMA at 1.8% of loans.

Outlook: We like management's focus on unwinding its corporate book and focus on retail orientation, which will be long-term positive. We cut our EPS estimates for FY20/FY21 by 21.4%/6.1%, factoring in higher LLP due to the still elevated stress and the bank's policy to shore up PCR. However, we expect KVB to deliver better RoA over FY21-22E at 0.8-1% from a low of 0.4% in FY20 as asset quality pain recedes. Maintain Hold rating with a revised TP of Rs64 (1.0x Sep.21E ABV) (earlier Rs66), factoring in its increased focus on retail orientation, healthy capital position unlike peers, reasonable valuations and slow but steady expected improvement in return ratios. The key risk to our call is higher-than-expected NPA formation. No weight in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net income	31,980	33,256	34,930	38,569	43,501
Net profit	3,457	2,109	2,964	5,979	8,447
EPS (Rs)	4.8	2.6	3.7	7.5	10.6
ABV (Rs)	68.0	59.7	62.7	70.0	80.8
RoA (%)	0.5	0.3	0.4	0.8	1.0
RoE (%)	6.3	3.4	4.6	8.7	11.3
PE (x)	11.6	21.0	14.9	7.4	5.2
P/ABV	0.8	0.9	0.9	0.8	0.7

Source: Company, Emkay Research

CMP	Target Price
Rs 55	Rs 64 (▼)
as of (November 1, 2019)	12 months
Rating	Upside
HOLD (■)	15.6 %

Change in Estimates

EPS Chg FY20E/FY21E (%)	(21)/(6)
Target Price change (%)	(3.0)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY20E	FY21E
Emkay	3.7	7.5
Consensus	5.2	9.1
Mean Consensus TP (12M)	Rs 80	

Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	95 / 51
M Cap (Rs bn/USD bn)	44 / 0.63
Daily Avg Volume (nos.)	9,74,818
Daily Avg Turnover (US\$ mn)	0.8

Shareholding Pattern Jun '19

Promoters	2.1%
FIIIs	19.4%
DIIIs	23.5%
Public and Others	55.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	(12)	(28)	(29)
Rel. to Nifty	(5)	(18)	(29)	(38)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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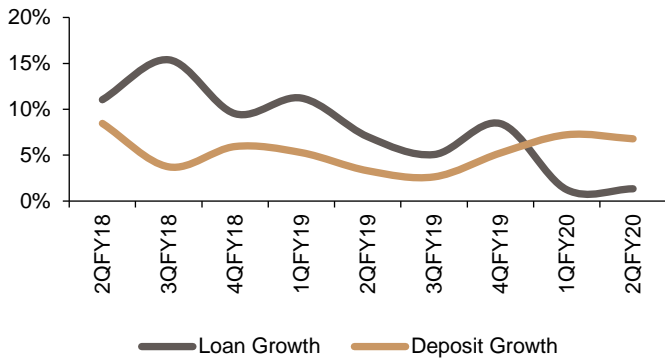
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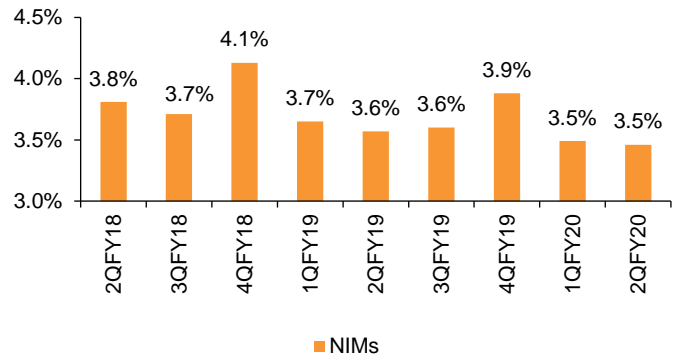
Story in Charts

Exhibit 1: Loan growth subdued due to KVB's conscious corporate de-bulking strategy; Deposit growth remained stable



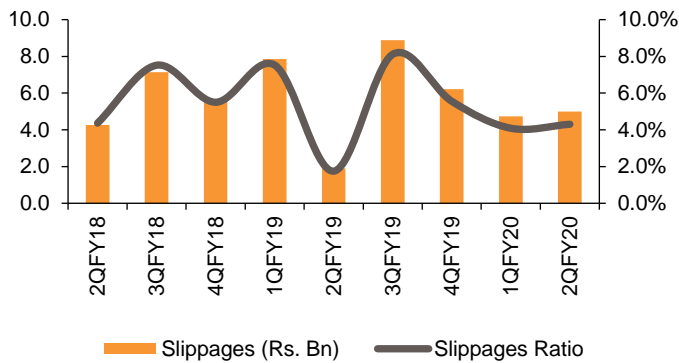
Source: Company, Emkay Research

Exhibit 2: NIMs compression was 3bps qoq and 11bps yoy



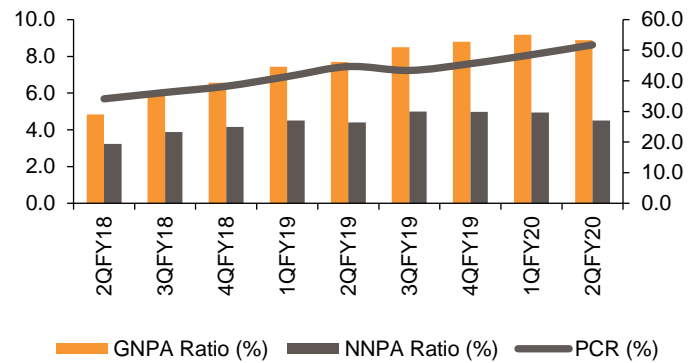
Source: Company, Emkay Research

Exhibit 3: Slippages remain elevated flowing from corporate/SME stress pool



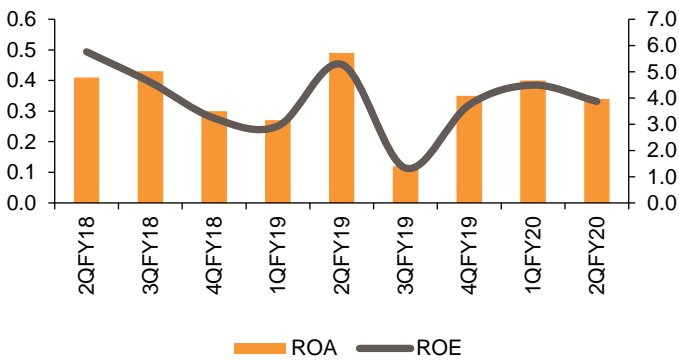
Source: Company, Emkay Research

Exhibit 4: NPA formation decelerates on account of higher recovery and write-offs



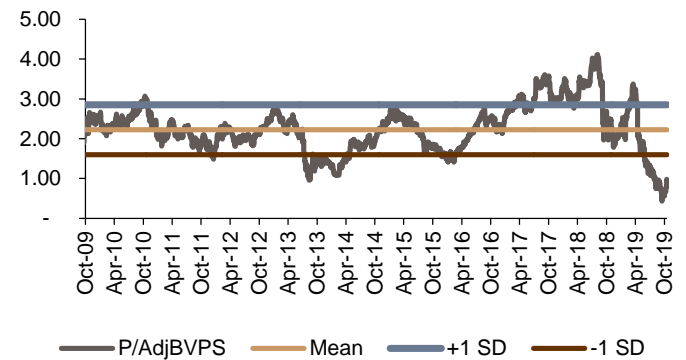
Source: Company, Emkay Research

Exhibit 5: Return ratios remained subdued due to higher LLP



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.9x 1-year forward ABV



Source: Company, Emkay Research

Exhibit 7: Actuals vs. Estimates (Q2FY20)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,740	8,671	11,561	1%	-24%	Broadly in line with estimates
PPOP	4,312	4,401	4,443	-2%	-3%	
PAT	633	804	887	-21%	-29%	Higher LLP largely offset by lower tax expenses resulted in a miss

Source: Company, Emkay Research

Exhibit 8: Quarterly summary

Rs (mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	FY19	FY20E	YoY (%)
Interest Earned	14,425	14,569	14,428	14,736	14,925	15,375	6	3	58,158	61,326	5
Interest Exp	8,589	8,778	8,619	8,544	9,086	9,412	7	4	34,530	37,246	8
Net Interest Income	5,836	5,791	5,808	6,192	5,840	5,963	3	2	23,628	24,080	2
Global NIMs (reported)	3.65	3.57	3.60	3.88	3.49	3.46	-11bps	-3bps	3.70	3.58	-12bps
Non-interest Income	2,549	1,756	2,599	2,725	2,698	2,777	58	3	9,628	10,850	13
Operating Expenses	3,789	3,933	4,157	4,269	4,087	4,429	13	8	16,148	17,461	8
Pre Provisioning Profit	4,596	3,614	4,250	4,648	4,451	4,312	19	-3	17,108	17,468	2
Provision & Contingencies	4,227	2,131	4,004	3,523	3,300	3,652	71	11	13,886	13,667	-2
PBT	370	1,483	246	1,124	1,152	660	-55	-43	3,222	3,802	18
Income Tax Expense (Gain)	-90	645	34	524	422	27	-96	-94	1,114	838	-25
Net Profit/(Loss)	459	837	212	600	729	633	-24	-13	2,109	2,964	41
Gross NPA (%)	7.44	7.70	8.49	8.79	9.17	8.89	119bps	-28bps	8.79	9.00	21bps
Net NPA (%)	4.50	4.41	4.99	4.98	4.94	4.50	9bps	-44bps	4.98	4.71	-27bps
Deposits (Rs in bn)	576	583	586	599	617	622	7	1	599	639	7
Net Advances (Rs in bn)	464	465	460	486	470	471	1	0	486	507	4

Source: Company, Emkay Research

Exhibit 9: Revision in earnings estimates

Y/E Mar (Rs mn)	FY20E			FY21E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net income	35,173	34,930	-0.7%	38,454	38,569	0.3%
PPOP	17,679	17,468	-1.2%	19,090	19,056	-0.2%
PAT	3,770	2,964	-21.4%	6,366	5,979	-6.1%
EPS (Rs)	4.7	3.7	-21.4%	8.0	7.5	-6.1%
BV (Rs)	83.4	82.4	-1.2%	90.2	88.7	-1.7%

Source: Company, Emkay Research

We have cut our EPS estimates for FY20E/21 by 21.4%/6.1% factoring in lower loan growth and higher LLP.

Exhibit 10: Key assumptions

	FY19A	FY20E	FY21E
Loan Growth %	8.4	4.5	9.7
Deposit Growth %	5.2	6.8	9.7
NIM %	3.7	3.6	3.6
GNPA %	8.8	9.0	8.6
Credit Cost %	2.7	2.5	1.8

Source: Company, Emkay Research

Exhibit 11: Key Ratios and trends

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Loans Rs mn	4,34,348	4,37,866	4,48,002	4,64,060	4,64,798	4,60,050	4,85,808	4,69,820	4,71,018
Growth YoY %	11.0	15.4	9.5	11.2	7.0	5.1	8.4	1.2	1.3
Growth QoQ %	4.1	0.8	2.3	3.6	0.2	(1.0)	5.6	(3.3)	0.3
Liability Profile & Margins									
Deposits (Rs mn)	5,63,999	5,71,190	5,68,901	5,75,540	5,82,618	5,86,240	5,98,680	6,17,110	6,22,128
Growth YoY %	8.5	3.7	5.9	5.3	3.3	2.6	5.2	7.2	6.8
Growth QoQ %	3.2	1.3	(0.4)	1.2	1.2	0.6	2.1	3.1	0.8
CASA %	27.6	28.1	29.1	30.0	29.5	29.8	29.9	29.7	29.8
CA %	9.6	9.7	9.8	10.2	9.9	10.0	9.7	10.1	9.9
SA %	18.0	18.3	19.3	19.8	19.6	19.8	20.2	19.6	19.9
Branches	752	773	790	790	788	782	778	778	779
NIM	3.81	3.71	4.13	3.65	3.57	3.60	3.88	3.49	3.46
Asset Quality									
GNPA	4.8	5.9	6.6	7.4	7.7	8.5	8.8	9.2	8.9
NNPA	3.2	3.9	4.2	4.5	4.4	5.0	5.0	4.9	4.5
PCR	34.1	36.2	38.2	41.4	44.7	43.4	45.6	48.5	51.8
Capital Adequacy									
CRAR %	12.2	13.9	14.4	14.1	14.2	14.6	16.0	16.0	16.0
Tier I %	11.4	13.4	13.9	13.6	13.7	14.1	14.3	14.3	14.3
ROE Decomposition %									
NII	3.5	3.4	3.9	3.5	3.4	3.4	3.6	3.3	3.3
Other Income	1.3	1.2	1.2	1.5	1.2	1.4	1.3	1.1	1.0
Opex	2.3	2.2	2.2	2.2	2.3	2.5	2.5	2.3	2.4
PPOP	2.7	2.6	2.9	2.7	2.1	2.5	2.7	2.5	2.4
Provisioning Cost	2.0	2.0	2.4	2.5	1.3	2.4	2.1	1.9	2.0
PBT	0.7	0.6	0.5	0.2	0.9	0.1	0.7	0.6	0.4
ROA	0.5	0.4	0.3	0.3	0.5	0.1	0.4	0.4	0.3
ROE	5.8	5.4	3.5	2.9	5.3	1.3	3.8	4.5	3.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net interest income	22,981	23,628	24,080	26,349	29,447
Other income	8,999	9,628	10,850	12,220	14,054
Fee income	6,171	6,549	7,347	8,376	9,799
Net income	31,980	33,256	34,930	38,569	43,501
Operating expenses	14,207	16,148	17,461	19,513	21,942
Pre provision profit	17,773	17,108	17,468	19,056	21,559
PPP excl treasury	16,762	16,403	16,482	17,872	20,139
Provisions	12,737	13,886	13,667	11,066	10,271
Profit before tax	5,036	3,222	3,802	7,990	11,288
Tax	1,580	1,114	838	2,011	2,841
Tax rate	31	35	22	25	25
Profit after tax	3,457	2,109	2,964	5,979	8,447

Balance Sheet

Y/E Year End (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Equity	1,453	1,599	1,599	1,599	1,599
Reserves	60,664	62,068	64,284	69,328	76,746
Net worth	62,117	63,667	65,882	70,926	78,345
Deposits	5,68,901	5,98,680	6,39,424	7,01,536	8,01,541
Borrowings	22,317	9,283	22,280	23,394	24,564
Total liabilities	6,69,291	6,93,401	7,44,567	8,10,929	9,21,633
Cash and bank	29,601	29,347	38,801	39,594	42,033
Investments	1,58,032	1,48,812	1,65,987	1,78,319	1,97,720
Loans	4,48,001	4,85,808	5,07,484	5,56,818	6,40,890
Others	15,007	15,981	18,761	22,145	26,382
Total assets	6,69,291	6,93,401	7,44,567	8,10,929	9,21,633

Key Ratios (%)

Y/E Year End	FY18	FY19	FY20E	FY21E	FY22E
NIM	3.8	3.7	3.6	3.6	3.6
Non-ll/avg assets	1.4	1.4	1.5	1.6	1.6
Fee income/avg assets	1.0	1.0	1.0	1.1	1.1
Opex/avg assets	2.2	2.4	2.4	2.5	2.5
Provisions/avg assets	2.0	2.0	1.9	1.4	1.2
PBT/avg assets	0.8	0.5	0.5	1.0	1.3
Tax/avg assets	0.2	0.2	0.1	0.3	0.3
RoA	0.5	0.3	0.4	0.8	1.0
RoAE	6.3	3.4	4.6	8.7	11.3
GNPA (%)	6.6	8.8	9.0	8.6	7.8
NNPA (%)	4.3	5.0	4.7	4.1	3.3

Per Share Data (Rs)	FY18	FY19	FY20E	FY21E	FY22E
EPS	4.8	2.6	3.7	7.5	10.6
BVPS	85.5	79.7	82.4	88.7	98.0
ABVPS	68.0	59.7	62.7	70.0	80.8
DPS	0.6	0.6	0.8	1.0	1.1

Valuations (x)	FY18	FY19	FY20E	FY21E	FY22E
PER	11.6	21.0	14.9	7.4	5.2
P/BV	0.8	0.9	0.9	0.8	0.7
P/ABV	0.8	0.9	0.9	0.8	0.7
P/PPOP	2.2	2.6	2.5	2.3	2.0
Dividend Yield (%)	1.1	1.1	1.4	1.8	2.0

Source: Company, Emkay Research

Growth (%)	FY18	FY19	FY20E	FY21E	FY22E
NII	10.8	2.8	1.9	9.4	11.8
PPOP	13.1	(3.7)	2.1	9.1	13.1
PAT	(43.0)	(39.0)	40.5	101.7	41.3
Loans	9.5	8.4	4.5	9.7	15.1

Quarterly (Rs mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
NII	5,791	5,808	6,192	5,840	5,963
NIM(%)	3.6	3.6	3.9	3.5	3.5
PPOP	3,614	4,250	4,648	4,451	4,312
PAT	837	212	600	729	633
EPS (Rs)	1.05	0.27	0.75	0.91	0.79

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoters	2.1	2.1	2.1	2.1	2.1
FIIIs	19.7	17.9	17.4	18.1	19.4
DIIIs	20.4	21.1	23.5	23.7	23.5
Public and Others	57.8	58.9	57.0	56.1	55.1

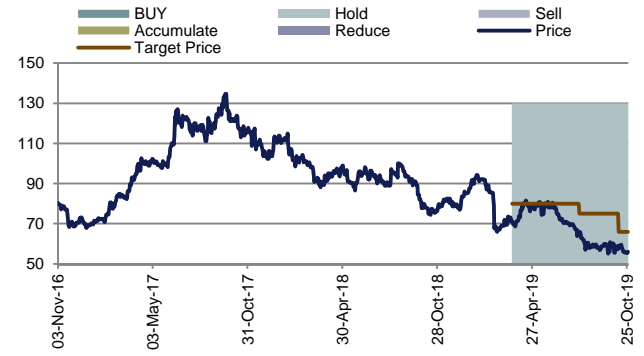
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Oct-19	59	66	12m	Hold	Anand Dama
26-Jul-19	66	75	12m	Hold	Anand Dama
16-May-19	75	80	12m	Hold	Anand Dama
20-Mar-19	71	80	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	23.98	23.98	0.0%	0	100.00
Axis Bank	2.46	2.78	13%	32	11.61
AU Small Finance Bank	0.06	0.00	-100%	-6	0.00
Bandhan Bank	0.18	0.48	171%	30	2.00
Bank of Baroda	0.19	0.00	-100%	-19	0.00
Canara Bank	0.06	0.00	-100%	-6	0.00
City Union Bank	0.26	0.48	83%	22	2.00
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.31	0.48	57%	17	2.00
HDFC Bank	8.72	9.23	6%	51	38.50
ICICI Bank	4.76	6.00	26%	123	25.00
Indian Bank	0.02	0.00	-100%	-2	0.00
Indusind Bank	1.48	1.48	0%	0	6.17
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	3.21	1.01	-69%	-220	4.20
Punjab National Bank	0.11	0.00	-100%	-11	0.00
RBL Bank	0.21	0.00	-100%	-21	0.00
State Bank of India	1.74	2.04	17%	30	8.52
Ujjivan Financial Services	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.17	0.00	-100%	-17	0.00
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

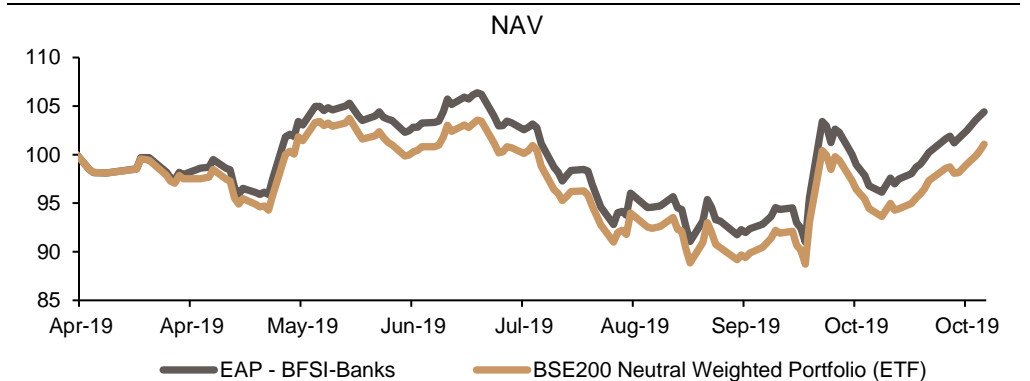
Sector portfolio NAV

	Base			Latest
	1-Apr-19	1-Aug-19	1-Oct-19	31-Oct-19
EAP - BFSI-Banks	100.0	95.7	99.0	104.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.7	96.4	101.1

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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