

# Karur Vysya Bank

**NEUTRAL**

## Uncertain times

KVB's incumbent MD & CEO P.R. Seshadri recently resigned from the bank. While this does not come as much of a surprise, we view this as a setback for the bank, as it would stall the long-needed revamp. The exit banker joined KVB in Sep-17. Our initial thesis on KVB was heavily premised on a cleanup-cum-revamp, which we expected post Mr. Seshadri's joining.

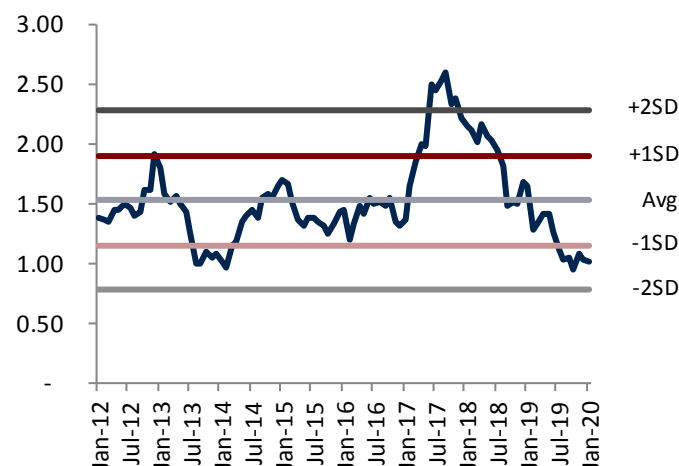
Prior to his joining, KVB had seen a sharp rise in delinquencies and a slowdown in loan growth. We had expected this to change. However, loan growth has since decelerated sharply (+1% in 1HYF20, with an ~8% de-growth in corporate loans and a ~3% de-growth in its core SME segment) and anticipated legacy stress turned out to be ~Rs 18bn (3.8% of the bank's loan book) higher than previously estimated. KVB's performance appears even paler when compared with those of its regional peers (CUBK and FB). Further, commentary and operating and asset quality metrics do not indicate tangible, material and sweeping changes at the bank.

While our estimates remain unchanged, as the impact of this event is difficult to disaggregate and model, we downgrade the stock, yet again, to NEUTRAL, (our BUY was premised solely on inexpensive valuations, ~1x FY21E). Our revised TP is Rs 64 (1xDec-21 ABV of Rs 64).

- Slippages And LLPs To Remain Elevated:** Given certain unforeseen slippages in 2QFY20, we continue to model higher slippages of ~2.5% over FY20-22E, higher than earlier guided. Deteriorating macros and an uptick in SMA levels since FY19 caused us to build higher slippages. A key assumption to our slippage estimates is that the existing elevated flow of slippages is from identified stress. We continue to model a PCR of ~56% by FY22E and consequently LLPs of ~2.3% over FY20-22E.
- Sluggish Loan Growth Likely:** While loan growth may pick up slightly, from the current ~1% YoY growth

levels, continued de-risking of the corporate book and broader macros would weigh down on overall growth. We had modeled a loan growth of ~12% of FY20-22E.

### P/ABV



### FINANCIAL SUMMARY

YE Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
NII	22,981	23,628	25,269	27,305	30,711
PPOP	17,773	17,108	19,412	20,359	22,989
PAT	3,457	2,109	3,362	5,944	8,579
EPS (Rs)	4.8	2.6	4.2	7.4	10.7
ROAE (%)	6.1	3.3	5.2	8.9	12.4
ROAA (%)	0.54	0.31	0.47	0.76	0.98
Adj. BVPS (Rs)	60.6	50.1	54.1	60.1	65.3
P/ABV (x)	0.99	1.19	1.10	0.99	0.92
P/E (x)	12.6	22.6	14.2	8.0	5.6

Source: Company, HDFC sec Inst Research

INDUSTRY	BANKS
<b>CMP (as on 3 Jan 2020)</b>	<b>Rs 60</b>
<b>Target Price</b>	<b>Rs 64</b>
Nifty	12,227
Sensex	41,465

### KEY STOCK DATA

Bloomberg	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / (\$ mn)	48/665
6m avg traded value (Rs mn)	51

### STOCK PERFORMANCE (%)

<b>52 Week high / low</b>	<b>Rs 95/51</b>		
	3M	6M	12M
Absolute (%)	3.3	(14.9)	(34.7)
Relative (%)	(5.5)	(19.0)	(51.4)

### SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	2.1	2.1
FIs & Local MFs	22.5	22.5
FPIs	18.1	19.3
Public & Others	57.3	56.1
Pledged Shares	-	-

Source : BSE

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**KVB Under PR Seshadri**

Rs bn	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
<b>Loan Book</b>								
Rs bn	438	448	464	465	460	486	470	471
<i>Chg (%)</i>	13.87	9.52	9.44	7.01	5.05	8.44	1.24	1.34
Break up (%)								
<i>Commercial</i>	34.4	35.0	34.5	34.4	35.1	33.7	33.6	32.6
<i>Corporate</i>	32.0	31.3	31.1	30.0	28.3	28.0	27.6	26.9
<i>Agri</i>	17.2	17.1	17.2	17.2	17.3	16.0	16.6	16.7
<i>Retail</i>	16.4	16.6	17.2	18.4	19.3	22.3	22.1	23.8
<b>Deposits</b>								
Rs bn	572	569	576	583	586	599	617	622
<i>Chg</i>	3.87	5.94	5.28	3.30	2.49	5.23	7.22	6.78
CASA	160	166	172	172	175	179	183	185
<i>Chg</i>	(5.60)	11.34	8.15	10.45	9.02	8.07	6.36	7.68
SA (%)	18.31	19.34	19.76	19.59	19.81	20.21	19.61	19.90
CA (%)	9.70	9.80	10.21	9.94	9.98	9.71	10.11	9.87
TD (%)	71.99	70.86	70.04	70.48	70.20	70.08	70.28	70.23
<b>Yields And Margins</b>								
<i>Yields (%)</i>	10.42	9.89	9.65	9.79	9.59	9.81	9.61	9.85
<i>Cost of Deposits (%)</i>	6.06	5.78	5.79	5.85	5.80	5.80	5.82	5.86
<i>NIM (%)</i>	3.76	4.13	3.65	3.57	3.60	3.88	3.49	3.46
<b>Asset Quality</b>								
Gross NPA Rs bn	26.63	30.16	35.63	37.07	40.56	44.50	45.11	43.91
Net NPA Rs bn	16.99	18.63	20.88	20.52	22.96	24.20	23.22	21.18
<i>Gross NPA (%)</i>	5.94	6.56	7.44	7.70	8.49	8.79	9.17	8.89
<i>Net NPA (%)</i>	3.88	4.16	4.50	4.41	4.99	4.98	4.94	4.50
<i>Calc. PCR (%)</i>	36.21	38.23	41.40	44.66	43.40	45.61	48.53	51.76
<i>Reported PCR (%)</i>	54.07	56.50	56.50	58.50	56.09	56.86	59.05	61.82
Slippages Rs bn	7.13	5.63	7.85	3.41	9.07	6.22	4.74	5.00
<i>Slippages (%)</i>	6.54	5.08	6.89	2.94	7.85	5.26	3.97	4.25
<b>Return Ratios</b>								
<i>RoAA (%)</i>	0.44	0.30	0.27	0.49	0.13	0.35	0.41	0.35
<i>RoAE (%)</i>	4.99	3.24	2.92	5.30	1.33	3.76	4.52	3.90
<b>CRAR</b>								
Total	13.92	14.43	14.08	14.22	14.59	16.00	15.99	15.99
Tier I	13.36	13.92	13.57	13.74	14.08	14.28	14.27	14.25

Source: Bank, HDFC sec Inst Research

**Peer Set Comparison**

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ICICIBC #	3,474	539	BUY	565	155	178	207	32.6	16.9	12.3	2.78	2.38	2.02	6.9	12.8	15.4	0.83	1.40	1.65
KMB #	3,163	1,657	NEU	1,628	239	277	323	39.7	32.8	26.6	5.68	4.78	3.99	14.9	15.1	15.7	1.96	2.01	2.07
AXSB#	2,094	743	BUY	958	272	314	363	34.9	15.9	12.9	2.63	2.27	1.96	7.5	13.7	14.8	0.68	1.31	1.41
IIB	1,083	1,529	BUY	1,904	515	581	688	20.5	16.1	12.8	2.97	2.63	2.22	16.5	16.6	18.1	1.73	1.86	1.94
FB	181	91	BUY	119	63	74	85	10.6	8.8	7.0	1.43	1.23	1.08	12.2	13.2	14.8	1.00	1.04	1.13
CUBK	168	229	BUY	255	68	79	91	21.0	18.2	15.9	3.38	2.91	2.50	15.3	15.2	15.0	1.62	1.62	1.61
RBK	154	358	NEU	294	161	179	214	28.3	15.2	10.6	2.23	2.00	1.67	7.0	12.0	15.4	0.62	0.98	1.18
DCBB	57	183	BUY	243	97	113	130	13.8	11.3	9.0	1.88	1.62	1.40	12.4	13.5	14.9	1.07	1.14	1.22
<b>KVB</b>	<b>48</b>	<b>60</b>	<b>NEU</b>	<b>64</b>	<b>54</b>	<b>60</b>	<b>65</b>	<b>14.2</b>	<b>8.0</b>	<b>5.6</b>	<b>1.10</b>	<b>0.99</b>	<b>0.92</b>	<b>5.2</b>	<b>8.9</b>	<b>12.4</b>	<b>0.47</b>	<b>0.76</b>	<b>0.98</b>
SBIN#	2,978	334	BUY	389	182	215	250	13.1	8.3	6.2	1.40	1.17	0.98	7.6	10.9	13.0	0.45	0.64	0.77
AUBANK	241	798	BUY	807	121	148	184	35.5	25.7	20.0	6.57	5.39	4.34	18.1	19.6	20.8	1.80	1.91	1.93

Source: Company, HDFC sec Inst Research; # Adjusted for Subsidiaries

**Income Statement**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	56,997	58,158	62,091	67,373	75,374
Interest Expended	34,015	34,530	36,822	40,068	44,663
<b>Net Interest Income</b>	<b>22,981</b>	<b>23,628</b>	<b>25,269</b>	<b>27,305</b>	<b>30,711</b>
<b>Other Income</b>	8,999	9,628	11,840	12,381	13,501
<i>Fee Income (CEB)</i>	6,171	6,549	6,852	7,709	8,827
<i>Treasury Income</i>	1,011	705	2,500	2,000	1,750
<b>Total Income</b>	<b>31,980</b>	<b>33,256</b>	<b>37,109</b>	<b>39,686</b>	<b>44,212</b>
<b>Total Operating Exp</b>	<b>14,207</b>	<b>16,148</b>	<b>17,696</b>	<b>19,327</b>	<b>21,223</b>
<i>Employee Expense</i>	6,391	7,612	8,524	9,495	10,576
<b>PPOP</b>	<b>17,773</b>	<b>17,108</b>	<b>19,412</b>	<b>20,359</b>	<b>22,989</b>
Provisions & Contingencies	12,250	14,142	14,893	12,369	11,458
<i>Prov. For NPAs (Incl. Std Prov.)</i>	10,219	13,157	14,543	12,194	11,283
<b>PBT</b>	<b>5,524</b>	<b>2,966</b>	<b>4,519</b>	<b>7,990</b>	<b>11,531</b>
Provision For Tax	2,067	857	1,157	2,045	2,952
<b>PAT</b>	<b>3,457</b>	<b>2,109</b>	<b>3,362</b>	<b>5,944</b>	<b>8,579</b>

Source: Bank, HDFC sec Inst Research

**Balance Sheet**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,453	1,599	1,599	1,599	1,599
Reserves	61,189	62,629	63,856	66,025	69,156
<b>Shareholders' Funds</b>	<b>62,642</b>	<b>64,228</b>	<b>65,455</b>	<b>67,624</b>	<b>70,755</b>
<i>Savings</i>	110,006	121,014	130,695	143,765	161,016
<i>Current</i>	55,764	58,136	62,496	68,746	76,995
<i>Term Deposit</i>	403,131	419,530	450,994	500,604	566,683
<b>Total Deposits</b>	<b>568,901</b>	<b>598,680</b>	<b>644,186</b>	<b>713,114</b>	<b>804,695</b>
Borrowings	23,940	15,653	20,670	24,995	30,964
Other Liabilities	13,932	14,840	16,043	17,346	19,080
<b>Total Liabilities</b>	<b>669,414</b>	<b>693,401</b>	<b>746,354</b>	<b>823,079</b>	<b>925,494</b>
<b>APPLICATION OF FUNDS</b>					
Cash & Bank Balance	43,092	36,970	30,824	32,126	35,576
Investments	158,032	148,816	163,810	171,855	183,481
<i>G-Secs</i>	140,128	126,710	141,721	149,754	161,341
Advances	448,001	485,808	527,102	592,990	678,973
Fixed Assets	5,282	5,830	6,121	6,427	6,749
Other Assets	15,007	15,977	18,496	19,681	20,714
<b>Total Assets</b>	<b>669,414</b>	<b>693,401</b>	<b>746,354</b>	<b>823,079</b>	<b>925,494</b>

Source: Bank, HDFC sec Inst Research

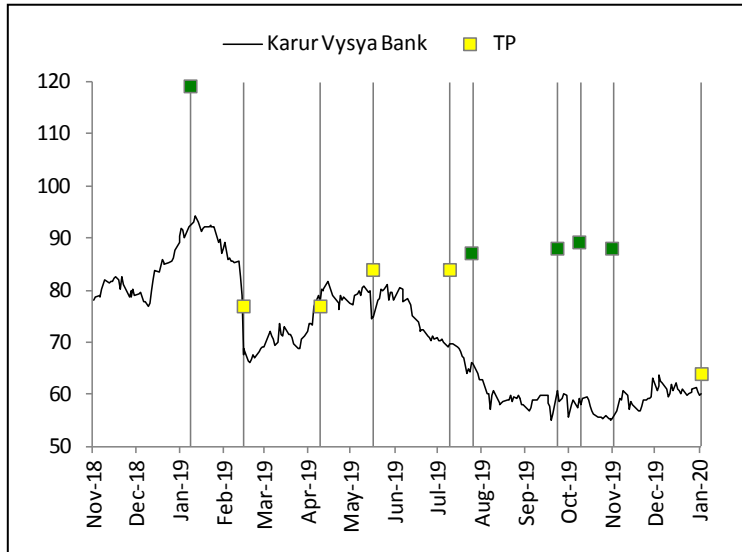
## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>					
EPS (Rs)	4.8	2.6	4.2	7.4	10.7
Earnings Growth (%)	(43.0)	(39.0)	59.4	76.8	44.3
BVPS (Rs)	86.2	80.4	81.9	84.6	88.5
Adj. BVPS (Rs)	60.6	50.1	54.1	60.1	65.3
DPS (Rs)	<b>0.6</b>	<b>0.6</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>
ROAA (%)	0.54	0.31	0.47	0.76	0.98
ROAE (%)	6.1	3.3	5.2	8.9	12.4
P/E (x)	12.6	22.6	14.2	8.0	5.6
P/ABV (x)	1.0	1.2	1.1	1.0	0.9
P/PPOP (x)	0.5	0.6	0.5	0.5	0.4
Dividend Yield (%)	1.0	1.0	0.5	0.9	1.3
<b>PROFITABILITY</b>					
Yield On Advances (%)	10.32	9.84	9.96	9.81	9.80
Yield On Investment (%)	7.32	7.50	7.20	7.20	7.10
Cost Of Deposits (%)	5.99	5.72	5.75	5.72	5.69
Core Spread (%)	4.33	4.12	4.21	4.09	4.11
NIM (%)	3.85	3.75	3.78	3.74	3.77
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	2.2	2.4	2.5	2.5	2.4
Cost-Income Ratio (Ex. Treasury)	45.9	49.6	51.1	51.3	50.0
<b>BALANCE SHEET STRUCTURE</b>					
Loan Growth (%)	9.5	8.4	8.5	12.5	14.5
Deposit Growth (%)	5.9	5.2	7.6	10.7	12.8
C/D Ratio (%)	78.7	81.1	81.8	83.2	84.4
Equity/Assets (%)	9.4	9.3	8.8	8.2	7.6
Equity/Advances (%)	14.0	13.2	12.4	11.4	10.4
CASA (%)	29.1	29.9	30.0	29.8	29.6
Capital Adequacy Ratio (CAR, %)	14.4	16.0	15.2	14.1	13.0
W/w Tier I CAR (%)	13.9	14.3	13.8	12.9	12.0

	FY18	FY19	FY20E	FY21E	FY22E
<b>ASSET QUALITY</b>					
Gross NPLs (Rs mn)	30,158	44,496	46,142	43,697	42,434
Net NPLs (Rs mn)	18,628	24,203	22,226	19,611	18,592
Gross NPLs (%)	6.56	8.79	8.75	7.37	6.25
Net NPLs (%)	4.16	4.98	4.22	3.31	2.74
Slippages (%)	4.88	5.02	3.40	2.20	2.00
Coverage Ratio (%)	38.2	45.6	51.8	55.1	56.2
Provision/Avg. Loans (%)	2.39	2.82	2.86	2.17	1.76
<b>ROAA TREE</b>					
Net Interest Income	3.57%	3.47%	3.51%	3.48%	3.51%
Non-interest Income	1.40%	1.41%	1.64%	1.58%	1.54%
Treasury Income	0.16%	0.10%	0.35%	0.25%	0.20%
Operating Cost	2.21%	2.37%	2.46%	2.46%	2.43%
Provisions	1.90%	2.08%	2.07%	1.58%	1.31%
<i>Provisions For NPAs</i>	<i>1.59%</i>	<i>1.93%</i>	<i>2.02%</i>	<i>1.55%</i>	<i>1.29%</i>
Tax	0.32%	0.13%	0.16%	0.26%	0.34%
ROAA	0.54%	0.31%	0.47%	0.76%	0.98%
Leverage (x)	11.39	10.74	11.10	11.79	12.64
ROAE	6.12%	3.32%	5.19%	8.93%	12.40%

Source: Bank, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
8-Jan-19	92	BUY	119
15-Feb-19	69	NEU	77
9-Apr-19	79	NEU	77
17-May-19	75	NEU	84
9-Jul-19	69	NEU	84
26-Jul-19	66	BUY	87
22-Sep-19	56	BUY	88
9-Oct-19	60	BUY	89
3-Nov-19	55	BUY	88
6-Jan-20	60	NEU	64

**Rating Definitions**

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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