

# Karur Vysya Bank

Refer to important disclosures at the end of this report

## Asset quality concerns persist; New MD appointment remains a near-term monitorable

CMP: Rs 34  
as of (June 25, 2020)

TP: Rs 29 (▲)  
12 months

Rating: SELL (■)

Upside: (15.1) %



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- Despite subdued growth, depressed margins and elevated provisions, KVB reported better than expected PAT of Rs863mn (est. Rs410mn), mainly due to higher treasury gains. Lower Covid-19-related contingent provisions of Rs470mn, 0.1% of loans, is disappointing.
- Lower fresh slippages at Rs1.7bn (1.5%) partly helped by the moratorium, coupled with higher reductions, led to a 24bps qoq decline in the GNPA ratio to 8.7%. Nearly 41% loans by value (as on 21<sup>st</sup> June) are under moratorium.
- KVB optimistically expects slippages at 1.5-2% of loans in FY21 vs. 3.2% in FY20. However, we have factored in higher slippages, given the bank's higher SME exposure (32%), which could be vulnerable to the asset quality shock due to Covid-19-induced business disruption.
- We maintain Sell (no weight in EAP) with a revised TP of Rs29 (based on 0.4x FY22 ABV) vs. earlier TP of Rs18 (based on 0.2x FY22 ABV), due to the uncertainty around top management, concerns around asset quality and sub-par return ratios.

**Subdue growth momentum continues:** Overall loan growth slipped to 2.2% yoy, given its continued run-down of the corporate (down 2.7%qoq) and SME lending book (down 3.7% yoy). Retail loan book declined 1% yoy/5% qoq (Adj for IBPC run down). Deposits declined 5% qoq due to a sharp fall in CA & TD book, but CASA share improved to 31%. NIMs (reported) improved 13bps qoq to 3.46% due to better LDR. KVB has disbursed Rs8bn under the MSME guarantee scheme out of Rs22bn (5% of loans) disbursement opportunity. The bank believes that subdued growth in FY20 was mainly due to its calibrated growth strategy in the wake of higher NPAs, but is now well geared for growth. However, the bank's growth trajectory will be contingent upon new top management.

**NPA formation takes a pause in Q4, but challenges galore amid Covid-19 disruption:** Fresh slippages moderated to Rs1.7bn (1.5%) vs. Rs4.5bn (3.9%) in Q3, due to the standstill benefit given to Rs1.9bn (40bps of loans) and absence of any lumpy corporate NPA. KVB has extended the moratorium to 41% (as on 21<sup>st</sup> June) in value terms (Agri 26%, Commercial 57%, Corporate 38%, Retail 34%). The bank has made Covid-19 provisions of Rs470mn at 10% on loans, where the bank has extended standstill benefit, but no additional contingent provisions, which is tad disappointing. The bank has optimistically guided slippages in the range of 1.7-2.5% in FY21 after factoring in Covid-19's impact.

**Outlook & Valuations:** We cut our EPS estimates for FY21/FY22E by 35/38%, factoring in lower loan growth, subdued fees and higher LLP. We expect the bank's RoA to remain subdued at 0.3% in FY21E, but could gradually improve to 0.7% by FY23. We maintain Sell (no weight in EAP) with a revised TP of Rs29 (based on 0.4x FY22 ABV), due to uncertainty around top management, concerns around asset quality and sub-par return ratios. The key risks to our call include better-than-expected NPA formation and appointment of a credible candidate at the MD & CEO position after an abrupt exit of the last MD.

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

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	33,256	35,026	37,181	39,549	42,687
Net profit	2,109	2,350	2,387	3,679	5,919
EPS (Rs)	2.6	2.9	3.0	4.6	7.4
ABV (Rs)	59.7	65.6	67.0	71.6	78.7
RoA (%)	0.3	0.3	0.3	0.5	0.7
RoE (%)	3.4	3.6	3.6	5.3	8.0
PE (x)	12.8	11.5	11.3	7.3	4.6
P/ABV	0.6	0.5	0.5	0.5	0.4

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	(38)/(35)
Target Price change (%)	59.2
Target Period (Months)	12
Previous Reco	SELL

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	3.0	4.6
Consensus	6.2	9.1
Mean Consensus TP (12M)	Rs 46	

### Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	72 / 18
M Cap (Rs bn/USD bn)	27 / 0.36
Daily Avg Volume (nos.)	15,93,524
Daily Avg Turnover (US\$ mn)	0.6

### Shareholding Pattern Mar '20

Promoters	2.1%
FIIs	21.6%
DIIIs	22.8%
Public and Others	53.5%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	46	65	(44)	(52)
<b>Rel. to Nifty</b>	28	33	(33)	(45)

### Relative price chart



Source: Bloomberg

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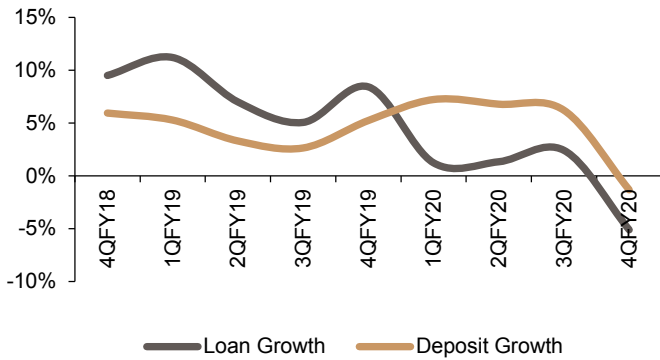
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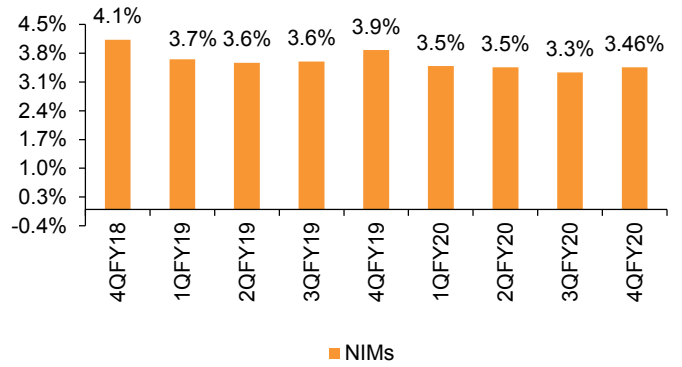
## Story in Charts

**Exhibit 1: Deposit de-growth was due to flight to safety and loan de-growth was led by Corporate/Commercial loans**



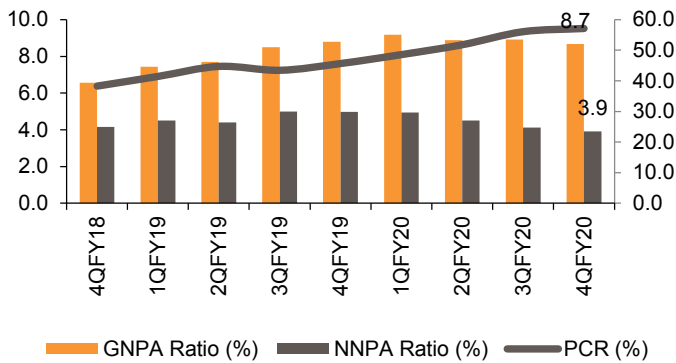
Source: Company, Emkay Research

**Exhibit 2: NIM improved 13 bps due to better LDR**



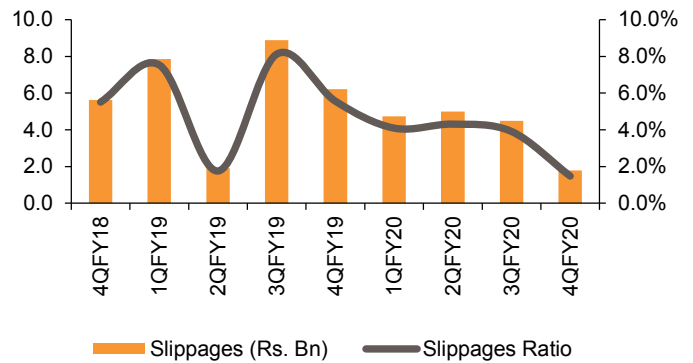
Source: Company, Emkay Research

**Exhibit 3: GNPA improved 24 bps due to write-off and standstill benefit**



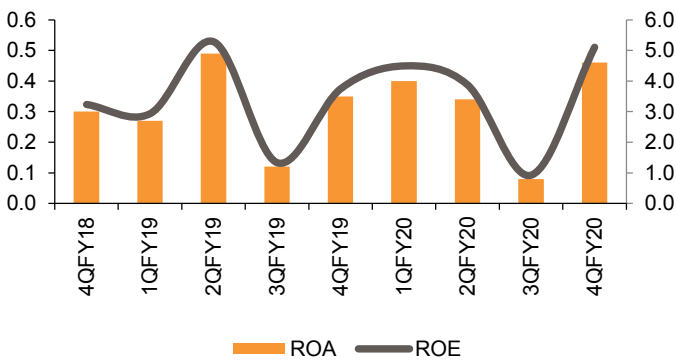
Source: Company, Emkay Research

**Exhibit 4: Slippages were moderated due to stand still benefit to Rs1.9bn ( 40 bps of loans)**



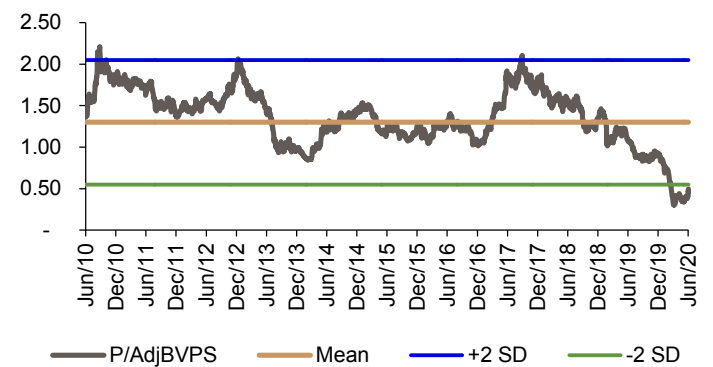
Source: Company, Emkay Research

**Exhibit 5: ROA improved due to better operating earnings and lower covid19 contingent provisioning**



Source: Company, Emkay Research

**Exhibit 6: The stock currently trades at 0.5x – 1 year forward ABV**



Source: Company, Emkay Research

**Exhibit 7: Actual vs Estimates (Q4FY20)**

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	9,374	8,660		8%		Higher treasury income led to a beat
PPOP	4,998	4,014	4,042	25%	24%	Lower operating expenses led to a beat
PAT	837	410	527	104%	59%	Tax adjustment along with higher PPOP led to beat

Source: Company, Emkay Research

**Exhibit 8: Quarterly Summary**

Rs (mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	14,736	14,925	15,375	15,037	14,561	-1	-3	59,900	59,453	-1
Interest Exp	8,544	9,086	9,412	9,266	8,657	1	-7	36,420	34,985	-4
Net Interest Income	6,192	5,840	5,963	5,771	5,904	-5	2	23,479	24,468	4
Global NIMs (reported)	3.88	3.49	3.46	3.33	3.46	-42bps	13bps	3.64	3.69	6bps
Non-interest Income	2,725	2,698	2,777	2,601	3,470	27	33	11,546	12,713	10
Operating Expenses	4,269	4,087	4,429	4,525	4,376	3	-3	17,417	18,780	8
Pre Provisioning Profit	4,648	4,451	4,312	3,846	4,998	8	30	17,609	18,401	4
Provision & Contingencies	3,523	3,300	3,652	3,643	4,293	22	18	14,887	15,211	2
PBT	1,124	1,152	660	204	705	-37	246	2,722	3,190	17
Income Tax Expense (Gain)	524	422	27	54	-131	-125	-343	372	803	116
Net Profit/(Loss)	600	729	633	150	837	39	459	2,350	2,387	2
Gross NPA (%)	8.79	9.17	8.89	8.92	8.68	-11bps	-24bps	8.69	9.23	55bps
Net NPA (%)	4.98	4.94	4.50	4.13	3.92	-106bps	-21bps	3.92	4.10	17bps
Deposits (Rs in bn)	599	617	622	623	591	-1	-5	591	627	6
Net Advances (Rs in bn)	486	470	471	471	461	-5	-2	461	484	5

Source: Company, Emkay Research

**Exhibit 9: Revision in estimates**

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	36,579	37,181	1.6%	39,378	39,549	0.4%	42,687
PPOP	16,684	18,401	10.3%	17,005	18,951	11.4%	19,820
PAT	3,824	2,387	-37.6%	5,674	3,679	-35.2%	5,919
EPS (Rs)	4.8	3.0	-37.6%	7.1	4.6	-35.2%	7.4
BV (Rs)	84.7	85.6	1.0%	90.5	89.2	-1.5%	95.3

Source: Company, Emkay Research

We cut our EPS estimates for FY21/FY22 by 35-38% respectively, factoring in lower loan growth, subdued fees and higher LLP.

**Exhibit 10: Key Assumptions**

	FY20	FY21E	FY22E	FY23E
Loan Growth %	(5.1)	5.1	7.8	12.3
Deposit Growth %	(1.3)	6.1	8.4	10.9
NIM %	3.6	3.7	3.7	3.7
GNPA %	8.7	9.2	8.9	8.2
Credit Cost %	2.8	3.2	2.4	1.9

Source: Company, Emkay Research

**Exhibit 11: Key ratios and trends**

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
<b>Loans Rs mn</b>	<b>448,002</b>	<b>464,060</b>	<b>464,798</b>	<b>460,050</b>	<b>485,808</b>	<b>469,820</b>	<b>471,018</b>	<b>471,190</b>	<b>460,981</b>
<i>Growth YoY %</i>	9.5	11.2	7.0	5.1	8.4	1.2	1.3	2.4	(5.1)
<i>Growth QoQ %</i>	2.3	3.6	0.2	(1.0)	5.6	(3.3)	0.3	0.0	(2.2)
<b>Liability Profile &amp; Margins</b>									
Deposits (Rs mn)	568,901	575,540	582,618	586,240	598,680	617,110	622,128	622,620	590,751
<i>Growth YoY %</i>	5.9	5.3	3.3	2.6	5.2	7.2	6.8	6.2	(1.3)
<i>Growth QoQ %</i>	(0.4)	1.2	1.2	0.6	2.1	3.1	0.8	0.1	(5.1)
CASA %	29.1	30.0	29.5	29.8	29.9	29.7	29.8	30.6	31.3
CA %	9.8	10.2	9.9	10.0	9.7	10.1	9.9	10.1	9.3
SA %	19.3	19.8	19.6	19.8	20.2	19.6	19.9	20.6	22.0
Branches	790	790	788	782	778	778	779	779	779
NIM	4.13	3.65	3.57	3.60	3.88	3.49	3.46	3.33	3.46
<b>Asset Quality</b>									
GNPA	6.6	7.4	7.7	8.5	8.8	9.2	8.9	8.9	8.7
NNPA	4.2	4.5	4.4	5.0	5.0	4.9	4.5	4.1	3.9
PCR	38.2	41.4	44.7	43.4	45.6	48.5	51.8	56.0	57.1
<b>Capital Adequacy</b>									
CRAR %	14.4	14.1	14.2	14.6	16.0	16.0	16.0	15.9	17.2
Tier I %	13.9	13.6	13.7	14.1	14.3	14.3	14.3	14.1	15.3
<b>ROE Decomposition %</b>									
NII	3.9	3.5	3.4	3.4	3.6	3.3	3.3	3.8	4.1
Other Income	1.2	1.5	1.2	1.4	1.3	1.1	1.0	1.4	1.5
Opex	2.2	2.2	2.3	2.5	2.5	2.3	2.4	3.0	3.0
PPOP	2.9	2.7	2.1	2.5	2.7	2.5	2.4	2.6	3.5
Provisioning Cost	2.4	2.5	1.3	2.4	2.1	1.9	2.0	2.4	3.0
PBT	0.5	0.2	0.9	0.1	0.7	0.6	0.4	0.1	0.5
ROA	0.3	0.3	0.5	0.1	0.4	0.4	0.3	0.1	0.6
ROE	3.5	2.9	5.3	1.3	3.8	4.5	3.9	0.9	5.1

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>23,628</b>	<b>23,479</b>	<b>24,468</b>	<b>25,916</b>	<b>28,540</b>
<b>Other income</b>	<b>9,628</b>	<b>11,546</b>	<b>12,713</b>	<b>13,633</b>	<b>14,146</b>
Fee income	6,549	6,580	6,909	7,462	8,208
<b>Net income</b>	<b>33,256</b>	<b>35,026</b>	<b>37,181</b>	<b>39,549</b>	<b>42,687</b>
Operating expenses	16,148	17,417	18,780	20,598	22,867
<b>Pre provision profit</b>	<b>17,108</b>	<b>17,609</b>	<b>18,401</b>	<b>18,951</b>	<b>19,820</b>
<b>PPP excl treasury</b>	<b>16,403</b>	<b>14,209</b>	<b>14,321</b>	<b>14,667</b>	<b>15,964</b>
Provisions	13,886	14,887	15,211	14,035	11,910
<b>Profit before tax</b>	<b>3,222</b>	<b>2,722</b>	<b>3,190</b>	<b>4,916</b>	<b>7,910</b>
Tax	1,114	372	803	1,237	1,991
Tax rate	35	14	25	25	25
<b>Profit after tax</b>	<b>2,109</b>	<b>2,350</b>	<b>2,387</b>	<b>3,679</b>	<b>5,919</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	1,599	1,599	1,599	1,599	1,599
Reserves	62,068	64,404	66,791	69,670	74,560
<b>Net worth</b>	<b>63,667</b>	<b>66,003</b>	<b>68,389</b>	<b>71,269</b>	<b>76,159</b>
Deposits	5,98,680	5,90,751	6,26,946	6,79,306	7,53,087
Borrowings	9,283	10,342	10,859	10,316	10,832
<b>Total liabilities</b>	<b>6,93,401</b>	<b>6,82,781</b>	<b>7,23,797</b>	<b>7,81,836</b>	<b>8,71,006</b>
Cash and bank	29,347	27,327	34,546	38,691	44,635
Investments	1,48,812	1,57,624	1,65,198	1,77,828	1,92,846
Loans	4,85,808	4,60,981	4,84,297	5,22,058	5,86,090
Others	15,981	14,384	16,730	19,674	23,249
<b>Total assets</b>	<b>6,93,401</b>	<b>6,82,781</b>	<b>7,23,797</b>	<b>7,81,836</b>	<b>8,71,006</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.7	3.6	3.7	3.7	3.7
Non-ll/avg assets	1.4	1.7	1.8	1.8	1.7
Fee income/avg assets	1.0	1.0	1.0	1.0	1.0
Opex/avg assets	2.4	2.5	2.7	2.7	2.8
Provisions/avg assets	2.0	2.2	2.2	1.9	1.4
PBT/avg assets	0.5	0.4	0.5	0.7	1.0
Tax/avg assets	0.2	0.1	0.1	0.2	0.2
RoA	0.3	0.3	0.3	0.5	0.7
RoAE	3.4	3.6	3.6	5.3	8.0
GNPA (%)	8.8	8.7	9.2	8.9	8.2
NNPA (%)	5.0	3.9	4.1	3.6	3.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	2.6	2.9	3.0	4.6	7.4
BVPS	79.7	82.6	85.6	89.2	95.3
ABVPS	59.7	65.6	67.0	71.6	78.7
DPS	0.6	0.0	0.0	1.0	1.1

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	12.8	11.5	11.3	7.3	4.6
P/BV	0.6	0.5	0.5	0.5	0.4
P/ABV	0.6	0.5	0.5	0.5	0.4
P/PPOP	1.6	1.5	1.5	1.4	1.4
Dividend Yield (%)	1.8	0.0	0.0	3.0	3.3

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	2.8	(0.6)	4.2	5.9	10.1
PPOP	(3.7)	2.9	4.5	3.0	4.6
PAT	(39.0)	11.5	1.5	54.1	60.9
Loans	8.4	(5.1)	5.1	7.8	12.3

<b>Quarterly (Rs mn)</b>	<b>Q4FY19</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>
NII	6,192	5,840	5,963	5,771	5,904
NIM(%)	3.9	3.5	3.5	3.3	3.5
PPOP	4,648	4,451	4,312	3,846	4,998
PAT	600	729	633	150	837
EPS (Rs)	0.75	0.91	0.79	0.19	1.05

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>
Promoters	2.1	2.1	2.1	2.1	2.1
FIIIs	18.1	19.4	19.6	20.8	21.6
DIIIs	23.7	23.5	24.3	23.6	22.8
Public and Others	56.1	55.1	54.0	53.5	53.5

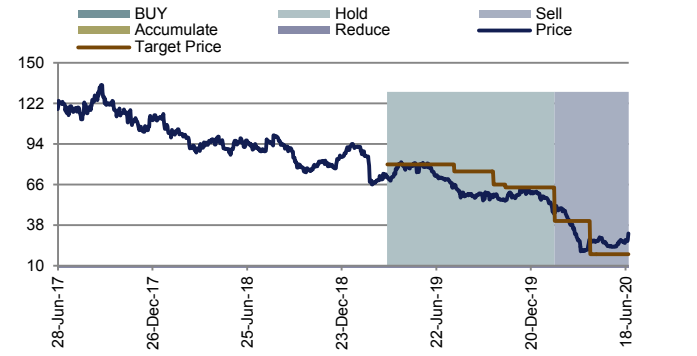
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
11-Apr-20	28	18	12m	Sell	Anand Dama
03-Feb-20	47	41	12m	Sell	Anand Dama
01-Nov-19	55	64	12m	Hold	Anand Dama
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)
<b>BFSI-Banks</b>	<b>19.36</b>	<b>19.24</b>	<b>-0.6%</b>	<b>-12</b>	<b>100.00</b>
Axis Bank	1.74	1.90	9%	16	9.82
AU Small Finance Bank	0.06	0.04	-43%	-3	0.18
Bandhan Bank	0.17	0.18	4%	1	0.92
Bank of Baroda	0.12	0.00	-100%	-12	0.00
Canara Bank	0.06	0.00	-100%	-6	0.00
City Union Bank	0.16	0.16	1%	0	0.83
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.19	0.20	4%	1	1.02
HDFC Bank	7.85	7.96	1%	10	41.10
ICICI Bank	4.01	4.36	9%	35	22.52
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.52	0.62	18%	9	3.18
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.96	2.47	-17%	-49	12.77
Punjab National Bank	0.10	0.00	-100%	-10	0.00
RBL Bank	0.14	0.10	-26%	-4	0.52
State Bank of India	1.24	1.27	2%	2	6.54
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.12</b>	<b>NA</b>	<b>12</b>	<b>0.60</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

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

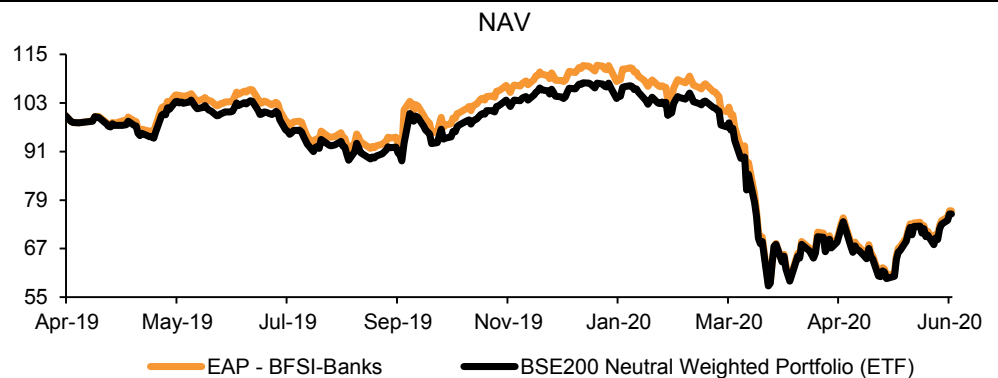
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Sep-19	26-Dec-19	25-Mar-20	26-May-20	24-Jun-20
EAP - BFSI-Banks	100.0	103.4	110.9	63.4	60.8	76.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.4	106.7	63.4	60.1	75.6

\*Performance measurement base date 1<sup>st</sup> 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 Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

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

Completed Date: 26 Jun 2020 08:28:58 (SGT)

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