

Karur Vysya Bank Limited

Industry Financial
Bloomberg KVB IN
BSE CODE 590003

Muted Advances Growth Dragging Overall Performance

RATING	BUY
CMP	66
Price Target	75
Potential Upside	14%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	101/63
Mkt Capital (Rs Cr)	5,279
Free float (%)	98%
Avg. Vol 1M (000)	415
No. of Shares (Cr)	80
Promoters Pledged %	0.4%

FINANCIAL	FY19	FY20E	FY21E
NII	2363	2410	2663
PPP	1711	1826	2001
PAT	211	469	750
NIM %	3.7	3.5	3.4
EPS (Rs)	3	6	9
EPS growth	-39	122	60
ROE (%)	3	7	10
ROA (%)	0.3	0.6	0.9
BV	80	85	94
P/B (X)	0.9	0.8	0.7
P/E (x)	27	11	7

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1QFY20 Results Update

- ❑ KVB reported muted NII growth of 0.06% YoY backed by contraction in advances growth by 3% sequentially. NIM declined by 16/39 bps to 3.49% mainly due lower yield. PAT grew by 60% YoY mainly due to decrease in provisions by 22% YoY.
- ❑ Advances grew by 1%/-3% YoY/QoQ. Deposits reported growth of 7%/3% YoY/QoQ with CASA at 30%.
- ❑ Asset quality deteriorated with slippages of Rs 474 Cr. High slippages of Rs 191 Cr in commercial segment in 1QFY20. GNPA increased by 38 bps to 9.17%. PCR increased by 212 bps to 59% QoQ.

NIM under pressure

NII had muted growth of 0.06%/-6% YoY/QoQ backed by low advances growth of 1%/-3.29% YoY/QoQ in 1QFY20. NIM declined both YoY/QoQ by 16/39 bps to 3.49% due to low yield and high cost of funds. NIM declined by 39 bps QoQ, 8 bps due to non-repeatable income reported in 4QFY19, 6 bps due to increase in cost in 1QFY20, 6 bps on the account of increase in treasury assets taking away high yield, and 4 bps due to incremental reversal on agricultural advances and around 4-5 bps on the account of carrying impact of IBPC. Remaining decline of 10 bps is something which can be easily dealt with. Yield on advances declined by 24/20 bps YoY/QoQ to 9.61% in 1QFY20 with growth of 10/30 bps in yield on total assets. Cost of deposits increased by 3/2 bps YoY/QoQ to 5.82% whereas cost of funds increased by 8/6 bps YoY/QoQ to 5.88% in 1QFY20. Margins are expected to be at 3.88 bps by the end of 3QFY20.

Muted growth in advances

Advances growth remained muted at 1%/-3% YoY/QoQ backed by degrowth in all the segments except retail. Retail segment grew by 30% YoY backed by high growth in personal and housing loans. Personal loans grew by 52% YoY whereas housing loans grew by 30% YoY. Mortgage loans had a growth of 17% YoY. Exposure to NBFCs increased in 1QFY20 by growth of 39%. Corporate segment de-grew by 10% YoY. Advances composition almost remained same as the previous quarter with corporate at 28% and retail at 22%.

Deterioration in asset quality

Asset quality deteriorated as GNPA increased by 38 bps QoQ to 9.17%. NNPA declined by 4 bps to 4.94% QoQ in 1QFY20. Commercial segment had high slippages growth of 71% QoQ to Rs 191 Cr. Retail and agri segment also had high slippages. The retail net slippages were high at Rs 42 Cr in 1QFY20 which has been to a one-time bigger ticket size retail loan. No more slippages expected on this portfolio. The corporate segment reported negative slippage of Rs 215 Cr leading to improvement in quality of corporate segment. PCR increased by 212 bps to 59% QoQ. The management holds their earlier guidance of Net NPA accretion of Rs 1100 Cr in next 3 quarters. PCR is expected to be at 55% going ahead.

View and Valuation

The environment continues to remain challenging for KVB on rising stress in the system. The loan book contracted on sequential basis due to de-growth in corporate and commercial segment however, retail growth remained the robust. Management being conservative in the current operating environment, the growth can take back seat and margin may also get impacted. Management holds its assets quality guidance. Considering slower growth and margin contraction, we reduce our earnings estimates for FY20 by 17%. However, stock is currently trading at lower valuation range of 0.7x BV FY21. On the valuation comfort we maintain BUY on the stock with the target price of Rs 75 at 0.8x BV FY21e.

Key Risks to our rating and target.

- ❑ Increase in delinquencies will increase the credit cost
- ❑ Unfavourable macro environment will pressurize the growth

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1QFY20 Results Below our estimates

Muted performance

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,443	1,457	1,443	1,474	1,493	3%	1%	5,700	5,816	2.0%
Interest Exp.	859	878	862	854	909	6%	6%	3,402	3,453	1.5%
NII	584	579	581	619	584	0%	-6%	2,298	2,363	2.8%
Other Income	255	176	260	272	270	6%	-1%	900	963	7.0%
Total Income	838	755	841	892	854	2%	-4%	3,198	3,326	4.0%
Opex Exp.	379	393	416	427	409	8%	-4%	1,421	1,615	13.7%
PPP	459	361	425	465	445	-3%	-4%	1,777	1,711	-3.7%
Provisions	423	213	400	352	330	-22%	-6%	1,274	1,389	9.0%
PBT	37	148	25	112	115	214%	2%	504	322	-36.0%
Tax	(9)	65	3	52	42	-571%	-19%	158	111	-29.5%
Net Profit	46	84	21	60	73	60%	21%	346	211	-39%

Concall Highlights

- NIM declined by 39 bps QoQ, 8 bps due to non repeatable income reported in 4QFY19, 6 bps due to increase in cost in 1QFY20, 6 bps on the account of increase in treasury assets taking away high yield, and 4 bps due to incremental reversal on agricultural advances and around 4-5 bps on the account of carrying impact of IBPC. Remaining decline of 10 bps is something which can be easily dealt with. Margins are expected to be at 3.88 bps by the end of 3QFY20.
- Weighted average yield on new retail loans stood at 11.77% and 12.03% for commercial book in 1QFY20.
- Fee income declined by 13% YoY mainly due to total new facilities in the book had significant fee component and there was a reduction in non funded book both LC s and Guarantee and the fees associated therewith has reduced.
- The commercial book declined in 1QFY20 by 1% YoY, the reason being decline in the utilisation level. The breakup of commercial advances in 1QFY20 stood at Rs 9000 Cr small ticket size advances of UPTO Rs 2 Cr, Rs 5000 Cr Rs 2-15 Cr ticket size and remaining of ticket size of more than Rs 15 Cr.
- As per the management commercial book is divided into three components: SBG (Small Banking Group) with ticket size of up to Rs 2 Cr, BBG (Business Banking group) with ticket size of Rs 2-15 Cr and EC (Emerging Corporate) with ticket size of more than Rs 15 Cr.
- The bank will be focusing on SBG through the route of digital transformation going ahead.
- Exposure to vehicle loans and education loans declined by 1% and 10% YoY basis ,the reason being the deemphasise on these loans as vehicle loans are competitive one and education loans need expertise to handle the particular educational course.
- The exposure to Commercial Real Estate to large developers is limited.
- The term deposits increased by around 8% as the bank raised retail term deposits for the first time to stay liquid due to which Rs 4000 Cr of treasury assets increased.
- The management holds on his earlier guidance of NPA in the next 3 Quarters in the following manner: Gross slippages of Rs 1850 Cr .Recovery expected is of Rs 750 Cr which makes the Net NPA figure equal to Rs 1100 Cr and after adding Rs 200 Cr more for uncertainty, the total NPA annual accretion stands at Rs 1300 Cr in next 4 Quarters as per the management. Only Rs 200 Cr taken for uncertainty has been removed. So now the total Net NPA accretion is expected to be at Rs 1100 Cr in next 3 Quarters.
- The retail net slippages were high at Rs 42 Cr in 1QFY20 which has been due to a one time bigger ticket size retail loan .No more slippages expected on this portfolio.
- Rs 200 Cr of exposure to an entity is expected to slip to NPA going ahead. It is included in the guidance of Rs 1100 Cr of NNPA.
- 55% is the PCR the comfortable stage for the bank.
- The bank's exposure to NBFC stood at 4%; most of it is to southern institutions which are in gold loan business so it is not an area of concern.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	46.5	43.7	45.2	52.1	49.4	47.9	47.9	2.64	-0.01
Empl. Cost/ Tot. Exp. %	42.0	48.2	47.2	43.9	47.5	49.7	49.9	2.68	0.13
Other Exp/Tot. Exp.%	58.0	51.8	52.8	56.1	52.5	50.3	50.1	-2.68	-0.13
Provision/PPP %	77.3	82.2	92.0	59.0	94.2	75.8	74.1	-17.89	-1.68
Tax Rate %	26.2	40.9	(24.5)	43.5	13.9	46.6	36.7	61.13	-9.94
Int Exp./Int Inc. (%)	60.6	56.9	59.5	60.2	59.7	58.0	60.9	1.33	2.90
Other Inc./Net Inc. %	28.6	24.5	30.4	23.3	30.9	30.6	31.6	1.21	1.05
PAT/ Net Income %	9.0	5.9	5.4	11.1	2.5	6.7	8.5	3.10	1.81
RoE %	4.6	3.2	2.9	5.3	1.3	3.7	4.5	1.56	0.75
RoA %	0.4	0.3	0.3	0.5	0.3	0.3	0.4	0.13	0.09

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.2	9.9	9.9	9.8	9.6	9.8	9.6	-0.24	-0.20
Yield (Total Assets)	9.0	9.1	8.7	8.7	8.6	8.9	8.6	-0.10	-0.30
Cost of Deposits	6.0	5.8	5.8	5.9	5.8	5.8	5.8	0.03	0.02
Cost Of Funds	5.9	5.7	5.8	5.9	5.8	5.8	5.9	0.08	0.06
NIM	3.7	4.1	3.7	3.6	3.6	3.9	3.5	-0.16	-0.39

Exhibit: Yield and Cost

Yield decreased, cost of fund increased

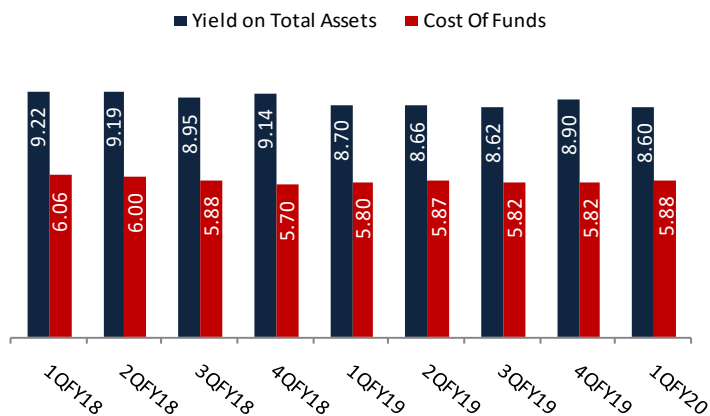
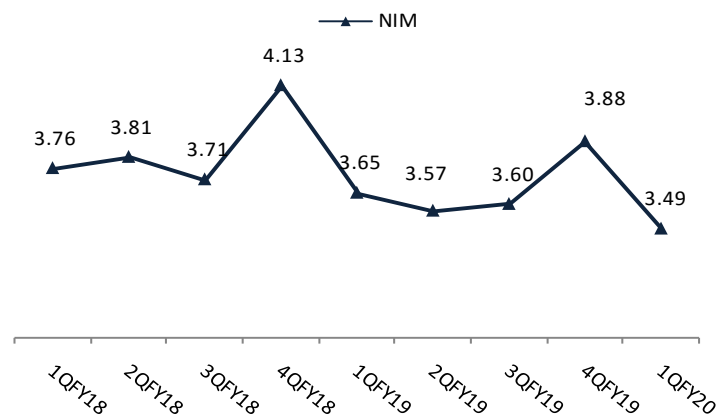


Exhibit: Net Interest Margin

NIM declined.



Other Income Break Up- smart growth in commissions income

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Forex	11	11	8	14	13	7	9	12	9
Commissions	161	162	153	153	191	176	161	163	168
Other	17	37	38	34	44	13	63	41	26
Total Fee-Based Income	189	210	199	201	248	196	233	216	203
Growth YoY %	29%	53%	44%	30%	23%	-7%	17%	7%	-13%
Profit on sale of securities	47	20	26	8	7	-21	27	57	67
Other Income	236	230	225	209	255	175	260	273	270
Growth YoY %	46%	6%	32%	-10%	1%	-24%	16%	31%	13%

Exhibit: Fee Income/Advances %

Fee income stable QoQ

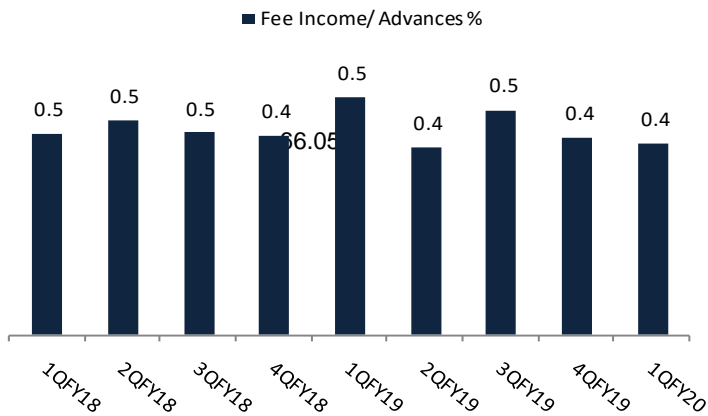
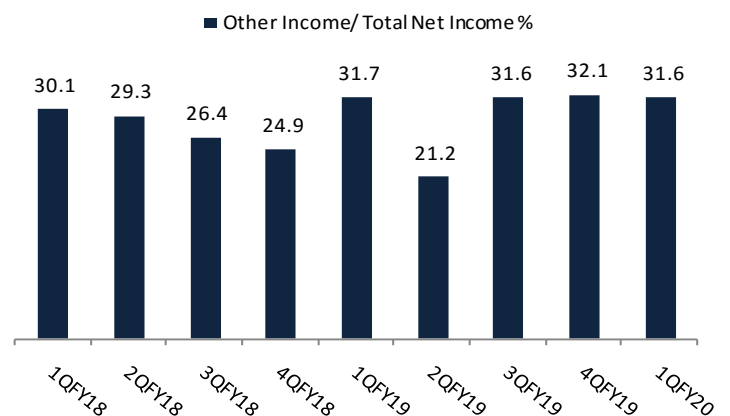


Exhibit: Other Income/ Total Income %

Other income decreased



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	2,663	3,016	3,563	3,707	4,056	4,450	4,511	27%	1%
GNPA %	5.94	6.56	7.44	7.70	8.49	8.79	9.17	1.7	0.4
NNPA (Rs in Cr)	1,699	1,863	2,088	2,052	2,296	2,420	2,322	11%	-4%
NNPA %	3.88	4.16	4.50	4.41	4.99	4.98	4.94	0.4	0.0
Slippages (Rs in Cr)	713	588	785	190	888	480	474	-40%	-1%
Std Restructured Assets %	715	262	52	46	5	72	136	83.7	63.9
PCR %	54	57	57	59	56	57	59	2.6	2.2

Sector wise slippages

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Commercial			59	63	241	98	86	112	191
Corporate			581	513	267	31	246	287	(215)
Agriculture			1	11	19	7	8	6	43
Retail (Personal banking)			(2)	2	21	8	9	(11)	42
Total			639	589	548	144	349	394	61

Exhibit: Asset Quality

Assets quality impacted.

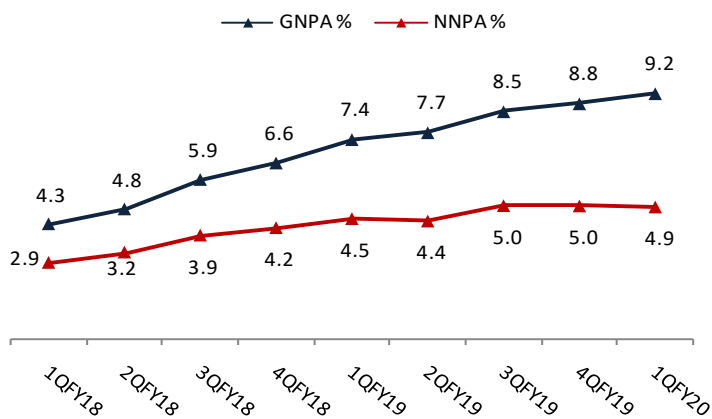


Exhibit: Provisions

PCR improved sequentially

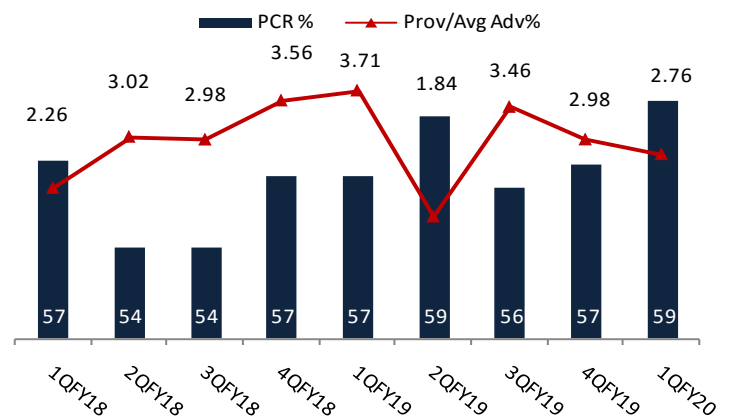


Exhibit: Advances Performance

Slow growth in advances

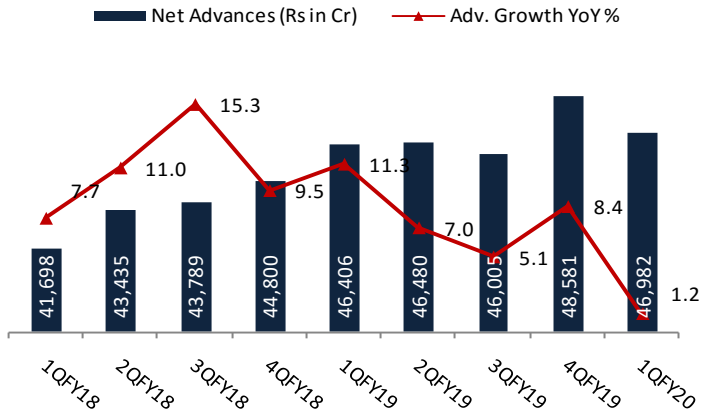


Exhibit: Advances Breakup%

Increasing share towards retail

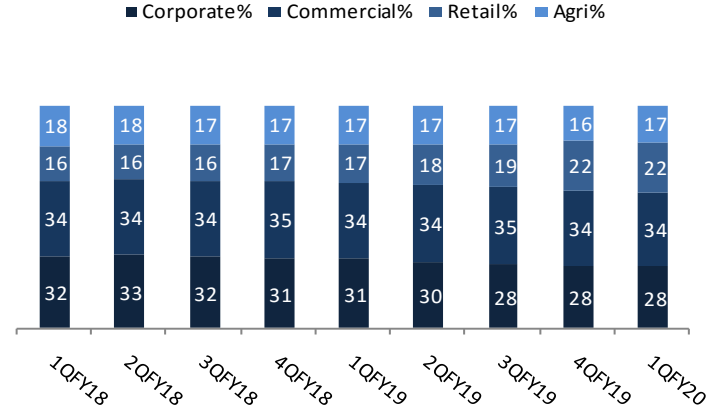


Exhibit: Deposits Performance

Deposits growth on increasing trend

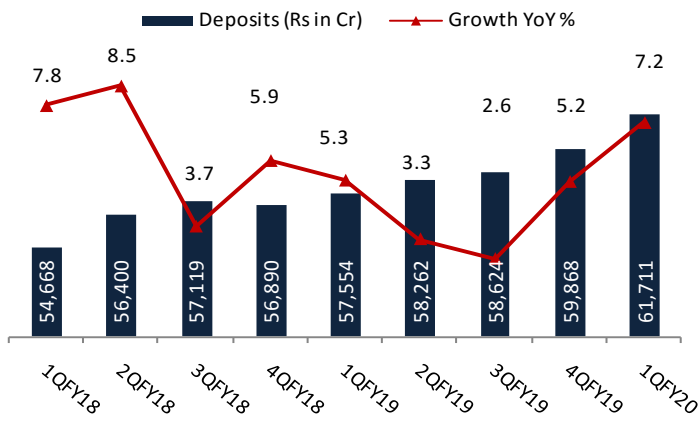


Exhibit: CASA Performance

CASA ratio declined

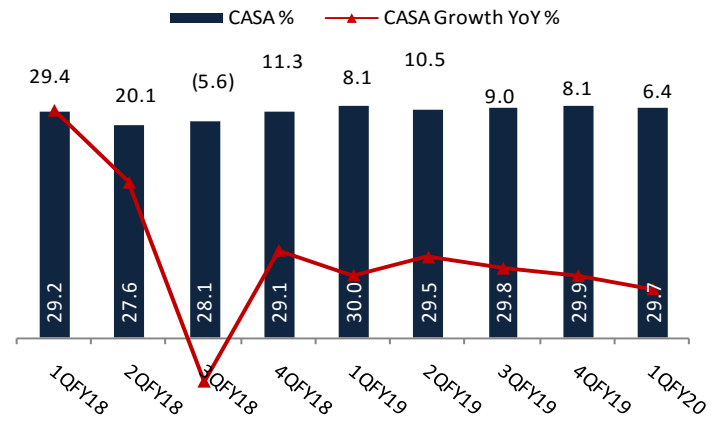


Exhibit: Credit Deposit Ratio

CD Ratio declined

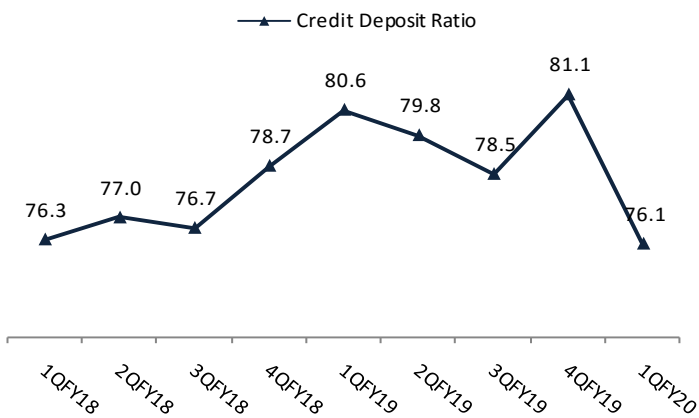
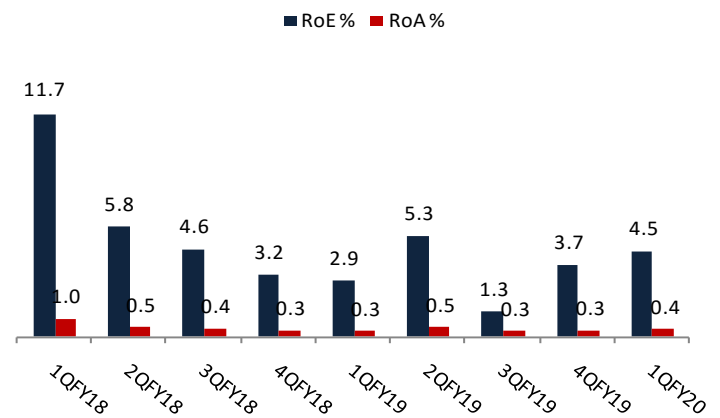


Exhibit: Return Ratios

Return ratio profile.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	107	122	122	122	145	160	160	160
>> Equity Capital	107	122	122	122	145	160	160	160
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	3219	4124	4451	4914	6119	6263	6674	7328
Networth	3326	4246	4573	5036	6264	6423	6834	7488
Deposits	43758	44690	50079	53700	56890	59868	69757	78128
Change (%)	13	2	12	7	6	5	17	12
>> CASA Deposits	9014	9832	11675	14889	16577	17915	21625	24220
Change (%)	21	9	19	28	11	8	21	12
Borrowings	3293	2901	2894	1696	2394	1565	1451	1617
Other Liabilities & Provisions	1166	1315	1439	1376	1393	1484	1694	1674
Total Liabilities	51543	53152	58985	61808	66941	69340	79736	88907
Cash & Bank	2678	2749	2792	4345	4309	3697	4310	4822
Investments	13247	12773	14543	14857	15803	14882	18137	19923
Change (%)	-4	-4	14	2	6	-6	22	10
Advances	33992	36109	39084	40908	44800	48581	54411	60940
Change (%)	15	6	8	5	10	8	12	1200%
Fixed Assets	385	411	420	419	528	583	600	618
Other Assets	1241	1110	2146	1279	1501	1598	2278	2604
Total Assets	51543	53152	58985	61808	66941	69340	79736	88907

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	5,116	5,396	5,443	5,622	5,700	5,816	6,081	6,680
Interest expended	3,832	3,930	3,662	3,549	3,402	3,453	3,671	4,017
Net Interest Income	1,284	1,466	1,781	2,074	2,298	2,363	2,410	2,663
Change (%)	11	14	22	16	11	3	2	11
Other Income	564	581	707	782	900	963	1,088	1,090
Change (%)	25	3	22	11	15	7	13	0
>> Core Fee Income	461	510	612	577	799	877	880	1,005
>> Treasury Income	104	71	95	206	101	70	208	85
>> Others	-	(0)	(0)	(1)	(0)	16	(0)	(0)
Total Net Income	1,848	2,047	2,488	2,856	3,198	3,326	3,498	3,753
Operating Expenses	1,010	1,103	1,185	1,285	1,421	1,615	1,672	1,753
Change (%)	32	9	7	8	11	14	4	5
>> Employee Expenses	528	547	547	608	639	761	779	788
Pre-provisioning Profit	838	943	1,303	1,571	1,777	1,711	1,826	2,001
Change (%)	(1)	13	38	21	13	(4)	7	10
Provisions	442	481	391	688	1,274	1,389	1,183	865
Change (%)	258	9	(19)	76	85	9	(15)	(27)
PBT	396	471	912	883	504	322	643	1,136
Tax	(34)	7	344	278	158	111	174	386
Profit After Tax	430	464	568	605	346	211	469	750
Change (%)	(22)	8	22	7	(43)	(39)	122	60

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	15	6	8	5	10	8	12	12
Deposit Growth (%)	13	2	12	7	6	5	17	12
C/D Ratio (%)	77.7	80.8	78.0	76.2	78.7	81.1	78.0	78.0
CASA (%)	20.6	22.0	23.3	27.7	29.1	29.9	31.0	31.0
Investment/Deposit (%)	30.3	28.6	29.0	27.7	27.8	24.9	26.0	25.5
CRAR (%)	12.8	14.6	12.2	12.5	14.4	16.0	25.4	22.8
>> Tier 1 (%)	11.6	13.6	11.3	11.9	13.9	14.3	24.9	22.3
>> Tier 2 (%)	1.2	1.1	0.9	0.7	0.5	1.7	0.6	0.5

Assets Quality Metrics

Gross NPA (Rs)	279	678	511	1,484	3,016	4,450	4,835	5,322
Gross NPA (%)	0.8	1.9	1.3	3.6	6.6	8.8	8.5	8.4
Net NPA(Rs)	140	281	216	1,033	1,863	2,420	2,127	2,342
Net NPA (%)	0.4	0.8	0.6	2.5	4.2	5.0	3.9	3.8
Slippages (%)	1.4	3.6	3.1	3.4	5.2	5.5	3.5	3.2
Provision Coverage (%)	75	75	82	58	57	57	68	68
Provision/Average Advances (%)	1.4	1.4	1.0	1.7	3.0	3.0	2.3	1.5

Margin Metrics

Yield On Advances (%)	12.1	11.9	11.4	11.0	10.3	9.8	9.4	9.3
Yield On Investment (%)	8.8	9.1	8.0	7.5	7.3	7.5	6.9	6.2
Yield on Earning Assets (%)	11.1	11.0	10.4	10.0	9.5	9.2	8.7	8.4
Cost Of Deposits (%)	8.4	8.0	7.2	6.6	6.0	5.7	5.5	5.3
Cost Of Funds (%)	8.4	8.2	7.2	6.4	5.8	5.6	5.4	5.2
Spread (%)	2.7	2.9	3.3	3.6	3.7	3.5	3.3	3.2
NIM (%)	2.8	3.0	3.4	3.7	3.8	3.7	3.5	3.4

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.9	72.8	67.3	63.1	59.7	59.4	60.4	60.1
Fee Income/NII (%)	-	-	-	27.8	34.8	37.1	36.5	37.7
Cost to Income (%)	54.6	53.9	47.6	45.0	44.4	48.6	47.8	46.7
Cost on Average Assets (%)	2.2	2.3	2.3	2.3	2.4	2.5	2.4	2.2
Tax Rate (%)	(8.6)	1.5	37.7	31.5	31.4	34.6	27.1	34.0

Valuation Ratio Metrics

EPS (Rs)	7.3	6.9	8.5	9.0	4.3	2.6	5.9	9.4
Change (%)	(21.8)	(4.9)	22.3	6.5	(52.1)	(39)	122.3	60.0
ROAE (%)	13.4	12.0	12.9	12.6	6.1	3.3	7.1	10.5
ROAA (%)	0.9	0.9	1.0	1.0	0.5	0.3	0.6	0.9
Dividend Payout (%)	32.4	34.1	21.4	26.2	12.6	22.7	17.1	21.3
Dividend yield (%)	3.5	2.4	2.3	2.3	0.6	0.8	1.5	3.0
Book Value (Rs)	56.4	63.5	68.4	75.1	78.4	80.4	85.5	93.7
Change (%)	8	12	8	10	4	3	6	10
ABVPS (Rs)	56	63	68	75	78	80	85	94
P/B (X)	1.2	1.6	1.2	1.4	1.2	0.9	0.8	0.7
P/E (X)	9.3	14.2	9.4	11.3	21.2	27.3	11.2	7.0

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	10.3	9.7	9.3	8.9	8.5	8.2	7.9
<i>Interest expended</i>	7.5	6.5	5.9	5.3	5.1	4.9	4.8
<i>Net Interest Income</i>	2.8	3.2	3.4	3.6	3.5	3.2	3.2
<i>Non-Fund Based Income</i>	1.1	1.3	1.3	1.4	1.4	1.5	1.3
>> Core Fee Income	1.0	1.1	1.0	1.2	1.3	1.2	1.2
>> Trading and Other Income	0.1	0.2	0.3	0.2	0.1	0.3	0.1
Core Operating Income	3.8	4.3	4.4	4.8	4.8	4.4	4.4
<i>Total Income</i>	3.9	4.4	4.7	5.0	4.9	4.7	4.5
Total Operating Expenses	2.1	2.1	2.1	2.2	2.4	2.2	2.1
>> Employee Expenses	1.0	1.0	1.0	1.0	1.1	1.0	0.9
>> Other Expenses	1.1	1.1	1.1	1.2	1.3	1.2	1.1
<i>Operating Profit</i>	1.8	2.3	2.6	2.8	2.5	2.5	2.4
Provisions	0.9	0.7	1.1	2.0	2.0	1.6	1.0
Others	0.0	-	-	-	-	-	-
PBT	0.9	1.6	1.5	0.8	0.5	0.9	1.3
Tax	0.0	0.6	0.5	0.2	0.2	0.2	0.5
<i>PAT/RoAA</i>	0.9	1.0	1.0	0.5	0.3	0.6	0.9
<i>Equity Multiplier (x)</i>	13.8	12.7	12.6	11.4	10.7	11.2	11.8
<i>ROAE</i>	12.0	12.9	12.6	6.1	3.3	7.1	10.5

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