

# Karur Vysya Bank Limited

Industry Financial  
Bloomberg KVB IN  
BSE CODE 590003

## Muted Growth and Elevated Provisions Continue to Drag Profitability

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>59</b>
<b>Price Target</b>	<b>66</b>
<b>Potential Upside</b>	<b>12%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	95/51
Mkt Capital (Rs Cr)	4,732
Free float (%)	98%
Avg. Vol 1M (000)	931
No. of Shares (Cr)	80
Promoters Pledged %	0.4%

Fig. In Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	2363	2408	2691
PPP	1711	1779	1984
PAT	211	428	861
NIM %	3.7	3.5	3.6
EPS (Rs)	3	5	11
EPS growth	-39	103	101
ROE (%)	3	6	12
ROA (%)	0.3	0.6	1.1
BV	80	85	95
P/B (X)	0.9	0.7	0.6
P/E (x)	27	11	6

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### 2QFY20 Results Update

- ❑ KVB reported low NII growth of 3%/2% YoY/QoQ due to slow advances growth. NIM declined by 11/3 bps YoY/QoQ due to marginal increase in cost. Other income reported healthy growth of 58% YoY. PAT de-grew by 24%/13% YoY/QoQ, the major reason being high provisioning.
- ❑ Advances reported slower growth of 1%/0.3% YoY/QoQ due to de growth in corporate book. Management has guided growth to moderate to 10% YoY for FY20.
- ❑ Asset quality improved as GNPA/NNPA both declined by 28/44 bps QoQ in 2QFY20. PCR increased by 277 bps from 59.05% to 61.82% QoQ. Management has guided incremental provision to slowdown. KVB has guided to keep the PCR in 55-60% range.

### Margins still under pressure

NII had muted growth of 3%/2% YoY/QoQ backed by low advances growth of 1%/0.3% YoY/QoQ in 2QFY20. NIM declined both YoY/QoQ by 11/3 bps to 3.46% due to high cost of funds. Yield on advances increased by 6/24 bps YoY/QoQ to 9.85% in 2QFY20 with decline of 6/1 bps YoY/QoQ in yield on total assets. Cost of deposits increased by 3/2 bps YoY/QoQ to 5.82% whereas cost of deposits increased by 1/4 bps YoY/QoQ to 5.86% in 2QFY20. High liquidity has affected the margins. Going ahead, rise in the share of the retail portfolio will lead to higher margins. Management continues to focus on moderating its cost of the deposit.

### Advances growth Muted

Advances growth remained muted at 1%/0.3% YoY/QoQ backed by de-growth in all the segments except retail. Retail segment grew by 31% YoY backed by high growth in personal and housing loans. Personal loans grew by 50% YoY whereas housing loans grew by 32% YoY. Mortgage loans had a growth of 15% YoY. Corporate segment de-grew by 9% YoY. Composition of retail advances increased to 24% from 18% a year ago.

### Asset quality improved

Asset quality has shown some improvement in 2QFY20 as GNPA/NNPA both declined by 28/44 bps QoQ in 2QFY20. Management has revised slippage guidance from Rs 1800 Cr to Rs 2200 Cr in FY20 but on the back of higher recoveries on a net basis the number should improve from previously guided Rs 1100 level. 50-60% of NPA are coming from large ticket size. An NBFC exposure & restructured asset of Rs 75 Cr has slipped into NPA. Management has guided recoveries of Rs 150-200 Cr per quarter from recent defaults as they have better collateral. PCR increased by 277 bps from 59.05% to 61.82% QoQ. Management has guided incremental provision to slow down. KVB has guided to keep the PCR in 55-60% range.

### View and Valuation

KVB has been showing signs of almost muted growth in last few quarters due to challenging macro environment. Corporate and commercial segment have been the reason for slowdown due to reduction on the higher ticket loans. SME segment is expected to improve as management thinks the large ticket size pains are behind KVB. However, retail loan continue to register healthy growth driven by home loan and personal loan. Asset quality improved on the account of better recovery but gross slippages is likely to surpass the previous guidance. However management is confident of maintain the net slippages guidance on account of higher recovery. Increasing share of retail assets will help the margins to improve. We maintain our target price of Rs 66 at 0.7X BVFY21e and Maintain HOLD.

### Key Risks to our rating and target.

- ❑ Stress in corporate and SME segment
- ❑ Unfavourable macro environment will pressurize the growth

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## 2Q FY 20 Results Below our estimates

## Muted performance

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,457	1,443	1,474	1,493	1,538	6%	3%	5,700	5,816	2.0%
Interest Exp.	878	862	854	909	941	7%	4%	3,402	3,453	1.5%
Nil	579	581	619	584	596	3%	2%	2,298	2,363	2.8%
Other Income	176	260	272	270	278	58%	3%	900	963	7.0%
Total Income	755	841	892	854	874	16%	2%	3,198	3,326	4.0%
Opex Exp.	393	416	427	409	443	13%	8%	1,421	1,615	13.7%
PPP	361	425	465	445	431	19%	-3%	1,777	1,711	-3.7%
Provisions	213	400	352	330	365	71%	11%	1,274	1,389	9.0%
PBT	148	25	112	115	66	-55%	-43%	504	322	-36.0%
Tax	65	3	52	42	3	-96%	-94%	158	111	-29.5%
Net Profit	84	21	60	73	63	-24%	-13%	346	211	-39%

### Concall Highlights

- Management has guided growth to moderate to 10% YoY for FY20.
- Treasury assets stood at Rs 22000 Cr. High liquidity has affected the margins. Going ahead, rise in the share of the retail portfolio will lead to higher margins. Management continues to focus on moderating its cost of the deposit.
- Fee income stood muted because of the slowdown in large-ticket assets & non funded books. Management has guided fee income to moderate in Q3 & Q4 with renewals of accounts.
- The corporate and commercial portfolio has reduced on the back of reduction on the higher ticket loans. Agri book was mainly driven by the gold loan.
- Small business loans have grown at a rate of 85% QoQ. SME segment is improving as management thinks the large ticket size pains are behind KVB.
- Slippages during the quarter stood at Rs 549 Cr v/s Rs 474 Cr QoQ. Management has revised slippage guidance from Rs 1800 Cr to Rs 2200 Cr in FY20 but on the back of higher recoveries on a net basis the number should improve from previously guided Rs 1100 level. Total reduction in GNPA is at Rs 620 Cr; cash recovery is Rs 195 Cr and writes off stands at Rs 230 Cr.
- 50-60% of NPA are coming from large ticket size. An NBFC exposure & restructured asset of Rs 75 Cr has slipped into NPA. Management has guided recoveries of Rs 150-200 Cr per quarter from recent defaults as they have better collateral.
- PCR has increased to 50.6%. Management has guided incremental provision to slow down. KVB has guided to keep the PCR in 55-60% range.
- Sales to ARC are around Rs 192 Cr.
- Bullion business launch is expected in Q4FY20.
- The distribution network has been now changed to multi-channels while the branch is focusing on deposit.
- The majority of agriculture is more of a gold loan. Management is looking at MFI co origination options.
- Management wants to refocus business to the south & west India.
- 2/3rd of Personal loans is to own customers. The personal book is a majorly home loan.
- 1/10 the of the bank workforce will be freed from branch level to improve sales force.
- KVB Neo will help to tap existing distribution architecture within the country. It will aid co-origination loans with other NBFCs. The run rate of origination stood at Rs 200 Cr per month.
- Digitalization underwriting retail numbers have resulted in a better Ever 30+% number. The 6 MOB in the retail loan as of Mar 19 retail stood at 24%.

## Profitability Matrix

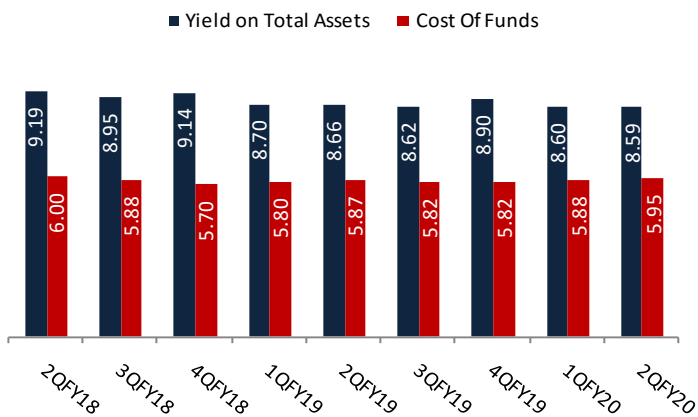
	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	43.7	45.2	52.1	49.4	47.9	47.9	50.7	-1.45	2.80
Empl. Cost/ Tot. Exp. %	48.2	47.2	43.9	47.5	49.7	49.9	48.1	4.20	-1.76
Other Exp/Tot. Exp.%	51.8	52.8	56.1	52.5	50.3	50.1	51.9	-4.20	1.76
Provision/PPP %	82.2	92.0	59.0	94.2	75.8	74.1	84.7	25.72	10.57
Tax Rate %	40.9	(24.5)	43.5	13.9	46.6	36.7	4.0	-39.48	-32.65
Int Exp./Int Inc. (%)	56.9	59.5	60.2	59.7	58.0	60.9	61.2	0.97	0.34
Other Inc./Net Inc. %	24.5	30.4	23.3	30.9	30.6	31.6	31.8	8.51	0.17
PAT/ Net Income %	5.9	5.4	11.1	2.5	6.7	8.5	7.2	-3.85	-1.29
RoE %	3.2	2.9	5.3	1.3	3.7	4.5	3.9	-1.41	-0.62
RoA %	0.3	0.3	0.5	0.3	0.3	0.4	0.3	-0.15	-0.06

## Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.9	9.9	9.8	9.6	9.8	9.6	9.9	0.06	0.24
Yield (Total Assets)	9.1	8.7	8.7	8.6	8.9	8.6	8.6	-0.07	-0.01
Cost of Deposits	5.8	5.8	5.9	5.8	5.8	5.8	5.9	0.01	0.04
Cost Of Funds	5.7	5.8	5.9	5.8	5.8	5.9	6.0	0.08	0.07
NIM	4.1	3.7	3.6	3.6	3.9	3.5	3.5	-0.11	-0.03

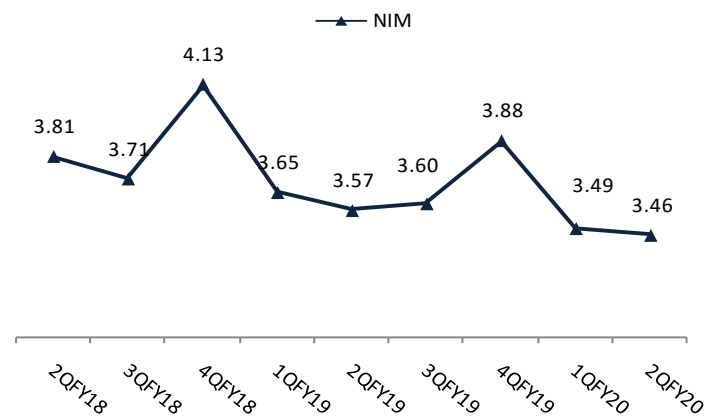
### Exhibit: Yield and Cost

Yield decreased, cost of fund increased



### Exhibit: Net Interest Margin

NIM declined.



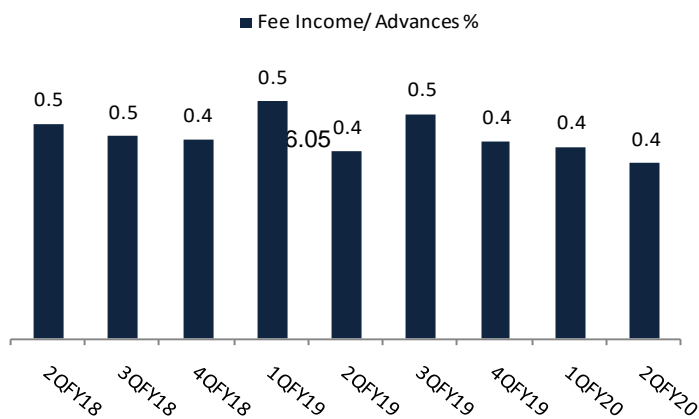
## Other Income Break Up- smart growth in commissions income

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Forex	11	8	14	13	7	9	12	9	10
Commissions	162	153	153	191	176	161	163	168	153
Other	37	38	34	44	13	63	41	26	23
<b>Total Fee-Based Income</b>	<b>210</b>	<b>199</b>	<b>201</b>	<b>248</b>	<b>196</b>	<b>233</b>	<b>216</b>	<b>203</b>	<b>186</b>
Growth YoY %	53%	44%	30%	23%	-7%	17%	7%	-13%	-5%
Profit on sale of securities	20	26	8	7	-21	27	57	67	91
<b>Other Income</b>	<b>230</b>	<b>225</b>	<b>209</b>	<b>255</b>	<b>175</b>	<b>260</b>	<b>273</b>	<b>270</b>	<b>277</b>
Growth YoY %	6%	32%	-10%	1%	-24%	16%	31%	13%	58%

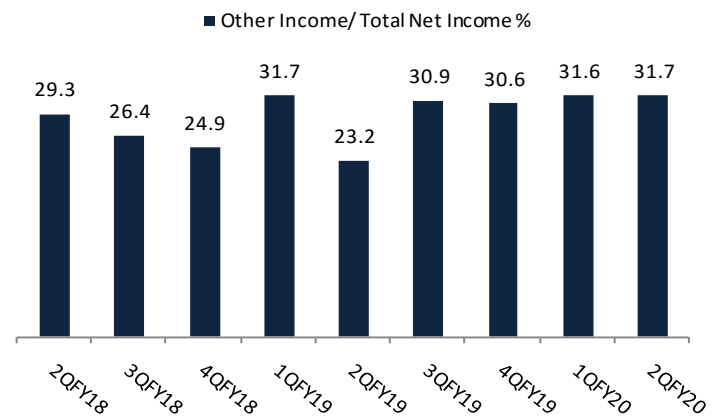
## Exhibit: Fee Income/Advances %

Fee income stable QoQ



## Exhibit: Other Income/ Total Income %

Other income decreased



## Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	3,016	3,563	3,707	4,056	4,450	4,511	4,392	18%	-3%
GNPA %	6.56	7.44	7.70	8.49	8.79	9.17	8.89	1.2	-0.3
NNPA (Rs in Cr)	1,863	2,088	2,052	2,296	2,420	2,322	2,118	3%	-9%
NNPA %	4.16	4.50	4.41	4.99	4.98	4.94	4.50	0.1	-0.4
Slippages (Rs in Cr)	588	785	190	888	480	474	417	119%	-12%
Std Restructured Assets %	262	52	46	5	72	136	164	118.7	28.4
PCR %	57	57	59	56	57	59	62	3.3	2.8

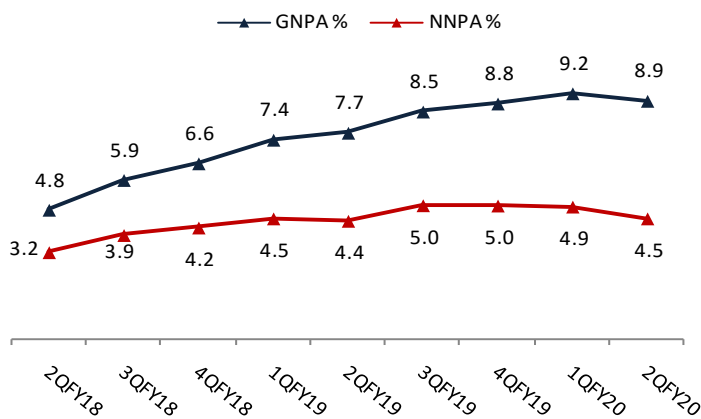
## Sector wise slippages

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Commercial		59.00	63	241	98	86	112	191	181
Corporate		581.00	513	267	31	246	287	(215)	239
Agriculture		1.00	11	19	7	8	6	43	48
Retail (Personal banking)		(2.00)	2	21	8	9	(11)	42	32
<b>Total</b>		<b>639.00</b>	<b>589</b>	<b>548</b>	<b>144</b>	<b>349</b>	<b>394</b>	<b>61</b>	<b>500</b>

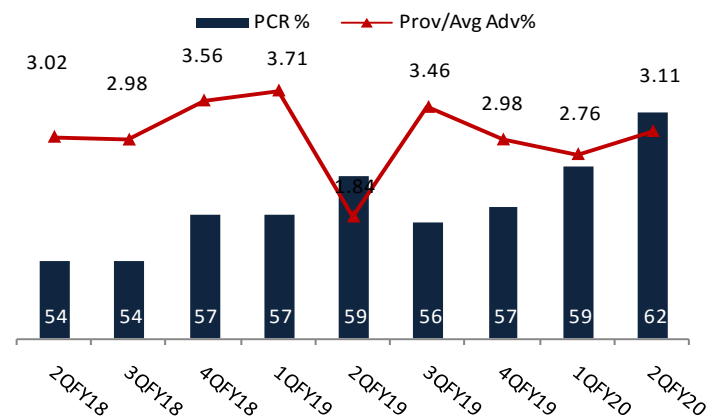
## Exhibit: Asset Quality

Assets quality improved.



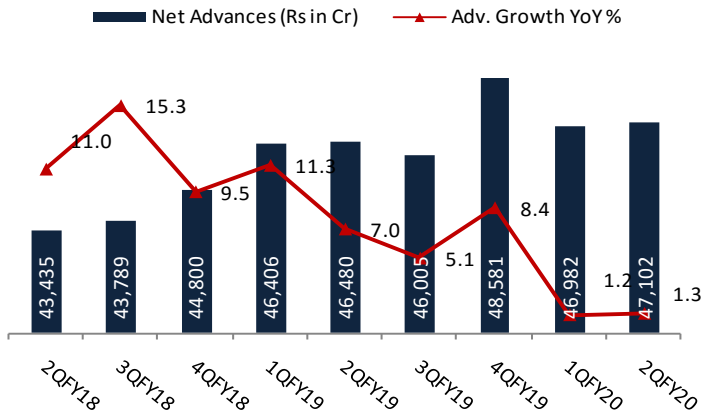
## Exhibit: Provisions

PCR improved sequentially



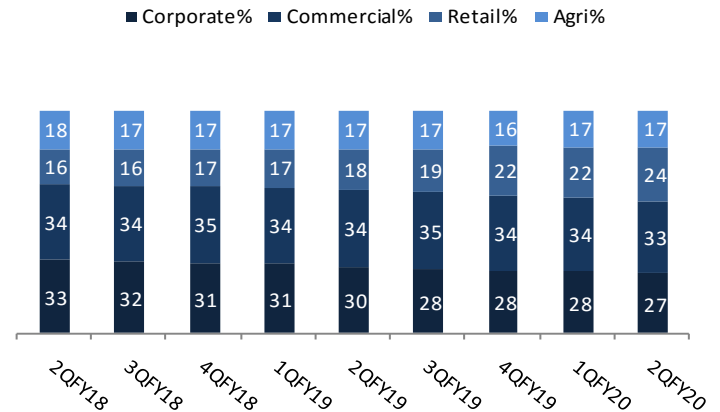
## Exhibit: Advances Performance

Slow growth in advances



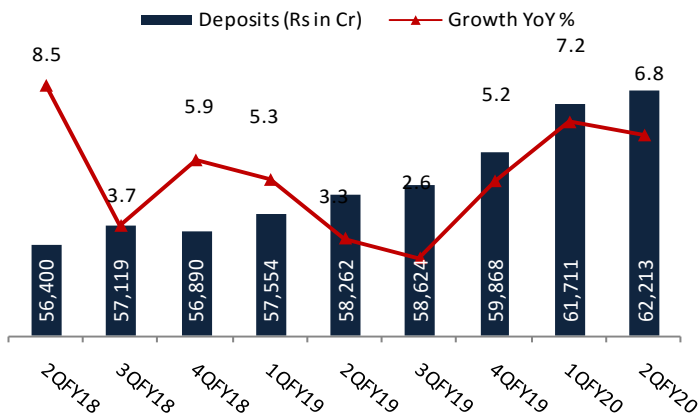
## Exhibit: Advances Breakup%

Increasing share towards retail



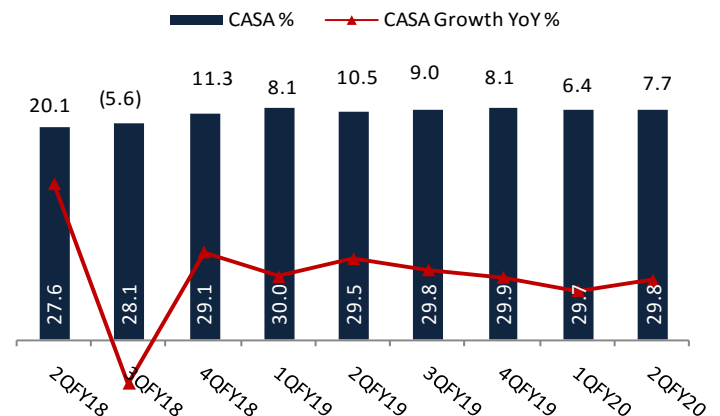
## Exhibit: Deposits Performance

Deposits growth



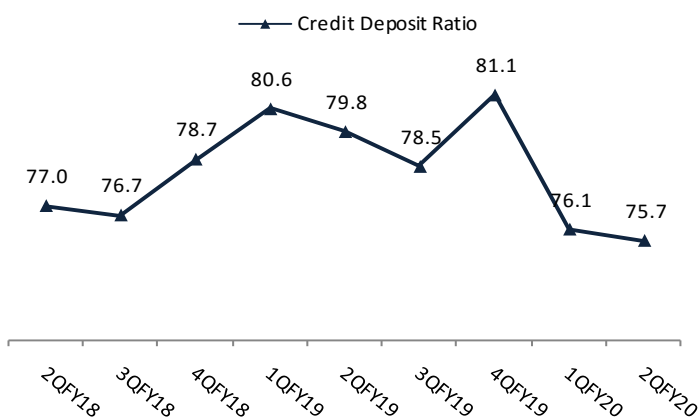
## Exhibit: CASA Performance

CASA ratio improved



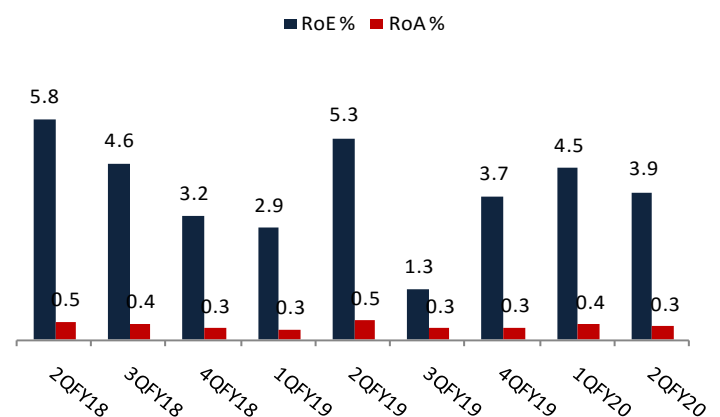
## Exhibit: Credit Deposit Ratio

CD Ratio declined



## Exhibit: Return Ratios

Return ratio profile.



## Financial Details

### Balance Sheet

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>107</b>	<b>122</b>	<b>122</b>	<b>122</b>	<b>145</b>	<b>160</b>	<b>160</b>	<b>160</b>
>> 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	6633	7398
<b>Networth</b>	<b>3326</b>	<b>4246</b>	<b>4573</b>	<b>5036</b>	<b>6264</b>	<b>6423</b>	<b>6793</b>	<b>7558</b>
Deposits	43758	44690	50079	53700	56890	59868	66643	73307
Change (%)	13	2	12	7	6	5	11	10
>> CASA Deposits	9014	9832	11675	14889	16577	17915	20326	22725
Change (%)	21	9	19	28	11	8	13	12
Borrowings	3293	2901	2894	1696	2394	1565	1400	1539
Other Liabilities & Provisions	1166	1315	1439	1376	1393	1484	1618	1571
<b>Total Liabilities</b>	<b>51543</b>	<b>53152</b>	<b>58985</b>	<b>61808</b>	<b>66941</b>	<b>69340</b>	<b>76454</b>	<b>83976</b>
Cash & Bank	2678	2749	2792	4345	4309	3697	3702	3941
Investments	13247	12773	14543	14857	15803	14882	17994	19793
Change (%)	-4	-4	14	2	6	-6	21	10
Advances	33992	36109	39084	40908	44800	48581	51982	57180
Change (%)	15	6	8	5	10	8	7	1000%
Fixed Assets	385	411	420	419	528	583	600	618
Other Assets	1241	1110	2146	1279	1501	1598	2176	2443
<b>Total Assets</b>	<b>51543</b>	<b>53152</b>	<b>58985</b>	<b>61808</b>	<b>66941</b>	<b>69340</b>	<b>76454</b>	<b>83976</b>

### Income Statement

Fig. In Rs Cr

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	6,137	6,585
Interest expended	3,832	3,930	3,662	3,549	3,402	3,453	3,728	3,895
<b>Net Interest Income</b>	<b>1,284</b>	<b>1,466</b>	<b>1,781</b>	<b>2,074</b>	<b>2,298</b>	<b>2,363</b>	<b>2,408</b>	<b>2,691</b>
Change (%)	11	14	22	16	11	3	2	12
Other Income	564	581	707	782	900	963	1,044	1,032
Change (%)	25	3	22	11	15	7	8	(1)
>> Core Fee Income	461	510	612	577	799	877	826	952
>> Treasury Income	104	71	95	206	101	70	218	80
>> Others	-	(0)	(0)	(1)	(0)	16	1	(0)
<b>Total Net Income</b>	<b>1,848</b>	<b>2,047</b>	<b>2,488</b>	<b>2,856</b>	<b>3,198</b>	<b>3,326</b>	<b>3,453</b>	<b>3,723</b>
Operating Expenses	1,010	1,103	1,185	1,285	1,421	1,615	1,673	1,738
Change (%)	32	9	7	8	11	14	4	4
>> Employee Expenses	528	547	547	608	639	761	790	782
<b>Pre-provisioning Profit</b>	<b>838</b>	<b>943</b>	<b>1,303</b>	<b>1,571</b>	<b>1,777</b>	<b>1,711</b>	<b>1,779</b>	<b>1,984</b>
Change (%)	(1)	13	38	21	13	(4)	4	12
Provisions	442	481	391	688	1,274	1,389	1,209	821
Change (%)	258	9	(19)	76	85	9	(13)	(32)
PBT	396	471	912	883	504	322	570	1,163
Tax	(34)	7	344	278	158	111	142	303
<b>Profit After Tax</b>	<b>430</b>	<b>464</b>	<b>568</b>	<b>605</b>	<b>346</b>	<b>211</b>	<b>428</b>	<b>861</b>
Change (%)	(22)	8	22	7	(43)	(39)	103	101

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
Loan Growth (%)	15	6	8	5	10	8	7	10
Deposit Growth (%)	13	2	12	7	6	5	11	10
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	30.5	31.0
Investment/Deposit (%)	30.3	28.6	29.0	27.7	27.8	24.9	27.0	27.0
CRAR (%)	12.8	14.6	12.2	12.5	14.4	16.0	26.4	24.2
>> Tier 1 (%)	11.6	13.6	11.3	11.9	13.9	14.3	25.8	23.6
>> 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	4,584	5,068
Gross NPA (%)	0.8	1.9	1.3	3.6	6.6	8.8	8.5	8.5
Net NPA(Rs)	140	281	216	1,033	1,863	2,420	2,017	2,230
Net NPA (%)	0.4	0.8	0.6	2.5	4.2	5.0	3.9	3.9
Slippages (%)	1.4	3.6	3.1	3.4	5.2	5.5	3.7	3.2
Provision Coverage (%)	75	75	82	58	57	57	67	67
Provision/Average Advances (%)	1.4	1.4	1.0	1.7	3.0	3.0	2.4	1.5

### Margin Metrics

Yield On Advances (%)	12.1	11.9	11.4	11.0	10.3	9.8	9.5	9.5
Yield On Investment (%)	8.8	9.1	8.0	7.5	7.3	7.5	7.3	6.7
Yield on Earning Assets (%)	11.1	11.0	10.4	10.0	9.5	9.2	9.0	8.7
Cost Of Deposits (%)	8.4	8.0	7.2	6.6	6.0	5.7	5.7	5.4
Cost Of Funds (%)	8.4	8.2	7.2	6.4	5.8	5.6	5.7	5.4
Spread (%)	2.7	2.9	3.3	3.6	3.7	3.5	3.3	3.3
NIM (%)	2.8	3.0	3.4	3.7	3.8	3.7	3.5	3.6

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.9	72.8	67.3	63.1	59.7	59.4	60.8	59.1
Fee Income/NII (%)	-	-	-	27.8	34.8	37.1	34.3	35.4
Cost to Income (%)	54.6	53.9	47.6	45.0	44.4	48.6	48.5	46.7
Cost on Average Assets (%)	2.2	2.3	2.3	2.3	2.4	2.5	2.4	2.3
Tax Rate (%)	(8.6)	1.5	37.7	31.5	31.4	34.6	24.9	26.0

### Valuation Ratio Metrics

EPS (Rs)	7.3	6.9	8.5	9.0	4.3	2.6	5.4	10.8
Change (%)	(21.8)	(4.9)	22.3	6.5	(52.1)	(39)	102.9	101.2
ROAE (%)	13.4	12.0	12.9	12.6	6.1	3.3	6.5	12.0
ROAA (%)	0.9	0.9	1.0	1.0	0.5	0.3	0.6	1.1
Dividend Payout (%)	32.4	34.1	21.4	26.2	12.6	22.7	18.7	18.6
Dividend yield (%)	3.5	2.4	2.3	2.3	0.6	0.8	1.7	3.4
Book Value (Rs)	56.4	63.5	68.4	75.1	78.4	80.4	85.0	94.6
Change (%)	8	12	8	10	4	3	6	11
ABVPS (Rs)	56	63	68	75	78	80	85	95
P/B (X)	1.2	1.6	1.2	1.4	1.2	0.9	0.7	0.6
P/E (X)	9.3	14.2	9.4	11.3	21.2	27.3	11.1	5.5

## 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	8.4	8.2
<i>Interest expended</i>	7.5	6.5	5.9	5.3	5.1	5.1	4.9
<b><i>Net Interest Income</i></b>	<b>2.8</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>
<i>Non-Fund Based Income</i>	1.1	1.3	1.3	1.4	1.4	1.4	1.3
>> Core Fee Income	1.0	1.1	1.0	1.2	1.3	1.1	1.2
>> Trading and Other Income	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>
Core Operating Income	3.8	4.3	4.4	4.8	4.8	4.4	4.5
<b><i>Total Income</i></b>	<b>3.9</b>	<b>4.4</b>	<b>4.7</b>	<b>5.0</b>	<b>4.9</b>	<b>4.7</b>	<b>4.6</b>
Total Operating Expenses	2.1	2.1	2.1	2.2	2.4	2.3	2.2
>> Employee Expenses	1.0	1.0	1.0	1.0	1.1	1.1	1.0
>> Other Expenses	1.1	1.1	1.1	1.2	1.3	1.2	1.2
<b><i>Operating Profit</i></b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>	<b>2.5</b>
Provisions	0.9	0.7	1.1	2.0	2.0	1.7	1.0
Others	0.0	-	-	-	-	-	-
PBT	0.9	1.6	1.5	0.8	0.5	0.8	1.5
Tax	0.0	0.6	0.5	0.2	0.2	0.2	0.4
<b><i>PAT/RoAA</i></b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>0.5</b>	<b>0.3</b>	<b>0.6</b>	<b>1.1</b>
<i>Equity Multiplier (x)</i>	13.8	12.7	12.6	11.4	10.7	11.0	11.2
<b><i>ROAE</i></b>	<b>12.0</b>	<b>12.9</b>	<b>12.6</b>	<b>6.1</b>	<b>3.3</b>	<b>6.5</b>	<b>12.0</b>



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