

Industry  
Bloomberg  
BSE CODE

Financial  
KVB IN  
590003

## Slow Advances Growth Along with Compressed Margins Dragged the Profitability

RATING	NEUTRAL
CMP	47
Price Target	51
Potential Upside	9%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	90/46
Mkt Capital (Rs Cr)	3,765
Free float (%)	98%
Avg. Vol 1M (,000)	631
No. of Shares (Crs)	80
Promoters Pledged %	0.4%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	2363	2342	2358
PPP	1711	1659	1653
PAT	211	196	488
NIM %	3.7	3.5	3.3
EPS (Rs)	3	2	6
EPS growth (%)	-39	-7	149
ROE (%)	3	3	7
ROA (%)	0.3	0.3	0.6
BV	80	82	87
P/B (X)	0.9	0.6	0.5
P/E (x)	27	19	8

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### 3QFY20 Result Update

- KVB result has been below our expectation with NII degrowth of 1%/3% YoY/QoQ due to slow advances growth. NIM declined by 27/13 bps YoY/QoQ the reason being decline in yield on treasury book by 30 bps QoQ that translated 10 bps decline in NIM along with interest reversal on the account of slippages reported in the quarter. Spreads are expected to improve in 4QFY20. PAT de-grew by 29%/76% YoY/QoQ.
- Advances reported slower growth of 2%/0.04% YoY/QoQ due to decline in corporate book. Retail book grew by 26% YoY whereas corporate declined by 4% YoY.
- Asset quality remained stable as GNPA increased marginally by 3 bps to 8.92% QoQ in 3QFY20. NNPA declined by 37 bps QoQ to 4.13% in 3QFY20. PCR increased by 361 bps from 61.82% to 65.43% QoQ.

### Margins remained under pressure

NII degrew by 1%/3% YoY/QoQ due to slow advances growth. NIM declined by 27/13 bps YoY/QoQ QoQ the reason being decline in yield on treasury book by 30 bps QoQ that translated 10 bps decline in NIM along with interest reversal on the account of slippages reported in the quarter. NIM is guided to be at 400 bps going ahead. Yield on advances declined by 8/34 bps YoY/QoQ whereas Yield on total assets declined by 27/24 bps YoY/QoQ to 8.35% in 3QFY20. Cost of deposits declined by 4/10 bps YoY/QoQ to 5.76% whereas Cost of funds declined by 2/15 bps YoY/QoQ to 5.80% in 3QFY20.

### Advances growth Muted

Advances growth remained muted at 2%/0.04% YoY/QoQ backed by de-growth in all the segments except retail. Retail segment grew by 26% YoY backed by high growth in personal and housing loans. Personal loans grew by 38% YoY whereas housing loans grew by 29% YoY. Mortgage loans had a growth of 5% YoY. Rs 300 Cr of IBPC has been booked on corporate side. Otherwise corporate book continued to de-grow and the bank continues to focus on the other three segments growth going ahead. Corporate segment de-grew by 5% YoY.

### High Slippages

Asset quality has remained stable in 3QFY20 as GNPA increased by 3 bps in 3QFY20. NNPA declined by 37 bps QoQ to 4.13% in 3QFY20. PCR increased by 361 bps from 61.82% to 65.43% QoQ. Slippages remained high at Rs 449 Cr in 3QFY20. Management gave guidance of NNPA accretion rate of 1.5% per year i.e. Rs 750 Cr per year and provisioning of 60-70%. Slippages of Rs 300 Cr are expected in 4QFY20. NNPA% is expected to be below 4% in 4QFY20. NPA accretion on Commercial book is expected to drop going ahead. During the quarter the bank provided for on large infrastructure conglomerate to the extent of 70% in one case and 60% in another case earlier but now they are 100% provided.

### View and Valuation

Advance growth has been almost muted since last few quarters on account of reduction in corporate book and movement towards granularity in the book. Corporate book has been the reason for major stress which has been contracting with higher slippages. Margins have been under pressure due to stress in corporate and MSME segment. Management is confident of 400 bps margins going ahead on the account of liability repricing. Management guided NNPA accretion rate of 1.5% per year i.e. Rs 750 Cr per year and provisioning of 60-70%. Due to stress in the MSMSE and corporate sector, we expect credit cost to remain elevated in FY21 also. As current MD and CEO is leaving the bank; succession planning is an area of concern to be watched for the bank. We value stock at 0.6x BVFY21 at target price of Rs 51 and Maintain NEUTRAL.

### Key Risks to our rating and target.

- Succession Planning is an area of concern.
- Unfavourable macro environment will pressurize the growth

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## Muted performance

### 3QFY20 Results

#### Below our estimates

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,443	1,474	1,493	1,538	1,504	4%	-2%	5,700	5,816	2.0%
Interest Exp.	862	854	909	941	927	7%	-2%	3,402	3,453	1.5%
NII	581	619	584	596	577	-1%	-3%	2,298	2,363	2.8%
Other Income	260	272	270	278	260	0%	-6%	900	963	7.0%
Total Income	841	892	854	874	837	0%	-4%	3,198	3,326	4.0%
Ope Exp.	416	427	409	443	453	9%	2%	1,421	1,615	13.7%
PPP	425	465	445	431	385	-9%	-11%	1,777	1,711	-3.7%
Provisions	400	352	330	365	364	-9%	0%	1,274	1,389	9.0%
PBT	25	112	115	66	20	-17%	-69%	504	322	-36.0%
Tax	3	52	42	3	5	58%	103%	158	111	-29.5%
Net Profit	21	60	73	63	15	-29%	-76%	346	211	-39.0%

### Concall Highlights

- NIM declined in 3QFY20 by 27/13 bps YoY/QoQ the reason being decline in yield on treasury book by 30 bps QoQ that translated 10 bps decline in NIM along with interest reversal on the account of slippages reported in the quarter. Spreads are expected to improve in 4QFY20. SB rates offered is stable at 4% currently.
- The cost of deposits in one year bucket has been reduced to 6.35%. Repricing of liability profile i.e. time deposits are expected to boost the margins going ahead.
- The employee cost grew by 14% YoY, the reason being the company had to provide high due To AS 15 provisions and LICs annuity cost has gone up which has impacted the bank considerably which has been provided for in the quarter.
- Two elements are growing currently i.e. retail and gold loans and are expected to continue growing. Commercial book is also expected to grow from 4QFY20.
- During the quarter the bank provided for on large infrastructure conglomerate to the extent of 70% in one case and 60% in another case earlier but now they are 100% provided.
- Rs 300 Cr of IBPC has been booked on corporate side. Otherwise corporate book continued to de-grow and the bank continues to focus on the other three segments growth going ahead.
- The bank is focusing on replacing the high risk products with significantly lower risk products.
- SMA 1 & 2 (excluding gold loans) stood at 2.8% for 3QFY20. SMA 1 & 2 in corporate credit is 1% of the book
- NNPA% is expected to be below 4% in 4QFY20. NPA accretion on Commercial book is expected to drop going ahead.
- There has been ARC transaction of Rs 156 Cr on commercial portfolio in 3QFY20.
- Slippages guidance of Rs NNPA accretion rate of 1.5% per year i.e. Rs 750 Cr per year and provisioning of 60-70%. Slippages of Rs 300 Cr are expected in 4QFY20.
- The bank continues to reduce non funded limits on exposure side as it the area the bank has been facing problem with.
- Corporate slippages have been high in 3QFY20 at Rs 219 Cr on the account of one account engaged in retail trade in Madras amounting to Rs 160 Cr.
- CASA% is expected to be at 32.5% by end of FY20.

## Profitability Matrix

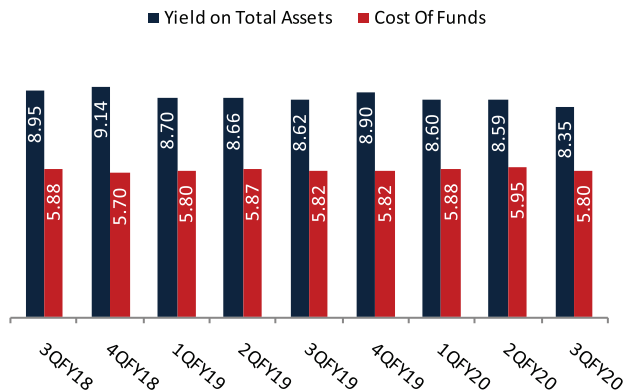
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	45.2	52.1	49.4	47.9	47.9	50.7	54.0	4.60	3.38
Empl. Cost/ Tot. Exp. %	47.2	43.9	47.5	49.7	49.9	48.1	49.8	2.28	1.73
Other Exp/Tot. Exp.%	52.8	56.1	52.5	50.3	50.1	51.9	50.2	-2.28	-1.73
Provision/PPP %	92.0	59.0	94.2	75.8	74.1	84.7	94.7	0.47	9.98
Tax Rate %	(24.5)	43.5	13.9	46.6	36.7	4.0	26.4	12.52	22.35
Int Exp./Int Inc. (%)	59.5	60.2	59.7	58.0	60.9	61.2	61.6	1.87	0.40
Other Inc./Net Inc. %	30.4	23.3	30.9	30.6	31.6	31.8	31.1	0.15	-0.72
PAT/ Net Income %	5.4	11.1	2.5	6.7	8.5	7.2	1.8	-0.72	-5.45
RoE %	2.9	5.3	1.3	3.7	4.5	3.9	3.4	2.09	-0.45
RoA %	0.3	0.5	0.3	0.3	0.4	0.3	0.3	-0.02	-0.07

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.9	9.8	9.6	9.8	9.6	9.9	9.5	-0.08	-0.34
Yield (Total Assets)	8.7	8.7	8.6	8.9	8.6	8.6	8.4	-0.27	-0.24
Cost of Deposits	5.8	5.9	5.8	5.8	5.8	5.9	5.8	-0.04	-0.10
Cost Of Funds	5.8	5.9	5.8	5.8	5.9	6.0	5.8	-0.02	-0.15
NIM	3.7	3.6	3.6	3.9	3.5	3.5	3.3	-0.27	-0.13

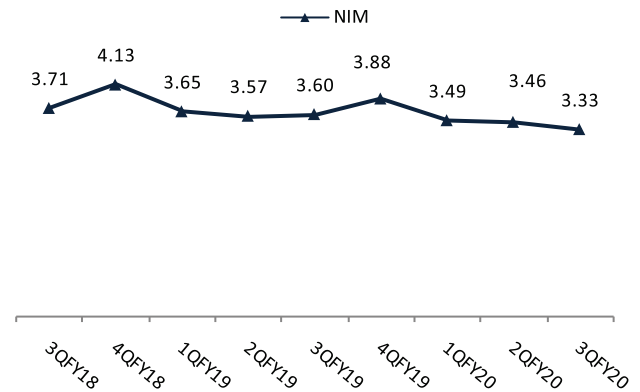
## Exhibit: Yield and Cost

Yield decreased, cost of fund decreased



## Exhibit: Net Interest Margin

NIM declined.



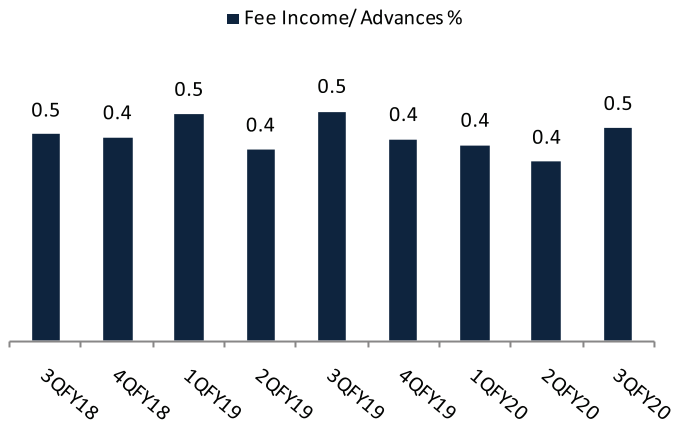
## Other Income Break Up- smart growth in commissions income

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Forex	8	14	13	7	9	12	9	10	8
Commissions	153	153	175	176	161	163	168	153	178
Other	38	34	44	13	63	41	26	23	35
<b>Total Fee-Based Income</b>	<b>199</b>	<b>201</b>	<b>232</b>	<b>196</b>	<b>233</b>	<b>216</b>	<b>203</b>	<b>186</b>	<b>221</b>
Growth YoY %	44%	30%	23%	-7%	17%	7%	-13%	-5%	-5%
Profit on sale of securities	26	8	7	-21	27	57	67	91	45
<b>Other Income</b>	<b>225</b>	<b>209</b>	<b>239</b>	<b>175</b>	<b>260</b>	<b>273</b>	<b>270</b>	<b>277</b>	<b>260</b>
Growth YoY %	32%	-10%	1%	-24%	16%	31%	13%	58%	0%

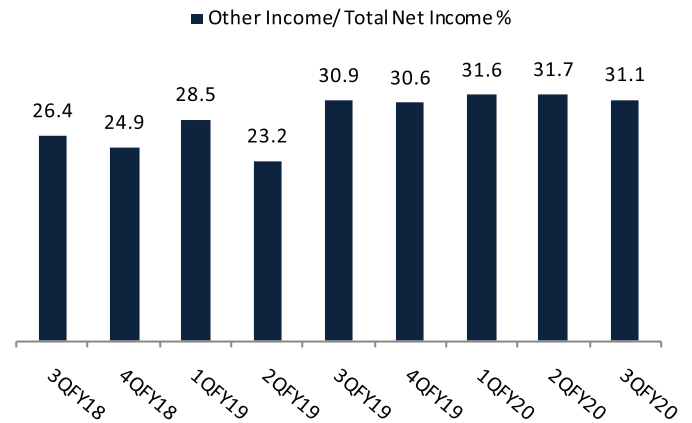
## Exhibit: Fee Income/Advances %

Fee income stable QoQ



## Exhibit: Other Income/ Total Income %

Other income decreased



## Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	3,563	3,707	4,056	4,450	4,511	4,392	4,424	9%	1%
GNPA %	7.44	7.70	8.49	8.79	9.17	8.89	8.92	0.4	0.0
NNPA (Rs in Cr)	2,088	2,052	2,296	2,420	2,322	2,118	1,946	-15%	-8%
NNPA %	4.50	4.41	4.99	4.98	4.94	4.50	4.13	-0.9	-0.4
Slippages (Rs in Cr)	785	190	888	480	474	417	376	-58%	-10%
Std Restructured Assets %	52	46	5	72	136	164	203	198.1	38.9
PCR %	57	59	56	57	59	62	65	9.3	3.6

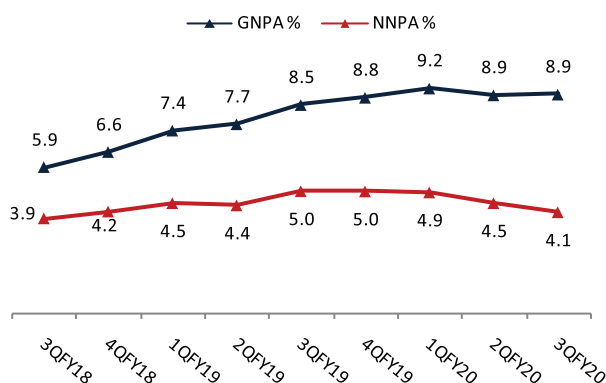
## Sector wise slippages

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Commercial	59.00	63	241	98	86	112	191	181	160
Corporate	581.00	513	267	31	246	287	(215)	239	219
Agriculture	1.00	11	19	7	8	6	43	48	33
Retail (Personal banking)	(2.00)	2	21	8	9	(11)	42	32	37
<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>	<b>449</b>

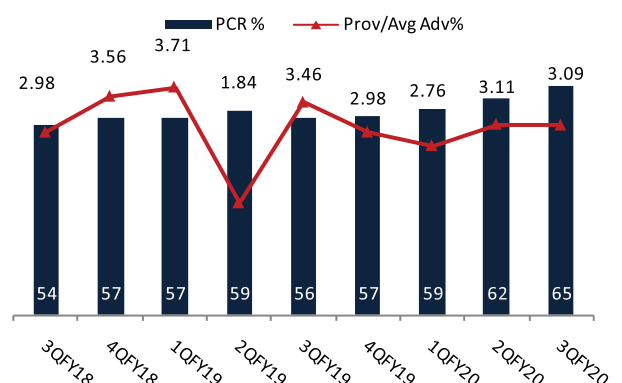
## Exhibit: Asset Quality

Assets quality deteriorated



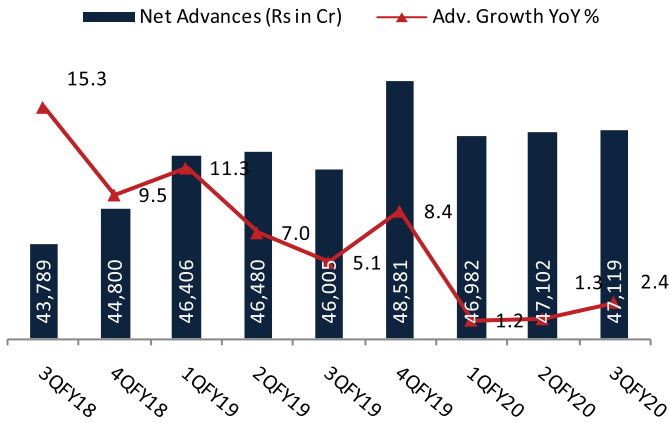
## Exhibit: Provisions

PCR improved sequentially



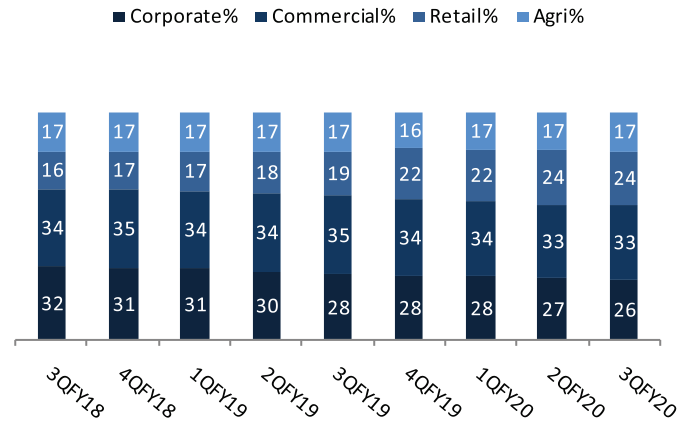
## Exhibit: Advances Performance

Slow growth in advances



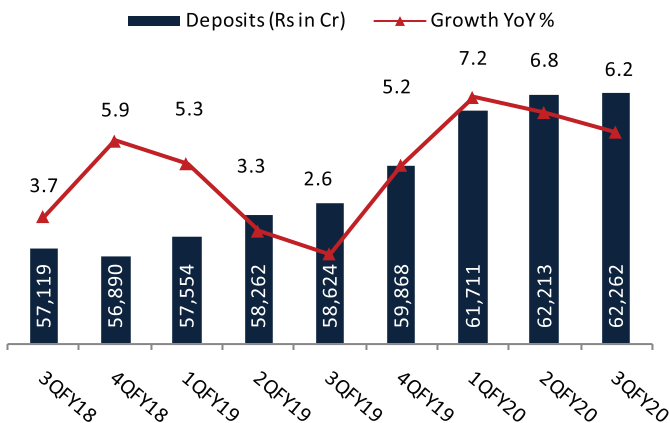
## Exhibit: Advances Breakup%

Increasing share towards retail



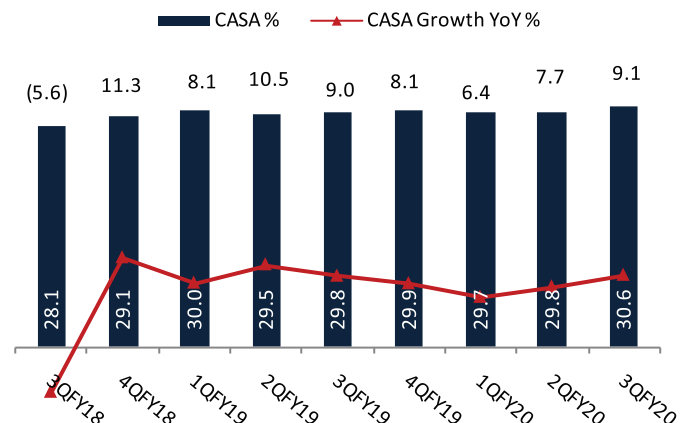
## Exhibit: Deposits Performance

Deposits growth



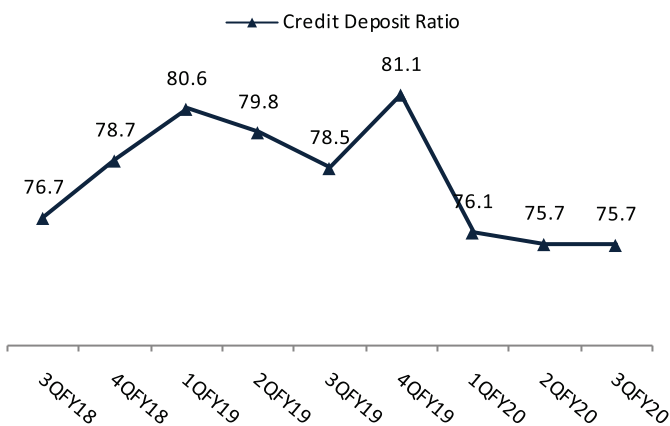
## Exhibit: CASA Performance

CASA ratio improved



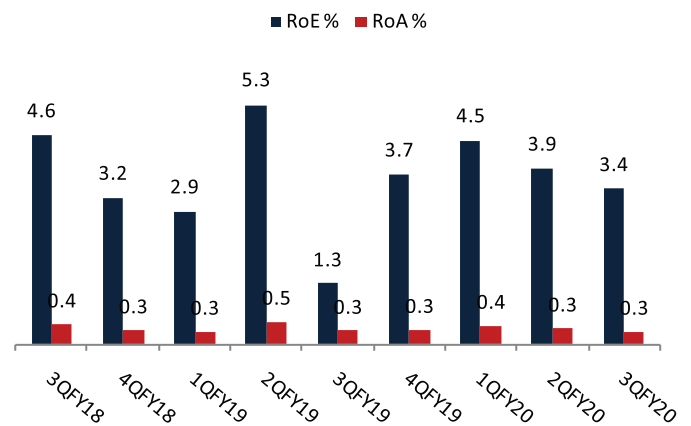
## Exhibit: Credit Deposit Ratio

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	6401	6793
<b>Networth</b>	<b>3326</b>	<b>4246</b>	<b>4573</b>	<b>5036</b>	<b>6264</b>	<b>6423</b>	<b>6561</b>	<b>6953</b>
Deposits	43758	44690	50079	53700	56890	59868	63529	67341
Change (%)	13	2	12	7	6	5	6	6
CASA Deposits	9014	9832	11675	14889	16577	17915	19694	20876
Change (%)	21	9	19	28	11	8	10	6
Borrowings	3293	2901	2894	1696	2394	1565	1334	1768
Other Liabilities & Provisions	1166	1315	1439	1376	1393	1484	1543	1443
<b>Total Liabilities</b>	<b>51543</b>	<b>53152</b>	<b>58985</b>	<b>61808</b>	<b>66941</b>	<b>69340</b>	<b>72967</b>	<b>77504</b>
Cash & Bank	2678	2749	2792	4345	4309	3697	3587	3934
Investments	13247	12773	14543	14857	15803	14882	17153	18182
Change (%)	-4	-4	14	2	6	-6	15	6
Advances	33992	36109	39084	40908	44800	48581	49553	52526
Change (%)	15	6	8	5	10	8	2	600%
Fixed Assets	385	411	420	419	528	583	600	618
Other Assets	1241	1110	2146	1279	1501	1598	2074	2244
<b>Total Assets</b>	<b>51543</b>	<b>53152</b>	<b>58985</b>	<b>61808</b>	<b>66941</b>	<b>69340</b>	<b>72967</b>	<b>77504</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	6,022	5,995
Interest expended	3,832	3,930	3,662	3,549	3,402	3,453	3,681	3,637
<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>2,342</b>	<b>2,358</b>
Change (%)	11	14	22	16	11	3	(1)	1
Other Income	564	581	707	782	900	963	1,070	1,049
Change (%)	25	3	22	11	15	7	11	(2)
Core Fee Income	461	510	612	577	799	877	828	902
Treasury Income	104	71	95	206	101	70	248	147
Others	-	(0)	(0)	(1)	(0)	16	(5)	-
Total Net Income	1,848	2,047	2,488	2,856	3,198	3,326	3,412	3,407
Operating Expenses	1,010	1,103	1,185	1,285	1,421	1,615	1,753	1,754
Change (%)	32	9	7	8	11	14	9	0
Employee Expenses	528	547	547	608	639	761	871	869
<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>1,659</b>	<b>1,653</b>
Change (%)	(1)	13	38	21	13	(4)	(3)	(0)
Provisions	442	481	391	688	1,274	1,389	1,398	1,001
Change (%)	258	9	(19)	76	85	9	1	(28)
PBT	396	471	912	883	504	322	261	652
Tax	(34)	7	344	278	158	111	65	164
<b>Profit After Tax</b>	<b>430</b>	<b>464</b>	<b>568</b>	<b>605</b>	<b>346</b>	<b>211</b>	<b>196</b>	<b>488</b>
Change (%)	(22)	8	22	7	(43)	(39)	(7)	149

## 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	2	6
Deposit Growth (%)	13	2	12	7	6	5	6	6
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	27.0	27.0
CRAR (%)	12.8	14.6	12.2	12.5	14.4	16.0	27.2	26.2
Tier 1 (%)	11.6	13.6	11.3	11.9	13.9	14.3	26.6	25.6
Tier 2 (%)	1.2	1.1	0.9	0.7	0.5	1.7	0.6	0.6

### Assets Quality Metrics

Gross NPA (Rs)	279	678	511	1,484	3,016	4,450	4,632	5,105
Gross NPA (%)	0.8	1.9	1.3	3.6	6.6	8.8	9.0	9.3
Net NPA (Rs)	140	281	216	1,033	1,863	2,420	2,038	2,246
Net NPA (%)	0.4	0.8	0.6	2.5	4.2	5.0	4.1	4.3
Slippages (%)	1.4	3.6	3.1	3.4	5.2	5.5	3.6	3.2
Provision Coverage (%)	75	75	82	58	57	57	65	65
Provision/Average Advances (%)	1.4	1.4	1.0	1.7	3.0	3.0	2.8	2.0

### Margin Metrics

Yield On Advances (%)	12.1	11.9	11.4	11.0	10.3	9.8	9.5	9.1
Yield On Investment (%)	8.8	9.1	8.0	7.5	7.3	7.5	7.4	6.8
Yield on Earning Assets (%)	11.1	11.0	10.4	10.0	9.5	9.2	9.0	8.5
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	5.3
Spread (%)	2.7	2.9	3.3	3.6	3.7	3.5	3.3	3.1
NIM (%)	2.8	3.0	3.4	3.7	3.8	3.7	3.5	3.3

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.9	72.8	67.3	63.1	59.7	59.4	61.1	60.7
Fee Income/NII (%)	-	-	-	27.8	34.8	37.1	35.4	38.3
Cost to Income (%)	54.6	53.9	47.6	45.0	44.4	48.6	51.4	51.5
Cost on Average Assets (%)	2.2	2.3	2.3	2.3	2.4	2.5	2.6	2.5
Tax Rate (%)	(8.6)	1.5	37.7	31.5	31.4	34.6	25.0	25.2

### Valuation Ratio Metrics

EPS (Rs)	7.3	6.9	8.5	9.0	4.3	2.6	2.5	6.1
Change (%)	(21.8)	(4.9)	22.3	6.5	(52.1)	(39)	(7.1)	148.8
ROAE (%)	13.4	12.0	12.9	12.6	6.1	3.3	3.0	7.2
ROAA (%)	0.9	0.9	1.0	1.0	0.5	0.3	0.3	0.6
Dividend Payout (%)	32.4	34.1	21.4	26.2	12.6	22.7	40.8	32.8
Dividend yield (%)	3.5	2.4	2.3	2.3	0.6	0.8	2.1	4.3
Book Value (Rs)	56.4	63.5	68.4	75.1	78.4	80.4	82.1	87.0
Change (%)	8	12	8	10	4	3	2	6
ABVPS (Rs)	56	63	68	75	78	80	82	87
P/B (X)	1.2	1.6	1.2	1.4	1.2	0.9	0.6	0.5
P/E (X)	9.3	14.2	9.4	11.3	21.2	27.3	19.2	7.7



## Financial Details

### Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	10.3	9.7	9.3	8.9	8.5	8.5	8.0
Interest expended	7.5	6.5	5.9	5.3	5.1	5.2	4.8
<b>Net Interest Income</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>3.1</b>
Non-Fund Based Income	1.1	1.3	1.3	1.4	1.4	1.5	1.4
Core Fee Income	1.0	1.1	1.0	1.2	1.3	1.2	1.2
<b>Trading and Other Income</b>	<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>0.2</b>
Core Operating Income	3.8	4.3	4.4	4.8	4.8	4.5	4.3
<b>Total Income</b>	<b>3.9</b>	<b>4.4</b>	<b>4.7</b>	<b>5.0</b>	<b>4.9</b>	<b>4.8</b>	<b>4.5</b>
Total Operating Expenses	2.1	2.1	2.1	2.2	2.4	2.5	2.3
Employee Expenses	1.0	1.0	1.0	1.0	1.1	1.2	1.2
Other Expenses	1.1	1.1	1.1	1.2	1.3	1.2	1.2
<b>Operating Profit</b>	<b>1.8</b>	<b>2.3</b>	<b>2.6</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>
Provisions	0.9	0.7	1.1	2.0	2.0	2.0	1.3
Others	0.0	-	-	-	-	-	-
PBT	0.9	1.6	1.5	0.8	0.5	0.4	0.9
Tax	0.0	0.6	0.5	0.2	0.2	0.1	0.2
PAT/RoAA	0.9	1.0	1.0	0.5	0.3	0.3	0.6
Equity Multiplier (x)	13.8	12.7	12.6	11.4	10.7	11.0	11.1
ROAE	12.0	12.9	12.6	6.1	3.3	3.0	7.2



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