ArihantCapital
Generating Wealth

Result Update-Q2 FY19
Karnataka Bank LTD.

Mixed Bag of Quarter

16th Oct, 2018

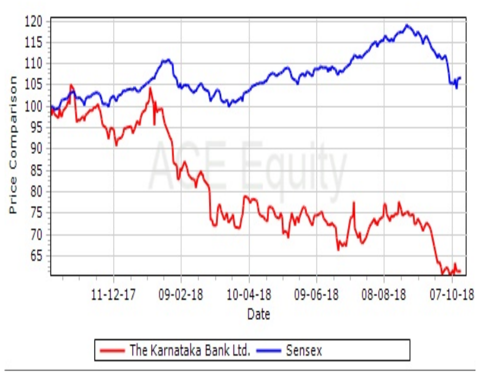
CMP:	**Rs. 99**
Target Price:	**Rs. 135**
Recommendation:	**BUY**

Stock Info	
BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	34,865
NSE Nifty	10,512

Market Info	
Market Capital (Rs Cr.)	Rs. 2780
Equity Capital (Rs Cr.)	283
Avg. Trading Vol.	3,227,210
52 Wk High/ Low	171/93
Face Value	10

Shareholding Pattern (%)	(Sep'2018)
Promoters	0
Domestic Institutions	14.13
Foreign Institutions	12.57
Public & Others	73.30

Price Chart:



Profitability

Karnataka Bank Ltd Q2FY19 profitability has substantially improved YoY. It has reported PAT of Rs 112 cr. in Q2FY19 vs Rs. 93 cr. in the corresponding quarter of last fiscal year. On a QoQ basis, the net profit fell by 32%. Operating profit of the bank de-grew by 3.4% QoQ and 2.7% YoY at Rs. 356 cr. NII for the quarter grew by 6% YoY at Rs. 468 cr. vs Rs. 440 cr.

Advances

Bank has reported credit growth of 22% YoY and 4.7% sequentially to Rs 49,970 crs. Retail advances to corporate advances ratio stood at 44: 56.

Deposits

Deposits of the bank grew by 13% YoY. CASA proportion decreased from 28.6% to 27.1% YoY. C-D ratio of the bank increased to 78.2% against 72.7% YoY and 76.1% sequentially. Banks total business stood at Rs. 113,854 crs. a growth of 17% as on Q2FY19.

Asset Quality

Banks GNPAs improved QoQ while NNPAs grew by 8 bps points. Gross NPAs stood at Rs 2372 crs. (i.e., 4.66% vs 4.72% in the previous quarter) while Net NPAs stood at Rs 1498 crs. (i.e., 3.00% vs 2.92% in the previous quarter). Management expects its asset quality to stay at moderated levels going forward.

Margins

Yield on advances marginally reduced from 10.15% to 9.34% YoY. Cost of deposits dropped to 5.94% against 6.23% YoY. NIM on average earning assets of the bank reduced marginally from 3% to 2.9% YoY largely due to lower yield on advances.

Valuation

At CMP of Rs 99, the stock is trading at 3.90 P/E(x) and 0.66 P/ABV(x) to its FY20E of Rs 25.4 per share and Rs 150 per share respectively.

We retain our target price at Rs. 135 same as previous quarter, valued at 0.9(x) to its FY 20E ABV. This is an upside of 36%. We have a '**BUY'** rating for the stock.

Financial Snapshot

Particulars (Rs Cr)	FY 18	FY 19E	FY 20E
NII	1858	2130	2472
Operating Profit	1473	1365	1566
Net Profit	326	589	718
EPS(Rs)	11.52	20.82	25.41
ROE(%)	6.17	10.75	12.70
P/E (x)	8.58	4.74	3.89
P/ABV (x)	0.68	0.67	0.66

Quarterly Result Highlights:

Income Statement					
Particulars	**Q2 FY19**	**Q2 FY18**	**YoY %**	**Q1 FY19**	**QoQ %**
Interest Earned	1453	1318	10.2	1408	3.2
Interest Expended	985	878	12.2	939	4.9
NII	468	440	6.2	469	-0.2
Other Income	201	248	-18.8	209	-3.6
Operating Expenses	313	322	-2.9	309	1.3
Employee Cost	111	124	-10.7	111	0.3
Operating Profit	356	366	-2.7	369	-3.4
Provisions	193	226	-14.5	222	-13.0
Tax	51	47		-16	
Profit After Tax	112	93	19.8	163	-31.5

Other Highlights					
Particulars	**Q2 FY19**	**Q2 FY18**	**YoY %**	**Q1 FY19**	**QoQ %**
EPS	4.0	3.3		5.8	
BVPS	208	187		207	
RoA	0.6	0.6	5.2	0.9	-0.3
RoE	8.02%	7.05%	13.8	11.89%	0.0
NIM	2.91%	3.03%	-4.0	3.00%	0.0
C-I ratio	46.7	46.8	-0.1	45.5	1.2
CAR Basel III	11.3	12.5		11.6	
Tier I	10.6	11.4		10.8	
RWA	47619	42019	13.3	46030	3.5
Gross NPA	2372	1716	38.2	2297	75.5
Net NPA	1498	1247	20.1	1396	7.3
Gross NPA %	4.7	4.1	0.5	4.7	-0.1
Net NPA %	3.0	3.0	0.0	2.9	0.1
Deposits	63885	56558	13.0	62725	1.8
CASA%	27.1	28.6		27.4	
CASA	17298	16163	7.0	17158	0.8
Advances	49970	41127	21.5	47731	4.7
Retail	45.0	49.8		45.0	
Corporate	55.0	50.2		55.0	
C-D ratio	76.1	72.7		76.1	
Cost of deposits	5.9	6.2	-0.4	5.9	0.0
Yield on advances	9.3	10.2	-0.9	9.3	0.0

Profit & Loss Account			
Particulars (Rs Cr)	**FY 18**	**FY 19E**	**FY 20E**
Interest Earned	5424	7023	7925
Interest Expended	3566	4892	5453
NII	**1858**	**2130**	**2472**
Other Income	954	780	877
Fee Income	271	351	396
Operating Expenses	1339	1545	1783
Employee Cost	525	619	708
Operating Profit	**1473**	**1365**	**1566**
Provisions and Contingencies	1163	570	555
Profit Before Tax	310	795	1011
Taxes	-15	207	293
Net Profit	**326**	**589**	**718**

Balance Sheet			
Particulars (Rs Cr)	**FY 18**	**FY 19E**	**FY 20E**
Share Capital	283	283	283
Total Reserves	5128	5254	5491
Deposits	62871	71279	79081
Borrowings	816	717	1159
Other Liabilities & Provisions	1276	1325	1332
Total Liabilities	**70374**	**78856**	**87345**
Cash and balance with RBI	3546	4767	4188
Bal. with banks & money at call	55	349	368
Investments	15444	16834	18181
Advances	47252	54340	62490
Other Assets	4076	2566	2115
Total Assets	**70374**	**78856**	**87345**

Ratios			
Particulars (%)	**FY 18**	**FY 19E**	**FY 20E**
Deposit Growth	10.8	12.2	10.7
Advances Growth	27.7	15.0	15.0
NII Growth	24.6	14.7	16.1
Net Profit Growth	-28.0	80.7	22.0
EPS(Rs)	11.5	20.8	25.4
BVPS(Rs)	191.4	195.9	204.3
Adj. BVPS (Rs.)	145.1	147.8	150.2
DPS(Rs)	2.5	4.6	5.6
ROA(%)	0.5	0.8	0.9
ROE(%)	6.2	10.8	12.7
C-D ratio	75.2	77.0	80.0
Cost Income Ratio	47.6	53.1	53.2
CASA (%)	28.0	30.8	32.7

Ratios			
Particulars (%)	**FY 18**	**FY 19E**	**FY 20E**
Total CAR (Basel III)	12.0	12.7	11.7
Net NPA	3.0	3.0	2.4
Gross NPA	4.9	3.7	4.0
PCR	52.0	55.0	55.0
Yield on Advances	11.0	10.6	10.5
Yield on Investments	7.5	7.5	7.5
Cost of Deposits	6.1	6.9	7.0
Interest Spread	4.9	3.7	3.6
NIM(%)	3.2	2.9	2.8
Valuation			
P/E (x)	8.58	4.74	3.89
P/BV (x)	0.52	0.50	0.48
P/ABV (x)	0.68	0.67	0.66

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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