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Q4FY20 result review
and TP change

Banking

Target price: Rs33

Target price revision

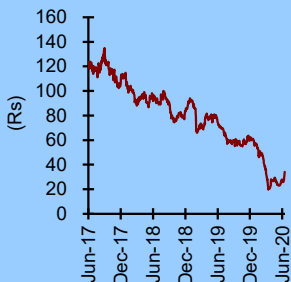
Rs33 from Rs27

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	2.1	2.1	2.1
Institutional investors	43.9	44.4	44.4
MFs and others	18.1	18.1	17.3
Insurance Cos.	0.3	0.2	0.2
FIs and Banks	4.8	4.4	4.4
FII	20.7	21.7	22.5
Others	54.0	53.5	53.5

Source: BSE

Price chart



INDIA

ICICI Securities

Karur Vysya Bank

HOLD
Maintained

Asset quality improved, but concerns persist

Rs33

Karur Vysya Bank (KVB) delivered mixed financial performance in Q4FY20 with earnings growth at 40% YoY to Rs837mn driven by higher treasury income (Rs1.4bn) and controlled operating expenses (up only 2.5% YoY). Covid-19 related contingency buffer of only Rs275mn (~6bps of loans) poses risk of credit cost spilling over to FY21E. Moratorium (as at 21st June) at 41% of advances is down from ~53% in March despite greater share of commercial banking at 32% of total loans. Asset quality improved though driven by higher technical write-offs at Rs3.5bn and asset sale to ARCs (Rs0.9bn). The improvement was consistent through past four quarters with GNPL ratio falling to 8.7% in Q4FY20 from 8.9% in Q3FY20. While we derive comfort from KVB's encouraging performance in digitally underwritten new vintages and transformed business model with retail focus, lack of clarity on CEO succession and a somewhat prolonged trajectory of RoA recovery are key concerns. Maintain HOLD.

- **Digital journey remained on track:** Over past couple of years, KVB has completely transformed its digital platform with most of its asset products already migrated to it. KVB initiated a second phase of transformation by realigning key business processes with the revamped platform. The same is likely to release ~540 staff (~7% of total employee base) and save Rs240mn (~4bps of total assets) in manpower costs. As at March-end, around ~1/5th of incremental disbursement was being sourced digitally.
- **Credit growth remains muted; deposit base fell 5% QoQ.** Overall credit growth remained subdued with total loans contracting by 4%/2% YoY/QoQ mainly due to: 1) management's conservative strategy to exit or run down corporate accounts above Rs1.25bn, and 2) lower renewals in commercial book as the bank readjusted collateral value 15% lower. However, retail growth (ex-IBPC) remained impressive at 16% YoY mainly driven by home loan and gold loan segments. While deposits fell 5% QoQ in Q4FY20, management highlighted that deposit traction in Q1FY21E has been encouraging despite it cutting TD rates by 30bps and SA rate by 50bps during past couple of years.
- **Asset quality improved, but driven by write-offs.** While fresh slippages came in at Rs4.2bn (3.7% slippage ratio), lowest in past five quarters, asset quality improvement was mainly driven by higher write-offs at Rs3.5bn. Bulk of the incremental slippages in Q4FY20 were from corporate segment (Rs2.5bn spread across 10-12 accounts). Management expects slippage ratio at 1.75-2.5% in FY21E.
- **View and outlook:** While we believe KVB's upgraded digital platform, cost optimisation drive, sharp improvement in coverage ratio over past couple of years, is likely to revive RoA to 0.6% by FY22E, lack of clarity on CEO succession and contingency buffer of only Rs275mn (~6bps of loans) poses risk to near-term credit cost and growth. Maintain **HOLD** with a revised target price of Rs33 (earlier: Rs27).

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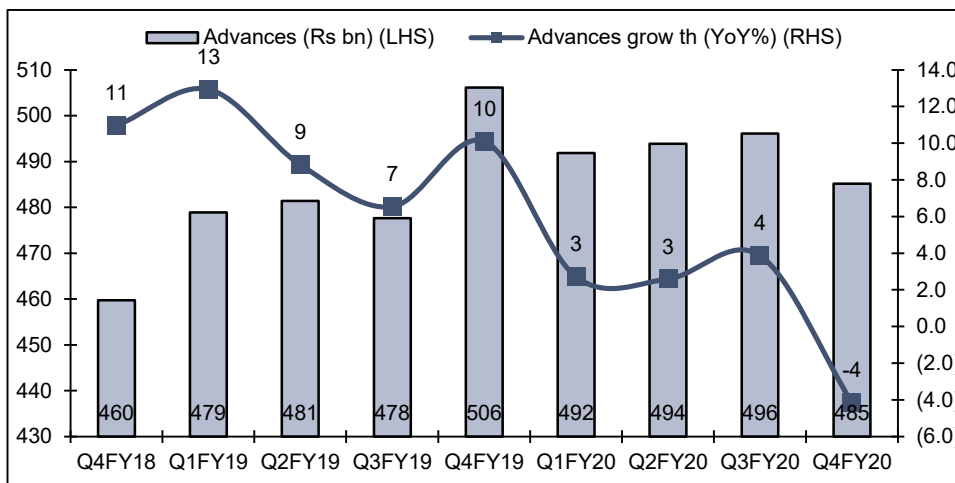
Market Cap	Rs27.1bn/US\$358mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	KARU.BO/ KVB IN	NII (Rs bn)	23.6	23.5	23.9	26.5
Shares Outstanding (mn)	799.2	Net Profit (Rs bn)	2.1	2.4	3.5	4.4
52-week Range (Rs)	71/20	EPS (Rs)	2.8	2.9	4.4	5.6
Free Float (%)	97.9	% Chg YoY	-44.5	6.4	48.0	27.9
FII (%)	22.5	P/E (x)	11.9	11.2	7.6	5.9
Daily Volume (US\$'000)	567	P/BV (x)	0.6	0.5	0.5	0.5
Absolute Return 3m (%)	65.0	Net NPA (%)	4.9	3.9	5.9	4.3
Absolute Return 12m (%)	(52.0)	Dividend Yield (%)	1.1	4.1	0.0	4.0
Sensex Return 3m (%)	22.3	RoA (%)	0.3	0.3	0.5	0.6
Sensex Return 12m (%)	(10.8)	RoE (%)	3.3	3.6	5.1	6.3

Table 1: Q4FY20 result review*(Rs mn)*

	Q4FY20	Q4FY19	% change YoY	Q3FY20	% change QoQ
Interest Income	14,562	14,736	(1.2)	15,038	(3.2)
Interest Expended	8,657	8,544	1.3	9,266	(6.6)
Net interest income (NII)	5,905	6,192	(4.6)	5,772	2.3
Other income	3,470	2,725	27.4	2,601	33.4
Total income	9,375	8,917	5.1	8,373	12.0
Operating expenses	4,376	4,269	2.5	4,525	(3.3)
-Staff expenses	2,144	2,123	1.0	2,255	(4.9)
-Other expenses	2,232	2,146	4.0	2,271	(1.7)
Operating profit	4,998	4,648	7.5	3,847	29.9
Total provisions	4,293	3,523	21.8	3,643	17.8
Profit before tax	706	1,124	(37.2)	205	244.7
Tax	(131)	524	(125.1)	54	(343.3)
Profit after tax	837	600	39.5	151	455.4
Balance sheet (Rs mn)					
Deposits	5,90,751	5,98,680	(1.3)	6,22,620	(5.1)
Advances	4,60,981	4,85,808	(5.1)	4,71,190	(2.2)
Gross NPL (Rs mn)	42,128	44,496	(5.3)	44,240	(4.8)
Net NPL (Rs mn)	18,087	24,203	(25.3)	19,457	(7.0)
Ratios (%)					
			bps change		bps change
Profitability ratios					
Yield on Advances	9.5	9.8	(36)	9.5	(6)
Cost of Funds	5.6	5.8	(23)	5.8	(21)
NIM	3.5	3.9	(42)	3.3	13
RoaA	0.5	0.4	11	0.1	38
RoaE	5.1	3.7	133	3.9	120
Asset Quality					
Gross NPL ratio	8.7	8.8	(11)	8.9	(24)
Net NPL ratio	3.9	5.0	(106)	4.1	(21)
Coverage ratio (Cal.)	57.1	45.6	1,146	56.0	105
Business & Other Ratios					
Low-cost deposit mix	31.0	30.0	100	31.0	-
Cost-income ratio	46.7	47.9	(119)	54.0	(737)
Credit deposit ratio	78.0	81.1	(311)	75.7	235
CAR	17.2	16.0	117	15.9	130
Tier-I	15.3	14.3	99	14.1	113

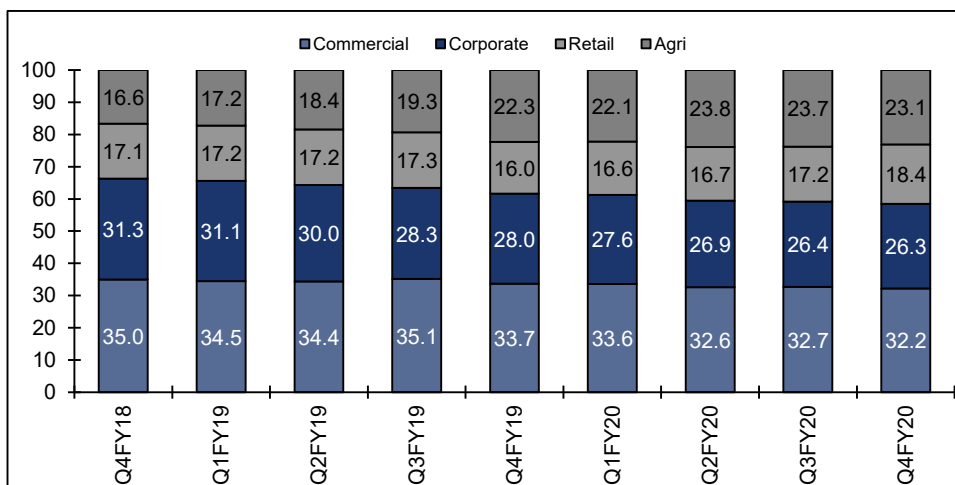
Source: Company, I-Sec research

Chart 1: Overall advances fell 4% YoY; upgraded digital platform is expected to ensure sustainable long-term business growth



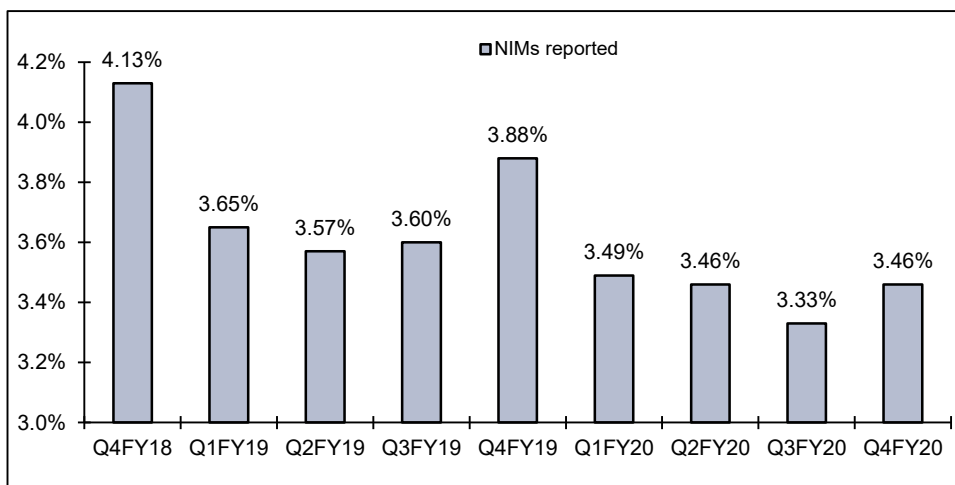
Source: Company, I-Sec research

Chart 2: KVB continues to expand retail lending; corporate loanbook share now stands at 26% vs 28% in Q4FY19



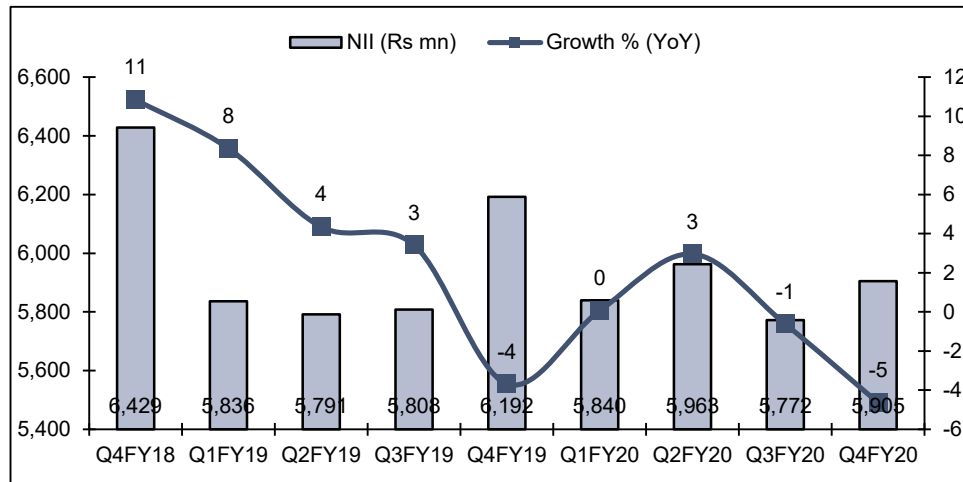
Source: Company, I-Sec research

Chart 3: NIM expanded 13bps QoQ driven by lower cost of deposits



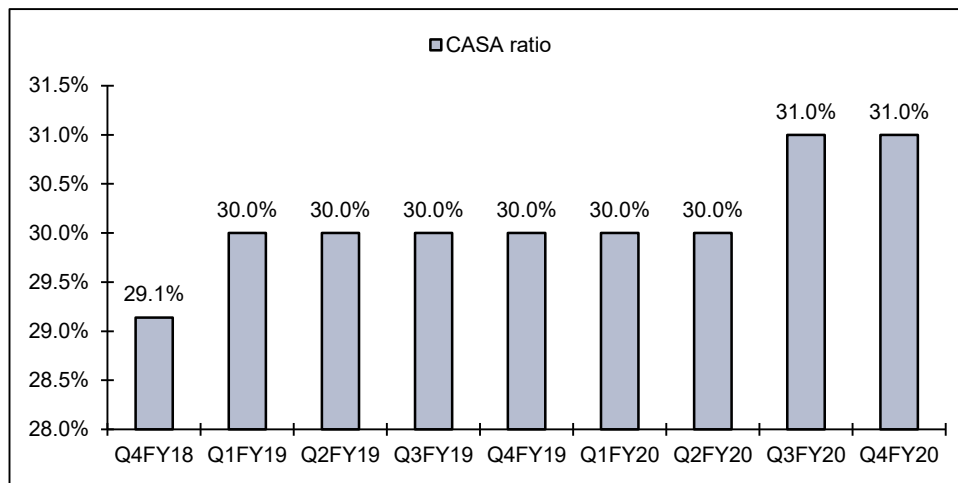
Source: Company, I-Sec research

Chart 4: NII fell 5% YoY due to loanbook contraction



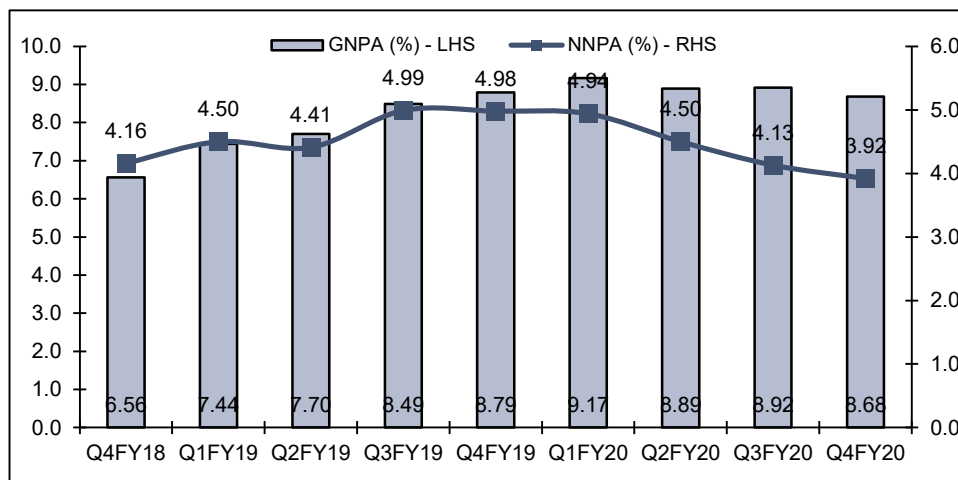
Source: Company, I-Sec research

Chart 5: CASA ratio remains steady at 31%



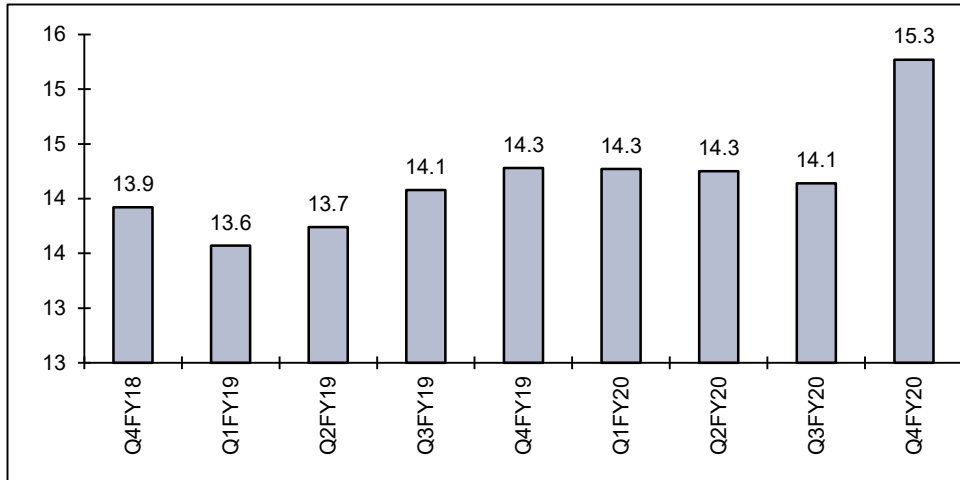
Source: Company, I-Sec research

Chart 6: Asset quality improves



Source: Company, I-Sec research

Chart 7: Tier-1 ratio remained at 15.3%



Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Interest Income	58,158	59,900	59,737	66,627
Interest Expense	34,530	36,420	35,768	40,142
Net Interest Income	23,628	23,479	23,970	26,486
% NII Growth	2.8	(0.6)	2.1	10.5
Treasury Income				
Non-interest income	9,628	11,546	10,735	11,045
Net Revenue	33,256	35,026	34,704	37,531
Employees Expenses	7,612	8,567	9,080	9,807
Other Op. Expenses	8,536	8,851	9,293	10,037
Operating Profit	17,108	17,609	16,331	17,687
% OP Growth	-3.7	2.9	-7.3	8.3
Tax	1,114	372	1,159	1,482
Total Provisions	13,886	14,887	11,695	11,758
Net Profit	2,109	2,350	3,477	4,447
% PAT Growth	(39.0)	11.5	47.9	27.9

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Capital	1,599	1,599	1,599	1,599
Reserves and Surplus	62,629	64,404	67,495	70,742
Deposits	5,98,680	5,90,751	6,32,103	7,26,919
Borrowings	15,653	11,842	9,395	11,025
Other Liabilities & Provisions	14,840	14,186	8,786	19,216
Total liabilities	6,93,402	6,82,782	7,19,377	8,29,500
Cash & Balances with RBI	29,347	27,327	28,867	33,207
Bal. with banks/ call money	7,624	16,599	12,234	17,763
Investment	1,48,816	1,57,624	1,58,026	1,81,730
Loans and advances	4,85,808	4,60,981	4,97,860	5,72,539
Fixed Assets	5,830	5,866	6,280	6,861
Other Assets	15,977	14,384	16,110	17,399
Total assets	6,93,401	6,82,782	7,19,377	8,29,500
% TA Growth	4	(2)	5	15

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data				
Book value per share (INR)	80.3	82.6	86.4	90.5
Adj. BVPS (INR)	57.6	65.6	58.9	67.0
Price/Book value	0.41	0.40	0.4	0.4
Price/ Adj. Book value	0.6	0.5	0.6	0.5
EPS(INR)	2.8	2.9	4.4	5.6
P/E Ratio	11.9	11.2	7.6	5.9
DPS	2.8	1.3	-	1.3
Asset Quality				
Gross NPA (Rs mn)	44,498	42,128	51,354	43,881
Gross NPA (%)	8.79	8.68	10.31	7.66
Net NPA (Rs mn)	24,203	18,087	29,359	25,089
Net NPA (%)	4.98	3.92	5.90	4.38
% coverage of NPA	45.6	57.1	42.8	42.8
Delinquencies (%)	5.0	3.4	5.0	2.3

Capital Adequacy Ratios

RWA (Rs mn)	4,37,325	4,14,976	4,48,174	5,15,400
Tier 1 (%)	14.3	15.3	15.1	13.7
Tier 2 (%)	1.7	1.9	1.8	1.5
Total CAR (%)	16.0	17.2	16.8	15.3

Business Ratios

Credit / Deposit(%)	81.1	78.0	78.8	78.8
Investment / Deposit (%)	24.9	26.7	25.0	25.0
CASA (%)	29.9	31.3	27.8	27.8
RoA (%)	0.3	0.3	0.5	0.6
Core RoE (%)	3.3	3.6	5.1	6.3
Dividend Yield (%)	8.3%	4.0%	0.0%	4.0%

Earnings Ratios

Interest Inc. / Avg. assets (%)	8.5	8.7	8.5	8.6
Interest Exp./ Avg. assets (%)	5.1	5.3	5.1	5.2
NIM (%)	3.5	3.4	3.4	3.4
Int. exp/ Int earned (%)	59.4	60.8	59.9	60.2
Oth. Inc./ Tot. Inc. (%)	29.0	33.0	30.9	29.4
Staff exp/Total opt. exp (%)	47.1	49.2	49.4	49.4
Cost/ Income Ratio (%)	48.6	49.7	52.9	52.9
Prov./ Operating Profit (%)	81.2	84.5	71.6	66.5
Loan loss prov./Avg. loans (bps)	297.4	314.5	243.9	219.7

Source: Company data, I-Sec research

Table 5: RoA tree

(% , year ending March 31)

	FY19	FY20	FY21E	FY22E
Interest income/Assets	8.5	8.7	8.5	8.6
Interest expenses/Assets	5.1	5.3	5.1	5.2
Net interest income/Assets	3.5	3.4	3.4	3.4
Other Inc. from operations/Assets	1.4	1.7	1.5	1.4
Total income/Assets	4.9	5.1	5.0	4.8
Employee expenses/Assets	1.1	1.2	1.3	1.3
Other operating expenses/Assets	1.3	1.3	1.3	1.3
Total Opex	2.4	2.5	2.6	2.6
Operating profit/Assets	2.5	2.6	2.3	2.3
Tax/Assets	0.2	0.1	0.2	0.2
Loan loss provisions/Assets	2.0	2.2	1.7	1.5
Net profit/Assets	0.3	0.3	0.5	0.6

Source: Company data, I-Sec research

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