

Karur Vysya Bank

Pain inevitable

KVB's 1QFY20 earnings were ahead of estimates, buoyed by higher-than-expected treasury gains. Even though the bank has seen elevated stress over an elongated period, asset quality risks are likely to remain elevated in the near term, especially with the sticky moratorium portfolio. Elevated provisions will depress return ratios in the near term; consequently, we assign a target multiple of just 0.6x FY22E. The appointment of new the MD & CEO, removes concerns around the leadership void at the bank. We maintain REDUCE with a target price of Rs 35.

- **1QFY21 highlights:** NII dipped 3.8/4.9% YoY/QoQ, in line with estimates. PPOP grew 6.5% YoY, but dipped 5.2% QoQ, and was 17.9% ahead of estimates, buoyed by treasury income (Rs 1.8bn, +30%QoQ).
- **Funding trends:** After a sharp and inexplicable QoQ dip in 4QFY20, deposits grew just 1.7% QoQ (-2.7% YoY). A 7.4/1% dip in term deposits led this trend. SA grew 13.5/5.6% and CA grew 12.3% QoQ (-1% YoY). Performance on this front is disappointing, given that most banks have seen much better deposit growth this quarter. The bank's CRAR rose 215/97bps to 18.1% (Tier 1 at 16.1%) as a result of a fall in RWAs (-5.2% QoQ).
- **Asset quality and moratorium:** GNPA's dipped 10.1/3.7% to Rs 40.6bn (8.3%); however, this improvement was optical, as slippages (just Rs 400mn, 35bps ann., vs. 3.7% QoQ) were depressed by the standstill classification. KVB's moratorium portfolio remained sticky, with ~41% of loans under moratorium (vs. 52% earlier). Of the Rs 86.3bn of term loans under the moratorium, borrowers representing ~34% of these loans made no payments. The sticky moratorium portfolio, given the bank's asset quality track record, is concerning. Asset quality risks will be heightened in the near term, and we expect slippages of 4.5% over FY21E.
- **Non-tax provisions** dipped 21.4% QoQ to Rs 3.4bn, led by a 35.6% fall in LLPs. PCR improved 1238/385bps to 60.9%. KVB made COVID-19 related provisions of Rs 730mn, (total stock of such provisions to Rs 1.2bn, i.e. 26bps of advance). We expect provisions to remain elevated at 2.4% over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	5,618	5,840	-3.8%	5,905	-4.9%	23,628	23,479	24,559	26,470
PPOP	4,739	4,451	6.5%	4,998	-5.2%	17,108	17,609	17,563	17,726
PAT	1,055	729	44.7%	837	26.0%	2,109	2,350	3,231	4,582
EPS (Rs)	1.3	0.9	44.7%	1.0	26.0%	2.6	2.9	4.0	5.7
ROAE (%)						3.3	3.6	4.9	6.7
ROAA (%)						0.31	0.34	0.46	0.61
ABVPS (Rs)						50.1	59.9	51.1	62.8
P/ABV (x)						0.70	0.58	0.68	0.56
P/E (x)						13.2	11.9	8.6	6.1

Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loans	483,752	484,499	0.2%	531,922	532,982	0.2%
NIM (%)	3.7	3.8	1 bps	3.8	3.8	1 bps
NII	24,452	24,559	0.4%	26,318	26,470	0.6%
PPOP	16,683	17,563	5.3%	17,771	17,726	-0.3%
PAT	3,228	3,231	0.1%	4,582	4,582	0.0%
ABVPS (Rs)	51.1	51.1	-0.2%	61.9	62.8	1.5%

Source: Bank, HSIE Research

REDUCE

CMP (as on 31 July 2020)	Rs 35
Target Price	Rs 35
NIFTY	11,073

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 35	Rs 35
EPS %	FY21E	FY22E
	0.1%	0.0%

KEY STOCK DATA

Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / (\$ mn)	28/369
6m avg traded value (Rs mn)	59
52 Week high / low	Rs 65/18

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.1	(27.9)	(45.1)
Relative (%)	6.6	(20.3)	(45.4)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	2.1	2.1
FIs & Local MFs	22.8	22.1
FPIs	21.6	21.1
Public & Others	53.5	54.7

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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