

# Karur Vysya Bank

## Provisions to rise

KVB's 2QFY21 earnings were ahead of estimates as provisions were lower than expected. While the bank's collection efficiency improved, reaching levels reported by many large stronger banks, disclosures on this front were a little ambiguous. Further, we believe that the proportion of COVID-19 related provisions is low, relative potential stress. Provisions are, therefore, likely to remain elevated as stress manifests, keeping return ratios depressed. This drives our REDUCE rating (target price of Rs 38).

- **Asset quality and collections:** GNPA's optically declined to 7.9% (-96/-41bps). Surprisingly, collection efficiency improved (~93% in the case of the moratorium portfolio and 99-100% for the rest of the portfolio, excluding gold loans). The management did not disclose overall collection efficiency. According to the bank, its potential stress pool is limited to Rs 10bn. The bank expects to restructure ~2-2.5% of loans and guided for slippages of <2% in FY21E. Our slippage estimates are a lot more conservative at 4% in FY21E. KVBs's asset quality track record suggests that its exposures across segments are likely to sit on the higher end of the vulnerability spectrum.
- **Provisions** fell 22/15.7% to Rs 2.85bn (2.4% ann.). The sharp increase in PCR to 64.3% was optical due to negligible GNPA accumulation. Further, total COVID-19 related provisions rose to just Rs 2.2bn (46bps of loans, vs. FB-~50bps and DCBB- 57bps). While KVB may appear to be at par with its peers on this front, its asset quality track record is much poorer. We thus continue to build elevated provisions at 2.2% of average assets over FY21-23E.
- **Funding trends:** Deposits were 1.8% lower YoY, led by a 7.5% YoY decline in term deposits. While deposit growth trends were uninspiring, the bank continued to accrete capital due to muted credit growth amongst other factors. The CRAR increased to 18.4% (+242/251bps, Tier 1 at 16.4%).
- On the **assets' side**, loan growth turned positive (+1.5% YoY), after two consecutive quarters of de-growth. Agri loans witnessed strong growth at 27.7/9.4%, led by a surge in gold loans. Commercial loans grew 1.9/2.2%. We expect the bank to register tepid loan growth of 10.1% over FY21-23E.

### Financial summary

YEMar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	6,015	5,963	0.9%	5,618	7.1%	23,479	24,412	26,768	29,013
PPOP	4,488	4,312	4.1%	4,739	-5.3%	17,608	18,375	18,183	18,970
PAT	1,149	633	81.4%	1,055	8.9%	2,350	3,228	4,398	6,078
EPS (Rs)	1.4	0.8	81.4%	1.3	8.9%	2.9	4.0	5.5	7.6
ROAE (%)						11.5	37.3	36.2	38.2
ROAA (%)						3.6	4.8	6.5	8.6
ABVPS (Rs)						0.34	0.46	0.58	0.73
P/E (x)						59.9	53.7	64.5	70.4
P/ABV (x)						10.9	8.0	5.8	4.2

### Change in estimates

Rs mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loans	484,499	496,333	2.4%	532,982	546,094	2.5%	599,490	614,254	2.5%
NIM (%)	3.8	3.7	-7 bps	3.8	3.8	-1 bps	3.8	3.8	-4 bps
NII	24,620	24,412	-0.8%	26,572	26,768	0.7%	29,255	29,013	-0.8%
PPOP	17,545	18,375	4.7%	17,742	18,183	2.5%	18,693	18,970	1.5%
PAT	3,218	3,228	0.3%	4,594	4,398	-4.3%	6,386	6,078	-4.8%
ABVPS (Rs)	50.7	53.7	6.0%	62.6	64.5	2.9%	68.4	70.4	2.8%

Source: Bank, HSIE Research

## REDUCE

CMP (as on 2 Nov 2020)	Rs 32
Target Price	Rs 38
NIFTY	11,669

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 39	Rs 38
	FY21E	FY22E
EPS %	0.3%	-4.3%

### KEY STOCK DATA

Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / (\$ mn)	26/345
6m avg traded value (Rs mn)	89
52 Week high / low	Rs 65/18

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.9)	9.9	(41.9)
Relative (%)	(12.7)	(8.0)	(40.9)

### SHAREHOLDING PATTERN (%)

	June-20	Sept-20
Promoters	2.1	2.1
FIs & Local MFs	22.1	20.8
FPIs	21.1	20.9
Public & Others	54.7	56.2

### Pledged Shares

Source : BSE

Pledged shares as % of total shares

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