

# Karur Vysya Bank

Refer to important disclosures at the end of this report

## Improving return profile, healthy dividend yield and cheap valuations make it an attractive Buy

- KVB reported a strong PAT beat (Rs2.1bn vs. estimate of Rs1.4bn) in Q4, mainly driven by lower LLP and opex. After the clean-up in FY18-20, the bank has seen steady improvement in its GNPA ratio to ~6% on higher w-offs/recoveries. The RoA has also improved from the lows of 0.3-0.5% to a high of 0.9% in FY22.
- Overall credit growth was relatively moderate at 10% yoy amid the bank's conscious strategy to de-focus from consortium-based large corporate lending, which was the key source of asset-quality trouble in the past. The bank has guided for 12% growth in FY23 with an upward bias. As a differentiated strategy, it has created a consumer banking department, headed by a senior executive, to specifically focus on retail asset/liability.
- We have revised our FY23/24 earnings estimates by 8%/4% and have introduced FY25 estimates. We expect the bank to report a steady improvement in its RoA/RoE profile to 1-1.2%/11-13% with an upward potential, subject to improvement in its otherwise sub-par operating leverage.
- We maintain Buy on KVB with a TP of Rs72, valuing it at 0.7x Mar'24E ABV. KVB is trading at a cheap valuation of 0.4x FY24E ABV. After recovering from past asset-quality issues and management volatility, and seeing steady improvement in return ratios (RoAs >1% from FY24E) with best-in-class capital profile (Tier I >17.5%), the stock offers an attractive play in the small-cap banking space. Higher dividend yield of 4-6% adds to the comfort.

**Corporate remains a drag; the emphasis remains on accelerating retail growth:** Overall loan growth improved to 10% yoy, backed by growth in the commercial and agri books. Retail book growth remained decent at 8% yoy, mainly driven by mortgages, housing and jewel loans. The bank has guided for 12% growth in FY23 with an upward bias, depending on retail acceleration. The bank claims that it does not see any asset-quality risk from the current crisis in Sri Lanka. As a differentiated business strategy, KVB has created a separate consumer banking unit, which will house retail assets, retail liabilities, 3<sup>rd</sup> party products business, which we believe will improve the bank's retail orientation and long-term RoA sustainability.

**Steady improvement in NPA ratios; need to focus on higher relapse from restructured pool:** Fresh slippages were higher at Rs3bn (2.4% of loans). However, higher w-offs and recoveries led to a 100bps qoq improvement in the GNPA ratio at 6%. The specific PCR declined to 63%, mainly due to heavy w-offs. However, the bank is determined to maintain a healthy PCR of >65%. The restructured pool remained largely flat qoq at 2.9% of loans, and except for real-estate, all other sectors witnessed a reduction in stress. KVB has guided for net negative slippages for FY23, which, in our view, is achievable given moderating slippages, improving recoveries and hopes around some lumpy corporate resolutions. The bank intends to bring its NNPA below 2% from 2.3% in FY23.

**Outlook and valuations:** We expect the bank to report a steady improvement in its RoA/RoE profile to 1-1.2%/11-13%, with an upward potential, subject to improvement in its otherwise sub-par operating leverage. Retain Buy rating with a TP of Rs72, valuing the bank at 0.7x Mar'24E ABV. The key risks to our call/estimates include higher NPA formation, mainly in the SME portfolio, and a delay in credit growth revival.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	32,782	34,844	38,219	43,199	49,719
Net profit	3,593	6,733	8,348	10,177	12,457
EPS (Rs)	4.5	8.4	10.4	12.7	15.6
ABV (Rs)	71.0	82.0	91.6	103.0	117.2
RoA (%)	0.5	0.9	1.0	1.1	1.2
RoE (%)	5.3	9.3	10.6	11.8	13.1
PE (x)	9.9	5.3	4.3	3.5	2.9
P/ABV	0.6	0.5	0.5	0.4	0.4

Source: Company, Emkay Research

CMP	Target Price
Rs 45 as of (May 20, 2022)	Rs 72 (■) 12 months
Rating	Upside
BUY (■)	61.8 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	7.7/4.3
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	10.4	12.7
Consensus	9.8	12.1
Mean Consensus TP (12M)	Rs 81	

### Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	61 / 38
M Cap (Rs bn/USD bn)	36 / 0.46
Daily Avg Volume (nos.)	3,351,505
Daily Avg Turnover (US\$ mn)	2.1

### Shareholding Pattern Mar '22

Promoters	2.3%
FIIs	15.4%
DIIIs	21.9%
Public and Others	60.5%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(11)	(14)	(16)	(21)
Rel. to Nifty	(6)	(9)	(8)	(28)

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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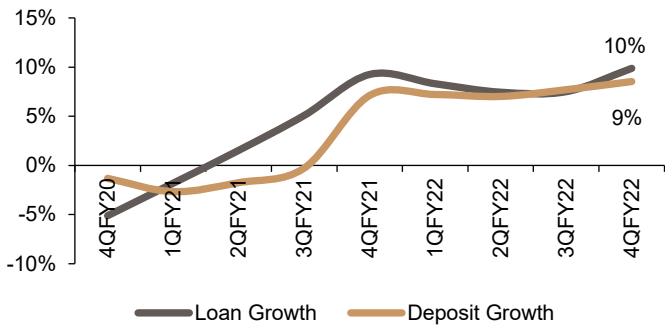
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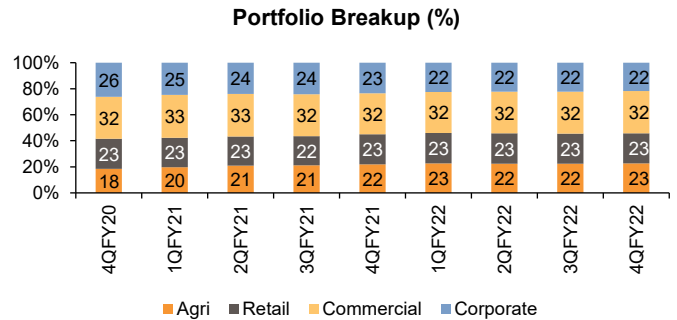
# Story in Charts

**Exhibit 1: Credit growth improved backed by growth in commercial and Agri book**



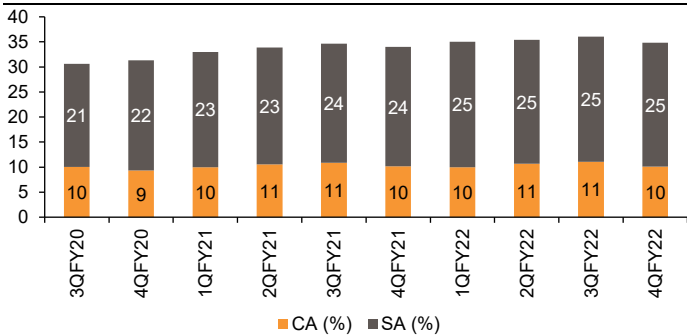
Source: Company, Emkay Research

**Exhibit 2: Portfolio movement is in line with the bank's strategy to reduce share of lumpy corporate book**



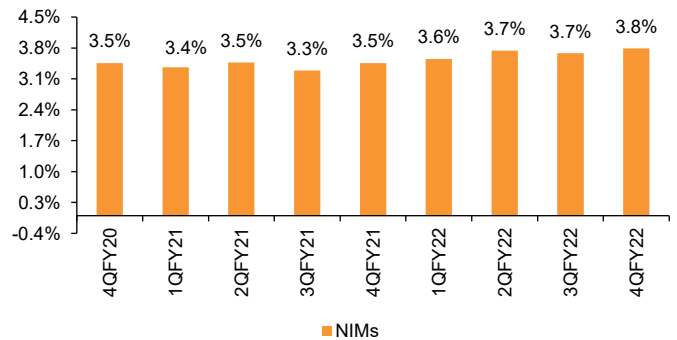
Source: Company, Emkay Research

**Exhibit 3: CASA ratio slipped a bit due to moderation in CA deposits and faster growth in TD**



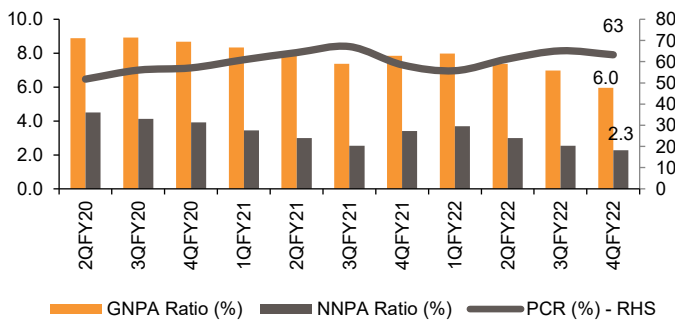
Source: Company, Emkay Research

**Exhibit 4: Lower interest reversals/CoF led to marginal improvement in margins**



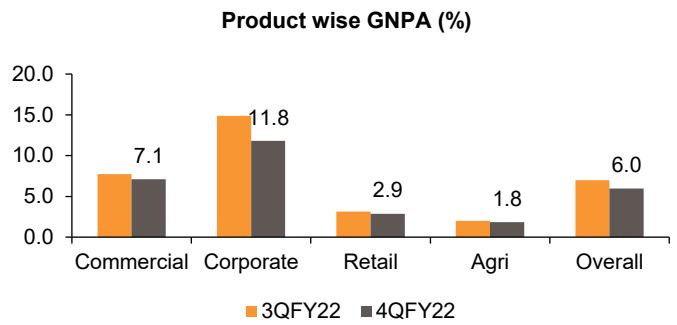
Source: Company, Emkay Research

**Exhibit 5: Elevated slippages offset by higher recoveries/w-offs led to steady improvement in GNPA ratio**



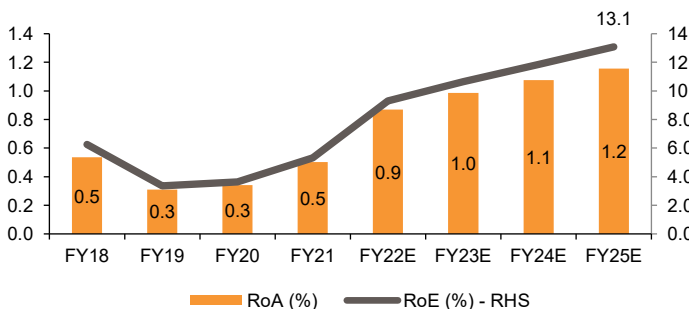
Source: Company, Emkay Research

**Exhibit 6: Corporate and commercial stress is now behind, leading to improvement in segmental NPAs**



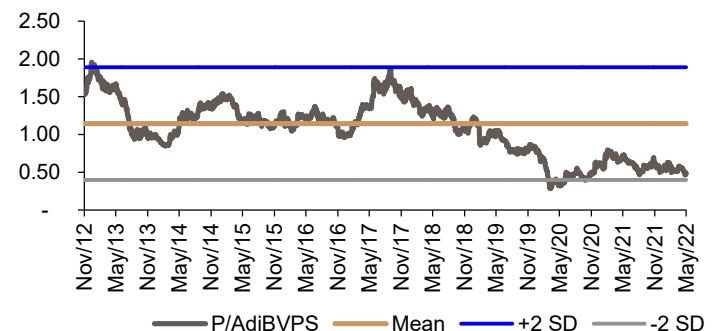
Source: Company, Emkay Research

**Exhibit 7: Steady improvement in return ratios led by better growth/NIMs, contained opex and lower LLP**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at near trough valuations**



Source: Bloomberg, Emkay Research

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**Exhibit 9: Actuals vs. Estimates (Q4FY22)**

Rs mn	Actuals	Estimates Emkay	Consensus	% Variation		Comments
				Emkay	Consensus	
Net income	9,154	9,215	9,078	-1%	1%	Lower NII led to a miss
PPOP	4,413	4,085	3,948	8%	12%	Lower opex led to better PPOP
PAT	2,135	1,415	1,949	51%	10%	Contained LLP leads to a beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly summary**

Rs (mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	13,493	13,759	13,980	14,045	14,093	4	0	55,877	62,102	11
Interest Exp	7,367	7,380	7,176	7,173	6,993	-5	-3	28,723	32,081	12
Net Interest Income	6,126	6,379	6,803	6,872	7,099	16	3	27,154	30,021	11
Global NIMs (reported)	3.46	3.55	3.74	3.68	3.79	33bps	11bps	3.69	3.73	4bps
Non-interest Income	1,691	2,010	1,631	1,956	2,055	22	5	7,691	8,198	7
Operating Expenses	5,793	4,293	4,696	4,813	4,741	-18	-1	18,542	20,112	8
Pre Provisioning Profit	2,024	4,096	3,738	4,016	4,413	118	10	16,302	18,108	11
Provision & Contingencies	241	2,450	1,642	1,461	1,401	482	-4	6,993	6,951	-1
PBT	1,783	1,646	2,097	2,555	3,012	69	18	9,309	11,156	20
Income Tax Expense (Gain)	740	557	442	700	877	19	25	2,577	2,808	9
Net Profit/(Loss)	1,044	1,089	1,655	1,855	2,135	105	15	6,733	8,348	24
Gross NPA (%)	7.85	7.97	7.38	6.97	5.96	-189bps	-101bps	5.97	5.05	-92bps
Net NPA (%)	3.41	3.69	2.99	2.55	2.28	-113bps	-27bps	2.28	1.83	-45bps
Deposits (Rs bn)	633	644	654	669	687	9	3	687	771	12
Net Advances (Rs bn)	504	500	514	532	553	10	4	553	620	12

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	39,277	38,219	-2.7%	45,254	43,199	-4.5%	49,719
PPOP	18,328	18,108	-1.2%	21,707	20,730	-4.5%	24,563
PAT	7,745	8,348	7.8%	9,750	10,177	4.4%	12,457
EPS (Rs)	9.7	10.4	7.7%	12.2	12.7	4.3%	15.6
BV (Rs)	101.8	102.2	0.5%	112.0	112.6	0.5%	125.5

Source: Company, Emkay Research

**Exhibit 12: Key assumptions**

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	9.9	12.1	13.5	16.5
Deposit Growth %	8.5	12.3	12.8	15.4
NIM %	3.7	3.7	3.8	3.8
GNPA %	6.0	5.1	4.3	3.5
Credit Cost %	1.3	1.1	1.0	1.0

Source: Company, Emkay Research

**Exhibit 13: Key ratios and trends**

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Loans (Rs mn)	460,981	461,310	478,218	495,120	503,635	499,620	513,813	532,270	553,346
Growth YoY %	(5.1)	(1.8)	1.5	5.1	9.3	8.3	7.4	7.5	9.9
Growth QoQ %	(2.2)	0.1	3.7	3.5	1.7	(0.8)	2.8	3.6	4.0
<b>Liability Profile &amp; Margins</b>									
Deposits (Rs mn)	590,751	600,650	611,224	620,900	632,784	643,980	654,101	668,710	686,762
Growth YoY %	(1.3)	(2.7)	(1.8)	(0.3)	7.1	7.2	7.0	7.7	8.5
Growth QoQ %	(5.1)	1.7	1.8	1.6	1.9	1.8	1.6	2.2	2.7
CASA %	31.3	33.0	33.9	34.6	34.2	35.0	35.4	36.1	34.8
CA %	9.3	10.0	10.6	10.9	10.2	10.0	10.7	11.1	10.1
SA %	22.0	23.0	23.3	23.8	24.0	25.0	24.8	25.0	24.7
Branches	779	779	780	780	780	781	781	781	789
NIM	3.46	3.36	3.47	3.29	3.46	3.55	3.74	3.68	3.79
<b>Asset Quality</b>									
GNPA	8.7	8.3	7.9	7.4	7.9	8.0	7.4	7.0	6.0
NNPA	3.9	3.4	3.0	2.6	3.4	3.7	3.0	2.6	2.3
PCR	57.1	60.9	64.3	67.1	58.5	55.7	61.3	65.1	63.3
<b>Capital Adequacy</b>									
CRAR %	17.2	18.1	18.4	18.5	19.0	19.1	18.8	18.8	19.5
Tier I %	15.3	16.1	16.4	16.5	17.0	17.0	16.8	16.8	17.5
<b>ROE Decomposition %</b>									
NII	4.1	3.3	3.5	3.2	3.3	3.4	3.6	3.6	3.6
Other Income	1.5	0.8	0.9	1.1	0.9	1.1	0.9	1.0	1.0
Opex	3.0	2.4	2.5	3.2	3.1	2.3	2.5	2.5	2.4
PPOP	3.5	2.8	2.6	1.4	1.1	2.2	2.0	2.1	2.2
Provisioning Cost	3.0	2.0	1.6	1.1	0.1	1.3	0.9	0.8	0.7
PBT	0.5	0.8	0.9	0.3	1.0	0.9	1.1	1.3	1.5
ROA	0.6	0.6	0.7	0.2	0.6	0.6	0.9	1.0	1.1
ROE	5.1	6.3	6.8	2.0	6.0	6.2	9.3	10.2	11.4

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>23,594</b>	<b>27,154</b>	<b>30,021</b>	<b>34,090</b>	<b>39,319</b>
<b>Other income</b>	<b>9,188</b>	<b>7,691</b>	<b>8,198</b>	<b>9,109</b>	<b>10,400</b>
Fee income	5,482	6,340	6,974	7,811	8,983
<b>Net income</b>	<b>32,782</b>	<b>34,844</b>	<b>38,219</b>	<b>43,199</b>	<b>49,719</b>
Operating expenses	19,868	18,542	20,112	22,469	25,156
<b>Pre provision profit</b>	<b>12,914</b>	<b>16,302</b>	<b>18,108</b>	<b>20,730</b>	<b>24,563</b>
<b>PPP excl treasury</b>	<b>9,366</b>	<b>15,593</b>	<b>17,611</b>	<b>20,233</b>	<b>24,041</b>
Provisions	7,571	6,993	6,951	7,130	7,916
<b>Profit before tax</b>	<b>5,343</b>	<b>9,309</b>	<b>11,156</b>	<b>13,600</b>	<b>16,647</b>
Tax	1,750	2,577	2,808	3,423	4,190
Tax rate	33	28	25	25	25
<b>Profit after tax</b>	<b>3,593</b>	<b>6,733</b>	<b>8,348</b>	<b>10,177</b>	<b>12,457</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	1,599	1,600	1,600	1,600	1,600
Reserves	67,999	74,362	81,065	89,279	99,614
<b>Net worth</b>	<b>69,597</b>	<b>75,962</b>	<b>82,665</b>	<b>90,879</b>	<b>101,214</b>
Deposits	632,784	686,762	771,270	870,328	1,004,541
Borrowings	20,413	11,891	13,080	14,388	15,827
<b>Total liabilities</b>	<b>746,232</b>	<b>800,437</b>	<b>891,651</b>	<b>1,001,702</b>	<b>1,151,952</b>
Cash and bank	31,241	35,943	37,761	39,854	42,884
Investments	160,185	172,161	188,662	207,454	232,261
Loans	503,635	553,346	620,128	703,853	819,676
Others	13,819	20,884	24,711	29,332	35,004
<b>Total assets</b>	<b>746,232</b>	<b>800,437</b>	<b>891,651</b>	<b>1,001,702</b>	<b>1,151,952</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.5	3.7	3.7	3.8	3.8
Non-ll/avg assets	1.3	1.0	1.0	1.0	1.0
Fee income/avg assets	0.8	0.8	0.8	0.8	0.8
Opex/avg assets	2.8	2.4	2.4	2.4	2.3
Provisions/avg assets	1.1	0.9	0.8	0.8	0.7
PBT/avg assets	0.7	1.2	1.3	1.4	1.5
Tax/avg assets	0.2	0.3	0.3	0.4	0.4
RoA	0.5	0.9	1.0	1.1	1.2
RoAE	5.3	9.3	10.6	11.8	13.1
GNPA (%)	7.8	6.0	5.1	4.3	3.5
NNPA (%)	3.4	2.3	1.8	1.4	1.1

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	4.5	8.4	10.4	12.7	15.6
BVPS	87.1	93.8	102.2	112.6	125.5
ABVPS	71.0	82.0	91.6	103.0	117.2
DPS	0.5	1.6	2.0	2.4	2.6

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	9.9	5.3	4.3	3.5	2.9
P/BV	0.5	0.5	0.4	0.4	0.4
P/ABV	0.6	0.5	0.5	0.4	0.4
P/PPOP	2.8	2.2	2.0	1.7	1.4
Dividend Yield (%)	1.1	3.6	4.5	5.4	5.8

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	0.5	15.1	10.6	13.6	15.3
PPOP	(26.7)	26.2	11.1	14.5	18.5
PAT	52.9	87.4	24.0	21.9	22.4
Loans	9.3	9.9	12.1	13.5	16.5

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
NII	6,126	6,379	6,803	6,872	7,099
NIM(%)	3.5	3.6	3.7	3.7	3.8
PPOP	2,024	4,096	3,738	4,016	4,413
PAT	1,044	1,089	1,655	1,855	2,135
EPS (Rs)	1.31	1.36	2.07	2.32	2.67

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	2.1	2.1	2.1	2.3	2.3
FIIs	21.3	21.1	18.9	15.5	15.4
DIIIs	20.5	20.1	19.7	21.3	21.9
Public and Others	56.1	56.7	59.3	60.9	60.5

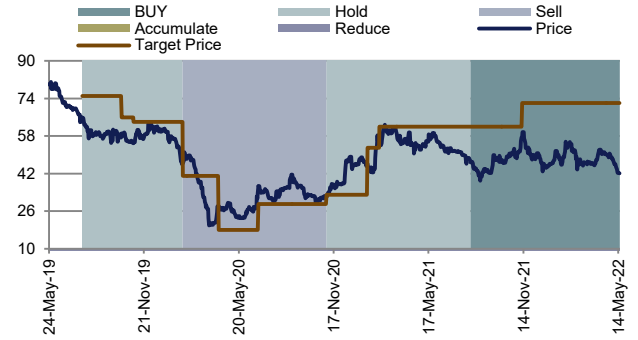
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
1-Feb-22	51	72	12m	Buy	Anand Dama
11-Nov-21	58	72	12m	Buy	Anand Dama
5-Aug-21	47	62	12m	Buy	Anand Dama
1-Jun-21	56	62	12m	Hold	Anand Dama
12-Feb-21	55	62	12m	Hold	Anand Dama
20-Jan-21	46	53	12m	Hold	Anand Dama
3-Nov-20	32	33	12m	Hold	Anand Dama
1-Aug-20	35	29	12m	Sell	Anand Dama
26-Jun-20	37	29	12m	Sell	Anand Dama
11-Apr-20	28	18	12m	Sell	Anand Dama
3-Feb-20	47	41	12m	Sell	Anand Dama
1-Nov-19	55	64	12m	Hold	Anand Dama
9-Oct-19	59	66	12m	Hold	Anand Dama
26-Jul-19	66	75	12m	Hold	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



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**Sector**

Banks

**Analyst bio**

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

**EAP sector portfolio**

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-Banks</b>	<b>19.30</b>	<b>19.30</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>	
Axis Bank	1.91	1.95	2%	4	10.12	0
AU Small Finance Bank	0.31	0.25	-17%	-5	1.32	0
Bandhan Bank	0.23	0.26	15%	4	1.37	0
Bank of Baroda	0.19	0.19	0%	0	1.00	0
Canara Bank	0.11	0.05	-54%	-6	0.27	0
City Union Bank	0.00	0.04	NA	4	0.20	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.18	0.22	21%	4	1.13	0
HDFC Bank	6.08	6.14	1%	7	31.82	0
ICICI Bank	5.17	5.30	3%	13	27.47	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.56	0.66	18%	10	3.44	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.52	2.24	-11%	-27	11.62	0
Punjab National Bank	0.09	0.00	-100%	-9	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.85	1.98	7%	12	10.24	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.05	0.00	-100%	-5	0.00	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>0</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

**Sector portfolio NAV**

	Base					Latest
	1-Apr-19	20-May-21	18-Nov-21	17-Feb-22	20-Apr-22	19-May-22
EAP - BFSI-Banks	100.0	114.3	130.1	128.3	124.0	114.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	111.9	127.7	125.8	121.5	112.0

\*Performance measurement base date 1<sup>st</sup> April 2019

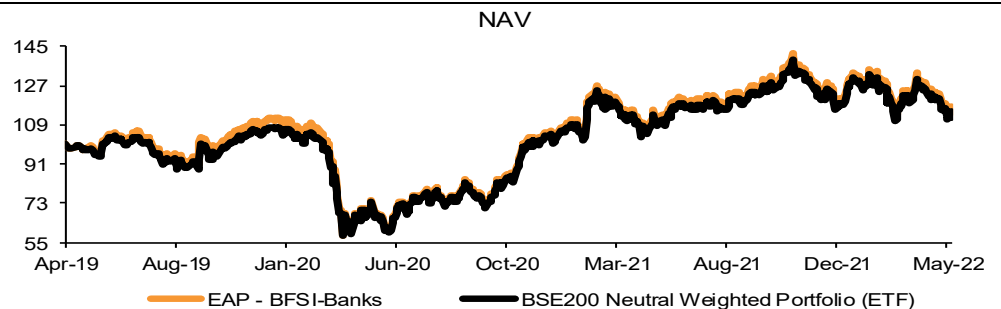
Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - BFSI-Banks	-7.9%	-11.1%	-12.3%	-0.1%
BSE200 Neutral Weighted Portfolio (ETF)	-7.8%	-11.0%	-12.3%	0.1%

Source: Emkay Research

**NAV chart**



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

This report is intended for team.emkay@wikimarcapital.com and is updated on regular intervals. 03/25/2022 03:18 PM



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 May 2022 01:46:01 (SGT)

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