

# Karur Vysya Bank

Refer to important disclosures at the end of this report

## Consistently delivering >1% RoAs; Retain Buy

- KVB reported a strong beat on PAT at Rs2.3bn vs. our estimate of Rs1.9bn, driven by better margins, higher other income and lower provisions. The bank is well on track after the clean-up in FY18-20, with the GNPA ratio trending down to 5.2% in Q1 from the highs seen in Q1FY20 of 9.2%. The RoA has also shown an improving trend and has now remained >1% for the second consecutive quarter.
- Overall credit growth surprised positively at 15% yoy/4% qoq, backed by strong growth in commercial/agri and continued momentum in retail. This, coupled with better investment yields, led to a nearly stable but healthy margins at 2.8%. The bank has guided for continued healthy growth momentum, NIM at 3.75% and lower LLP, which all should lead to a RoA of 1.1% in FY23.
- We raise our FY23/24/25 EPS estimates by 10%/8.0%/8.3% respectively, mainly driven by better growth and lower LLP, while its otherwise higher cost ratios should also see a moderation. We expect the bank to report a steady improvement in its RoA/RoE profile to 1-1.2%/11-14% from sub-1%/10% in the past five years.
- Retain Buy with a revised TP of Rs78 (0.7x Jun'24E ABV). We like KVB in the small-cap space given its steady improvement in RoE profile and management stability, best-in-class capital profile (Tier I >17%) and attractive valuations (0.5x FY24E ABV). The high dividend yield of 4-5% adds to the comfort.

**Growth accelerates as asset-quality stress largely behind:** KVB surprised positively with 15% yoy/4% qoq credit growth, backed by strong growth in the commercial and agri segments. Retail growth was also reasonable at 11% yoy/3%, mainly driven by mortgages, auto and jewel loans. The bank has guided for healthy growth trajectory in FY23 & beyond as its asset-quality issues are largely behind. The demand scenario has also improved post Covid. Additionally, the bank has created a channel (Neo) which will drive its retail asset growth and hence will improve its retail orientation and long-term RoA sustainability. To grow its MSME book, the bank has also entered into co-lending partnerships.

**Lower slippages, strong recovery to reduce NPAs:** Fresh slippages in Q1 at Rs1.4bn (1.1% of loans) were surprisingly low among the last 25 quarters, mainly due to the lower stress in the corporate book. This, coupled with higher recoveries and w-offs, led to a 75bps qoq reduction in the GNPA ratio to 5.2%. The restructured pool declined qoq to 2.6% of loans from 3% in Q4FY22. The bank has guided for net negative slippages in FY23, which, coupled with a healthy provision cover (~65%), should keep incremental credit costs in check.

**Outlook and valuations:** We expect the bank to report a steady improvement in its RoA/RoE profile to 1-1.2%/11-14%, recovering from sub-1%/10% in the past five years. Retain Buy on KVB with a revised TP of Rs78, valuing the bank at 0.7x Jun'24E ABV. We like KVB in the small-cap space given its steady improvement in RoE profile and management stability, best-in-class capital profile (Tier I >17%) and attractive valuations (0.5x FY24E ABV). The high dividend yield of 4-5% adds to the comfort. The key risks to our call/estimates include higher NPA formation, mainly in the SME portfolio, and a slowdown in credit growth due to macro developments.

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	32,783	34,844	39,469	44,894	52,028
Net profit	3,594	6,733	9,149	10,978	13,513
EPS (Rs)	4.5	8.4	11.4	13.7	16.9
ABV (Rs)	71.0	83.2	94.8	107.1	122.5
RoA (%)	0.5	0.9	1.1	1.1	1.2
RoE (%)	5.3	9.3	11.5	12.5	13.7
PE (x)	12.3	6.6	4.8	4.0	3.3
P/ABV	0.8	0.7	0.6	0.5	0.4

Source: Company, Emkay Research

CMP	Target Price
Rs 55 as of (July 25, 2022)	Rs 78 (▲) 12 months
Rating	Upside
BUY (■)	40.9 %

### Change in Estimates

EPS Chg FY23E/FY24E (%)	10.0/8.0
Target Price change (%)	8.3
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	11.4	13.7
Consensus	10.5	12.8
Mean Consensus TP (12M)	Rs 74	

### 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)	44 / 0.55
Daily Avg Volume (nos.)	2,969,913
Daily Avg Turnover (US\$ mn)	1.7

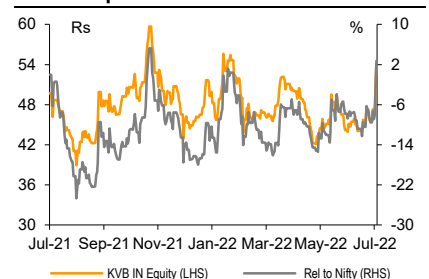
### Shareholding Pattern Mar '22

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

### Price Performance

(%)	1M	3M	6M	12M
Absolute	22	13	21	11
Rel. to Nifty	15	15	26	6

### Relative price chart



Source: Bloomberg

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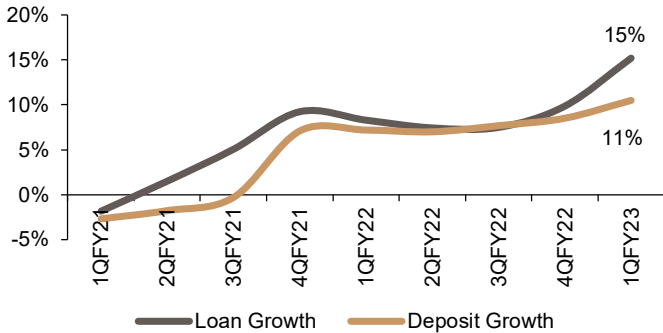
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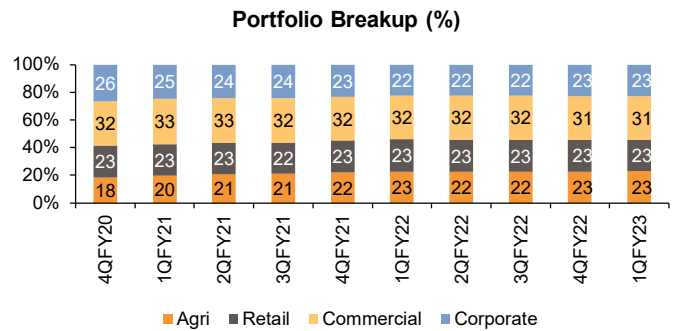
# Story in Charts

**Exhibit 1: Credit growth improved on growth in commercial and agri books**



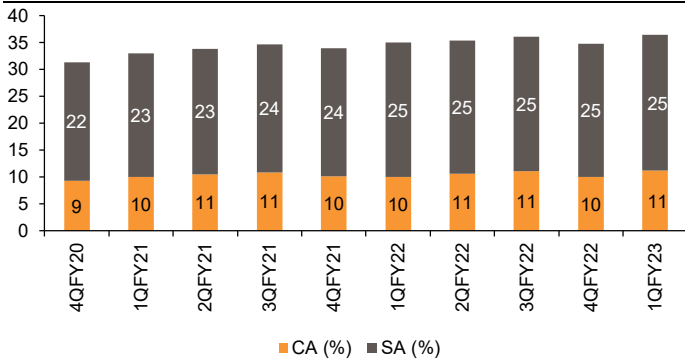
Source: Company, Emkay Research

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



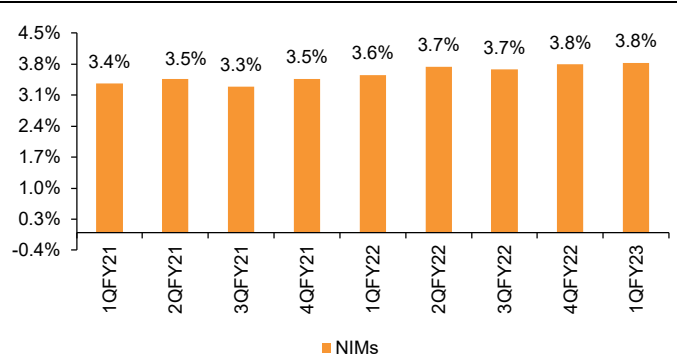
Source: Company, Emkay Research

**Exhibit 3: CASA ratio improved marginally due to pick up in CA deposits**



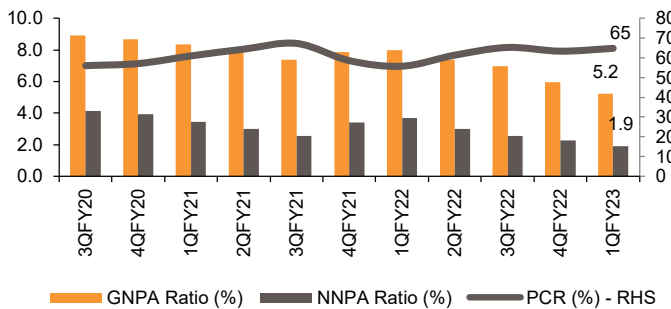
Source: Company, Emkay Research

**Exhibit 4: Better LDR and higher yield on investments led to nearly stable margins**



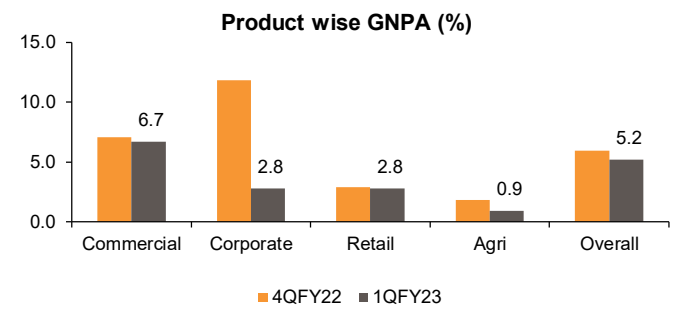
Source: Company, Emkay Research

**Exhibit 5: Lower slippages, coupled with higher recoveries/w-offs, led to steady improvement in GNPA ratio**



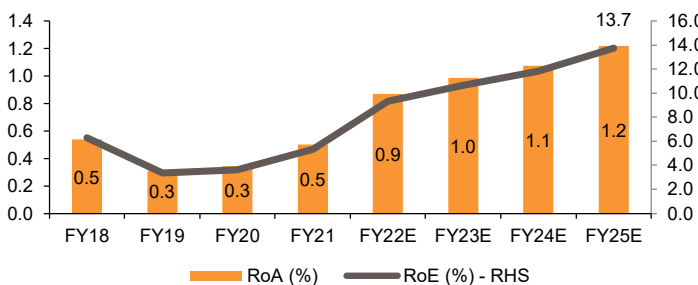
Source: Company, Emkay Research

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



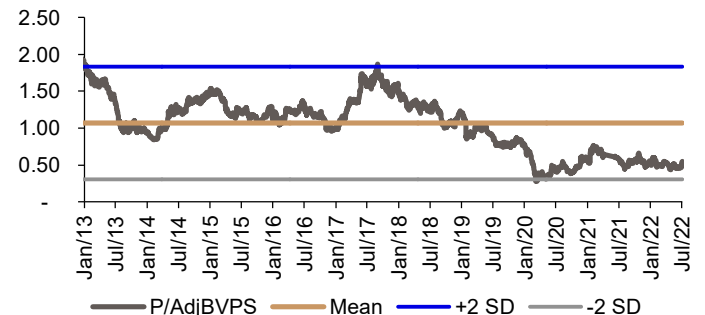
Source: Company, Emkay Research

**Exhibit 7: We expect steady improvement in return ratios led by better growth and lower LLP**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 0.5x one-year forward ABV, near trough valuations**



Source: Bloomberg, Emkay Research

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**Exhibit 9: Actual vs. Estimates (Q1FY23)**

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	9,450	9,008	9,290	5%	2%	Better margins and higher other income led to beat
PPOP	4,755	4,364	4,646	9%	2%	Higher net income and in-line opex led to beat
PAT	2,288	1,874	2,096	22%	9%	Higher PPOP and Contained LLP leads to a beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

Rs (mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	13,759	13,980	14,045	14,093	14,735	7	5	55,877	63,456	14
Interest Exp	7,380	7,176	7,173	6,993	7,277	-1	4	28,723	32,189	12
Net Interest Income	6,379	6,803	6,872	7,099	7,459	17	5	27,154	31,267	15
Global NIMs (reported)	3.55	3.74	3.68	3.79	3.82	27bps	3bps	3.69	3.85	16bps
Non-interest Income	2,010	1,631	1,956	2,055	1,991	-1	-3	7,691	8,202	7
Operating Expenses	4,293	4,696	4,813	4,741	4,695	9	-1	18,542	20,375	10
Pre Provisioning Profit	4,096	3,738	4,016	4,413	4,755	16	8	16,302	19,094	17
Provision & Contingencies	2,450	1,642	1,461	1,401	1,546	-37	10	6,993	6,868	-2
PBT	1,646	2,097	2,555	3,012	3,208	95	7	9,309	12,226	31
Income Tax Expense (Gain)	557	442	700	877	921	65	5	2,577	3,077	19
Net Profit/(Loss)	1,089	1,655	1,855	2,135	2,288	110	7	6,733	9,149	36
Gross NPA (%)	7.97	7.38	6.97	5.96	5.21	-276bps	-75bps	5.97	4.53	-144bps
Net NPA (%)	3.69	2.99	2.55	2.28	1.91	-178bps	-37bps	2.28	1.63	-64bps
Deposits (Rs in bn)	644	654	669	687	712	11	4	687	776	13
Net Advances (Rs in bn)	500	514	532	553	576	15	4	553	631	14

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	38,219	39,469	3.3%	43,199	44,894	3.9%	49,719	52,028	4.6%
PPOP	18,108	19,094	5.4%	20,730	22,114	6.7%	24,563	26,506	7.9%
PAT	8,348	9,149	9.6%	10,177	10,978	7.9%	12,457	13,513	8.5%
EPS (Rs)	10.4	11.4	10.0%	12.7	13.7	8.0%	15.6	16.9	8.3%
BV (Rs)	102.2	104.4	2.1%	112.6	115.7	2.8%	125.5	130.0	3.6%

Source: Company, Emkay Research

**Exhibit 12: Key Assumptions**

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	9.9	14.0	15.5	17.4
Deposit Growth %	8.5	13.0	13.5	16.1
NIM %	3.7	3.9	3.9	3.9
GNPA %	6.0	4.5	3.7	3.0
Credit Cost %	1.3	1.1	1.1	1.0

Source: Company, Emkay Research

**Exhibit 13: Key ratios and trends**

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Loans Rs mn	461,310	478,218	495,120	503,635	499,620	513,813	532,270	553,346	575,590
Growth YoY %	(1.8)	1.5	5.1	9.3	8.3	7.4	7.5	9.9	15.2
Growth QoQ %	0.1	3.7	3.5	1.7	(0.8)	2.8	3.6	4.0	4.0
<b>Liability Profile &amp; Margins</b>									
Deposits (Rs mn)	600,650	611,224	620,900	632,784	643,980	654,101	668,710	686,762	711,680
Growth YoY %	(2.7)	(1.8)	(0.3)	7.1	7.2	7.0	7.7	8.5	10.5
Growth QoQ %	1.7	1.8	1.6	1.9	1.8	1.6	2.2	2.7	3.6
CASA %	33.0	33.9	34.6	34.2	35.0	35.4	36.1	34.8	36.4
CA %	10.0	10.6	10.9	10.2	10.0	10.7	11.1	10.1	11.2
SA %	23.0	23.3	23.8	24.0	25.0	24.8	25.0	24.7	25.2
Branches	779	780	780	780	781	781	781	789	789
NIM	3.36	3.47	3.29	3.46	3.55	3.74	3.68	3.79	3.82
<b>Asset Quality</b>									
GNPA	8.3	7.9	7.4	7.9	8.0	7.4	7.0	6.0	5.2
NNPA	3.4	3.0	2.6	3.4	3.7	3.0	2.6	2.3	1.9
PCR	60.9	64.3	67.1	58.5	55.7	61.3	65.1	63.3	64.7
<b>Capital Adequacy</b>									
CRAR %	18.1	18.4	18.5	19.0	19.1	18.8	18.8	19.5	19.2
Tier I %	16.1	16.4	16.5	17.0	17.0	16.8	16.8	17.5	17.3
<b>ROE Decomposition %</b>									
NII	3.3	3.5	3.2	3.3	3.4	3.6	3.6	3.6	3.6
Other Income	0.8	0.9	1.1	0.9	1.1	0.9	1.0	1.0	1.0
Opex	2.4	2.5	3.2	3.1	2.3	2.5	2.5	2.4	2.3
PPOP	2.8	2.6	1.4	1.1	2.2	2.0	2.1	2.2	2.3
Provisioning Cost	2.0	1.6	1.1	0.1	1.3	0.9	0.8	0.7	0.8
PBT	0.8	0.9	0.3	1.0	0.9	1.1	1.3	1.5	1.6
ROA	0.6	0.7	0.2	0.6	0.6	0.9	1.0	1.1	1.1
ROE	6.3	6.8	2.0	6.0	6.2	9.3	10.2	11.4	11.9

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>23,595</b>	<b>27,154</b>	<b>31,267</b>	<b>35,772</b>	<b>41,605</b>
<b>Other income</b>	<b>9,188</b>	<b>7,691</b>	<b>8,202</b>	<b>9,121</b>	<b>10,423</b>
Fee income	5,482	6,340	6,974	7,811	8,982
<b>Net income</b>	<b>32,783</b>	<b>34,844</b>	<b>39,469</b>	<b>44,894</b>	<b>52,028</b>
Operating expenses	19,868	18,542	20,375	22,780	25,522
<b>Pre provision profit</b>	<b>12,915</b>	<b>16,302</b>	<b>19,094</b>	<b>22,114</b>	<b>26,506</b>
<b>PPP excl treasury</b>	<b>10,746</b>	<b>16,804</b>	<b>18,597</b>	<b>21,617</b>	<b>25,984</b>
Provisions	7,571	6,993	6,868	7,444	8,447
<b>Profit before tax</b>	<b>5,344</b>	<b>9,309</b>	<b>12,226</b>	<b>14,670</b>	<b>18,059</b>
Tax	1,750	2,577	3,077	3,693	4,545
Tax rate	33	28	25	25	25
<b>Profit after tax</b>	<b>3,594</b>	<b>6,733</b>	<b>9,149</b>	<b>10,978</b>	<b>13,513</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	81,911	90,969	102,402
<b>Net worth</b>	<b>69,598</b>	<b>75,962</b>	<b>83,511</b>	<b>92,569</b>	<b>104,002</b>
Deposits	632,784	686,762	775,752	880,586	1,022,361
Borrowings	20,413	8,521	13,080	14,388	15,827
<b>Total liabilities</b>	<b>746,233</b>	<b>800,437</b>	<b>903,405</b>	<b>1,029,121</b>	<b>1,192,392</b>
Cash and bank	31,241	35,943	38,052	40,469	43,864
Investments	160,189	172,161	189,559	209,454	235,646
Loans	503,635	553,346	630,671	728,604	855,662
Others	13,814	20,884	24,735	29,384	35,093
<b>Total assets</b>	<b>746,232</b>	<b>800,437</b>	<b>903,405</b>	<b>1,029,121</b>	<b>1,192,392</b>

**Key Ratios (%)**

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	3.5	3.7	3.9	3.9	3.9
Non-ll/avg assets	1.3	1.0	1.0	0.9	0.9
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	0.8
PBT/avg assets	0.7	1.2	1.4	1.5	1.6
Tax/avg assets	0.2	0.3	0.4	0.4	0.4
RoA	0.5	0.9	1.1	1.1	1.2
RoAE	5.3	9.3	11.5	12.5	13.7
GNPA (%)	7.8	6.0	4.5	3.7	3.0
NNPA (%)	3.4	2.3	1.6	1.3	0.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	4.5	8.4	11.4	13.7	16.9
BVPS	87.1	95.0	104.4	115.7	130.0
ABVPS	71.0	83.2	94.8	107.1	122.5
DPS	0.5	1.6	2.0	2.4	2.6

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	12.3	6.6	4.8	4.0	3.3
P/BV	0.8	0.7	0.6	0.5	0.5
P/ABV	0.8	0.7	0.6	0.5	0.4
P/PPOP	3.4	2.7	2.3	2.0	1.7
Dividend Yield (%)	0.9	2.9	3.6	4.3	4.7

Source: Company, Emkay Research

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<b>Growth (%)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
NII	0.5	15.1	15.1	14.4	16.3
PPOP	(26.7)	26.2	17.1	15.8	19.9
PAT	52.9	87.3	35.9	20.0	23.1
Loans	9.3	9.9	14.0	15.5	17.4

<b>Quarterly (Rs mn)</b>	<b>Q1FY22</b>	<b>Q2FY22</b>	<b>Q3FY22</b>	<b>Q4FY22</b>	<b>Q1FY23</b>
NII	6,379	6,803	6,872	7,099	7,459
NIM(%)	3.6	3.7	3.7	3.8	-
PPOP	4,096	3,738	4,016	4,413	4,755
PAT	1,089	1,655	1,855	2,135	2,288
EPS (Rs)	1.36	2.07	2.32	2.67	2.86

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>	<b>Dec-21</b>	<b>Mar-22</b>
Promoters	2.1	2.1	2.1	2.3	2.3
FIIIs	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

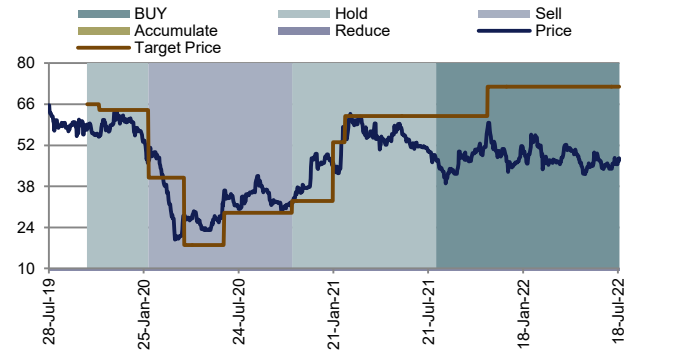
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-May-22	45	72	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



**Analyst: Anand Dama**

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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>20.07</b>	<b>20.03</b>	<b>-0.2%</b>	<b>-4</b>	<b>100.00</b>	
Axis Bank	2.02	2.06	2%	4	10.29	39
AU Small Finance Bank	0.27	0.22	-19%	-5	1.08	-14
Bandhan Bank	0.20	0.20	0%	0	0.98	-1
Bank of Baroda	0.22	0.22	0%	0	1.09	9
Canara Bank	0.13	0.13	0%	0	0.65	9
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	0.22	0.22	0%	0	1.08	8
HDFC Bank	6.19	6.25	1%	6	31.14	-186
ICICI Bank	5.64	5.76	2%	12	28.68	94
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.58	0.66	14%	8	3.28	24
Karur Vysya Bank	0.00	0.06	NA	6	0.32	0
Kotak Mahindra Bank	2.42	2.09	-14%	-34	10.40	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.00	2.12	6%	12	10.55	15
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	0.01	-82%	-4	0.04	4
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.0</b>	<b>-24</b>

Source: Emkay Research

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

**Sector portfolio NAV**

	Base 1-Apr-19	20-Jul-21	21-Jan-22	22-Apr-22	22-Jun-22	Latest 22-Jul-22
EAP - BFSI-Banks	100.0	117.6	129.6	123.1	113.4	126.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.1	127.0	120.7	111.2	123.8

\*Performance measurement base date 1st April 2019

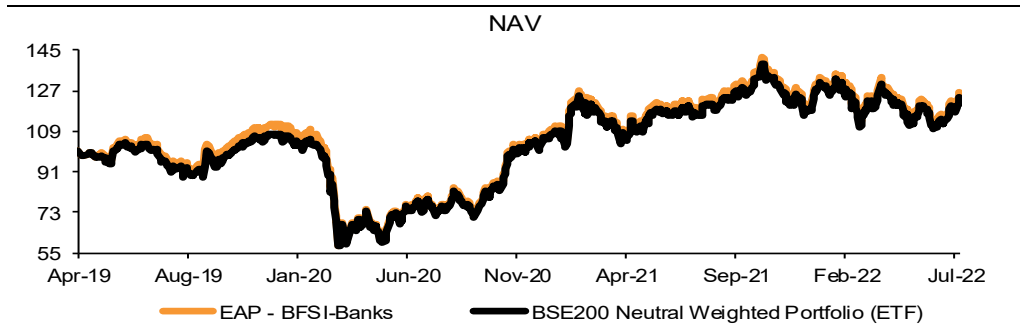
Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - BFSI-Banks	11.6%	2.7%	-2.4%	7.6%
BSE200 Neutral Weighted Portfolio (ETF)	11.4%	2.6%	-2.5%	7.6%

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”

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

Completed Date: 26 Jul 2022 09:33:38 (SGT)

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