

Karur Vysya Bank

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Better growth, asset quality to drive up RoAs

Business Update – Q2FY23

- KVB reported further improvement in growth trajectory – gross credit growth at 15.9% YoY/5% QoQ (multi-quarter high) vs. 14% YoY/3.5% QoQ in 1Q. We believe the growth is mainly driven by the retail and agri segments, with some pick up in corporate credit as well. Within retail, we believe growth was led by mortgages, agri gold and CV loans. KVB had increased its growth guidance to 15% from 13% for FY23 which is a more realistic target; and, if the momentum accelerates, bank could even overshoot this mark.
- Deposit growth, too, was healthy, at 12.5% YoY, while CASA ratio was largely stable at 35%. However, better credit growth led to improvement in LDR to 82% vs 81% in Q1. Thus, we expect the bank's already strong margins to further inch up, thereby supporting core profitability.
- We expect NPAs for KVB to trend down in the current quarter (in line with most banks'), led by controlled slippages and better collection trends. The bank expects slippage ratio to be contained at 1-1.5% in FY23 which, coupled with healthy PCR of 65%, should lead to moderation in LLP, thus driving up RoA beyond 1% on a sustainable basis.
- Outlook:** With asset quality stress and concerns around management stability/credibility now largely behind, we believe KVB is on course to regain its mojo (led by accelerated growth) and reclaim the >1% RoA. KVB, traditionally has had a higher CI ratio (at 53-60%), mainly due to higher operational spend, including staff cost, which we believe will gradually moderate to <50% due to improved income and a steady decline in staff cost. This, coupled with the best capital position (Tier I at >17%) among peers and attractive valuations (0.7x FY24E ABV), despite the recent run-up, makes KVB the most attractive pick among small-cap banks. We retain BUY on the stock with TP of Rs95, valuing the bank at 0.8x Sep-24ABV; better than expected delivery on growth/asset quality could further drive up valuations.

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

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	32,783	34,844	39,775	46,195	53,863
Net profit	3,594	6,733	9,501	11,534	14,004
EPS (Rs)	4.5	8.4	11.9	14.4	17.5
ABV (Rs)	71.0	83.2	95.2	108.5	124.3
RoA (%)	0.5	0.9	1.1	1.2	1.2
RoE (%)	5.3	9.3	11.9	13.0	14.1
P/E (x)	18.1	9.7	6.8	5.6	4.6
P/ABV	1.0	0.9	0.8	0.7	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 81 as of (October 3, 2022)	Rs 95 (■) 12 months
Rating	Upside
BUY (■)	16.9 %

Change in Estimates

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

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	11.9	14.4
Consensus	11.4	14.0
Mean Consensus TP (12M)	Rs 88	

Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	102 / 42
M Cap (Rs bn/USD bn)	65 / 0.80
Daily Avg Volume (nos.)	76,64,579
Daily Avg Turnover (USD mn)	6.5

Shareholding Pattern Jun '22

Promoters	2.3%
FIIIs	15.4%
DIIIs	22.8%
Public and Others	59.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	81	75	70
Rel. to Nifty	23	67	79	75

Relative price chart



Source: Bloomberg

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Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	23,595	27,154	31,587	36,495	42,212
Other income	9,188	7,691	8,188	9,700	11,651
Fee income	5,482	6,340	7,100	8,095	9,309
Net income	32,783	34,844	39,775	46,195	53,863
Operating expenses	19,868	18,542	20,375	23,176	26,598
Pre provision profit	12,915	16,302	19,399	23,019	27,266
PPP excl treasury	10,746	16,804	20,152	23,396	27,077
Provisions	7,571	6,993	6,702	7,605	8,551
Profit before tax	5,344	9,309	12,697	15,414	18,714
Tax	1,750	2,577	3,196	3,880	4,710
Tax rate (%)	33	28	25	25	25
Profit after tax	3,594	6,733	9,501	11,534	14,004

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	82,263	91,878	1,03,801
Net worth	69,598	75,962	83,863	93,478	1,05,401
Deposits	6,32,784	6,86,762	7,60,219	8,78,401	10,42,655
Borrowings	20,413	8,521	13,080	15,042	17,298
Total liabilities	7,46,233	8,00,437	9,04,986	10,41,661	12,24,722
Cash and bank	31,241	35,943	37,043	40,377	45,061
Investments	1,60,189	1,72,161	1,86,452	2,09,155	2,39,782
Loans	5,03,635	5,53,346	6,36,450	7,41,543	8,82,552
Others	13,814	20,884	24,654	29,376	35,200
Total assets	7,46,232	8,00,437	9,04,986	10,41,661	12,24,722

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	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	0.8
PBT/avg assets	0.7	1.2	1.5	1.6	1.7
Tax/avg assets	0.2	0.3	0.4	0.4	0.4
RoA	0.5	0.9	1.1	1.2	1.2
RoAE	5.3	9.3	11.9	13.0	14.1
GNPA	7.8	6.0	4.5	3.7	2.9
NNPA	3.4	2.3	1.6	1.2	0.9

Per-share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	4.5	8.4	11.9	14.4	17.5
BVPS	87.1	95.0	104.8	116.8	131.7
ABVPS	71.0	83.2	95.2	108.5	124.3
DPS	0.5	1.6	2.0	2.4	2.6

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	18.1	9.7	6.8	5.6	4.6
P/BV	1.1	1.0	0.9	0.7	0.7
P/ABV	1.0	0.9	0.8	0.7	0.6
P/PPOP	4.5	3.5	3.0	2.5	2.1
Dividend Yield (%)	0.6	2.0	2.5	3.0	3.2

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	0.5	15.1	16.3	15.5	15.7
PPOP	(26.7)	26.2	19.0	18.7	18.4
PAT	52.9	87.3	41.1	21.4	21.4
Loans	9.3	9.9	15.0	16.5	19.0

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	6,379	6,803	6,872	7,099	7,459
NIM (%)	3.6	3.7	3.7	3.8	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

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	2.1	2.1	2.3	2.3	2.3
FIIIs	21.1	18.9	15.5	15.4	15.4
DIIIs	20.1	19.7	21.3	21.9	22.8
Public and Others	56.7	59.3	60.9	60.5	59.5

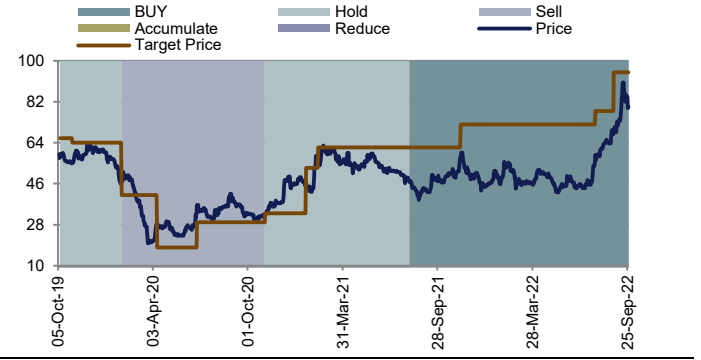
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period (months)	Rating	Analyst
30-Aug-22	69	95	12	Buy	Anand Dama
26-Jul-22	59	78	12	Buy	Anand Dama
22-May-22	45	72	12	Buy	Anand Dama
01-Feb-22	51	72	12	Buy	Anand Dama
11-Nov-21	58	72	12	Buy	Anand Dama
05-Aug-21	47	62	12	Buy	Anand Dama
01-Jun-21	56	62	12	Hold	Anand Dama
12-Feb-21	55	62	12	Hold	Anand Dama
20-Jan-21	46	53	12	Hold	Anand Dama
03-Nov-20	32	33	12	Hold	Anand Dama
01-Aug-20	35	29	12	Sell	Anand Dama
26-Jun-20	37	29	12	Sell	Anand Dama
11-Apr-20	28	18	12	Sell	Anand Dama
03-Feb-20	47	41	12	Sell	Anand Dama
01-Nov-19	55	64	12	Hold	Anand Dama
09-Oct-19	59	66	12	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

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

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