

21 October 2022

Karur Vysya Bank

Strong quarter, earnings to remain strong; maintaining a Buy

KVB's Q2 FY23 profitability improved, its RoA coming at 1.16% (up 30bps y/y) on account of a good operating performance. Key positives for the quarter were 1) moderating slippages, 2) pick-up in credit growth (many-year high), 3) better margins and 4) strong liquidity and capitalisation. With credit growth expected to be in the mid-teens and moderating credit costs, earnings are expected to be strong. We retain our Buy rating, with a TP of Rs115, valuing the stock at 0.9x P/ABV on the FY25e book.

Slippages further moderate. GNPA and NNPA improved respectively 124bps and 55bps sequentially on account of lower slippages and strong recoveries. Slippages for the quarter were Rs1.3bn (0.87% of loans), a many-year low (barring the moratorium period). PCR (incl. w/o) sequentially improved 420bps to 86.9%. The standard restructured book was Rs12.3bn (down 19% q/q) constituting 2% of loans. Surprisingly, the overall SMA 30+ for the bank was Rs4.1bn (0.7% of loans), the lowest of its peers. With most of the stress already delinquent/restructured and collections reaching pre-Covid levels, net slippages are expected to be negative in the near term. We estimate the bank's FY23 GNPA/NNPA at 3.8%/1.3%.

RoA to remain above 1%. With a pick-up in business growth and a moderating slippage run-rate, medium term credit costs are expected to be soft. Higher business growth combined with benign credit costs would lead to strong profitability in the medium term. We estimate a 1.1% RoA in FY23.

Valuation. Our Oct'23 target of Rs115 is based on the two-stage DDM model. This implies ~0.9x P/ABV multiples on its FY25e book. **Risks:** Lumpy slippages from the corporate book; stress in the SME book.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Net interest income (Rs m)	23,595	27,154	31,907	37,099	43,282
Pre-provisioning profit (Rs m)	12,915	16,302	21,116	25,589	30,171
Provisions (Rs m)	7,571	6,993	8,811	9,795	10,868
PAT (Rs m)	3,594	6,733	9,204	11,814	14,438
EPS (Rs)	4.5	8.4	11.5	14.8	18.0
NIM (%)	3.5	3.7	3.9	3.9	3.9
Cost-income (%)	60.6	53.2	48.4	46.8	45.9
RoE (%)	5.3	9.3	11.6	13.4	14.7
RoA (%)	0.5	0.9	1.1	1.2	1.3
Advances growth (%)	9.3	9.9	16.0	16.0	16.0
GNPA (%)	7.9	6.0	3.8	3.0	2.3
CAR (%)	19.0	19.5	18.0	17.1	16.3
P/E (x)	20.2	10.8	7.9	6.1	5.0
P/BV (x)	1.0	1.0	0.9	0.8	0.7
P/ABV (x)	1.3	1.1	0.9	0.8	0.7

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs.115

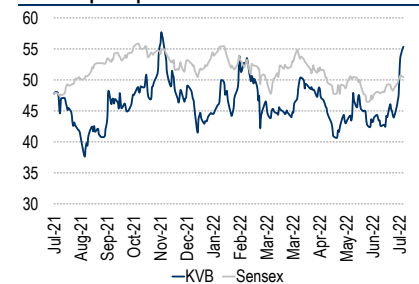
Share Price: Rs.91

Key data	KVB IN / KARU.BO
52-week high / low	Rs.61 / 38
Sensex / Nifty	55766 / 16631
3-m average volume	\$1.7m
Market cap	Rs.44bn / \$554.8m
Shares outstanding	799m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	2.3	2.3	2.3
- of which, Pledged	8.2	8.2	7.5
Free float	97.7	97.7	97.7
- Foreign institutions	15.4	15.4	15.5
- Domestic institutions	22.8	21.9	21.3
- Public	59.5	60.5	61.0

Estimates revision (%)	FY23e	FY24e
NII	2.5	2.4
PPOP	4.4	2.9
PAT	7.1	4.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net interest income	23,595	27,154	31,907	37,099	43,282
<i>NII growth (%)</i>	0.5	15.1	17.5	16.3	16.7
Non-interest income	9,188	7,691	9,011	10,961	12,473
Income	32,784	34,844	40,918	48,060	55,754
<i>Income growth (%)</i>	-6.4	6.3	17.4	17.5	16.0
Operating expenses	19,868	18,542	19,802	22,471	25,584
PPOP	12,915	16,302	21,116	25,589	30,171
<i>PPOP growth (%)</i>	-26.7	26.2	29.5	21.2	17.9
Provisions	7,571	6,993	8,811	9,795	10,868
PBT	5,344	9,309	12,304	15,794	19,302
Tax	1,750	2,577	3,101	3,980	4,864
PAT	3,594	6,733	9,204	11,814	14,438
<i>PAT growth (%)</i>	52.9	87.3	36.7	28.4	22.2
FDEPS (Rs / sh)	4.5	8.4	11.5	14.8	18.0
DPS (Rs / sh)	0.5	1.6	2.3	3.0	3.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	1,599	1,600	1,601	1,601	1,601
Reserves & surplus	67,999	74,362	81,725	91,176	102,726
Deposits	632,784	686,762	789,776	908,242	1,044,479
Borrowings	25,283	13,391	14,998	17,397	20,181
Minority interests	0	0	0	0	0
Total liabilities	746,236	800,443	912,783	1,045,379	1,197,817
Advances	503,635	553,346	641,882	744,583	863,716
Investments	160,189	172,161	196,263	219,815	246,192
Cash & bank balance	35,141	35,943	39,177	42,703	46,547
Fixed & other assets	5,391	4,785	4,881	5,125	5,381
Total assets	746,232	800,437	912,783	1,045,379	1,197,817
No. of shares (m)	799	800	800	800	800
<i>Deposits growth (%)</i>	7.1	8.5	15.0	15.0	15.0
<i>Advances growth (%)</i>	9.3	9.9	16.0	16.0	16.0

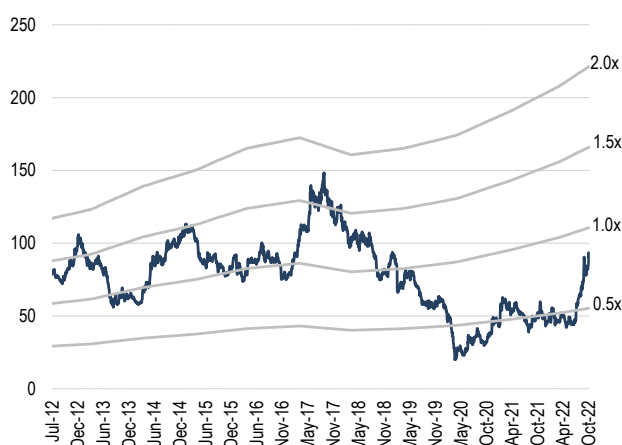
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis %

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
NIM	3.5	3.7	3.9	3.9	3.9
Other inc. / total inc.	28.0	22.1	22.0	22.8	22.4
Cost-income	60.6	53.2	48.4	46.8	45.9
Provision coverage	58.5	63.3	66.6	68.0	70.0
Dividend payout	11.1	19.0	20.0	20.0	20.0
Credit-deposit	79.6	80.6	81.3	82.0	82.7
Investment-deposit	25.3	25.1	24.9	24.2	23.6
Gross NPA	7.9	6.0	3.8	3.0	2.3
Net NPA	3.4	2.3	1.3	1.0	0.7
BV (Rs)	87.1	95.0	104.2	116.0	130.4
Adj. BV (Rs)	72.0	83.9	96.7	109.4	125.0
CAR	19.0	19.5	18.0	17.1	16.3
- Tier 1	17.0	17.5	16.3	15.6	15.1
RoE	5.3	9.3	11.6	13.4	14.7
RoA	0.5	0.9	1.1	1.2	1.3

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



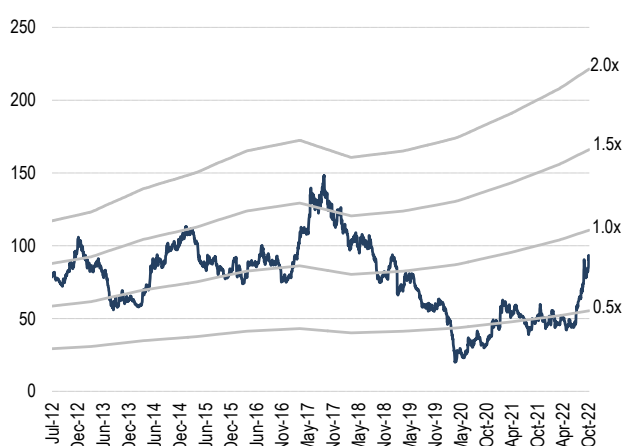
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Fig 7 – Movement of GNPA

GNPA	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Opening balance (Rs m)	40,557	39,984	38,425	41,429	41,675	39,716	38,875	34,310	31,072
Slippages (Rs m)	80	50	9,060	5,190	1,640	2,240	3,000	1,390	1,310
Gross slippage ratio (%)	0.1	0.0	7.2	4.2	1.3	1.7	2.2	1.0	0.9
Reductions (Rs m)	640	1,610	6,060	4,940	3,600	3,080	3,070	4,630	7,810
Closing balance (Rs m)	39,984	38,425	41,429	41,675	39,716	38,875	34,310	31,072	24,565
GNPA (%)	7.9	7.4	7.9	8.0	7.4	7.0	6.0	5.2	4.0
NNPA (%)	3.0	2.6	3.4	3.7	3.0	2.6	2.3	1.9	1.4
Restructured advances (%)	0.4	1.4	1.9	2.1	3.1	3.0	3.0	2.6	2.0
Stressed assets (%)	8.4	8.7	9.8	10.0	10.5	10.0	8.9	7.9	6.0

Source: Company, Anand Rathi Research

Fig 8 – Break-up of advances (%)

	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Corporate	24.0	24.3	23.4	23.0	22.8	22.1	22.8	23.0	22.2
Commercial	32.6	32.2	31.6	31.3	30.5	32.3	31.4	31.3	32.0
Retail	22.5	22.3	23.2	23.3	23.7	23.2	23.0	22.8	22.9
Housing	9.5	9.4	9.5	10.2	9.9	9.7	10.1	10.0	10.0
Auto	1.9	1.9	2.0	1.9	2.0	1.9	1.9	1.9	1.8
Education	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Personal	1.1	1.0	1.0	1.1	0.8	0.7	0.7	0.6	0.6
Jewel	2.4	3.0	3.3	3.4	3.4	3.1	3.3	3.2	3.0
LAP	3.2	3.1	3.1	3.2	3.1	3.0	3.2	3.2	3.4
Other retail	3.9	3.5	4.1	3.2	4.2	4.5	3.6	3.7	4.0
Farm	20.8	21.3	21.8	22.4	22.9	22.3	22.7	22.8	22.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 9 – Income statement

(Rs m)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Interest income	14,562	13,761	13,947	13,503	13,493	13,759	13,980	14,045	14,093	14,735	15,795
Interest expense	8,657	8,143	7,932	7,667	7,367	7,380	7,176	7,173	6,993	7,277	7,581
Nil	5,905	5,618	6,015	5,836	6,126	6,379	6,803	6,872	7,099	7,459	8,214
Y/Y growth %	(4.6)	(3.8)	0.9	1.1	3.7	13.5	13.1	17.8	15.9	16.9	20.7
Non-interest income	3,470	3,171	1,828	2,633	1,691	2,033	1,647	1,956	2,055	1,991	2,416
Trading profits	1,370	1,780	1,200	540	20	350	-	-	-	-	-
Total income	9,375	8,790	7,842	8,469	7,817	8,412	8,450	8,828	9,154	9,450	10,629
Y/Y growth %	5.1	2.9	(10.3)	1.1	(16.6)	(4.3)	7.7	4.2	17.1	12.3	25.8
Operating expenses	4,376	4,051	4,243	5,782	5,793	4,293	4,696	4,813	4,741	4,695	4,906
Of which, staff cost	2,144	2,136	2,206	3,683	3,512	2,274	2,512	2,434	2,232	2,357	2,339
PPOP	4,998	4,739	3,600	2,687	2,024	4,119	3,754	4,016	4,413	4,755	5,723
Y/Y growth %	7.5	6.5	(16.5)	(30.2)	(59.5)	(13.1)	4.3	49.5	118.0	15.4	52.5
Total provisions	4,293	3,376	1,959	2,130	241	2,474	1,657	1,461	1,401	1,547	2,272
PBT	706	1,363	1,640	557	1,783	1,646	2,097	2,555	3,012	3,208	3,451
Tax	(131)	308	491	211	740	557	442	700	877	921	949
PAT	837	1,055	1,149	346	1,044	1,089	1,654	1,855	2,135	2,287	2,502
Y/Y growth %	39.5	44.7	81.4	129.8	24.7	3.2	44.0	435.6	104.5	110.1	51.3

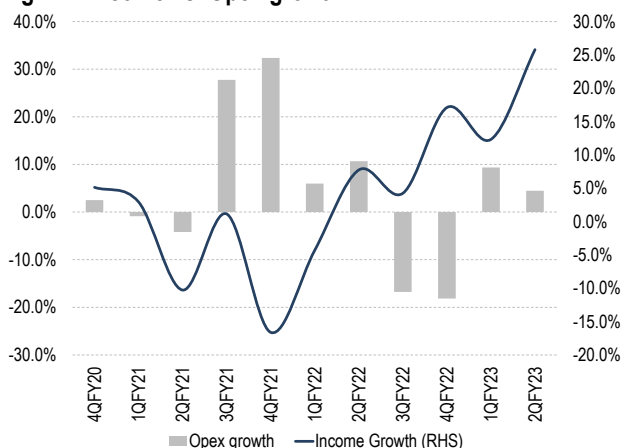
Source: Company, Anand Rathi Research

Fig 10 – Balance sheet

(Rs m)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Equity capital	1,599	1,600	1,599	1,600	1,599	1,600	1,599	1,600	1,600	1,600	1,601
Reserves & Surplus	64,404	65,460	66,608	66,950	67,999	69,090	70,342	72,200	74,362	76,650	77,888
Deposits	590,751	600,650	611,224	620,890	632,784	643,980	654,101	668,710	686,762	711,680	736,141
Borrowings	11,842	10,410	13,827	13,900	25,283	9,870	11,576	12,960	13,391	26,110	22,806
Other Liabilities	14,186	15,680	18,490	22,640	18,567	18,060	21,118	20,650	24,323	22,430	25,214
Total Equity and Liabilities	682,782	693,800	711,747	725,980	746,232	742,600	758,736	776,120	800,437	838,470	863,650
Deposits y/y growth %	(1.3)	(2.7)	(1.8)	(0.3)	7.1	7.2	7.0	7.7	8.5	10.5	12.5
Deposits q/q growth %	(5.1)	1.7	1.8	1.6	1.9	1.8	1.6	2.2	2.7	3.6	3.4
Assets											
Cash and cash balances	27,327	26,300	25,731	26,520	31,241	32,590	33,645	32,780	35,943	42,520	46,906
Advances	460,981	461,310	478,218	495,120	503,635	499,620	513,813	532,270	553,346	575,590	601,614
Investments	157,624	170,330	184,346	163,550	160,189	164,080	163,870	171,470	172,161	183,860	182,947
Other assets	20,251	20,400	21,240	20,270	19,204	19,410	19,560	20,170	20,884	15,210	15,078
Total Assets	682,782	693,800	711,747	725,980	746,232	742,600	758,736	776,120	800,437	838,470	863,650
Advances y/y growth %	(5.1)	(1.8)	1.5	5.1	9.3	8.3	7.4	7.5	9.9	15.2	17.1
Advances q/q growth %	(2.2)	0.1	3.7	3.5	1.7	(0.8)	2.8	3.6	4.0	4.0	4.5

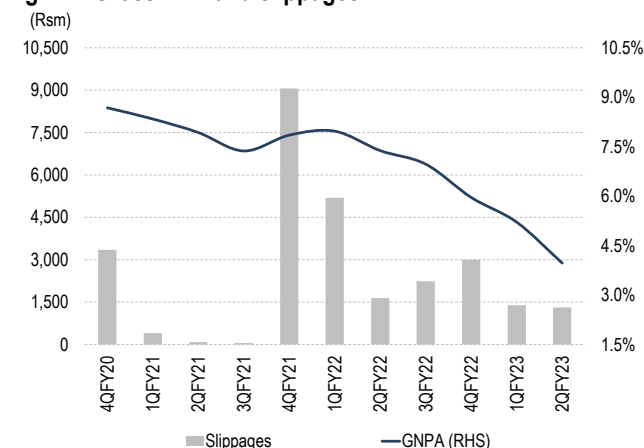
Source: Company, Anand Rathi Research

Fig 11 – Income vs. Opex growth



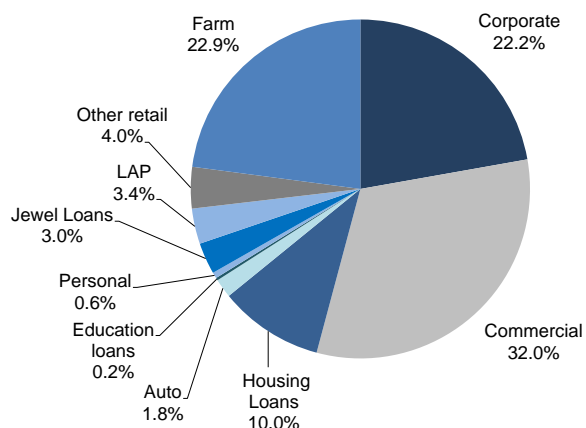
Source: Company, Anand Rathi Research

Fig 12 – Gross NPA and slippages



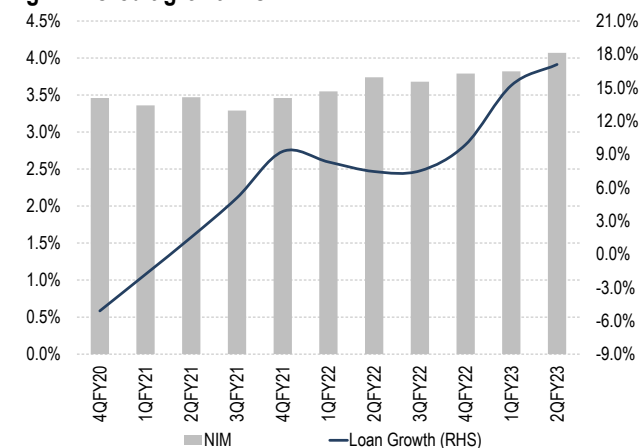
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



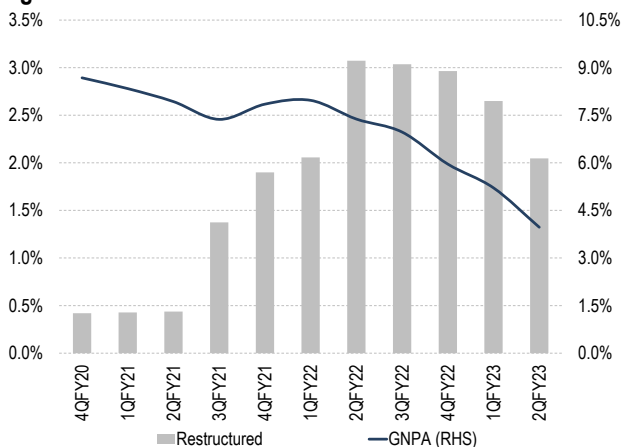
Source: Company, Anand Rathi Research

Fig 14 – Credit growth vs. NIM



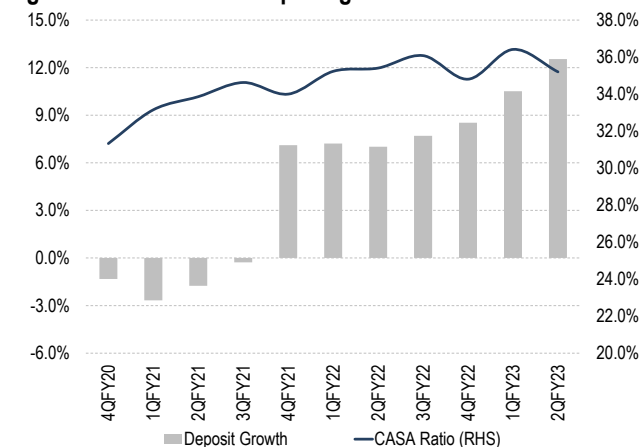
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – CASA ratio vs. Deposit growth



Source: Company, Anand Rathi Research

Valuation

Our Oct'23 target of Rs115 is based on the two-stage DDM model. This implies ~0.9x P/ABV multiples on its FY25e book.

We are positive about the bank's loan-growth potential, largely driven by its retail and commercial books.

Fig 17 – Change in estimates

(Rs m)	FY23e			FY24e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	31,907	31,124	2.5	37,099	36,235	2.4
Pre-provisioning profit	21,116	20,223	4.4	25,589	24,878	2.9
PAT	9,204	8,593	7.1	11,814	11,345	4.1

Source: Anand Rathi Research

Risks

- Higher slippages in future (especially from the corporate portfolio) could lead to volatility in asset quality.
- Stress in the SME book.

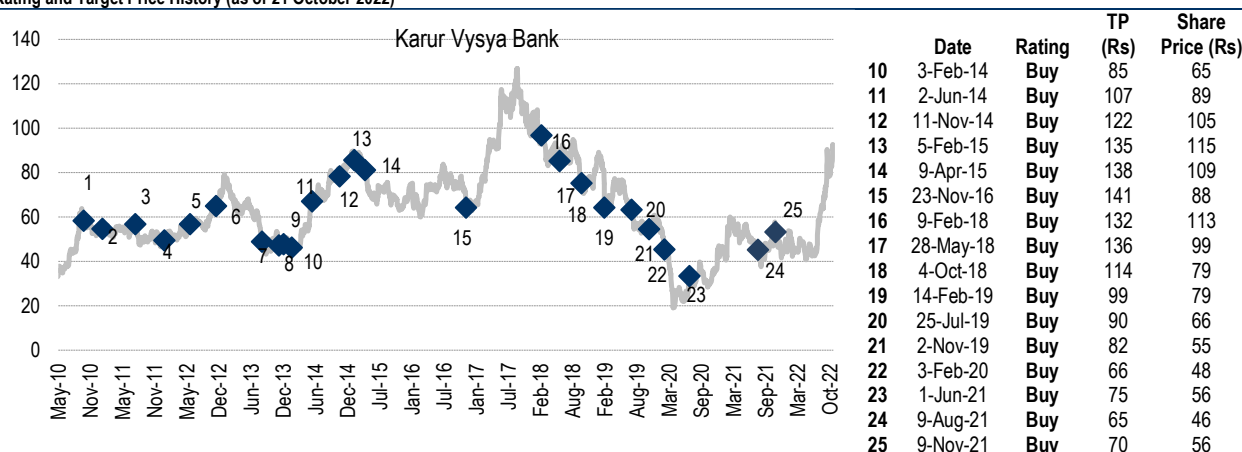
Appendix

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Rating and Target Price History (as of 21 October 2022)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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