

Growth moderates, but delivers superior RoA

BFSI - Banks ▶ Result Update ▶ May 16, 2023

TARGET PRICE (Rs) : 155

Karur Vysya Bank (KVB) posted a strong PAT beat yet again, of 15% at Rs3.4bn (Emkay: Rs2.9bn), boosted by robust & stable margins at 4.4%, higher recovery from written-off accounts, albeit partly offset by higher provisions, incl. restructured loans. Asset quality continues to improve, with NNPA now down to 0.7% from 2.3% a year ago. But gross credit growth was a tad disappointing, at 13% YoY/3% QoQ, and may stay moderate at 14% YoY in FY24E.

Despite tempering our growth estimates and raising our operational cost forecast, we revise FY24E earnings by 7%, building-in the lower LLP. We expect KVB to deliver a healthy RoA/RoE of 1.5-1.4%/15% over FY24-26E. Bank remains our top pick in the small-cap banking space, given its superior return ratios, sturdy capital ratios and Mgmt credibility. We retain BUY with TP of Rs155/sh, valuing the bank at 1.1x Mar-25E ABV (vs 1.2x Dec-24E ABV earlier).

Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	6,733	11,061	14,115	15,986	17,800
Loan growth (%)	8.5	15.5	14.4	15.2	16.0
NII growth (%)	15.1	23.3	9.8	11.2	12.6
NIM (%)	3.7	4.1	4.0	3.9	3.8
PPOP growth (%)	26.2	51.9	6.4	10.1	15.3
Adj. EPS (Rs)	8.4	13.8	17.6	19.9	22.2
Adj. EPS growth (%)	87.2	63.9	27.6	13.3	11.3
Adj. BV (INR)	83.2	102.7	118.7	135.7	154.4
Adj. BVPS growth (%)	17.2	23.5	15.6	14.4	13.8
RoA (%)	0.9	1.3	1.5	1.4	1.4
RoE (%)	9.3	13.7	15.4	15.3	14.9
P/E (x)	11.6	7.1	5.5	4.9	4.4
P/ABV (x)	1.2	0.9	0.8	0.7	0.6

Source: Company, Emkay Research

Growth moderates, but strong margins sustain

Overall gross credit growth was moderate at 13% YoY/3% QoQ (net 16% YoY/2% QoQ), mainly due to de-growth in the corporate book, while growth in agri, SME and retail remained healthy. Retail growth was mainly driven by mortgage/LAP and Gold loan; that said, the bank now targets ramping up its MFI business, for which it has entered into tie ups with BCs (business correspondents). Bank would look to grow its RAM book and, thereby, achieve better margins. Despite increasing cost pressures, KVB delivered strong & stable NIMs at 4.4%, benefiting from the continued asset-book repricing. Bank believes that funding cost will inch up in FY24, which will be partly offset by MCLR book (47%) repricing (25% pending).

NNPA improve below 1% led by lower slippages/higher write-offs

Fresh slippages were in line with our expectations, at Rs2.2bn/1.6% of loans, while slippages in the Corporate/SME verticals were higher. However, better recoveries and accelerated write-offs led to a 39bps QoQ reduction in the GNPA ratio to 2.3% and to NNPA at 0.75%. The restructured book too contracted, to Rs9.8bn/1.5% of loans, from 1.9% in Q3 on which it carries 21% PCR. Bank expects gross slippages of ~1% and net slippages to be negative in FY24 as well; this should lead to further improvement in GNPA ratio. Bank expects LLP to be 0.75%, but we conservatively build-in a higher LLP, at 1%, factoring-in some build-up towards PCR being lower than 70% as well as weakening macro-conditions.

Outlook and Valuations

KVB remains our top pick in the small-cap banking space, given its superior return ratios (RoA/RoE of 1.5-1.4%/15% over FY24-26E), healthy capital ratios and Management credibility. We retain BUY, with TP of Rs155/share, valuing the bank at 1.1x Mar-25E ABV (vs 1.2x Dec-24E ABV earlier). **Key risks:** Slower-than-expected growth, faster decline in CASA leading to cost pressure, and resurgence of NPAs in the retail/SME sector due to macro dislocation.

Target Price – 12M	Mar-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	59.1
CMP (15-May-23) (Rs)	97.4

Stock Data	Ticker
52-week High (Rs)	116
52-week Low (Rs)	42
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	78
Market-cap (USD mn)	946
Net-debt, FY24E (Rs mn)	3,716
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	224.5
ADTV-3M (USD mn)	2.7
Free float (%)	97.0
Nifty-50	18,399
INR/USD	82.3
Shareholding, Mar-23	
Promoters (%)	2.2
FPIs/MFs (%)	17.9/30.8

Price Performance

(%)	1M	3M	12M
Absolute	(2.3)	(6.7)	130.5
Rel. to Nifty	(5.3)	(8.7)	97.7

1-Year share price trend (Rs)



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Heet Khimawat

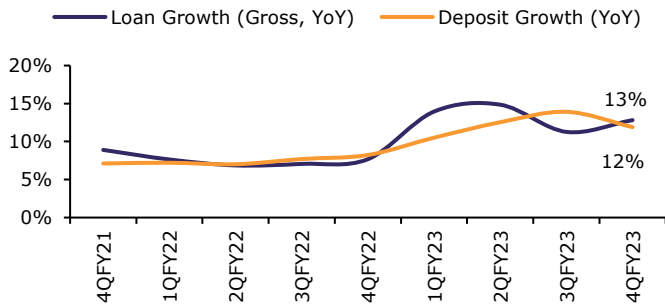
heet.khimawat@emkayglobal.com
+91 22 6612 1275

Dixit Sankharva

dixit.sankharva@emkayglobal.com
+91 22 6612 1281

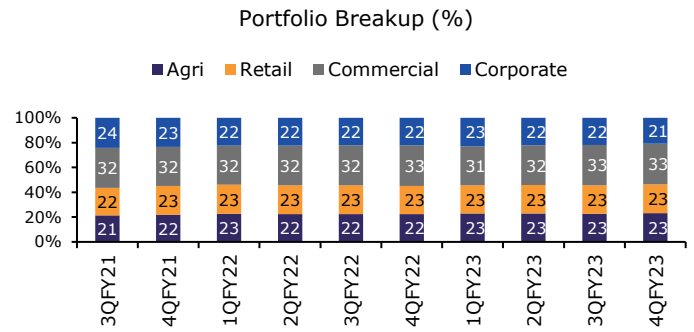
Story in Charts

Exhibit 1: Overall gross credit growth slipped to 13% due to decline in the corporate book



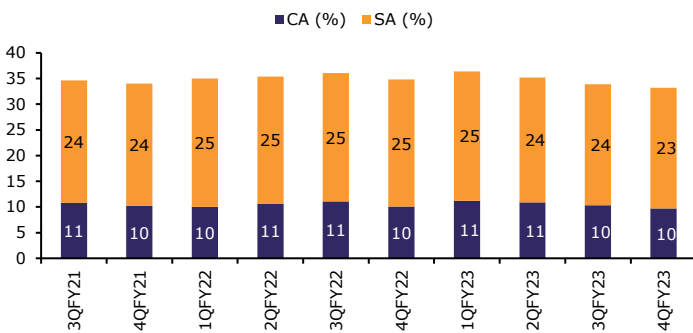
Source: Company, Emkay Research

Exhibit 2: Bank has a relatively well balanced portfolio



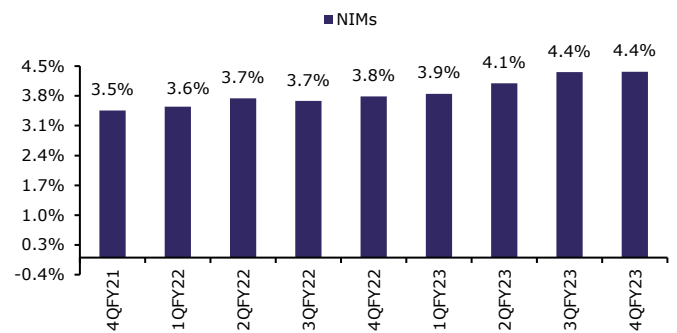
Source: Company, Emkay Research

Exhibit 3: CASA ratio moderated due to de-growth in the CA book



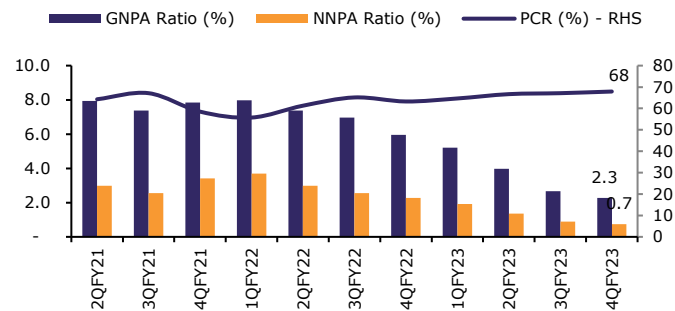
Source: Company, Emkay Research

Exhibit 4: NIMs remained flattish, amid rising cost of funds



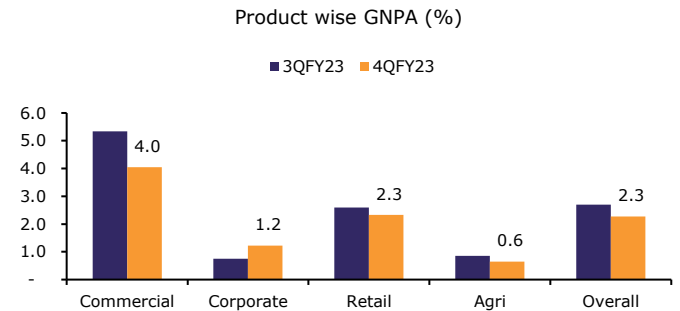
Source: Company, Emkay Research

Exhibit 5: Negative net slippages + higher write-offs led to NNPA falling below 1%



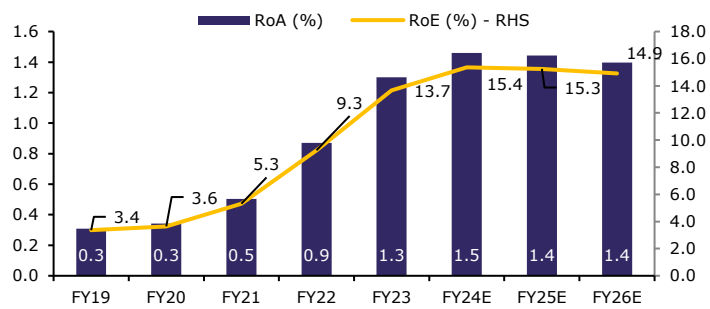
Source: Company, Emkay Research

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



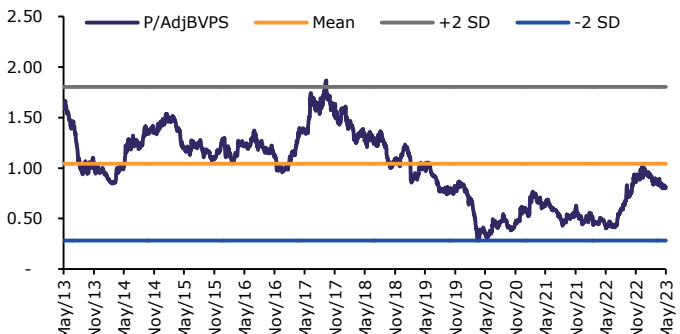
Source: Company, Emkay Research

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



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.8x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs. Estimates (Q4FY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	12,934	11,411	11,762	13%	10%	Better margins and higher other income led to a beat
PPOP	7,391	5,939	5,548	24%	33%	Higher Net income and in-line opex led to a beat
PAT	3,378	2,927	2,802	15%	21%	Higher PPOP, partly offset by higher LLP, led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	14,093	14,735	15,795	16,952	17,683	25	4	65,166	78,541	21
Interest Exp	6,993	7,277	7,581	8,062	8,757	25	9	31,677	41,767	32
Net Interest Income	7,099	7,459	8,214	8,890	8,926	26	0	33,488	36,775	10
Global NIMs (reported)	3.82	3.85	4.10	4.36	4.37	55bps	1bps	4.14	3.99	-16bps
Non-interest Income	2,055	1,991	2,416	3,175	4,008	95	26	11,589	13,097	13
Operating Expenses	4,741	4,695	4,906	5,175	5,543	17	7	20,320	23,539	16
Pre Provisioning Profit	4,413	4,755	5,723	6,890	7,391	67	7	24,758	26,334	6
Provision & Contingencies	1,401	1,546	2,272	3,641	2,930	109	-20	10,389	7,470	-28
PBT	3,012	3,208	3,451	3,249	4,460	48	37	14,369	18,863	31
Income Tax Expense (Gain)	877	921	949	356	1,082	23	204	3,308	4,748	44
Net Profit/(Loss)	2,135	2,288	2,502	2,893	3,378	58	17	11,061	14,115	28
Gross NPA (%)	5.96	5.21	3.97	2.66	2.27	-369bps	-39bps	2.27	1.69	-58bps
Net NPA (%)	2.28	1.91	1.36	0.89	0.74	-154bps	-15bps	0.74	0.51	-23bps
Deposits (Rs bn)	685	712	736	762	766	12	1	766	869	13
Net Advances (Rs bn)	547	576	602	617	631	16	2	631	722	14

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced
Net income	50,021	49,872	-0.3%	58,665	55,634	-5.2%	63,343
PPOP	27,175	26,334	-3.1%	32,529	28,994	-10.9%	33,420
PAT	13,240	14,115	6.6%	16,337	15,986	-2.1%	17,800
EPS (Rs)	16.5	17.6	6.6%	20.4	19.9	-2.1%	22.2
BV (Rs)	120.2	122.1	1.6%	137.6	139.3	1.2%	158.5

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	15.5	14.4	15.2	16.0
Deposit Growth (%)	11.9	13.3	14.7	16.0
NIM (%)	4.1	4.0	3.9	3.8
GNPA (%)	2.3	1.7	1.5	1.5
Credit Cost (%)	1.5	1.0	1.0	1.1

Source: Company, Emkay Research

Exhibit 13: Quarterly Summary

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Loans (Rs mn)	503,635	499,620	513,813	532,270	546,612	575,590	601,614	617,090	631,341
Growth YoY (%)	9.3	8.3	7.4	7.5	8.5	15.2	17.1	15.9	15.5
Growth QoQ (%)	1.7	(0.8)	2.8	3.6	2.7	5.3	4.5	2.6	2.3
Liability Profile & Margins									
Deposits (Rs mn)	632,784	643,980	654,101	668,710	684,860	711,680	736,141	761,750	766,376
Growth YoY (%)	7.1	7.2	7.0	7.7	8.2	10.5	12.5	13.9	11.9
Growth QoQ (%)	1.9	1.8	1.6	2.2	2.4	3.9	3.4	3.5	0.6
CASA (%)	34.2	35.0	35.4	36.1	34.9	36.4	35.2	33.9	33.2
CA (%)	10.2	10.0	10.7	11.1	10.1	11.2	10.9	10.3	9.7
SA (%)	24.0	25.0	24.8	25.0	24.8	25.2	24.3	23.5	23.5
Branches (No. of)	780	781	781	781	789	789	792	792	799
NIM (%)	3.46	3.55	3.74	3.68	3.82	3.85	4.10	4.36	4.37
Asset Quality (%)									
GNPA	7.9	8.0	7.4	7.0	6.0	5.2	4.0	2.7	2.3
NNPA	3.4	3.7	3.0	2.6	2.3	1.9	1.4	0.9	0.7
PCR	58.5	55.7	61.3	65.1	63.3	64.7	66.7	67.1	67.9
Capital Adequacy (%)									
CRAR	19.0	19.1	18.8	18.8	19.5	19.2	18.3	17.9	18.6
Tier I	17.0	17.0	16.8	16.8	17.5	17.3	16.4	16.0	16.8
ROE decomposition (%)									
NII	3.3	3.4	3.6	3.6	3.6	3.6	3.9	4.1	4.0
Other Income	1.2	1.1	0.9	1.0	1.0	1.0	1.1	1.4	1.8
Opex	3.1	2.3	2.5	2.5	2.4	2.3	2.3	2.4	2.5
PPOP	1.4	2.2	2.0	2.1	2.2	2.3	2.7	3.1	3.3
Provisioning Cost	0.4	1.3	0.9	0.8	0.7	0.8	1.1	1.7	1.3
PBT	1.0	0.9	1.1	1.3	1.5	1.6	1.6	1.5	2.0
ROA	0.6	0.6	0.9	1.0	1.1	1.1	1.2	1.3	1.5
ROE	6.0	6.2	9.3	10.2	11.4	11.9	12.7	14.3	16.1

Source: Company, Emkay Research

Karur Vysya Bank : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	55,877	65,166	78,541	87,147	97,619
Interest Expense	28,723	31,677	41,767	46,264	51,591
Net interest income	27,154	33,488	36,775	40,882	46,028
NII growth (%)	15.1	23.3	9.8	11.2	12.6
Other income	7,691	11,589	13,097	14,752	17,315
Total Income	34,844	45,078	49,872	55,634	63,343
Operating expenses	18,542	20,320	23,539	26,640	29,923
PPOP	16,302	24,758	26,334	28,994	33,420
PPOP growth (%)	26.2	51.9	6.4	10.1	15.3
Core PPOP	16,804	25,009	25,334	27,494	31,170
Provisions & contingencies	6,993	10,389	7,470	7,630	9,632
PBT	9,309	14,369	18,863	21,363	23,788
Extraordinary items	0	0	0	0	0
Tax expense	2,577	3,308	4,748	5,377	5,987
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,733	11,061	14,115	15,986	17,800
PAT growth (%)	87.3	64.3	27.6	13.3	11.3
Adjusted PAT	6,733	11,061	14,115	15,986	17,800
Diluted EPS (Rs)	8.4	0.0	0.0	0.0	0.0
Diluted EPS growth (%)	86.9	(100.0)	0.0	0.0	0.0
DPS (Rs)	1.6	2.0	2.5	2.8	3.0
Dividend payout (%)	19.0	14.5	14.2	14.0	13.5
Effective tax rate (%)	27.7	23.0	25.2	25.2	25.2
Net interest margins (%)	3.7	4.1	4.0	3.9	3.8
Cost-income ratio (%)	53.2	45.1	47.2	47.9	47.2
Shares outstanding (mn)	800.0	802.1	802.1	802.1	802.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	34,311	14,581	12,388	12,572	14,401
Net NPLs	12,608	4,681	3,716	3,772	4,320
GNPA ratio (%)	6.0	2.3	1.7	1.5	1.5
NNPA ratio (%)	2.3	0.7	0.5	0.5	0.4
Provision coverage (%)	63.3	67.9	70.0	70.0	70.0
Gross slippages	8,427	6,540	7,310	9,247	12,190
Gross slippage ratio (%)	1.6	1.2	1.0	1.1	1.3
LLP ratio (%)	1.3	1.5	1.0	1.0	1.1
NNPA to networth (%)	16.2	5.3	3.7	3.3	3.3
Capital adequacy					
Total CAR (%)	19.5	18.6	18.5	18.3	18.0
Tier-1 (%)	17.5	16.8	17.0	16.9	16.8
CET-1 (%)	17.5	16.9	17.0	17.0	16.8
RWA-to-Total Assets (%)	52.0	54.4	54.0	54.0	54.0
Miscellaneous					
Total income growth (%)	(0.5)	20.7	19.4	11.2	12.8
Opex growth (%)	(6.7)	9.6	15.8	13.2	12.3
Core PPOP growth (%)	56.4	48.8	1.3	8.5	13.4
PPOP margin (%)	25.6	32.3	28.7	28.5	29.1
PAT/PPOP (%)	41.3	44.7	53.6	55.1	53.3
LLP-to-Core PPOP (%)	43.1	33.8	23.6	25.9	29.9
Yield on advances (%)	8.9	9.2	9.7	9.3	9.0
Cost of funds (%)	4.2	4.3	5.0	4.9	4.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,600	1,604	1,604	1,604	1,604
Reserves & surplus	74,362	84,236	96,347	110,087	125,482
Net worth	75,962	85,841	97,951	111,691	127,086
Deposits	684,860	766,376	868,608	996,439	1,156,309
Borrowings	13,391	14,320	16,683	19,636	23,327
Interest bearing liab.	698,250	780,696	885,290	1,016,075	1,179,636
Other liabilities & prov.	26,500	35,258	48,882	55,860	56,740
Total liabilities & equity	800,713	901,794	1,032,123	1,183,626	1,363,462
Net advances	546,612	631,341	722,343	831,866	965,093
Investments	172,161	188,083	212,095	242,391	275,041
Cash, other balances	49,262	46,951	53,117	55,884	58,982
Interest earning assets	768,034	866,376	987,556	1,130,141	1,299,115
Fixed assets	4,785	4,350	6,992	7,804	8,712
Other assets	27,894	31,068	37,576	45,681	55,635
Total assets	800,713	901,794	1,032,123	1,183,626	1,363,462
BVPS (Rs)	95.0	107.0	122.1	139.3	158.5
Adj. BVPS (INR)	83.2	102.7	118.7	135.7	154.4
Gross advances	568,315	641,241	731,014	840,667	975,173
Credit to deposit (%)	79.8	82.4	83.2	83.5	83.5
CASA ratio (%)	34.9	33.2	32.2	32.1	32.1
Cost of deposits (%)	4.2	4.2	5.0	4.8	4.7
Loans-to-Assets (%)	68.3	70.0	70.0	70.3	70.8
Net advances growth (%)	8.5	15.5	14.4	15.2	16.0
Deposit growth (%)	8.2	11.9	13.3	14.7	16.0
Book value growth (%)	9.0	12.7	14.1	14.0	13.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	11.6	7.1	5.5	4.9	4.4
P/B (x)	1.2	0.9	0.8	0.7	0.6
P/ABV (x)	1.2	0.9	0.8	0.7	0.6
P/PPOP (x)	4.8	3.2	3.0	2.7	2.3
Dividend yield (%)	1.6	2.1	2.6	2.9	3.1
DuPont-RoE split (%)					
NII/avg assets	3.5	3.9	3.8	3.7	3.6
Other income	1.0	1.4	1.4	1.3	1.4
Fee income	0.8	0.9	0.9	0.9	0.9
Opex	2.4	2.4	2.4	2.4	2.3
PPOP	2.1	2.9	2.7	2.6	2.6
Core PPOP	2.2	2.9	2.6	2.5	2.4
Provisions	0.9	1.2	0.8	0.7	0.8
Tax expense	0.3	0.4	0.5	0.5	0.5
RoA (%)	0.9	1.3	1.5	1.4	1.4
Leverage ratio (x)	10.6	10.5	10.5	10.6	10.7
RoE (%)	9.3	13.7	15.4	15.3	14.9
Quarterly data					
Rs mn, Y/E Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
NII	7,099	7,459	8,214	8,890	8,926
NIM (%)	3.8	3.9	4.1	4.4	4.4
PPOP	4,413	4,755	5,723	6,890	7,391
PAT	2,135	2,288	2,502	2,893	3,378
EPS (Rs)	2.67	2.86	3.13	3.62	4.21

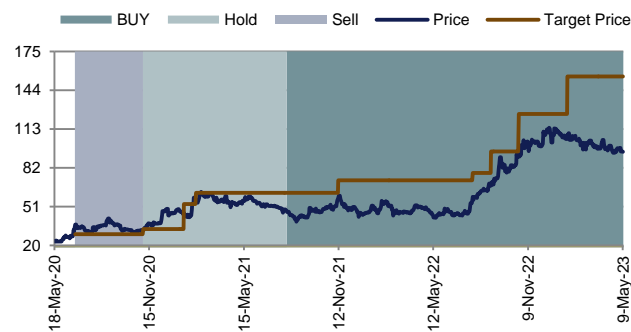
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
09-Mar-23	104	155	Buy	Anand Dama
23-Jan-23	109	155	Buy	Anand Dama
22-Oct-22	91	125	Buy	Anand Dama
03-Oct-22	79	95	Buy	Anand Dama
30-Aug-22	69	95	Buy	Anand Dama
26-Jul-22	59	78	Buy	Anand Dama
22-May-22	45	72	Buy	Anand Dama
01-Feb-22	51	72	Buy	Anand Dama
11-Nov-21	58	72	Buy	Anand Dama
05-Aug-21	47	62	Buy	Anand Dama
01-Jun-21	56	62	Hold	Anand Dama
12-Feb-21	55	62	Hold	Anand Dama
20-Jan-21	46	53	Hold	Anand Dama
03-Nov-20	32	33	Hold	Anand Dama
01-Aug-20	35	29	Sell	Anand Dama
26-Jun-20	37	29	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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