

BUZZING

STOCK

# Karnataka Bank

CMP – Rs.175

**Analyst**

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**Key Stock Data**

Sensex	13183
Nifty	3863
Sector	Banks – Private Sector
Bloomberg	NKBL@IN
Reuters	KBNK.BO
No. of shares (m)	121
Market Cap (Rs m)	21,187
Market Cap (US\$ m)	494
52-week H/L	Rs.193/74

**Shareholding Pattern (%)**

Mutual Funds	4.31
FII's	30.47
Corporate Bodies	12.92
Pubic & Others	52.31

**Updates:**

**Business Update** – Karnataka Bank has achieved a business level of Rs.235bn in FY07 against the targeted Rs.250bn. However, the bank has expressed confidence that it will achieve an incremental business of Rs.50bn in FY08 taking the total business level to Rs.285bn in FY08. Karnataka Bank had earlier in FY07 set itself a business level of Rs.500bn by FY10.

The bank has started offering interest at the rate of 10% for senior citizens on its term deposit products of 18 months while it is 9.25% for others for the same maturity. The bank's PLR is presently at 14%.

Similarly, the interest rates on other products too have been revised from February. While the rates on NRE deposits have been revised downwards, those on loans have been marginally revised upwards.

**Network Expansion** – The bank is also expanding its network fast to gain exposure and presence across the country. Karnataka Bank recently opened its 407<sup>th</sup> branch in Siliguri in West Bengal. It is fully geared up technologically and about 97% of the bank's business currently is covered under the CBS.

**Results and expectations:**

Karnataka Bank has posted a YoY increase of 20% in bottomline for the 9MFY07 period. The last quarter may be difficult as the bank's in general are facing the pressures on their NIM owing to hardening interest rates.

The bank has had a skewed pattern of non-tax provisioning. While it was quite higher at Rs.331m in Q1FY07, there was a write back in Q2FY07 to the tune of Rs.163m and a lower provisioning of just Rs.62m in Q3FY07. Higher provisioning again in the last quarter may affect bank's profitability. Earnings may also be affected because of higher interest expenses. The Q3FY07 results are reflective of a possible trend. While the NII growth was higher at 12% YoY and 19% YoY in 1Q and Q2FY07, it was down to just 9% YoY in Q3FY07. Considering the fact that the bank has raised rates though only on select products, we would be cautious on the severity of its impact and feel it may have a negative bias.

**Valuations:**

Karnataka Bank has reported an EPS of Rs.12.4 in 9MFY07. Expecting about Rs.3.3 EPS in the last quarter, Karnataka Bank may post an EPS of Rs.15.7 for FY07. This would be a change of 8.1% YoY. Karnataka Bank had posted an EPS of Rs.14.52 in FY06.

Assuming marginally higher change (~10% YoY, inspite of the incremental business growth target of 21% being a bit conservative and discounting for a tougher operating environment), we can expect Karnataka Bank to post an EPS of Rs.17.3 in FY08. The current share price of the bank is 10x the FY08 EPS we have calculated.

Financial Snapshot										
Karnataka Bank Ltd.							Rs.m		Ratios (%)	
	Q3FY07	Q3FY06	Chng (%)	FY06	FY05	Chng (%)		FY06	FY05	Chng (%)
Interest Income	3,220	2,664	20.8	10,180	8,399	21.2	CD	58.5	54.1	8.1
Interest expended	2,170	1,687	28.6	6,521	5,230	24.7	CAR	11.8	14.2	(16.9)
NII	1,050	978	7.5	3,659	3,169	15.5	NIM	-	-	-
Other Income	397	367	8.2	1,668	2,212	(24.6)	RoA	1.3	1.3	0.8
Net Income	1,448	1,345	7.7	5,327	5,381	(1.0)	RoE	16.6	17.6	(5.7)
Operating expenses	553	562	(1.7)	2,044	1,974	3.5				
Payments to employees	302	365	(17.2)	1,161	1,252	(7.3)				
Other expenses	250	197	27.2	883	722	22.3				
Operating income	895	782	14.4	3,283	3,407	(3.6)				
Provisions and contg.	62	128	(51.5)	592	1,005	(41.1)				
NPA provisions	62	128	(51.5)	592	1,005	(41.1)				
Other provisions	0	0	-	0	0	-				
PBT	833	655	27.2	2,691	2,402	12.0				
Taxes	294	240	22.8	931	931	0.0				
PAT	539	415	29.8	1,760	1,471	19.6				

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