



## Karur Vysya Bank

STOCK INFO.  
BSE Sensex:19,426

BLOOMBERG  
KVB@IN

S&P CNX:5,905

REUTERS CODE  
KARU.BO

1 January 2013

Buy

Initiating Coverage

₹560

(₹)	(₹CRORES)		
Y/E MARCH	FY11	FY12	FY13E
NII (₹Cr.)	767	917	1,157
OP (₹ Cr.)	601	726	917
NP (₹Cr.)	416	502	601
EPS (₹)	44	47	56
EPS Growth (%)	(29)	6	20
BV/Share (₹)	224	253	289
P/E (x)	13	12	10
P/BV (x)	2.5	2.2	1.9
ABV/Share (₹)	222	245	280
P/ABV (x)	2.5	2.3	2.0
RoE (%)	22	21	21
RoA (%)	1.7	1.6	1.5
Div yld (%)	3.0	3.8	3.0

### STOCK DATA

52-W High/Low Range (₹)	565/340
Major Shareholders (as of Sep'12)	
Promoter	3.0
Non Promoter Corp Holding	39.0
Public & Others	58.0
Average Daily Turnover(6 months)	
Volume	138,991
Value (₹Cr)	6
1/6/12 Month Rel. Performance (%)	19/18/36
1/6/12 Month Abs. Performance (%)	22/33/61

### KEY FINANCIALS

Shares Outstanding (Cr)	10.72
Market Cap. (₹ Cr)	6,002
Market Cap. (US\$ mn)	1091
3 yrs NII Growth to FY13E (%)	27%
3 yrs PAT Growth to FY13E (%)	21%
Dividend Payout (%)	30

Maximum Buy Price : ₹570

We recommend to BUY Karur Vyasa Bank (KVB) with a 12month price target of ₹725 , valuing it at 2.25x P/ABV multiple on FY14 estimated book.

### INVESTMENT ARGUMENTS:

#### Reasonable Presence:

Karur Vyasa Bank (KVB) is a 96 years old private bank headquartered at Karur, Tamil Nadu with a network of 514 branches and 1400 ATMs with business size of ₹58,000crs. Tamil Nadu/AP/Maharashtra has 45%/17%/13% of its branch network. KVB's 58% of the branches are located in rural and semi-urban areas. Corporate advances/ Commercial/Agriculture contribute 42%/ 34%/15% of total loan book.

#### Robust business growth:

KVB's loan book grew at 35% during FY12. KVB's deposit and loan book grew at CAGR of 28% during the last 5 years ending FY12 v/s 18% and 19% respectively for the industry. We expect the bank to deliver NII & PAT CAGR of 22% and 19% respectively during FY12-14. Business growth is likely to remain strong for KVB as management has guided for increasing branches to 700 from 514 by FY16. Asset quality is very good with restructured loans and net NPA as % to loan book standing at 2.7% and 0.33% respectively.

#### Future Plans to aid profitable growth:

KVB has drawn up a road map to increase its business 2x from ₹58000Cr currently to ₹125000Cr in FY16 by focussing on (a) Significant Improvement in CASA ratio (b) Thrust on management of stressed portfolio along with recovery of NPAs (c) Improvement in fee based income by launching new products (d) Increase pan India branch presence.

#### Valuation and View

KVB trades at 2x/1.7x FY13E/14E P/ABV, which is at discount of ~ 10% to other listed in Private Banks (ex-Hdfc Bank). KVB has consistently maintained payout of ~30% , which results in dividend yield of ~3%, which is the highest amongst all private sector banks. We believe, discount to Private Banks will vanish owing to a very consistent performance, high dividend yield and better than industry growth rates. New capital raising seems to be away by more than 18 months. We recommend BUY with 12 month target price of ₹725 (P/ABV 2.25x FY14E, P/E 11x FY14E).

## Financials and valuation

<b>Income Statement</b>		<b>(₹ Crores)</b>				
<b>Y/E March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Interest Income	1,758	2,218	3,270	4,407	5,314	
Interest Expenses	1,193	1,451	2,353	3,251	3,943	
<b>Net Interest Income</b>	<b>565</b>	<b>767</b>	<b>917</b>	<b>1,157</b>	<b>1,371</b>	
Change (%)	-	-	-	-	-	
Non Interest Income	247	264	350	433	537	
<b>Net Income</b>	<b>812</b>	<b>1,031</b>	<b>1,267</b>	<b>1,589</b>	<b>1,908</b>	
Change (%)	-	-	-	-	-	
Operating Expenses	349	431	542	672	820	
<b>Pre Provision Profits</b>	<b>463</b>	<b>601</b>	<b>726</b>	<b>917</b>	<b>1,088</b>	
Change (%)	-	-	-	-	-	
Provisions (excl tax)	37	39	94	105	123	
<b>PBT</b>	<b>426</b>	<b>561</b>	<b>632</b>	<b>812</b>	<b>965</b>	
Tax	90	146	130	211	251	
Tax Rate (%)	21	26	21	26	26	
<b>Profits for Equity SH</b>	<b>336</b>	<b>416</b>	<b>502</b>	<b>601</b>	<b>714</b>	
Change (%)	42	24	21	20	19	
Equity Dividend (Incl tax)	76	133	176	210	250	
<b>Core PPP*</b>	<b>463</b>	<b>601</b>	<b>726</b>	<b>917</b>	<b>1,088</b>	
Change (%)	11	30	21	26	19	

\*Core PPP is (NII+non interest income-Opex)

<b>Balance Sheet</b>		<b>(₹ Crores)</b>				
<b>Y/E MARCH</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	
Equity Share Capital	54	94	107	107	107	
Reserves & Surplus	1,566	2,020	2,601	2,992	3,456	
<b>Net Worth</b>	<b>1,620</b>	<b>2,115</b>	<b>2,708</b>	<b>3,099</b>	<b>3,563</b>	
<b>Deposits</b>	<b>19,272</b>	<b>24,722</b>	<b>32,112</b>	<b>37,892</b>	<b>45,470</b>	
Change (%)	28	28	30	18	20	
of which CASA Dep	4,535	5,755	6,152	7,259	8,711	
Change (%)	37	27	7	18	20	
Other Borrowings	476	530	1,973	2,821	4,005	
Total Borrowings	19,748	25,252	34,084	40,712	49,475	
<b>Total Liabilities</b>	<b>21,368</b>	<b>27,366</b>	<b>36,792</b>	<b>43,811</b>	<b>53,039</b>	
Balance with RBI	1,235	1,774	2,035	2,404	2,888	
Investments	6,602	7,732	10,506	12,356	14,783	
Loans	13,447	17,814	23,949	28,739	35,062	
Net Fixed Assets	138	211	245	275	300	
Net Current Assets	(54)	(165)	57	37	6	
<b>Total Assets</b>	<b>21,368</b>	<b>27,366</b>	<b>36,792</b>	<b>43,811</b>	<b>53,039</b>	

<b>Asset Quality</b>		<b>(%)</b>				
GNPA	235	228	321	385	470	
NNPA	31	14	79	96	117	
GNPA Ratio	2.29	1.28	1.34	1.34	1.34	
<b>NNPA Ratio</b>	<b>0.69</b>	<b>0.08</b>	<b>0.33</b>	<b>0.34</b>	<b>0.34</b>	
PCR (calculated)	87%	94%	75%	75%	75%	
E: MOSL Estimates						

Expect 22% NII CAGR

FY12-14 PAT CAGR of 19%

Expect 21% loan CAGR over  
FY12-14Asset quality to remain  
stable

## Financials and valuation

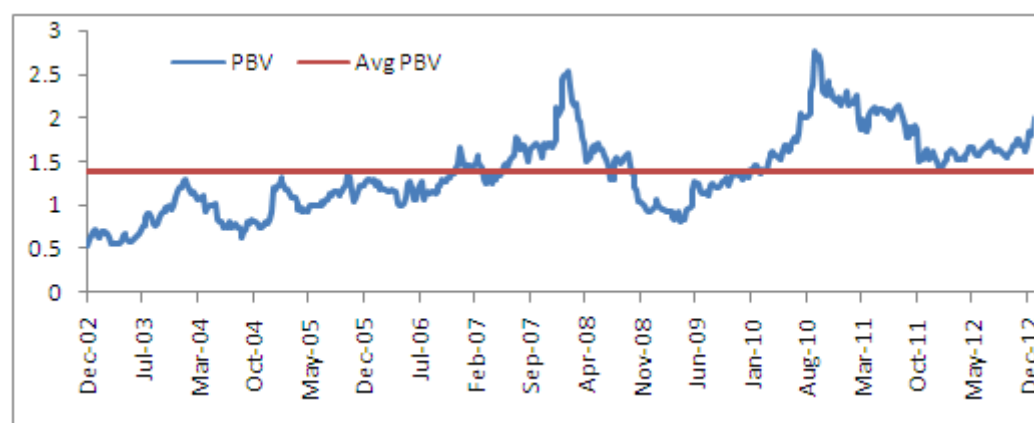
## Ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E
<b>Spreads Analysis (%)</b>					
<b>Avg. Yield-Earning Assets</b>	<b>9.8</b>	<b>9.7</b>	<b>10.8</b>	<b>11.6</b>	<b>11.6</b>
Avg. Yield on loans	11.2	10.8	12.2	13.0	13.0
Avg. Yield on Investments	7.0	7.3	7.9	8.4	8.4
Avg. Cost of Deposits	6.8	6.4	7.9	8.7	8.7
<b>Net Interest Margin</b>	<b>3.00</b>	<b>3.25</b>	<b>2.90</b>	<b>2.91</b>	<b>2.87</b>
<b>Profitability Ratios (%)</b>					
RoE	22.6	22.3	20.8	20.7	21.4
RoTA	1.78	1.71	1.56	1.49	1.48
Int. Expense/Int. Income	68	65	72	74	74
Non Int. Inc./Net Income	30	26	28	27	28
<b>Efficiency Ratios (%)</b>					
Operating Expenses to Net Income	43	42	43	42	43
Emp. Cost / Operating Expenses	47	53	49	49	49
Provisions to NII	7	5	10	9	9
<b>Asset-Liability Profile (%)</b>					
Loans/Deposit Ratio	70	72	75	76	77
CASA Ratio	24	23	19	19	19
Investment/Deposit Ratio	34	31	33	33	33
CAR	12.5	12.2	11.6	10.6	10.4
<b>Valuation</b>					
Book Value (₹)	298	224	253	289	332
Change (%)	19	(25)	13	14	15
<b>Price-BV (x)</b>	-	-	-	<b>1.9</b>	<b>1.7</b>
Adjusted BV (₹)	292	222	245	280	321
<b>Price-ABV (x)</b>	-	-	-	<b>2.0</b>	<b>1.7</b>
EPS (₹)	62	44	47	56	67
Change (%)	41	(29)	6	20	19
<b>Price-Earnings (x)</b>	-	-	-	<b>10.0</b>	<b>8.4</b>
Dividend Per Share (₹)	12	12	14	17	20
<b>Dividend Yield (%)</b>	-	-	-	<b>3.0</b>	<b>3.6</b>

E: MOSL Estimates

*Higher margins led by high-yield loans**Stable CASA ratio**Stock Trades at 1.7x FY14E  
P/ABV with RoE of 21% and  
Dividend Yield of 3%*

## Karur Vysya Bank Valuation Chart Historical P/BV (TTM)



\*TTM: Trailing Twelve Months



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