

Karur Vysya Bank

CMP: ₹ 419
TP: ₹512
Buy

Core interest income and operating profit in-line with our estimates. Write-back of investment depreciation provision aided bottom-line. Asset quality deteriorated with rise in GNPA, though adequate NPA provision was made. We maintain our positive stance on the stock.

In Q1 FY13, Karur Vysya Bank's (KVB) net interest income (NII) grew by 23.9% YoY to Rs 2.5bn – 0.5% lesser than our estimates of ₹ 2.6bn. KVB's margin declined to 2.82% as against 3.04% in Q4 FY12 and 3.18% in Q1 FY12. Higher increase in cost of deposits (30bps QoQ) and 6bps QoQ decline in yield on advances led to decline in margin.

During this quarter, other income grew by 40.5% YoY to ₹ 1.0bn from Rs 0.7bn in Q1 FY12 (ahead of our expectations of ₹ 0.9bn). The non-fund income growth mainly led by robust fee income and jump in forex gains & treasury income aided operating profit. KVB's operating profit grew 22.6% YoY to ₹ 2.0bn in-line with our estimates.

Write back of investment depreciation provision ₹ 430mn off-set higher NPA provisioning of ₹ 328mn and thereby aided bottom-line growth. Net profit grew 25.1% YoY to ₹ 1.5bn as against our and consensus estimates of ₹ 1.4bn.

On asset quality front, gross NPA increase by 37% YoY and 17.4% QoQ to ₹ 3.8bn; a key negative surprise in this quarter. The bank's asset quality deteriorated with GNPA ratio increasing to 1.53% compared to 1.33% as on end-Mar'12 and net NPA ratio to 0.38% from 0.33% in Q4 FY12. However, PCR remains stable at 75.5% in Q1 FY13. During the quarter, the bank restructured ₹ 500mn, loan amounting to ₹ 297mn was closed, ₹ 209mn loan amount was recovered and ₹ 70mn slipped into NPA. Hence, the total outstanding restructured loan book at the end of Q1 FY13 slightly decline to ₹ 6.5bn from ₹ 6.6bn in Q4 FY12.

High Points

- Core interest income in-line with our estimates
- Stress on margin on account of higher liabilities cost
- Sharp jump in non-fund income led by treasury income and foreign exchange gains; core fee income remained healthy
- Write-back of investment depreciation provision aided bottom-line
- Higher than expected rise in GNPA; though bank made adequate provisions
- View: Maintain our Buy rating with a target price of ₹ 512

Scrip Details

Equity	₹ 1072mn
Face Value	₹ 10/-
Market Cap	₹ 44.9bn
	USD 0.8bn
52 week High / Low	₹ 455 / 322
Avg. Volume (no)	201,858
BSE Sensex	17,236
NSE Nifty	5,229
Bloomberg Code	KVB IN
Reuters Code	KARU.BO

Q1FY13 Result (₹ mn)

Particulars	Q1FY13	Q4FY12	Q1FY12	QoQ (%)	YoY (%)	FY12	FY11	YoY (%)
Interest Income	10,055	9,475	6,945	6	45	32,704	22,177	47
Interest Expenditure	7,516	6,865	4,895	9	54	23,533	14,508	62
Net interest income	2,539	2,610	2,050	-3	24	9,171	7,669	20
Other operating income	1,043	1,118	742	-7	41	3,501	2,643	32
Total Net Income	3,582	3,728	2,792	-4	28	12,672	10,312	23
Overheads	1,555	1,597	1,139	-3	37	5,416	4,306	26
Operating profit	2,027	2,131	1,653	-5	23	7,257	6,006	21
Tax	667	594	110	12	509	1,302	1,457	-11
Other Provisions	-100	68	376	-246	-127	938	393	139
Net profit	1,460	1,468	1,167	-1	25	5,017	4,156	21
Equity	1,072	1,072	1,009	-	6	1,072	945	13
EPS (in unit INR)	13.6	13.7	11.6	-1	18	46.8	44	6
GNPA	3,769	3,210	2,751	17	37			
NNPA	923	788	388	17	138			
GNPA (%)	1.53	1.33	1.48					
NNPA (%)	0.38	0.33	0.21					
RoA (%)	1.53	1.63	1.65			1.56	1.71	

Financials

Year	NII	PPP	NP	NIM (%)	BV (₹)	ABV (₹)	RoAA (%)	RoAE (%)	P/B (x)	P/ABV (x)	P/E (x)
FY11	7,669	6,006	4,156	3.2	224	223	1.7	22.3	1.9	1.9	9.3
FY12E	9,171	7,257	5,017	2.9	253	247	1.5	20.8	1.7	1.7	9.0
FY13E	10,710	7,896	5,324	2.6	286	279	1.3	18.4	1.5	1.5	8.4
FY14E	13,635	10,098	6,640	2.7	327	319	1.2	20.2	1.3	1.3	6.8

Figures in ₹ mn

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In FY12-14, the bank would report RoAA and RoAE in a range of 1.2%-1.3% and around 18-20% respectively. We maintain our FY13 & FY14 earnings estimates and target price to ₹ 512. We reiterate our stock rating to **Buy**. At current price, it quotes at 1.5x and 1.3x ABV FY13 and FY14 respectively; based on our target price, the stock would trade at 1.6x adjusted book value FY14.

Robust business growth: KVB's total business grew 32% YoY to ₹ 576bn. Deposits and net advances grew 31% and 33% to ₹ 330bn and ₹ 246bn respectively. Credit-deposit ratio rose to 74.7% from 73.6% in Q1 FY12, however, remained stable from Q4 FY12 levels. On the deposit side, CASA share declined to 18% as against 19.2% in Q4 FY12 and 22.6% in Q1 FY12.

The bank's tremendous efforts and focused approach on volume growth have led to business growth of 30-35% (higher than the industry average) in the past couple of quarters. For FY12-14, we expect KVB's total business to grow 28.1% CAGR. We assume deposit and credit books to expand 27.9% and 28.3% respectively over the corresponding period.

Higher liabilities costs led to decline in margin: KVB reported 22bps QoQ and 36bps YoY decline in margins to 2.82% as against 3.04% in Q4 FY12 and 3.18% in Q1 FY12. Higher increase in cost of deposits (30bps QoQ) and 6bps QoQ decline in yield on advances led to decline in margin. Going forward, it is expected that moderate growth in deposits and increase in credit-deposit ratio would protect higher erosion in margin. We estimate margins to drift down by 26 bps to 2.62% in FY13.

Robust non-fund income aided profitability: During this quarter, other income grew by 40.5% YoY to ₹ 1.0bn from ₹ 0.7bn in Q1 FY12 (ahead of our expectations of ₹ 0.9bn). The non-fund income growth was mainly led by robust growth of 20.4% in core fee income to ₹ 606mn as against ₹ 504mn in Q1 FY12, 3.6x jump in forex gains to ₹ 148mn as against ₹ 41mn in Q1 FY12 and multifold jump in treasury income to ₹ 139mn as against ₹ 26mn in Q1 FY12. Much higher other income aided operating profit; it grew 22.6% YoY to ₹ 2.0bn in-line with our estimates.

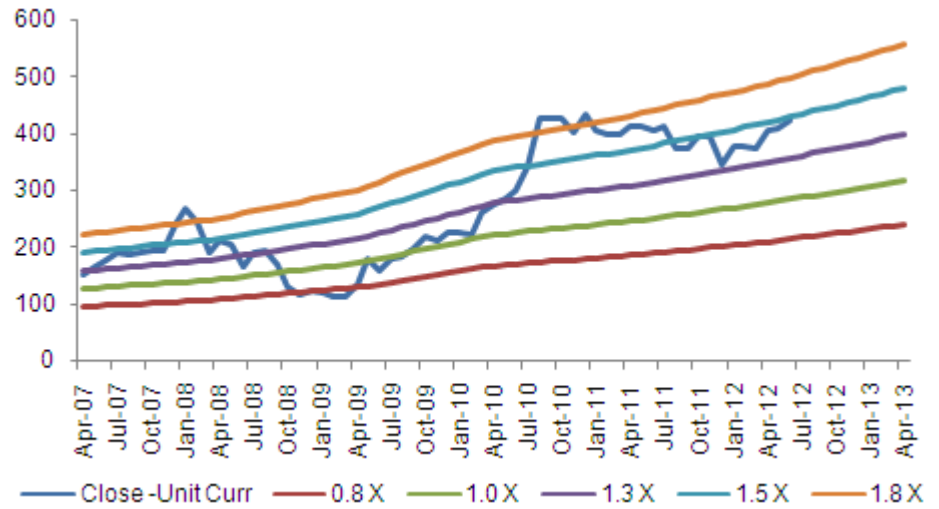
Slight strain on asset quality: On asset quality front, gross NPA increase by 37% YoY and 17.4% QoQ to ₹ 3.8bn; a key negative surprise in this quarter. The bank's asset quality deteriorated with GNPA ratio increasing to 1.53% compared to 1.33% as on end-Mar'12 and NNPA ratio to 0.38% from 0.33% in Q4 FY12. However, PCR remains stable at 75.5% in Q1 FY13.

During the quarter, the bank restructured ₹ 500mn, loan amounting to ₹ 297mn was closed, ₹ 209mn loan amount was recovered and ₹ 70mn slipped into NPA. Hence, the total outstanding restructured loan book at the end of Q1 FY13 slightly decline to ₹ 6.5bn from ₹ 6.6bn in Q4 FY12. KVB's gross slippage ratio increased to 1.4% from 0.83% in Q4 FY12. On gross NPA front, we factor decrease in GNPA to 1.24% in March-2013 from 1.33% in March-2012. On loan-restructuring front, we expect restructured loan book to increase to ₹ 7.5bn on end March-13 from ₹ 6.6bn as on end March-12.

Valuation

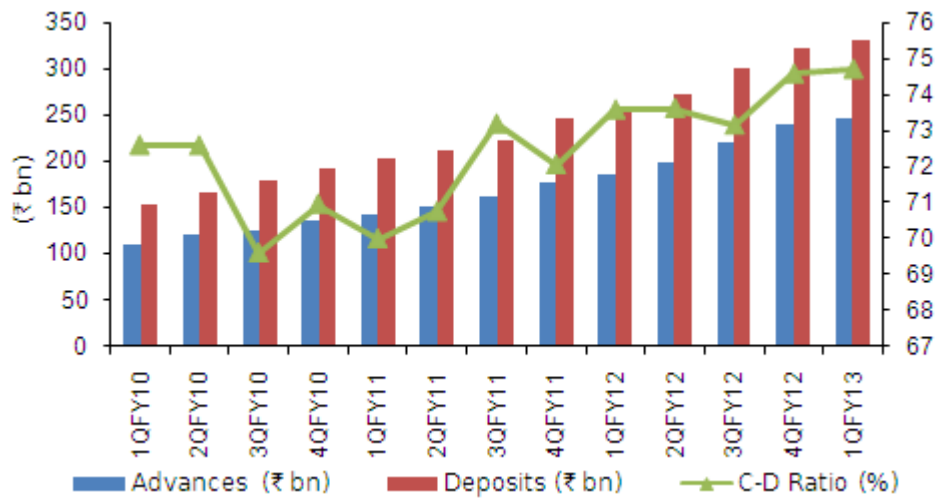
In FY12-14, the bank would report RoAA and RoAE in a range of 1.2%-1.3% and around 18-20% respectively. We maintain our FY13 & FY14 earnings estimates and target price to ₹ 512. We reiterate our stock rating to **Buy**. At current price, it quotes at 1.5x and 1.3x ABV FY13 and FY14 respectively; based on our target price, the stock would trade at 1.6x adjusted book value FY14.

KVB's P/ABV Chart



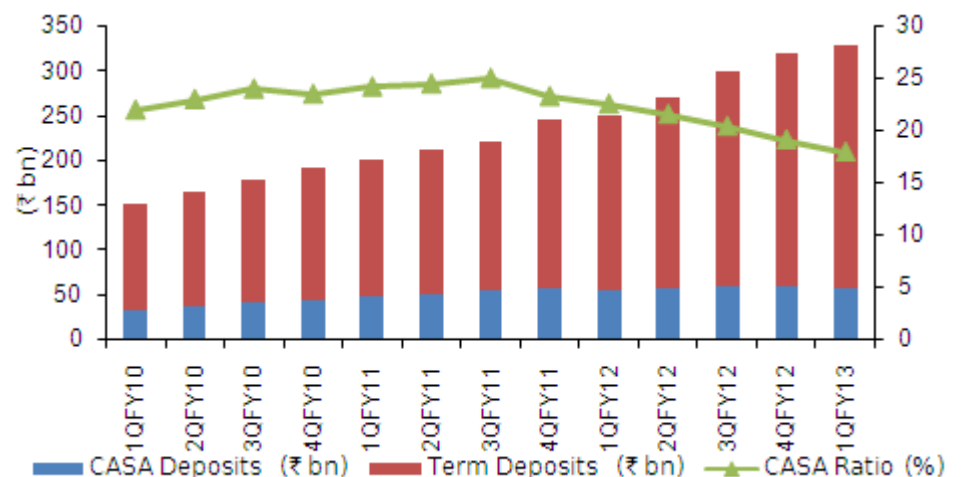
Source: Capitaline, Dolat Research

KVB's Business Mix



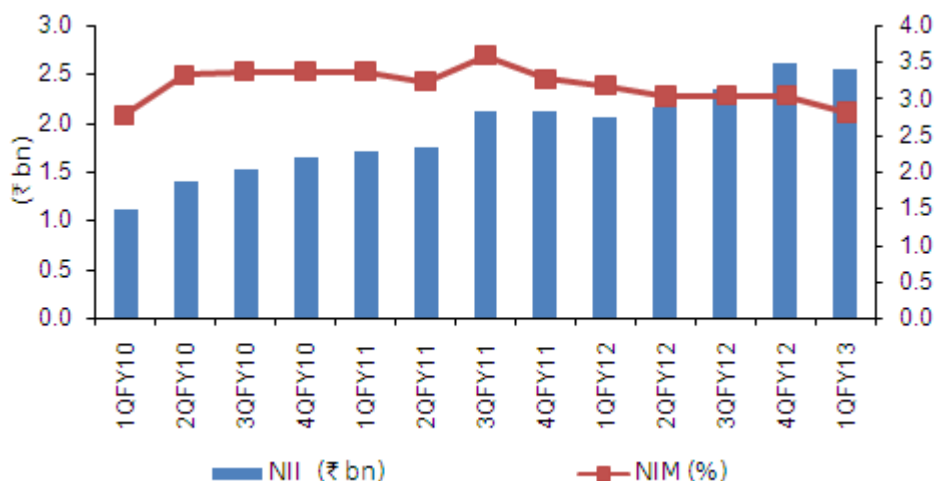
Source: Banks, Dolat Research

KVB's Deposit Profile



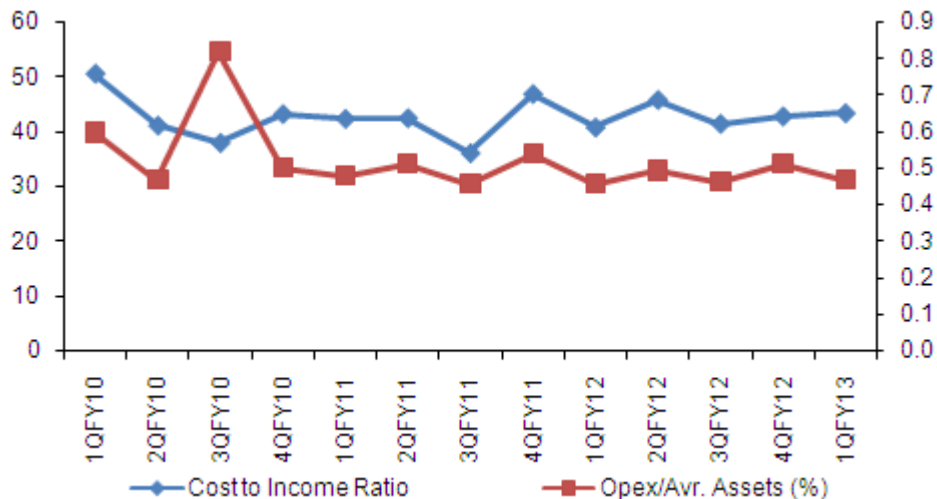
Source: Banks, Dolat Research

KVB's NII & NIM (%)



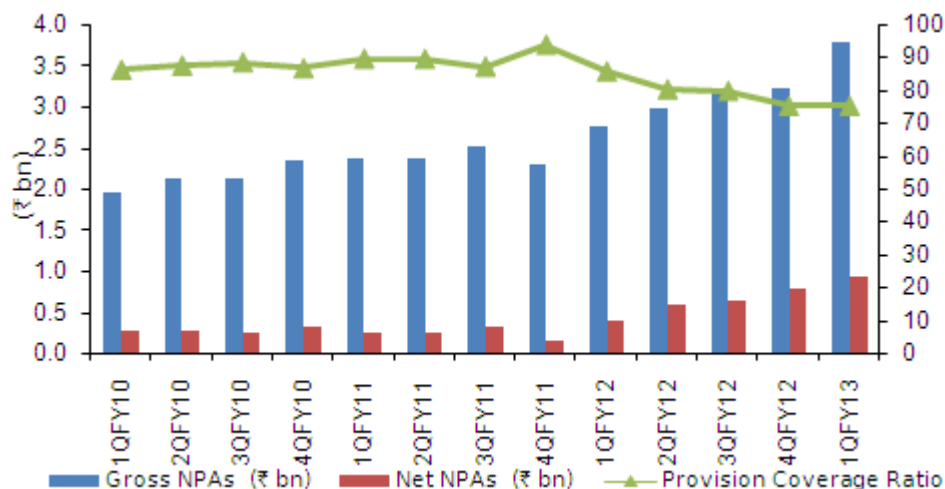
Source: Banks, Dolat Research

KVB's Operating Cost Structure (%)



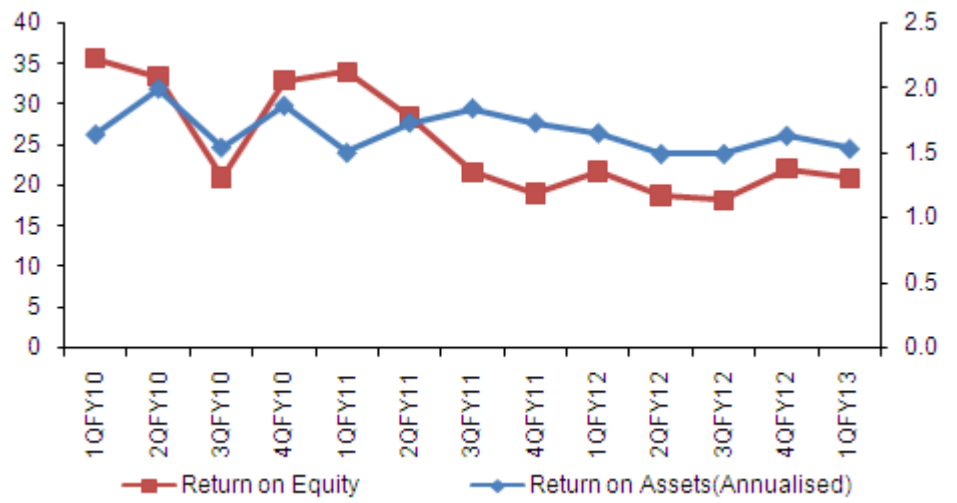
Source: Banks, Dolat Research

KVB's Asset Quality



Source: Banks, Dolat Research

KVB's Return Ratios (%)



Source: Banks, Dolat Research

Source: Banks, Dolat Research

INCOME STATEMENT

₹ mn

Particulars	Mar11	Mar12	Mar13E	Mar14E
Net Interest Income	7,669	9,171	10,710	13,635
CXB	1,825	2,274	2,951	3,782
Profits on sale of investments	377	262	185	144
Profits on foreign exchange	141	368	255	288
Other operating income	300	597	258	290
Total other income	2,643	3,501	3,649	4,504
Total Income	10,312	12,673	14,359	18,139
Salaries	2,295	2,644	3,250	4,119
Other operating costs	2,011	2,772	3,213	3,922
Total Overheads	4,306	5,416	6,463	8,041
Profit before provisions	6,006	7,257	7,896	10,098
Bad Debt Provisions	49	191	455	655
Std. Asset Provision	152	289	257	376
Investment Provisions	193	413	350	325
Other provision	(1)	45	130	147
Total provisions	393	938	1,192	1,503
Profit before tax	5,613	6,320	6,704	8,595
Tax	1,457	1,302	1,380	1,955
Reported Net profit	4,156	5,017	5,324	6,640

BALANCE SHEET

Particulars	Mar11	Mar12	Mar13E	Mar14E
Cash with RBI	16,798	19,209	25,352	32,110
Cash at call	946	1,146	1,280	1,582
Total Cash	17,745	20,354	26,632	33,692
Govt. securities	67,615	92,532	101,807	122,834
Other investments	9,703	12,529	17,966	21,677
Total Investments	77,318	105,061	119,773	144,511
Bills discounted	9,495	12,910	26,076	33,483
Cash credit	115,931	172,606	168,729	216,657
Term loans	52,718	53,976	111,974	143,782
Total Credit	178,145	239,492	306,779	393,922
Gross Fixed Assets	4,124	4,986	5,166	5,809
Accumulated Depreciation	2,158	2,543	2,455	2,793
Net Fixed Assets	1,967	2,444	2,711	3,016
Capital work in progress	139	5	0	0
Other Assets	6,936	8,993	13,599	19,998
Total Assets	282,248	376,349	469,494	595,139
Demand Deposits	25,023	24,783	31,602	40,473
Savings Deposits	32,531	36,733	47,197	60,447
Term Deposits	189,665	259,600	331,611	424,705
Total Deposits	247,219	321,116	410,410	525,625
Subordinate Debt	1,500	1,500	2,800	3,100
Other Borrowings	3,799	18,226	15,170	17,735
Total Borrowings	5,299	19,726	17,970	20,835
Other liabilities	8,586	8,425	10,463	13,583
Equity	945	1,072	1,072	1,072
Reserves	20,200	26,010	29,579	34,024
ESOPs	0	0	0	0
Total Equity	21,145	27,082	30,651	35,096
Total Liab & Equity	282,248	376,349	469,494	595,139

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12	Mar13E	Mar14E
DPS (₹)	12.0	14.0	14.0	17.5
Book Value (₹)	223.8	252.7	286.0	327.4
Adjusted Book Value (₹)	222.7	246.8	278.9	319.1
EPS (₹)	44.9	46.8	49.7	61.9
EPS Growth (%)	(27.8)	4.3	6.1	24.7
Payout (%)	26.7	29.9	28.2	28.2
Net interest margin (%)	3.2	2.9	2.6	2.7
Spread (%)	2.6	2.3	2.1	2.2
Cost-to-income (%)	42.9	41.8	42.7	45.0

ROAA

Net Interest Income	3.1	2.8	2.5	2.6
Other Income	1.1	1.1	0.9	0.8
Less Overheads	(1.7)	(1.6)	(1.5)	(1.5)
Less Provisions	(0.2)	(0.3)	(0.3)	(0.3)
Less Tax	(0.6)	(0.4)	(0.3)	(0.4)
ROAA	1.7	1.5	1.3	1.2
ROAE	22.3	20.8	18.4	20.2

Valuation

Price Earnings (x)	9.3	9.0	8.4	6.8
Price to Book Value (x)	1.9	1.7	1.5	1.3
Price to Adjusted BV (x)	1.9	1.7	1.5	1.3
Dividend Yield (%)	2.9	3.3	3.3	3.3

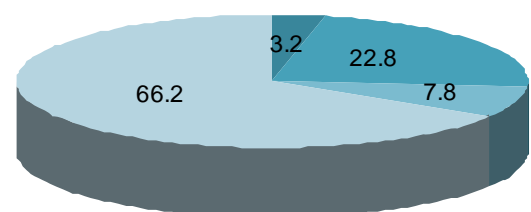
Asset Quality

Gross NPLs	2,282	3,210	3,830	4,694
Restructured standard Loans	5,147	6,560	7,512	8,235
Gross Impaired Loans	7,428	9,770	11,342	12,929
Net NPLs	138	787	952	1,161
Provision coverage ratio (%)	94.0	75.5	75.1	75.3
Gross NPLs (%)	1.3	1.3	1.2	1.2
Net NPLs (%)	0.1	0.3	0.3	0.3

Assumptions

Yield on Advances (%)	10.8	12.2	11.8	11.6
Yield on Investment (%)	7.3	7.9	7.5	7.3
Cost of Deposits (%)	6.4	7.8	7.7	7.5
Interest Inc. on Cash (%)	0.0	0.5	0.5	0.5
CRAR (%)	14.4	14.3	13.0	11.3
Growth in credit book (%)	32.5	34.4	28.1	28.4
Growth in Deposits (%)	28.3	29.9	27.8	28.1
Growth in Investments (%)	17.1	35.9	14.0	20.7
Gross slippages ratio (%)	0.3	0.8	0.9	0.8
Credit Cost (%)	0.0	0.1	0.2	0.2

E-estimates

Shareholding Pattern as on March'12 (%)


■ Promoter ■ FIIs ■ DII ■ Public / Others



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside of upto 5% or downside of upto 15%
SELL	Downside of more than 15%

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