

25 May 2012

Karur Vysya Bank

Consistent business growth, stable asset quality; Buy

Rating: **Buy**

Target Price: ₹503

Share Price: ₹402

Higher NII growth (23.5% yoy) and fees (55.2% yoy) drove up Karur Vysya's net profit 27.3% yoy. Consistent business growth, improving fees and stable asset quality should provide the impetus for a high RoA of +1.4% and RoE of +20% over FY13-14. We maintain a Buy.

- Consistent business growth, higher NIM.** Karur continues to register higher business growth (31%) than the industry (~15%). At 34.4%, advances grew slightly faster than deposits (30%), driven by agriculture and SME loans. Calculated NIM improved modestly in a difficult quarter, by 10bps qoq, largely due to a 60-bp increase in credit-deposit to 74.6%, still lower than peers. We estimate the bank would continue to grow at a healthy 26% CAGR over FY12-14.
- Higher fees to augment RoA.** Fees for the quarter improved 55% yoy, as improvement in areas such as forex income, sale of gold coins and fees from third-party income fell in place. Productivity was lower, with cost-to-income increasing 120bps qoq, to 42.8%, as the branch network rose 22% in FY12, to +450. We expect cost-to-assets, at ~1.6%, to be stable over FY13/14 as higher operating expenses would be counter-balanced by better fee-income potential.
- Asset quality stable, sufficient capital.** Gross NPAs fell a marginal 0.4% qoq. Slippage, at 0.7% of loans, was better than peers. During the year, outstanding restructured loans increased slower than growth in advances and improved by 20bps to 2.7% of the overall book. Capital adequacy of 14.3% (tier-1: 13.2%) suffices to support robust loan growth over FY12-14.
- Valuation.** At our price target of ₹503, the stock would trade at 1.7x FY13e and 1.5x FY14e BV. **Risks.** Lower-than-expected credit growth and higher-than-expected delinquencies.

Key data	KVB IN / KARU.BO
52-week high / low	₹479/ ₹315
Sensex / Nifty	16218 / 4920
3-m average volume	US\$3.4m
Market cap	₹43bn / US\$777m
Shares outstanding	107.2m

Shareholding pattern (%)	Mar-12	Dec-11	Sep-11
Promoters	3.2	3.3	3.3
- of which, Pledged	-	-	-
Free float	96.8	96.7	96.7
- Foreign institutions	22.8	21.2	20.9
- Domestic institutions	7.8	6.7	6.8
- Public	66.2	68.8	69.0

Financials (YE: Mar)	FY13e	FY14e
Net interest income (₹m)	12,085	15,052
Net profit (₹m)	5,889	7,221
EPS (₹)	55.2	67.7
Growth (%)	25.2	53.9
PE (x)	7.3	6.0
PABV (x)	1.4	1.2
RoE (%)	20.4	21.5
RoA (%)	1.5	1.4
Dividend yield (%)	3.7	3.9
Net NPA (%)	0.2	0.2

Source: Anand Rathi Research

Quarterly results (YE: Mar)	4QFY11	4QFY12	% yoy	FY11	FY12	% yoy
Net interest income (₹m)	2,114	2,610	23.5	7,669	9,171	19.6
Non-interest income (₹m)	636	1,118	75.7	2,643	3,502	32.5
Operating expenses (₹m)	1,291	1,597	23.7	4,306	5,416	25.8
Cost-to-income (%)	46.9	42.8	(410)bps	41.8	42.7	98bps
Pre-provisioning profit (₹m)	1,459	2,131	46.0	6,006	7,257	20.8
Provisions (₹m)	28	68	146.0	393	938	138.5
PBT (₹m)	1,431	2,062	44.1	5,613	6,320	12.6
Tax (₹m)	278	594	113.6	1,457	1,302	(10.6)
PAT (₹m)	1,153	1,468	27.3	4,156	5,017	20.7
EPS (₹)	12.2	13.7	12.2	44.0	46.8	6.4

Source: Company, Anand Rathi Research

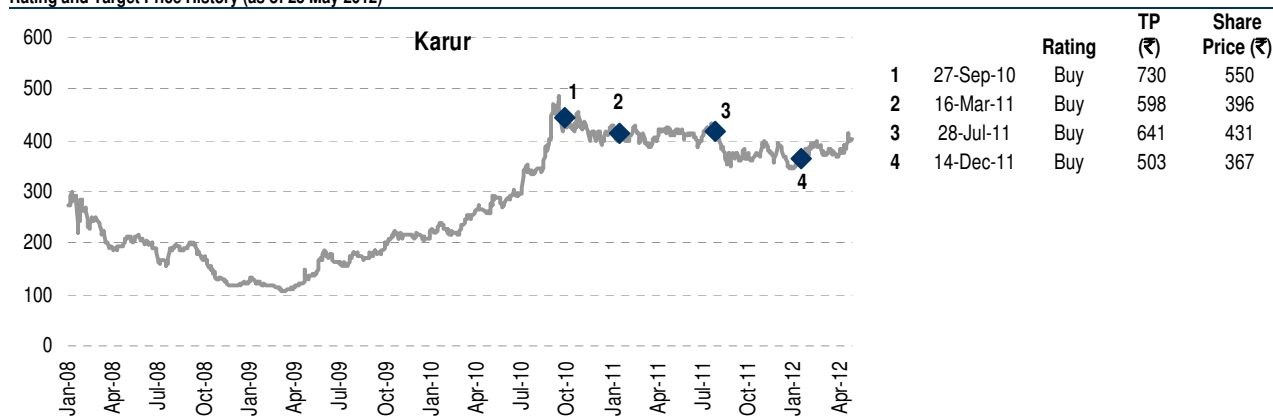
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Appendix 1

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Mid/Small Caps (<US\$1bn)	>20% >30%	5-20% 10-30%	<5% <10%

(as of 20 February 2012)

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