

Karur Vysya Bank

Refer to important disclosures at the end of this report

High moratorium rate, asset quality remain key concerns

CMP: Rs 35
as of (July 31, 2020)

TP: Rs 29 (■)
12 months

Rating: SELL (■)

Upside: (16.1) %



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- Despite subdued growth and depressed margins, KVB reported a PAT of Rs1.05bn (est. Rs658mn), driven by high treasury gains and low opex. Lower Covid-19-related contingent provisions of Rs730mn, with cumulative provisions at Rs1.2bn (0.3% of loans), look disappointing.
- The moratorium rate stood at 41% as of July'20 vs. 52% in March'20, led by commercial (55%), corporate (44%) and retail book (34%). TL constitutes 48% of the moratorium book and has 34% of customers (in value terms), who have not paid any EMIs. KVB has raised LLP guidance to 2-2.5% from 1-1.5%.
- The bank has appointed Ramesh Babu Boddu (ex-SBI) as new MD for the next three years after the early exit of P Sheshadri. New MD will unveil his business strategy in Q2 results call, which will be keenly watched out for.
- We maintain Sell (no weight in EAP) with a TP of Rs29 (based on 0.4x FY22E ABV) amid concerns over its asset quality, especially its exposure to the SME book, and subdued return ratios.

Credit contraction continues, but CASA ratio improving: The overall loan book declined 2% yoy to Rs461bn, due to its conscious strategy to de-bulk corporate (down 12% yoy) and the SME lending book (down 3% yoy). In the corporate segment, KVB continues to cautiously lend only to the well-rated corporates and is reducing any low or unrated exposure it had in the past. It is also restricting exposure to any new corporates in line with the prevailing strategy. KVB has been able to disburse Rs10.8bn under the MSME guarantee scheme out of the Rs22.6bn (5% of loans) disbursement opportunity. Deposits declined 3% yoy/up 2% qoq to Rs601bn mainly due to contraction in TDs, but the CASA ratio has further improved to 33%. NIMs (reported) slipped 10bps sequentially to 3.36% due to lower LDR and lower yields. Management expects NIMs to remain subdued in FY21.

Asset quality risk persists amid Covid-19-led disruption: Fresh slippages fell to Rs0.4bn (0.3%), due to the standstill benefit and absence of any lumpy corporate NPAs. Thus, headline asset quality improved 30bps qoq with the GNPA ratio at 8.34%. The moratorium rate has improved in value terms to 41% in July (Agri 19%, Commercial 55%, Corporate 44%, Retail 35%), but still remains elevated. TL component makes up for Rs86.3bn of the total moratorium book, of which 34% customers have paid zero EMI and the rest have paid at least one EMI. KVB has made Covid-19 provisions of Rs730mn, with cumulative provisions now at Rs1.2bn (0.3% of loans), which we believe needs to be increased in the coming quarters. The bank has raised its credit cost guidance to 2-2.5% for FY21 after factoring in Covid-19's impact.

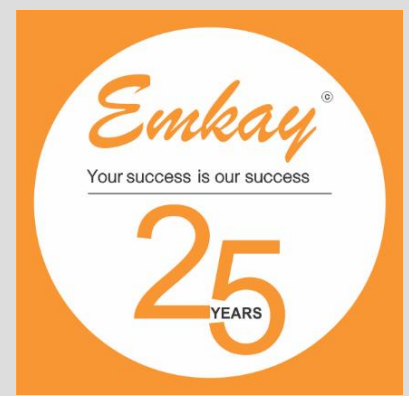
Outlook & Valuations: We have raised our FY21 earnings estimates by 4% due to lower opex, but have cut FY22/FY23 estimates by 4%/3%. We expect the bank's RoA to remain subdued at 0.4% in FY21E but could gradually improve to 0.7% by FY23E, factoring in moderation in LLP. We maintain Sell (no weight in EAP) with a TP of Rs29 (based on 0.4x FY22E ABV) due to persistent concerns around asset quality and sub-par return ratios. The key risks to our call include better-than-expected NPA formation.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	33,256	35,026	36,290	38,580	41,971
Net profit	2,109	2,350	2,481	3,549	5,758
EPS (Rs)	2.6	2.9	3.1	4.4	7.2
ABV (Rs)	59.7	65.6	67.6	72.1	79.6
RoA (%)	0.3	0.3	0.4	0.5	0.7
RoE (%)	3.4	3.6	3.7	5.1	7.8
PE (x)	13.1	11.7	11.1	7.8	4.8
P/ABV	0.6	0.5	0.5	0.5	0.4

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	4/(4)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	3.1	4.4
Consensus	3.7	5.9
Mean Consensus TP (12M)	Rs 44	

Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	65 / 18
M Cap (Rs bn/USD bn)	28 / 0.37
Daily Avg Volume (nos.)	2,387,545
Daily Avg Turnover (US\$ mn)	1.0

Shareholding Pattern Jun '20

Promoters	2.1%
FIIs	21.1%
DIIIs	22.1%
Public and Others	54.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	18	(28)	(45)
Rel. to Nifty	(5)	5	(22)	(45)

Relative price chart



Source: Bloomberg

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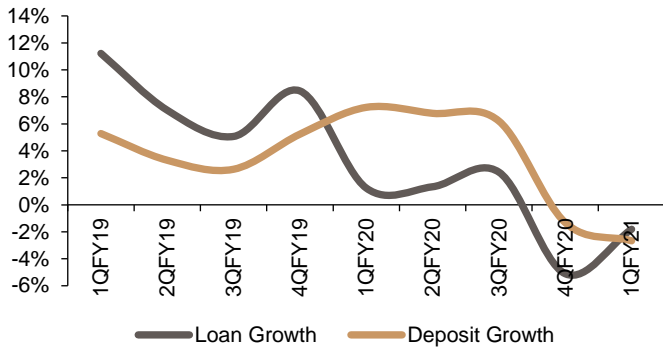
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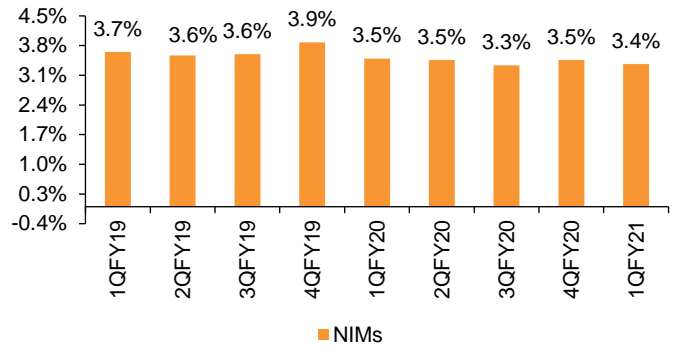
Story in charts

Exhibit 1: Balance sheet continues to contract



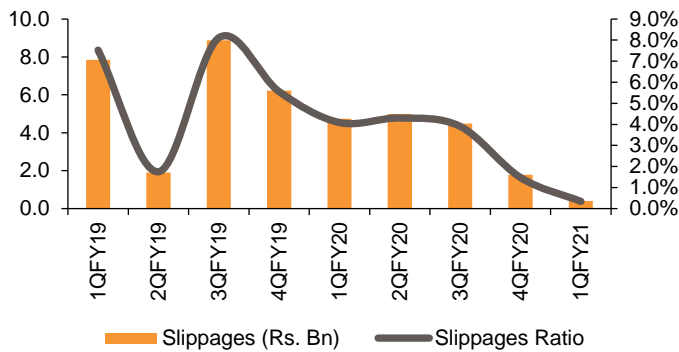
Source: Emkay Research, Company

Exhibit 2: Margins remain under pressure due to lower LDR



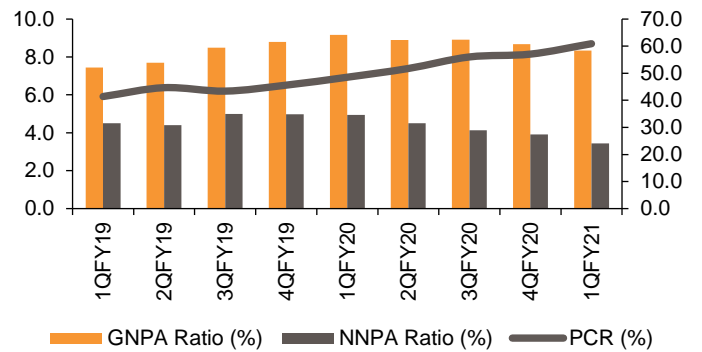
Source: Emkay Research, Company

Exhibit 3: Slippages during the quarter were lower at 0.3% of the advances due to moratorium...



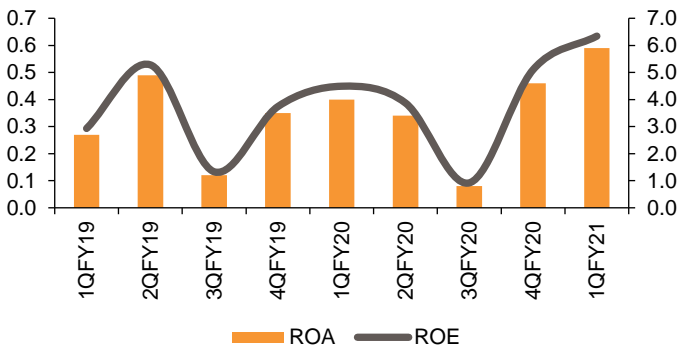
Source: Company, Emkay Research

Exhibit 4: ...leading to a 30bps qoq improvement in GNPA ratio



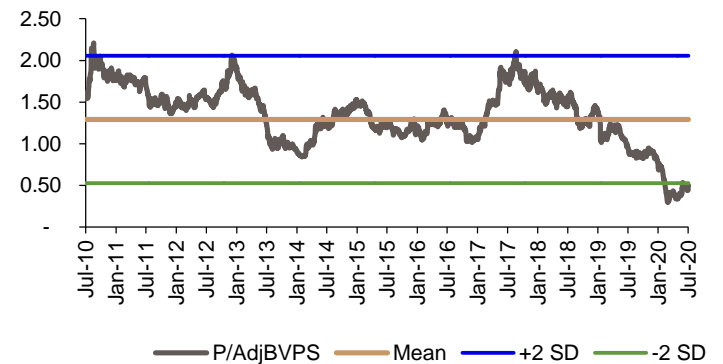
Source: Company, Emkay Research

Exhibit 5: RoA improved due to lower opex and lower covid-19 provisions during the quarter



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at 0.5x – 1 year forward ABV



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates – Q1FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,789	8,927		-2%		Subdued growth and margins led to a miss
PPOP	4,738	4,330	4,042	9%	17%	Lower operating expenses led to a beat
PAT	1,055	658	527	60%	100%	Higher PPOP and lower provisions led to a beat

Source: Company, Emkay Research

Exhibit 8: Quarterly summary

Rs (mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	14,925	15,375	15,037	14,561	13,761	-8	-5	59,900	57,066	-5
Interest Exp	9,086	9,412	9,266	8,657	8,143	-10	-6	36,420	33,761	-7
Net Interest Income	5,840	5,963	5,771	5,904	5,618	-4	-5	23,479	23,304	-1
Global NIMs (reported)	3.49	3.46	3.33	3.46	3.36	-13bps	-10bps	3.64	3.53	-11bps
Non-interest Income	2,698	2,777	2,601	3,470	3,171	18	-9	11,546	12,986	12
Operating Expenses	4,087	4,429	4,525	4,376	4,051	-1	-7	17,417	17,569	1
Pre Provisioning Profit	4,451	4,312	3,846	4,998	4,738	6	-5	17,609	18,721	6
Provision & Contingencies	3,300	3,652	3,643	4,293	3,376	2	-21	14,887	15,405	3
PBT	1,152	660	204	705	1,363	18	93	2,722	3,316	22
Income Tax Expense (Gain)	422	27	54	-131	308	-27	-334	372	835	125
Net Profit/(Loss)	729	633	150	837	1,055	45	26	2,350	2,481	6
Gross NPA (%)	9.17	8.89	8.92	8.68	8.34	-83bps	-34bps	8.69	9.27	59bps
Net NPA (%)	4.94	4.50	4.13	3.92	3.44	-150bps	-48bps	3.92	4.02	10bps
Deposits (Rs in bn)	617	622	623	591	601	-3	2	591	613	4
Net Advances (Rs in bn)	470	471	471	461	461	-2	0	461	481	4

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced	Revised	% change
Net income	37,181	36,290	-2.4%	39,549	38,580	-2.4%	42,687	41,971	-1.7%
PPOP	18,401	18,721	1.7%	18,951	19,564	3.2%	19,820	20,864	5.3%
PAT	2,387	2,481	4.0%	3,679	3,549	-3.5%	5,919	5,758	-2.7%
EPS (Rs)	3.0	3.1	4.0%	4.6	4.4	-3.5%	7.4	7.2	-2.7%
BV (Rs)	85.6	85.7	0.1%	89.2	89.6	0.5%	95.3	96.1	0.9%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	(5.1)	4.4	7.9	12.3
Deposit Growth %	(1.3)	3.7	8.4	10.9
NIM %	3.6	3.5	3.5	3.6
GNPA %	8.7	9.3	9.0	8.2
Credit Cost %	2.8	3.2	2.6	2.0

Source: Company, Emkay Research

Exhibit 11: Key ratios and trends

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Loans Rs mn	464,060	464,798	460,050	485,808	469,820	471,018	471,190	460,981	461,310
Growth YoY %	11.2	7.0	5.1	8.4	1.2	1.3	2.4	(5.1)	(1.8)
Growth QoQ %	3.6	0.2	(1.0)	5.6	(3.3)	0.3	0.0	(2.2)	0.1
Liability Profile & Margins									
Deposits (Rs mn)	575,540	582,618	586,240	598,680	617,110	622,128	622,620	590,751	600,650
Growth YoY %	5.3	3.3	2.6	5.2	7.2	6.8	6.2	(1.3)	(2.7)
Growth QoQ %	1.2	1.2	0.6	2.1	3.1	0.8	0.1	(5.1)	1.7
CASA %	30.0	29.5	29.8	29.9	29.7	29.8	30.6	31.3	33.0
CA %	10.2	9.9	10.0	9.7	10.1	9.9	10.1	9.3	10.0
SA %	19.8	19.6	19.8	20.2	19.6	19.9	20.6	22.0	23.0
Branches	790	788	782	778	778	779	779	779	779
NIM	3.65	3.57	3.60	3.88	3.49	3.46	3.33	3.46	3.36
Asset Quality									
GNPA	7.4	7.7	8.5	8.8	9.2	8.9	8.9	8.7	8.3
NNPA	4.5	4.4	5.0	5.0	4.9	4.5	4.1	3.9	3.4
PCR	41.4	44.7	43.4	45.6	48.5	51.8	56.0	57.1	60.9
Capital Adequacy									
CRAR %	14.1	14.2	14.6	16.0	16.0	16.0	15.9	17.2	18.1
Tier I %	13.6	13.7	14.1	14.3	14.3	14.3	14.1	15.3	16.1
ROE Decomposition %									
NII	3.5	3.4	3.4	3.6	3.3	3.3	3.8	4.1	3.3
Other Income	1.5	1.2	1.4	1.3	1.1	1.0	1.4	1.5	0.8
Opex	2.2	2.3	2.5	2.5	2.3	2.4	3.0	3.0	2.4
PPOP	2.7	2.1	2.5	2.7	2.5	2.4	2.6	3.5	2.8
Provisioning Cost	2.5	1.3	2.4	2.1	1.9	2.0	2.4	3.0	2.0
PBT	0.2	0.9	0.1	0.7	0.6	0.4	0.1	0.5	0.8
ROA	0.3	0.5	0.1	0.4	0.4	0.3	0.1	0.6	0.6
ROE	2.9	5.3	1.3	3.8	4.5	3.9	0.9	5.1	6.3

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	23,628	23,479	23,304	24,869	27,722
Other income	9,628	11,546	12,986	13,711	14,249
Fee income	6,549	6,580	6,843	7,185	7,760
Net income	33,256	35,026	36,290	38,580	41,971
Operating expenses	16,148	17,417	17,569	19,017	21,107
Pre provision profit	17,108	17,609	18,721	19,564	20,864
PPP excl treasury	16,403	14,209	14,301	14,923	16,455
Provisions	13,886	14,887	15,405	14,821	13,169
Profit before tax	3,222	2,722	3,316	4,743	7,695
Tax	1,114	372	835	1,194	1,937
Tax rate	35	14	25	25	25
Profit after tax	2,109	2,350	2,481	3,549	5,758

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	1,599	1,599	1,599	1,599	1,599
Reserves	62,068	64,404	66,885	70,035	75,232
Net worth	63,667	66,003	68,484	71,633	76,830
Deposits	598,680	590,751	612,569	663,800	735,866
Borrowings	9,283	10,342	10,859	10,316	10,832
Total liabilities	693,401	682,781	718,480	773,251	857,788
Cash and bank	29,347	27,327	31,521	34,072	35,775
Investments	148,812	157,624	165,774	176,495	191,432
Loans	485,808	460,981	481,413	519,460	583,182
Others	15,981	14,384	16,745	19,639	23,212
Total assets	693,401	682,781	718,480	773,251	857,788

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.7	3.6	3.5	3.5	3.6
Non-ll/avg assets	1.4	1.7	1.9	1.8	1.7
Fee income/avg assets	1.0	1.0	1.0	1.0	1.0
Opex/avg assets	2.4	2.5	2.5	2.5	2.6
Provisions/avg assets	2.0	2.2	2.2	2.0	1.6
PBT/avg assets	0.5	0.4	0.5	0.6	0.9
Tax/avg assets	0.2	0.1	0.1	0.2	0.2
RoA	0.3	0.3	0.4	0.5	0.7
RoAE	3.4	3.6	3.7	5.1	7.8
GNPA (%)	8.8	8.7	9.3	9.0	8.2
NNPA (%)	5.0	3.9	4.0	3.6	3.0

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	2.6	2.9	3.1	4.4	7.2
BVPS	79.7	82.6	85.7	89.6	96.1
ABVPS	59.7	65.6	67.6	72.1	79.6
DPS	0.6	0.0	0.0	0.5	0.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	13.1	11.7	11.1	7.8	4.8
P/BV	0.6	0.5	0.5	0.5	0.4
P/ABV	0.6	0.5	0.5	0.5	0.4
P/PPOP	1.6	1.6	1.5	1.4	1.3
Dividend Yield (%)	1.7	0.0	0.0	1.4	1.7

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	2.8	(0.6)	(0.7)	6.7	11.5
PPOP	(3.7)	2.9	6.3	4.5	6.6
PAT	(39.0)	11.5	5.6	43.0	62.2
Loans	8.4	(5.1)	4.4	7.9	12.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	5,840	5,963	5,771	5,904	5,618
NIM(%)	3.5	3.5	3.3	3.5	3.4
PPOP	4,451	4,312	3,846	4,998	4,738
PAT	729	633	150	837	1,055
EPS (Rs)	0.91	0.79	0.19	1.05	1.32

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	2.1	2.1	2.1	2.1	2.1
FIIIs	19.4	19.6	20.8	21.6	21.1
DIIIs	23.5	24.3	23.6	22.8	22.1
Public and Others	55.1	54.0	53.5	53.5	54.7

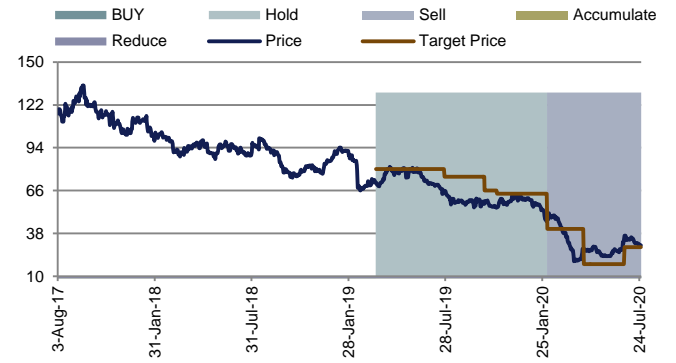
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-Jun-20	37	29	12m	Sell	Anand Dama
11-Apr-20	28	18	12m	Sell	Anand Dama
3-Feb-20	47	41	12m	Sell	Anand Dama
1-Nov-19	55	64	12m	Hold	Anand Dama
9-Oct-19	59	66	12m	Hold	Anand Dama
26-Jul-19	66	75	12m	Hold	Anand Dama
16-May-19	75	80	12m	Hold	Anand Dama
20-Mar-19	71	80	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.37	18.32	-0.2%	-4	100.00
Axis Bank	1.64	1.78	9%	15	9.70
AU Small Finance Bank	0.07	0.05	-34%	-3	0.26
Bandhan Bank	0.16	0.16	0%	0	0.90
Bank of Baroda	0.10	0.00	-100%	-10	0.00
Canara Bank	0.05	0.00	-100%	-5	0.00
City Union Bank	0.15	0.15	0%	0	0.83
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.18	0.23	29%	5	1.27
HDFC Bank	7.49	7.76	4%	27	42.25
ICICI Bank	3.72	3.90	5%	18	21.26
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.53	0.60	14%	7	3.27
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.86	2.39	-17%	-48	13.01
Punjab National Bank	0.08	0.00	-100%	-8	0.00
RBL Bank	0.12	0.12	0%	0	0.64
State Bank of India	1.18	1.18	0%	0	6.40
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.03	0.00	-100%	-3	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.04	NA	4	0.2

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

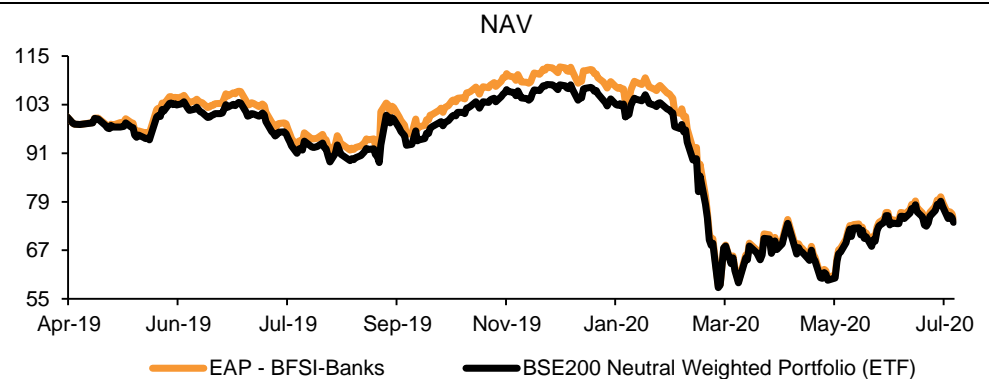
Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Oct-19	30-Jan-20	30-Apr-20	30-Jun-20	30-Jul-20
EAP - BFSI-Banks	100.0	102.8	106.8	74.7	74.4	74.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	99.1	102.7	73.6	73.6	73.9

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 01 Aug 2020 23:26:17 (SGT)

Dissemination Date: 01 Aug 2020 23:27:17 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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