

Karur Vysya Bank

Refer to important disclosures at the end of this report

Better asset quality performance, but risks persist

- KVB reported higher PAT at Rs1.04bn (est. Rs0.7bn), mainly driven by contained provisions but partly offset by higher opex, which remains a drag. GNPA ratio improved to 7.8% vs. 9.1% pro forma NPA in Q3. Restructured loans were moderate at Rs9.5bn (1.8% of loans) and SMA 30+ book at 1.6% of loans (2.5% in Q3).
- Overall credit growth was subdued at 9% yoy due to de-bulking of corporate book, but retail growth was healthy at 10% yoy/6% qoq. KVB expects 12% growth in FY22, largely loaded in H2, which coupled with lower NPA formation should support margins.
- KVB aspires for 1% RoA in FY23 and 1%+ in FY24; however, it is yet to lay down the path to achieve the target with the second wave adding to uncertainty. We believe controlling its otherwise higher cost ratios will be key to 1% RoA, which will be an arduous task.
- We retain our Hold rating on the stock with a TP of Rs62 (based on 0.7x FY23E ABV). However, further rerating will depend on the sustained asset quality performance and improvement in return ratios as guided.

To focus on secured retail, SME loans: Overall loan growth was moderate at 9% yoy due to its conscious strategy to de-bulk corporate book (down 3% yoy), while retail loan growth picked up – up 10% yoy/6% qoq. KVB has suspended unsecured lending and would focus on secured retail/SME loans and increasing business in underpenetrated areas. Deposit growth saw some pick-up at 7% yoy growth, while CASA remained flat and healthy at 34%. NIMs improved by 17bps qoq to 3.5% due to lower CoF. KVB believes the impact on margins, if any, due to suspension of unsecured loans would be offset by high yielding commercial loans (10.5% yield) and overall loan growth.

Lower NPA formation in Q4, but risk persists in SME portfolio: GNPA ratio improved by 127bps qoq to 7.8% vs. 9.1% pro forma NPA in Q3 due to contained slippages and heavy write-offs. The reduction in NPA of Rs6.2bn is mainly from corporate pool (Rs5.2bn). Restructured book is now Rs9.6bn (1.8%) – lower than management's guidance of 2.3%-2.5%, but risk persists with the raging second Covid wave impacting business/SME segment. The provision cover remains moderate with specific PCR at 59%, while KVB does not carry any Covid contingent provision. Collection efficiency stood at 95% up to Mar-Apr'21, which is now under some pressure in May'21.

Outlook & Valuations: We expect overall RoA/RoE to gradually improve to 0.8-0.9%/10-11% by FY23-24E, mainly driven by better growth/lower LLP, but achieving the aspirational goal of 1%+ RoA by FY24E remains an arduous task. We retain Hold on the stock with a TP of Rs62 (based on 0.7x FY23 ABV). However, further rerating will depend on the sustained asset quality performance and improvement in return ratios as guided. The key risks to our call/estimates include higher NPA formation mainly in its SME portfolio and delay in revival of credit growth.

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

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	35,026	34,161	36,824	40,858	46,699
Net profit	2,350	3,593	5,064	7,334	9,232
EPS (Rs)	2.9	4.5	6.3	9.2	11.5
ABV (Rs)	65.6	71.0	77.3	85.0	95.0
RoA (%)	0.3	0.5	0.6	0.8	0.9
RoE (%)	3.6	5.3	7.1	9.6	11.1
PE (x)	19.5	12.7	9.0	6.2	5.0
P/ABV	0.9	0.8	0.7	0.7	0.6

Source: Company, Emkay Research

CMP	Target Price
Rs 57 as of (May 30, 2021)	Rs 62 (■) 12 months
Rating	Upside
HOLD (■)	8.4 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	21.3/8.1
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	6.3	9.2
Consensus	6.9	9.8
Mean Consensus TP (12M)	Rs 70	

Stock Details

Bloomberg Code	KVB IN
Face Value (Rs)	2
Shares outstanding (mn)	799
52 Week H/L	65 / 23
M Cap (Rs bn/USD bn)	46 / 0.63
Daily Avg Volume (nos.)	1,845,046
Daily Avg Turnover (US\$ mn)	1.5

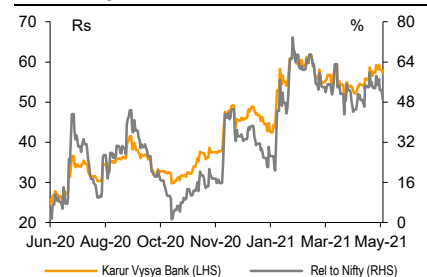
Shareholding Pattern Mar '21

Promoters	2.1%
FIIIs	21.3%
DIIIs	20.5%
Public and Others	56.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	(4)	53	147
Rel. to Nifty	3	(11)	27	52

Relative price chart



Source: Bloomberg

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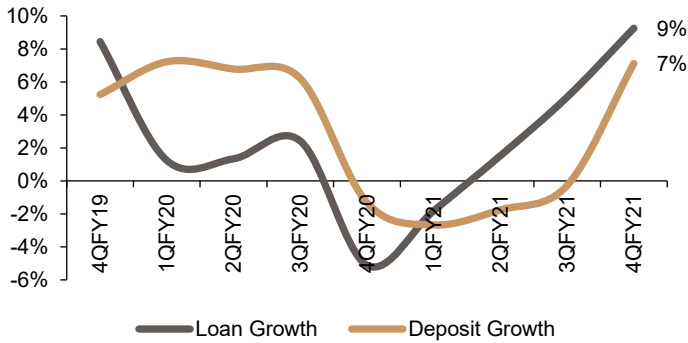
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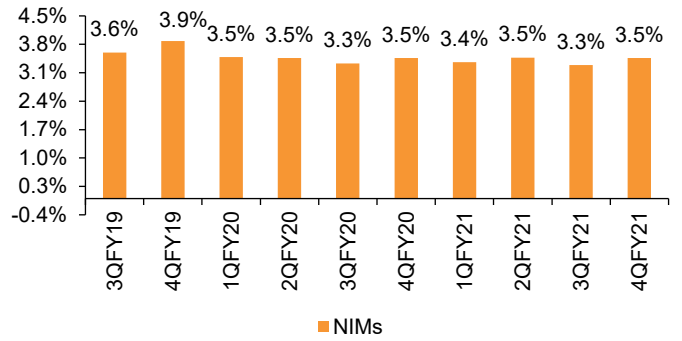
Story in Charts

Exhibit 1: Business momentum remains moderate



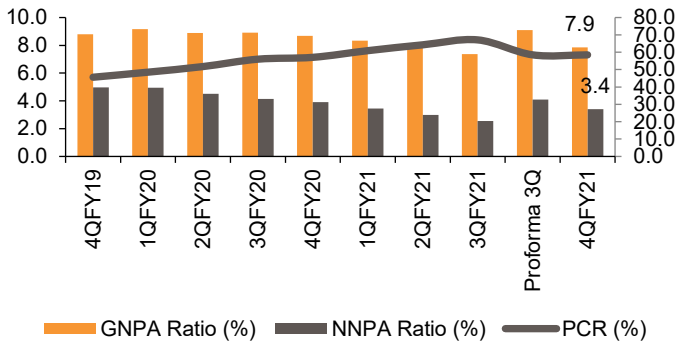
Source: Company, Emkay Research

Exhibit 2: NIM improved qoq by 17bps qoq due to lower CoF



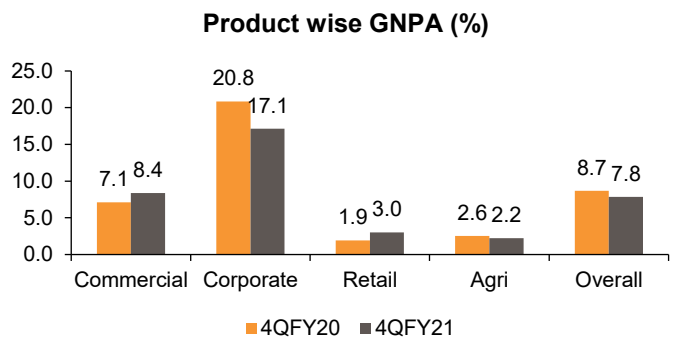
Source: Company, Emkay Research

Exhibit 3: GNPA ratio improved by 127qoq due to reduction in corporate NPA pool



Source: Company, Emkay Research

Exhibit 4: NPA increased in Retail/Commercial loans due to pandemic while corporate asset quality improved yoy



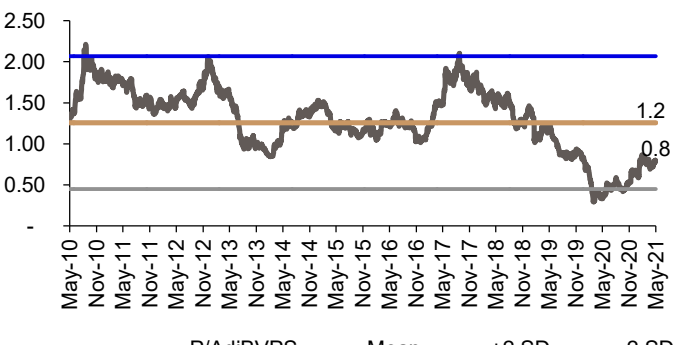
Source: Company, Emkay Research

Exhibit 5: Return ratios improved due to contained provisions



Source: Company, Emkay Research

Exhibit 6: The stock trades at 0.8x -1-year forward ABV



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q4FY21)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,291	8,257	8,265	0%	0%	Better margins offset lower other income
PPOP	2,498	3,540	3,549	-29%	-30%	Higher opex leads to a miss
PAT	1,044	746	964	40%	8%	Contained LLP leads to a beat

Source: Company, Emkay Research

Exhibit 8: Quarterly Summary

Rs (mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY21	FY22E	YoY (%)
Interest Earned	14,561	13,761	13,947	13,503	13,493	-7	0	54,704	60,816	11
Interest Exp	8,657	8,143	7,932	7,667	7,367	-15	-4	31,109	34,812	12
Net Interest Income	5,904	5,618	6,015	5,836	6,126	4	5	23,595	26,004	10
Global NIMs (reported)	3.46	3.36	3.47	3.29	3.46	0bps	17bps	3.48	3.50	2bps
Non-interest Income	3,470	3,171	2,716	2,515	2,165	-38	-14	10,566	10,820	2
Operating Expenses	4,376	4,051	4,243	5,782	5,793	32	0	19,868	21,387	8
Pre Provisioning Profit	4,998	4,738	4,488	2,569	2,498	-50	-3	14,293	15,438	8
Provision & Contingencies	4,293	3,376	2,847	2,012	715	-83	-64	8,950	8,670	-3
PBT	705	1,363	1,640	557	1,783	153	220	5,343	6,768	27
Income Tax Expense (Gain)	-131	308	491	211	740	-663	251	1,750	1,703	-3
Net Profit/(Loss)	837	1,055	1,149	346	1,044	25	202	3,593	5,064	41
Gross NPA (%)	8.68	8.34	7.93	7.37	7.85	-83bps	48bps	7.85	7.19	-66bps
Net NPA (%)	3.92	3.44	2.99	2.55	3.41	-51bps	86bps	3.41	2.86	-56bps
Deposits (Rs in bn)	591	601	611	621	633	7	2	633	700	11
Net Advances (Rs in bn)	461	461	478	495	504	9	2	504	565	12

Source: Emkay Research, Company

Exhibit 9: Revision in Estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	37,857	36,824	-2.7%	42,213	40,858	-3.2%	46,699
PPOP	17,323	15,438	-10.9%	19,395	17,430	-10.1%	20,730
PAT	4,175	5,064	21.3%	6,793	7,334	8.0%	9,232
EPS (Rs)	5.2	6.3	21.3%	8.5	9.2	8.0%	11.5
BV (Rs)	90.7	92.4	1.9%	97.2	99.6	2.5%	108.5

Source: Emkay Research

We revise our earnings estimate by 8-21% for FY22-23, mainly driven by better growth and lower LLP.

Exhibit 10: Key Assumptions

	FY21A	FY22E	FY23E	FY24E
Loan Growth %	9.3	12.2	14.6	16.6
Deposit Growth %	7.1	10.6	13.3	14.7
NIM %	3.5	3.5	3.5	3.6
GNPA %	7.8	7.2	6.2	5.3
Credit Cost %	1.5	1.5	1.2	1.1

Source: Emkay Research

Exhibit 11: Key trends and ratios

	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Loans Rs mn	485,808	469,820	471,018	471,190	460,981	461,310	478,218	495,120	503,635
Growth YoY %	8.4	1.2	1.3	2.4	(5.1)	(1.8)	1.5	5.1	9.3
Growth QoQ %	5.6	(3.3)	0.3	0.0	(2.2)	0.1	3.7	3.5	1.7
Liability Profile & Margins									
Deposits (Rs mn)	598,680	617,110	622,128	622,620	590,751	600,650	611,224	620,900	632,784
Growth YoY %	5.2	7.2	6.8	6.2	(1.3)	(2.7)	(1.8)	(0.3)	7.1
Growth QoQ %	2.1	3.1	0.8	0.1	(5.1)	1.7	1.8	1.6	1.9
CASA %	29.9	29.7	29.8	30.6	31.3	33.0	33.9	34.6	34.0
CA %	9.7	10.1	9.9	10.1	9.3	10.0	10.6	10.9	-
SA %	20.2	19.6	19.9	20.6	22.0	23.0	23.3	23.8	34.0
Branches	778	778	779	779	779	779	780	780	780
NIM	3.88	3.49	3.46	3.33	3.46	3.36	3.47	3.29	3.46
Asset Quality									
GNPA	8.8	9.2	8.9	8.9	8.7	8.3	7.9	7.4	7.9
NNPA	5.0	4.9	4.5	4.1	3.9	3.4	3.0	2.6	3.4
PCR	45.6	48.5	51.8	56.0	1.0	60.9	64.3	67.1	58.5
Capital Adequacy									
CRAR %	16.0	16.0	16.0	15.9	17.2	18.1	18.4	18.5	19.0
Tier I %	14.3	14.3	14.3	14.1	15.3	16.1	16.4	16.5	17.0
ROE Decomposition %									
NII	3.6	3.3	3.3	3.8	4.1	3.3	3.5	3.2	3.3
Other Income	1.3	1.1	1.0	1.4	1.5	0.8	0.9	1.1	1.2
Opex	2.5	2.3	2.4	3.0	3.0	2.4	2.5	3.2	3.1
PPOP	2.7	2.5	2.4	2.6	3.5	2.8	2.6	1.4	1.4
Provisioning Cost	2.1	1.9	2.0	2.4	3.0	2.0	1.6	1.1	0.4
PBT	0.7	0.6	0.4	0.1	0.5	0.8	0.9	0.3	1.0
ROA	0.4	0.4	0.3	0.1	0.6	0.6	0.7	0.2	0.6
ROE	3.8	4.5	3.9	0.9	5.1	6.3	6.8	2.0	6.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	23,479	23,595	26,004	29,106	33,488
Other income	11,546	10,566	10,820	11,751	13,210
Fee income	6,580	5,480	5,754	6,444	7,411
Net income	35,026	34,161	36,824	40,858	46,699
Operating expenses	17,417	19,868	21,387	23,428	25,969
Pre provision profit	17,608	14,293	15,438	17,430	20,730
PPP excl treasury	14,209	10,753	12,252	14,244	17,384
Provisions	14,887	8,950	8,670	7,629	8,393
Profit before tax	2,722	5,343	6,768	9,801	12,337
Tax	372	1,750	1,703	2,467	3,105
Tax rate	14	33	25	25	25
Profit after tax	2,350	3,593	5,064	7,334	9,232

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	1,599	1,599	1,599	1,599	1,599
Reserves	64,404	67,999	72,264	77,999	85,152
Net worth	66,003	69,597	73,862	79,598	86,751
Deposits	590,751	632,784	699,815	792,965	909,389
Borrowings	6,972	23,783	22,594	24,853	27,338
Total liabilities	682,777	746,232	812,967	915,812	1,052,175
Cash and bank	27,327	31,241	22,330	21,293	24,331
Investments	157,620	160,189	171,148	188,885	210,478
Loans	460,981	503,635	564,869	647,553	754,933
Others	14,384	13,814	16,101	18,999	22,526
Total assets	682,777	746,232	812,967	915,812	1,052,175

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	3.6	3.5	3.5	3.5	3.6
Non-ll/avg assets	1.7	1.5	1.4	1.4	1.3
Fee income/avg assets	1.0	0.8	0.7	0.7	0.8
Opex/avg assets	2.5	2.8	2.7	2.7	2.6
Provisions/avg assets	2.2	1.3	1.1	0.9	0.9
PBT/avg assets	0.4	0.7	0.9	1.1	1.3
Tax/avg assets	0.1	0.2	0.2	0.3	0.3
RoA	0.3	0.5	0.6	0.8	0.9
RoAE	3.6	5.3	7.1	9.6	11.1
GNPA (%)	8.7	7.8	7.2	6.2	5.3
NNPA (%)	3.9	3.4	2.9	2.4	1.9

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	2.9	4.5	6.3	9.2	11.5
BVPS	82.6	87.1	92.4	99.6	108.5
ABVPS	65.6	71.0	77.3	85.0	95.0
DPS	0.6	0.5	1.0	2.0	2.6

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	19.5	12.7	9.0	6.2	5.0
P/BV	0.9	0.8	0.7	0.7	0.6
P/ABV	0.9	0.8	0.7	0.7	0.6
P/PPOP	2.6	3.2	3.0	2.6	2.2
Dividend Yield (%)	1.0	0.9	1.7	3.5	4.5

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	(0.6)	0.5	10.2	11.9	15.1
PPOP	2.9	(18.8)	8.0	12.9	18.9
PAT	11.5	52.9	40.9	44.8	25.9
Loans	(5.1)	9.3	12.2	14.6	16.6

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	5,904	5,618	6,015	5,836	6,126
NIM (%)	3.5	3.4	3.5	3.3	3.4
PPOP	4,998	4,738	4,488	2,569	2,498
PAT	837	1,055	1,149	346	1,044
EPS (Rs)	1.05	1.32	1.44	0.43	1.31

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	2.1	2.1	2.1	2.1	2.1
FIIIs	21.6	21.1	20.9	21.4	21.3
DIIIs	22.8	22.1	20.8	20.9	20.5
Public and Others	53.5	54.7	56.2	55.6	56.1

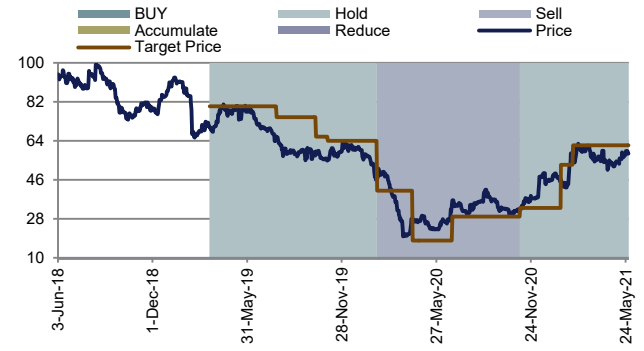
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Feb-21	55	62	12m	Hold	Anand Dama
20-Jan-21	46	53	12m	Hold	Anand Dama
3-Nov-20	32	33	12m	Hold	Anand Dama
1-Aug-20	35	29	12m	Sell	Anand Dama
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	74	80	12m	Hold	Anand Dama
20-Mar-19	70	80	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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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	20.87	20.84	-0.1%	-3	100.00
Axis Bank	2.22	2.31	4%	9	11.07
AU Small Finance Bank	0.24	0.19	-18%	-4	0.93
Bandhan Bank	0.25	0.29	18%	4	1.41
Bank of Baroda	0.18	0.12	-31%	-6	0.59
Canara Bank	0.09	0.00	-100%	-9	0.00
City Union Bank	0.15	0.22	48%	7	1.04
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Small Finance Bank	0.00	0.04	NA	4	0.21
Federal Bank	0.20	0.25	23%	5	1.19
HDFC Bank	6.98	7.10	2%	11	34.00
ICICI Bank	5.07	5.23	3%	16	25.06
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.66	0.76	16%	10	3.66
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.68	2.21	-18%	-47	10.59
Punjab National Bank	0.14	0.00	-100%	-14	0.00
RBL Bank	0.12	0.09	-27%	-3	0.44
State Bank of India	1.85	2.02	9%	17	9.67
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	0.03	NA	3	0.14

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	28-May-20	27-Nov-20	26-Feb-21	28-Apr-21	28-May-21
EAP - BFSI-Banks	100.0	67.1	102.6	118.1	115.7	120.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	66.2	101.1	115.7	113.5	117.6

*Performance measurement base date 1st April 2019

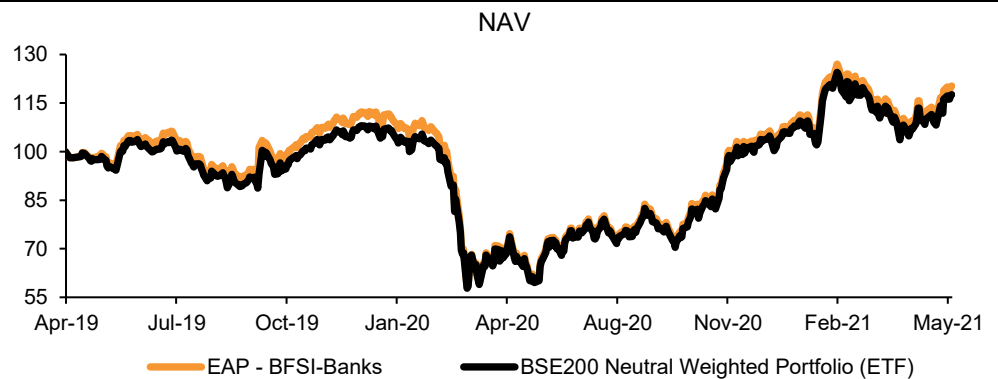
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	3.9%	1.8%	17.2%	79.2%
BSE200 Neutral Weighted Portfolio (ETF)	3.7%	1.6%	16.4%	77.8%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

“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%

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

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