

# KARNATAKA BANK

## BANKING

### Q1FY18 highlights

Karnataka Bank (KBL) reported PAT of Rs 134 cr ( up 10% y-o-y) in Q1FY18 , led by improvement in NII ( up 16% y-o-y) and other income ( up 25%y-o-y). The increase in other income was attributed by treasury income (up 78% y-o-y) and Fee Income (up 8% y-o-y). This quarter witnessed improvement in NIMs by 9 bps Y-o-Y (44 bps Q-o-Q ) due to improvement in CD ratio. Advances during the quarter grew 10% y-o-y to Rs 38,484 cr. The new management focuses on credit growth along with branch expansion to 1,000 Branches and 2,500ATMs by March 2020.

### Outlook

The management has set aggressive targets to increased business turnover to Rs 1,10,000 cr by 2018 ( 17% growth).The management is focusing on higher retail proportion , increasing the CD ratio to drive NIMs further and is confident of NPA recoveries going forward. Moreover, relatively lower exposure to other stress areas (SDR & S4A) is comforting. KBL aims to become a Preferred Banker to at least 1% of India's population by March 2020. We maintain our earlier target of Rs 192/- (upside 22% from CMP) valuing KBL at 1.03 x P/Adj.BV and retain BUY rating.

# BUY

Target Price: Rs 192

CMP : Rs 157  
Potential Upside : 22%

### MARKET DATA

No. of Shares : 28.27cr  
FV (Rs) : 10  
Market Cap : Rs 4,873 cr  
52-week High / Low : Rs 181 / Rs 100  
Avg. Daily vol. (6mth) : 4.28 mn shares  
Bloomberg Code : KBL IN  
Reuters Code : KBNK.BO  
BSE Code : 532652  
NSE Code : KTKBNK

### Key Highlights

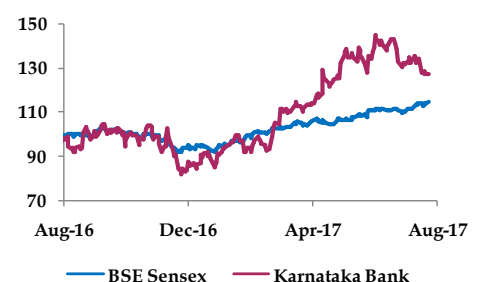
- **Asset quality declined marginally QoQ:** GNPA % increased to 4.3 % ( up 13 bps) as against 4.21% QoQ. The increase in the NPA's was due to a steel manufacturing account, which was borderline case for past 4 years and has now slipped into NPA during this quarter. The management views it as an aberration and is confident of upgrading it going forward. However, slippages decreased marginally from Rs.511 cr to Rs 498 cr QoQ. Management guided for improvement in asset quality and credit cost going forward.
- **CASA ratio declined QoQ:** Deposit declined by 0.9% QoQ (however up 9% YoY) led by decline in CASA deposits (down 1.23% QoQ). Bank's overall CASA growth was healthy at ~22.45% YoY and CASA ratio increased by 272 bp YoY, however declined by 10 bps QoQ to 28.94%.
- **Credit growth better than Industry average:** KBL's advances during the quarter grew by ~10% YoY as against industry average of 6% YoY. It was led by traction in Retail loan book which was up by 9.07% YoY. The management had guided for business growth of 17% by FY18 to Rs.1,10,000 cr with focus on retail portfolio as is on track to achieve the same.
- **NIMs improved YoY:** KBL's Q1FY18 NIM stood at 2.64% up 9 bps YoY on the back of improving CD ratio from 67.9% in Q1FY17 to 68.4% in Q1FY18. The management expects the CD ratio to improve to approx 70% over the next 2-3 quarters, leading to further improvement in NIMs.

### FINANCIAL SUMMARY

Y/E Mar	NII (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	BV (x)	P/E (%)	P/BV (%)	Net NPA (%)	ABV (Rs.)	P/ABV (x)	RoE (%)	RoA (%)
FY16	1,303	415	22.0	-8	196	-	0.8	2.35	153	1.0	11.7	0.8
FY17	1,491	452	16.0	-27	182	-	0.8	2.64	147	1.0	10.2	0.7
FY18E	1,786	569	20.0	25	197	7.9	0.7	2.14	164	1.0	10.6	0.8
FY19E	2,174	769	27.0	35	219	5.8	0.6	1.83	186	0.9	13.1	1.0

Source: Company and Axis Securities ; CMP as on 26 July 2017

### PRICE PERFORMANCE



## Results Update

	Jun-17	Jun-16	% YoY	Mar-17	%QoQ	FY17	FY18E	FY19E
Interest Income	1,331	1,261	6%	1,295	3%	5,185	5,905	6,802
Interest Expenses	906	895.91	1%	942	-4%	3,695	4,119	4,628
Net Interest Income	424	365	16%	352	21%	1,491	1,786	2,174
Other Income	217	174	25%	312	-30%	809	676	781
Total Income	642	539	19%	664	-3%	2,300	2,462	2,955
Operating Expenses	332	277	20%	335	-1%	1,304	1,317	1,507
Employee	137	128	7%	123	12%	601	777	889
Others	195	149	31%	212	-8%	703	540	618
Operating Profits before provisions	310	262	18%	329	-6%	996	1,145	1,448
Total Provisions	199	136	46%	160	24%	528	386	423
PBT	111	126	-12%	169	-34%	468	759	1,025
Taxes	-23	4.07	-666%	31	-176%	16	190	256
PAT	134	122	10.1%	138	-3%	452	569	769
EPS	4.7	5.8	-18%	5	-3%	16	20	27
<b>Asset Quality</b>								
GNPA Rs. Cr	1,691	1,389	22%	1,582	7%	1,582	1,529	1,521
NNPA Rs. Cr	1230	911	35%	975	26%	975	918	912
GNPA %	4.34	3.92	42	4.21	13	4.21	3.5	3
NNPA %	3.2	2.61	59	2.64	56	2.64	2.14	1.83
Slippages	498	337	48%	511	-3%	1,348	1,067	1,100
Slippage Ratio %	1.29	0.96	33	1.38	-8.6	3.64	3	2.45
Restructured Assets	968	1,497	-35%	1,037	-7%	1,037	1,000	800
Credit Cost %	2.1	1.6	50.7	1.73	33	1.4	0.9	0.9
<b>Ratios %</b>								
Cost to Income ratio	51.8	51.4	34	50.4	135	56.7	53.5	51
Loan/Deposit	68.4	67.9	50	65.2	320	65.2	65.2	66.4
CASA %	28.9	26.2	272	29.0	-10	29	27.6	27.6
RoA %	0.8	0.9	-2	0.9	-7	0.7	0.8	1
RoE %	10.3	13.0	-271	10.8	-55	10.2	10.6	13.1
CAR (Basel III) %	13.0	11.6	138	13.3	-28	13.3	12.8	12.5
Tier I %	11.9	10.3	167	12.2	-26	12.2	12	11.7
Tier II %	1.1	1.4	-30	1.1	-1	1.1	0.8	0.8
<b>Margins %</b>								
Yield on Advances	10.2	11.0	-76	10.8	-58	10.8	11.1	10.8
Cost of Deposits	6.3	7.0	-62	6.7	-40	6.7	6.8	6.5
Quarterly NIMs	<b>2.64</b>	<b>2.55</b>	<b>9</b>	<b>2.20</b>	<b>44</b>	<b>2.4</b>	<b>2.45</b>	<b>2.5</b>
BV-Calculated	183	196	-7%	182	0.5%	182	197	219
Adjusted Networth	3,944	2,779	42%	4,168	-5%	4,168	4,642	5,266
Adj. BV	139	148	-6%	147	-5%	147	164	186
<b>Balance sheet</b>								
Capital	283	188	51%	283	0.0%	283	283	283
Net Worth	5,174	3,690	40%	5,143	0.6%	5,143	5,560	6,178
FV	10	10		10		10	10	10
Deposits	56,227	51,501	9%	56,733	-0.9%	56,733	65,810	75,024
Investments	18,421	16,445	12%	20,220	-8.9%	20,220	23,050	26,278
Loans	38,484	34,946	10%	37,004	4.0%	37,004	42,924	49,792

Source: Company and Axis Securities

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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