

**STABLE OUTLOOK**

17<sup>th</sup> Oct, 2017

**CMP:** Rs. 160  
**Target Price:** Rs. 170  
**Recommendation:** HOLD

**Stock Info**

BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	32,589
NSE Nifty	10,227

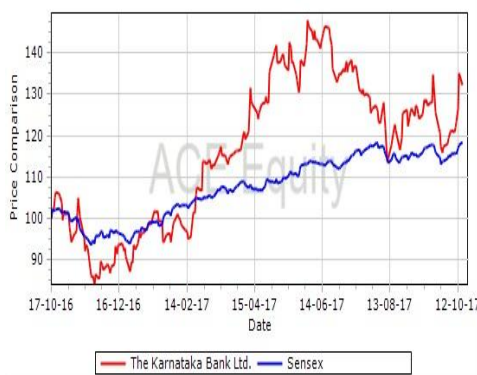
**Market Info**

Market Capital(Rs Cr)	4,486
Equity Capital(Rs Cr)	283
Avg. Trading Vol.	36,16,370
52 Wk High/ Low	181/100
Face Value	10

**Shareholding Pattern (%)**

Promoters	0.0
Domestic Institutions	11.2
Foreign Institutions	18.7
Public & Others	70.1

**Price Chart:**



**Profitability**

The Karnataka Bank Ltd for the quarter ended Q2 FY18 reported fall in its net profit by 25% YoY to Rs 93 crs. Sequentially the profit de-grew by 30%. This was majorly due to higher provisions cost which increased by 73% YoY and 14% QoQ.

**Advances**

Bank reported muted credit growth of 12% YoY while the loan book grew by 7% sequentially to Rs 41,127 crs. Retail advances for the bank grew at 7% while corporate advances grew at 18.2% YoY. Retail advances to corporate advances ratio stood at 50 : 50. Management has guided credit growth of 15%.

**Deposits**

Deposits for the bank grew at robust 6.5% YoY. CASA proportion increased from 26% to 28.5% on account of higher savings bank account growth. C-D ratio for the bank increased to 72.7% against 68.9% YoY and 68.4% sequentially.

**Asset Quality**

Gross NPA stood at Rs 1761 cr (4.13%) while Net NPA stood at Rs 1247 crs (3.04%). Management expects asset quality to stay at tolerable levels as recoveries are expected to outpace slippages going forward. Management is confident that recoveries & slippages will improve in coming quarters. Management has reaffirmed target for Net NPA's to come down to 2% by end of this fiscal year.

**Margins**

Yield on advances stood at 10.2% against 11% YoY. Cost of deposits dropped to 6.2% against 6.9% YoY. NIM for the bank has improved to 3.03 against 2.6 YoY and 2.64 on sequentially basis. Management commented that NIM's will improve further.

**Valuation**

At CMP of Rs 160 the stock trades at 8.4 P/E(x) and 1.1 P/ABV(x) to its FY 19E. We have valued the stock at 1.15(x) to its FY 19E ABV and arrived at a fair value of Rs 163 for the stock. We have 'NEUTRAL' rating for the stock.

**Snapshot**

Particulars (Rs Cr)	FY 17	FY 18E	FY 19E
NII	1491	1679	1972
PPP	996	1044	1212
Net Profit	452	457	539
EPS(Rs)	16.0	16.2	19.1
ROE(%)	10.2	8.8	10.0
P/E (x)	10.2	9.9	8.4
P/ABV (x)	1.2	1.2	1.1

**Quarterly Result Highlights:**

<b>Income Statement</b>					
<b>Particulars</b>	<b>Q2 FY18</b>	<b>Q2 FY17</b>	<b>YoY %</b>	<b>Q1 FY18</b>	<b>QoQ %</b>
Interest Earned	1318	1306	0.9	1331	-0.9
Interest Expended	878	909		906	
NII	440	397	10.8	424	3.7
Other Income	248	190	30.6	217	14.0
Operating Expenses	322	354	-9.1	332	-3.1
Employee Cost	124	174	-28.4	137	-9.6
Operating Profit	366	233	57.4	310	18.3
Provisions	226	131	73.1	199	13.6
Tax	47	-22		-23	
Profit After Tax	93	124	-24.6	134	-30.2
<b>Other Highlights</b>					
<b>Particulars</b>	<b>Q2 FY18</b>	<b>Q2 FY17</b>	<b>YoY %</b>	<b>Q1 FY18</b>	<b>QoQ %</b>
EPS	3.3	6.6		4.7	
BVPS	187	209		183	
RoA	0.6	0.8	-0.3	0.8	-0.3
RoE	8.2	12.9	-4.7	10.3	-2.1
NIM	3.0	2.6	0.4	2.6	0.4
C-I ratio	46.8	60.3	-13.6	51.7	-5.0
CAR Basel III	12.5	11.2		13.0	
Tier I	11.4	9.8		11.9	
RWA	42019	37357	12.5	40032	5.0
Gross NPA	1716	1345		1691	
Net NPA	1247	961		1230	
Gross NPA %	4.1	3.6	0.5	4.3	-0.2
Net NPA %	3.0	2.6	0.4	3.2	-0.2
Deposits	56558	53096	6.5	56227	0.6
CASA%	28.6	26.3		28.9	
CASA	16163	13980	15.6	16271	-0.7
Advances	41127	36611	12.3	38484	6.9
Retail	49.8	52.3		51.6	
Corporate	50.2	47.7		48.4	
C-D ratio	72.7	69.0		68.4	
Cost of deposits	6.2	6.9	-0.7	6.3	-0.1
Yield on advances	10.2	11.1	-0.9	10.2	-0.1

**Profit & Loss Account**

Particulars (Rs Cr)	FY 17	FY 18E	FY 19E
Interest Earned	5185	6032	6863
Interest Expended	3695	4352	4891
<b>NII</b>	<b>1491</b>	<b>1679</b>	<b>1972</b>
Other Income	810	692	784
Fee Income	271	302	343
Operating Expenses	1304	1327	1544
Employee Cost	601	655	796
<b>PPP</b>	<b>996</b>	<b>1044</b>	<b>1212</b>
Provisions and Contingencies	513	450	483
Profit Before Tax	483	594	729
Taxes	31	137	190
<b>Net Profit</b>	<b>452</b>	<b>457</b>	<b>539</b>

**Balance Sheet**

Particulars (Rs Cr)	FY 17	FY 18E	FY 19E
Share Capital	283	283	283
Total Reserves	4860	4914	5311
Deposits	56733	62965	71078
Borrowings	833	1035	1075
Other Liabilities & Provisions	1418	983	1021
<b>Total Liabilities</b>	<b>64127</b>	<b>70179</b>	<b>78768</b>
Cash and balance with RBI	2929	4964	5419
Bal. with banks & money at call	345	976	1420
Investments	20220	19830	21915
Advances	37004	41428	47448
Other Assets	3629	2980	2566
<b>Total Assets</b>	<b>64127</b>	<b>70179</b>	<b>78768</b>

**Ratios**

Particulars (%)	FY 17	FY 18E	FY 19E
Advances Growth	9.1	12.0	14.5
Deposit Growth	12.4	11.0	12.9
NII Growth	14.4	12.7	17.4
Net Profit Growth	8.9	1.1	18.0
EPS(Rs)	16.0	16.2	19.1
BVPS(Rs)	182	184	198
Adj. BVPS (Rs.)	139	138	148
DPS(Rs)	0.0	3.6	4.2
ROA(%)	0.7	0.7	0.7
ROE(%)	10.2	8.8	10.0
C-D ratio	65.2	65.8	66.8
Cost Income Ratio	56.7	56.0	56.0
CASA (%)	29.0	29.5	30.1

**Ratios**

Particulars (%)	FY 17	FY 18E	FY 19E
Total CAR (Basel III)	14.1	13.8	13.1
Net NPA	3.2	3.2	3.0
Gross NPA	4.5	4.4	4.1
PCR	52.0	52.0	55.0
Yield on Advances	11.0	11.0	11.0
Yield on Investments	7.5	7.5	7.5
Cost of Deposits	6.9	6.9	6.9
Interest Spread	4.1	4.1	4.2
NIM(%)	2.6	2.6	2.7
<b>Valuation</b>			
P/E (x)	10.2	9.8	8.3
P/BV (x)	0.9	0.9	0.8
P/ABV (x)	1.2	1.1	1.1

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