

**STABLE OUTLOOK**

15<sup>th</sup> Jan, 2018

**CMP:** Rs. 167  
**Target Price:** Rs. 170  
**Recommendation:** NEUTRAL

**Stock Info**

BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	34,592
NSE Nifty	10,681

**Market Info**

Market Capital(Rs Cr)	4,571
Equity Capital(Rs Cr)	283
Avg. Trading Vol.	34,94,600
52 Wk High/ Low	181/111
Face Value	10

**Shareholding Pattern (%)**

Promoters	0.0
Domestic Institutions	11.8
Foreign Institutions	18.0
Public & Others	70.2

**Price Chart:**



**Profitability**

The Karnataka Bank Ltd for the quarter ended Q3 FY18 reported growth in its net profit by 27% YoY to Rs 87 crs on back of higher other income which grew by 46% YoY. Sequentially the profit de-grew by 6%, this was majorly due to lower other income which decreased by 21% QoQ.

**Advances**

Bank reported strong credit growth of 24% YoY while the loan book grew by 8% sequentially to Rs 44,411 crs. Retail advances for the bank grew at 11% while corporate advances grew at 38% YoY. Retail advances to corporate advances ratio stood at 47 : 53. Management has guided growth above 25% by end March 2018, while expects to further improve credit-deposit ratio to 80%.

**Deposits**

Deposits for the bank grew at 1% YoY. CASA proportion decreased from 30.2% to 28.3%. 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 1784 cr (3.97%) while Net NPA stood at Rs 1263 crs (2.85%). The bank has achieved the target of reducing Gross NPA ratio below 4% ahead of March 2018. 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.

**Margins**

Yield on advances stood at 10% against 11% YoY. Cost of deposits dropped to 6.2% against 6.9% YoY. NIM for the bank has improved to 3.09% against 2.54% YoY and 2.03 on sequentially basis. Management commented that NIM's will improve further.

**Valuation**

At CMP of Rs 160 the stock trades at 8.8 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 170 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	10.3	8.8
P/ABV (x)	1.2	1.2	1.1

**Conference call highlights:**

- The bank has continued to reduce fresh slippages of loans from Rs 498 crore in Q1FY18 to Rs 374 crore in Q2FY18 and further lower to Rs 211 crore in Q3FY2018. The recoveries and up gradations stood at Rs 71 crore, while write-offs were Rs 71 crore in Q3FY18.
- The bank has reduced the fresh slippage ratio from 0.75% in Q3FY17 to 0.49% in Q3FY18, helping to reduce Gross NPA ratio to 3.97% end December 17. The bank has achieved the target of reducing Gross NPA ratio below 4% ahead of March 2018 .
- Management commented that bank had set up credit monitoring department two years back, while credit monitoring teams are set up at all regional offices that has helped to contain fresh slippages of loans. Management is optimistic about further decline in fresh slippages of loans, going forward.
- Management said bank is focusing strongly on loan growth with retail and mid corporate loan segment under strong focus. Within corporate loan segment, the top rate accounts are under strong focus.
- The bank is also focusing on fundraising from other options than deposits, which would support improvement in credit-deposit ratio.
- The bank has exposure 4 accounts with outstanding exposure of Rs 170 crore under 5/25 scheme, 4 accounts with the exposure of Rs 347 crore under S4A scheme and 4 accounts with exposure of Rs 183 crore under SDR scheme end December 2017. All these accounts are standard accounts and overlaps with restructured advance book.
- With regard to exposure to the accounts referred to National Company Law Tribunal (MCLT) for faster resolution under IBC, the bank has exposure to 4 account with the outstanding balance of Rs 319 crore. The bank holds adequate provision on these accounts end December 2017, while would be required to make additional provisions in Q4FY18.
- Management proposes to focus on leveraging the technology and aims to reduce cost-to-income ratio to 42 to 45% by FY20. The bank is also aiming to achieve RoA of above 1% by FY20.
- Management said bank would add only 35 branches in FY2018 to reach a level of 800 branches by March 2018.
- The share of investment grade exposure in the corporate loan book stands at above 80% by end December 2017.

**Quarterly Result Highlights:**

<b>Income Statement</b>					
<b>Particulars</b>	<b>Q3 FY18</b>	<b>Q3 FY17</b>	<b>YoY %</b>	<b>Q2 FY18</b>	<b>QoQ %</b>
Interest Earned	1332	1324	0.6	1318	1.1
Interest Expended	881	947		878	
NII	451	377	19.9	440	2.6
Other Income	195	134	45.7	248	-21.5
Operating Expenses	324	338	-4.2	322	0.7
Employee Cost	121	177	-31.3	124	-2.2
Operating Profit	322	172	87.3	366	-12.1
Provisions	196	101	95.2	226	-13.1
Tax	38	3		47	
Profit After Tax	87	69	27.5	93	-6.4
<b>Other Highlights</b>					
<b>Particulars</b>	<b>Q3 FY18</b>	<b>Q3 FY17</b>	<b>YoY %</b>	<b>Q2 FY18</b>	<b>QoQ %</b>
EPS	3.1	3.2		3.3	
BVPS	191	10		187	
RoA	0.5	0.4	0.1	0.6	0.0
RoE	6.5	6.1	0.5	8.2	-1.6
NIM	3.1	2.5	0.6	3.0	0.1
C-I ratio	50.2	66.3	-16.1	46.8	3.4
CAR Basel III	12.3	13.2		12.5	
Tier I	11.1	11.9		11.4	
RWA	43326	38120	13.7	42019	3.1
Gross NPA	1784	1560		1716	
Net NPA	1263	1066		1247	
Gross NPA %	4.0	4.3	-0.4	4.1	-0.2
Net NPA %	2.9	3.0	-0.1	3.0	-0.2
Deposits	57771	57435	0.6	56558	2.1
CASA%	28.2	30.2		28.6	
CASA	16306	17357	-6.1	16163	0.9
Advances	44411	35786	24.1	41127	8.0
Retail	46.9	52.4		49.8	
Corporate	53.1	47.6		50.2	
C-D ratio	76.9	62.3		72.7	
Cost of deposits	6.2	6.8	-0.7	6.2	-0.1
Yield on advances	10.1	11.1	-1.0	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	9.9	8.4
P/BV (x)	0.9	0.9	0.8
P/ABV (x)	1.2	1.2	1.1

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