

**CMP : Rs 119**

**Rating : Accumulate**

**Target : Rs 136**

**STOCK INFO**

INDEX	
BSE	532652
NSE	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
Sector	Banks
Face Value (Rs)	10
Equity Capital (Rs cr.)	283
Mkt Cap (Rs cr.)	3338
52w H/L (Rs)	171 / 92
Avg Monthly Vol (BSE+NSE)	2,001,510

**SHAREHOLDING PATTERN**

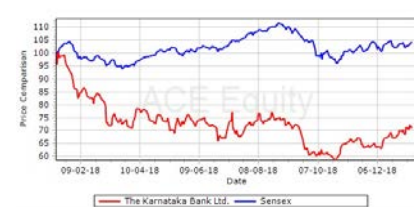
	%
<i>(as on September, 2018)</i>	
Promoters	Nil
FII	12.7
DII	15.3
Public & Others	72.0

Source: ACE Equity, Arihant Research

<b>STOCK PERFORMANCE(%)</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
Karnataka Bank	19.9	7.3	-26.0
SENSEX	2.8	-1.3	2.9

Source: ACE Equity, Arihant Research

**Karnataka Bank v/s SENSEX**



Source: ACE Equity, Arihant Research

**Operating Performance**

Karnataka Bank's Q3FY19 profitability has substantially improved largely due to higher other income growth of 55% YoY. It has reported PAT of Rs 140 cr in Q3FY19 vs Rs. 87 cr in the corresponding quarter of last fiscal year. On a QoQ basis, the net profit grew by 26%. Operating profit for the quarter stood at Rs. 400 cr registering a growth of 24% YoY. NII for the quarter grew by 8% YoY at Rs. 488 cr vs Rs. 451 cr. To cushion itself from increasing employee cost, the bank made a provision of Rs. 29 cr related to superannuation. In addition to this, the bank also provided for wage revision, which has led to jump in employee costs.

**Advances and Deposits**

Bank has reported credit growth of 17% YoY and 4% sequentially to Rs 51961 cr. Retail advances to corporate advances ratio stood at 44:56. Its priority sector advances ratio stood at 47.44% as on Q3FY19. Deposits of the bank grew by 13% YoY. CASA proportion decreased from 28.2% to 26.7% YoY. C-D ratio of the bank increased to 79.8% against 76.9% YoY and 78.2% sequentially. Bank's total business grew by 3% sequentially and stood at Rs. 117,102 cr as on Q3FY19. Bank's total turnover including advances and deposits stood at Rs. 117,102 crore as on Q3FY19.

**IL&FS exposure**

Karnataka bank's IL&FS exposure stood at Rs. 155 cr, which the bank has classified as NPA. The bank has started making provision against these accounts as per IRAC norms. PCR on this exposure stands at 15% (Rs. 23 cr). IL&FS exposure break-up is a) IL&FS Energy – Rs. 50 cr, b) IL&FS Transportation Network – Rs. 30 cr, c) IL&FS parent – Rs. 75 cr. As far as IL&FS exposure is concerned, the bank is optimistic of its resolution given, that all of its exposures are backed by realizable assets.

**Asset Quality**

Bank's GNPA's ratio improved by 21 bps QoQ and stood at 4.45% while NNPA's stood flat at 3%. Gross NPAs in absolute terms stood at Rs 2346 cr. Slippage ratio excluding IL&FS is 0.53% while including IL&FS it is 0.86%. The bank will take concrete steps to improve slippage ratio and its assets quality and guided for 4% GNPA's and <3% NNPA's going further.

**Margins**

Yield on advances increased marginally to 9.37% from 9.34% while cost of deposits stood almost flat at 5.96% against 5.94% sequentially resulting in flat margins during Q3FY19. NIM for the quarter stood at 2.95%.

**Valuation**

At CMP of Rs 119, the stock is trading at 4.2x P/E and 0.79x P/ABV to its FY20E EPS of Rs 25.4 and Rs 151 BV per share respectively. We have revised FY20E credit growth rate of the bank to 18% from 15% earlier and valued the stock at 0.9x to its FY20E P/ABV which yields a target price of Rs. 136 per share giving an upside potential of 14%. We have an 'Accumulate' rating for the stock.

**Q3FY19 Financial Snapshot:**

<b>Income Statement</b>					
<b>Particulars (Rs. in Cr)</b>	<b>Q3 FY19</b>	<b>Q3 FY18</b>	<b>YoY %</b>	<b>Q2 FY19</b>	<b>QoQ %</b>
Interest Earned	1514	1332	13.7	1453	4.3
Interest Expended	1026	881	16.5	985	4.2
NII	488	451	8.1	468	4.3
Other Income	301	195	54.9	201	49.8
Operating Expenses	389	324	20.0	313	24.4
Employee Cost	181	121	48.9	111	63.1
Operating Profit	400	322	24.4	356	12.4
Provisions	209	196	6.4	193	8.2
Tax	51	38		51	
Profit After Tax	140	87	60.7	112	25.5
<b>Other Highlights</b>					
<b>Particulars</b>	<b>Q3 FY19</b>	<b>Q3 FY18</b>	<b>YoY %</b>	<b>Q2 FY19</b>	<b>QoQ %</b>
EPS	5.0	3.1		4.0	
BVPS	202	191		208	
RoA	0.8	0.5		0.8	
RoE	9.95%	6.54%		10.01%	
NIM	2.95%	3.09%		2.95%	
C-I ratio	49.3	50.2		46.7	
CAR Basel III	12.0	12.3		11.3	
Tier I	10.4	11.1		10.6	
RWA	48652	43326	12.3	47619	2.2
Gross NPA	2346	1784	31.5	2372	-26.0
Net NPA	1561	1263	23.6	1498	4.2
Gross NPA %	4.5	3.97		4.7	
Net NPA %	3.00	2.9		3.00	
Deposits	65141	57771	12.8	63885	2.0
CASA%	26.7	28.2		27.1	
CASA	17358	16306	6.5	17298	0.3
Advances	51961	44411	17.0	49970	4.0
Retail	43.7	46.9		45.5	
Corporate	56.3	53.1		54.5	
C-D ratio	79.8	76.9		78.2	
Cost of deposits	6.0	6.2		5.9	
Yield on advances	9.4	10.1		9.3	

Profit & Loss Account			
Particulars (Rs Cr)	FY 18	FY 19E	FY 20E
Interest Earned	5424	6336	7457
Interest Expended	3566	4305	4913
<b>NII</b>	<b>1858</b>	<b>2030</b>	<b>2544</b>
Other Income	954	991	1098
Operating Expenses	1339	1413	1670
Employee Cost	525	595	694
<b>Operating Profit</b>	<b>1473</b>	<b>1608</b>	<b>1972</b>
Provisions and Contingencies	1163	864	833
<b>Profit Before Tax</b>	<b>310</b>	<b>744</b>	<b>1139</b>
Taxes	-15	193	342
<b>Net Profit</b>	<b>326</b>	<b>550</b>	<b>797</b>

Balance Sheet			
Particulars (Rs Cr)	FY 18	FY 19E	FY 20E
Share Capital	283	283	283
Total Reserves	5128	5226	5521
Deposits	62871	71973	80151
Borrowings	816	857	985
Other Liabilities & Provisions	1276	1604	1598
<b>Total Liabilities</b>	<b>70374</b>	<b>79942</b>	<b>88537</b>
Cash and balance with RBI	3601	4767	3977
Investments	15444	16371	17353
Advances	47252	54340	64121
Other Assets	4076	4464	3086
<b>Total Assets</b>	<b>70374</b>	<b>79942</b>	<b>88537</b>

Ratios			
Particulars (%)	FY 18	FY 19E	FY 20E
Deposit Growth	10.8	14.5	11.4
Advances Growth	27.7	15.0	18.0
NII Growth	24.6	9.3	25.3
Net Profit Growth	-28.0	69.0	44.9
EPS(Rs)	11.5	19.5	28.2
BVPS(Rs)	191.4	194.9	205.4
Adj. BVPS (Rs.)	145.1	133.2	151.1
DPS(Rs)	2.5	4.3	6.2
ROA(%)	0.5	0.7	1.0
ROE(%)	6.2	10.1	14.1
C-D ratio	75.2	75.5	80.0
Cost Income Ratio	47.6	46.8	45.9
CASA (%)	28.0	30.2	31.9

Ratios			
Particulars (%)	FY 18	FY 19E	FY 20E
Total CAR (Basel III)	12.0	12.7	11.6
Net NPA	3.0	3.0	2.4
Gross NPA	4.9	4.9	4.3
PCR	52.0	50.0	66.0
Yield on Advances	11.0	9.4	9.6
Yield on Investments	7.5	6.7	7.0
Cost of Deposits	6.1	6.0	6.1
Interest Spread	4.9	3.5	3.5
NIM(%)	3.2	2.8	3.1
<b>Valuation</b>			
P/E (x)	10.33	6.11	4.22
P/BV (x)	0.62	0.61	0.58
P/ABV (x)	0.82	0.89	0.79

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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