

CMP: Rs 113

Rating: Hold

Target Price: Rs 125

Stock Info

INDEX	
BSE	532652
NSE	KTKBANK
Bloomberg	BANDHAN IN
Reuters	BANH.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

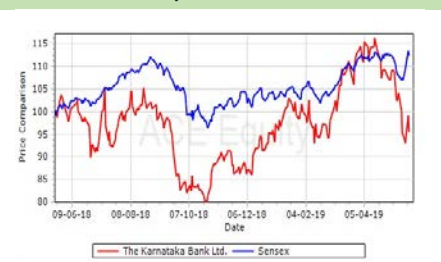
	%
(As on March, 2019)	
Promoters	Nil
DII	15.9
FII	14.6
Public & Others	69.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
Karnataka Bank	-2.0	8.1	-2.3
SENSEX	8.6	10.7	12.6

Source: ACE Equity, Arihant Research

Karnataka Bank v/s Sensex



Source: ACE Equity, Arihant Research

Lower margin and high OPEX drove the decline in Karnataka Bank's operating performance. Operating profit for the quarter fell by 32% YoY while NII de-grew by 11% YoY. However, loan book growth of the banks was strong at 16% YoY driven by corporate book. Going forward, the banks more focus will be on high yielding segment and margin side. Slippages for the quarter were elevated to Rs. 444 cr vs Rs 407 cr in Q3FY19. GNPA/NNPA improved marginally and declined by 4bps/5bps to 4.4%/2.9%. Achieve the business turnover of Rs 144,000 cr is management's corporate goal for FY20. We downgrade our rating to Hold from Accumulate with a revised target price of Rs 125.

Margin compression and OPEX escalation led to weaker operating performance
NII for the quarter de-grew by 11% YoY to Rs 481 cr, due to lower NIM and impact of income tax refund in Q4FY18. Cost to income ratio stood higher at 58% vs 43% YoY, primarily due to higher OPEX followed by higher staff cost. Hence operating profit fell by 32% YoY to Rs 324 cr. PAT for the quarter stood at Rs 62 cr. NIM has contracted by 67bps YoY/ 8bps QoQ, primarily on account of lower pricing power and increase in share of corporate loans. Management has guided for ~3% NIM for FY20 and we expect it would remain in the same range going forward.

Little bit Concern on asset quality

Due to ongoing elections and Karnataka bank's share in Agri and MSME portfolio, we remain cautious on its asset quality due to loan waive off scheme. However on corporate front we do not expect any higher slippages owing to its limited exposure towards stressed assets. Management expect slippages will be in a range of 2-2.5% whereas credit cost would be <1%. SMA 2 account shown improvement and stood at Rs 168 cr consisting of 11 A/Cs, which is Rs 334 cr as on Q3FY19.

Analyst Meet Takeaways

- Of the total 15% exposure towards NBFCs, ~98% advances are A rated. Out of the total NBFCs exposure, ~35% towards HFCs, 50% is commercial finance, 10.6% is to infrastructure finance and 4% is to asset finance company.
- IL&FS exposure stood at Rs 155 cr, and PCR on the same was 54%.
- Exposure towards other stressed assets like ADAG, DHFL is 0.41% and 0.31% of the total book. It has Nil exposure towards Jet and Essel group.
- 48% GNPA is under standard category.
- Bank is not focusing on Agri portfolio due to loan waivers scheme, will start once elections are concluded.
- Management has guided for 18% loan growth and 16% deposit growth for FY20 with more focus on CASA front. NIM will be in the range of 3%.

Contd..... (pg. 2)

Valuation

Low margin, high OPEX and Agri & MSME exposure are key negatives for the bank. However, we expect margin to improve from hereon due to re-pricing of loans. We expect Karnataka banks profitability to remain low in the medium term. We cut our TP from Rs 136 to Rs 125, valuing the stock at 0.7x P/ABV to its FY21E ABV. We have 'Hold' rating on the stock.

Analyst Meet Highlights

- ~67% of the total advances are under MCLR of which ~77% is linked to 1yr MCLR. 1yr MCLR has been repriced by 65bps. Hence, yield will improve in FY20 due to re-pricing of loans.
- The bank is planning to start an NBFC business which will be wholly owned.
- In terms of lending, the bank's focus will be on MSME, mid corporate and retail book. The bank would not be focusing on large ticket loans.
- The management looking to improving cost/income ratio and expects it would be in the range of ~50%.

Q4FY19 Financial Snapshot:

Income Statement					
Particulars (Rs. in Cr)	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %
Interest Earned	1531	1443	6.1	1514	1.1
Interest Expended	1050	902	16.5	1026	2.3
NII	481	542	-11.2	488	-1.4
Other Income	291	295	-1.3	301	-3.6
Operating Expenses	447	361	24.0	389	15.0
Employee Cost	203	142	43.5	181	12.6
Operating Profit	324	475	-31.8	400	-19.0
Provisions	218	542	-59.8	209	4.2
Tax	45	-77		51	
Profit After Tax	62	11	461.2	140	-56.0
Other Highlights					
Particulars	Q4 FY19	Q4 FY18	YoY %	Q3 FY19	QoQ %
EPS	2.2	0.4		5.0	
NIM	2.87%	3.54%		2.95%	
C-I ratio	58.0	43.1		49.3	
CAR Basel III	13.7	12.0		12.0	
Tier I	11.7	11.3		10.4	
RWA	47880	44981	6.4	48652	-1.6
Gross NPA	2456	2376	3.4	2346	4.7
Net NPA	1617	1401	15.4	1561	3.6
Gross NPA %	4.4	4.9		4.5	
Net NPA %	2.95	3.0		3.00	
Deposits	68452	62871	8.9	65141	5.1
CASA%	28.1	28.0		26.7	
Advances	54828	47252	16.0	51961	5.5
Retail	42.8	45.1		43.7	
Corporate	57.2	54.9		56.3	
Cost of deposits	6.0	6.1		6.0	
Yield on advances	9.3	9.8		9.4	

Profit & Loss Account

Particulars (Rs Cr)	FY 19	FY 20E	FY 21E
Interest Earned	5906	7101	8072
Interest Expended	4001	4790	5437
NII	1905	2311	2634
Other Income	1002	1052	1192
Operating Expenses	1457	1669	1897
Employee Cost	606	694	757
Operating Profit	1450	1694	1929
Provisions and Contingencies	842	827	859
Profit Before Tax	608	867	1070
Taxes	130	260	321
Net Profit	478	607	749

Balance Sheet

Particulars (Rs Cr)	FY 19	FY 20E	FY 21E
Share Capital	283	283	283
Total Reserves	5503	5990	6381
Deposits	68452	78130	88740
Borrowings	3326	3824	4772
Other Liabilities & Provisions	1483	1573	1655
Total Liabilities	79046	89800	101831
Cash and balance with RBI	3610	3790	3980
Investments	16185	18007	19448
Advances	54828	62504	71880
Other Assets	4423	5498	6524
Total Assets	79046	89800	101831

Ratios

Particulars (%)	FY 19	FY 20E	FY 21E
Deposit Growth	8.9	14.1	13.6
Advances Growth	16.0	14.0	15.0
NII Growth	2.5	21.3	14.0
Net Profit Growth	46.7	27.1	23.4
EPS(Rs)	16.9	21.5	26.5
BVPS(Rs)	204.7	221.9	235.8
Adj. BVPS (Rs.)	143.0	166.9	179.0
DPS(Rs)	3.7	4.7	5.8
ROA(%)	0.6	0.7	0.8
ROE(%)	8.5	10.1	11.6
C-D ratio	80.1	80.0	81.0
Cost Income Ratio	50.1	49.6	49.6
CASA (%)	31.8	32.7	33.8

Ratios

Particulars (%)	FY 19	FY 20E	FY 21E
Total CAR (Basel III)	13.2	12.6	11.8
Net NPA	3.0	2.5	2.2
Gross NPA	4.5	4.1	3.9
PCR	50.0	66.0	66.0
Yield on Advances	9.2	9.2	9.2
Yield on Investments	6.7	7.0	7.0
Cost of Deposits	6.0	6.1	6.1
Interest Spread	3.3	3.1	3.1
NIM(%)	2.7	2.9	2.8
Valuation			
P/E (x)	6.69	5.26	4.26
P/BV (x)	0.55	0.51	0.48
P/ABV (x)	0.79	0.68	0.63

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880