



**Management Call Update!**

**26<sup>th</sup> Dec, 2016**

**CMP:** Rs. 110  
**Target Price:** Rs. 136  
**Recommendation:** BUY

**Stock Info**

<b>BSE Group</b>	A
<b>BSE Code</b>	532652
<b>NSE Symbol</b>	KTKBANK
<b>Bloomberg</b>	KBL IN
<b>Reuters</b>	KBNK.BO
<b>BSE Sensex</b>	25,804
<b>NSE Nifty</b>	7,922

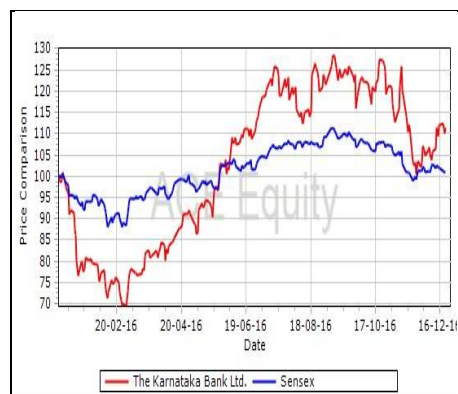
**Market Info**

<b>Market Capital(Rs Cr)</b>	3,000
<b>Equity Capital(Rs Cr)</b>	188
<b>Avg. Trading Vol.</b>	95,551
<b>52 Wk High/ Low</b>	134/85
<b>Face Value</b>	10

**Shareholding Pattern (%) (Sep 2016)**

<b>Promoters</b>	0.0
<b>Domestic Institutions</b>	8.8
<b>Foreign Institutions</b>	23.1
<b>Public &amp; Others</b>	68.1

**Price Chart:**



Post Demonetization we had a talk with the management of Karnataka Bank Ltd. Highlights for the same are as follows:

- Bank has collected in total Rs 7000 cr post demonetization, of which Rs 1000 cr are in form of loan credit, Rs 5000 cr in savings deposits and Rs 1000 cr in form of term deposits. About 40% of the deposits are expected to stay in the system.
- Bank sees slowdown in the industries and there is no credit pick up due to cash collection. Cash crunch pain is witnessed in SME and labour oriented industries with respect to salaries.
- CASA portion for the bank has reached 33% against bank's earlier estimate of 27%. Bank expects it to normalize at around 28% by the year ended FY 17E.
- NIM as on Sept'16 stood at 2.62. Bank expects it to be in the range of 2.55 to 2.6 for the year FY 17E.
- Net NPA's as on Sept'16 stood at Rs. 1343 cr. Two SDR A/C may see improvement by next year.
- Management expects CTI to be impacted for near term and is expected to stabilise at 54/54.5 owing to big cash on hand, expenditure on account of demonetization (rise in logistics) and additional borrowing to maintain CRR.
- ROA as on Sept'16 stood 0.84 and is expected to be in range of 0.9% by 2018 & 1% by 2020.
- For Q2 FY 17 Yield on advances stood at 11.06% with spread at 4.15.
- Bank maintains all the parameters of its 2020 vision at the same level & is hopeful of achieving it.

**Valuation**

Considering the above we have reduced our target price for the stock to Rs 136 per share at 1.0(x) to its FY 18E ABV. At CMP of Rs 110 the stock is available at P/E and P/ABV multiple of 6.2(x) and 0.8(x) respectively, to its FY 18E. We maintain 'BUY' rating for the stock and expect pick up from Q4 FY 17.

Source: - Company Data Ace Equity, Aриhant Research



Profit & Loss Account				
Particulars (Rs Cr)	FY 15	FY 16	FY 17E	FY 18E
Interest Earned	4698	4992	5520	6284
Interest Expended	3530	3689	4063	4633
<b>NII</b>	<b>1169</b>	<b>1303</b>	<b>1458</b>	<b>1651</b>
Other Income	507	543	627	711
Fee Income	224	238	282	314
Operating Expenses	903	991	1148	1294
Employee Cost	525	443	551	596
<b>Operating Profit</b>	<b>773</b>	<b>855</b>	<b>936</b>	<b>1068</b>
Provisions and Contingencies	214	327	430	434
Profit Before Tax	559	528	506	634
Taxes	108	113	76	133
<b>Profit After Tax</b>	<b>451</b>	<b>415</b>	<b>430</b>	<b>501</b>

Balance Sheet				
Particulars (Rs Cr)	FY 15	FY 16	FY 17E	FY 18E
Share Capital	188	188	283	283
Total Reserves	3198	3502	4374	4729
Deposits	46009	50488	56264	63100
Borrowings	1038	1051	960	885
Other Liabilities & Provisions	1401	1270	975	940
<b>Total Liabilities</b>	<b>51837</b>	<b>56500</b>	<b>62855</b>	<b>69936</b>
Cash and balance with RBI	2488	2646	3830	3910
Bal. with banks & money at call	126	399	540	579
Investments	14032	16257	17250	18328
Advances	31680	33902	38600	44723
Other Assets	3511	3296	2636	2395
<b>Total Assets</b>	<b>51837</b>	<b>56500</b>	<b>62855</b>	<b>69936</b>

Ratios				
Particulars (%)	FY 15	FY 16	FY 17E	FY 18E
Advances Growth	11.8	7.0	13.9	15.9
Deposit Growth	13.4	9.7	11.4	12.2
NII Growth	10.7	11.5	11.9	13.3
Net Profit Growth	45.1	-8.0	3.6	16.5
EPS(Rs)	24.0	22.0	15.2	17.7
BVPS(Rs)	180	196	165	177
Adj. BVPS (Rs.)	147	154	128	136
DPS(Rs)	5.0	5.0	3.3	3.7
ROA(%)	0.9	0.8	0.7	0.8
ROE(%)	14.0	11.7	10.3	10.4
C-D ratio	68.9	67.2	68.6	70.9
Cost Income Ratio	53.9	53.7	55.1	54.8
CASA (%)	24.9	26.3	27.9	28.3

Ratios				
Particulars (%)	FY 15	FY 16	FY 17E	FY 18E
Total CAR (Basel III)	12.4	12.0	13.4	13.6
Net NPA	2.0	2.3	2.7	2.6
Gross NPA	3.0	3.4	3.9	3.8
PCR	50.5	48.4	48.0	47.0
Yield on Advances	12.0	11.6	11.0	11.0
Yield on Investments	7.5	7.5	7.5	7.6
Cost of Deposits	7.9	7.5	6.9	6.9
Interest Spread	4.1	4.0	4.1	4.1
NIM(%)	2.5	2.6	2.6	2.6
<b>Valuation</b>				
P/E (x)	5.1	6.9	7.2	6.2
P/BV (x)	0.7	0.8	0.7	0.6
P/ABV (x)	0.8	1.0	0.9	0.8

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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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