



NPA WOES!

18th July, 2017

CMP: Rs. 158
Target Price: Rs. 163
Recommendation: NEUTRAL

Stock Info

BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	31,711
NSE Nifty	9,827

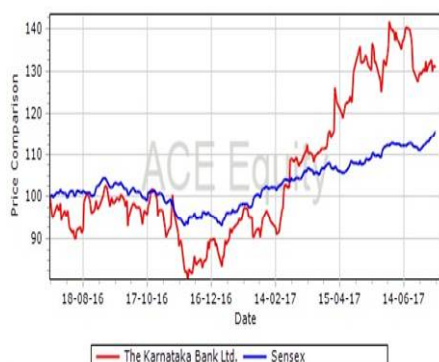
Market Info

Market Capital(Rs Cr)	4,448
Equity Capital(Rs Cr)	283
Avg. Trading Vol.	36,19,950
52 Wk High/ Low	181/100
Face Value	10

Shareholding Pattern (%)

Promoters	0.0
Domestic Institutions	11.6
Foreign Institutions	19.2
Public & Others	69.2

Price Chart:



Profitability

The Karnataka Bank Ltd for the quarter ended Q1 FY18 reported rise in its net profit by 10% YoY to Rs 134 crs. Sequentially the profit de-grew by 3.3%. This was majorly due to lower other income which decreased by 30% QoQ and Higher employee cost which grew by 12% QoQ and also higher provisions which grew 46% YoY and 24% QoQ.

Advances

Bank reported muted credit growth of 10% YoY while the loan book grew by 4% sequentially to Rs 38,484 crs. Retail advances for the bank grew at 9.1% while corporate advances grew at 11.3% YoY. Retail advances to corporate advances ratio stood at 52 : 48.

Deposits

Deposits for the bank grew at robust 9.2% YoY. CASA proportion increased from 26% to 29% on account of higher savings bank account growth. C-D ratio for the bank increased to 68.4% against 67.9% YoY and 65.2% sequentially.

Asset Quality

Gross NPA stood at Rs 1691 cr (4.34%) while Net NPA stood at Rs 1230 crs (3.2%). Management expects asset quality to stay at tolerable levels as recoveries are expected to outpace slippages going forward.

Margins

Yield on advances stood at 10.2% against 10.9% YoY. Cost of deposits dropped to 6.3% against 6.9% YoY. NIM for the bank has improved to 2.6 against 2.5 YoY and 2.2 on sequentially basis.

Valuation

At CMP of Rs 158 the stock trades at 8.3 P/E(x) and 1.1 P/ABV(x) to its FY 19E. We have valued the stock at 1.10(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 16	FY 17	FY 18E	FY 19E
NII	1303	1491	1679	1972
PPP	855	996	1044	1212
Net Profit	415	452	457	539
EPS(Rs)	22.0	16.0	16.2	19.1
ROE(%)	11.7	10.2	8.8	10.0
P/E (x)	6.9	10.2	9.8	8.3
P/ABV (x)	1.0	1.2	1.1	1.1

Source: - Ace Equity, Aриhant Research



Quarterly Result Highlights:

Income Statement					
Particulars	Q1 FY18	Q1 FY17	YoY %	Q4 FY17	QoQ %
Interest Earned	1331	1261	5.5	1295	2.8
Interest Expended	906	896		942	
NII	424	365	16.4	352	20.5
Other Income	217	174	24.7	312	-30.3
Operating Expenses	332	277	19.8	335	-0.7
Employee Cost	137	128	7.3	123	12.0
Operating Profit	310	262	18.2	329	-5.9
Provisions	199	136	45.9	160	24.0
Tax	-23	4		31	
Profit After Tax	134	122	10.1	138	-3.3
Other Highlights					
Particulars	Q1 FY18	Q1 FY17	YoY %	Q4 FY17	QoQ %
EPS	4.7	5.8		4.9	
BVPS	183	196		182	
RoA	0.8	0.9	0.0	0.9	0.0
RoE	10.3	13.0	-2.7	10.8	-0.6
NIM	2.6	2.6	0.1	2.2	0.5
C-I ratio	51.7	51.4	0.3	50.4	1.3
CAR Basel III	13.0	11.6		13.3	
Tier I	11.9	10.3		12.2	
RWA	40032	35797	11.8	38902	2.9
Gross NPA	1691	1389		1582	
Net NPA	1230	911		975	
Gross NPA %	4.3	3.9	0.4	4.2	0.1
Net NPA %	3.2	2.6	0.6	2.6	0.6
Deposits	56227	51501	9.2	56733	-0.9
CASA%	28.9	26.2		29.0	
CASA	16271	13504	20.5	16475	-1.2
Advances	38484	34946	10.1	37004	4.0
Retail	51.6	52.1		52.6	
Corporate	48.4	47.9		47.4	
C-D ratio	68.4	67.9		65.2	
Cost of deposits	6.3	7.0	-0.6	6.7	-0.4
Yield on advances	10.2	11.0	-0.8	10.8	-0.6



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

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
Total Liabilities	64127	70179	78768
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
Total Assets	64127	70179	78768

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
Valuation			
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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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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