



## Taking the Demon Hit!

24<sup>th</sup> Jan, 2017

**CMP:** Rs. 120  
**Target Price:** Rs. 130  
**Recommendation:** HOLD

### Stock Info

BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	27,376
NSE Nifty	8,476

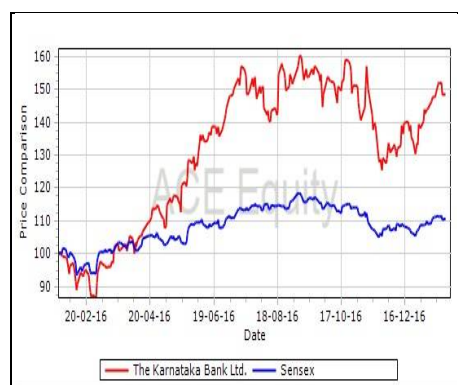
### Market Info

Market Capital(Rs Cr)	3,386
Equity Capital(Rs Cr)	283
Avg. Trading Vol.	25,05,070
52 Wk High/ Low	134/69
Face Value	10

### Shareholding Pattern (%) (Dec 2016)

Promoters	0.0
Domestic Institutions	8.5
Foreign Institutions	20.2
Public & Others	71.3

### Price Chart:



### Profitability

The Karnataka Bank Ltd for the quarter ended Q3 FY 17 reported drop in its net profit by 29% YoY to Rs 69 crs. Sequentially the profit dropped by 45%. This was majorly due to higher operating expenses which amplified by 37.5% YoY as the employee cost were higher by 57% YoY on account of contribution to pension & gratuity. Other expenses like logistics also stood higher due to demonetization.

### Advances

Bank reported muted credit growth of 8.7% YoY while the loan book shriveled by 2.3% sequentially to Rs 35,786 crs. Retail advances for the bank grew at 10.4% while corporate advances grew at 6.9%. Retail advances to corporate advances ratio stood at 52.4 : 47.6.

### Deposits

Deposits for the bank grew at robust 15.7% YoY. CASA proportion increased from 26.3% to 30.2% on account of higher savings bank account growth of 40% led by demonetization. C-D ratio for the bank dropped to 62.3 against 66.3 YoY and 68.9 sequentially.

### Asset Quality

Slippages for the quarter stood at Rs 267 crs. Gross npls stood at Rs 1560 cr (4.3%) while net npls stood at Rs 1066 crs (2.9%). Management expects asset quality to stay in control as recoveries are expected to out beat slippages going forward.

### Margins

Yield on advances stood at 11.06% against 11.64% YoY. Cost of deposits dropped to 6.8% against 7.6% YoY. Bank has been able to improve its interest spread to 4.24 vs. 4.0 YoY and 4.15 sequentially. NIM for the bank improved to 2.54 against 2.34 YoY however stood down against 2.6 sequentially.

### Valuation

At CMP of Rs 120 the stock trades at 7.2 (x) and 0.9(x) to its FY 18E. We have valued the stock at 1(x) to its FY 18E ABV and arrived at a fair value of Rs 130 for the stock. We have 'HOLD' rating for the stock.

### Snapshot

Particulars (Rs Cr)	FY 15	FY 16	FY 17E	FY 18E
NII	1169	1303	1487	1693
PPP	773	855	864	1060
Net Profit	451	415	410	469
EPS(Rs)	24.0	22.0	14.5	16.6
ROE(%)	14.0	11.7	9.8	9.8
P/E (x)	5.1	6.9	8.3	7.2
P/ABV (x)	0.8	1.0	1.0	0.9

Source: - Ace Equity, Arianth Research



Quarterly Result Highlights:

Income Statement					
Particulars	Q3 FY 17	Q3 FY 16	YoY %	Q2 FY 16	QoQ %
Interest Earned	1324	1237	7.0	1306	1.3
Interest Expended	947	932		909	
NII	377	305	23.5	397	-5.2
Other Income	134	133		190	
Operating Expenses	338	246		354	
Employee Cost	177	112		174	
Operating Profit	172	192	-10.3	233	-26.2
Provisions	101	63		131	
Tax	3	32		-22	
Profit After Tax	69	97	-29.3	124	-44.7
Other Highlights					
Particulars	Q3 FY 17	Q3 FY 16	YoY %	Q2 FY 16	QoQ %
EPS	2.4	5.1		6.6	
BVPS	10	0		209	
RoA	0.7	0.8	-0.1	0.8	-0.1
RoE	9.5	11.6	-2.1	12.9	-3.3
NIM	2.5	2.3	0.2	2.6	-0.1
C-I ratio	59.3	54.4	4.9	56.1	3.2
CAR Basel III	13.2	11.7		11.2	
Tier I	11.9	10.0		9.8	
RWA	38120	33704	13.1	37357	2.0
Gross NPA	1560	1187		1345	
Net NPA	1066	791		961	
Gross NPA %	4.3	3.6	0.8	3.6	0.7
Net NPA %	3.0	2.4	0.5	2.6	0.4
Deposits	57435	49659	15.7	53096	8.2
CASA%	30.2	25.2		26.3	
CASA	17357	12529	38.5	13980	24.2
Advances	35786	32924	8.7	36611	-2.3
Retail	52.4	51.6		52.3	
Corporate	47.6	48.4		47.7	
C-D ratio	62.3	66.3		69.0	
Cost of deposits	6.8	7.6	-0.8	6.9	-0.1
Yield on advances	11.1	11.6	-0.6	11.1	0.0

Source: - Ace Equity, Aриhant Research



Profit & Loss Account				
Particulars (Rs Cr)	FY 15	FY 16	FY 17E	FY 18E
Interest Earned	4698	4992	5389	6009
Interest Expended	3530	3689	3902	4315
<b>NII</b>	<b>1169</b>	<b>1303</b>	<b>1487</b>	<b>1693</b>
Other Income	507	543	617	689
Fee Income	224	238	275	300
Operating Expenses	903	991	1240	1322
Employee Cost	525	443	612	655
<b>PPP</b>	<b>773</b>	<b>855</b>	<b>864</b>	<b>1060</b>
Provisions and Contingencies	214	327	419	450
Profit Before Tax	559	528	446	610
Taxes	108	113	36	140
<b>Net Profit</b>	<b>451</b>	<b>415</b>	<b>410</b>	<b>469</b>

Balance Sheet				
Particulars (Rs Cr)	FY 15	FY 16	FY 17E	FY 18E
Share Capital	188	188	283	283
Total Reserves	3198	3502	4360	4692
Deposits	46009	50488	56264	62426
Borrowings	1038	1051	1120	1035
Other Liabilities & Provisions	1401	1270	1008	983
<b>Total Liabilities</b>	<b>51837</b>	<b>56500</b>	<b>63034</b>	<b>69418</b>
Cash and balance with RBI	2488	2646	4618	4986
Bal. with banks & money at call	126	399	575	838
Investments	14032	16257	18116	19708
Advances	31680	33902	36892	41302
Other Assets	3511	3296	2834	2584
<b>Total Assets</b>	<b>51837</b>	<b>56500</b>	<b>63034</b>	<b>69418</b>

Ratios				
Particulars (%)	FY 15	FY 16	FY 17E	FY 18E
Advances Growth	11.8	7.0	8.8	12.0
Deposit Growth	13.4	9.7	11.4	11.0
NII Growth	10.7	11.5	14.1	13.9
Net Profit Growth	45.1	-8.0	-1.2	14.4
EPS(Rs)	24.0	22.0	14.5	16.6
BVPS(Rs)	180	196	164	176
Adj. BVPS (Rs.)	147	154	122	130
DPS(Rs)	5.0	5.0	3.0	3.7
ROA(%)	0.9	0.8	0.7	0.7
ROE(%)	14.0	11.7	9.8	9.8
C-D ratio	68.9	67.2	65.6	66.2
Cost Income Ratio	53.9	53.7	58.9	55.5
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	13.3
Net NPA	2.0	2.3	3.3	3.2
Gross NPA	3.0	3.4	4.5	4.4
PCR	50.5	48.4	52.0	52.0
Yield on Advances	12.0	11.6	11.0	11.0
Yield on Investments	7.5	7.5	7.5	7.5
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	2.7
<b>Valuation</b>				
P/E (x)	5.1	6.9	8.3	7.2
P/BV (x)	0.7	0.8	0.7	0.7
P/ABV (x)	0.8	1.0	1.0	0.9

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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%

**Research Analyst Registration No.**

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