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Q1FY22 result review
and TP change

Banking

Target price: Rs70

Target price revision

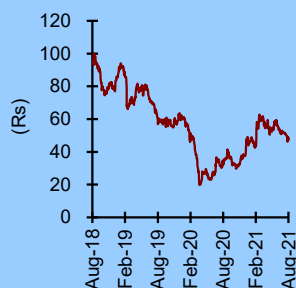
Rs70 from Rs74

Shareholding pattern

	Sep '20	Dec '20	Jun '21
Promoters	2.1	2.1	2.1
Institutional investors	41.7	42.3	41.2
MFs and others	16.6	17.3	17.2
Insurance Cos.	0.1	0.0	0.0
FIIs and Banks	3.3	3.2	2.7
FIIIs	21.7	21.8	21.3
Others	56.2	55.6	56.7

Source: BSE

Price chart



INDIA

Karur Vysya Bank

BUY
Maintained

Incremental stressed asset formation under control; steady core performance

Rs47

Karur Vysya Bank (KVB) sustained improving earnings trajectory in Q1FY22 at Rs1bn (up 4% QoQ), despite higher provisions of Rs2.6bn vs Rs0.7bn in Q4FY21, led by strong 14% YoY NII growth and cost normalisation. Incremental stressed asset formation remained under control as reflected in negligible restructuring of only 7bps and gross slippage ratio at 4% vs 7% in Q4FY21. SMA30+ pool is 1.9%; 95% collections throughout April-June'21 and strong recovery in July'21 reinforces our view that FY22e slippage ratio would be well within the guided range of 2%. Considering the back-ended restructuring requests in Sep'21 and continuous cleaning of balance sheet (higher write-offs), it expects credit cost to remain elevated at ~2% in FY22e. We believe KVB's upgraded digital platform, cost optimisation drive and gradual normalisation of credit cost will revive RoA to ~1% by FY23E. Maintain BUY with revised TP of Rs70 (Rs74 earlier). Key risk – A) stress unfolding higher than anticipation, B) delay in credit growth recovery.

- **Incremental stressed asset formation well under control.** It reported slippages of Rs5.2bn, ~80% flowing from commercial and corporate book suggesting health of retail & agri book is in much better shape. Within corporate slippages, two accounts (<Rs0.5bn) were from trading segment and two accounts from real estate. Further, one trading account from corporate segment already upgraded as on July'21. Incremental restructuring remained negligible at only 7bps, taking cumulative restructuring pool to Rs10.2bn or 1.97% of loans. Overall, GNPL marginally increases to 7.97% vs 7.85% in Q4FY21, higher technical write-offs worth Rs3.8bn (mostly legacy corporate accounts) resulted in marginal increase in GNPL pool.
- **Credit growth (ex-IBPC) remains at 8%.** Credit growth remained muted at 8% YoY largely due to lower working limits utilisation and muted new customer acquisition amid covid-led disruptions. However, select segments like gold loan continued to maintain strong growth trajectory as reflected in 33% YoY / 3% QoQ growth. Consolidation in corporate book continued and the same resulted in sharp 5% QoQ decline in portfolio. With improving economic activities, better collections and revamped business model, it expects business momentum to pick up going ahead. Overall, it expects ~12% credit growth in FY22e.
- **Collection efficiency stood at ~95%+ of portfolio level throughout April-June'21.** Collections continued to trend well, as reflected in collections improving to ~96.5% / 95.6% by July'21 from ~95% for term loans and ~94% for WC loans in April'21. It also reflects its concentrated efforts and revamped collection mechanism yielding positive outcomes.
- **Liability strength visible in strong CASA accretion.** While total deposit growth remained muted at 2% QoQ, CASA accretion remained strong at 4% QoQ. Within CASA, SA growth remains higher at 17.2% YoY while CA growth remains 4.2% YoY. As a result, CASA ratio increases to 35% in Q1FY22. Strong retail liability franchise (~94% of term deposits in <Rs20mn bucket) and steady improvement in CASA helped it reduce its cost of deposit by 10bps QoQ and similarly drive NIM expansion of 9bps QoQ.

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Market Cap	Rs37.3bn/US\$503mn
Reuters/Bloomberg	KARU.BO/ KVB IN
Shares Outstanding (mn)	799.2
52-week Range (Rs)	63/30
Free Float (%)	97.9
FII (%)	21.7
Daily Volume (US\$'000)	1,902
Absolute Return 3m (%)	(12.3)
Absolute Return 12m (%)	43.2
Sensex Return 3m (%)	12.6
Sensex Return 12m (%)	46.3

Year to Mar	FY20	FY21	FY22E	FY23E
NII (Rs bn)	23.5	23.6	26.3	29.5
Net Profit (Rs bn)	2.4	3.6	6.0	8.3
EPS (Rs)	2.9	4.5	7.5	10.4
% Chg YoY	6.4	52.9	67.3	38.3
P/E (x)	16.0	10.5	6.2	4.5
P/BV (x)	0.6	0.5	0.5	0.5
ABVPS (Rs)	65.6	70.9	75.2	86.5
Net NPA (%)	3.9	3.4	3.6	2.7
RoA (%)	0.3	0.5	0.8	0.9
RoE (%)	3.6	5.3	8.3	10.6

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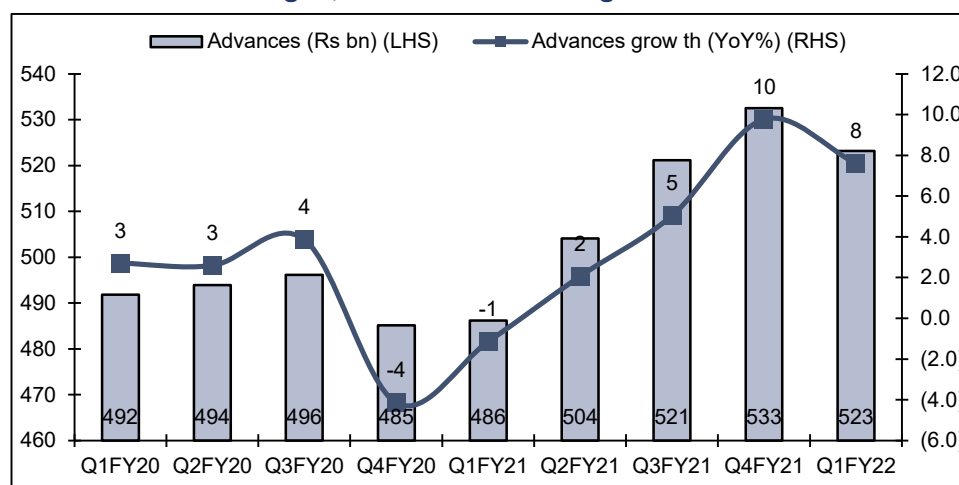
Table 1: Q1FY22 result review

(Rs mn)

	Q1FY22	Q1FY21	% change YoY	Q4FY21	% change QoQ
Interest Income	13,759	13,761	(0.0)	13,493	2.0
Interest Expended	7,380	8,143	(9.4)	7,367	0.2
Net interest income (NII)	6,379	5,618	13.5	6,126	4.1
Other income	2,200	3,171	(30.6)	2,165	1.6
Total income	8,579	8,790	(2.4)	8,291	3.5
Operating expenses	4,293	4,051	6.0	5,793	(25.9)
-Staff expenses	2,274	2,136	6.4	3,512	(35.3)
-Other expenses	2,020	1,915	5.5	2,281	(11.5)
Operating profit	4,286	4,739	(9.6)	2,498	71.6
Total provisions	2,640	3,376	(21.8)	715	269.5
Profit before tax	1,646	1,363	20.7	1,783	(7.7)
Tax	557	308	80.7	740	(24.7)
Profit after tax	1,089	1,055	3.2	1,044	4.3
Balance sheet (Rs mn)					
Deposits	6,43,980	6,00,650	7.2	6,32,784	1.8
Advances	4,99,620	4,61,310	8.3	5,03,635	(0.8)
Gross NPL (Rs mn)	41,675	40,557	2.8	41,429	0.6
Net NPL (Rs mn)	18,446	15,852	16.4	17,194	7.3
Ratios (%)					
			bps change		bps change
Profitability ratios					
Yield on Advances	8.6	9.3	(77)	8.5	3
Cost of Funds	4.6	5.4	(86)	4.7	(9)
NIM	3.6	3.4	19	3.5	9
RoaA	0.6	0.6	(2)	0.6	2
RoaE	6.2	6.3	(13)	6.0	16
Asset Quality					
Gross NPL ratio	8.0	8.3	(37)	7.9	12
Net NPL ratio	3.7	3.4	25	3.4	28
Coverage ratio (Cal.)	55.7	60.9	(518)	58.5	(276)
Business & Other Ratios					
Low-cost deposit mix	35.0	33.0	200	34.2	78
Cost-income ratio	50.0	46.1	395	69.9	(1,983)
Credit deposit ratio	77.6	76.8	78	79.6	(201)
CAR	19.1	18.1	92	19.0	8
Tier-I	17.0	16.1	91	17.0	9

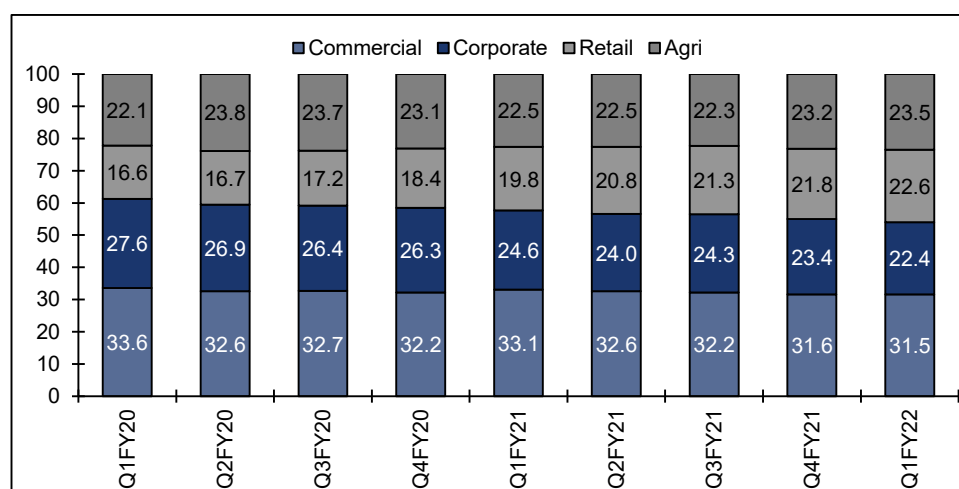
Source: Company, I-Sec research

Chart 1: Improving trajectory in credit growth derailed, but still remains higher than historical averages; ex-IBPC advances grew 8% YoY.



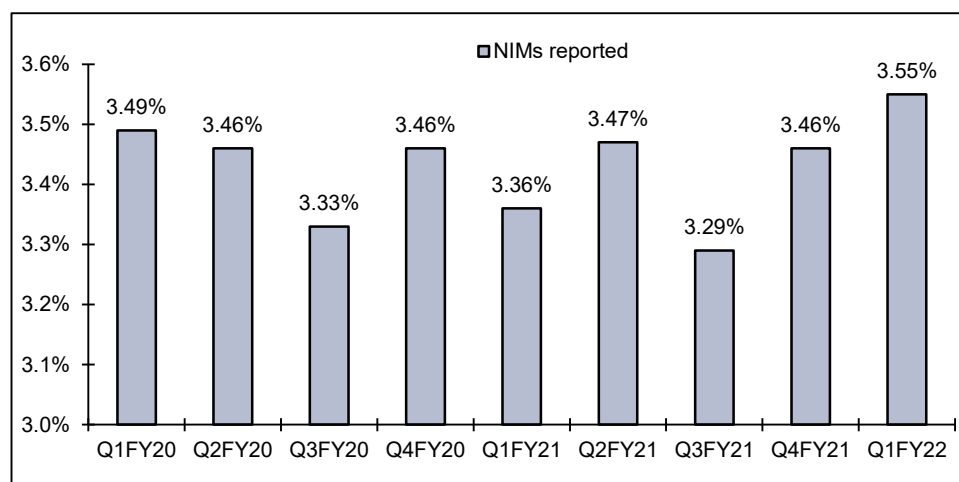
Source: Company, I-Sec research

Chart 2: KVB continues to expand retail lending; corporate loan book share now stands at 22% vs 25% in Q1FY21

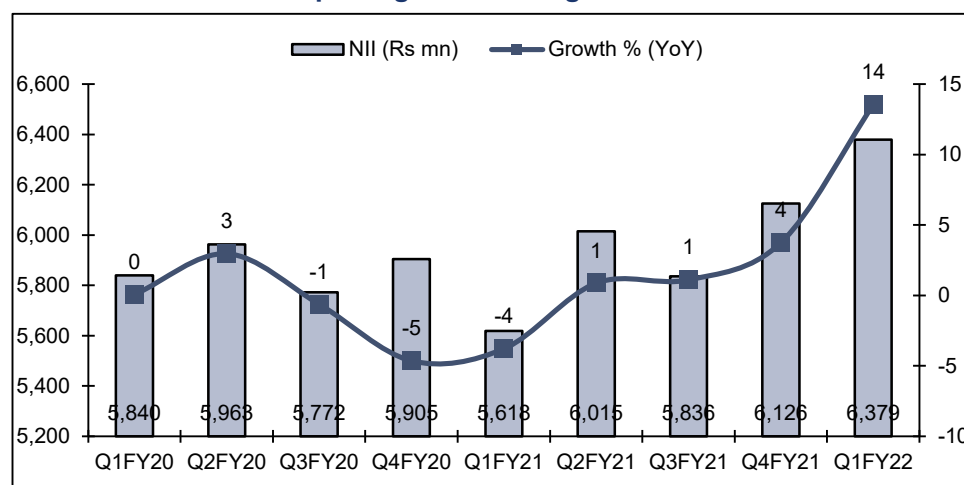


Source: Company, I-Sec research

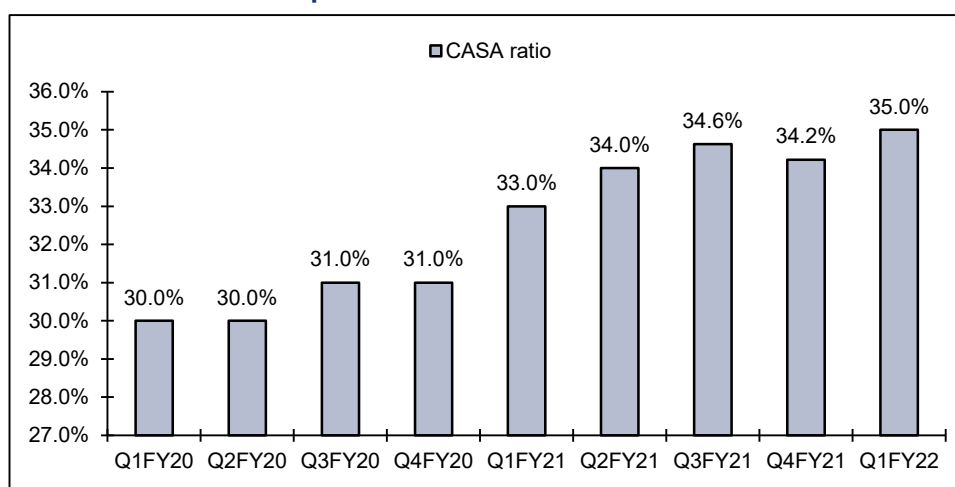
Chart 3: NIM expanded 9bps QoQ to 3.55%; KVB expects it to sustain at current level with TD rate cut in Q1FY22...



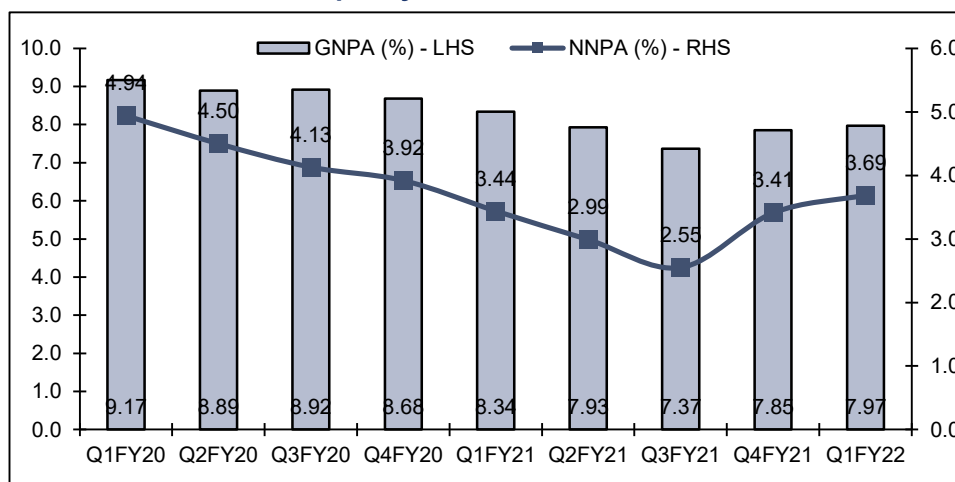
Source: Company, I-Sec research

Chart 4: ... the same kept NII growth strong at 14% YoY

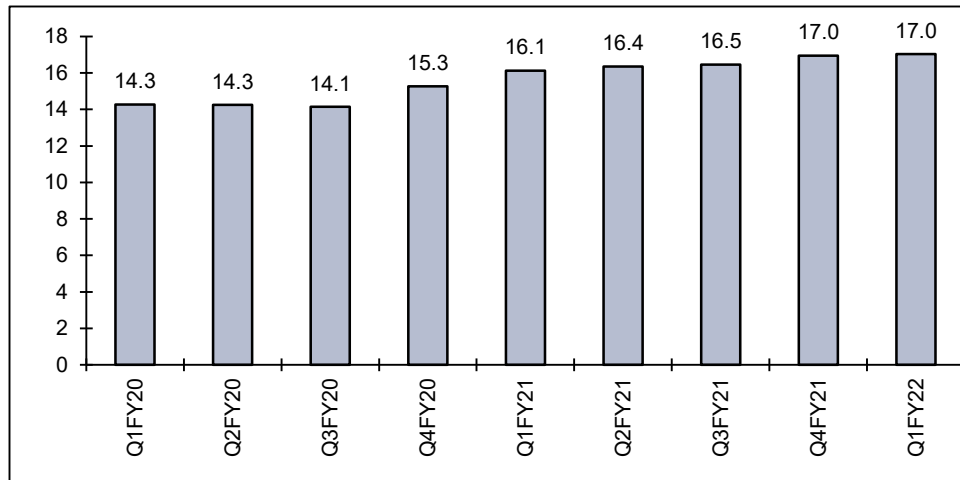
Source: Company, I-Sec research

Chart 5: CASA ratio improves to 35%

Source: Company, I-Sec research

Chart 6: Headline asset quality deteriorated; GNPL stands at 7.97%

Source: Company, I-Sec research

Chart 7: Tier-1 ratio remained at 17.0%

Source: Company, I-Sec research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Interest Income	59,900	54,704	59,497	66,758
Interest Expense	36,420	31,109	33,242	37,257
Net Interest Income	23,479	23,595	26,255	29,501
% NII Growth	(0.6)	0.5	11.3	12.4
Treasury Income		2.8%	3.3%	3.2%
Non-interest income	11,546	10,567	10,668	11,836
Net Revenue	35,026	34,162	36,924	41,337
Employees Expenses	8,567	11,537	10,071	11,079
Other Op. Expenses	8,851	8,332	8,665	9,445
Operating Profit	17,609	14,293	18,187	20,814
% OP Growth	2.9	-18.8	27.2	14.4
Tax	372	1,750	2,005	2,773
Total Provisions	14,887	8,950	10,169	9,723
Net Profit	2,350	3,594	6,014	8,318
% PAT Growth	11.5	52.9	67.3	38.3

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Capital	1,599	1,599	1,599	1,599
Reserves and Surplus	64,404	67,999	73,388	80,507
Deposits	5,90,751	6,32,784	6,96,063	8,00,472
Borrowings	11,842	25,283	11,025	13,117
Other Liabilities & Provisions	14,186	18,567	35,385	38,967
Total liabilities	6,82,782	7,46,232	8,17,459	9,34,661
Cash & Balances with RBI	27,327	31,241	31,819	36,611
Bal. with banks/ call money	16,599	31,963	31,819	32,544
Investment	1,57,624	1,60,189	1,74,016	2,00,118
Loans and advances	4,60,981	5,03,635	5,59,035	6,42,890
Fixed Assets	5,866	5,391	5,851	6,386
Other Assets	14,384	13,814	14,919	16,112
Total assets	6,82,782	7,46,232	8,17,459	9,34,661
% TA Growth	(2)	9	10	14

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data				
Book value per share (INR)	82.6	87.1	93.8	102.7
Adj. BVPS (INR)	65.6	70.9	75.2	86.5
Price/Book value	0.57	0.5	0.5	0.5
Price/ Adj. Book value	0.7	0.7	0.6	0.5
EPS(INR)	2.9	4.5	7.5	10.4
P/E Ratio	16.0	10.5	6.2	4.5
DPS	-	-	1.3	1.3

Asset Quality

Gross NPA (Rs mn)	42,128	41,428	37,555	33,050
Gross NPA (%)	8.68	7.85	6.72	5.14
Net NPA (Rs mn)	18,087	17,194	19,845	17,302
Net NPA (%)	3.92	3.41	3.55	2.69
% coverage of NPA	57.1	58.5	47.2	47.6
Delinquencies (%)	3.4	2.0	2.0	1.8

Capital Adequacy Ratios

RWA (Rs mn)	4,14,976	3,95,980	4,39,538	5,05,468
Tier 1 (%)	15.3	17.0	16.4	15.6
Tier 2 (%)	1.9	2.0	1.8	1.6
Total CAR (%)	17.2	19.0	18.2	17.2

Business Ratios

Credit / Deposit(%)	78.0	79.6	80.3	80.3
Investment / Deposit (%)	26.7	25.3	25.0	25.0
CASA (%)	31.3	34.0	34.0	34.0
RoAA (%)	0.3	0.5	0.8	0.9
Core RoE (%)	3.6	5.3	8.3	10.6
Dividend Yield (%)	0.0%	0.0%	2.8%	2.8%

Earnings Ratios

Interest Inc. / Avg. assets (%)	8.7	7.7	7.6	7.6
Interest Exp./ Avg. assets (%)	5.3	4.4	4.3	4.3
NIM (%)	3.4	3.3	3.4	3.4
Int. exp/ Int earned (%)	60.8	56.9	55.9	55.8
Oth. Inc./ Tot. Inc. (%)	33.0	30.9	28.9	28.6
Staff exp/Total opt. exp (%)	49.2	58.1	53.8	54.0
Cost/ Income Ratio (%)	49.7	58.2	50.7	49.6
Prov./ Operating Profit (%)	84.5	62.6	55.9	46.7
Loan loss prov./Avg. loans (bps)	314.5	185.6	191.4	161.8

Source: Company data, I-Sec research

Table 5: RoA tree

(% , year ending March 31)

	FY19	FY20	FY21E	FY22E
Interest income/Assets	8.7	7.7	7.6	7.6
Interest expenses/Assets	5.3	4.4	4.3	4.3
Net interest income/Assets	3.4	3.3	3.4	3.4
Other Inc. from operations/Assets	1.7	1.5	1.4	1.4
Total income/Assets	5.1	4.8	4.7	4.7
Employee expenses/Assets	1.2	1.6	1.3	1.3
Other operating expenses/Assets	1.3	1.2	1.1	1.1
Total Opex	2.5	2.8	2.4	2.3
Operating profit/Assets	2.6	2.0	2.3	2.4
Tax/Assets	0.1	0.2	0.3	0.3
Loan loss provisions/Assets	2.2	1.3	1.3	1.1
Net profit/Assets	0.3	0.5	0.8	0.9

Source: Company data, I-Sec research

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