

Karnataka Bank

23 February, 2023

Reuters: KBNK.BO; Bloomberg: KBL IN

Management meet update

We recently hosted the management of Karnataka Bank, represented by Mr. Mahabaleshwar M S, Managing Director & CEO; Mr. Sekhar Rao, Executive Director; Mr. Balachandra Y V, Chief Operating Officer and Mr. Abhishek Bagchi, CFO (Designate) as part of our week-long investor conference. The management is confident about the overall business environment in terms of credit growth and deposit growth. Also, it does not envisage any major slippages going forward and expects the same to be on a downward trajectory. Moreover, the ROA on a sustainable basis is likely to be in the range of 1.14% to 1.25% going forward.

Management Meet Key Takeaways

On business growth

- Focus will be on growing agri loans, contractor loans, gold loans, auto loans and home loans.
- The bank has already automated the underwriting process for retail loans. The MSME portfolio is also faring well and will be in focus going forward.
- Home loans comprise ~16% of the book. In the Housing segment, focus is on the premium segment as well as the affordable housing segment.
- Overall, the management expects credit growth to be ~15% going forward.
- The management indicated that the bank is likely to leverage its digital capabilities across segments – savings a/c, corporate salary a/c, state treasuries (Karnataka and Maharashtra), CBDT and customs business going forward.
- The customer on-boarding process is completely digital. 80% of savings accounts are sourced and served digitally.
- The bank's PSL is more than the regulatory requirement at ~ 50%.
- The bank has tweaked deposit rates multiple times over the last year and expects deposit growth to be ~10% for FY23.
- The bank has launched a new centenary deposit scheme as it enters the centenary year.
- Liquidity shrinkage for system is challenging, but the management highlighted that the bank isn't seeing any challenges on deposits/borrowings to fund advances growth.
- CASA is likely to further strengthen through corporate salary a/c and government business.

Asset quality

- The management highlighted that all the negative surprises on slippages are largely over.
- The bank has been doing some stress asset identification and has also been in an accelerated provision mode.
- The management indicated that it would take almost a year for the draft on ECL and another year for the final guidelines to be released; it expects the process to be completed within three years.
- The management expects GNPA/NNPA to be below 3.0%/1.5% going forward.
- Exposure to Gems & Jewellery segment is negligible.
- The bank has been constantly monitoring the restructured portfolio during the covid times, specifically its exposure to state government contractors. Moreover, stress in the portfolio has come down.
- Overall, depreciation in AFS and HTM investments for 9M has been Rs2bn as rates are increasing. The SR book is 93% provided for.

Other highlights

- Cost of deposits as of 3QFY23 stood at ~4.54% vs ~4.46% in 2QFY23; going forward, some impact on NIM is likely on account of increasing CoF.
- The management highlighted that capex is not even 1/3rd of quarterly profit and will be in that range.
- Sustainable ROA is expected to be ~1.14-1.25%.
- Incremental yields are in line with the external benchmark.
- On gold loans front, plan is to increase penetration and stay competitive in the market.
- For branch expansion, the bank has identified ~12 promising states.
- Plans to open ~20-30 branches in the upcoming year. Focus will be more on growing digital footprint rather than physical presence.

Not Rated
Sector: Banking

CMP: Rs137

Nikhil Shah

Research Analyst

nikhil.shah@nirmalbang.com

+91-22-6273 8092

Key Data

Current Shares O/S (mn)	312.2
Mkt Cap (Rsbn/US\$mn)	43.1/520.4
52 Wk H / L (Rs)	169/55
Daily Vol. (3M NSE Avg.)	2,959,570

Price Performance (%)

	1 M	6 M	1 Yr
Karnataka bank	(7.1)	91.7	126.1
Nifty Index	(3.1)	(0.2)	2.8

Source: Bloomberg

Financials

Exhibit 1: Income statement

Y/E March (RsMn)	FY18	FY19	FY20	FY21	FY22
Interest Income	54,237	59,060	64,747	62,325	62,217
Interest Expense	35,661	40,008	44,445	40,492	37,307
Net Interest Income	18,576	19,052	20,302	21,833	24,910
Non-Interest Income	9,544	10,021	12,617	14,042	9,538
Net Revenue	28,120	29,073	32,919	35,875	34,448
Operating expenses	13,390	14,573	16,352	16,792	18,111
Operating profit	14,730	14,500	16,567	19,083	16,337
Provisions	11,630	8,420	11,347	12,964	9,394
PBT	3,100	6,080	5,220	6,119	6,943
Tax	-155	1,306	903	1,294	1,859
PAT	3,255	4,774	4,317	4,825	5,084

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance sheet

Y/E March (RsMn)	FY18	FY19	FY20	FY21	FY22
Equity Capital	2,826	2,826	3,109	3,109	3,112
Reserves & Surplus	51,275	55,026	56,596	63,315	67,835
Shareholder's Funds	54,101	57,852	59,704	66,423	70,947
Deposits	628,713	684,521	717,852	756,549	803,868
Borrowings	8,160	33,255	40,651	17,649	23,138
Other liabilities	12,763	14,829	14,928	15,533	22,451
Total liabilities	703,737	790,458	833,135	856,154	920,406
Cash/Equivalent	36,010	36,097	29,195	53,156	44,368
Advances	472,518	548,282	569,643	515,164	567,963
Investments	154,444	161,850	175,453	216,352	220,410
Fixed Assets	7,616	7,750	8,264	8,378	8,050
Other assets	33,149	36,478	50,580	63,105	79,615
Total assets	703,737	790,458	833,135	856,154	920,406

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Key ratios

Y/E March- Ratios	FY18	FY19	FY20	FY21	FY22
Growth (%)					
NII	25	3	7	8	14
Operating profit	3	9	12	3	8
Profit after tax	-28	47	-10	12	5
Loans	28	16	4	-10	10
Spreads (%)					
Yield on advances	9.7	9.2	9.2	9.1	8.7
Cost of Deposits	5.8	5.8	6.0	5.2	4.6
NIM	2.9	2.7	2.7	2.8	3.1
Operational efficiency (%)					
Cost/income	47.6	50.1	49.7	46.8	52.6
Cost/Asset	2.1	2.1	2.2	2.2	2.2
CRAR (%)					
Tier I	11.29	11.17	10.66	12.34	12.65
Tier II	0.75	2.00	2.00	2.51	3.01
Total CRAR	12.04	13.17	12.66	14.85	15.66
Asset quality (%)					
GNPA	4.92	4.41	4.82	4.91	3.90
NNPA	2.96	2.95	3.08	3.18	2.42
PCR	40	33	36	35	38
Profitability (%)					
ROA	0.5	0.7	0.6	0.6	0.6
ROE	6.2	8.5	7.3	7.7	7.4
Per share (Rs)					
EPS	2.3	3.4	2.8	3.1	3.3
BVPS	36.6	39.3	36.1	39.8	43.0
Valuation (x)					
P/E	59.7	40.7	49.5	44.3	42.1
P/BV	3.8	3.5	3.8	3.5	3.2

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Nikhil Shah, research analyst, the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analysts was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analysts are principally responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name	Email Id	Direct Line	
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.

Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010