

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. Mahabaleshwara 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

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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

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