



Karnataka Bank Ltd. Q4 FY17 Result Update

MARKET DATA

Net worth (₹Cr)	5143
P/BV Ratio (FY17) (x)	0.8
EPS (FY17) (₹)	19.4
Market Price (₹)	157
P/E Ratio (FY17) (x)	7.3
52 Week High (05/05/2017)	176
52 Week Low (20/05/2016)	90
Market Capitalisation (₹Cr)	4,612

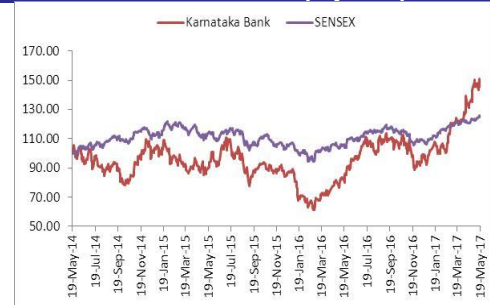
AVERAGE MONTHLY VOLUME ('000)

BSE	607
NSE	5,440

SHAREHOLDING PATTERN (Mar-17)

Promoters	Institutions	Others
0%	30.8%	69.2%

INDEXED PRICE CHARTS (3 years)



RETURN	3M	6M	12M
Stock	28	58	67
Sensex	6	18	21

Karnataka Bank reported 30% y-o-y & 102% q-o-q growth in PAT largely due to higher other income (83% y-o-y & 133% q-o-q). Core operating profitability continues to be soft as NIMs fell to 2.17% (vs. 2.40% in Q3 FY17) because of interest income reversal on SDR accounts and weak fee income. Sales to ARC restricted GNPA to 4.21% vs. 4.30% q-o-q.

Higher slippages; Sales to ARC restricted GNPA

In Q4 FY17, ~Rs. 140crs were slippages from SDR accounts from the total slippages of Rs. 511crs (which are highest since last many quarters). Sales to ARC were ~Rs. 130crs which resulted in only 1.4% growth in absolute GNPA to Rs. 1,582crs. Standard restructured book dipped by 22% q-o-q and stressed assets (std. restructured book + NNPA) as a % of advances fell from 6.7% in Q3 FY17 to 5.4% in Q4 FY17. Credit cost for the quarter was 1.7% vs. 1.1% in Q3 FY17. Credit cost was higher in Q4FY17 as a higher proportion of GNPA was in the below sub-standard category which attracted higher provisioning. Management guided GNPA & NNPA to be ~4% & 2% for FY18E respectively.

Lower Opex supported profitability

NII was down 6% q-o-q largely due to interest income reversal on SDR account (~Rs. 38crs). Cost to Income Ratio stands at 50% (down 14% q-o-q & 2% y-o-y) which supported profitability this quarter. Management has guided ROA to be ~1.5% and ROE to be ~15% by FY 20.

Outlook & Valuation

The banks focus on retail lending (which is currently 52% of the book) as mentioned in its Vision 2020, will improve its NIMs and credit cost going ahead. The trend in asset quality is set to improve following the resolution process. CRAR remains healthy at 13.03%. With higher share of retail, we expect ROA's to improve going ahead (currently 0.7%). The stock is currently trading at TTM P/Adj. BV of 1.0x. We recommend a HOLD rating with a target price of Rs. 179 (1.1x P/Adj. BV of FY18E).

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Quarterly Performance:

Particulars Rs. Crs	Q4 FY17	Q4 FY16	% YoY	Q3 FY17	%QoQ	FY17	FY16	% YoY
NII	352.17	359.73	-2.10	376.51	-6.5	1490.62	1302.87	14.41
Other Income	311.69	170.01	83.34	133.59	133.3	809.34	542.86	49.09
Operating Expense	334.59	275.37	21.51	338.24	-1.1	1304.16	991.20	31.57
Pre-provisioning Profits	329.27	254.37	29.45	171.86	91.6	995.80	854.53	16.53
Total Provisions	160.40	112.50	42.58	100.60	59.4	527.85	326.53	61.65
PBT	168.87	141.87	19.03	71.26	137.0	467.95	528.00	-11.37
Taxes	30.50	35.08	-13.06	2.74	1013.1	15.69	112.71	-86.08
PAT	138.37	106.79	29.57	68.52	101.9	452.26	415.29	8.90



Q4 FY17 Conference Call Highlights

Vision 2020

1. Management has guided total business of Rs. 1,80,000crs (Rs. 1,00,000crs deposits and Rs. 80,000crs advances) as against a total of Rs. 94,000 for FY17.
2. The bank is targeting 60% business contribution from other states and 40% from Karnataka.
3. Retail – corporate loan mix is guided at 60-40% vs. 52% - 48% in FY17.
4. Plans to extend its reach to 1,000 branches and 2,500 ATMs by FY20E (vs. 765 branches and 1,380 ATMs in FY17).
5. Customer base stands at 8.2mn and it plans to reach out 13mn under its Vision 2020.
6. On the profitability front, it expects RoA > 1%, RoE > 15% and NIM > 3% and cost to income of 40%.

Guidance

1. C/D Ratio: Current C/D Ratio stands at 65%. Management has guided 70% for FY18E.
2. Loan growth: Guided 20%+ loan book growth for FY18E.
3. Increase geographical presence: The bank plans to expand incrementally in areas of Maharashtra, Delhi and Tamil Nadu. Historically, these states have witnessed higher CD Ratio.
4. Management has guided adding up 35 branches and 1.2mn customers by FY18. (40 branch additions and 1mn customers added in FY17).

Asset Quality

1. GNPA in FY16 was Rs 1,183crs; the divergence according to RBI notification on 18th April, 2017 was only to the tune of 9.9crs.
2. Q4FY17 slippages breakup: 4 SDR accounts totalling to ~Rs. 1500crs slipped to NPA while the balance ~Rs. 360crs were granular in nature.
3. Security Receipts (SR) O/s. stood at Rs 500crs. The bank saw recovery to the tune of Rs 120crs from its SR portfolio.
4. Agricultural GNPA stands at 3.23% and management has guided 3% levels in FY18E.

Others

1. The bank has been able to considerably reduce its RIDF portfolio to Rs1399crs from Rs. 1547crs in FY16.
2. Q4 FY17 saw interest reversal to the tune of Rs 38crs.



Key Financials

Profit & Loss

(Rs. Cr.)	FY15	FY16	FY17
Interest Earned	4,698	4,992	5,185
Interest expended	3,530	3,689	3,695
Net Interest Income	1,169	1,303	1,491
Other Income	506.99	542.86	809.34
Net Total Income	1,676	1,846	2,300
Operating Expenses	952.57	991.20	1304.16
Pre-provisioning Profits	723	855	996
Provisions	213.98	326.53	527.85
Exceptional Items	33.07	0.00	0.00
PBT	542	528	468
Taxes	90.91	112.71	15.69
PAT	451	415	452

Key Ratios

Particulars	FY15	FY16	FY17
EPS	23.96	19.68	19.38
BV	179.8	195.8	182.0
Adj. BV	146.7	153.6	147.5
Key Ratios			
NIMs (%)	2.5	2.6	2.6
Cost to Income (%)	56.8	53.7	56.7
Credit cost (%)	0.68	0.96	1.43
ROA (%)	0.87	0.74	0.71
ROE (%)	13.3	11.3	8.8
Asset Quality			
G.NPA %	2.95	3.44	4.21
N.NPA %	1.98	2.35	2.64
Valuation Ratios			
P/E (x)	4.2	4.2	7.3
P/BV	0.6	0.4	0.8
P/ABV	0.7	0.5	1.0

Balance Sheet

(Rs. Cr.)	FY15	FY16	FY17
LIABILITIES			
Share Capital	188	188	283
Reserves and Surplus	3,201	3,502	4,860
Net Worth	3,389	3,691	5,143
Deposits	46,009	50,488	56,733
Borrowings	1,038	1,051	833
Other Liabilities & Provisions	1,401	1,270	1,418
Total	51,837	56,500	64,127
ASSETS			
Cash & Bank Balance	2,614	3,045	3,274
Fixed Assets	292	307	721
Investments	14,032	16,257	20,220
Advances	31,680	33,902	37,004
Other Assets	3,219	2,990	2,909
Total	51,837	56,500	64,127



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