

Strong Quarter!

16th May, 2017

CMP: Rs. 164
Target Price: Rs. 190
Recommendation: **ACCUMULATE**

Stock Info

BSE Group	A
BSE Code	532652
NSE Symbol	KTKBANK
Bloomberg	KBL IN
Reuters	KBNK.BO
BSE Sensex	30,322
NSE Nifty	9,445

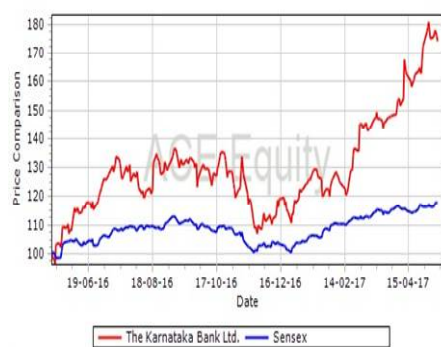
Market Info

Market Capital(Rs Cr)	4,765
Equity Capital(Rs Cr)	283
Avg. Trading Vol.	31,53,700
52 Wk High/ Low	176/89.80
Face Value	10

Shareholding Pattern (%) (March 2016)

Promoters	0.0
Domestic Institutions	11.6
Foreign Institutions	19.2
Public & Others	69.2

Price Chart:



Profitability

The Karnataka Bank Ltd for the quarter ended Q4 FY 17 reported rise in its net profit by 30% YoY to Rs 138 crs. Sequentially the profit rose by 102%. This was majorly due to higher other income which amplified by 83.3% YoY and lower employee cost which fell by 30.6% QoQ and also higher operating income which grew 29.4% YoY and 91.6% QoQ.

Advances

Bank reported muted credit growth of 9.1% YoY while the loan book grew by 2.3% sequentially to Rs 37,004 crs. Retail advances for the bank grew at 8.7% while corporate advances grew at 9.6% YoY. Retail advances to corporate advances ratio stood at 53 : 47.

Deposits

Deposits for the bank grew at robust 12.4% YoY. CASA proportion increased from 26.3% to 29% on account of higher savings bank account growth. C-D ratio for the bank dropped to 65.2 against 67.1 YoY and increased from 62.3 sequentially.

Asset Quality

Gross NPA stood at Rs 1582 cr (4.21%) while Net NPA stood at Rs 975 crs (2.64%). Management expects asset quality to stay at tolerable levels as recoveries are expected to outpace slippages going forward.

Margins

Yield on advances stood at 10.8% against 11.6% YoY. Cost of deposits dropped to 6.7% against 7.5% YoY. NIM for the bank has deteriorated to 2.2 against 2.4 YoY and 2.5 on sequentially basis.

Valuation

At CMP of Rs 164 the stock trades at 8.3 P/E(x) and 1.2 P/ABV(x) to its FY 19E. We have valued the stock at 1.35(x) to its FY 19E ABV and arrived at a fair value of Rs 190 for the stock. We have '**ACCUMULATE**' rating for the stock.

Snapshot

Particulars (Rs Cr)	FY 16	FY 17E	FY 18E	FY 19E
NII	1303	1487	1693	1990
PPP	855	864	1060	1232
Net Profit	415	410	469	556
EPS(Rs)	22.0	14.5	16.6	19.7
ROE(%)	11.7	9.8	9.8	10.7
P/E (x)	6.9	11.3	9.9	8.3
P/ABV (x)	1.0	1.3	1.3	1.2

Source: - Ace Equity, Arianth Research



Quarterly Result Highlights:

Income Statement					
Particulars	Q4 FY 17	Q4 FY 16	YoY %	Q3 FY 16	QoQ %
Interest Earned	1295	1278	1.3	1324	-2.2
Interest Expended	942	918		947	
NII	352	360	-2.1	377	-6.5
Other Income	312	170	83.3	134	133.3
Operating Expenses	335	275	21.5	338	-1.1
Employee Cost	123	105	16.3	177	-30.6
Operating Profit	329	254	29.4	172	91.6
Provisions	160	113	42.6	101	59.4
Tax	31	35		3	
Profit After Tax	138	107	29.6	69	101.9
Other Highlights					
Particulars	Q4 FY 17	Q4 FY 16	YoY %	Q3 FY 16	QoQ %
EPS	4.9	5.7		2.4	
BVPS	182	180		10	
RoA	0.9	0.8	0.1	0.7	0.2
RoE	10.8	11.7	-0.9	9.5	1.4
NIM	2.2	2.4	-0.2	2.5	-0.4
C-I ratio	50.4	52.0	-1.6	66.3	-15.9
CAR Basel III	12.4	12.0		13.2	
Tier I	10.5	10.6		11.9	
RWA	38902	34787	11.8	38120	2.1
Gross NPA	1582	1180		1560	
Net NPA	975	795		1066	
Gross NPA %	4.2	3.4	0.8	4.3	-0.1
Net NPA %	2.6	2.4	0.3	3.0	-0.3
Deposits	56733	50488	12.4	57435	-1.2
CASA%	29.0	26.3		30.2	
CASA	16475	13258	24.3	17357	-5.1
Advances	37004	33902	9.1	35786	3.4
Retail	52.6	52.8		52.4	
Corporate	47.4	47.2		47.6	
C-D ratio	65.2	67.1		62.3	
Cost of deposits	6.7	7.5	-0.8	6.8	-0.1
Yield on advances	10.8	11.6	-0.7	11.1	-0.3



Profit & Loss Account				
Particulars (Rs Cr)	FY 16	FY 17E	FY 18E	FY 19E
Interest Earned	4992	5389	6009	6838
Interest Expended	3689	3902	4315	4848
NII	1303	1487	1693	1990
Other Income	543	617	689	781
Fee Income	238	275	300	342
Operating Expenses	991	1240	1322	1538
Employee Cost	443	612	655	796
PPP	855	864	1060	1232
Provisions and Contingencies	327	419	450	481
Profit Before Tax	528	446	610	751
Taxes	113	36	140	195
Net Profit	415	410	469	556

Balance Sheet				
Particulars (Rs Cr)	FY 16	FY 17E	FY 18E	FY 19E
Share Capital	188	283	283	283
Total Reserves	3502	4360	4692	5101
Deposits	50488	56264	62426	70447
Borrowings	1051	1120	1035	1075
Other Liabilities & Provisions	1270	1008	983	1020
Total Liabilities	56500	63034	69418	77926
Cash and balance with RBI	2646	4618	4986	5441
Bal. with banks & money at call	399	575	838	1202
Investments	16257	18116	19708	21775
Advances	33902	36892	41302	47314
Other Assets	3296	2834	2584	2193
Total Assets	56500	63034	69418	77926

Ratios				
Particulars (%)	FY 16	FY 17E	FY 18E	FY 19E
Advances Growth	7.0	8.8	12.0	14.6
Deposit Growth	9.7	11.4	11.0	12.9
NII Growth	11.5	14.1	13.9	17.5
Net Profit Growth	-8.0	-1.2	14.4	18.4
EPS(Rs)	22.0	14.5	16.6	19.7
BVPS(Rs)	196	164	176	190
Adj. BVPS (Rs.)	154	122	130	141
DPS(Rs)	5.0	3.0	3.7	4.3
ROA(%)	0.8	0.7	0.7	0.8
ROE(%)	11.7	9.8	9.8	10.7
C-D ratio	67.2	65.6	66.2	67.2
Cost Income Ratio	53.7	58.9	55.5	55.5
CASA (%)	26.3	27.9	28.3	28.9

Ratios				
Particulars (%)	FY 16	FY 17E	FY 18E	FY 19E
Total CAR (Basel III)	12.0	13.4	13.3	12.7
Net NPA	2.3	3.3	3.2	3.0
Gross NPA	3.4	4.5	4.4	4.2
PCR	48.4	52.0	52.0	55.0
Yield on Advances	11.6	11.0	11.0	11.0
Yield on Investments	7.5	7.5	7.5	7.5
Cost of Deposits	7.5	6.9	6.9	6.9
Interest Spread	4.0	4.1	4.1	4.2
NIM(%)	2.6	2.6	2.7	2.8
Valuation				
P/E (x)	6.9	11.3	9.9	8.3
P/BV (x)	0.8	1.0	0.9	0.9
P/ABV (x)	1.0	1.3	1.3	1.2

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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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