

Result Update

16 October 2017

Solid performance; reiterate BUY

We retain Buy on Karnataka Bank (KBL) with TP unchanged at Rs200 (valued at 1.3x FY19E ABV). Q2'18 results were strong on all fronts - loan growth accelerates, margins improve, fee income strengths further and asset quality - ie slippages moderate. Commentaries on each of the above key parameters remain encouraging and thus even as we factor in elevated provisioning; we believe RoE's are set to inch towards 12% levels by end-FY19E. Capital position remains strong; valuations at 1x FY19E ABV remain undemanding.

- **Q2FY18 result – Solid performance:** Q2'18 NII at Rs4.4bn grew 10.8% YoY and was led by 12.3% YoY growth in loans and further expansion in NIM (calc) to 2.75% (+9bps QoQ 3bps YoY). Non-interest income too came in higher (fees grew 36% YoY; treasury were up 21% YoY) and with stable costs saw operating profit grow 57% YoY. Slippages stood at Rs3.74bn (3.6% of loans annualised) vs. Rs4.98bn QoQ and after providing for the same including tax related provisioning, net profit came in at Rs934mn (down 25% YoY). While sequential decline in slippages is positive, provision coverage ratio at 27.3% (flat QoQ) is still on the lower side to peers and needs some attention. Deposits grew by 6.5% YoY led by 15.6% YoY growth in CASA deposits; CASA ratio has inched to 28.6% (vs. 26.3% YoY).
- **Margins on upmove; slippages set to moderate:** NIM at 2.75% (calc) for the quarter is on an upward trajectory and is following continued efforts at a) containing overall cost of deposits (6.23% in Q2'18 vs. 6.3% in Q1'18) b) scaling overall loan-to-deposit ratio higher (Q2'18 LDR at 72.7% vs. 68.4% QoQ / 69% YoY) and c) garnering CASA deposits including recent reduction in SA rates (effective August, 2017). Levers are in place and will see overall NIM (calc) inch towards 2.9% by FY19E. Q2'18 slippages at Rs3.74bn included one large account of Rs2.3bn (housing-infra sector) that was downgraded to NPA. This account was earlier recognised as SDR and the bank carries adequate provisioning thereon. Standard restructured loans stood at Rs6.9bn and coupled with GNPA, SDR and S4A make for 6.5% of loans (vs. 8.6% in FY17). Commentaries on incremental slippages remain encouraging and we have factored the same into our estimates.
- **Provisioning to impact near-term profitability; underlying trend intact:** The trends on the operating front remain encouraging – loan growth momentum accelerating, NIM, loan-to-deposit ratio on an up-move, increasing contribution from core-fee income, improving CASA and stable operating costs. We thus have revised our NII / PPOP estimates upwards and are now factoring in 15.5% / 23.9% CAGR respectively over FY17-19E. Slippages are set to moderate / decline in H2'18; provisioning however is set to remain higher given a) NPA ageing b) provisioning towards IBC cases and c) any mark-down (if required) on the security receipt (SR) portfolio. The quarter saw SR related provisioning of Rs250mn; the bank has Rs4.5bn of O/s. SR. Given the above factors including the need to increase overall PCR we are factoring in 130bps of credit cost over FY17-19E. We expect the bank to report 24% CAGR in PAT over the similar time-frame
- **Valuation, view and key risks:** KBL Q2'18 results were in-line with our estimates on several fronts. We, however have tweaked our estimates on provisioning front. Though at a nascent stage of transformation, the bank has made strong in-roads in its journey of RoE improvement. The transformational exercise as envisaged will further augment overall RoE's. Valuations at 1x FY19E ABV remain attractive. Retain Buy with TP at Rs200 (valued at 1.3x FY19E ABV). Higher than expected slippages and lower than expected credit growth remain near-term risks.

Rs mn	Q2FY18	Q2FY17	% YoY	Q1FY18	% QoQ	Q2FY18E	% Var
Net interest income	4,402	3,973	10.8	4,244	3.7	4,444	(0.9)
Pre-provision profit	3,662	2,328	57.4	3,097	18.3	3,192	14.7
Net profit	934	1,238	(24.6)	1,339	(30.2)	1,370	(31.9)
GNPA	17,157	13,445	27.6	16,910	1.5		
NNPA	12,468	9,614	29.7	12,300	1.4		
PCR (%) calc	27.3	28.5	(117bps)	27.3	-		

Source: Company, Centrum Research

Target Price	Rs200	Key Data	
CMP*	Rs160	Bloomberg Code	KBL IN
Upside	25%	Curr Shares O/S (mn)	282.6
Previous Target	Rs200	Diluted Shares O/S(mn)	282.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	45.2/698.6
Price Performance (%)*		52 Wk H / L (Rs)	181.2/100.1
	1M 6M 1Yr	5 Year H / L (Rs)	181.2/56.3
KBL IN	4.0 3.8 31.4	Daily Vol. (3M NSE Avg.)	2793910.0
NIFTY	1.4 11.8 19.2		

*as on 16 October 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	0.0	0.0	0.0	0.0
FIs	18.7	21.9	19.2	20.2
DIs	11.2	9.8	11.6	8.5
Others	70.1	68.3	69.2	71.4

Source: BSE, *as on 16 October y 2017

Earnings revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	26,863	25,744	4.3	29,819	29,469	1.2
PPoP	13,391	12,650	5.9	15,306	14,950	2.4
PAT	5,203	5,668	(8.2)	6,978	7,259	(3.9)

Source: Bloomberg, Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	26,863	25,500	5.3	29,819	39,433	(24.4)
PPoP	13,391	10,967	22.1	15,306	12,788	19.7
PAT	5,203	4,919	5.8	6,978	6,308	10.6

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
4	1	0	167	200	19.7

*as on 16 October 2017; Source: Bloomberg, Centrum Research Estimates

Aalok Shah, aalok.shah@centrum.co.in; 91 22 4215 9075

Gaurav Jani, gaurav.jani@centrum.co.in; 91 22 4215 9110

Y/E Mar (Rs mn)	Net Income#	PPOP	Rep. PAT	YoY (%)	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	RoA (%)	RoE (%)
FY15	16,758	7,734	4,516	45.1	24.0	4.5	146.7	0.7	0.9	14.0
FY16	18,457	8,546	4,157	(8.0)	22.0	4.5	153.6	0.6	0.8	11.7
FY17	23,000	9,958	4,523	8.9	16.0	7.2	132.1	0.9	0.7	10.2
FY18E	26,863	13,391	5,203	15.0	18.4	8.6	144.0	1.1	0.8	9.8
FY19E	29,819	15,306	6,978	34.1	24.7	6.5	165.9	1.0	1.0	12.1

Source: Company, Centrum Research Estimates #net income denotes NII + other income. Valuations are on average market cap basis for FY15-FY18EYTD.

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Conference call takeaways

Balance Sheet

- Q2FY18 loans grew 12.3% YoY / 6.9% QoQ and was led by 15% YoY growth in retail loans; 18% YoY growth in in agri loans. Loans to large / SME corporate have declined 1% YoY. Management has guided for 15% growth in loans for FY18E.
- Deposits grew 6.5% led by 15.6% YoY growth in CASA deposits. The cut in SA deposits effective August, 2017 in our view as positively impacted NIM by 10bps.
- Loan-deposit ratio (LDR) for the bank has improved to 72.7% (vs. 68.4% in Q1'18 / 68.9% in Q2'17).
- The quarter saw bank add 4 branches taking the overall branch strength to 773 branches / 1,397 ATM's.

Asset Quality

- Slippages at Rs 3.74bn included one account of Rs2.3bn from housing-infra space that was downgrade to NPA following aggressive NPA recognition policy. This account was earlier part of SDR and the bank has made 25% provision against this account.
- The bank has exposure to 4 cases with cumulative dues of Rs5.05bn towards cases referred to IBC (both first and second list). The exposure towards first IBC case is at Rs490mn (carries provision to the tune of Rs131mn); second list exposure is at Rs4.6bn; carries Rs917mn of provision against these accounts.
- The quarter saw bank sale Rs1.8bn of live NPA accounts and Rs2.8bn of technically w/off accounts to ARC. The cumulative value of SR held as at Q2'18 stood at Rs4.5bn. Q2'18 results included Rs250mn of SR related MTM provisioning.
- Standard restructured portfolio stands at Rs6.87bn. Stock of SDR is at Rs1.14bn / S4A at Rs1.7bn.
- Stressed asset portfolio for the bank ie GNPA + restructuring + SDR + S4A has reduced to 6.5% of loans (vs. 8% in Q1'18 / 8.6% in Q4'17).
- SMA 2 portfolio stands at ~Rs13.8bn (vs. ~Rs17.3bn in Q1'18).
- GNPA / NNPA target for FY18 is retained at 4% and 2% respectively.

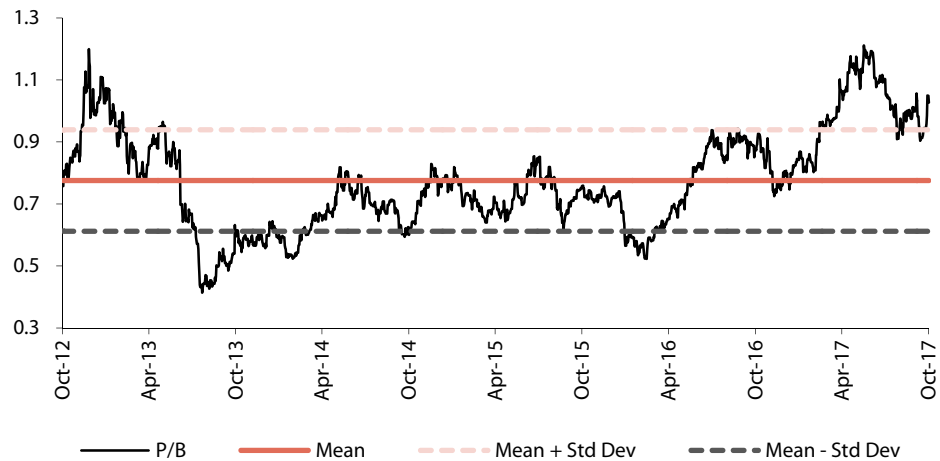
Sensitivity analysis & peer comparison

Exhibit 1: Sensitivity Analysis – impact of change in margins and credit cost on FY18PBT

%	Credit cost				
	+ 10bps	+ 20bps	' Current levels	+ 10bps	- 20bps
- 5bps	(11.4)	(18.3)	(4.5)	2.4	9.3
- 10bps	(15.9)	(22.8)	(9.0)	(2.0)	4.9
NIM Current levels	(6.9)	(13.8)	-	6.9	13.8
+ 5bps	(2.4)	(9.3)	4.5	11.4	18.3
+ 10bps	2.0	(4.9)	9.0	15.9	15.9

Source: Company, Centrum Research Estimates

Exhibit 2: Rolling forward PB chart



Source: Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company Name	Mkt Cap (Rs mn)	CAGR (FY17-FY19E) %			PE (x)			RoA (%)			RoE (%)			P/BVPS (x)			Div Yield (%)		
		NII + Oth inc	PPOP	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
KBL*	45,216	13.9	24.0	24.2	7.2	8.6	6.5	0.7	0.8	1.0	10.2	9.8	12.1	0.8	0.9	0.8	3.5	2.7	2.8
DCB *	58,554	18.8	22.9	28.6	20.0	22.9	17.7	0.9	1.0	1.0	10.8	11.3	12.0	2.1	2.3	2.0	0.0	0.0	0.0
CUBK *	1,05,655	11.4	10.0	13.5	15.6	16.9	14.8	1.5	1.5	1.5	15.2	14.7	15.0	2.2	2.3	2.1	0.8	0.8	0.8
Federal Bk	2,43,214	19.6	24.2	34.7	17.9	18.5	16.1	0.8	0.9	1.0	9.6	10.7	11.9	1.3	1.8	1.8	1.0	1.0	0.9
KVB	77,684	13.0	12.1	24.8	12.4	13.1	10.4	0.9	1.0	1.2	11.3	12.3	14.3	1.4	1.6	1.4	1.9	1.9	2.0
SIB	58,281	12.3	18.3	26.5	8.5	13.4	8.7	0.6	0.5	0.7	10.3	7.7	12.8	0.9	1.05	1.10	1.9	1.9	1.6
RBL	2,15,326	32.0	41.9	38.0	36.4	33.4	23.8	1.0	1.1	1.2	12.8	12.2	14.0	3.9	3.5	3.1	0.5	0.5	0.4

Source: Bloomberg consensus, *Centrum Research Estimates. FY17 – FY18E have been valued on average market cap basis.

Quarterly financials

Exhibit 4: Quarterly Financials

(Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Income statement								
Interest earned	12,371	12,777	12,606	13,064	13,239	12,945	13,305	13,179
Interest expended	9,322	9,179	8,959	9,091	9,474	9,423	9,061	8,777
Net interest income	3,049	3,597	3,647	3,973	3,765	3,522	4,244	4,402
Non-interest income	1,327	1,700	1,744	1,897	1,336	3,117	2,174	2,478
Total income	4,376	5,297	5,391	5,870	5,101	6,639	6,418	6,881
Operating expenses	2,460	2,754	2,771	3,542	3,382	3,346	3,321	3,218
PPOP	1,917	2,544	2,619	2,328	1,719	3,293	3,097	3,662
Provisions	631	1,125	1,363	1,306	1,006	1,604	1,989	2,260
PBT	1,286	1,419	1,256	1,022	713	1,689	1,108	1,403
Tax	317	351	41	(216)	27	305	(230)	469
Reported PAT	969	1,068	1,215	1,238	685	1,384	1,339	934
Ratios								
Growth YoY (%)								
<i>NII</i>	1.0	23.5	10.1	29.4	23.5	(2.1)	16.4	10.8
<i>Non-interest income</i>	(18.5)	52.2	46.4	56.8	0.7	83.3	24.7	30.6
<i>Opex</i>	(12.7)	28.9	31.1	37.0	37.5	21.5	19.8	(9.1)
<i>PPOP</i>	4.6	34.3	9.6	37.3	(10.3)	29.5	18.2	57.4
<i>Reported PAT</i>	(9.4)	(20.6)	11.2	21.2	(29.3)	29.6	10.1	(24.6)
<i>Loans</i>	8.5	7.0	11.5	12.8	8.7	9.1	10.1	12.3
<i>Deposits</i>	10.9	9.7	10.1	8.6	15.6	12.4	9.2	6.5
Margins (%)								
<i>Yield on total assets</i>	9.9	10.0	9.9	9.9	10.0	9.8	9.6	9.2
<i>Cost of funds</i>	6.7	6.5	6.3	6.2	6.3	6.0	5.7	5.5
<i>Spread</i>	2.5	2.9	3.0	3.1	3.2	3.2	3.3	3.0
<i>NIM</i>	2.2	2.6	2.6	2.7	2.5	2.2	2.7	2.8
Key drivers (%)								
<i>Cost-income</i>	56.2	52.0	51.4	60.3	66.3	50.4	51.7	46.8
<i>GNPA</i>	3.6	3.4	3.9	3.6	4.3	4.2	4.3	4.1
<i>NNPA</i>	2.4	2.4	2.6	2.6	3.0	2.6	3.2	3.0
<i>Provision coverage</i>	33.4	32.6	34.4	28.5	31.7	38.4	27.3	27.3
<i>Tier I CAR</i>	10.0	10.6	10.3	9.8	11.9	12.2	11.9	11.4
<i>Tier II CAR</i>	1.7	1.5	1.4	1.4	1.3	1.1	1.1	1.0
<i>RoA</i>	0.7	0.8	0.9	0.8	0.5	0.9	0.8	0.6
<i>RoE</i>	10.4	11.3	13.0	12.8	6.8	12.0	10.4	7.1

Source: Company, Centrum Research

Financials

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	46,984	49,922	51,854	56,134	61,705
Interest Expense	35,296	36,894	36,948	38,087	41,786
Net Interest Income	11,688	13,029	14,906	18,047	19,919
Non-Interest Income	5,070	5,429	8,093	8,816	9,900
Fee & Other Income	2,240	2,380	2,711	3,362	3,918
Gains / (Losses) on Securities	1,127	624	3,044	2,588	2,329
Total Net Income	16,758	18,457	23,000	26,863	29,819
Total Operating Expenses	9,025	9,912	13,042	13,472	14,514
Employee Expenses	5,247	4,430	6,010	6,061	6,671
Other Operating Expenses	3,778	5,482	7,031	7,411	7,843
Pre-provision Profit	7,734	8,546	9,958	13,391	15,306
Provisions & Contingencies	2,140	3,265	5,279	6,454	6,001
NPA Provisions	2,231	2,672	5,514	5,757	5,515
Other Provisions	(91)	594	(236)	697	486
Profit Before Tax	5,594	5,280	4,679	6,937	9,304
Taxes	1,080	1,127	157	1,734	2,326
Profit after tax	4,514	4,153	4,523	5,203	6,978

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Cash and balance with RBI	24,885	26,456	29,293	33,366	38,225
Inter-bank borrowings	1,257	3,993	3,448	4,810	5,510
Loans & Advances	3,16,800	3,39,024	3,70,037	4,23,980	4,95,157
Investments	1,26,905	1,42,179	1,84,375	1,58,427	1,73,368
Total Int Earning Assets	4,44,962	4,85,197	5,57,859	5,87,217	6,74,035
Fixed Assets	2,919	3,066	7,206	11,267	12,467
Other Assets	34,081	29,897	29,086	29,086	29,086
Total Assets	5,20,258	5,65,003	6,41,265	6,78,758	7,71,635
Deposits	4,60,086	5,04,882	5,67,331	6,01,193	6,88,739
Current	28,714	32,435	36,233	40,115	46,301
Savings	86,019	1,00,172	1,28,498	1,44,204	1,68,646
Term	3,45,353	3,72,275	4,02,600	4,16,875	4,73,792
Other Int Bearing Liabilities	10,378	10,515	8,326	8,326	8,326
Interest Bearing Liabilities	4,70,464	5,15,397	5,75,657	6,09,519	6,97,065
Other non int bearing Liabilities	15,903	12,701	14,182	14,267	14,352
Total Liabilities	4,86,367	5,28,098	5,89,840	6,23,787	7,11,417
Equity	33,891	36,906	51,426	54,971	60,218
Total Liabilities	5,20,258	5,65,003	6,41,265	6,78,758	7,71,635

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY15	FY16	FY17	FY18E	FY19E
Interest income	9.5	9.2	8.6	8.5	8.5
Interest expenses	7.1	6.8	6.1	5.8	5.8
NII	2.4	2.4	2.5	2.7	2.7
Other income	1.0	1.0	1.3	1.3	1.4
Total income	3.4	3.4	3.8	4.1	4.1
Operating expenses	1.8	1.8	2.2	2.0	2.0
PPOP	1.6	1.6	1.7	2.0	2.1
Provisions	0.4	0.6	0.9	1.0	0.8
PBT	1.1	1.0	0.8	1.1	1.3
Tax	0.2	0.2	0.0	0.3	0.3
RoA	0.9	0.8	0.7	0.8	1.0
Leverage	15.4	15.3	12.5	12.3	12.8
RoE	14.0	11.7	10.2	9.8	12.1

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
B/S Structure Ratios (%)					
CD Ratio	68.9	67.1	65.2	70.5	71.9
Incremental CD Ratio	61.5	49.6	49.7	159.3	81.3
CASA Ratio	24.9	26.3	29.0	30.7	31.2
Growth Ratios (%)					
Loans	11.8	7.0	9.1	14.6	16.8
Deposits	13.4	9.7	12.4	6.0	14.6
NII	10.7	11.5	14.4	21.1	10.4
Opex	3.2	9.8	31.6	3.3	7.7
PPOP	12.6	10.5	16.5	34.5	14.3
Provisions	(23.1)	52.6	61.6	22.3	(7.0)
PAT	45.1	(8.0)	8.9	15.0	34.1
Operating Ratios (%)					
Yield on funds	10.0	9.8	9.1	9.0	9.0
Cost of funds	7.5	7.3	6.5	6.1	6.1
NIM	2.5	2.6	2.6	2.9	2.9
Non-int inc / Total income	1.0	1.0	1.3	1.3	1.4
Fee to avg assets	0.5	0.4	0.4	0.5	0.5
Cost/Income	53.9	53.7	56.7	50.2	48.7
Opex / Avg assets	1.8	1.8	2.2	2.0	2.0
Provisioning cost	0.7	0.8	1.6	1.5	1.2
Effective tax rate	19.3	21.3	3.4	25.0	25.0
RoA	0.9	0.8	0.7	0.8	1.0
RoE	14.0	11.7	10.2	9.8	12.1
Credit Quality Ratios (%)					
Gross NPA	3.1	3.6	4.5	4.2	3.7
Net NPA	2.1	2.4	2.8	2.6	2.1
Slippage rate to op advances	3.1	3.4	3.8	3.8	3.0
NPA coverage ratio	34.0	32.6	37.7	39.3	44.6
Capital Adequacy Ratios (%)					
Total CAR	12.4	12.0	13.3	12.9	12.1
Tier I	10.5	10.6	12.2	11.9	11.3
Tier II	1.9	1.5	1.1	0.9	0.8
Dividend details					
DPS (Rs)	5.0	5.0	4.0	4.3	4.5
Dividend Pay-out (%)	20.9	22.7	25.0	23.1	18.2

Per Share (Rs)

BVPS	179.8	195.8	167.0	180.3	199.5
Adjusted BVPS	146.7	153.6	132.1	144.0	165.9
EPS - basic	24.0	22.0	16.0	18.4	24.7

Valuations Ratios*

Price/BV (x)	0.6	0.5	0.7	0.9	0.8
Price/Adj. BV (x)	0.7	0.6	0.9	1.1	1.0
P/E (x)	4.5	4.5	7.2	8.6	6.5
Dividend Yield (%)	4.6	5.0	3.5	2.7	2.8

Source: Company, Centrum Research Estimates. * has been valued on average market cap basis FY15-18EYTD.

Appendix A

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum 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 profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by them, Mr. Aalok Shah & Mr. Gaurav Jani, research analyst and and/or any of their family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by them, they are not received any compensation from the above companies in the preceding twelve months. They do not hold any shares by them or through their relatives or in case if holds the shares then will not to do any transactions in the said scrip for 30 days from the date of release such report. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

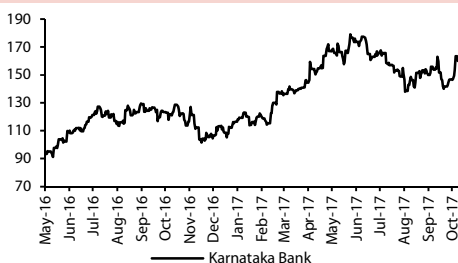
While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Centrum Broking Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market.

Karnataka Bank price chart



Source: Bloomberg

Disclosure of Interest Statement

1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)

		Karnataka Bank	City Union Bank	DCB Bank
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No	No	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No	No	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No	No	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No	No	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No	No	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No	No	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No	No	No

Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 20%	Upside > 15%	Upside > 10%
Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

Member (NSE and BSE)

Regn No.:

CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239
 CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233
 DERIVATIVES SEBI REGN. NO.: NSE: INF231454233
 (TRADING & CLEARING MEMBER)
 CURRENCY DERIVATIVES: MCX-SX INE261454230
 CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

Depository Participant (DP)

CDSL DP ID: 120 – 12200
 SEBI REGD NO.: CDSL : IN-DP-CDSL-661-2012

PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	Corporate Office & Correspondence Address Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000
---	---