

Growth momentum accelerates; reiterate BUY

We retain Buy on Karnataka Bank (KBL) and revise our TP upwards to Rs240 (valued at 1.3x FY20E ABV). Q3'18 results surprised on upside with a) strongest ever loan growth (24.1% YoY / 8% QoQ) ; b) further expansion in margins (3.04%; 25bps YoY) c) decline in slippages-run rate (1.9% annualised) and d) stressed asset portfolio down to 7%. Commentaries on each of the above key parameters remain encouraging and we have factored the same into our estimates. This is even as near-term earnings are set to remain under-pressure following accelerated provisions. We have introduced FY20 estimates and see our RoE's inch further to 13.2% levels. Capital position remains strong; valuations at 1x FY19E / 0.9x FY20E ABV remain undemanding.

- **Q3FY18 result – Strong quarter:** Q3'18 NII at Rs4.5bn grew by a healthy 19.9% YoY which was led by 24.1% YoY growth in loans and further expansion in NIM (reported) to 3.04% (+25bps YoY). With operating costs largely in line, operating profit at Rs.3.2bn grew 87.3% YoY; however, on a QoQ basis operating profit was down 12% owing to lower treasury gains (Rs240mn in Q3'18 vs Rs 860mn in Q2'18). Slippages came in lower at Rs2.1bn (1.9% of loans annualised) and after providing for the same, net profit post tax came in at Rs874mn (+27.5% YoY). Deposits grew by a meagre 0.6% YoY leading to a YoY improvement in loan-to-deposit ratio to 76.9% (vs.62.3% YoY).
- **Loan growth accelerates; augurs well for margins expansion:** Q3'18 loan growth at 24.1% YoY / 8% QoQ was the strongest ever (in the recent past) and follows increased focus towards balance sheet expansion. The 25bps YoY expansion in NIM to 3.04% (reported) follows a) substantial improvement in overall LDR to 76.9% and b) reduction in the RIDF portfolio to Rs12.2bn in Q3FY18 (vs Rs14.5bn in Q3FY17). Levers are in place for margin expansion as the management has emphasised for greater focus at a) scaling LDR to 80% in the near term, b) further enhancement in the CASA ratio (Q3'18 CASA stood at 28.2%) and c) reduction in the RIDF portfolio.
- **Slippages moderates; provisioning may witness a spurt in Q4FY18:** Q3'18 slippages at Rs2.1bn (1.9% of advances) surprised on the upside. Restructured loans stood at Rs6.3bn; the share of stressed loan portfolio (GNPA + SDR + S4A and 5:25) has declined to 7.0% of loans (vs. 10% in Q3FY17). The bank has a total exposure of Rs3.2bn (4 accounts) towards NCLT cases; it has made provisions to the tune of 27% towards these accounts YTD. Thus while provisioning on incremental slippages is set to moderate, the near term loan-loss, especially in Q4'18 will witness a spurt following a) NPA ageing b) balance provisioning towards NCLT cases and c) any mark-down (if required) on the security receipt (SR) portfolio.
- **Valuation, view and key risks:** KBL Q3'18 results were strong on many counts (both balance sheet and profitability) and which further reiterates our belief on the transformation journey that the bank has envisaged. We have revised our FY18E estimates to factor in accelerated provisioning and have introduced FY20E estimates. We expect RoE's for the bank to scale towards 13.2% levels over FY17-20E. Valuations at 1x FY19E / 0.9x FY20E ABV remain attractive. Retain Buy with TP at Rs240 (valued at 1.3x FY20E ABV). Higher than expected loan-loss related provisions and lower than expected credit growth remain near-term risks.

Rs mn	Q3FY18	Q3FY17	% YoY	Q2FY18	% QoQ	Q3FY18E	% Var
Net interest income	4,515	3,765	19.9	4,402	2.6	4,555	(0.9)
Pre-provision profit	3,219	1,719	87.3	3,662	(12.1)	3,356	(4.1)
Net profit	874	685	27.5	934	(6.4)	1,093	(20.1)
GNPA	17,843	15,602	14.4	16,910	5.5	17,613	1.3
NNPA	12,630	10,657	18.5	12,300	2.7	9,863	28.0
PCR (%) calc	29.2	31.7	(248)bps	27.3	196bps	-	-

Source: Company, Centrum Research

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 (%)
FY16	18,457	8,546	4,157	(8.0)	22.0	5.5	153.6	0.8	0.8	11.7
FY17	23,000	9,958	4,523	8.9	16.0	8.9	132.1	1.1	0.7	10.2
FY18E	26,526	13,026	4,519	(0.1)	16.0	11.7	145.5	1.3	0.7	8.5
FY19E	29,965	15,065	6,277	38.9	22.2	7.5	165.7	1.0	0.9	11.1
FY20E	34,633	17,776	8,210	30.8	29.0	5.8	187.0	0.9	1.0	13.2

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

Target Price	Rs240	Key Data				
CMP*	Rs167	Bloomberg Code	KBL IN			
Upside	43.7%	Curr Shares O/S (mn)	282.6			
Previous Target	Rs200	Diluted Shares O/S(mn)	282.6			
Previous Rating	Buy	Mkt Cap (Rsbn/USDmn)	47.2/745.1			
Price Performance (%)*		52 Wk H / L (Rs)	181.2/111.7			
		1M	6M	1Yr	5 Year H / L (Rs)	181.2/56.3
KBL IN	13.2	0.8	40.2		Daily Vol. (3M NSE Avg.)	3049796
NIFTY	3.8	8.5	27.7			

*as on 12 January 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Dec-17	Sep-17	Jun-17	Mar-17
Promoter	0.0	0.0	0.0	0.0
FIs	18.3	18.7	21.9	19.2
DIs	11.8	11.2	9.8	11.6
Others	69.9	70.1	68.3	69.2

Source: BSE, *as on 12 January 2018

Earnings revision

Particulars (Rs mn)	FY18E			FY19E		
	New	Old	Var (%)	New	Old	Var (%)
NII + Oth. Inc	26,526	26,863	(1.3)	29,965	29,819	0.5
PPoP	13,026	13,391	(2.7)	15,065	15,306	(1.6)
PAT	4,519	5,203	(13.1)	6,277	6,978	(10.1)

Source: Bloomberg, Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
NII + Oth. Inc	26,526	27,228	(2.6)	29,965	30,170	(0.7)
PPoP	13,026	13,199	(1.3)	15,065	14,882	1.2
PAT	4,519	4,792	(5.7)	6,277	6,363	(1.4)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
5	1	1	187	240	28.3

*as on 12 January 2018; Source: Bloomberg, Centrum Research Estimates

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Conference call takeaways

Balance Sheet

- Q3FY18 loans grew 24.1% YoY / 8% QoQ and was led by strong traction in retail / SME and agri portfolio. As at Q3'18, share of these segments stood at retail loans (46%); mid corporate (9.2%) and large corporate (44.2%). Agricultural loans expanded 17% YoY, housing (+15% YoY) mortgage (+15% YoY) and other schematic loans (+13% YoY). The share of investment grade exposure in the corporate loan book stands at above 80%.
- The bank expects to further accelerate its loan growth to above 25% by end March 2018, while expects to further improve credit-deposit ratio to 80%. 58.5% of the loan portfolio is linked to MCLR based lending rate regime; 18.1% is at base rate and balance 23.0% to other rates.
- Deposits grew a meagre 0.6% YoY. CASA deposits comprised 28.2% of loans (vs. 30.2% in Q3'17 / 29.04% in FY17).

Asset Quality

- Q3'18 slippages came in at Rs2.1bn and compares with Rs3.7bn in Q2'18 and Rs2.7bn in Q3'17. Recoveries / up-gradations stood at Rs710mn, while write-offs were Rs710mn in Q3FY2018
- The SMA -2 category loan book of the bank has reduced to Rs12.2bn in Q3'18 (vs. Rs15.9bn in Q3'16). 5:25 portfolio stood at Rs1.7bn (4 accounts); S4A portfolio at Rs3.5bn (4 accounts) and SDR (4 accounts) with cumulative exposure of Rs1.8bn. All these accounts are standard accounts and overlaps with restructured advance book. Securities receipts O/s. stands at Rs4.5bn.
- The bank has exposure to 4 cases with cumulative dues of Rs3.2bn towards cases referred to IBC (both first and second list). The bank has made provisions to the tune of 27% against these cases. Management has guided for creating 23% provisions against these accounts.

Guidance

- The bank has partnered with the Boston Consulting Group (BCG) for its transformation initiatives, aiming at total transformation of the bank.
- The bank proposes to focus on leveraging the technology and aims to reduce cost-to-income ratio to 42 to 45% by FY2020. As at 9MFY18, cost-to-income ratio stood at 49.5%
- The bank is also aiming to achieve RoA of above 1% by FY2020.
- As at Dec'17, branch strength stood at 781 branches and 1,380 ATMs. The bank has toned down its branch expansion for FY2018. The bank would add only 35 branches in FY2018 to reach a level of 800 branches by March 2018.
- The share of digital transaction has increased to 67%, while bank aims to improve digital transactions share to 80%.

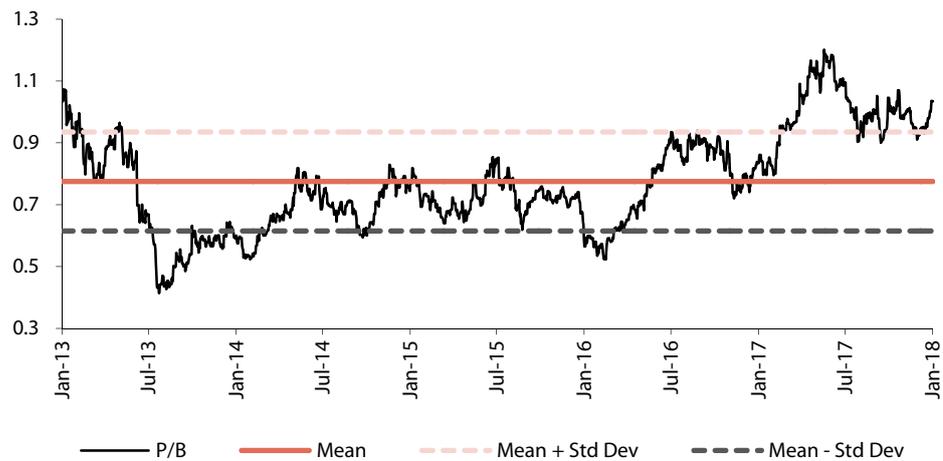
Sensitivity analysis & peer comparison

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

%	Credit cost				
	+ 10bps	+ 20bps	' Current levels	+ 10bps	- 20bps
- 5bps	(12.2)	(19.0)	(5.3)	1.5	8.4
- 10bps	(17.5)	(24.3)	(10.6)	(3.8)	3.1
NIM Current levels	(6.9)	(13.7)	-	6.9	13.7
+ 5bps	(1.5)	(8.4)	5.3	12.2	19.0
+ 10bps	3.8	(3.1)	10.6	17.5	17.5

Source: Company, Centrum Research Estimates

Exhibit 2: Rolling forward P/ABV 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*	62,969	14.1	23.0	17.8	8.9	11.7	7.5	0.7	0.7	0.9	10.2	8.5	11.1	0.9	1.0	0.9	2.8	2.3	2.7
CUBK*	1,15,942	13.3	13.8	14.5	16.3	17.5	15.9	1.5	1.5	1.5	15.2	14.6	15.2	2.3	2.4	2.3	0.7	0.7	0.7
DCB*	62,011	18.8	22.9	28.6	21.1	22.7	18.7	0.9	1.0	1.0	10.8	11.3	12.0	2.2	2.3	2.1	0.0	0.0	0.0
KVB	88,613	13.0	23.2	20.9	12.8	18.5	10.9	0.9	0.7	1.1	11.3	8.9	12.9	1.4	1.5	1.3	1.7	1.7	2.1
Federal Bk	2,26,302	23.5	20.8	33.4	18.9	19.3	15.6	0.8	0.9	1.0	9.6	10.2	11.2	1.4	1.8	1.7	1.0	1.0	0.9
SIB	59,049	13.0	18.5	24.8	9.0	15.1	9.2	0.6	0.4	0.7	10.3	7.3	12.0	1.0	1.1	1.1	1.6	1.6	1.6
RBL	2,21,438	38.1	40.3	34.9	37.4	34.1	26.1	1.0	1.1	1.2	12.8	11.7	12.8	4.0	3.3	3.0	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)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Income statement								
Interest earned	12,777	12,606	13,064	13,239	12,945	13,305	13,179	13,322
Interest expended	9,179	8,959	9,091	9,474	9,423	9,061	8,777	8,808
Net interest income	3,597	3,647	3,973	3,765	3,522	4,244	4,402	4,515
Non-interest income	1,700	1,744	1,897	1,336	3,117	2,174	2,478	1,946
Total income	5,297	5,391	5,870	5,101	6,639	6,418	6,881	6,461
Operating expenses	2,754	2,771	3,542	3,382	3,346	3,321	3,218	3,242
PPOP	2,544	2,619	2,328	1,719	3,293	3,097	3,662	3,219
Provisions	1,125	1,363	1,306	1,006	1,604	1,989	2,260	1,964
PBT	1,419	1,256	1,022	713	1,689	1,108	1,403	1,255
Tax	351	41	(216)	27	305	(230)	469	381
Reported PAT	1,068	1,215	1,238	685	1,384	1,339	934	874
Ratios								
Growth YoY (%)								
<i>NII</i>	23.5	10.1	29.4	23.5	(2.1)	16.4	10.8	19.9
<i>Non-interest income</i>	52.2	46.4	56.8	0.7	83.3	24.7	30.6	45.7
<i>Opex</i>	28.9	31.1	37.0	37.5	21.5	19.8	(9.1)	(4.2)
<i>PPOP</i>	34.3	9.6	37.3	(10.3)	29.5	18.2	57.4	87.3
<i>Reported PAT</i>	(20.6)	11.2	21.2	(29.3)	29.6	10.1	(24.6)	27.5
<i>Loans</i>	7.0	11.5	12.8	8.7	9.1	10.1	12.3	24.1
<i>Deposits</i>	9.7	10.1	8.6	15.6	12.4	9.2	6.5	0.6
Margins (%)								
<i>Yield on total assets</i>	10.0	9.9	9.9	10.0	9.8	9.6	9.2	8.9
<i>Cost of funds</i>	6.5	6.3	6.2	6.3	6.0	5.7	5.5	5.4
<i>Spread</i>	2.9	3.0	3.1	3.2	3.2	3.3	3.0	2.9
<i>NIM</i>	2.6	2.6	2.7	2.5	2.2	2.7	2.8	2.7
Key drivers (%)								
<i>Cost-income</i>	52.0	51.4	60.3	66.3	50.4	51.7	46.8	50.2
<i>GNPA</i>	3.4	3.9	3.6	4.3	4.2	4.3	4.1	4.0
<i>NNPA</i>	2.4	2.6	2.6	3.0	2.6	3.2	3.0	2.9
<i>Provision coverage</i>	32.6	34.4	28.5	31.7	38.4	27.3	27.3	29.2
<i>Tier I CAR</i>	10.6	10.3	9.8	11.9	12.2	11.9	11.4	11.1
<i>Tier II CAR</i>	1.5	1.4	1.4	1.3	1.1	1.1	1.0	1.1
<i>RoA</i>	0.8	0.9	0.8	0.5	0.9	0.8	0.6	0.5
<i>RoE</i>	11.3	13.0	12.8	6.8	12.0	10.4	7.1	6.6

Source: Company, Centrum Research

Financials

Exhibit 5: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	49,922	51,854	53,472	59,962	69,545
Interest Expense	36,894	36,948	35,766	39,927	46,337
Net Interest Income	13,029	14,906	17,706	20,035	23,208
Non-Interest Income	5,429	8,093	8,820	9,930	11,426
Fee & Other Income	2,380	2,711	3,366	3,948	4,656
Gains / (Losses) on Securities	624	3,044	2,588	2,329	2,096
Total Net Income	18,457	23,000	26,526	29,965	34,633
Total Operating Expenses	9,912	13,042	13,500	14,900	16,857
Employee Expenses	4,430	6,010	6,074	6,757	7,686
Other Operating Expenses	5,482	7,031	7,425	8,143	9,171
Pre-provision Profit	8,546	9,958	13,026	15,065	17,776
Provisions & Contingencies	3,265	5,279	7,158	6,696	6,830
NPA Provisions	2,672	5,514	6,435	6,163	6,197
Other Provisions	594	(236)	723	533	633
Profit Before Tax	5,280	4,679	5,869	8,369	10,947
Taxes	1,127	157	1,350	2,092	2,737
Profit after tax	4,153	4,523	4,519	6,277	8,210

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Cash and balance with RBI	26,456	29,293	33,625	39,281	46,166
Inter-bank borrowings	3,993	3,448	4,847	5,662	6,655
Loans & Advances	3,39,024	3,70,037	4,34,288	5,13,901	6,12,836
Investments	1,42,179	1,84,375	1,50,483	1,68,344	1,89,618
Total Int Earning Assets	4,85,197	5,57,859	5,89,618	6,87,907	8,09,109
Fixed Assets	3,066	7,206	11,267	12,467	13,667
Other Assets	29,897	29,086	30,406	31,793	33,249
Total Assets	5,65,003	6,41,266	6,82,739	7,89,270	9,20,013
Deposits	5,04,882	5,67,331	6,05,858	7,07,759	8,31,823
Current	32,435	36,233	40,426	47,579	64,238
Savings	1,00,172	1,28,498	1,45,323	1,73,304	2,12,001
Term	3,72,275	4,02,600	4,20,109	4,86,876	5,55,585
Other Int Bearing Liabilities	10,515	8,326	8,326	8,326	8,326
Interest Bearing Liabilities	5,15,397	5,75,657	6,14,184	7,16,086	8,40,150
Other non int bearing Liabilities	12,701	14,182	14,267	14,352	14,522
Total Liabilities	5,28,098	5,89,840	6,28,452	7,30,438	8,54,672
Equity	36,906	51,426	54,287	58,832	65,341
Total Liabilities	5,65,003	6,41,265	6,82,739	7,89,270	9,20,013

Source: Company, Centrum Research Estimates

Exhibit 7: DuPont analysis

(% of avg assets)	FY16	FY17	FY18E	FY19E	FY20E
Interest income	9.2	8.6	8.1	8.1	8.1
Interest expenses	6.8	6.1	5.4	5.4	5.4
NII	2.4	2.5	2.7	2.7	2.7
Other income	1.0	1.3	1.3	1.3	1.3
Total income	3.4	3.8	4.0	4.1	4.1
Operating expenses	1.8	2.2	2.0	2.0	2.0
PPOP	1.6	1.7	2.0	2.0	2.1
Provisions	0.6	0.9	1.1	0.9	0.8
PBT	1.0	0.8	0.9	1.1	1.3
Tax	0.2	0.0	0.2	0.3	0.3
RoA	0.8	0.7	0.7	0.9	1.0
Leverage	15.3	12.5	12.6	13.4	14.1
RoE	11.7	10.2	8.5	11.1	13.2

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
B/S Structure Ratios (%)					
CD Ratio	67.1	65.2	71.7	72.6	73.7
Incremental CD Ratio	49.6	49.7	166.8	78.1	79.7
CASA Ratio	26.3	29.0	30.7	31.2	33.2
Growth Ratios (%)					
Loans	7.0	9.1	17.4	18.3	19.3
Deposits	9.7	12.4	6.8	16.8	17.5
NII	11.5	14.4	18.8	13.1	15.8
Opex	9.8	31.6	3.5	10.4	13.1
PPOP	10.5	16.5	30.8	15.7	18.0
Provisions	52.6	61.6	35.6	(6.4)	2.0
PAT	(8.0)	8.9	(0.1)	38.9	30.8
Operating Ratios (%)					
Yield on funds	9.8	9.1	8.6	8.7	8.6
Cost of funds	7.3	6.5	5.7	5.8	5.7
NIM	2.6	2.6	2.8	2.9	2.9
Non-int inc/ Total income	1.0	1.3	1.3	1.3	1.3
Fee to avg assets	0.4	0.4	0.5	0.5	0.5
Cost/Income	53.7	56.7	50.9	49.7	48.7
Opex/ Avg assets	1.8	2.2	2.0	2.0	2.0
Provisioning cost	0.8	1.6	1.6	1.3	1.1
Effective tax rate	21.3	3.4	23.0	25.0	25.0
RoA	0.8	0.7	0.7	0.9	1.0
RoE	11.7	10.2	8.5	11.1	13.2
Credit Quality Ratios (%)					
Gross NPA	3.6	4.5	4.3	3.7	3.3
Net NPA	2.4	2.8	2.3	1.7	1.5
Slippage rate to op advances	3.4	3.8	3.3	2.6	2.4
NPA coverage ratio	32.6	37.7	46.9	53.2	53.8
Capital Adequacy Ratios (%)					
Total CAR	12.0	13.3	12.7	11.8	10.9
Tier I	10.6	12.2	11.8	11.0	10.3
Tier II	1.5	1.1	0.9	0.8	0.7
Dividend details					
DPS (Rs)	5.0	4.0	4.3	4.5	5.0
Dividend Pay-out (%)	22.7	25.0	26.6	20.3	17.2
Per Share (Rs)					
BVPS	195.8	167.0	177.9	194.6	217.7
Adjusted BVPS	153.6	132.1	145.5	165.7	187.0
EPS - basic	22.0	16.0	16.0	22.2	29.0
Valuations Ratios*					
Price/BV (x)	0.6	0.9	1.0	0.9	0.8
Price/Adj. BV (x)	0.8	1.1	1.3	1.0	0.9
P/E (x)	5.5	8.9	11.7	7.5	5.8
Dividend Yield (%)	4.1	2.8	2.3	2.7	3.0

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

Appendix A

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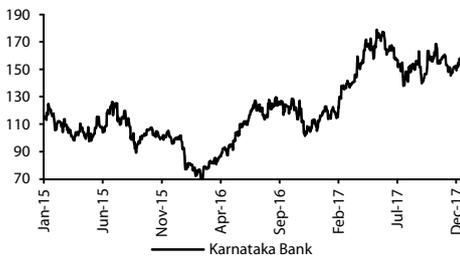
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Karnataka Bank price chart



Source: Bloomberg

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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%

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Karnataka Bank Ltd. (KBL) has reported stellar performance for Q3FY18 above our expectations, clocking 24% advances growth with C/D reaching at 76.9%. NII grew by ~20% mainly driven by declined interest cost and bottom line rose by 27.5% YoY to Rs873.8 mn. Strong growth was reported on business as well as financial fronts while assets quality witnessed improvement with declined slippage and 16 bps QoQ reduction in GNPA ratio to 3.97%. KBL is likely to emerge far stronger over the next few years and its business growth to be driven by management's focus on increasing low cost deposits (CASA deposits), improving C/D ratio and shifting the business mix toward the retail and SME segments. We maintain our 'BUY' rating on the stock with a potential price of Rs213 per share.

Q3FY18 Result Analysis: Net interest income increased by 19.9% YoY and 2.6% QoQ in Q3FY18 (10.8% YoY and 3.7% QoQ in Q2FY18). Though interest income grew by 0.6% YoY amidst the implementing strategy to maintain competitive MCLR rate, this offset by (-)7.0% YoY decline in the interest cost despite the decline in low cost deposits as rationalization of deposits rates benefitted the bank on this front. Thereby NIM which improved by 6bps QoQ to 3.09% was mainly driven by the robust growth in NII. Owing to the (-)4.2% decline in operating expenditures, cost-to-income (C/I) ratio reduced to 50.2% in the quarter under review v/s 66.3% in Q3FY17, however it was increased significantly compared to 46.8% in previous quarter as the other income was reduced by (-)21.5% QoQ owing to lower treasury gains of Rs240 mn in Q3FY18 vs Rs 860mn in Q2FY18 amidst the increasing yield in the economy. While PPOP grew by 87.3% YoY, 95.2% YoY increase in P&C put some pressure on bottom line with net profit growing by 27.5% YoY.

Balance Sheet growth: Advances grew by 24.1% YoY and 8.0% QoQ on the back of strong growth in retail advances which grew by 36.9% YoY and 8.0% QoQ. Besides retail, KBL also witnessed strong growth in corporate, SME and agriculture segments compared to previous quarters. The bank has strengthened the internal credit process system through installing Lending Automation Process System (LAPS), maintaining competitive MCLR rate and keep an eye to get benefit from losing share of PSU banks. All these strategies has yielding result with strong credit growth and improvement in C/D ratio which increased to 77~ and KBL targets it to further increase over 80% going forward. Credit is expected to grow by 25% in FY18. Deposits grew by meager 0.6% YoY due to higher base driven by demonetization, however CASA share maintained over 28% during the reported quarter.

Assets quality outlook: KBL reported a strong improvement on assets quality front; gross slippage was reduced to Rs2,106.2 mn (Rs3,740 mn in Q2FY18 and Rs2,670 mn in Q3FY17) and reduction was Rs1,420 mn (R&U-Rs720 mn and technical write-off - Rs709.3 mn) leading to Rs680 mn of net addition to GNPA's during the quarter. The management gave credit to credit monitoring department set up two years back for improving performance on slippage as well as recovery fronts. GNPA and NNPA reduced to 3.97% and 2.8% in Q3FY18 v/s 4.13% and 3.1% during Q2FY18 and 4.3% and 3.0% in Q2FY17. Restructure advances was reduced to Rs9,703.8 mn (2.2% of advances) from Rs16,160 mn (4.5% of advances) in Q3FY17, further SMA-2 advances portfolio has also come down from Rs15,891.3 in Q3FY17 mn to Rs12,182.4 mn in Q3FY18 and stressed asset portfolio (GNPA plus SMA-2 plus restructured advances) ratio reduced to 8.95% in the quarter under review from 13.3% at Q3FY17.

Valuation and view: KBL has reported a stellar performance in Q3FY17 with high credit growth, strong operational and financial performance and improvement in assets quality.

We are positive on KBL's business outlook on the back of following factors including 1) improving assets quality outlook, 2) high likelihood of strong credit growth, 3) enhanced focus on retail, SME clients and fee income growth, 4) well capitalized, enabling the bank to fund assets growth and 5) improving operating efficiencies.

At our recommended potential price of **Rs213**, the stock is available at P/ABV multiple of 1.1(x) of FY20E adjusted book value of Rs199.7 per share.

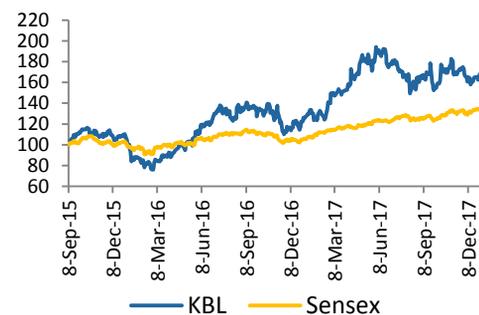
Rating Matrix

CMP	Rs158
Rating	Buy
Potential Price	Rs213
Holding Period	12 Months
Upside Potential	34.8%
52 week H/L	Rs181/112
Face value	Rs10
Mar. Cap.	Rs44,679.7 mn
Category	Mid Cap
Sector	Banking

Shareholding Pattern

Particulars	Dec'17	Sep'17	Jun'17	Mar'17
Promoters	-	-	-	-
FPIs	18.0%	18.7%	21.9%	19.2%
Inst.	29.8%	29.9%	31.9%	30.8%
N. Insti.	70.2%	70.1%	68.1%	69.2%

Relative Capital Market Strength



Key Financials (Rs bn)

Particulars	FY16	FY17	FY18E	FY19E	FY20E
NII	13.0	14.9	17.9	20.6	24.6
Gr. (%)	7.0%	9.1%	19.8%	15.2%	19.3%
NIM	2.61%	2.72%	2.93%	2.98%	3.08%
PPOP	8.5	10.0	13.1	13.5	16.0
A.PAT	4.2	4.5	4.4	6.5	7.8
Eq./As. (%)	6.5%	8.0%	7.8%	7.4%	7.2%
RoE (%)	11.7%	10.2%	9.9%	11.1%	12.8%
CASA(%)	26.3%	29.0%	30.4%	31.4%	32.9%
P/ABV (x)			1.0	0.9	0.8



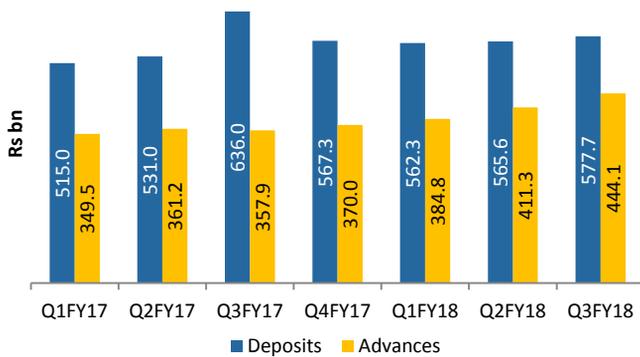
Five Quarters at a Glance

Particulars (Rs mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	YoY	QoQ
Interest Earned	13,239.3	12,945.0	13,305.4	13,179.3	13,322.4	0.6%	1.1%
Interest Expended	9,474.2	9,423.3	9,061.2	8,776.9	8,807.6	-7.0%	0.3%
NII	3,765.1	3,521.7	4,244.2	4,402.4	4,514.8	19.9%	2.6%
Other Income	1,335.9	3,116.9	2,173.9	2,478.2	1,946.2	45.7%	-21.5%
Operating Expenditures	3,382.4	3,345.9	3,321.1	3,218.2	3,242.0	-4.2%	0.7%
Pre- Prov Operating Profit	1,718.6	3,292.7	3,097.0	3,662.4	3,219.0	87.3%	-12.1%
Provisions and contingencies (incl NPA)	1,006.0	1,604.0	1,988.8	2,259.8	1,964.0	95.2%	-13.1%
PBT	712.6	1,688.7	1,108.2	1,402.6	1,255.0	76.1%	-10.5%
Tax	27.4	305.0	-230.3	468.8	381.2	1291.2%	-18.7%
Net Profit	685.2	1,383.7	1,338.5	933.8	873.8	27.5%	-6.4%
Outstanding Shares	282.6	282.6	282.6	282.6	282.8	0.1%	0.1%
Dil. EPS	2.4	4.9	4.7	3.3	3.1	27.5%	-6.5%
Balance Sheet items/ratios							
Deposits	574,350.0	567,330.0	562,270.0	565,580.0	577,710.0	0.6%	2.1%
CA Deposits	37,332.8	36,233.1	36,941.1	34,047.9	33,941.8	-9.1%	-0.3%
SB Deposits	136,235.8	128,498.1	125,779.8	127,594.8	129,118.2	-5.2%	1.2%
CASA	173,568.6	164,731.2	162,720.9	161,642.8	163,060.0	-6.1%	0.9%
Advances	357,860.0	370,036.5	384,840.0	411,270.0	444,110.0	24.1%	8.0%
CD Ratio (%)	62.3%	65.2%	68.4%	72.7%	76.9%		
CASA Share (%)	30.2%	29.0%	28.9%	28.6%	28.2%		
CAR(%)	13.2%	13.3%	13.0%	12.5%	12.3%		
Tier 1 (%)	11.9%	12.2%	11.9%	11.4%	11.1%		
Operating ratios							
Cost of deposits (%)	7.6%	7.5%	7.0%	6.9%	0.0%		
NIM(%)	2.84%	2.79%	2.97%	3.03%	3.09%		
Cost-Income Ratios (%)	66.3%	50.4%	51.7%	46.8%	50.2%		
Tax Rate (%)	3.8%	18.1%	-20.8%	33.4%	30.4%		
Assets Quality							
Gross NPA	15,600.0	15,815.9	16,910.0	17,157.0	17,843.1	14.4%	4.0%
Net NPA	10,660.0	9,750.0	12,300.0	12,648.1	12,629.6	18.5%	-0.1%
Gross NPA (%)	4.30%	4.21%	4.34%	4.13%	3.97%		
Net NPA (%)	3.0%	2.6%	3.2%	3.1%	2.8%		
Coverage Ratio(%)	31.7%	38.4%	27.3%	26.3%	29.2%		
Slippages							
Fresh Restructuring	0.0	0.0	0.0	0.0	0.0		
O/s Restructured book	16,160.0	13,650.0	11,400.0	10,280.0	9,700.0		
RA % of loan book	4.5%	3.7%	3.0%	2.5%	2.2%		
Gross slippages	2,670.0	5,110.0	4,980.0	3,740.0	2,100.0	-21.3%	-43.9%
Reduction (Recoveries+ Up gradations+write-offs)	510.0	4,900.0	3,890.0	3,490.0	1,420.0	178.4%	-59.3%
Slippages (Net Addition to GNPA's)	2,160.0	210.0	1,090.0	250.0	680.0	-68.5%	172.0%
Slippages (%)	0.8%	1.42%	1.35%	0.98%	0.70%		
Advances Break-Out							
Total Advances	357,860.0	370,036.5	384,840.0	411,270.0	444,110.0	24.1%	8.0%
Retail Advances	167,442.7	175,619.3	188,032.8	207,814.7	229,249.6	36.9%	10.3%
Corporate Credit	48,883.7	44,811.4	45,218.7	46,679.1	53,470.8	9.4%	14.5%
SME	98,089.4	96,468.5	97,172.1	102,365.1	105,653.8	7.7%	3.2%
Agriculture Advances	43,444.2	53,137.2	54,416.4	54,411.0	55,735.8	28.3%	2.4%
Retail Advances Break-Out							
Other personal loans	21,543.2	22,165.2	23,244.3	24,923.0	25,447.5	18.1%	2.1%
Home Loans	47,165.9	48,992.8	50,683.4	52,930.4	54,803.2	16.2%	3.5%
Others	98,733.6	104,831.3	114,105.1	129,961.3	148,998.9	50.9%	14.6%
Network							
ATMs	1,334	1,380	1,398	1,397	1,382	3.6%	-1.1%
Branches	738	765	769	773	781	5.8%	1.0%
Business per branch (Rs mn)	1,346.6	1,225.3	1,231.6	1,263.7	1,308.3	-2.8%	3.5%
Advances Break-Out (%)							
Retail Advances	47%	47%	49%	51%	52%		
Corporate Credit	14%	12%	12%	11%	12%		
SME	27%	26%	25%	25%	24%		
Agriculture Advances	12%	14%	14%	13%	13%		

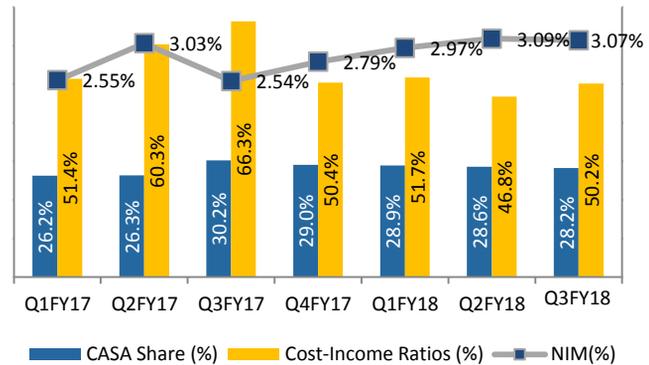
Particulars	Q3FY18 Estimated	Q3FY18 Actual	Var. (%)	
NII	4535.7	4,514.8	-0.5%	In line with our estimate
OPEX	3,608.3	3,242.0	-10.1%	Strong operating efficiency
Other Income	1,823.5	1,946.2	6.7%	Less than expected impact of rising yield
Deposits	582,109.0	577,710.0	-0.8%	In line with our estimate
Advances	425,823.6	444,110.0	4.3%	Strong performance on retail advances front
GNPA	17,377.7	17,843.1	2.7%	In line with our estimate

Particulars	CHANGE IN ESTIMATES		FY19E	
	Old	New	Change Var. (%)	FY20E Var. (%)
(Rs mn)				
NII	20,352.9	20,583.9	1.1%	-1.6%
PAT	6,449.9	6,472.5	0.4%	-4.4%
GNPA	18,168.0	19,193.7	5.6%	2.1%
Advances	494,045.1	494,045.1	0.0%	0.0%
Deposits	721,826.8	721,826.8	0.0%	0.0%

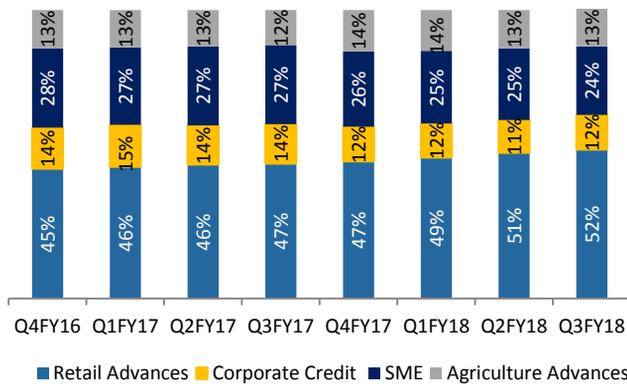
Advances grows by 24% YoY in Q3FY18



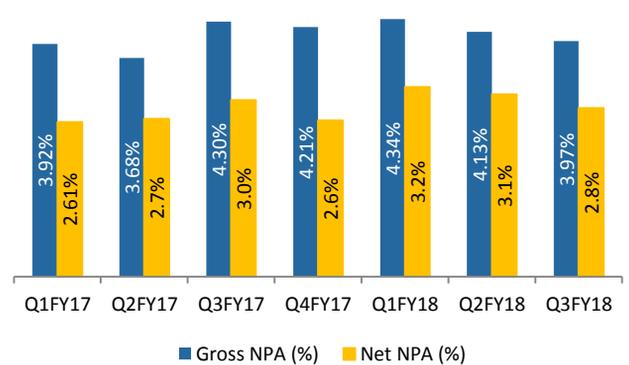
Trend in CASA, NIM and C/I ratio



Break out of Advances



Trend in assets quality



Source: Choice Broking Research

Q3FY18 Con-call highlights:

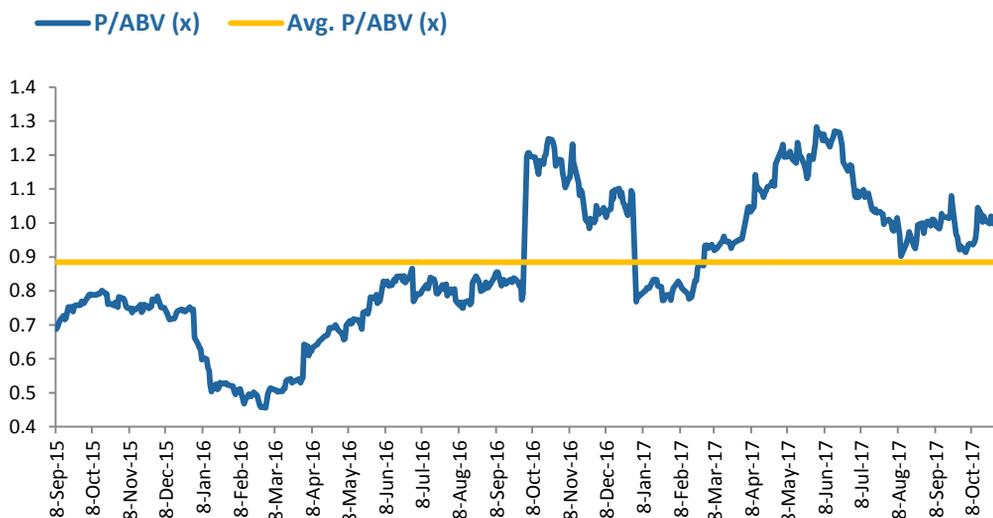
- Credit growth is expected to remain ~25% in FY18
- 93% of the loan portfolio is secured and 80% of the corporate book is above investment grade
- 67% of the total transactions executed through the digital format and bank aims to increase it to 80% going forward
- C/I ratio is expected to be contained at 42-45% by 2020
- 58.5% of the advances by Q3FY18 is linked with the MCLR
- 4 a/c exposure to NCLT at Rs3,189 mn and held 27% of provisions against it. This includes one account from the first list and three accounts from the second list.
- Slippage rate to come down in coming quarters
- KBL expects business to get double by 2020 with market share of 1%

Valuation: We are positive on KBL's business outlook and our optimism is driven by following factors including –

- Improving assets quality outlook
- High likelihood of strong credit growth
- Enhanced focus on retail, SME clients and fee income growth
- Well capitalized, enabling the bank to fund assets growth
- Improving operating efficiencies.

At our recommended potential price of Rs213, the stock is available at P/ABV multiple of 1.1(x) of FY20E adjusted book value of Rs119.7 per share.

P/ABV Valuation	FY16	FY17	FY18E	FY19E	FY20E
Adjusted BVPS (Rs)	153.6	147.5	152.8	171.9	199.7
Valuation Parameters					
P/ABV (x)	1.07				



Source: Choice Broking Research

Financial statements (Standalone, Rs mn)

Profit And Loss Statement

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	49,922.1	51,854.0	54,628.3	67,808.3	77,557.5
Growth (%)	6.3%	3.9%	5.4%	24.1%	14.4%
Interest Expended	36,893.4	36,947.8	36,767.0	47,224.4	52,999.0
Growth (%)	4.5%	0.1%	-0.5%	28.4%	12.2%
Net Interest Income	13,028.7	14,906.2	17,861.3	20,583.9	24,558.5
Net Interest Margin	2.6%	2.7%	2.9%	3.0%	3.1%
Other Income	5,428.6	8,093.4	8,814.2	8,291.9	9,304.2
% of Interest Income	10.9%	15.6%	16.1%	12.2%	12.0%
Total Income	18,457.3	22,999.6	26,675.5	28,875.8	33,862.8
Growth (%)	10.1%	24.6%	16.0%	8.2%	17.3%
Operating & Other expenses	9,912.0	13,041.6	13,575.9	15,354.4	17,872.8
Pre-Prov. Operating Profit	8,545.3	9,958.0	13,099.6	13,521.5	15,990.0
Provisions and contingencies (incl NPA)	3,265.3	5,278.6	7,463.1	5,223.3	5,869.4
P&C % of Advances	1.0%	1.4%	1.6%	1.1%	1.0%
Operating Profit before Tax	5,280.0	4,679.4	5,636.5	8,298.1	10,120.6
Growth (%)	-2.6%	-11.4%	20.5%	47.2%	22.0%
Pre-tax Margin %	28.6%	20.3%	21.1%	28.7%	29.9%
Tax	1,127.1	156.9	1,263.0	1,825.6	2,327.7
% of PBT	21.3%	3.4%	22.4%	22.0%	23.0%
Reported PAT	4,152.9	4,522.5	4,373.6	6,472.5	7,792.8
Net Profit Margin %	22.5%	19.7%	16.4%	22.4%	23.0%
Extraordinary Income	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	4,152.9	4,522.5	4,373.6	6,472.5	7,792.8
Growth (%)	-8.0%	8.9%	-3.3%	48.0%	20.4%

Balance Sheet

Particulars	FY16	FY17	FY18E	FY19E	FY20E
ASSETS					
Cash and balance with RBI and banks	30,449.2	32,740.3	17,861.1	39,665.4	48,543.3
Investments	162,566.5	202,197.3	183,570.4	237,095.0	253,391.0
Advances	339,024.5	370,036.5	459,825.7	494,045.1	581,478.0
Fixed assets	3,066.4	7,205.7	7,014.2	7,503.0	7,977.7
Other assets	29,896.7	29,085.7	31,974.9	32,395.4	33,484.2
TOTAL ASSETS	565,003.3	641,265.5	700,246.4	810,703.9	924,874.2
Capital	1,884.7	2,826.2	2,826.2	2,826.2	2,826.2
Reserves and Surplus	35,021.2	48,599.7	51,923.6	56,842.7	62,765.3
Deposits	504,882.1	567,331.1	620,000.0	721,826.8	826,249.6
Borrowings	10,514.8	8,326.2	10,276.7	11,429.7	12,282.0
Other liabilities and provisions	12,700.6	14,182.3	15,219.9	17,778.5	20,751.2
TOTAL CAPITAL AND LIABILITIES.....	565,003.3	641,265.5	700,246.4	810,703.9	924,874.2

Financial Ratios

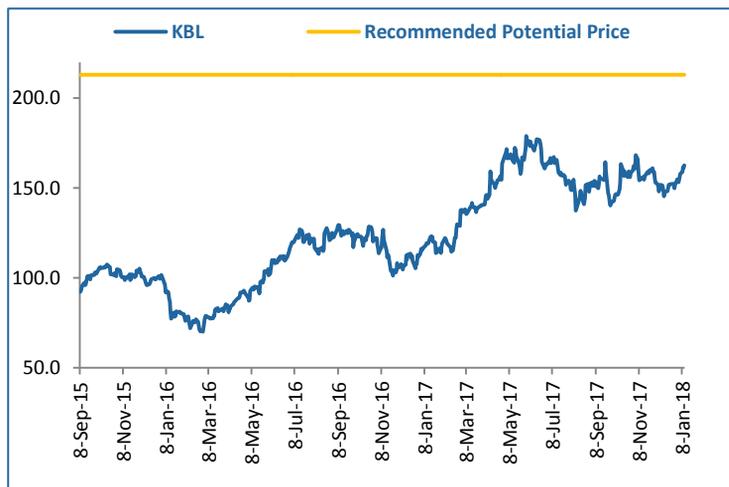
Particulars	FY16	FY17	FY18E	FY19E	FY20E
Return / Profitability Ratios (%)					
Net interest margin	2.61%	2.72%	2.93%	2.98%	3.08%
Yield on advances	11.3%	10.7%	10.2%	10.3%	10.7%
Yield on investments	7.4%	7.1%	7.3%	8.5%	7.7%
EPS (Diluted) (Rs)	22.0	16.0	15.5	22.9	27.6
RoA	0.8%	0.7%	0.7%	0.9%	0.9%
RoE	11.7%	10.2%	8.2%	11.3%	12.4%
Avg. Cost of Deposits	7.4%	6.7%	6.4%	6.8%	6.6%
Operating ratios (%)					
Credit to Deposit	67.1%	65.2%	74.2%	68.4%	70.4%
Cost to income	53.7%	56.7%	50.9%	53.2%	52.8%
CASA	26.3%	29.0%	30.4%	31.4%	32.9%
Investment / Deposit	32.2%	35.6%	29.6%	32.8%	30.7%
Non interest income / Total income	29.4%	35.2%	33.0%	28.7%	27.5%
Capitalization Ratios (%)					
Equity / Assets	6.5%	8.0%	7.8%	7.4%	7.1%
Loans / Assets	60.0%	57.7%	65.7%	60.9%	62.9%
Investments / Assets	28.8%	31.5%	26.2%	29.2%	27.4%
Dividend payout	22.7%	25.0%	20.0%	20.0%	20.0%
Capital adequacy (%)					
Tier-1 capital adequacy ratio	10.6%	12.2%	11.0%	11.3%	11.0%
Tier-2 capital adequacy ratio	1.5%	1.1%	1.1%	1.4%	1.3%
Total capital adequacy ratio (Basel III)	12.0%	13.3%	12.1%	12.8%	12.3%
Asset Quality ratios (%)					
Gross NPA	3.4%	4.2%	3.6%	3.7%	3.1%
Net NPA	2.3%	2.6%	2.3%	2.1%	1.5%
Coverage Ratio	32.6%	38.4%	38.1%	43.8%	52.9%
Slippage Ratio	3.4%	3.8%	3.2%	2.9%	2.3%
Per Share Data (Rs)					
EPS (Diluted)	22.0	16.0	15.5	22.9	27.6
DPS	5.0	4.0	3.1	4.6	5.5
BVPS	195.8	182.0	193.6	211.0	231.9
Adjusted BVPS	153.6	147.5	152.8	171.9	199.7
Valuation ratios (x)					
P/E (x)	7.2	9.9	10.2	6.9	5.7
P/BV (x)	0.8	0.9	0.8	0.7	0.7
P/ABV (x)	1.0	1.1	1.0	0.9	0.8
Growth ratios (%)					
Advances	7.0%	9.1%	24.3%	7.4%	17.7%
Deposits	9.7%	12.4%	9.3%	16.4%	14.5%
Net interest income	11.5%	14.4%	19.8%	15.2%	19.3%
Interest income	6.3%	3.9%	5.4%	24.1%	14.4%
PAT	-8.0%	8.9%	-3.3%	48.0%	20.4%
Business ratios					
Profit per branch (Rs mn)	5.7	5.9	5.5	7.2	7.8
Business per branch (Rs mn)	1,164.0	1,225.3	1,349.8	1,351.0	1,407.7

Source: Choice Broking Research

Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral.

BUY	Absolute Return >15%
Accumulate	Absolute Return Between 10-15%
Hold	Absolute Return Between 0-10%
Reduce	Absolute Return 0 To Negative 10%
Sell	Absolute Return > Negative 10%



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Satish Kumar

KARNATAKA BANK

BANKING

Q3FY18: Strong loan growth and profitability, albeit high credit costs

Karnataka Bank (KBL) reported a robust operational performance in Q3FY18 with 20% YoY jump in NII supported by NIMs (up 25bps) and loan growth (24% YoY). Rise in other income by 46% led to better PAT even as higher provisioning (though lower from Q2FY18) continued. Credit costs have been higher in the last couple of quarters (1.5% in Q3FY18). Asset quality improved on decline in G/NNPAs and lower slippage ratio of 0.5%. Capital position remains stable with Tier I of 11.1%.

Outlook

Q3FY18 results were strong, both balance sheet and profitability wise, reiterating the transformation journey that the bank has envisaged. Pressure on provisions will continue in the next couple of quarters. Loan growth is expected to be at ~25% with NIM sustaining at ~3%. Management focus is on getting 1% market share and growing balance sheet 2x every three years. High retail share (~47%) provides comfort. We retain our buy rating while adjusting for higher provisioning in FY18E and FY19E and assign P/ABV of 1x FY20E arriving at a target price of Rs 195/-.

BUY

Target Price: Rs195

CMP : Rs157
Potential Upside : 24%

MARKET DATA

No. of Shares : 28.27cr
FV (Rs) : 10
Market Cap : Rs 4,490 cr
52-week High / Low : Rs181 / Rs112
Avg. Daily vol. (6mth) : 40,79,178 shares
Bloomberg Code : KBL IN
Reuters Code : KBNK.BO
BSE Code : 532652
NSE Code : KTKBNK

Key Highlights

- Strong loan growth:** Focus on retail/corporate sectors led to 24% loan growth which was one of challenging areas for the bank in the last couple of years. CD ratio rose to 77% (highest in the last 17 yrs) from 62% YoY. Corporate borrowers with 'AAA' and 'AA' ratings constituted 7.5% and 7.7%, respectively, of the gross bank credit. Management has entailed loan growth target of 25% for FY18. For the next couple of years, we expect the trend in loan growth to be strong led by retail/pick-up in corporate and grow by ~24/20/18% in FY18/FY19/FY20E.
- NIMs improved:** Robust loan growth and NIM of 3.1%, (up 25/6bps YoY/QoQ) aided 20/3% YoY/QoQ NII growth to Rs 451cr. Non-interest income was up 46% YoY led by 32% increase in fee & treasury income. We expect NIM to sustain at +3% aided by higher CD ratio (~80%) in the near term, improving CASA and reduction in the RIDF portfolio.

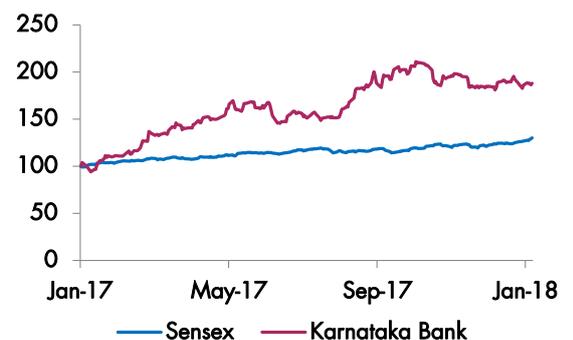
FINANCIAL SUMMARY

Y/E	NII	PAT	EPS	Change	BV	P/E	P/BV	Net NPA	ABV	P/ABV	RoE (%)	RoA (%)
Mar	(Rs Cr)	(Rs Cr)	(Rs)	(%)	(x)	(%)	(%)	(%)	(Rs.)	(x)		
FY17	1,491	452	16.0	-27.0	182	6.9	0.80	2.6	147	1.0	10.2	0.7
FY18E	1,850	470	16.6	3.7	191	9.5	0.82	2.4	143	1.1	10.6	0.8
FY19E	2,165	492	17.4	4.8	209	9.0	0.75	1.8	165	1.0	13.1	1.0
FY20E	2,554	512	18.1	4.1	227	8.7	0.69	1.4	186	0.8	13.2	1.0

Source: Company; Axis Securities

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PRICE PERFORMANCE



Key Highlights (Cont'd)

- **Improvement in asset quality sustained:** Sequentially G/NNPAs have gone down by 16/19bps to 3.97/2.85%. Slippages have moderated to Rs 211cr (0.5% annualized vs. 0.9% in Q2FY18). S4A/5:25/SDRs/SRs stood at Rs 347/170/182/450 cr. Restructured loans have come down to Rs 634cr (from Rs 934 in March '17) of which NPA have also declined to 11% of RAs (35% in March '17). We have built in stable asset quality (NNPA FY18E/FY19E/FY20E - 2.4/1.8/1.4%) with moderation in incremental slippages.
- **High provisioning prevails, though lower than Q2FY18:** Credit costs while down sequentially to 1.8% from 2.2%, is still higher than 1.1% a year ago. Provisioning during the last couple of quarters is on the up, with banks preparing to implement IFRS which may lead to increase in provisions in the coming quarters but the timeline is not yet warranted. So while provisioning on incremental slippages is set to moderate, we expect provisions for next couple of quarters to increase with NPA ageing and balance provisioning towards NCLT cases.
- **Marginal decline in CASA:** CASA share has gone down to 28.2% vs. 30.2/28.6% YoY/QoQ. Retail Term Deposits are 71% of its total deposits. Proportion of NRI deposits have gone up from 6.1% to 6.2% YoY. We expect deposits to lag credit growth going forward but at the same time CASA will improve with management focus on increasing the retail book.

Results Update

	Dec-17	Dec-16	% YoY	Sep-17	%QoQ	FY18E	FY19E	FY20E
Interest Income	1,332	1,324	1%	1,318	1%	5,810	6,798	8,021
Interest Expenses	881	947	-7%	878	0%	3,960	4,633	5,467
Net Interest Income	451	377	20%	440	3%	1,850	2,165	2,554
Other Income	195	134	46%	248	-21%	910	937	965
Total Income	646	510	27%	688	-6%	2,760	3,102	3,520
Operating Expenses	324	338	-4%	322	1%	1,361	1,568	1,790
Employee	121	177	-31%	124	-2%	556	651	735
Others	203	161	26%	198	3%	805	918	1,055
Operating Profits before provisions	322	172	87%	366	-12%	1,399	1,534	1,729
Total Provisions	196	101	95%	226	-13%	812	869	1,008
PBT	126	71	76%	140	-11%	587	665	721
Taxes	38	3	1291%	47	-19%	117	173	209
PAT	87	69	28%	93	-6%	470	492	512
EPS	3	2	28%	3	-6%	16.6	17	18
Asset Quality								
GNPA Rs. Cr	1,784	1,560	14%	1,716	4%	1,772	2,011	2,196
NNPA Rs. Cr	1,263	1,066	19%	1,247	1%	1,091	965	878
GNPA %	3.97	4.3		4.13		3.9	3.75	3.5
NNPA %	2.85	2.99		3.04		2.4	1.8	1.4
Slippages	211	267		374		1,545	1,609	1,757
Slippage Ratio %	0.48	0.75		0.91		3.4	3	2.8
Restructured Assets	970	1,330		1,028		1,000	800	500
Credit Cost %	1.8	1.1		2.2		1.79	1.62	1.6
Ratios %								
Cost to Income ratio	50.2	66.3		46.8		53.5	50.6	50.9
Loan/Deposit	76.9	62.3		72.7		65.2	66.4	68.8
CASA %	28.2	30.2		28.6		27.6	28	28.1
RoA %	0.7	0.7		0.7		0.8	1	1
RoE %	8	9.5		8.7		10.6	13.1	13.2
CAR (Basel III) %	12.3	13.2		12.5		12.8	12.5	12.8
Tier I %	11.1	11.9		11.4		12	11.7	11.8
Tier II %	1.1	1.3		1		0.8	0.8	1
Margins %								
Yield on Advances	10.1	11.1		10.2		11.1	10.8	10.9
Cost of Deposits	6.2	6.8		6.2		6.8	6.5	6.6
Quarterly NIMs	3.1	2.8		3		2.45	2.5	2.6
BV	201	165	22%	187	7%	191	209	227
Adjusted Network	4,420	3,599	23%	4,043	9%	4,044	4,661	5,260
Adj. BV	156	127	23%	143	9%	143	165	186
Balance sheet								
Capital	283	283		283		283	283	283
Net Worth	5,683	4,665	22%	5,290	7%	5,134	5,626	6,138
FV	10	10		10		10	10	10
Deposits	57,771	57,435	0.60%	56,558	2%	66,050	78,600	91,176
Investments	15,695	18,250	-14%	16,734	-6%	23,050	26,278	30,220
Loans	44,411	35,786	24%	41,127	8%	45,448	53,629	62,746

Source: Axis Securities Ltd

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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