

Karnataka Bank

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Sep 08, 2017

Company Background

Karnataka Bank Ltd, a premier private sector bank, is a leading Scheduled Commercial Bank in India. It offers a total value package, a one-stop shop for all the banking needs. The bank provide Working Capital Finance, Term Loans and Infrastructure Finance to help the Business grow. The Bank operates in four business segments namely; treasury, corporate and wholesale banking, retail banking and other banking operations. It was incorporated on February 18, 1924 as The Karnataka Bank Ltd at Mangalore in Karnataka. Bank was promoted by B R Vysarayarachar and other leading members. It has made a tie-up with MetLife India for the distribution of insurance products as a corporate agent. Forayed into General Insurance business as a JV partner in Universal Sompo General Insurance Company Limited. In the year 2006, they made a tie up with Franklin Templeton Private Limited for distribution of their mutual funds. STP Award 2016 in recognition of its outstanding payment formatting & Straight Through Rate instituted by The Bank of New York Mellon, MSME Banking Excellence Award-2016, instituted by CIMSM and APY Awards, instituted by PFRDA. It has the strongest presence in South India with 597 branches. Bank offers wide variety of corporate and retail banking products and services to over 8.9 mn customers.

Key Highlights

- ➔ For 2016-17 bank posted Interest Income ₹51854 mn out of which 73.16% (₹37935.60 mn) from Interest/discount on advance/bills, and approx 25.04% (₹12982.30 mn) from Income on investments.
- ➔ It has Turnover of ₹ 94,711 Cr with 2,170 service outlets by 769 branches, 3 Extension Counters & 1,398 ATMs in 506 centres across India till June, 2017.
- ➔ Banks total turnover is projected to increase in a progressive manner to touch ₹ 1,80,000 Cr, with deposits of ₹ 1,00,000 Cr & advances of ₹ 80,000 Cr and service outlets are projected to touch 3,500 by March 2020.
- ➔ Goals for 2017-18 to develop Business Turnover of ₹1,10,000 Cr and opening of 35 new Branches to take the count of Branches to 800.
- ➔ Business per employee (excluding interbank deposits) has improved from ₹ 10.83 Cr as on March 2016 to ₹ 11.74 Cr as on March 2017.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (₹mn)	52,054.2	55,350.7	59,947.4
Rev. growth (%)	10.89	6.33	8.30
EBITDA (INR mn)	35,669.4	40,748.0	42,595.7
Net profit (INR mn)	4,514.5	4,152.9	4,522.6
Shares outstanding (mn)	188.5	188.5	282.6
EPS (INR)	22.9	21.0	16.0
EPS growth (%)	44.73	(8.25)	(23.88)
P/E (x)	4.43	3.97	8.79
RONW (%)	14.02	11.73	10.76
ROCE (%)	0.00	0.00	0.00

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Info Codes

Reuters	: KBNK.BO
Bloomberg	: KBL IN
NSE	: KTKBANK
BSE	: 532652

Market Data

52 Wk Range (₹)	: 100/181
Shares in Issue (mn)	: 282.6
Market. Cap (bn)	: 42.40
BSE 2 Wk Avg Vol	: 179000

Share Holding Pattern (%)

Promoters Holding	: 00.00
Public & Others	: 60.45
Corporate Holding	: 07.68
Foreign Institution	: 21.89
Institutions	: 09.98

Investment Theme

The overall growth in bank deposits and credit during the year remained sluggish especially during the second half of the FY 2016-17. Sector faced unexpected surge in the flow of cash into their vault due to demonetization move by the Government. Post January 2017, the remonetization started picking up, which resulted in credit growth again and improvement in the consumption. Banking sector as such, credit expanded by 5.1% while deposits grew by 11.8% in the FY 2016-17. Based on the prediction of normal monsoon, considering the pace of remonetization, the economic growth is projected at 7.3%. The Government's thrust on infrastructure development besides technological advancement in the manufacturing sector may open up avenues to Banks to finance these projects. The bank has aggressive future plan to expand business.

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Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
INCOME					
Interest Income	46,984.2	49,922.1	6.3	51,854.0	3.9
Other Income	5,070.0	5,428.6	7.1	8,093.4	49.1
EXPENDITURE					
Interest Expended	35,295.7	36,893.4	4.5	36,947.8	0.1
Cost of Employees	5,246.6	4,430.2	(15.6)	6,010.3	35.7
Depreciation	(141.7)	422.3	(398.0)	497.5	17.8
Operating Expenses	1,951.2	2,276.4	16.7	2,522.4	10.8
Provision of Tax	1,079.5	1,127.1	4.4	156.9	(86.1)
Other Provisions	4,108.3	6,048.3	47.2	9,289.8	53.6
Extraordinary Items	(2.3)	(8.9)	287.0	(2.9)	(67.4)
Net Profit/Loss	4,514.5	4,152.9	(8.0)	4,522.6	8.9

4 Years Balance Sheet

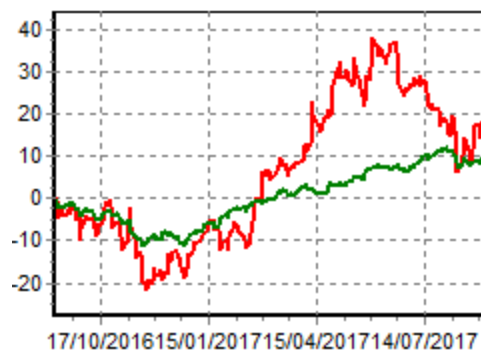
(₹ mn)

Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS				
	4,71,687.9	5,20,257.4	5,67,004.9	6,42,375.5
Equity Share Capital	1,884.2	1,884.6	1,884.7	2,826.2
Reserves and Surplus	28,637.8	32,006.0	35,021.2	48,599.7
Deposits	4,11,828.3	4,66,086.1	5,04,882.1	5,67,331.1
Borrowings	13,151.9	4,377.6	10,514.7	8,326.2
Other Liabilities and Provisions	16,185.7	15,903.1	14,702.2	15,292.3
USES OF FUNDS				
	4,71,687.9	5,20,257.4	5,67,004.9	6,42,375.5
Balances with RBI	21,527.3	24,884.5	26,456.2	29,292.7
Money at Call and Short Notice	1,846.7	1,257.1	3,993.0	3,447.6
Investments	1,52,267.8	1,40,316.7	1,62,566.5	2,02,197.3
Advances	2,83,454.9	3,16,799.9	3,39,024.5	3,70,036.5
Fixed Assets	1,974.8	2,918.5	3,066.4	7,205.7
Other Assets	10,616.4	34,080.7	31,898.3	30,195.7
NOTE				
Gross NPA	8,359.4	9,442.1	11,804.0	15,815.9
Net NPA	5,380.4	6,235.5	7,954.7	9,747.3
Contingent Liabilities	90,079.3	83,156.9	58,777.0	53,360.3
Dividend (%)	40.0	50.0	50.0	40.0
SCALE				
Number of Branches	600	675	725	765
Number of Employees	7,185	7,382	7,792	7,981

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 16	Dec 16	Mar 17	Jun 17
INCOME				
Interest Income	13,063.7	13,239.3	12,945.0	13,305.4
Other Income	1,897.0	1,335.9	3,116.9	2,173.9
EXPENDITURE				
Interest Expended	9,091.2	9,474.2	9,423.3	9,061.2
Employees Cost	1,735.4	1,767.5	1,227.1	1,374.1
Other Expenses	1,806.6	1,614.9	2,118.8	1,947.0
Operating Profit	2,327.5	1,718.6	3,292.7	3,097.0
Provisions And Contingencies	1,305.5	1,006.0	3,292.7	1,988.8
Profit Before Tax	1,022.0	712.6	1,688.7	1,108.2
Tax	(216.2)	27.4	305.0	(230.3)
Net Profit/Loss	1,238.2	685.2	1,383.7	1,338.5

52 Week Index Relative Percentage Appreciation

Karnataka Bank vs SENSEX
Risks Associated

New licenses may reduce marketshare, will increase competitive rivalry over medium to long term. Rivalry is much aggressive in metropolitan areas. For deposit substitutes include; investment in gold, real estate and equity & for advances substitutes include; bonds and IPO/FPO etc. Asset quality of the bank has declined marginally on QoQ basis; Gross NPA % increased to 4.3 % as against 4.21% QoQ.

Scope of Growth

- ➔ Karnataka Bank has adopted the KBL Vision 2020, Bank's turnover is projected to increase to ₹1,80,000 Cr with deposits of ₹ 1,00,000 Cr and advances of ₹ 80,000 Cr by March 2020. Bank is moving progressively towards reaching the targets.
- ➔ Bank reported PAT of ₹ 34 Cr (up 10% y-o-y) in Q1FY18, NII (up 16% y-o-y) and other income (up 25%y-o-y).
- ➔ Total investments of the Bank for March 2017 stood at ₹ 20219.73 Cr, as against ₹ 16256.65 Cr on March 2016, showing an increment of 24.38%. Bank has recommended a dividend at 40%, the dividend payout ratio for the year is 24.99% as against last year's 22.69%.
- ➔ During the year 2016-17, Bank has opened 40 new branches in 9 States and 117 ATM outlets at various locations.
- ➔ ICRA estimates that credit growth in India's banking sector would be at 7-8 per cent in FY 2017-18.
- ➔ Total lending has increased at a CAGR of 12.38% during FY 2007-17 and total deposits has increased at a CAGR of 10.08%, during FY 2007-17 & are further poised for growth, backed by demand for housing and personal finance.
- ➔ Credit under the personal finance segment rose at CAGR of 7.57% during FY 2009-17, and stood at \$ 98 bn in FY 2017.

Over 9 decades of experience of providing professional banking services and quality customer service, now it has national presence with a network of 765 branches spread across 22 states and 2 Union Territories. Managed by a dedicated & professional management team, bank has around 8,000 employees, 1,46,000 shareholders and over 8.9 mn customers. It is targeting a business turnover of ₹1.10 lakh crore for 2017-18. This includes deposits of ₹64,500 crore and advances of ₹45,500 crore. Year 2016-17 was a satisfactory growth considering the prevailing economic conditions in the global and domestic economies and the impact of demonetization on the banking industry in the country. The growth outlook for 2017-18 is positive and bank able to encash all the growth opportunities to take the business turnover to a new high of ₹1.10 lakh crore. The bank intends to open 35 new branches, including nine financial inclusion branches, to take the totally of branches to 800 by March 2018. As on March 31, the bank has 765 branches across India. Bank proposes to rise the number of ATMs to 1450 from the present level of 1380 ATMs. E-lobbies and mini e-lobbies are planned to be increased to 150 from the present number of 110. GNPA % increased to 4.3% as against 4.21% QoQ. The increase in the NPA's was due to a steel manufacturing account, which was borderline case for past 4 years and has now slipped into NPA during this quarter. Advances during the quarter grew by 10% YoY as against industry average of 6% YoY. It was led by traction in Retail loan book which was up by 9.07% YoY. The management has good vision for future developments.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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