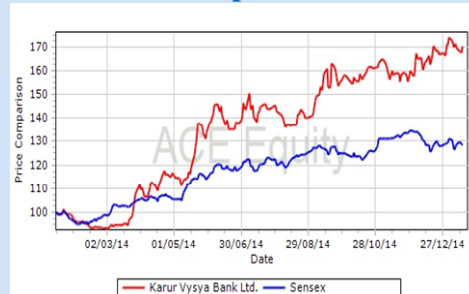
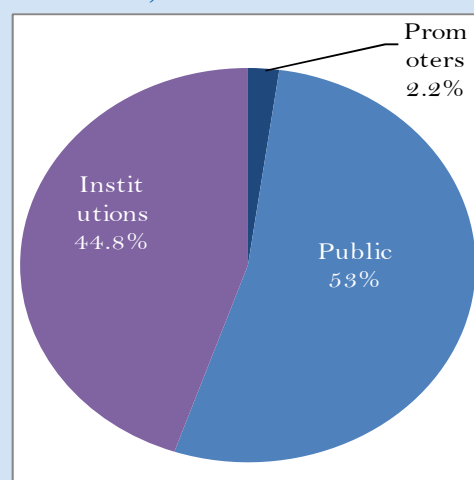


**Company Details**

CMP:	Rs.530.10
Face value:	Rs.10.00
Market cap:	Rs.6461.92 Crs.
TTM EPS	Rs.46.58
52 week high:	Rs.531.00
52 week low:	Rs.393.90
NSE Code	KARURVYSYA
BSE Code:	590003
Sector	Bank-Private

**Financial Highlights (YoY)**

Rs. In crores			
	FY16	FY15	% Var
Interest Earned	5,443.39	5,395.87	0.88
Total Income	6,150.21	5,976.71	2.90
Total Expen.	4,914.79	5,033.42	(2.36)
Op.Profit	1,235.42	943.29	30.97
Provisions	323.79	480.51	(32.62)
PBT	911.63	462.78	96.99
PAT	567.63	455.61	24.59
EPS (Rs.)	46.58	37.46	24.35
Equity Capital	121.86	121.63	0.19

**Share Price Graph****Shareholding pattern as on December, 2015****Company Background**

**The Karur Vysya Bank Ltd.**, a Tamil Nadu-based bank incorporated in 1916, is engaged in providing a range of banking and financial services including treasury, corporate, wholesale and retail. It has 667 branches and 1655 ATMs covering 18 States and 2 Union Territories. Its operations are mostly concentrated in South India with 73% of its branch footprint in Tamil Nadu and Andhra Pradesh.

**Financial Performance**

The total income and PAT of the bank during FY16 at Rs.6150.21 crores and Rs.567.63 crores were up by 2.9% and 24.6%, respectively, compared to those during FY15. The EPS on face value of Rs.10 has increased from Rs.37.46 for FY15 to Rs.46.58 for FY16. **The bank had paid an interim dividend of 100% for FY16 in March 2016 and declared final dividend of Rs.4/share. The share will become ex-final dividend on 12<sup>th</sup> July 2016. The dividend paid for FY15 was 130%.**

**Investment Rationale**

- The outlook for banking industry remains stable to positive as NPA accretions is expected to slow down from the second half of FY16 on the likelihood of revival of economic growth driving corporate performance. Also, with the improvement in state of economy and gradual reduction in policy rates initiated by RBI, the credit demand is expected to pick up, which, in turn, would be positive for the growth of banking industry.
- The bank has three major business segments, viz., Treasury, Corporate banking and Retail banking. The retail banking contributes around 50% of revenues followed by corporate banking 29% and treasury operations 21%.
- The advances and deposits of the bank during FY16 grew at 8% and 12%, respectively, taking the total business to Rs.89163 crores as on March 31, 2016. The total advances of the bank have increased from Rs.36109 crores in FY15 to Rs.39084 crores in FY16 and it is expected that the likely growth in GDP will help the bank to increase its business and credit growth.
- Asset Quality of the bank has improved during the year where the Gross NPAs and Net NPAs have declined from 1.85% and 0.78%, respectively, at the end of March, 2015 to 1.3% and 0.55% at the end of March, 2016.**
- The bank has reported net interest margin of 3.55%, up 40bps YoY and 8bps QoQ, on the back of 12% growth in retail advances and 19% increase in CASA deposits. The CASA ratio improved 130bps YoY to 23.3% in Q4FY16. Going ahead, the higher base may result in some decline in NIMs. However, the bank is aiming to turn its business model to focus on retail and SME segments. This is expected to help it to maintain NIMs above 3% going ahead.**
- The bank has added 35 branches during FY16. Branch expansion will help bank to achieve critical geographical reach and economies of scale.
- The book value of the share of the bank is Rs.375.25 and it is trading at P/BV of 1.42x against that of private sector bank at 2.2x.**
- The total dividend comes to Rs.14 and the share provides tax free dividend yield of 2.62%.**
- The bank is completing 100 years in 2016 and possibility of bonus, rights or extra dividend in current year cannot be ruled out.**
- The promoter holds only 2.2% equity capital of the bank, followed by institutions that hold 44.8% and the balance 53% shares are held by the public.

**Concerns**

The slowdown in economy, delay in recovery of industrial activities in southern states and any further slippages in the loan book are the main concerns.

**Valuation**

**The share of this private bank is trading at a lower TTM P/E of only 11.3x against that of the all private banks at 20.3x.** Keeping in the view the positive outlook for banking sector on expected revival of growth of GDP and improvement in macro-economic factors, steady assets quality, increasing branch network, good dividend payout and lower PE & P/BV, we recommend a buy on the share of this bank with an expected price appreciation of about 30% over the next 12 months.