

Company Details

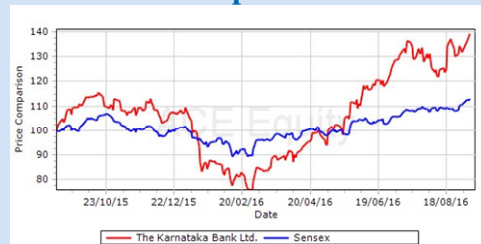
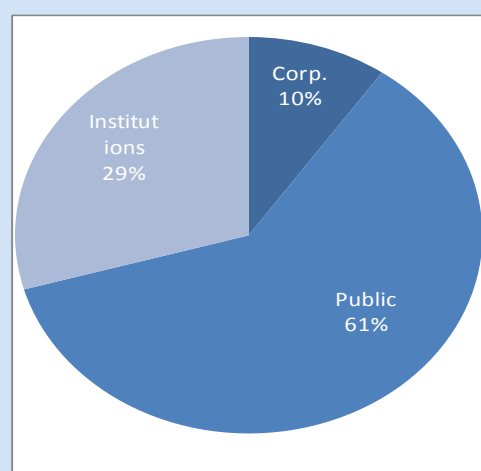
CMP:	Rs.157.00
Face value:	Rs.10.00
Market cap:	Rs.2959.45 Crs.
TTM EPS	Rs.22.68
52 week high:	Rs.162.10
52 week low:	Rs.84.85
NSE Code	KTKBANK
BSE Code:	532652
Sector	Bank-Private

Financial Highlights (YoY)

Rs. In crores			
	FY16	FY15	% Var
Total Income	6,150.21	5,976.71	2.90
Total Expen.	4,680.54	4,482.14	4.43
Op.Profit	1,469.67	1,494.57	(1.67)
Provisions	326.53	213.98	52.60
PBT	528.00	542.36	(2.65)
PAT	415.29	451.45	(8.01)
EPS (Rs.)	22.03	23.95	(8.01)
Equity Capital	188.47	188.47	-

Q1FY17 vs. Q1FY16

Rs. In crores			
	Q1FY17	Q1FY16	% Var
Total Income	1,434.96	1,348.17	6.44
Total Expen.	1,173.04	1,109.15	5.76
Op.Profit	261.92	239.02	9.58
Provisions	136.31	115.85	17.66
PBT	125.61	123.17	1.98
PAT	121.54	109.34	11.16
EPS (Rs.)	6.45	5.80	11.15

Share Price Graph**Shareholding pattern as on June, 2016****Company Background**

The Karnataka Bank Ltd., a south-based private sector bank incorporated in 1924, is engaged in providing treasury, money market operations, foreign exchange operations corporate/wholesale, retail banking services. It also undertakes distribution of insurance, mutual fund products, provides demat services, online shopping, railway ticket booking, locker facilities etc. It has the strongest presence in South India with 549 branches (78%). The presence in top 5 states is as: Karnataka (436 branches, 62% market shares), Tami Nadu (46, 7%), Maharashtra (41, 6%) Andhra Pradesh (32, 4%) and Delhi (21, 3%).

Financial Performance

The total income of the bank during FY16 at Rs.6150.21 crores was up by 2.9% but PAT at Rs.415.29 crores was down by 8% compared to that during FY15 due to higher provisioning for bad debts. The EPS on face value of Rs.10 had declined from Rs.23.95 for FY15 to Rs.22.03 for FY16. The bank has paid a dividend of 50% for FY15 and FY16.

The bank has reported better performance during Q1FY17, where total income and PAT at Rs.1434.96 crores and Rs.121.54 crores, respectively, are up by 6.4% and 11.2% compared to those during corresponding Q1FY16. The EPS has increased from Rs.5.80 for Q1FY16 to Rs.6.45 for Q1FY17.

Investment Rationale

- The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented soon. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's economic growth. **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 economy driving improvement in corporate performance.**
- Despite the subdued market and industry specific challenges, the bank's performance has remained stable on all important parameters and has been able to post results which are better than industry average.
- The bank's total business turnover is projected to increase to Rs.1.8 lakh crores with deposits of Rs.1 lakh crore and advances of Rs.0.8 lakh crore by March 2020. The advances and deposits of the bank during FY16 grew at 9.7% and 7%, respectively, taking the total business to Rs.84391 crores as on March 31, 2016. It proposes to improve its CASA deposits ratio from current 26.2% to 27.4% of the total deposits by March 2020 and intends to raise the share of retails loans to 55% from present 51%. The retail and mid corporate credit will constitute 70% of the total advances by March 2020.
- The bank has reported marginal decline in net interest margin from 2.57% during Q1FY16 to 2.55% during Q1FY17. However, with the improvement in CASA ratio by, NIMs is likely to improve to around 3% going ahead.
- The gross NPAs of the bank stood at Rs.1389.36 crores constituting 3.9% of total advances as on June, 2016 compared to 3.3% at on June, 2015. The Net NPAs stood at Rs.911.23 crores representing 2.6% of net advances as on June, 2016. With the expectation of good recovery in NPAs, the bank expects its Gross and net NPAs ratios to come down to 3% and 2.2%, respectively, by end March 2017.
- The bank has added 50 branches and 275 ATMs during FY16.** The 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.202.12 and it is trading at below book value of 0.78x against that of private sector bank at 2.2x.**
- The share provides tax free dividend yield of 3.2%.**
- The bank has on August 5, 2016 decided to issue equity shares on a rights basis in the ratio of 1:2 to its existing shareholders at Rs.70 per share including premium of Rs.60 pe.
- There are no identifiable promoters and the institutions hold only 29.4% equity capital of the bank, followed by non-promoter corporates that hold 9.7% and the balance 60.9% shares are held by the public.

Concerns

The slowdown in economy, delay in recovery of economy and any further deterioration in asset quality are the main concerns.

Valuation

The share of this private sector bank is trading at a lower TTM P/E of only 6.9x against that of the all private banks at 22.7x. Keeping in the view the positive outlook for banking industry on expected revival of growth of economy, steady assets quality, increasing CASA deposit & branch network, good dividend payout and lower TTM 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.