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Analyst meet update: Karur Vysya Bank

Nov. 16, 2018

We recently attended Karur Vysya Bank Q2FY19 Analyst meet held on Nov.15, 2018. The following are the key highlights of the meet.

Total business - Rs. 1,06,402 crores, up by 6 percent on you basis..

Gross advances increased by 9 percent on you basis to Rs. 48,140 crores..

Operating profit at Rs. 821 crores, declined on you basis..

RoA - 0.49 percent, improved from 0.27 percent in Q1FY19..

RoE - 5.28 percent, up from 2.93 percent in Q1FY19..

Cost/Income deteriorated to 52.12 percent from 45.18 percent in Q1FY19 owing to investment on digitisation..

Net NPA - 4.41 percent, Credit growth - 9 percent, CRAR - 14.22 percent, Retail credit growth - 28 percent, NIMs -3.61 percent, CASA - 30 percent - targeting to increase to 35 percent in 5 years..

Karur Vysya Bank Q2FY19 NII came at Rs579.1cr as against Rs555cr in Q2FY18, which is up by 4.3% yoy. The bank's net profit for the quarter came at Rs83.7cr, which is ~12% below consensus estimates and increased by 10.7% yoy against Rs75.6cr yoy.

Its GNPA for Q2FY9 came at 7.7% against 7.44% qoq, which has increased by 26bps. NNPA for the quarter came at 4.41% against 4.5% qoq, which has declined by 9bps.

The bank's loan book grew by 7% yoy.

NIMs fell by 8bps qoq and 24bps yoy as TD are repriced at a faster pace; cost to advances linked to MCLR happened with a lag. Cost of funds have gone up by 7-8bps.

The provision for the quarter came at Rs213.1cr as against Rs422.7cr yoy. The management is confident that the margins would improve moving ahead and downward pressure on margin will be arrested.

Unsecured yields in the range of 12-18%, LAP yield is in the range of 10.5% to 14-15%. Steady-state credit cost would be at Rs450-500cr for slippages rate of 150bps (Rs750cr) for a year. Management targets PCR in the range of 50-51%. Total exposure to the group is Rs330cr comprising 2 entities.

Will take only high ticket lending for Corporate - selective for corporate lending, not expecting big growth..If it enters into consortium where there are 2-3 banks, where bank has around 25 percent share..

Growth coming from takeover of other bank accounts in SME space

Strong in trading community ..

Last 2 years there was no rain in Tamil Nadu, after rains this season, gold jewellery and agriculture portfolio

Will be growing at industry growth rate in H2FY19..



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Slippages - SMEs are collateralized lending, loss given default will be low

Certain cases recovery very fast, slippage will come down

Strengthening recovery mechanism

SMA 0, 1, 2 - Amount has come down significantly from last year..

PCR - 58.5 percent, target to reach 60 percent in 6 quarters..

Don't expect many big surprises on slippage front..

Slippage rate will come down substantially..

Focus on SMA 0 top priority..

Credit cost expected to be 0.9 percent..

Fresh Slippage - 1.5 percent * 60 percent coverage ..

Exposure to ILFS - 2 group companies, even for ITNL interest servicing not happening...waiting for resolution and clarity as to monetization happen for assets..

Bank will take appropriate action on IL&FS exposure as more information becomes available in Q3FY19.

Going forward, bank expects credit growth to accelerate and be in-line with the industry growth. Going forward, bank to focus more on Retail & Commercial and thereby reduce Corporate as % of total assets. Corporate growth will continue to stay muted while other areas will continue to grow.



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