

Pick of the week



Karur Vysya Bank (KVB)

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 38

Target Price

₹ 65

Potential Upside

71%

Investment Argument

- KVB reported a bit of mixed results in 2QFY21 with 80% yoy earnings growth (off a weak base) but operating profit growth was weak at 4% yoy as provisions declined 22% yoy. Net interest income was flat yoy but grew impressively by 7% qoq as net interest margins improved 10 bps qoq to 3.5%
- In 2QFY21, headline asset quality ratios showed improvement with gross NPLs (Non-performing loans) declining 40 bps qoq at 7.9% while net NPL declined 45 bps qoq to 3% of loans (a four-year low)
- Operating performance is weak but the bank has negotiated the Covid environment with a relatively slow growth, which augurs well. Tier-1 ratio at 16% is comfortable to handle the stress but a re-rating would probably take more than a few quarters
- We expect earnings growth of 39% in FY22E & 42.7% in FY23E. Net interest income growth of 9.6% in FY22E & 10.6% in FY23E with Net interest margins of 3.5% in FY21E-FY23E.
- KVB currently trades at an inexpensive valuation & significant discount to peers of ~0.48X FY22 expected book value. We are valuing the bank at 0.9X book and ~10X September 2022E EPS for RoEs of ~10% levels in the medium term