

Karur Vysya Bank

Name of the Instrument	Amount	Rating Action
Lower Tier II Bonds Programme	Rs.300 crore	[ICRA]A+; reaffirmed and outlook revised from Positive to Stable
Certificate of Deposits programme	Rs.3,000 crore	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus) for the Rs.300 crore¹ Lower Tier II Bond Programme of Karur Vysya Bank (KVB / the bank)². The outlook on the long-term rating was revised from Positive to Stable. ICRA has also reaffirmed the short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.3,000 crore Certificate of Deposits Programme of KVB.

The revision in the outlook factors in the ongoing stress, slower than expected pace of recovery and subdued outlook for several credit intensive sectors, which is likely to impact the overall credit profile of the bank. Advances to sectors including Infrastructure, textiles and iron & steel stood moderate at 9%, 9% and 4% respectively on the total advances as of December 2015. KVB's gross NPA levels increased from 0.8% in March 2014 to 1.9% in December 2015 (1.9% in March 2015) due to slippages in the corporate and MSME segments. With the provision cover³ of 50% as of December 2015 (59% as of March 2015) and the bank's reported provision coverage ratio of 75% as of December 2015 (same level as of March 2015), the net NPA stood at 1.0% as of December 2015 (0.8% as of March 2015). The bank's solvency⁴ also moderated from 4.2% in March 2014 to 7.7% in December 2015 (6.6% in March 2015). The bank's NPA generation rate⁵ increased to 1.8% in FY2015 (1.4% in 9MFY2016) from about 0.5% in FY2014 and, is expected to remain high during the next few quarters, especially due to the stress in the corporate segment, notwithstanding the initiatives taken by the bank towards recoveries. The bank's standard restructured advances at 5.8%⁶ (4.7% excluding exposure to State Electricity Boards) as on December 2015 is higher than private bank average of about 2.1%. Considering the bank's relatively modest scale of operations with total asset base of about Rs. 55,000 crore and net-worth of Rs. 4,675 crore as of December 2015; ICRA notes that a few large slippages could impact the asset quality and profitability indicators.

The ratings continue to take note of the bank's established franchise in the South India and, its comfortable capitalisation and liquidity profile. The bank's total capital adequacy ratio stood comfortable at 12.9%⁷ (Tier I at 12.0%) as of December 2015. KVB's total advances witnessed moderate growth of about 6% during 9MFY2016 (7% growth in FY2015). The proportion of the total advances across the key segments viz. corporate (36% as in December 2015), commercial (32%), agriculture (16%) and retail (15%) have remained largely range bound over the last three fiscals. Advances growth is expected to be moderate (<10%) in the current financial year also. Considering the above, along with an anticipated moderate advances growth in the near to medium term, the bank may not require any sizeable capital infusion over the next 18-24 months.

KVB's CASA ratio has improved steadily and stood at 23.4% in December 2015 compared to 22.0% in March 2015 and 20.6% in March 2014. The share of bulk term deposits (term deposits >Rs 1 crore as proportion of total deposits) has also reduced and stood at about 16% as of December 2015 compared to 18% in March 2015 and 23% in March 2014. However, ability of the bank to maintain the share of bulk deposits at moderate levels as credit growth picks up would be crucial. The bank's overall profitability improved moderately during 9MFY2016 with RoA at 1.1% as compared to 0.9% for FY2015 (0.9% in FY2014) supported by the expansion in the net interest margins and some moderation in the credit costs⁸ (0.7% in 9MFY2016 as compared to 0.9%

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ (Gross NPA – Net NPA) / Gross NPA

⁴ Net NPA as a proportion of networth

⁵ Fresh slippages (net) as a proportion of opening standard advances

⁶ Standard restructured advances as a proportion of standard assets

⁷ Capital adequacy ratios as of December does not consider profits achieved for the first nine months during that fiscal

⁸ Credit provisions as a proportion of Average total assets



in FY2015 and 0.5% in FY2014). KVB's ability to maintain or improve its profitability indicators considering the expected asset quality related pressures going forward, would be a key monitorable from a rating perspective.

Bank Profile

Incorporated in 1916 by the local trader community, Karur Vysya Bank (KVB) is one of the old private sector banks in the country. As of December 2015, it had a network of 659 branches and 1,653 ATMs spread across the country. With a reported net-worth of about Rs. 4,675 crore as of December 2015, it had an asset base of Rs. 55,000 crore as on that date. As in December 2015, it had gross NPAs of Rs. 721 crore (1.9%) and net NPAs of Rs. 360 crore (1.0%). Its capitalization levels were comfortable with a regulatory capital adequacy ratio of 12.9% and Tier I capital of 12.0% as of December 2015.

Recent Results

For the nine month period ended December 2015, the bank registered net profits of Rs.430 crore (Rs.327 crore in 9m FY2015) on an approx total asset base of about Rs. 55,000 crore as of December 2015 (about Rs. 53,400 crore as of December 2014).

For the financial year FY2015, KVB registered net profits of Rs. 464 crore (Rs. 430 crore in FY2015) on a total asset base of Rs. 53,152 crore (Rs. 51,543 crore in FY2014).

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