

The Karur Vysya Bank Limited

June 11, 2018

Summary of Rated Instrument:

| Instrument | Rated Amount (Rs. crore) | Rating Outstanding |
|----------------------------------|--------------------------|--------------------|
| Lower Tier II Bonds Programme | 300.00 | [ICRA]A+(stable) |
| Certificate of Deposit Programme | 3,000.00 | [ICRA]A1+ |
| Total | 3,300.00 | |

Material Event

The Karur Vysya Bank Limited (KVB) announced its Q4FY2018 results on May 25, 2018.

Advances: The bank's net advances grew 9.5% YoY in FY2018 to Rs.44,800 crore as on March 31, 2018, primarily driven by the loan growth in the commercial¹ (grew 11% during FY2018), agriculture (12.6%) and retail (20%) loan book, while the corporate loan book grew at a moderate 5.8%. The commercial and corporate segments continue to contribute a major portion to the bank's advances with a share of 35% and 31% respectively at end of March 2018, followed by agricultural and retail advances at 17% and 17% respectively. The bank envisages an overall loan growth of about 15-17% in FY2019.

NIMs & NII: The yield on advances declined to 10.3% during FY2018 (11.0% in FY2017) with a concurrent decline in the cost of funds to 5.9% during FY2018 (6.5% during FY2017). Net Interest margins (NIMs) as % of average total assets (ATA) has improved to 3.6% during FY2018 (3.4% in FY2017). Net interest income (NII) witnessed a growth of 10.8% during FY2018 (16.4% during FY2017) in line with the growth in advances during the year. Going forward, ICRA expects NIMs to remain adequate at about 3.5-3.6% in FY2019.

Asset Quality: The asset quality weakened further with gross NPAs (GNPAs) increasing to 6.6% at the end of FY2018 (3.6% at the end of FY2017) because of heightened slippages from the corporate book during Q4FY2018. Of the total Rs.589 crores that slipped during Q4FY2018, Rs.170 crore was on account of the revised framework on the resolution of stressed assets, while the remaining was from the watchlist provided by the bank. At present, the bank currently has about Rs. 587 crore (1.3% of gross advances) of stressed exposure², which is likely to exert pressure on the asset quality in the near term. Thus, GNPA is expected to increase in the near term on account of fresh slippages from the stressed exposures, if the recoveries remain subdued. ICRA, however, takes note of the equity infusion in Q3FY2018, which lends support to its solvency indicators that stood at 29.7% at end of Q4 FY2018 (20.5% at Q4 FY2017).

Profitability: With an elevated provisioning requirement, the bank's credit cost has gone up in the recent quarters to 1.8% (of ATA) during FY2018 (1.1% during FY2017). Consequently, KVB's net profitability declined during FY2018 as the PAT/ATA (Profit after tax/Average total assets) stood at 0.5% against 1.0% during FY2017. Going forward, net profitability is expected to remain at a subdued level as the credit cost would remain elevated, and the bank is expected to increase its provision coverage from the current level of 38%.

Capitalisation: KVB's capitalisation profile remains comfortable as the bank's CET1, Tier 1 and CRAR ratios stood at 13.9%, 13.9% and 14.4% respectively as on March 31, 2018. KVB's capital ratios were supported by the capital raised during

¹ Bank's exposure below Rs.25 crore and the borrower's turnover below Rs. 150 crores.

² Pending watch list (of 0.7% of gross advances) and other Standard restructured advances (0.6%).

Q3FY2018 (Rs. 888.4 crore net of share issue expenses) via a rights issue. KVB's current capital levels are likely to support its envisaged growth in the near to medium term without any sizeable capital requirement.

Impact of the Material Event

The ratings remain unchanged at [ICRA]A+(Stable) and [ICRA]A1+, as the comfortable capital profile provides support to KVB's overall credit risk profile and its asset quality is not expected to significantly weaken vis a vis ICRA's estimate. Any sizeable deterioration in the asset quality or the profitability profile, going forward, would be a key rating sensitivity.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key Financial Indicators (audited):

| Instrument | FY2017 | FY2018 | Q4FY2017 | Q4FY2018 |
|--|--------|--------|----------|----------|
| Net Interest Income | 2,074 | 2,298 | 580 | 643 |
| Profit before tax | 883 | 504 | 290 | 86 |
| Profit after tax | 606 | 346 | 218 | 51 |
| Net advances | 40,908 | 44,800 | 40,908 | 44,800 |
| Total assets (net of revaluation reserve) | 61,808 | 66,929 | 61,808 | 66,929 |
| %CET 1 | 11.9% | 13.9% | 11.9% | 13.9% |
| %Tier 1 | 11.9% | 13.9% | 11.9% | 13.9% |
| %CRAR | 12.5% | 14.4% | 12.5% | 14.4% |
| %Net Interest Margin | 3.4% | 3.6% | 3.7% | 3.9% |
| %Net Profit / ATA | 1.0% | 0.5% | 1.4% | 0.3% |
| %Return on Net Worth | 12.6% | 6.1% | 17.4% | 3.3% |
| % Gross NPAs | 3.6% | 6.6% | 3.6% | 6.6% |
| % Net NPAs | 2.5% | 4.2% | 2.5% | 4.2% |
| % Provision coverage excl. technical write off | 30.4% | 38.2% | 30.4% | 38.2% |
| % Net NPA/ Net worth | 20.5% | 29.7% | 20.5% | 29.7% |

Note: Average total asset (ATA) is computed on year-end / quarter-end basis

Amounts in Rs. crore

Source: KVB

ANALYST CONTACTS

Mr. Karthik Srinivasan

+91 22 6114 3444
karthiks@icraindia.com

Mr. A M Karthik

+91 44 4596 4308
a.karthik@icraindia.com

Mr. Sreenivasan Perumal

+91 44 4596 4325
sreenivasan.perumal@icraindia.com

Mr. Govindaraj Prabhu M

+91 44 4596 4306
govindaraj.m@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar

+91 22 6114 3406 / +91 98210 86490
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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