

## Karur Vysya Bank

February 12, 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+
<b>Total</b>	<b>3,300.00</b>	

### Material Event

Karur Vysya Bank (KVB) has announced its Q3FY2018 results on January 31, 2018.

**Advances:** During Q3FY2018, the bank has reported a good growth of 16.6% in advances on YoY basis, which is higher than the recent trends of 5.0% growth in advances during FY2017. The QoQ growth remained modest at 1.4% in Q3FY2018 as compared to a QoQ de-growth of -2.7% in Q3FY2017. The commercial and corporate segments continue to contribute major portion of the bank's advances with a share of 34% and 32% respectively at end of Q3FY2018, followed by agriculture and retail at 17% and 16% respectively.

**NIMs & NII:** The yield on advances declined to 10.2% during Q3FY2018 (11.2% in Q3FY2017 and 11.0% during FY2017) with a concurrent decline in the cost of deposits to 6.1% during Q3FY2018 (6.7% in Q3FY2017 and 6.6% during FY2017). The Net Interest margins (NIMs) (as % of average total assets – ATA) remained stable at 3.4% during Q3FY2018 (3.4% in Q3FY2017 and 3.4% during FY2017). Net Interest income (NII) witnessed a growth of 1.2% during Q3FY2018 (4.6% in Q3FY2017 and 16.4% during FY2017). Going forward, ICRA expects the NIMs to remain largely stable at current levels and the NII to grow with the anticipated pick up in credit demand.

**Asset Quality:** The asset quality weakened with Gross NPAs (GNPAs) increasing to 5.9% at end of Q3FY2018 (2.7% at end of Q3FY2017 and 3.6% at end of Q4FY2017) with higher slippages in corporate segment. With increase in slippage, the net NPAs (NNPAs) increased to 3.9% at end of Q3FY2018 (1.7% at end of Q3FY2017 and 2.5% at end of Q4FY2017). In ICRA's press release of July 2017, we had estimated the bank's standard restructured advances (including SDR, S4A and 5/25 accounts) and other vulnerable corporate advances (as a % of gross advance) totally to around 4.0%; slippages from these are essentially exerting pressure on the bank's asset quality presently. ICRA expects the asset quality to further witness some moderation as the bank continues to carry a vulnerable asset watch-list of about 1.5%. ICRA however takes note of the equity infusion in Q3FY2018, lending support to its solvency indicators, which stood at 27.3% at end of Q3FY2018 (20.5% at end of Q4FY2017)

**Profitability:** Steep increase in credit cost (as a % of ATA) to 1.9% during Q3FY2018 (0.4% during Q3FY2017 and 1.3% during Q4FY2017) has moderated the net profitability to 0.4% in Q3FY2018 (0.8% in Q3FY2017 and 1.0% in FY2017). Going forward, the net profitability is expected to remain moderate at current levels as the credit cost would remain elevated.

**Capitalisation:** KVB has raised Rs. 891.6 crore of equity capital during Q3FY2018 via rights issue which led to the capital ratios (CET1, Tier 1 and CRAR) of the bank improving to (as % of risk weighted assets) 13.4%, 13.4%, and 13.9% respectively at end of Q3FY2018, which are comfortable in relation to regulatory levels.

## Impact of the Material Event

The ratings remain unchanged at the earlier rating of [ICRA]A+(stable) and [ICRA]A1+, as the capital raise provides support to the overall credit risk profile on back of the deterioration in asset quality. Any significant deterioration in asset quality, going forward however would be a key rating sensitivity.

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

Instrument	FY2016	FY2017	Q3FY2017	Q3FY2018
Net Interest Income	1781	2074	518	562
Profit before tax	912	883	178	96
Profit after tax	568	606	116	71
Net advances	39,084	40,908	37,978	43,792
Total assets (net of revaluation reserve)	58,985	61,808	63,519	66,531
%CET 1	11.3%	11.9%	11.1%	13.4%
%Tier 1	11.3%	11.9%	11.1%	13.4%
% CRAR	12.2%	12.5%	11.8%	13.9%
% Net Interest Margin / Average total assets	3.2%	3.4%	3.4%	3.4%
%Net Profit / Average total assets	1.0%	1.0%	0.8%	0.4%
%Return on Net Worth	12.4%	12.0%	9.4%	5.0%
% Gross NPAs	1.3%	3.6%	2.7%	5.9%
% Net NPAs	0.6%	2.5%	1.7%	3.9%
% Provision coverage incl technical write offs	57.7%	30.4%	37.6%	36.2%
% Net NPA/ Net worth	4.7%	20.5%	12.8%	27.3%

*Note: The average total asset is computed on year-end / quarter-end basis*

*Amounts in Rs. crore*

*Source: KVB*

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