



Karnataka Bank
Your Family Bank. Across India.

1st December, 2023



India's Best Performing and Most Customer Centric PMS

Karnataka Bank Limited, established in 1924, has grown into a dynamic institution offering a comprehensive range of banking and financial services. The bank's operations encompass retail and corporate banking, para-banking activities, treasury services, and foreign exchange business. Its unwavering commitment to excellence is reflected in a strong financial foundation and strategic vision. It has emerged as a beacon of stability, growth, and strategic acumen in the banking landscape. Its prudent financial management, diversified revenue streams, extensive branch network, and forward-looking initiatives position it as an attractive prospect for investors seeking a reliable and promising investment avenue

Extensive Branch Network: Catalyzing Regional and National Growth:

Karnataka Bank's expansive footprint includes 877 branches and 1448 ATMs/Cash Recyclers across 22 states and 2 union territories. A strategic concentration of 79% of branches in South India, with 556 branches in Karnataka, positions the bank to tap into diverse markets, fostering regional and national economic development. Alliances in the insurance sector, exemplified by partnerships with PNB Metlife, Life Insurance Corporation, and Bharti AXA Life Insurance, generating approximately ₹37 crores in fee income during FY22. These collaborations reflect the bank's adept entry into the life insurance market. Concurrently, in nurturing a diverse loan portfolio for sustainable growth, Karnataka Bank allocates 48% to retail advances, showcasing a dedicated commitment to meeting individual customers' financial needs. The remaining 52% is dedicated to corporate advances, engaging with entities across sectors ensuring resilience amid economic fluctuations. This strategic approach underscores the bank's ability to navigate varied financial landscapes while maintaining a customer-centric focus.

Strategic Alliances in Insurance: Enhancing Revenue Streams: The Bank entered the insurance sector with impactful collaborations. In the life insurance domain, partnerships with PNB Metlife, Life Insurance Corporation, and Bharti AXA Life Insurance have yielded a substantial fee income of approximately ₹37 crores in FY22, underscoring the bank's successful foray into this critical sector. Simultaneously, in the realm of general insurance, the bank has entered ventures with Universal Sompo General Insurance Co Ltd and Bajaj Allianz General Insurance Company Limited. These alliances empower Karnataka Bank to offer a comprehensive suite of health and non-life insurance products, contributing significantly to a well-rounded and diversified revenue stream.

Revenue Mix: Diversification for Sustainable Growth:

Corporate/Wholesale Banking contributes approximately 35% to the revenue mix. Retail Banking contributes 41%. Karnataka Bank showcases its prowess in serving corporate clients, attesting to its strong position in the business sector. A significant player in retail banking, catering to the diverse financial needs of individual customers. Accounting for 18% of the revenue mix Treasury Operations exhibiting adept management of financial instruments and market opportunities, contributing to overall revenue stability.

Stock Data	
CMP (01-12-2023)	218.30
52 Week High/Low	257.70/124.50
Face Value	10
Market Cap (In Crs)	7,568
Enterprise Value (In Crs)	90,339
NSE	KTKBANK
BSE	532652
Bloomberg	KBL:IN
Sector	Private Sector Bank

Shareholding Pattern (in %)		
	SEP 23	JUN 23
FII	22.67%	21.03%
DII	8.60%	6.00%
Public	68.71%	72.95%

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	5.89%	8.77%	8.05%
KTKBANK	-6.99%	45.05%	47.00%

Key Ratios	
P/E	5.58
P/S	0.97
P/B	0.83
Debt To Equity	10.80
ROE	15.40%
ROCE	5.86%
Dividend Yield	2.29%

Q2 FY 24 Result Update

Q2 FY24 Result Comparison (In Rs Cr)					
	Q2 FY24	Q1 FY24	Q2 FY23	QOQ	YOY
Interest Income	1204	1144	968	5.24%	24.38%
NII	153	126	331	21.43%	-53.78%
Operating Profit	402	450	592	-10.67%	-32.09%
Net Profit	330	371	411	-11.05%	-19.71%
EPS	10.56	11.87	13.22	-11.04%	-20.12%

Result Highlights

Karnataka Bank demonstrated a robust financial performance with a notable year-on-year increase across key financial indicators. Interest Income witnessed a significant growth of 24.38%, reaching Rs 1204 Cr, compared to Rs 968 Cr in Q2 FY23. Despite a QoQ increase of 5.24%, Net Interest Income (NII) reported a considerable YoY decline of 53.78%, standing at Rs 153 Cr. The Operating Profit for Q2 FY24 was Rs 402 Cr, reflecting a negative growth of 10.67% QoQ and 32.09% YoY and Net Profit saw a QoQ decrease of -11.05%, amounting to Rs 330 Cr, and a YoY decline of -19.71%.

The financial results for Q2 FY24 reveal Karnataka Bank's resilience amid market dynamics, showcasing a strong YoY growth in interest income and operating profit. However, the decline in NII and net profit on a YoY basis suggests challenges that the bank navigated in the prevailing economic conditions. The reduction in EPS further indicates a cautious approach towards earnings growth. It is noteworthy that the bank's performance in the current quarter should be interpreted in the context of both the preceding quarter and the same period last year, providing a comprehensive perspective on its financial trajectory.

Strategic Embrace of Digital Transformation: Karnataka Bank has strategically positioned itself for the future by embracing digital transformation. The adoption of EBLR plus margins for various products and the ongoing repricing based on market conditions reflect the bank's commitment to staying competitive in the digital landscape. The emphasis on dynamic asset repricing and the digital shift not only ensures competitiveness but also highlights the bank's proactive approach in adapting to evolving industry trends.

Sales Organization Transformation: A significant shift has been witnessed in Karnataka Bank's organizational structure, transitioning into a sales organization with 250 sales officers and 400 feet-on-street personnel. This move underscores the bank's commitment to driving growth, particularly in the CASA and retail assets segments. The emphasis on expanding the sales force demonstrates a strategic alignment with the goal of enhancing customer acquisition and broadening the retail customer base.

Focus on Portfolio Health and Risk Management: Karnataka Bank's commitment to portfolio health is evident in the net reduction of over 7 basis points on net NPA, despite an increase in gross advances. The bank's strategic move from collateral-based to cash flow-based lending on the retail side, incorporating credit scoring mechanisms, showcases a nuanced approach to risk management. The maintenance of a robust Provision Coverage Ratio (PCR) at around 83% further highlights the bank's proactive stance in ensuring the health of its loan portfolio.

Comprehensive National Footprint and Growth Ambitions: While the bank has a substantial presence in Karnataka and neighboring states, the confirmation of a national footprint with operations in 22 states and 2 Union Territories indicates ambitious growth plans. Although there are no explicit plans for pan-India expansion mentioned, the bank's geographical presence and focus on national partnerships underline its ambition to be a significant player on the national stage. This strategic vision aligns with the broader trend of regional banks aspiring for a more extensive and diverse market presence.

Concall Highlights

Asset Repricing and Digital Transformation: The bank's adoption of EBLR plus margins for various products underscores its commitment to a dynamic asset repricing strategy, responding to market conditions for heightened competitiveness. The emphasis on dynamic asset repricing is a strategic move in response to the ongoing digital shift, ensuring adaptability to evolving market dynamics. Deposit pricing decisions are ALCO-driven, maintaining a controlled overall cost of deposits at 5.25% despite market challenges. The CASA mix remains robust at 32-33%, ensuring stability in the deposit base amid market volatility.

Underwriting Strategy and Asset Quality: Clarification on past perceptions of asset quality issues emphasizes the bank's healthy track record, reassuring investors about its creditworthiness. Plans to diversify the loan book indicate a strategic shift towards digital client acquisition and exploring new asset classes. The transition from collateral-based to cash flow-based lending on the retail side, incorporating credit scoring mechanisms, showcases the bank's commitment to modern and efficient lending practices. An ongoing credit process review demonstrates the bank's dedication to enhanced efficiency and robust risk management.

Co-lending Partnerships and Growth Strategy: Initiating co-lending partnerships with SahiBandhu, Northern Arc, and PaisaLo showcases the bank's commitment to strategic collaborations, particularly in Agri, Micro SMEs, and credit on ECI. The vision for growth through partnerships, leveraging the tech and digital hub in Bangalore, positions the bank at the forefront of technological innovation in the banking sector. Assurance of uniform pricing policies for customers, whether through branches or co-lending partners, ensures fairness and consistency.

Business Metrics: The 9.27% annualized growth in gross advances, reaching INR 66,935.98 crores as of September '23, demonstrates the bank's ability to expand its lending portfolio. Total deposits standing at INR 89,532 crores, with a 10% annualized growth, and a business turnover of INR 1,54,954 crores, further underscore the bank's healthy operational metrics.

Focus on Sales Organization: The transition into a sales organization with 250 sales officers and 400 feet-on-street personnel signifies a shift towards a more customer-centric and growth-oriented approach. The emphasis on growth in both CASA and retail assets aligns with the broader strategy of expanding the retail banking segment.

Portfolio Health: The net reduction of over 7 basis points on net NPA, decreased from 1.72% to 1.36%, reflects the bank's success in managing and reducing non-performing assets. Despite an increase in gross advances, the reduction in gross NPA, with slippages at 0.5%, highlights the bank's effective risk management. Maintaining the Provision Coverage Ratio (PCR) at around 83% demonstrates the bank's prudence in setting aside provisions for potential loan losses.

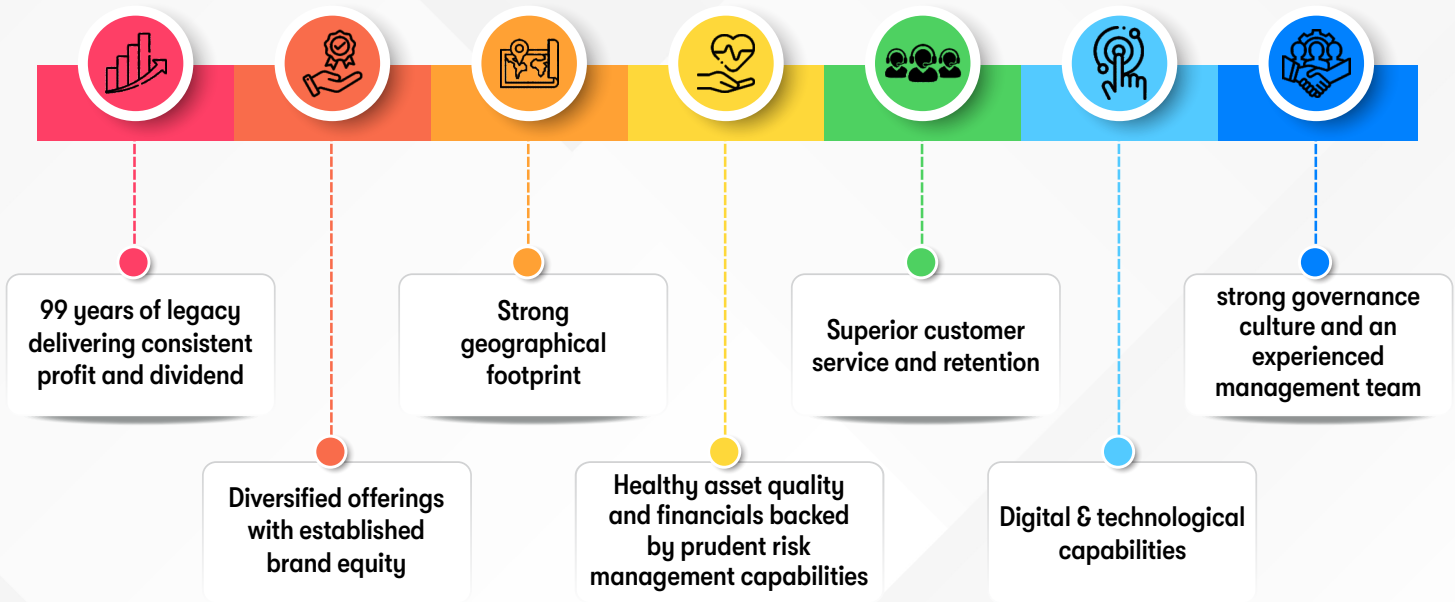
Strategic Initiatives: The continued focus on retail, MSME, and rural businesses for asset growth aligns with market trends and economic priorities. The digital-first approach, including self-onboarding and data-driven analytics for customer acquisition, positions the bank at the forefront of technological innovation. Partnerships with fintech and technology companies, coupled with the launch of Doorstep Gold Banking, showcase the bank's agility in adapting to changing customer preferences and industry trends.

Financial Outlook and Capital Management: The ROE & ROA indicate the bank's ability to generate returns for its shareholders. The focus on reducing the cost-to-income demonstrates the bank's commitment to operational efficiency. The strong focus on the cost of funds and exploration of government business opportunities indicate a strategic approach to optimizing funding sources. Plans for a further capital raise before the financial year-end underscore the bank's proactive capital management strategy.

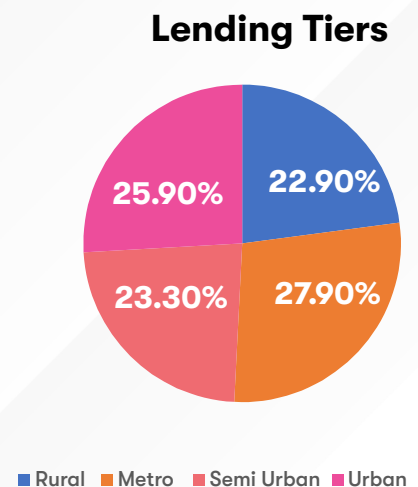
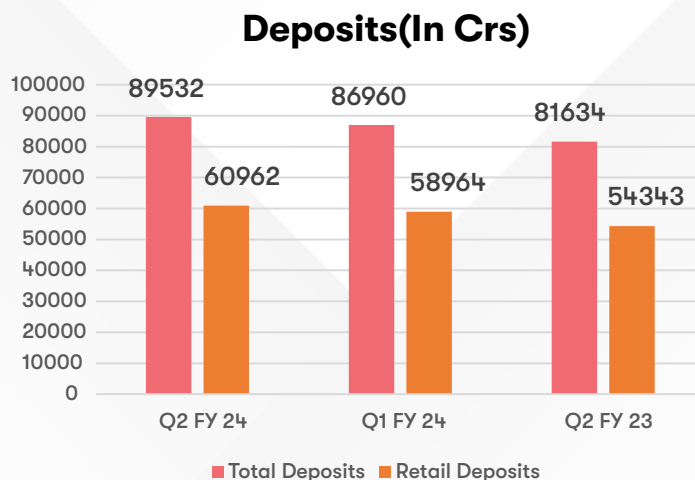
Geographical Presence and National Expansion: With over 50 branches in Karnataka and neighboring states, the bank boasts a substantial regional presence. Confirmation of a national footprint with operations in 22 states and 2 Union Territories positions the bank as a significant player in the Indian banking landscape. While there's no explicit mention of pan-India expansion plans, the national presence is a testament to the bank's outreach.

Future Initiatives: The progress in building operational and technology capacity at 50% completion reflects the bank's commitment to staying technologically competitive. The deployment of the sales organization and training initiatives to enhance productivity aligns with the broader goal of improving customer engagement and business efficiency. The recruitment of a Chief Product Officer and initiatives for process improvement indicate the bank's focus on product innovation and operational excellence.

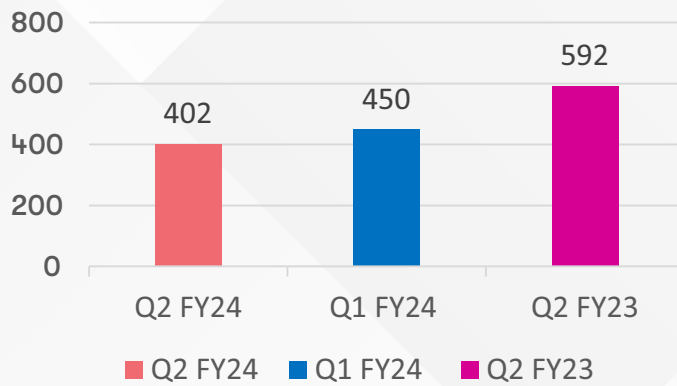
Key Strengths



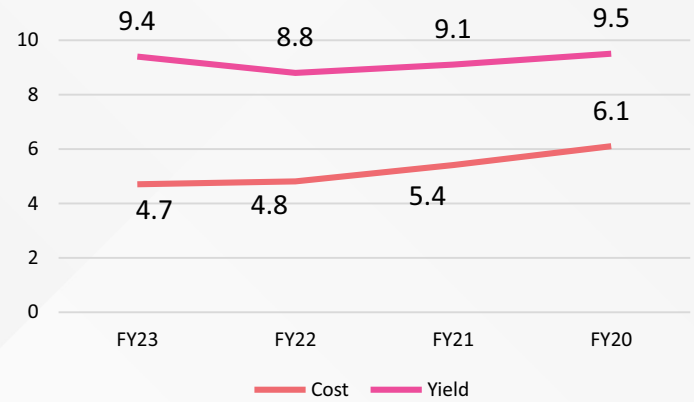
Key Strengths



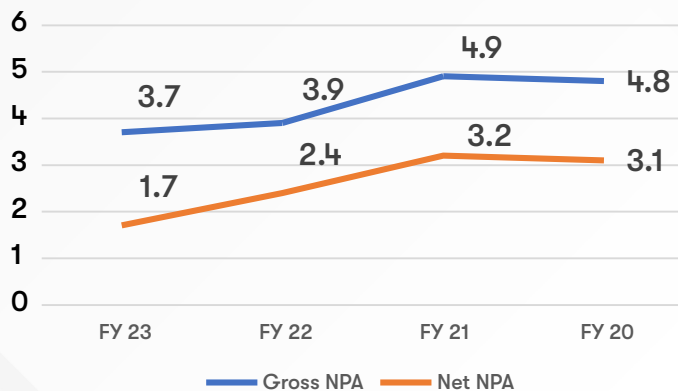
Operating Profit



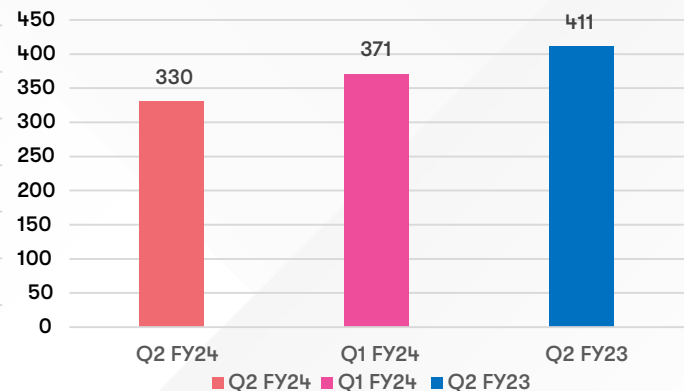
Yield & Cost of Funds



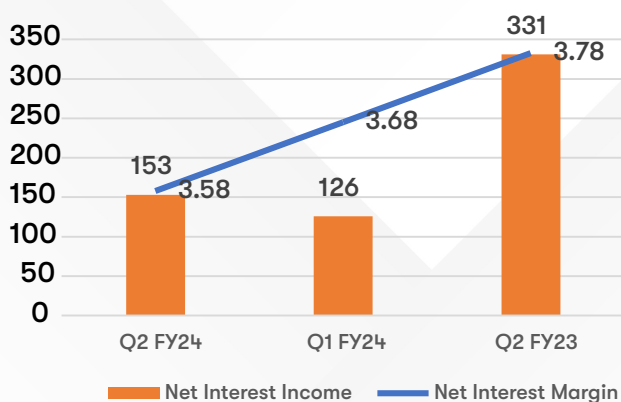
NPA



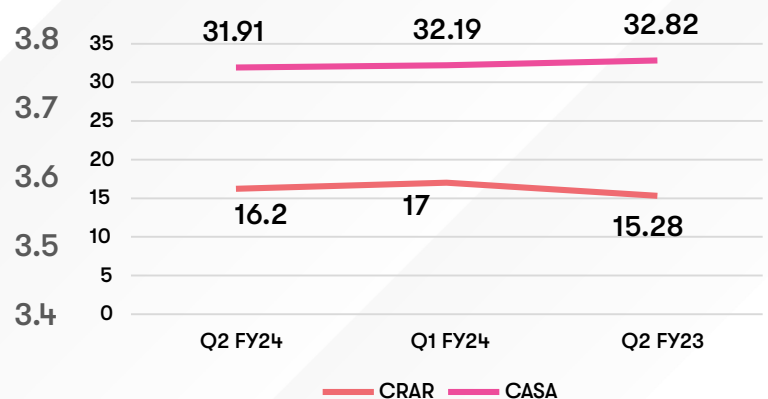
PAT (In Cr)



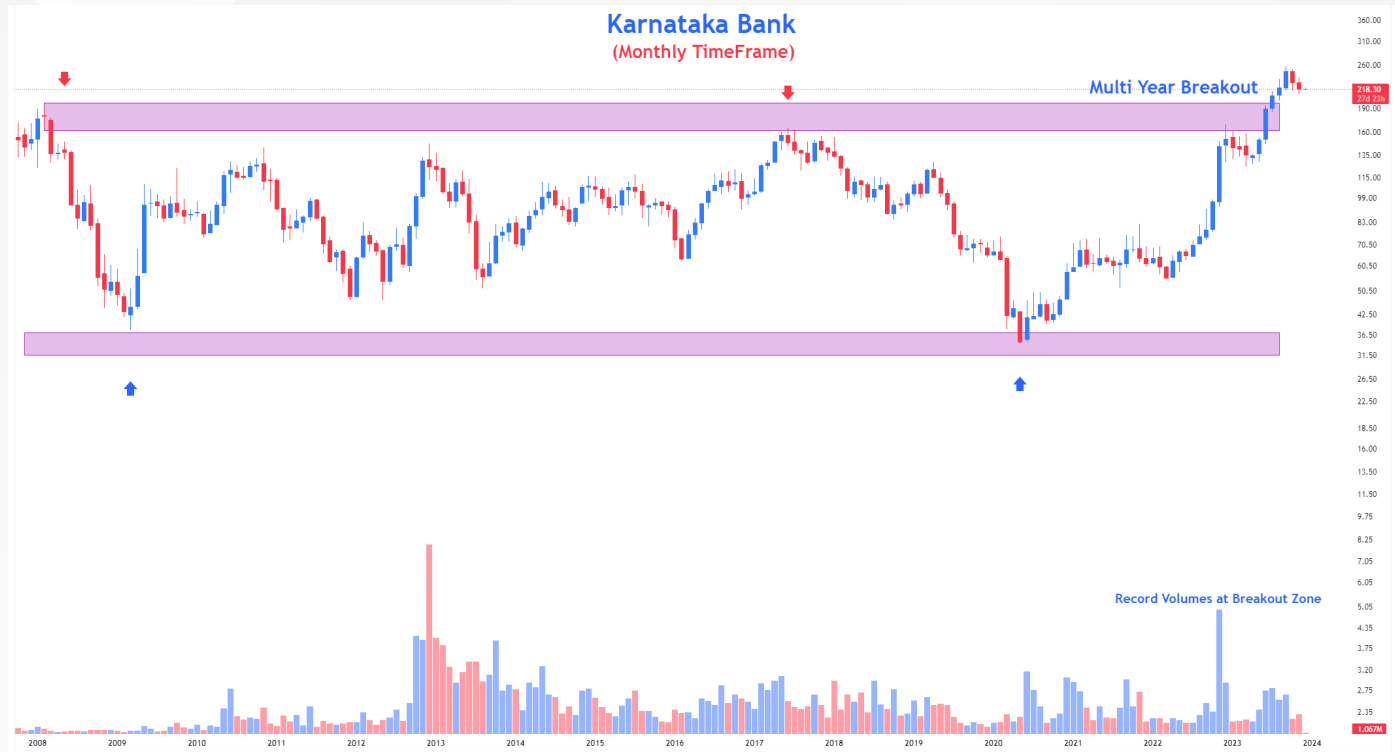
Interest Income & Margin



Capital Ratios



Technical Outlook



Karnataka Bank has recently experienced a significant multi-year breakout, marked by record-breaking trading volumes near the breakout level. This noteworthy development signals a substantial shift in market sentiment and suggests heightened investor interest in the bank's stock.

The breakout, accompanied by robust trading activity, underscores the potential for a sustained upward trend.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	215.62	217.05
10	216.90	217.45
20	217.90	219.76
50	230.86	223.38
100	224.42	215.14
200	184.04	191.42

Pivot Levels : FIBONACCI		
R1 219.95	Pivot 216.13	S1 212.31
R2 222.31		S2 209.95
R3 226.13		S3 206.13

Relative Strength Index (RSI)	Daily	Weekly
	46.14	55.81

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