

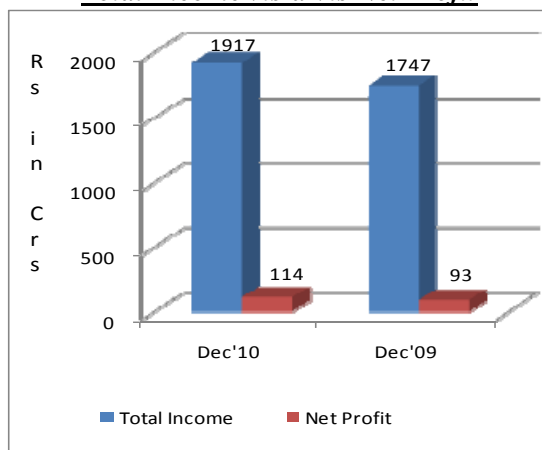


24th March 2011

Sector	: Private Bank	
CMP	: Rs. 100	
1 Yr Term Target Price	: Rs. 150	
SENSEX	: 18206	
SENSEX P/E	: 19.77	
NIFTY	: 5480	
NIFTY P/E	: 20.99	
	KBL	Industry
P/E	7.4	25
Scrip Details		
Market Cap	: Rs.1873 Crs	
Nominal Value	: Rs. 10/Share	
Book Value	: Rs. 136/Share	
Equity Share O/S	: 13.4 Crs	
52 Week H/L	: Rs.192/Rs. 97	
BSE Code	: 532652	
NSE Code	: KTKBANK	
Shareholding Pattern (%)		
	Dec 10	Dec 09
Promoters	-	-
FII's	29.98	28.58
DII's	7.16	6.67
Public & Others	62.86	64.75
TOTAL	100.00	100.00

Investment Triggers:

- Karnataka bank Ltd (KBL), incorporated in 1924, is a Mangalore based premier Private Sector Bank, offering comprehensive range of customized products & services suitable for all kinds of markets.
- KBL has Pan India presence with a network of 470 Branches and 227 ATMs spread across 20 States and 2 Union territories. The Bank is planning to take number of branches to 480 and 300 ATMs by end of FY 2010-11.
- KBL with its consistent performance has achieved the milestone with its Business Turnover crossing Rs 40000 Crs and the bank aims to achieve Business Turnover of Rs 45000 Crs by FY 2010-11.
- KBL raised Rs 536 Crs via Rights Issue of 5.4 Crs Equity Shares at a price of Rs 85/Share. This capital infusion would substantially scale up the operations by enabling the bank to achieve its target through higher disbursement .
- KBL's Net Interest Margin (NIM) significantly improved to 2% for 9M FY2010-11 from 1.12% in 9M FY2009-10 on the back of lower cost of deposits.
- CASA deposits of KBL increased to 24.90% as on 31st December 2010 compared to 21.96% as on 31st December 2009. The management expects CASA ratio to improve further enabling the bank to raise funds at lower rate thereby reduce its cost of Funds.
- KBL posted robust growth of 57% in its operating profit to Rs 264 Crs for 9M FY2010-11 from Rs 168 Crs for 9M FY2009-10. The Net Interest income increased to Rs.420 Crs from Rs.205 Crs showing a growth of 105%.
- KBL posted a growth of 10% in Total Income to Rs 1917 Crs for 9M FY2010-11 as against Rs 1747 Crs for 9M FY2009-10 while Net Profit reported a significant rise of 22% to Rs 114 Crs for 9M FY2010-11 as against Rs 93 Crs for 9M FY2009-10.
- At CMP of Rs 100/Share, KBL is trading at P/E of 7.41x which is lower compared to its Industry peer's average P/E of 25x and its P/B is 0.7x making it an highly undervalued investment. We recommend STRONG BUY on Karnataka Bank for a 1 year target price of Rs 145/Share.

Scrip Performance vis-à-vis Sensex**Total Income vis-à-vis Net Profit****Financial Performance**

Particulars	Rs in Crs						
	Quarter Ended		% Change Q-o-Q	9 months Ended		% Change Year Ended	
	Dec'10	Dec'09		Dec'10	Dec'09	Y-o-Y	Mar'10
Total Income	668	590	13	1917	1747	10	2355
EBIDTA	113	70	62	264	168	57	261
PBT	59	6	968	138	81	71	190
PAT	39	37	5	114	93	22	167
Equity Share Cap.	134.4	121.9	-	134.4	121.9	-	133.99
EPS (Rs/share)	2.9	3.0	(4)	8.5	7.6	11	13.5



Karnataka Bank - An Introduction

KBL is one of the oldest private sector banks in India.

- **KBL**, with over **87 years** experience in providing professional banking services and quality customer service, is leading 'A' Class Scheduled Commercial Bank in India
- Over the years **KBL** grew with the merger of **Sringeri Sharada Bank Ltd., Chitradurga Bank Ltd. and Bank of Karnataka.**
- **KBL** currently operates **466 branches** and **237 ATMs** in India as on **31st December 2011** and plans to **add** another **25 branches** and **81 ATMs** by end of **FY2010-11**, taking the total to **480 branches** by the end financial year.
- **KBL** has forayed into **General Insurance** business as **Joint venture partner in Universal Sompo General Insurance Company Ltd.**
- **KBL** intends to **upgrade its technology-driven offerings tailored to meet its clients' varied demands** and be at par with other leading private and public sector banks in the country. As on date, **all the branches** have been **networked under core banking solution covering 100% business.**
- **KBL** proposes to **introduce** during the current financial year, facilities such as **Online Trading, Travel Card, Gift Card, Smart Card, POS Terminal.**

KBL is one of the strongest bank in Southern India with more than 460 Branches.

KBL is pioneer in implementing "Finacle" (CBS) amongst the old generation Private Sector Banks.

Karnataka Bank - Fund Raising to improve CAR

KBL offers wide variety of corporate and retail banking products and services

- **KBL** as part of its strategy to boost **Capital Adequacy Ratio (CAR)** has raised **Rs 161 Crs** via **Qualified Institutional Placement (QIP)** by issuing **1.21Crs Equity Share** at an issue price of **Rs 132.75/Share**. The **Capital Adequacy Ratio (CAR)** as per **Basel II** as at **December 2010** stood at **11.37%**
- **KBL's** board has **approved fund raising** to the extent of **Rs 536 Crs** via **Rights issue of 5.36 Crs Equity Shares** at a price of **Rs 85/Share**.
- **Capital infusion** would substantially add value to **KBL** to achieve its **credit growth** targets through **higher disbursements**, simultaneously **reducing** its dependence on **high-cost deposits** and leading to an **improvement in the margins.**

Fund raising through Right Issue will enable KBL to scale up its operations coupled with meeting its regulatory norms.



Karnataka Bank - Financial Performance

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	Dec'10	Dec'09	Q-o-Q	Dec'10	Dec '09	Y-o-Y	Mar'10
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Equity Share Cap.	134.4	121.9	-	134.4	121.9	-	133.99
EPS (Rs/share)	2.9	3.0	(4)	8.5	7.6	11	13.5
NPA (%)	1.2	1.8	-	1.2	1.8	-	1.31
Capital Adequacy Ratio(%)	11.4	12.7	-	11.4	12.7	-	12.4

- **KBL reported a growth of 13% in Total Income to Rs 668 Crs in Q3 FY2010-11 from Rs 590 Crs in Q3 FY2009-10 whereas Profit before tax zoomed by 968% to Rs 59 Crs for Q3 FY2010-11 vis-à-vis Rs 6 Crs in Q3 FY2009-10.**
- **KBL's Operating Profit has jumped by 62% for Q3 FY 10-11 to Rs 113 Crs vis-à-vis Rs 70 Crs in Q3 FY 09-10. This rise was primarily due to measures taken by the Bank to cut cost and improve efficiency which is reflected in financial performance of 9M FY 09-10.**
- **KBL has posted a net profit of Rs.114 Crs for the Nine month period ended December, 2010, an increase of 22.33% when compared to Rs 93 Crs for the corresponding previous period.**
- **Net Interest Margin (NIM) of KBL rose to 2% for 9 month period ended December 2010 as against 1.12% for 9M FY2009-10.**
- **Gross NPA fell to 3.83% for 9M FY2010-11 from 4.50% in 9M FY2009-10 whereas Net NPA declined to 1.18% in 9M FY2010-11. Better asset quality on the back of healthy recoveries would boost the profitability of the bank.**
- **KBL's Total Business turnover has reached a milestone by crossing Rs 40000 Crs in Q2 FY 2010-11 and the Bank aims to cross Rs 45000 Crs mark by end of FY 2010-11.**
- **On a Y-o-Y basis, the business turnover of KBL has increased to Rs. 41,706 Crs from Rs. 35,540 Crs registering a growth of 17.35%. Deposits increased to Rs. 25,424 Crs from Rs. 22,307 Crs, recording a growth of 13.97%. Advances increased to Rs. 16,282 Crs from Rs. 13,233 Crs, registering a growth of 23.04% .**

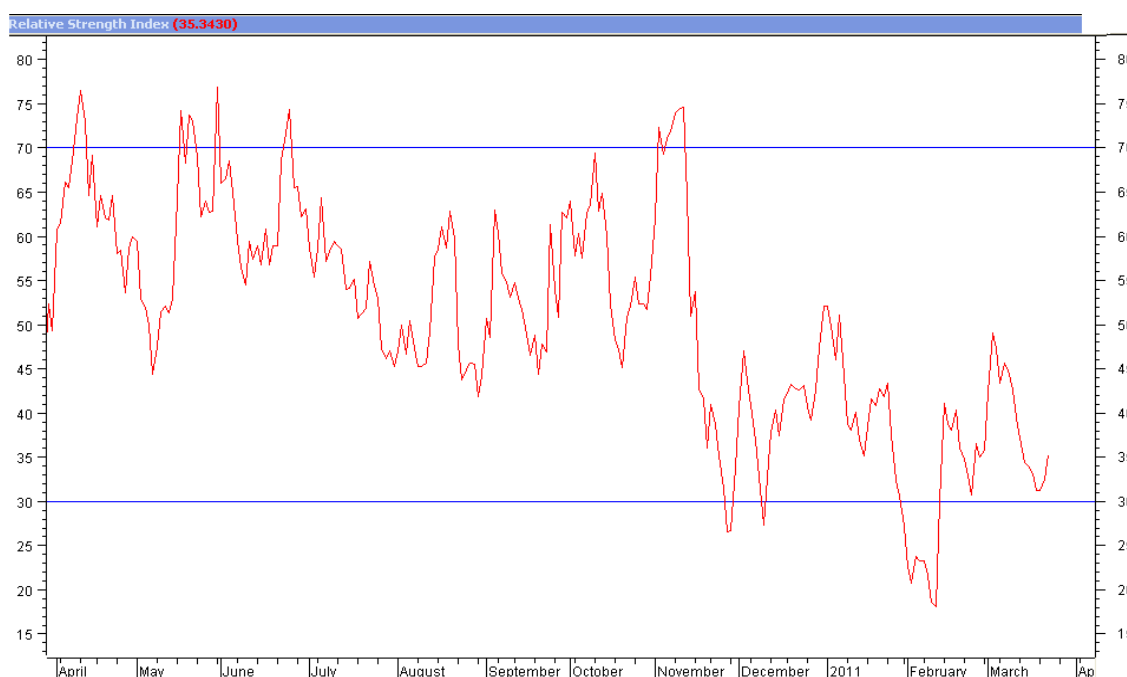
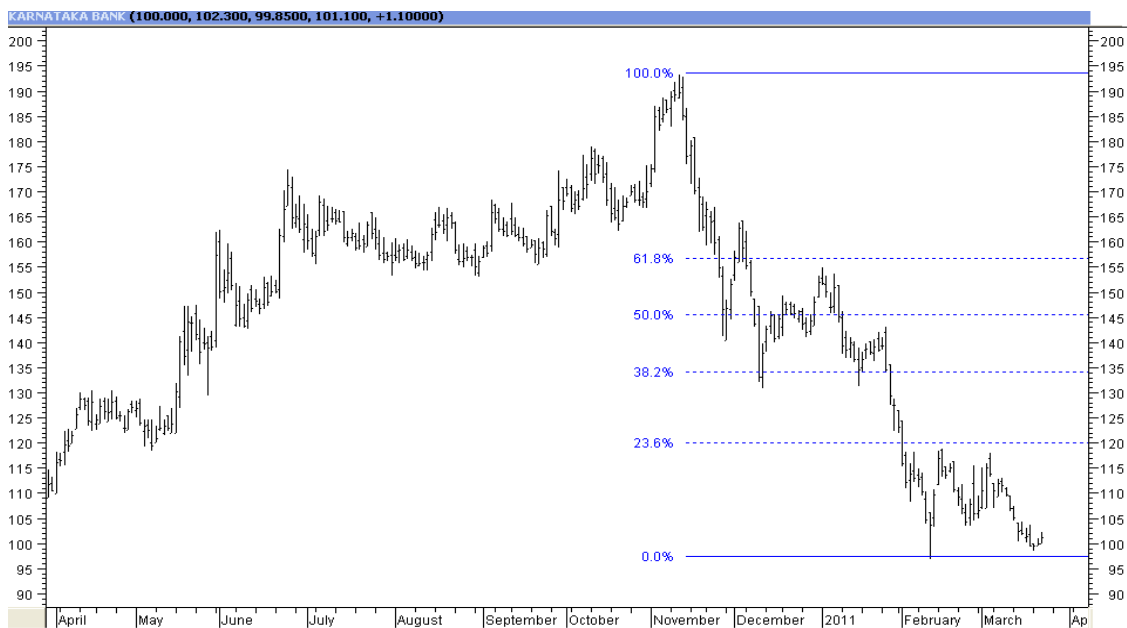
Valuations and Recommendations

PRIVATE SECTOR BANKS	Q3 FY2010-11			9M FY2010-11			Year Ended Mar 2010				Rs.In Crs						
	FV	Total Income	EBIDTA	PAT	Total Income	EBIDTA	PAT	Total Income	EBIDTA	PAT	EPS	Equity	Reserves	CMP as on 23/03/11	Market Capitalisation	P/E	P/BV
Axis Bank	10	4986	1658	891	13969	4595	2368	15583	5241	2514	65.8	410	18212	1312	53805	19.5	2.8
ING Vysya Bank	10	858	159	83	2402	492	227	2622	611	242	21.5	121	2103	299	3616	14.2	1.7
Karur Vysya Bank	10	646	179	113	1787	455	300	2005	463	336	62.2	76	1566	396	4201	8.3	2.4
Lakshmi Vilas bank	10	288	58	26	859	185	74	1013	166	31	5.0	98	642	96	377	19.5	1.3
Yes Bank	10	1288	311	191	3256	842	524	2945	863	478	15.7	347	2750	286	9927	18.1	3.2
IndusInd Bank	10	1111	291	154	3073	784	406	3260	704	360	9.0	465	1755	254	11829	23.1	4.4
Karnataka Bank	10	668	113	39	1917	264	114	2355	261	167	13.5	134	1699	100	1905	7.4	0.8

- **Karnataka Bank (KBL)**, one of the **oldest private sector banks** in **India** with over 86 years of experience, is at the **forefront in providing professional banking services** and **quality customer services**.
- **Peer comparison** illustrates huge valuation gap in **KBL's P/E of 7.4x** vis-à-vis its **Private Bank Peers P/E of 15.8x** thereby we see, **huge upside potential** in **KBL** in times to come from the **current market price of Rs 100/Share**.
- **KBL's current P/BV is 0.7x** against **Sensex's P/BV of 3.36x**, even if we take **P/BV of 1x** on a conservative basis **KBL's price comes to Rs 136** showing return of **36%**. Post right issue book value for **KTB** comes to **Rs 126/Share** at which **P/BV** comes to only **0.8x** which indicates chances of price appreciation by **20% to 25%**.
- **Capital infusion** would substantially add value to **KBL** to achieve its **credit growth** targets through **higher disbursements**, simultaneously **reducing** its dependence on **high-cost deposits** and leading to an **improvement in the margins**.
- We believe **KBL** would continue with its **strong performance** in the **coming quarters** and we expect the bank to post a strong **PAT** in the range of **Rs 180 Crs –Rs 205 Crs** in **FY2010-11**, giving a diluted **EPS** of **Rs 10-11/Share**.
- **Management of KBL** emphasis on **building quality assets**, **enhance customer satisfaction**, **increase income stream** and **improve profits** with the help of **upgraded technology**. The bank has already put in place an **elaborate risk monitoring and asset liability management system**.
- **KBL** has rewarded its **Shareholders with Liberal dividend distribution** in last 5 years.
- At **CMP of Rs 100/share**, **KBL** is trading at a **forward P/E of 10x vis-à-vis Industry P/E of 25x**, **P/BV is 0.7x**. We believe, **KBL** is a **highly undervalued investment opportunity** and a must for all portfolios.
- We **strongly recommend** all the **individuals, HNIs and Institutional Investors** to add **KBL** to their **investment Portfolio** with a **short term price target of Rs. 125/share** and a **one-year price target of Rs. 145/share**.

Karnataka Bank - Technical View:

- **Karnataka Bank** has made a **52 Week high** of **Rs 192/Share** against a **low** of **Rs 97/Share**. The stock's closing price is **Rs 100/Share**.
- The Support Level for the scrip is **Rs 95 - Rs 90- Rs .85**
- On the upside, the targets are **Rs 120 - Rs 133 - Rs .145**
- **Fibonacci retracement** levels suggests that once the scrip crosses **Rs 120** levels, the scrip could **break out** and **test levels** of **Rs 145** on the **upside**.
- There is **strong support level at Rs 85** at which the **bank has offer their right issue**. In the eventuality the **price fall below Rs 85** there would be **great buying opportunity**.





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