

BUY Karur Vysya Bank

Your success is our success

Sustains strong delivery on RoABFSI - Banks ▶ Result Update ▶ **October 17, 2023****TARGET PRICE (Rs) : 185**

KVB continued its upward RoA/RoE drift in 2Q as well, posting a robust 1.6%/17%, despite softening of NIM (4.1% in Q2FY24 vs 4.2% in Q1FY24), mainly led by contained LLP. The bank reported strong credit (gross) growth, at 16% YoY/5% QoQ for Q2FY24, while focus remains on delivering higher profitability as against chasing growth. Asset quality continued to improve, with fall in GNPA ratio by 26bps QoQ to 1.7% and in NNPA to a low 0.5%, as the bank's PCR increased to 73%.

We expect KVB to register its decadal best RoA/RoE, at 1.5%/16% over FY24-26E, led by healthy NIM/fees and contained LLP. We retain BUY on KVB with revised TP of Rs185/share (vs Rs178), rolling forward to 1.2x Sep-25E ABV. KVB remains our preferred pick in the small-cap banking space, given its superior returns/capital ratios and Management credibility.

Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	6,733	11,061	15,028	17,361	20,029
Loan growth (%)	8.5	15.5	15.4	15.7	16.0
NII growth (%)	15.1	23.3	10.7	13.3	14.9
NIM (%)	3.7	4.1	4.0	3.9	3.9
PPOP growth (%)	26.2	51.9	6.8	14.4	19.4
Adj. EPS (Rs)	8.4	13.8	18.7	21.6	25.0
Adj. EPS growth (%)	87.2	63.9	35.8	15.5	15.4
Adj. BV (INR)	83.2	102.7	119.7	138.3	159.3
Adj. BVPS growth (%)	17.2	23.4	16.6	15.5	15.2
RoA (%)	0.9	1.3	1.5	1.5	1.5
RoE (%)	9.3	13.7	16.3	16.3	16.4
P/E (x)	16.4	10.0	7.3	6.4	5.5
P/ABV (x)	1.6	1.3	1.1	1.0	0.9

Source: Company, Emkay Research

Moderate credit growth, while margin slips due to rising CoF

KVB reported a healthy credit (gross) growth of 16% YoY/5% QoQ, primarily led by better CRB and Retail portfolio growth (mainly LAP/mortgage and gold loans). Bank's stance to let go of the low-yield corporate portfolio is still intact, as is evident from its portfolio's moderate & opportunistic growth. However, deposit growth was relatively modest at 13% YoY, leading to higher LDR of 84%. But CASA ratio declined by 63bps to 32.3% — a phenomenon seen across banks due to cannibalization. NIM contracted by 12bps QoQ to 4.1% (due to rising CoF), as guided by Management, although the pace of contraction should ease from hereon.

NPA's continue to trend down

GNPA/NNPA further improved to 1.7%/0.5% (vs 2.0%/0.6% in Q1FY24) owing to low slippages and better recovery trends. The restructured book also contracted, to 1.2% of loans in Q2FY24 vs. 1.4% in Q1FY24. The bank expects gross slippages of ~1% and net slippages to be negative in FY24 as well; this should lead to further improvement in the GNPA ratio. The bank now carries a healthy PCR, at 73% (technical PCR at 94%), while it has guided for LLP below 1% in FY24E vs. 150bps in FY23, which should help the bank deliver a strong RoA despite the pressure on margin.

We retain BUY; KVB remains our most preferred pick in small cap-banking space

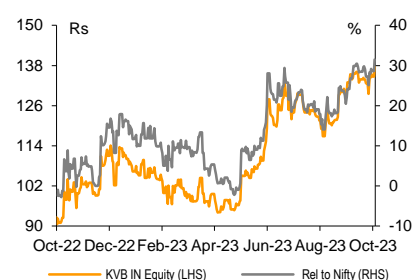
KVB remains our top pick in the small-cap banking space, given its superior return ratios (RoA/RoE of 1.5/16% over FY24-26E), healthy capital ratios and Management's credibility. We retain our BUY rating, with a revised TP of Rs185/share (earlier Rs178/share), rolling forward on 1.2x its Sep-25E ABV. **Key risks:** Slower-than-expected growth, faster decline in CASA leading to cost pressure, and resurgence of NPAs in the retail/SME sector due to macro dislocation.

Target Price – 12M	Sep-24
Change in TP (%)	3.9
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	34.4
CMP (16-Oct-23) (Rs)	137.6

Stock Data	Ticker
52-week High (Rs)	144
52-week Low (Rs)	83
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	110
Market-cap (USD mn)	1,320
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	270.8
ADTV-3M (USD mn)	3.3
Free float (%)	97.0
Nifty-50	19,732
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	2.2
FPIs/MFs (%)	17.9/32.1

Price Performance

(%)	1M	3M	12M
Absolute	3.5	11.0	63.8
Rel. to Nifty	5.9	10.0	42.7

1-Year share price trend (Rs)**Anand Dama**

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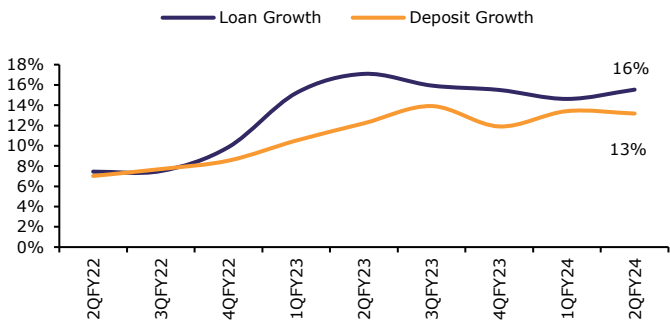
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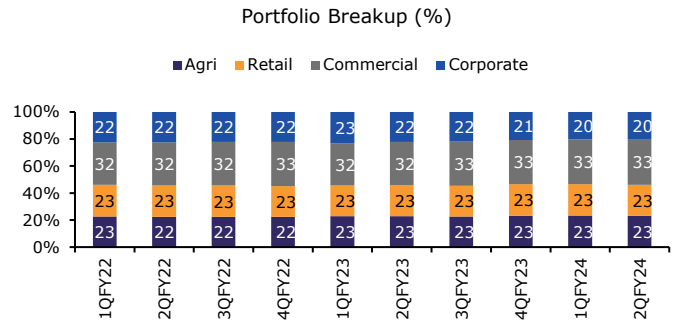
Story in Charts

Exhibit 1: Deposit/Credit growth trajectory continues...



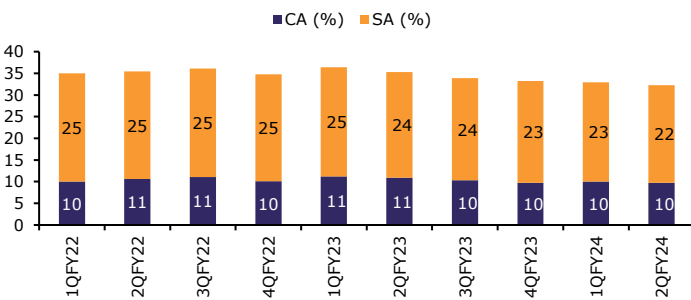
Source: Company, Emkay Research

Exhibit 2: ...with a well-balanced portfolio mix



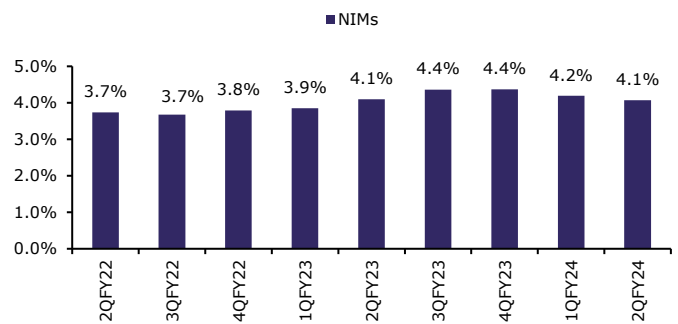
Source: Company, Emkay Research

Exhibit 3: CASA ratio saw a mild dip owing to cannibalization



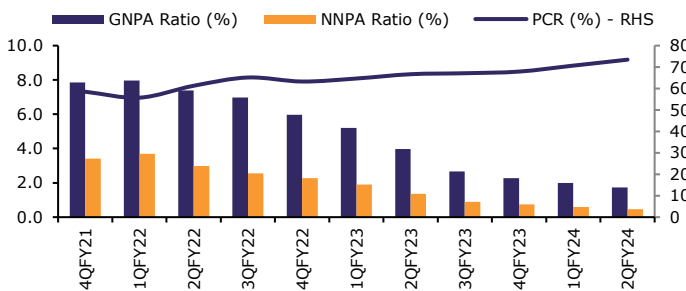
Source: Company, Emkay Research

Exhibit 4: NIM contracts due to rising CoF, but is expected to ease going forward



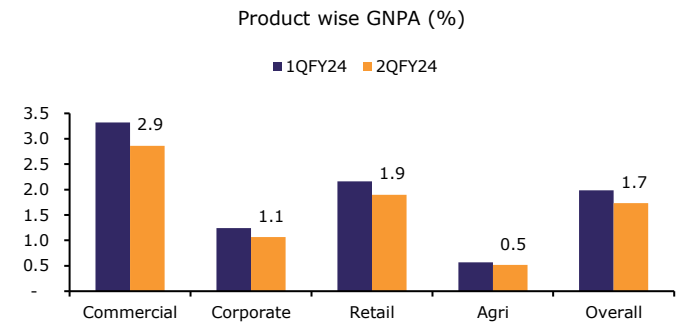
Source: Company, Emkay Research

Exhibit 5: Better recovery trends and moderate slippages led to improved asset quality...



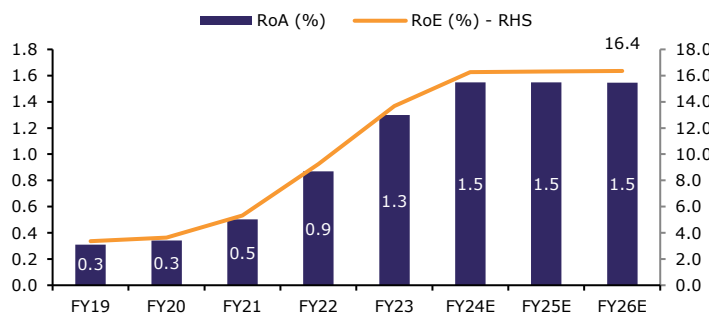
Source: Company, Emkay Research

Exhibit 6: ...and an overall healthy fall in segmental NPAs as well



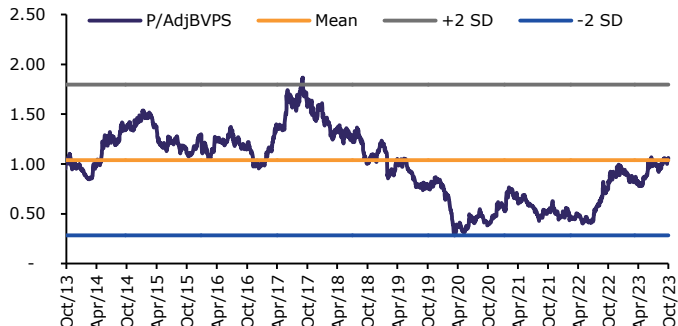
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to showcase steady growth, led by healthy NIM and contained LLP



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.0x its one-year fwd ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	12,543	12,540	11,252	0%	11%	In-line NII and other income
PPOP	6,379	6,384	5,856	0%	9%	In-line PPOP growth
PAT	3,785	3,699	3,269	2%	16%	In-line PPOP and lower LLP led to the beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	15,795	16,952	17,683	18,829	19,971	26.4	6.1	65,166	81,293	25
Interest Exp	7,581	8,062	8,757	9,858	10,817	42.7	9.7	31,677	44,237	40
Net Interest Income	8,214	8,890	8,926	8,971	9,154	11.4	2.0	33,488	37,056	11
Global NIMs (reported)	4.10	4.36	4.37	4.19	4.07	-3bps	-12bps	4.14	4.00	-14bps
Non-interest Income	2,416	3,175	4,008	3,332	3,389	40.3	1.7	11,589	14,250	23
Operating Expenses	4,906	5,175	5,543	5,818	6,164	25.6	5.9	20,320	24,870	22
Pre Provisioning Profit	5,723	6,890	7,391	6,484	6,379	11.5	-1.6	24,758	26,436	7
Provision & Contingencies	2,272	3,641	2,930	1,594	1,264	-44.4	-20.7	10,389	6,354	-39
PBT	3,451	3,249	4,460	4,890	5,115	48.2	4.6	14,369	20,083	40
Income Tax Expense (Gain)	949	356	1,082	1,304	1,331	40.2	2.1	3,308	5,055	53
Net Profit/(Loss)	2,502	2,893	3,378	3,586	3,785	51.2	5.5	11,061	15,028	36
Gross NPA (%)	3.97	2.66	2.27	1.99	1.73	-224bps	-26bps	2.27	1.68	-60bps
Net NPA (%)	1.36	0.89	0.74	0.59	0.47	-89bps	-13bps	0.74	0.51	-23bps
Deposits (Rs bn)	734	762	766	807	831	13.2	2.9	766	874	14
Net Advances (Rs bn)	602	617	631	660	695	15.5	5.4	631	729	15

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	51,203	51,306	0.2%	57,661	58,441	1.4%	66,389	67,649	1.9%
PPOP	26,440	26,436	0.0%	29,529	30,243	2.4%	35,063	36,121	3.0%
PAT	14,943	15,028	0.6%	17,135	17,361	1.3%	19,629	20,029	2.0%
EPS (Rs)	18.6	18.7	0.5%	21.4	21.6	1.2%	24.5	25.0	2.0%
BV (Rs)	123.2	123.2	0.0%	141.7	141.8	0.1%	163.2	163.4	0.1%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	15.5	15.4	15.7	16.0
Deposit Growth (%)	11.9	14.0	14.8	15.4
NIM (%)	4.1	4.0	3.9	3.9
GNPA (%)	2.3	1.7	1.5	1.5
Credit Cost (%)	1.1	0.9	0.9	1.0

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs mn)	5,13,813	5,32,270	5,46,612	5,75,590	6,01,614	6,17,090	6,31,341	6,59,730	6,95,074
Growth YoY (%)	7.4	7.5	8.5	15.2	17.1	15.9	15.5	14.6	15.5
Growth QoQ (%)	2.8	3.6	2.7	5.3	4.5	2.6	2.3	4.5	5.4
Liability Profile & Margins									
Deposits (Rs mn)	6,54,101	6,68,710	6,84,860	7,11,680	7,33,980	7,61,750	7,66,376	8,07,150	8,30,685
Growth YoY (%)	7.0	7.7	8.2	10.5	12.2	13.9	11.9	13.4	13.2
Growth QoQ (%)	1.6	2.2	2.4	3.9	3.1	3.8	0.6	5.3	2.9
CASA (%)	35.4	36.1	34.9	36.4	35.3	33.9	33.2	32.9	32.3
CA (%)	10.7	11.1	10.1	11.2	10.9	10.3	9.7	10.1	9.8
SA (%)	24.8	25.0	24.8	25.2	24.4	23.5	23.5	22.8	22.5
Branches (no. of)	781	781	789	789	792	792	799	808	824
NIM (%)	3.74	3.68	3.82	3.85	4.10	4.36	4.37	4.19	4.07
Asset Quality (%)									
GNPA	7.4	7.0	6.0	5.2	4.0	2.7	2.3	2.0	1.7
NNPA	3.0	2.6	2.3	1.9	1.4	0.9	0.7	0.6	0.5
PCR	61.3	65.1	63.3	64.7	66.7	67.1	67.9	70.7	73.5
Capital Adequacy (%)									
CRAR	18.8	18.8	19.5	19.2	18.3	17.9	18.6	17.7	16.8
Tier I	16.8	16.8	17.5	17.3	16.4	16.0	16.8	16.0	15.2
ROE Decomposition (%)									
NII	3.6	3.6	3.6	3.6	3.9	4.1	4.0	3.9	3.8
Other Income	0.9	1.0	1.0	1.0	1.1	1.4	1.8	1.4	1.4
Opex	2.5	2.5	2.4	2.3	2.3	2.4	2.5	2.5	2.6
PPOP	2.0	2.1	2.2	2.3	2.7	3.1	3.3	2.8	2.6
Provisioning cost	0.9	0.8	0.7	0.8	1.1	1.7	1.3	0.7	0.5
PBT	1.1	1.3	1.5	1.6	1.6	1.5	2.0	2.1	2.1
ROA	0.9	1.0	1.1	1.1	1.2	1.3	1.5	1.6	1.6
ROE	9.3	10.2	11.4	11.9	12.7	14.3	16.1	16.4	16.7

Source: Company, Emkay Research

Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	55,877	65,166	81,293	90,402	1,00,936
Interest Expense	28,723	31,677	44,237	48,426	52,712
Net interest income	27,154	33,488	37,056	41,976	48,224
NII growth (%)	15.1	23.3	10.7	13.3	14.9
Other income	7,691	11,589	14,250	16,466	19,425
Total Income	34,844	45,077	51,306	58,441	67,649
Operating expenses	18,542	20,320	24,870	28,198	31,528
PPOP	16,302	24,758	26,436	30,243	36,121
PPOP growth (%)	26.2	51.9	6.8	14.4	19.4
Core PPOP	16,804	24,466	24,436	27,743	32,621
Provisions & contingencies	6,993	10,389	6,354	7,043	9,355
PBT	9,309	14,369	20,083	23,200	26,766
Extraordinary items	0	0	0	0	0
Tax expense	2,577	3,308	5,055	5,839	6,737
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,733	11,061	15,028	17,361	20,029
PAT growth (%)	87.3	64.3	35.9	15.5	15.4
Adjusted PAT	6,733	11,061	15,028	17,361	20,029
Diluted EPS (Rs)	8.4	0.0	0.0	0.0	0.0
Diluted EPS growth (%)	86.9	(100.0)	0.0	0.0	0.0
DPS (Rs)	1.6	2.0	2.5	3.0	3.4
Dividend payout (%)	19.0	14.5	13.4	13.9	13.6
Effective tax rate (%)	27.7	23.0	25.2	25.2	25.2
Net interest margins (%)	3.7	4.1	4.0	3.9	3.9
Cost-income ratio (%)	53.2	45.1	48.5	48.2	46.6
Shares outstanding (mn)	800.0	802.1	802.7	802.7	802.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	34,310.5	14,581.6	12,369.3	12,556.7	14,409.2
Net NPLs	12,607.9	4,681.5	3,710.8	3,767.0	4,322.8
GNPA ratio (%)	6.0	2.3	1.7	1.5	1.5
NNPA ratio (%)	2.3	0.7	0.5	0.4	0.4
Provision coverage (%)	63.3	67.9	70.0	70.0	70.0
Gross slippages	8,427.3	4,792.4	7,374.3	9,369.0	12,350.1
Gross slippage ratio (%)	1.6	0.8	1.0	1.1	1.3
LLP ratio (%)	1.3	1.1	0.9	0.9	1.0
NNPA to networth (%)	16.2	5.3	3.6	3.2	3.2
Capital adequacy					
Total CAR (%)	19.5	18.6	18.5	18.4	18.2
Tier-1 (%)	17.5	16.8	17.0	17.0	17.0
CET-1 (%)	17.5	16.9	17.1	17.1	17.1
RWA-to-Total Assets (%)	52.0	54.4	54.0	54.0	54.0
Miscellaneous					
Total income growth (%)	(0.5)	20.7	24.5	11.9	12.6
Opex growth (%)	(6.7)	9.6	22.4	13.4	11.8
Core PPOP growth (%)	56.4	45.6	(0.1)	13.5	17.6
PPOP margin (%)	25.6	32.3	27.7	28.3	30.0
PAT/PPOP (%)	41.3	44.7	56.8	57.4	55.5
LLP-to-Core PPOP (%)	43.1	27.9	24.8	26.1	29.0
Yield on advances (%)	8.9	9.2	10.0	9.6	9.3
Cost of funds (%)	4.2	4.3	5.3	5.1	4.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,600	1,604	1,605	1,605	1,605
Reserves & surplus	74,362	84,236	97,258	1,12,210	1,29,511
Net worth	75,962	85,841	98,863	1,13,816	1,31,116
Deposits	6,84,860	7,66,376	8,73,727	10,02,807	11,56,852
Borrowings	13,391	14,320	16,683	19,636	23,327
Interest bearing liab.	6,98,250	7,80,696	8,90,409	10,22,443	11,80,179
Other liabilities & prov.	26,500	35,258	50,682	65,260	76,951
Total liabilities & equity	8,00,712	9,01,794	10,39,955	12,01,519	13,88,246
Net advances	5,46,612	6,31,341	7,28,769	8,42,939	9,77,919
Investments	1,72,161	1,88,083	2,13,149	2,43,697	2,75,150
Cash, other balances	49,262	46,951	53,425	61,347	70,811
Interest earning assets	7,68,034	8,66,376	9,95,343	11,47,983	13,23,880
Fixed assets	4,785	4,350	6,992	7,804	8,711
Other assets	27,894	31,068	37,620	45,732	55,655
Total assets	8,00,713	9,01,794	10,39,955	12,01,519	13,88,246
BVPS (Rs)	95.0	107.0	123.2	141.8	163.4
Adj. BVPS (INR)	83.2	102.7	119.7	138.3	159.3
Gross advances	5,68,315	6,41,241	7,37,428	8,51,729	9,88,006
Credit to deposit (%)	79.8	82.4	83.4	84.1	84.5
CASA ratio (%)	34.9	33.2	32.0	33.1	35.0
Cost of deposits (%)	4.2	4.2	5.2	5.0	4.8
Loans-to-Assets (%)	68.3	70.0	70.1	70.2	70.4
Net advances growth (%)	8.5	15.5	15.4	15.7	16.0
Deposit growth (%)	8.2	11.9	14.0	14.8	15.4
Book value growth (%)	9.0	12.7	15.1	15.1	15.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	16.4	10.0	7.3	6.4	5.5
P/B (x)	1.7	1.3	1.1	1.0	0.9
P/ABV (x)	1.6	1.3	1.1	1.0	0.9
P/PPOP (x)	6.7	4.4	4.1	3.6	3.0
Dividend yield (%)	1.2	1.5	1.8	2.2	2.5
DuPont-RoE split (%)					
NII/avg assets	3.5	3.9	3.8	3.7	3.7
Other income	1.0	1.4	1.5	1.5	1.5
Fee income	0.8	0.9	0.9	0.9	0.9
Opex	2.4	2.4	2.6	2.5	2.4
PPOP	2.1	2.9	2.7	2.7	2.8
Core PPOP	2.2	2.9	2.5	2.5	2.5
Provisions	0.9	1.2	0.7	0.6	0.7
Tax expense	0.3	0.4	0.5	0.5	0.5
RoA (%)	0.9	1.3	1.5	1.5	1.5
Leverage ratio (x)	10.6	10.5	10.5	10.5	10.6
RoE (%)	9.3	13.7	16.3	16.3	16.4

Quarterly data

Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	8,214	8,890	8,926	8,971	9,154
NIM (%)	4.1	4.4	4.4	4.2	4.1
PPOP	5,723	6,890	7,391	6,484	6,379
PAT	2,502	2,893	3,378	3,586	3,785
EPS (Rs)	3.13	3.62	4.21	4.48	4.73

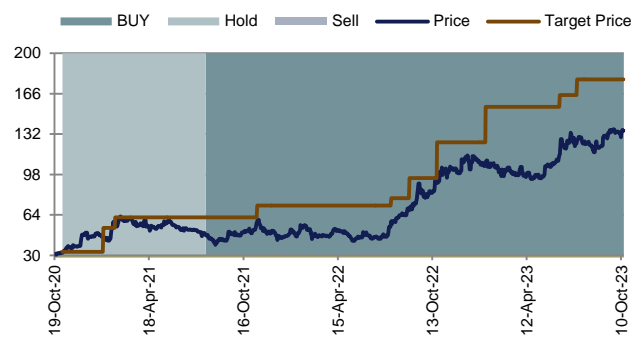
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
17-Jul-23	127	178	Buy	Anand Dama
14-Jun-23	115	165	Buy	Anand Dama
16-May-23	98	155	Buy	Anand Dama
09-Mar-23	104	155	Buy	Anand Dama
23-Jan-23	109	155	Buy	Anand Dama
22-Oct-22	91	125	Buy	Anand Dama
03-Oct-22	79	95	Buy	Anand Dama
30-Aug-22	69	95	Buy	Anand Dama
26-Jul-22	59	78	Buy	Anand Dama
22-May-22	45	72	Buy	Anand Dama
01-Feb-22	51	72	Buy	Anand Dama
11-Nov-21	58	72	Buy	Anand Dama
05-Aug-21	47	62	Buy	Anand Dama
01-Jun-21	56	62	Hold	Anand Dama
12-Feb-21	55	62	Hold	Anand Dama
20-Jan-21	46	53	Hold	Anand Dama
03-Nov-20	32	33	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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