

Sustained higher RoA delivery to drive further re-rating

BFSI - Banks ▶ Result Update ▶ May 14, 2024

TARGET PRICE (Rs): 250

KVB continued with its superlative performance in 4Q, led by healthy credit growth (17% YoY), better core margins @4.2% (+6bps QoQ adjusted for one-off recovery in 3Q), and NNPA ratio being one of the lowest among peers at 0.4%. This, coupled with higher other income and partly offset by higher staff cost/provisions led to a strong 26% PAT beat at Rs4.6bn/1.8% RoA. Management reiterated its focus on profitability (~1.6% RoA) vs growth. Bank has scaled up its co-lending business with 5% FLDG, to cover any potential risk, whereas its BNPL sourcing with Amazon is trending well and should thus support risk-adjusted margins in the long run. Bank has also created floating provisions of Rs1bn/13bps of loans to withstand any unforeseen initial asset quality impact. Factoring in the better margins/fees and the contained LLP, we expect KVB to continue delivering superior RoA/RoE at 1.5-1.7%/16-17% over FY25-27E and thus calling for further re-rating. We retain BUY on KVB, hoisting up TP to Rs250/sh, at 1.5x FY26E ABV (earlier 1.2x Dec-25E ABV).

Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	11,061	16,048	18,812	21,130	23,641
Loan growth (%)	15.5	16.7	14.1	15.0	16.0
NII growth (%)	23.3	13.7	12.5	13.5	15.2
NIM (%)	4.1	4.1	4.0	3.9	3.9
PPOP growth (%)	51.9	14.3	11.2	13.8	16.0
Adj. EPS (Rs)	13.8	20.0	23.4	26.3	29.4
Adj. EPS growth (%)	63.9	44.7	17.2	12.3	11.9
Adj. BV (INR)	102.7	122.0	142.3	164.6	189.5
Adj. BVPS growth (%)	23.4	18.9	16.6	15.7	15.1
RoA (%)	1.3	1.6	1.7	1.6	1.6
RoE (%)	13.7	17.2	17.3	16.8	16.2
P/E (x)	13.6	9.4	8.0	7.1	6.4
P/ABV (x)	1.8	1.5	1.3	1.1	1.0

Source: Company, Emkay Research

Healthy credit growth, stable core margins; bank expanding its branch/sales channel

KVB reported healthy gross credit growth of 17% YoY/3% QoQ led by the CRB, Agri, and Retail portfolios (mainly LAP/mortgage and gold loans). The bank continued to let go of the low-yielding corporate portfolio, while focusing on expanding its retail portfolio. Apart from organic growth, Bank has also scaled up its co-lending business with 5% FLDG, to cover the potential risk. Bank has been sourcing BNPL from Amazon which it believes should support its risk-adjusted margins. During 4Q, Bank reported 13bps QoQ contraction in NIM at 4.19%. However, adjusted for the 19bps benefit in 3Q due to a one-off recovery, Bank has in fact reported a 6bps QoQ expansion in core NIM. Going forward, the bank has conservatively guided to loan growth of >14% in FY25E and margins of ~4% in 1H. Separately, the bank plans to add around 100 branches, of which 20 would be high street, asset-liability focused, and the balance liability focused light branches. Bank is also ramping up its sales channel, including VRM, to boost customer acquisition and engagement.

NNPA ratio being one of the lowest among peers

GNPA/NNPA ratio improved to 1.4%/0.4% (vs. 1.6%/0.4% in Q3FY24) owing to contained slippages and better recovery trends. The restructured book further contracted to 1% of loans in Q4FY24 vs. 1.1% in Q3FY24, and the bank carries nearly 42% provision on the book. The bank expects slippages to be contained in FY25 as well, based on current assessment of its portfolio it has created Rs1bn (including Rs0.25bn in 4Q) of floating provision to be able to withstand any initial asset quality shock. Bank guides that it will not be impacted much by the new IRACP draft norms.

We retain BUY with hoisted up TP of Rs250/share

Factoring in the better margins/fees and contained LLP, we expect KVB to continue delivering superior RoA/RoE at 1.5-1.7%/16-17% over FY25-27E and thus calling for further re-rating. We retain BUY on KVB, pushing up our TP to Rs250/share, at 1.5x FY26E ABV (earlier 1.2x Dec-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	Mar-25
Change in TP (%)	25.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.5
CMP (13-May-24) (Rs)	187.2

Stock Data	Ticker
52-week High (Rs)	209
52-week Low (Rs)	96
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	150
Market-cap (USD mn)	1,791
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	497.3
ADTV-3M (USD mn)	6.0
Free float (%)	97.0
Nifty-50	22,104
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	2.2
FPIs/MFs (%)	15.4/36.2

Price Performance

(%)	1M	3M	12M
Absolute	(2.4)	5.4	94.5
Rel. to Nifty	(0.6)	3.7	61.2

1-Year share price trend (Rs)



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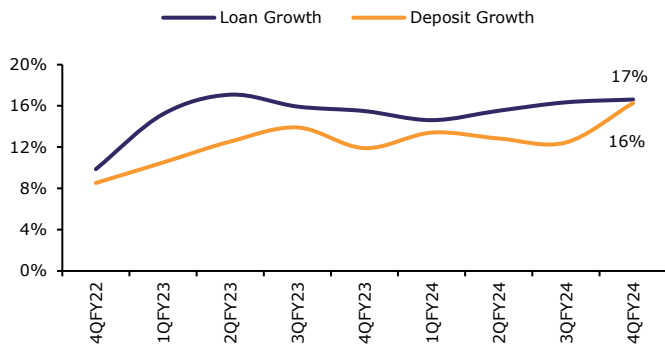
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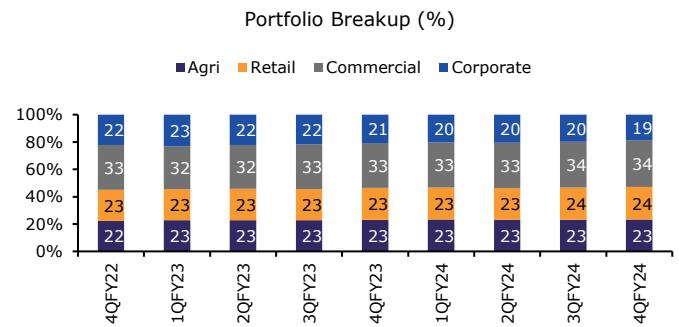
Story in Charts

Exhibit 1: Credit growth continues to trend well, led by RAM



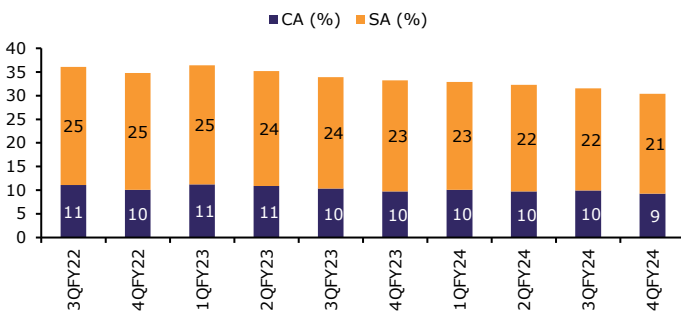
Source: Company, Emkay Research

Exhibit 2: Bank continues to prune its low-yielding corporate exposure



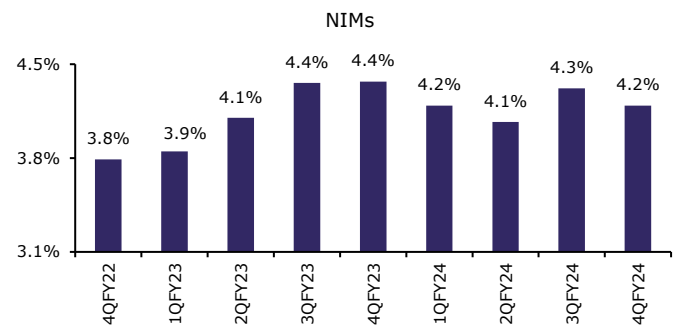
Source: Company, Emkay Research

Exhibit 3: CASA ratio continues to slide down, as seen across banks; thus the bank plans to accelerate the branch/sales channel



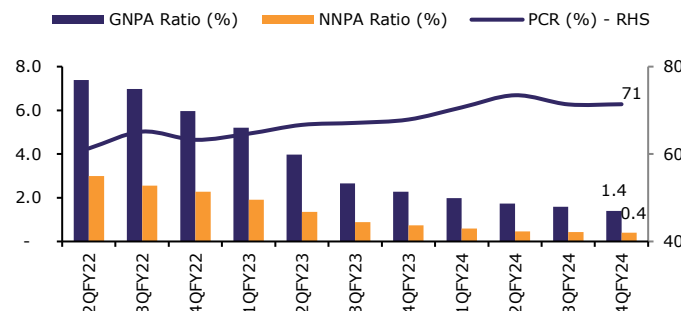
Source: Company, Emkay Research

Exhibit 4: Reported NIM dips due to absence of NPA recovery, but core margins expanded by 6bps QoQ to 4.2%



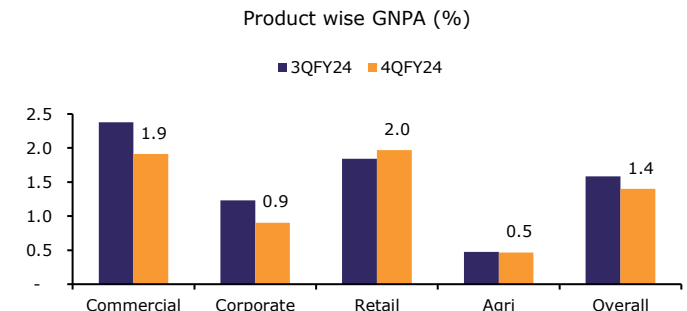
Source: Company, Emkay Research

Exhibit 5: NPAs continued to trend down due to lower slippages...



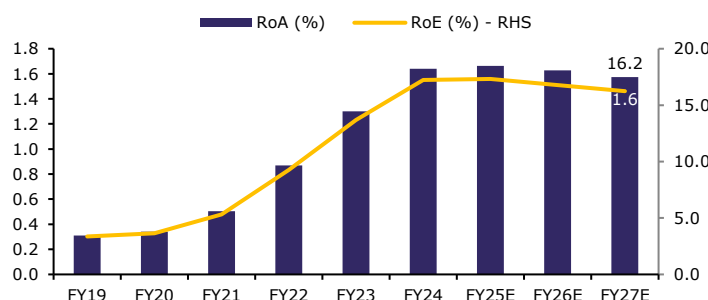
Source: Company, Emkay Research

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



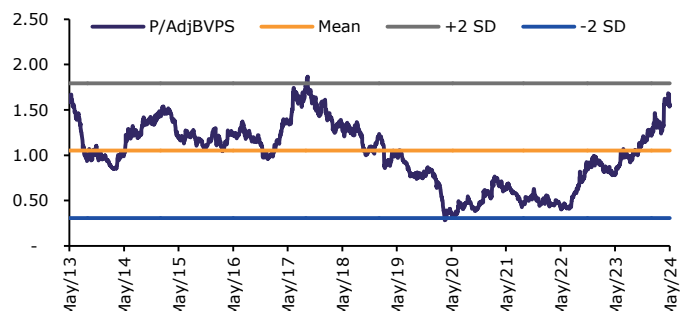
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to remain healthy led by better growth/NIMs and lower LLP



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.3x its one-year fwd. ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q4FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	16,243	13,346	13,125	22%	24%	Higher NII led to higher net income
PPOP	8,669	6,903	5,856	26%	48%	Higher other income led to a PPOP beat
PAT	4,561	3,617	3,269	26%	40%	PPOP beat partly offset by higher LLP to a PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23A	FY24A	YoY (%)
Interest Earned	17,683	18,829	19,971	21,394	21,846	23.5	2.1	65,166	82,039	26
Interest Exp.	8,757	9,858	10,817	11,381	11,891	35.8	4.5	31,677	43,947	39
Net Interest Income	8,926	8,971	9,154	10,013	9,955	11.5	-0.6	33,488	38,092	14
Global NIMs (reported)	4.37	4.19	4.07	4.32	4.19	-18bps	-13bps	4.14	4.06	-8bps
Non-interest Income	4,008	3,332	3,389	3,578	6,289	56.9	75.8	11,589	16,587	43
Operating Expenses	5,543	5,818	6,164	6,832	7,574	36.6	10.9	20,320	26,388	30
Pre Provisioning Profit	7,391	6,484	6,379	6,759	8,669	17.3	28.3	24,758	28,291	14
Provision & Contingencies	2,930	1,594	1,264	1,497	2,934	0.1	96.0	10,389	7,290	-30
PBT	4,460	4,890	5,115	5,262	5,735	28.6	9.0	14,369	21,002	46
Income Tax Expense (Gain)	1,082	1,304	1,331	1,146	1,174	8.5	2.5	3,308	4,954	50
Net Profit/(Loss)	3,378	3,586	3,785	4,116	4,561	35.0	10.8	11,061	16,048	45
Gross NPA (%)	2.27	1.99	1.73	1.58	1.40	-87bps	-18bps	2.27	1.40	-87bps
Net NPA (%)	0.74	0.59	0.47	0.43	0.40	-34bps	-2bps	0.74	0.40	-34bps
Deposits (Rs bn)	766	807	831	857	891	16.3	4.0	766	891	16
Net Advances (Rs bn)	631	660	695	718	737	16.7	2.6	631	737	17

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E March (Rs mn)	FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change
Net income	58,441	60,235	3.1%	66,389	67,724	2.0%
PPOP	30,243	31,457	4.0%	35,063	35,809	2.1%
PAT	17,361	18,812	8.4%	19,629	21,130	7.6%
EPS (Rs)	21.4	23.4	9.3%	24.5	26.3	7.2%
BV (Rs)	141.7	145.2	2.5%	163.2	168.1	3.0%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY24A	FY25E	FY26E	FY27E
Loan Growth (%)	16.7	14.1	15.0	16.0
Deposit Growth (%)	16.3	14.9	15.8	16.7
NIM (%)	4.1	4.0	3.9	3.9
GNPA (%)	1.4	1.2	1.3	1.4
Credit Cost (%)	0.7	0.8	0.9	1.0

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Loans (Rs mn)	546,612	575,590	601,614	617,090	631,341	659,730	695,074	717,980	736,675
Growth % (YoY)	8.5	15.2	17.1	15.9	15.5	14.6	15.5	16.3	16.7
Growth % (QoQ)	2.7	5.3	4.5	2.6	2.3	4.5	5.4	3.3	2.6
Liability Profile & Margins (%)									
Deposits (Rs mn)	684,860	711,680	736,140	761,750	766,376	807,150	830,685	856,650	891,127
Growth (YoY)	8.2	10.5	12.5	13.9	11.9	13.4	12.8	12.5	16.3
Growth (QoQ)	2.4	3.9	3.4	3.5	0.6	5.3	2.9	3.1	4.0
CASA	34.9	36.4	35.2	33.9	33.2	32.9	32.3	31.5	30.4
CA	10.1	11.2	10.9	10.3	9.7	10.1	9.8	9.9	9.3
SA	24.8	25.2	24.3	23.5	23.5	22.8	22.5	21.6	21.1
Branches (no.)	789	789	792	792	799	808	824	831	838
NIM	3.82	3.85	4.10	4.36	4.37	4.19	4.07	4.32	4.19
Asset Quality (%)									
GNPA	6.0	5.2	4.0	2.7	2.3	2.0	1.7	1.6	1.4
NNPA	2.3	1.9	1.4	0.9	0.7	0.6	0.5	0.4	0.4
PCR	63.3	64.7	66.7	67.1	67.9	70.7	73.5	71.4	71.4
Capital Adequacy (%)									
CRAR (%)	19.5	19.2	18.3	17.9	18.6	17.7	16.8	15.4	16.7
Tier I (%)	17.5	17.3	16.4	16.0	16.8	16.0	15.2	13.9	15.5
ROE Decomposition (%)									
NII	3.6	3.6	3.9	4.1	4.0	3.9	3.8	4.0	3.8
Other Income	1.0	1.0	1.1	1.4	1.8	1.4	1.4	1.4	2.4
Opex	2.4	2.3	2.3	2.4	2.5	2.5	2.6	2.7	2.9
PPOP	2.2	2.3	2.7	3.1	3.3	2.8	2.6	2.7	3.3
Provisioning Cost	0.7	0.8	1.1	1.7	1.3	0.7	0.5	0.6	1.1
PBT	1.5	1.6	1.6	1.5	2.0	2.1	2.1	2.1	2.2
ROA	1.1	1.1	1.2	1.3	1.5	1.6	1.6	1.6	1.8
ROE	11.4	11.9	12.7	14.3	16.1	16.4	16.7	17.6	18.6

Source: Company, Emkay Research

Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	65,166	82,039	94,415	106,803	120,644
Interest Expense	31,677	43,947	51,578	58,183	64,656
Net interest income	33,488	38,092	42,837	48,620	55,988
NII growth (%)	23.3	13.7	12.5	13.5	15.2
Other income	11,589	16,587	17,398	19,105	20,868
Total Income	45,077	54,679	60,235	67,724	76,856
Operating expenses	20,320	26,388	28,778	31,915	35,330
PPOP	24,758	28,291	31,457	35,809	41,525
PPOP growth (%)	51.9	14.3	11.2	13.8	16.0
Core PPOP	24,466	26,291	28,857	32,689	38,093
Provisions & contingencies	10,389	7,290	6,308	7,572	9,932
PBT	14,369	21,002	25,150	28,237	31,593
Extraordinary items	0	0	0	0	0
Tax expense	3,308	4,954	6,338	7,107	7,952
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	11,061	16,048	18,812	21,130	23,641
PAT growth (%)	64.3	45.1	17.2	12.3	11.9
Adjusted PAT	11,061	16,048	18,812	21,130	23,641
Diluted EPS (Rs)	0.0	0.0	0.0	0.0	0.0
Diluted EPS growth (%)	(100.0)	0.0	0.0	0.0	0.0
DPS (Rs)	2.0	2.4	3.0	3.4	3.8
Dividend payout (%)	14.5	12.0	12.8	12.9	12.9
Effective tax rate (%)	23.0	23.6	25.2	25.2	25.2
Net interest margins (%)	4.1	4.1	4.0	3.9	3.9
Cost-income ratio (%)	45.1	48.3	47.8	47.1	46.0
Shares outstanding (mn)	802.1	804.4	804.4	804.4	804.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	14,581.6	10,421.6	10,591.3	12,737.4	15,453.3
Net NPLs	4,681.5	2,981.2	3,071.5	3,693.9	4,481.5
GNPA ratio (%)	2.3	1.4	1.2	1.3	1.4
NNPA ratio (%)	0.7	0.4	0.4	0.4	0.4
Provision coverage (%)	67.9	71.4	71.0	71.0	71.0
Gross slippages	4,792.4	7,030.0	8,482.9	10,730.9	13,579.4
Gross slippage ratio (%)	0.8	1.1	1.0	1.1	1.2
LLP ratio (%)	1.1	0.7	0.8	0.9	1.0
NNPA to networth (%)	5.3	2.9	2.6	2.6	2.8
Capital adequacy					
Total CAR (%)	18.6	18.4	18.7	18.7	18.5
Tier-1 (%)	16.8	16.9	17.4	17.6	17.5
CET-1 (%)	16.9	16.9	17.5	17.6	17.5
RWA-to-Total Assets (%)	54.4	54.4	54.0	54.0	54.0
Miscellaneous					
Total income growth (%)	20.7	28.5	13.4	12.6	12.4
Opex growth (%)	9.6	29.9	9.1	10.9	10.7
Core PPOP growth (%)	45.6	7.5	9.8	13.3	16.5
PPOP margin (%)	32.3	28.7	28.1	28.4	29.3
PAT/PPOP (%)	44.7	56.7	59.8	59.0	56.9
LLP-to-Core PPOP (%)	27.9	18.4	21.2	23.8	26.6
Yield on advances (%)	9.2	10.1	10.0	9.9	9.7
Cost of funds (%)	4.3	5.2	5.2	5.1	4.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,604	1,609	1,609	1,609	1,609
Reserves & surplus	84,236	98,792	115,191	133,586	154,170
Net worth	85,841	100,401	116,800	135,194	155,779
Deposits	766,376	891,127	1,024,040	1,186,069	1,383,842
Borrowings	14,320	24,784	28,766	33,545	39,281
Interest bearing liab.	780,696	915,911	1,052,807	1,219,615	1,423,122
Other liabilities & prov.	35,258	39,541	36,585	34,186	36,667
Total liabilities & equity	901,794	1,055,852	1,206,191	1,388,995	1,615,569
Net advances	631,341	736,675	840,772	966,491	1,120,649
Investments	188,083	223,435	252,388	289,426	336,891
Cash, other balances	46,951	56,586	63,168	73,177	85,387
Interest earning assets	866,376	1,016,696	1,156,328	1,329,095	1,542,927
Fixed assets	4,350	4,329	7,804	8,711	9,725
Other assets	31,068	34,828	42,059	51,190	62,917
Total assets	901,794	1,055,852	1,206,191	1,388,995	1,615,569
BVPS (Rs)	107.0	124.8	145.2	168.1	193.7
Adj. BVPS (INR)	102.7	122.0	142.3	164.6	189.5
Gross advances	641,241	744,115	848,291	975,535	1,131,621
Credit to deposit (%)	82.4	82.7	82.1	81.5	81.0
CASA ratio (%)	33.2	30.4	29.1	28.4	28.8
Cost of deposits (%)	4.2	5.0	5.2	5.1	4.8
Loans-to-Assets (%)	70.0	69.8	69.7	69.6	69.4
Net advances growth (%)	15.5	16.7	14.1	15.0	16.0
Deposit growth (%)	11.9	16.3	14.9	15.8	16.7
Book value growth (%)	12.7	16.6	16.3	15.7	15.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	13.6	9.4	8.0	7.1	6.4
P/B (x)	1.8	1.5	1.3	1.1	1.0
P/ABV (x)	1.8	1.5	1.3	1.1	1.0
P/PPOP (x)	6.1	5.3	4.8	4.2	3.6
Dividend yield (%)	1.1	1.3	1.6	1.8	2.0
DuPont-RoE split (%)					
NII/avg assets	3.9	3.9	3.8	3.7	3.7
Other income	1.4	1.7	1.5	1.5	1.4
Fee income	0.9	0.9	0.9	0.9	1.0
Opex	2.4	2.7	2.5	2.5	2.4
PPOP	2.9	2.9	2.8	2.8	2.8
Core PPOP	2.9	2.7	2.6	2.5	2.5
Provisions	1.2	0.7	0.6	0.6	0.7
Tax expense	0.4	0.5	0.6	0.5	0.5
RoA (%)	1.3	1.6	1.7	1.6	1.6
Leverage ratio (x)	10.5	10.5	10.4	10.3	10.3
RoE (%)	13.7	17.2	17.3	16.8	16.2
Quarterly data					
Rs mn, Y/E Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	8,926	8,971	9,154	10,013	9,955
NIM(%)	4.4	4.2	4.1	4.3	4.2
PPOP	7,391	6,484	6,379	6,759	8,669
PAT	3,378	3,586	3,785	4,116	4,561
EPS (Rs)	4.21	4.48	4.73	5.15	5.70

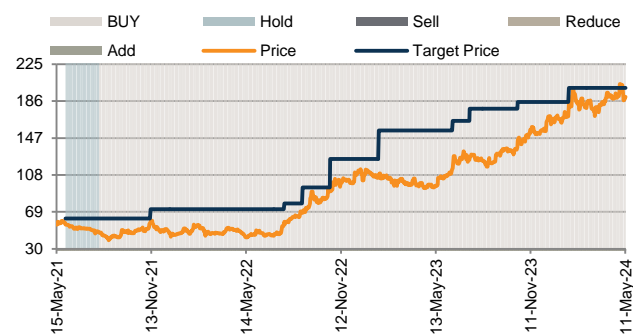
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jan-24	183	200	Buy	Anand Dama
30-Nov-23	155	185	Buy	Anand Dama
17-Oct-23	144	185	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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