

18 July 2024

Karur Vysya Bank

Sturdy quarter, healthy profitability to endure; retaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.259

Share Price: Rs.206

A strong operating performance along with modest credit costs kept Karur Vysya Bank's profitability strong, with 1.7% RoA (down 6bps q/q). Overall asset quality was stable. Key positives were: 1) strong growth in the commercial and retail segments, 2) lower slippages, 3) NIM persisting above 4.1% and 4) a strong balance sheet. With credit growth likely in high-teens and modest credit costs, earnings are expected to be strong. We retain our Buy rating, with a higher 12-mth TP of Rs259, 1.5x P/ABV on the FY26e book.

Asset quality stable. GNPA and NNPA improved respectively 8bps and 2bps q/q on easing slippages and decent recoveries. Q1 slippage was Rs1.7bn (~0.9% of loans), less than that of the previous quarter and our expectation. The PCR (including write-offs) improved 6bps q/q to 94.9%. The standard restructured book was Rs6.6bn (down 7.3% q/q), 0.86% of loans. Overall SMA 30+ was Rs3.3bn (0.43% of loans), the lowest of peers. With most of the stress already delinquent, near-term net slippages are likely to be negative. We expect GNPA to hold below 1.5% through FY25/26.

RoA to hold above 1.6%. With credit growth expected to be in high teens and a modest slippage run rate, medium-term credit costs are expected below 1%. Higher business growth, combined with ~4% margins and favourable credit costs would lead to strong medium-term profitability. We estimate a ~1.6% RoA and a ~17% RoE through FY25/26.

Valuation. Our TP of Rs259 is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on its FY26e book. **Risks:** Lumpy slippages from the corporate book; stress in the SME book.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Net interest income (Rs m)	27,154	33,488	38,092	43,788	51,504
Pre-provisioning profit (Rs m)	16,302	24,758	28,291	33,352	39,655
Provisions (Rs m)	6,993	10,389	7,290	8,792	10,287
PAT (Rs m)	6,733	11,061	16,048	18,371	21,967
EPS (Rs)	8.4	13.8	20.0	22.8	27.3
NIM (%)	3.8	4.3	4.3	4.2	4.2
Cost-income (%)	53.2	45.1	48.3	47.2	46.6
RoE (%)	9.3	13.7	17.2	16.9	17.3
RoA (%)	0.9	1.3	1.6	1.6	1.7
Advances growth (%)	9.9	14.1	16.7	17.0	17.0
GNPA (%)	6.0	2.3	1.4	1.2	1.0
CAR (%)	19.2	18.6	16.7	16.4	16.3
P/E (x)	24.5	15.0	10.3	9.0	7.6
P / BV (x)	2.2	1.9	1.7	1.4	1.2
P / ABV (x)	2.5	2.0	1.7	1.4	1.2

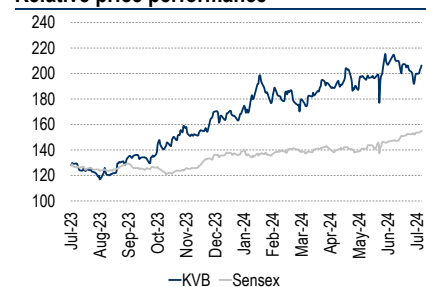
Source: Company, Anand Rathi Research

Key data	KVB IN / KARU.BO
52-week high / low	Rs220 / 116
Sensex / Nifty	81343 / 24801
3-m average volume	\$6.3m
Market cap	Rs165bn / \$1970.8m
Shares outstanding	799m

Shareholding pattern (%)	Mar'24	Dec'23	Sep'23
Promoters	2.2	2.2	2.2
- of which, Pledged	6.7	7.3	7.4
Free float	97.8	97.8	97.8
- Foreign institutions	15.4	15.6	18.1
- Domestic institutions	36.2	35.2	32.3
- Public	46.2	47.0	47.4

Estimates revision (%)	FY25e	FY26e
NII	(4.6)	(4.6)
PPOP	3.5	3.3
PAT	1.7	1.5

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net interest income	27,154	33,488	38,092	43,788	51,504
<i>NII growth (%)</i>	15.1	23.3	13.7	15.0	17.6
Non-interest income	7,691	11,589	16,587	19,407	22,706
Income	34,844	45,077	54,679	63,194	74,210
<i>Income growth (%)</i>	6.3	29.4	21.3	15.6	17.4
Operating expenses	18,542	20,320	26,388	29,843	34,555
PPoP	16,302	24,758	28,291	33,352	39,655
<i>PPoP growth (%)</i>	26.2	51.9	14.3	17.9	18.9
Provisions	6,993	10,389	7,290	8,792	10,287
PBT	9,309	14,369	21,002	24,560	29,368
Tax	2,577	3,308	4,954	6,189	7,401
PAT	6,733	11,061	16,048	18,371	21,967
<i>PAT growth (%)</i>	87.3	64.3	45.1	14.5	19.6
FDEPS (Rs)	8.4	13.8	20.0	22.8	27.3
DPS (Rs)	1.6	2.0	2.4	2.3	2.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	1,600	1,604	1,609	1,609	1,609
Reserves & surplus	74,362	84,236	98,792	1,15,325	1,35,096
Deposits	6,86,762	7,66,376	8,91,127	10,33,708	11,99,101
Borrowings	13,391	14,320	24,784	27,262	29,988
Other liabilities	24,323	35,258	39,541	44,315	49,772
Total liabilities	8,00,437	9,01,794	10,55,852	12,22,218	14,15,566
Advances	5,53,346	6,31,341	7,36,675	8,61,910	10,08,434
Investments	1,72,161	1,88,083	2,23,435	2,56,950	2,95,493
Cash & bank balance	49,262	46,951	56,586	62,244	68,469
Fixed & other assets	25,669	35,418	39,156	41,114	43,170
Total assets	8,00,437	9,01,794	10,55,852	12,22,218	14,15,566
No. of shares (m)	800	802	804	804	804
<i>Deposit growth (%)</i>	8.5	11.6	16.3	16.0	16.0
<i>Advances growth (%)</i>	9.9	14.1	16.7	17.0	17.0

Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
NIM	3.8	4.3	4.3	4.2	4.2
Other inc. / total inc.	22.1	25.7	30.3	30.7	30.6
Cost-income	53.2	45.1	48.3	47.2	46.6
Provision coverage	63.3	67.9	71.4	72.0	72.0
Dividend payout	19.0	14.5	12.0	10.0	10.0
Credit-deposit	80.6	82.4	82.7	83.4	84.1
Investment-deposit	25.1	24.5	25.1	24.9	24.6
Gross NPA	6.0	2.3	1.4	1.2	1.0
Net NPA	2.3	0.7	0.4	0.3	0.3
BV (Rs)	95.0	107.0	124.8	145.4	169.9
Adj. BV (Rs)	83.9	102.9	122.2	142.8	167.4
CAR	19.2	18.6	16.7	16.4	16.3
- Tier 1	17.3	16.8	15.5	15.4	15.4
RoE	9.3	13.7	17.2	16.9	17.3
RoA	0.9	1.3	1.6	1.6	1.7

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



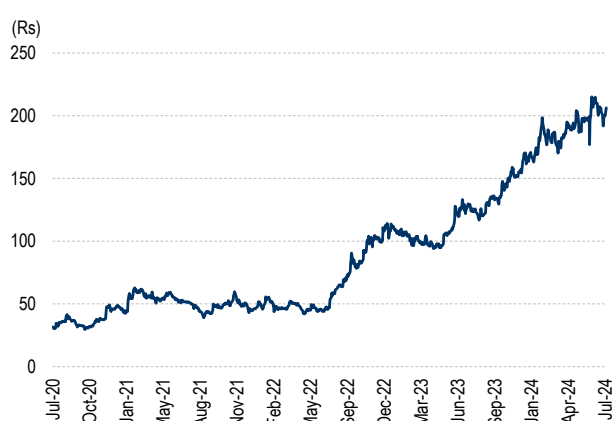
Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Interest income	14,045	14,093	14,735	15,795	16,952	17,683	18,829	19,971	21,394	21,846	22,845
Interest expense	7,173	6,993	7,277	7,581	8,062	8,757	9,858	10,817	11,381	11,891	12,602
NII	6,872	7,099	7,459	8,214	8,890	8,926	8,971	9,154	10,013	9,955	10,244
Y/Y growth (%)	17.8	15.9	16.9	20.7	29.4	25.7	20.3	11.4	12.6	11.5	14.2
Non-interest income	1,956	2,055	1,991	2,416	3,175	4,008	3,332	3,389	3,578	6,289	3,884
Total Income	8,828	9,154	9,450	10,629	12,065	12,934	12,302	12,543	13,591	16,243	14,127
Y/Y growth (%)	4.2	17.1	12.7	25.8	36.7	41.3	30.2	18.0	12.6	25.6	14.8
Operating expenses	4,813	4,741	4,695	4,906	5,175	5,543	5,818	6,164	6,832	7,574	6,669
Of which, staff cost	2,434	2,232	2,357	2,339	2,557	2,807	3,189	3,276	3,747	4,398	3,335
PPoP	4,016	4,413	4,755	5,723	6,890	7,391	6,484	6,379	6,759	8,669	7,459
Y/Y growth (%)	49.5	118.0	16.2	52.5	71.6	67.5	36.4	11.5	-1.9	17.3	15.0
Total provisions	1,461	1,401	1,547	2,272	3,641	2,930	1,594	1,264	1,497	2,934	1,329
PBT	2,555	3,012	3,208	3,451	3,249	4,460	4,890	5,115	5,262	5,735	6,129
Tax	700	877	921	949	356	1,082	1,304	1,331	1,146	1,174	1,543
PAT	1,855	2,135	2,287	2,502	2,893	3,378	3,586	3,785	4,116	4,561	4,587
Y/Y growth (%)	435.6	104.5	110.1	51.3	56.0	58.3	56.8	51.2	42.3	35.0	27.9

Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs m)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Equity capital	1,600	1,600	1,600	1,601	1,600	1,604	1,600	1,605	1,610	1,609	1,610
Reserves & surplus	72,200	74,362	76,650	77,888	80,800	84,236	87,840	90,024	94,180	98,792	104,240
Deposits	668,710	686,762	711,680	736,141	761,750	766,376	807,150	830,685	856,650	891,127	923,490
Borrowings	12,960	13,391	26,110	22,806	14,730	14,320	15,550	25,879	29,930	24,784	21,130
Other liabilities	20,650	24,323	22,430	25,214	31,250	35,258	33,930	36,157	46,310	39,541	38,270
Equity and liabilities	776,120	800,437	838,470	863,650	890,130	901,794	946,070	984,349	1,028,680	1,055,852	1,088,740
Deposits y/y growth (%)	7.7	8.5	10.5	12.5	13.9	11.6	13.4	12.8	12.5	16.3	14.4
Deposits q/q growth (%)	2.2	2.7	3.6	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6
Assets											
Cash and cash balances	32,780	35,943	42,520	46,906	44,020	42,795	51,980	46,142	53,010	55,879	53,250
Advances	532,270	553,346	575,590	601,614	617,090	631,341	659,730	695,074	717,980	736,675	769,650
Investments	171,470	172,161	183,860	182,947	187,260	188,083	200,540	208,345	209,270	223,435	226,570
Other assets	20,170	25,669	19,770	19,675	26,920	35,418	31,110	32,030	45,530	39,156	38,230
Total Assets	776,120	800,437	838,470	863,650	890,130	901,794	946,070	984,349	1,028,680	1,055,852	1,088,740
Advances y/y growth (%)	7.5	9.9	15.2	17.1	15.9	14.1	14.6	15.5	16.3	16.7	16.7
Advances q/q growth (%)	3.6	4.0	4.0	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5

Source: Company, Anand Rathi Research

Fig 9 – Movement of GNPA

GNPA	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Opening balance (Rs m)	34,310	31,072	24,565	16,743	14,582	13,300	12,190	11,519	10,416
Slippages (Rs m)	1,390	1,310	1,620	2,220	1,500	1,550	1,970	2,010	1,740
<i>Gross slippage ratio (%)</i>	1.0	0.9	1.1	1.4	1.0	0.9	1.1	1.1	0.9
Reductions (Rs m)	4,629	7,816	9,450	4,380	2,780	2,660	2,640	3,110	1,910
Closing balance (Rs m)	31,072	24,565	16,743	14,582	13,297	12,191	11,519	10,416	10,245
<i>GNPA (%)</i>	5.2	4.0	2.7	2.3	2.0	1.7	1.6	1.4	1.3
<i>NNPA (%)</i>	1.9	1.4	0.9	0.7	0.6	0.5	0.4	0.4	0.4
<i>Restructured advances (%)</i>	2.6	2.0	1.9	1.5	1.4	1.2	1.1	1.0	0.9
<i>Stressed assets (%)</i>	7.9	6.0	4.5	3.8	3.3	2.9	2.7	2.4	2.2

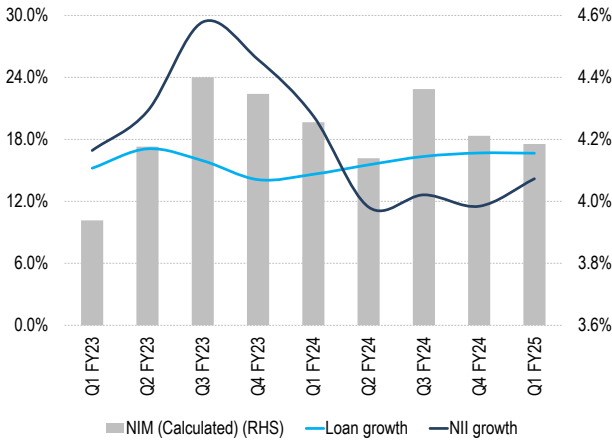
Source: Company, Anand Rathi Research

Fig 10 – Break-up of advances (%)

	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
<i>Corporate</i>	23.3	22.5	22.9	20.8	20.2	20.5	19.8	18.7	17.6
<i>Commercial</i>	31.6	32.3	31.9	32.7	33.1	33.4	33.6	34.2	34.9
<i>Housing</i>	10.2	10.2	9.8	10.4	10.4	10.3	10.1	10.2	10.2
<i>Auto</i>	1.9	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.4
<i>Education</i>	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<i>Personal</i>	1.0	1.1	0.5	0.6	0.5	1.1	0.5	0.4	0.5
<i>Jewel</i>	-	-	-	0.5	0.5	-	1.3	1.4	1.4
<i>LAP</i>	3.1	3.0	2.8	3.3	3.3	3.1	2.9	2.9	3.4
<i>Other retail</i>	4.2	4.4	3.4	5.1	5.1	4.9	5.3	5.5	5.7
<i>Farm</i>	1.9	1.9	4.0	1.6	1.6	1.9	1.6	1.5	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

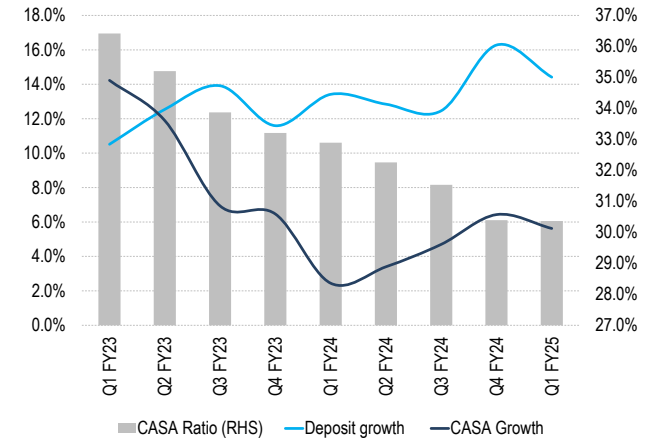
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM



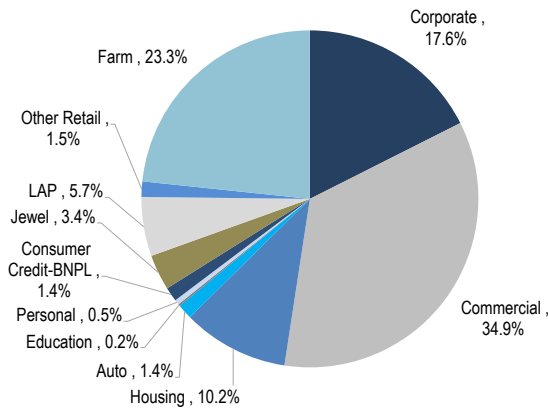
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth



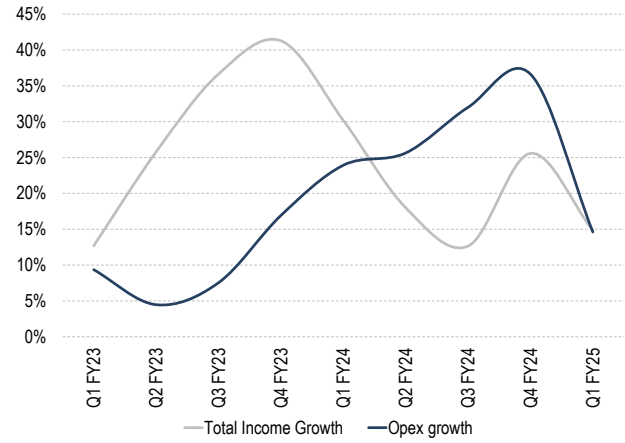
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



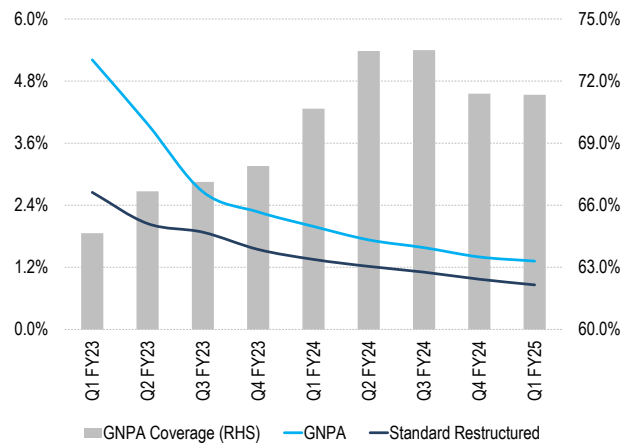
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



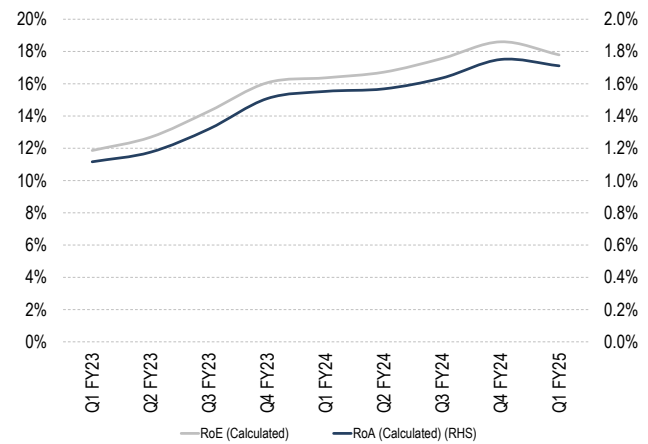
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – RoE vs. RoA



Source: Company, Anand Rathi Research

Valuation

Our Rs259 target price is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on the FY26e book.

We are sanguine regarding the bank's loan growth potential, largely driven by its retail and commercial books.

Fig 17 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	43,788	45,893	(4.6)	51,504	53,980	(4.6)
Pre-provisioning profit	33,352	32,239	3.5	39,655	38,386	3.3
PAT	18,371	18,069	1.7	21,967	21,639	1.5

Source: Anand Rathi Research

Risks

- Higher slippages ahead (especially from the corporate portfolio) could lead to volatility in asset quality.
- Stress in the SME book.

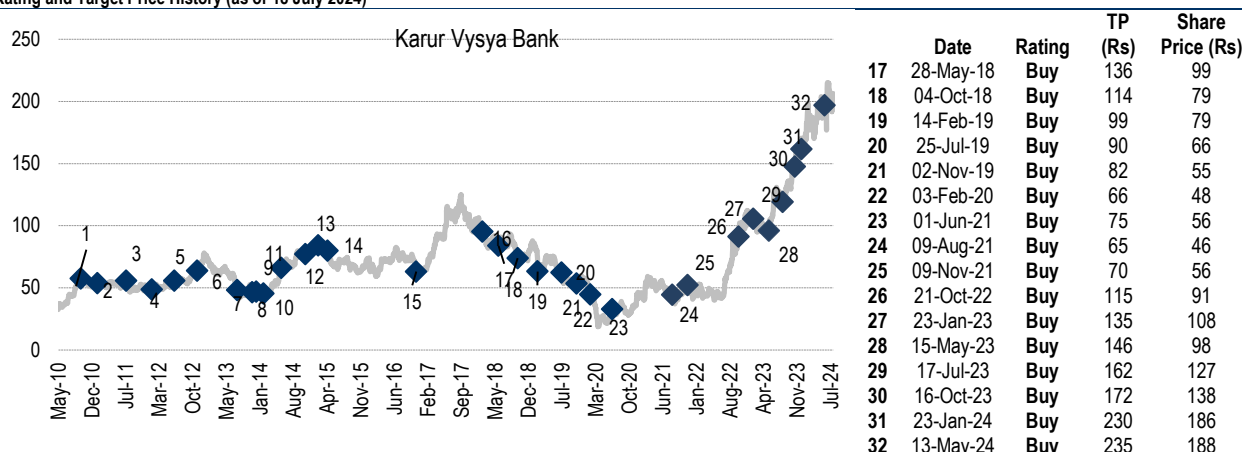
Appendix

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Rating and Target Price History (as of 18 July 2024)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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