

17 October 2024

Karur Vysya Bank

Strong quarter, healthy profitability to persist; retaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.290

Share Price: Rs.217

Stable NIM and strong traction in non-interest income led to KVB's sturdy Q2 operating performance, which, combined with moderate provisions kept profitability strong, with 1.72% RoA (up 2bps q/q). Overall asset quality improved. Key positives were: 1) strong credit growth in core retail and SME segments, 2) moderate 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 Rs.290, 1.5x P/ABV on the FY27e book.

Asset quality improves. GNPA and NNPA improved respectively 22bps and 10bps q/q, on moderate slippages and higher write-offs. Q2 slippage was Rs1.8bn (~0.9% of loans), which was lower than we expected. The PCR (including write-offs) improved 118bps q/q to 96.1%. The standard restructured book was Rs6.3bn (down 4.8% q/q), 0.79% of loans. Overall SMA 30+ was Rs3.3bn (0.41% 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 sustain 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 ~16% RoE through FY25/27.

Valuation. Our TP of Rs290 is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on its FY27e book. **Risks:** Lumpy slippages from the corporate book; stress in the SME book.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income (Rs m)	33,488	38,092	43,257	49,901	57,841
Pre-provisioning profit (Rs m)	24,758	28,291	32,379	37,582	42,100
Provisions (Rs m)	10,389	7,290	7,593	8,791	10,673
PAT (Rs m)	11,061	16,048	18,540	21,536	23,507
EPS (Rs)	13.8	20.0	23.0	26.8	29.2
NIM (%)	4.3	4.3	4.2	4.2	4.1
Cost-income (%)	45.1	48.3	47.6	47.0	48.3
RoE (%)	13.7	17.2	17.0	17.0	16.0
RoA (%)	1.3	1.6	1.6	1.6	1.6
Advances growth (%)	14.1	16.7	17.0	17.0	16.0
GNPA (%)	2.3	1.4	1.1	0.9	0.9
CAR (%)	18.6	16.8	16.7	16.5	16.5
P/E (x)	15.7	10.9	9.4	8.1	7.4
P / BV (x)	2.0	1.7	1.5	1.3	1.1
P / ABV (x)	2.1	1.8	1.5	1.3	1.1

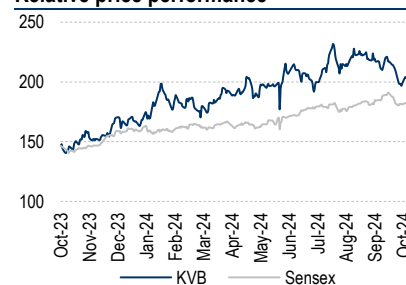
Source: Company, Anand Rathi Research

Key data	KVB IN / KARU.BO
52-week high / low	Rs.233 / 138
Sensex / Nifty	81,007 / 24,750
3-m average volume	\$5m
Market cap	Rs.173bn / \$2,061.9m
Shares outstanding	799m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	2.3	2.2	2.2
- of which, Pledged	8.2	6.7	7.3
Free float	97.7	97.8	97.8
- Foreign institutions	15.4	15.4	15.6
- Domestic institutions	38.2	36.2	35.2
- Public	44.1	46.2	47.0

Estimates revision (%)	FY25e	FY26e
NII	(1.2)	(3.1)
PPOP	(2.9)	(5.2)
PAT	0.9	(2.0)

Relative price performance



Source: Bloomberg

Yuvraj Choudhary, CFA
Research Analyst

Kaitav Shah, CFA
Research Analyst

Subhanshi Rathi
Research Associate

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	33,488	38,092	43,257	49,901	57,841
NII growth (%)	23.3	13.7	13.6	15.4	15.9
Non-interest income	11,589	16,587	18,577	20,992	23,511
Income	45,077	54,679	61,834	70,893	81,352
Income growth (%)	29.4	21.3	13.1	14.7	14.8
Operating expenses	20,320	26,388	29,455	33,311	39,253
PPoP	24,758	28,291	32,379	37,582	42,100
PPoP growth (%)	51.9	14.3	14.4	16.1	12.0
Provisions	10,389	7,290	7,593	8,791	10,673
PBT	14,369	21,002	24,786	28,791	31,427
Tax	3,308	4,954	6,246	7,255	7,919
PAT	11,061	16,048	18,540	21,536	23,507
PAT growth (%)	64.3	45.1	15.5	16.2	9.2
FDEPS (Rs)	13.8	20.0	23.0	26.8	29.2
DPS (Rs)	2.0	2.4	2.3	2.7	2.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	1,604	1,609	1,610	1,610	1,610
Reserves & surplus	84,236	98,792	115,478	134,860	156,016
Deposits	766,376	891,127	1,033,708	1,199,101	1,378,966
Borrowings	14,320	24,784	14,870	16,357	17,993
Other liabilities	35,258	39,540	44,283	50,755	62,161
Total liabilities	901,794	1,055,852	1,209,948	1,402,683	1,616,745
Advances	631,341	736,675	861,910	1,008,434	1,169,784
Investments	188,083	223,435	245,779	282,646	325,042
Cash & bank balance	46,951	56,586	61,145	68,434	76,591
Fixed & other assets	35,418	39,156	41,114	43,170	45,328
Total assets	901,794	1,055,852	1,209,948	1,402,683	1,616,745
No. of shares (m)	802	804	805	805	805
Deposit growth (%)	11.6	16.3	16.0	16.0	15.0
Advances growth (%)	14.1	16.7	17.0	17.0	16.0

Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM	4.3	4.3	4.2	4.2	4.1
Other inc. / total inc.	25.7	30.3	30.0	29.6	28.9
Cost-income	45.1	48.3	47.6	47.0	48.3
Provision coverage	67.9	71.4	75.0	75.0	75.0
Dividend payout	14.5	12.0	10.0	10.0	10.0
Credit-deposit	82.4	82.7	83.4	84.1	84.8
Investment-deposit	24.5	25.1	23.8	23.6	23.6
Gross NPA	2.3	1.4	1.1	0.9	0.9
Net NPA	0.7	0.4	0.3	0.2	0.2
BV (Rs)	107.0	124.8	145.5	169.6	195.9
Adj. BV (Rs)	102.9	122.2	143.4	167.5	193.5
CAR	18.6	16.8	16.7	16.5	16.5
- Tier 1	16.8	15.5	15.6	15.6	15.7
RoE	13.7	17.2	17.0	17.0	16.0
RoA	1.3	1.6	1.6	1.6	1.6

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



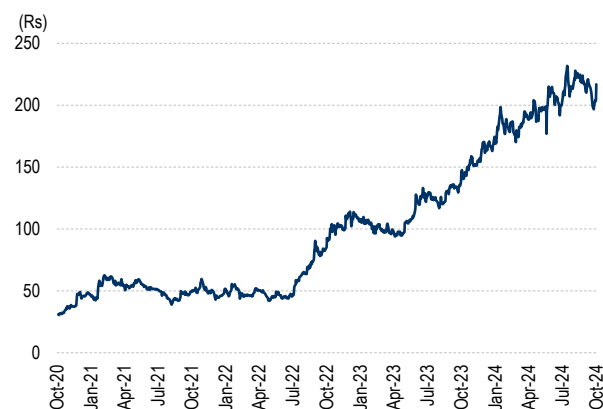
Source: Bloomberg

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)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Interest income	14,093	14,735	15,795	16,952	17,683	18,829	19,971	21,394	21,846	22,845	23,840
Interest expense	6,993	7,277	7,581	8,062	8,757	9,858	10,817	11,381	11,891	12,602	13,241
NII	7,099	7,459	8,214	8,890	8,926	8,971	9,154	10,013	9,955	10,244	10,600
Y/Y growth (%)	15.9	16.9	20.7	29.4	25.7	20.3	11.4	12.6	11.5	14.2	15.8
Non-interest income	2,055	1,991	2,416	3,175	4,008	3,332	3,389	3,578	6,289	3,884	4,720
Total income	9,154	9,450	10,629	12,065	12,934	12,302	12,543	13,591	16,243	14,127	15,320
Y/Y growth (%)	17.1	12.7	25.8	36.7	41.3	30.2	18.0	12.6	25.6	14.8	22.1
Operating expenses	4,741	4,695	4,906	5,175	5,543	5,818	6,164	6,832	7,574	6,669	7,157
Of which, staff cost	2,232	2,357	2,339	2,557	2,807	3,189	3,276	3,747	4,398	3,335	3,570
PPoP	4,413	4,755	5,723	6,890	7,391	6,484	6,379	6,759	8,669	7,459	8,162
Y/Y growth (%)	118.0	16.2	52.5	71.6	67.5	36.4	11.5	-1.9	17.3	15.0	28.0
Total provisions	1,401	1,547	2,272	3,641	2,930	1,594	1,264	1,497	2,934	1,329	1,798
PBT	3,012	3,208	3,451	3,249	4,460	4,890	5,115	5,262	5,735	6,129	6,364
Tax	877	921	949	356	1,082	1,304	1,331	1,146	1,174	1,543	1,628
PAT	2,135	2,287	2,502	2,893	3,378	3,586	3,785	4,116	4,561	4,587	4,736
Y/Y growth (%)	104.5	110.1	51.3	56.0	58.3	56.8	51.2	42.3	35.0	27.9	25.1

Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Equity capital	1,600	1,600	1,601	1,600	1,604	1,600	1,605	1,610	1,609	1,610	1,610
Reserves & surplus	74,362	76,650	77,888	80,800	84,236	87,840	90,024	94,180	98,792	1,04,240	1,07,397
Deposits	6,86,762	7,11,680	7,36,141	7,61,750	7,66,376	8,07,150	8,30,685	8,56,650	8,91,127	9,23,490	9,58,385
Borrowings	13,391	26,110	22,806	14,730	14,320	15,550	25,879	29,930	24,784	21,130	14,180
Other liabilities	24,323	22,430	25,214	31,250	35,258	33,930	36,157	46,310	39,541	38,270	44,159
Equity and liabilities	8,00,437	8,38,470	8,63,650	8,90,130	9,01,794	9,46,070	9,84,349	10,28,680	10,55,852	10,88,740	11,25,731
Deposits y/y growth (%)	8.5	10.5	12.5	13.9	11.6	13.4	12.8	12.5	16.3	14.4	15.4
Deposits q/q growth (%)	2.7	3.6	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6	3.8
Assets											
Cash and cash balances	35,943	42,520	46,906	44,020	42,795	51,980	46,142	53,010	55,879	53,250	54,571
Advances	5,53,346	5,75,590	6,01,614	6,17,090	6,31,341	6,59,730	6,95,074	7,17,980	7,36,675	7,69,650	7,96,188
Investments	1,72,161	1,83,860	1,82,947	1,87,260	1,88,083	2,00,540	2,08,345	2,09,270	2,23,435	2,26,570	2,32,138
Other assets	25,669	19,770	19,675	26,920	35,418	31,110	32,030	45,530	39,156	38,230	40,532
Total Assets	8,00,437	8,38,470	8,63,650	8,90,130	9,01,794	9,46,070	9,84,349	10,28,680	10,55,852	10,88,740	11,25,731
Advances y/y growth (%)	9.9	15.2	17.1	15.9	14.1	14.6	15.5	16.3	16.7	16.7	14.5
Advances q/q growth (%)	4.0	4.0	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5	3.4

Source: Company, Anand Rathi Research

Fig 9 – Movement of GNPA

GNPA	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Opening balance (Rs m)	31,072	24,565	16,743	14,582	13,300	12,190	11,519	10,416	10,245
Slippages (Rs m)	1,310	1,620	2,220	1,500	1,550	1,970	2,010	1,740	1,810
Gross slippage ratio (%)	0.9	1.1	1.4	1.0	0.9	1.1	1.1	0.9	0.9
Reductions (Rs m)	7,816	9,450	4,380	2,780	2,660	2,640	3,110	1,910	3,200
Closing balance (Rs m)	24,565	16,743	14,582	13,297	12,191	11,519	10,416	10,245	8,856
GNPA (%)	4.0	2.7	2.3	2.0	1.7	1.6	1.4	1.3	1.1
NNPA (%)	1.4	0.9	0.7	0.6	0.5	0.4	0.4	0.4	0.3
Restructured advances (%)	2.0	1.9	1.5	1.4	1.2	1.1	1.0	0.9	0.8
Stressed assets (%)	6.0	4.5	3.8	3.3	2.9	2.7	2.4	2.2	1.9

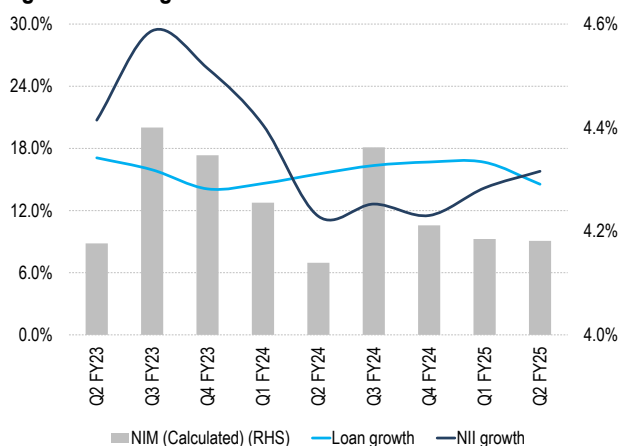
Source: Company, Anand Rathi Research

Fig 10 – Break-up of advances (%)

	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Corporate	22.5	22.9	20.8	20.2	20.5	19.8	18.7	17.6	16.3
Commercial	32.3	31.9	32.7	33.1	33.4	33.6	34.2	34.9	35.7
Housing	10.2	9.8	10.4	10.4	10.2	10.1	10.2	10.2	10.2
Auto	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.4	1.4
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Personal	1.1	0.5	0.6	0.5	0.6	0.5	0.4	0.4	0.4
Consumer Credit-BNPL	-	-	0.5	0.5	0.6	1.3	1.4	1.4	1.3
Jewel	3.0	2.8	3.3	3.3	3.1	2.9	2.9	3.4	3.5
LAP	4.4	3.4	5.1	5.1	5.2	5.3	5.5	5.8	6.1
Other Retail	1.9	4.0	1.6	1.6	1.6	1.6	1.5	1.5	1.5
Farm	22.6	22.7	23.1	23.3	23.1	23.2	23.3	23.3	23.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

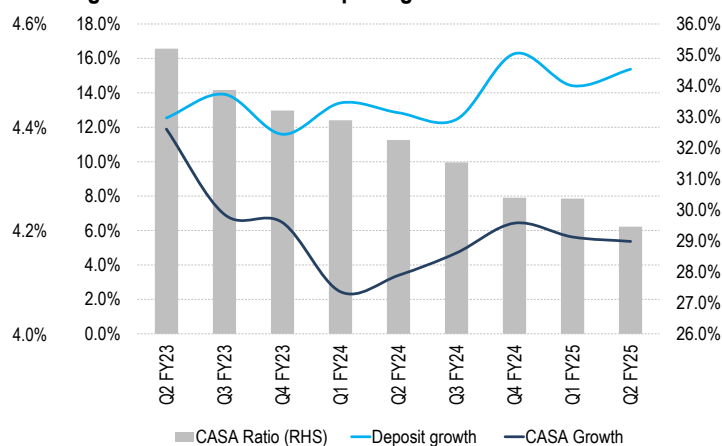
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM



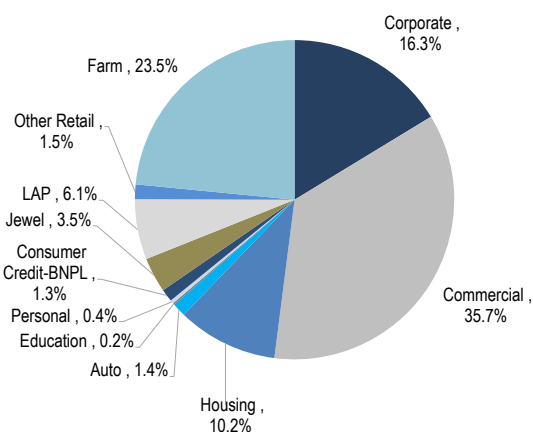
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth



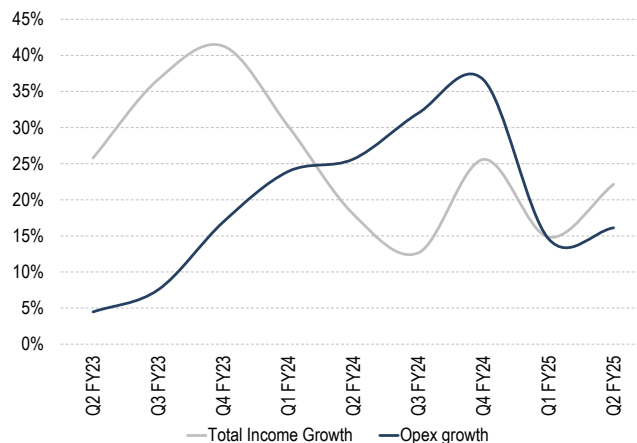
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



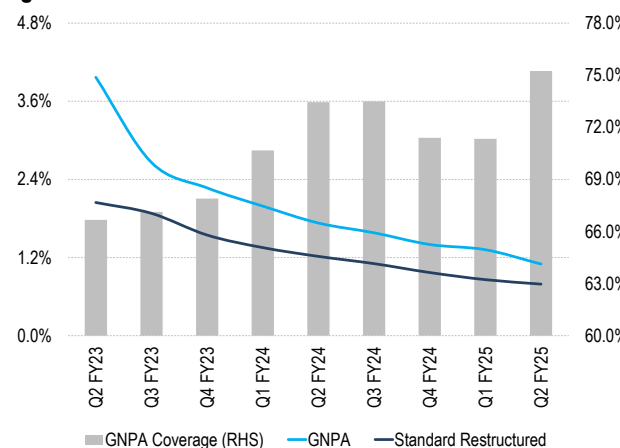
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



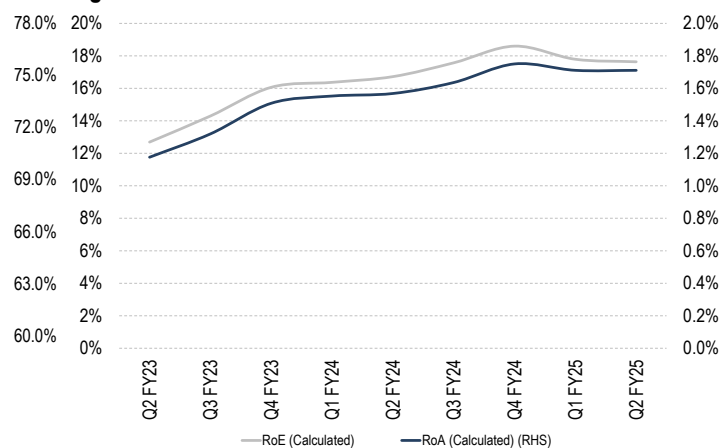
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – RoE vs. RoA



Source: Company, Anand Rathi Research

Valuation

Our Rs.290 target price is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on the FY27e 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	43,257	43,788	(1.2)	49,901	51,504	(3.1)
Pre-provisioning profit	32,379	33,352	(2.9)	37,582	39,655	(5.2)
PAT	18,540	18,371	0.9	21,536	21,967	(2.0)

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.

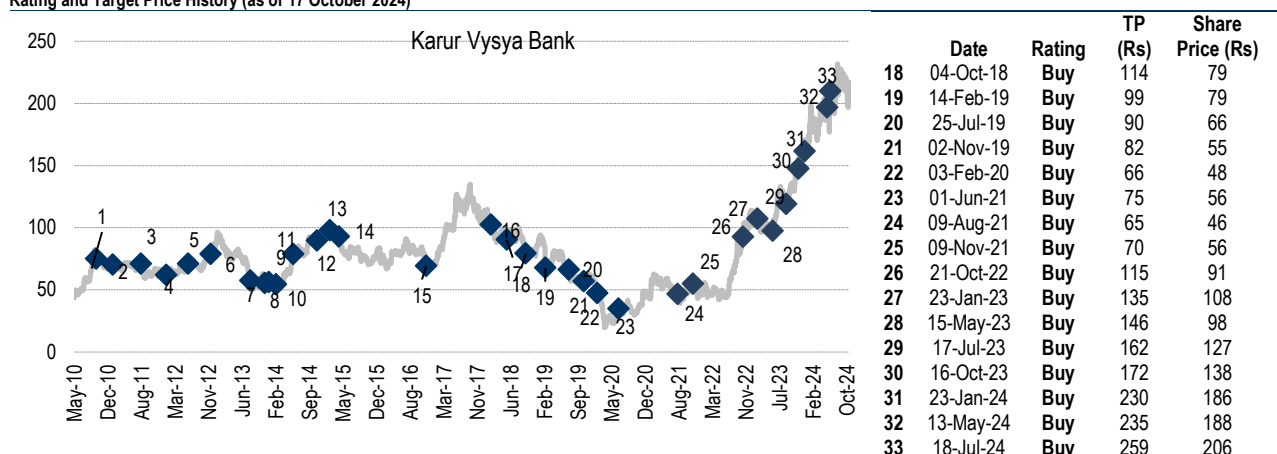
Appendix

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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.