

Karur Vysya Bank (KVB)

Growth, Profitability and Asset quality; all standing strong

Karur Vysya Bank reported its Q2FY25 results broadly in line with our estimates with a slight upward beat on advances/deposits/profitability. The CASA growth remained a miss for the bank due to low momentum in CASA accounts and depletion of balances in the existing accounts. While the bank is replacing its lower yielding corporate loans with the higher yielding segments, its margins have sustained above the earlier guidance of remaining above 4% which is expected to sustain in the coming quarters as well. Owing to increasing costs of deposits and flattish rise in yields in incremental loans, net interest income increased by 3.5% QoQ/15.8% YoY (1.2% above our estimate) leading to a PAT growth of 3.3% QoQ/25.1% YoY (3% above our estimates).

We continue to remain positive on the growth prospect of the bank and expect KVB's NII/PAT to grow at 15.3%/24.3% CAGR over FY24-27E with ROA to remain at 1.8% in FY26E. We maintain Buy rating on KVB with a target price of Rs 265, valuing the bank at 1.7x of its Sept'26 Adj. BV.

Increasing RAM portion in the advances mix

The advances growth of 3.3% QoQ/14% YoY remained within the guidance provided by the management earlier during the year (0.7% higher than our estimates). While the corporate segment is seeing a de-growth due to the bank's focus on growing its RAM segment (Rural, Agri, MSMEs), its advances growth excluding RAM came in at 5% QoQ/20% YoY. The bank maintains that they are shying away from growing their corporate book aggressively due to the low pricing as compared to other segments and the increased slippages which may follow later, however, the bank wishes to remain in the segment and grow as and when the opportunity arises.

During the quarter, the bank saw an increase in the portion of jewel/mortgage/personal loans (personal loan saw a YoY increase) of 47/96/54bps YoY as a % of total advances, while house loan saw a decline of 2/12bps QoQ/YoY.

Deposit growth remain healthy; despite low CASA growth

Deposit growth remained healthy for the bank in the context of the low deposit mobilization in the industry. The bank reported deposits growth of 3.8% QoQ/15.4% YoY (0.8% higher than our estimates). While the growth in deposits was mainly due to term deposit growth of 5.1% QoQ/20.1% YoY, CASA growth remained muted at 0.7% QoQ/5.4% YoY. CASA came in lower despite bank's initiatives such as feet on street and introducing new products to attract customers. The bank also reported depletion of balances from the existing savings account.

As deposits growth is reported higher than the advances growth, the bank's LDR decline by 36bps QoQ/102bps YoY.

Asset quality remains intact

KVB saw an improvement in asset quality as GNPA/NNPA declined by 22bps/10bps QoQ to 1.1%/0.3% owing to lower slippages, higher recoveries, upgrades and lower restructured portfolio. However, credit costs was higher for the bank by 22bps QoQ/10bps YoY to 0.78% as provision for the quarter increased by 35.3% QoQ/42.3% YoY. Slippages during the quarter increased by 4% QoQ/17% YoY due to increase in corporate slippages. The bank remains confident of its asset quality and expects gross NPA below 2% while the net NPA below 1%. The standard restructured loan book is further reduced to 0.79% of the loan book, and provision stands at 39.9% of the standard restructured book.

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	27,140	33,490	38,090	42,853	49,304
Pre provisioning operating profit	16,453	24,758	28,291	32,336	41,307
Profit before tax	9,309	14,369	21,002	24,704	31,342
Profit after tax	6,733	11,061	16,048	18,755	23,507
EPS (Rs)	8.4	13.8	20.0	23.3	29.2
Adj. BVPS (Rs)	78.7	101.0	120.8	145.9	175.8
Net interest margin (%)	3.9	4.4	4.3	4.1	4.1
P/E (x)	26.0	15.9	11.0	9.4	7.5
P/Adj. BV (x)	2.8	2.2	1.8	1.5	1.2

Source: Company, ACMIIL Research

BUY
Target: Rs 265

Key Data

Bloomberg code:	KVB:IN
Target price (Rs)	265
CMP (Rs)	217
Upside/ (Downside)	22%
Rating:	BUY
Shares outstanding (mn):	800
Mcap (Rs bn) :	175
52-week H/L (Rs):	233/133

Price Performance (%)

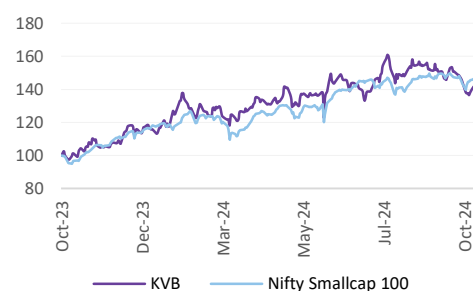
1 month	0.9
3 months	107.4
12 months	50.6

Shareholding Pattern (%)

	Dec'23	Mar'24	Jun'24
Promoter	2.2	2.2	2.2
FII's	15.6	15.4	15.1
DII's	35.2	36.2	35.7
Public/other	47.0	46.2	47.1
Pledge	7.3	6.7	4.6

Source: BSE

KVB performance vs. Nifty Smallcap 100



Source: NSE

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Margin sustained slightly above guidance

KVB reported net interest margin at 4.1% (2bps lower than out estimates). Margin remained flat as compared to previous few quarters. The bank maintained its NIMs despite cost of deposits increase of 8bps QoQ/40bps YoY. While CASA remained low, NIMs improvement was also due to bank's increase in higher yield advances such as LAP, Gold loan and Personal loans (on YoY basis). The bank expects cost of deposit to increase by 10bps in the next quarter. The management had guided that the effort would be to ensure ROA is above 1.65% levels and the same has been reiterated in Q2 con-call as well.

Adequately capitalised

The CRAR as per the Basel 3 norms continues to be healthy at 16.7% with significant headroom for growth. The LCR continues to be well above the regulatory requirement and stands at 128%.

Valuation and outlook

KVB reported numbers broadly in line with our estimates in terms of loan/deposits/PAT growth. Its RAM portfolio continues to grow while the corporate segment remains a laggard. Deposits growth is mainly driven by the term deposits while CASA deposits remains muted. NIMs were reported on sequential basis as the company continues to see increase in its cost of deposits. Management has indicated 10bps QoQ increase in cost of deposits due to which we reduce our NIM forecast for FY25E/26E to 4.1%/4.1% from 4.2%/4.3% earlier. Asset quality remains largely stable.

We continue to remain positive on the growth prospect of the bank and expect KVB's NII/PAT to grow at 15.3%/24.3% CAGR over FY24-27E with ROA to remain at 1.8% in FY26E. We maintain Buy rating on KVB with a target price of Rs 265, valuing the bank at 1.7x of its Sept'26 Adj. BV.

Numbers reported are better than our estimates. PAT reported a growth of 3.3% QoQ and beat our estimate by 3%.

Quarterly Performance

Y/E March (Rs in mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
Interest Earned	23,840	19,971	19.4	22,845	4.4	23,786	0.2
Other Income	4,720	3,389	39.3	3,884	21.5	4,329	9.0
Total Income	28,560	23,360	22.3	26,729	6.9	28,115	1.6
Interest Expended	13,241	10,817	22.4	12,602	5.1	13,317	(0.6)
Net Interest Income	10,600	9,154	15.8	10,244	3.5	10,469	1.2
Salaries Wages and Employee Benefits	3,570	3,276	9.0	3,335	7.1	3,556	0.4
Other Operating Expenses	3,587	2,887	24.2	3,334	7.6	3,497	2.6
Operating Expenses	7,157	6,164	16.1	6,669	7.3	7,052	1.5
Total Expenditure	20,398	16,981	20.1	19,270	5.9	20,369	0.1
Pre Provisioning Operating Profit	8,162	6,379	28.0	7,459	9.4	7,746	5.4
Provisions	1,798	1,264	42.3	1,329	35.3	1,694	6.2
Profit Before Tax	6,364	5,115	24.4	6,129	3.8	6,052	5.2
Tax	1,628	1,331	22.4	1,543	5.5	1,452	12.1
Profit After Tax	4,736	3,785	25.1	4,587	3.3	4,600	3.0
EPS (Rs)	5.9	4.7	24.8	5.7	3.3	5.7	3.1

Sources: Company, ACMIIL Research

Business Parameters

Y/E March (Rs in mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
Advances	8,02,990	7,04,480	14.0	7,77,100	3.3	7,97,520	0.7
Deposits	9,58,390	8,30,680	15.4	9,23,490	3.8	9,50,999	0.8
Credit to Deposit ratio (%)	83.8	84.8	-102.2bps	84.1	-36.3bps	83.9	-7.6bps
ROA (%)	1.7	1.6	15bps	1.7	2bps	1.6	8.7bps
ROE (%)	17.4	16.5	86bps	17.3	3bps	16.8	59.8bps
CASA (%)	29.0	32.0	-300bps	30.0	-100bps	30.3	-133.5bps
NIMs (%)	4.11	4.1	4bps	4.1	-2bps	4.13	-1.9bps
Cost-to-Income (%)	46.7	49.1	-242.2bps	47.2	-48.1bps	47.7	-93.8bps
Cost of Deposit (%)	5.6	5.2	40bps	5.5	8bps		
Yield on Advances (%)	10.1	9.8	32bps	10.1	-2bps		

Sources: Company, ACMIIL Research

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Capital Position

Y/E March (%)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
CAR	16.3	16.8	(56.0)	16.5	(19.0)
Tier 1	15.4	15.2	20.1	15.6	(19.2)
Tier 2	0.9	1.7	(76.1)	0.9	0.2

Sources: Company, ACMIIL Research

Asset Quality

Y/E March (Rs in mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Gross NPA	8,860	12,190	(27.3)	10,250	(13.6)
Net NPA	2,190	3,240	(32.4)	2,937	(25.4)
Gross NPA (%)	1.1	1.7	-63bps	1.3	-22bps
Net NPA (%)	0.3	0.5	-19bps	0.4	-10bps
PCR (%)	96.1	94.5	160bps	94.9	118bps

Sources: Company, ACMIIL Research

Loan Segments

Y/E March (Rs in mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
Commercial	2,86,880	2,35,100	22.0	2,70,830	5.9	2,78,101	3.2
Retail	1,96,850	1,62,250	21.3	1,88,400	4.5	1,96,429	0.2
Agri	1,88,380	1,63,020	15.6	1,81,350	3.9	1,88,462	(0.0)
Corporate	1,30,880	1,44,110	(9.2)	1,36,520	(4.1)	1,34,528	(2.7)
Gross advances	8,02,990	7,04,480	14.0	7,77,100	3.3	7,97,520	0.7

Sources: Company, ACMIIL Research

Retail and Commercial lending driving the growth of the loan book.

As a % of Total Advances

Y/E March (%)	Q2FY25	Q2FY24	YoY (bps)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (bps)
Commercial	35.7	33.4	235.4	34.9	87.5	34.9	85.6
Retail	24.5	23.0	148.3	24.2	27.1	24.6	(11.5)
Agri	23.5	23.1	31.9	23.3	12.3	23.6	(17.1)
Corporate	16.3	20.5	(415.7)	17.6	(126.9)	16.9	(56.9)

Sources: Company, ACMIIL Research

Change in Estimates

YE March (Rs mn)	FY25E			FY26E		
	Old	New	Var (%)	Old	New	Var (%)
Advances	8,49,869	8,55,989	0.7	9,91,453	9,99,166	0.8
Deposits	10,15,774	10,23,620	0.8	11,81,381	11,90,783	0.8
NIM (%)	4.2	4.1	-8bps	4.3	4.1	-21bps
NII	43,561	42,853	(1.6)	51,506	49,304	(4.3)
PAT	18,809	18,755	(0.3)	23,890	23,507	(1.6)

Sources: Company, ACMIIL Research

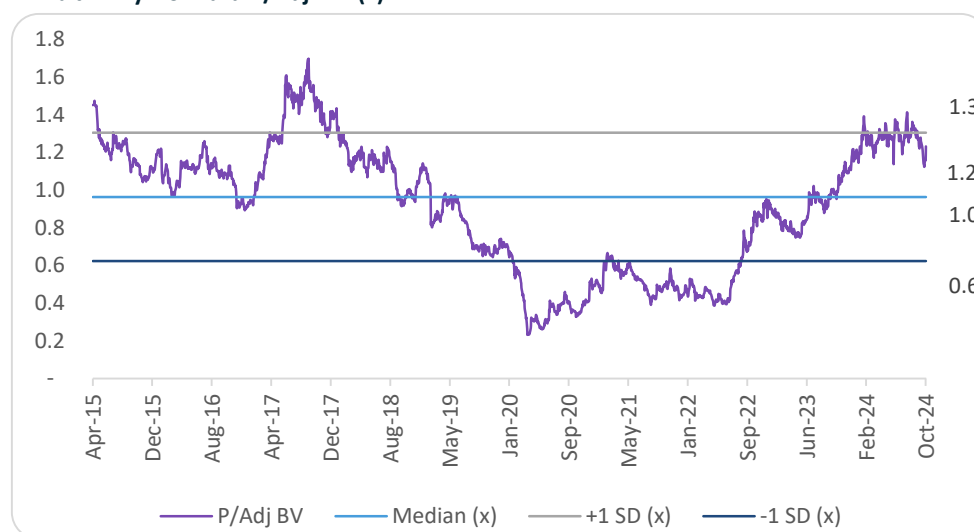
NIMs guidance at around 4%,
ROA target of more than
1.65%, advances growth of 18-
20%.

Con-Call Key Take Away

- **CASA growth muted:** The growth in the CASA deposits of the bank has been slower than expected. While the company has taken various initiatives to improve the CASA, with 70 bps improvement this quarter, the hold on the book is yet to come. This might result in a slower loan growth for the bank going ahead.
- **Growth in LAP:** The LAP portfolio of the bank grew significantly this quarter. This was mainly due to the 'Feet on street' initiative that the bank has adopted. LAP contributed to around 11% of the total retail loan book. The Yield generated on LAP is around 9.5%, which may impact the margins positively going ahead. However, management is cautious and remains confident of maintaining a high level of initial screening to aid in controlling slippages.
- **Cost to increase going ahead:** The bank has been strengthening their IT security. This is aided with branch expansions that the bank has been doing to grow. This will improve the cost going ahead and the operating expenditure is expected to be slightly elevated.
- **Not moving away from corporate loans:** KVB reported a decline in corporate book of 4% due to selective exits from less profitable accounts. The management has stated that the bank is not moving away from corporate loans. As and when the CASA starts to increase, the bank will start lending under corporate loan. Since growing corporate book takes lesser efforts than RAM, the bank is currently more focused on their RAM profile.
- **Tie up with business:** The bank has tied up with 3 business correspondents who have expertise in MFI Portfolio which the bank has started 2 years ago.
- **Guidance going ahead:** KVB's NIM guidance was consistent with previous statements, aiming to keep it around 4% in the upcoming quarter. The current quarter's NIM was at 4.11%, supported by the bank's strategy of exiting low-yield corporate loans and focusing on high-yield granular advances in the RAM (Retail, Agriculture, MSME) segments. This target was restated without major changes, though the bank acknowledged the challenge of rising deposit costs, which could affect margins. Loan growth guidance is given at 18%-20%. The bank surpassed its earlier ROA target of 1.65%, achieving 1.72% for the quarter. The bank expressed confidence in maintaining an ROA above 1.65% going forward, signaling an improvement in guidance.

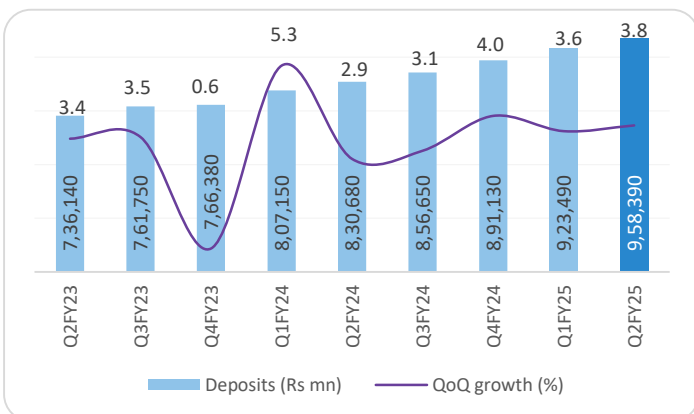
Valuation Chart

Exhibit 1: 1 yr forward P/Adj. BV (x)



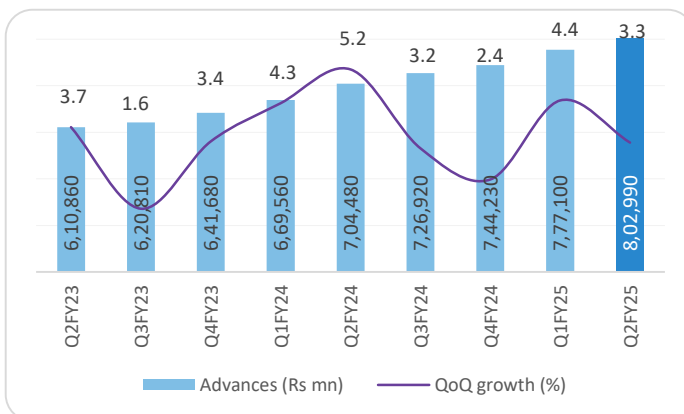
Sources: ACMIIL Research

Exhibit 2: Deposits growth steady on the back of term deposits



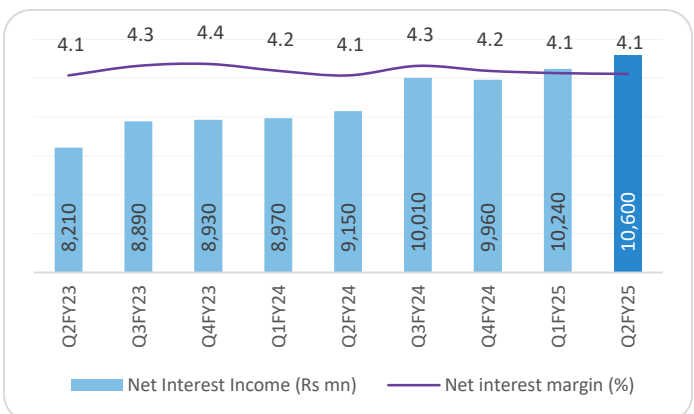
Source: Company, ACMIIL Research

Exhibit 3: Advances driven by MSME and retail segment



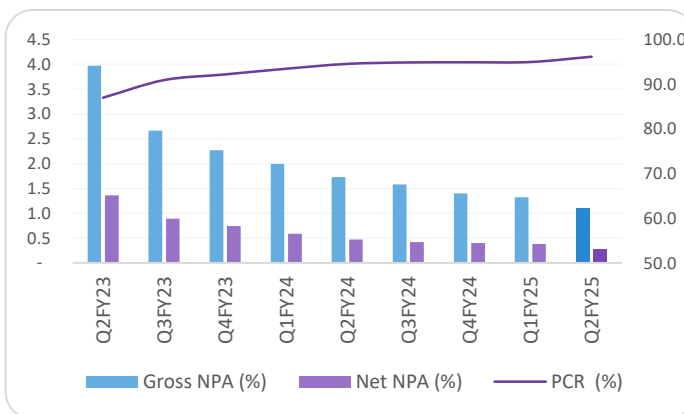
Source: Company, ACMIIL Research

Exhibit 4: Margins flat due to higher cost of funds



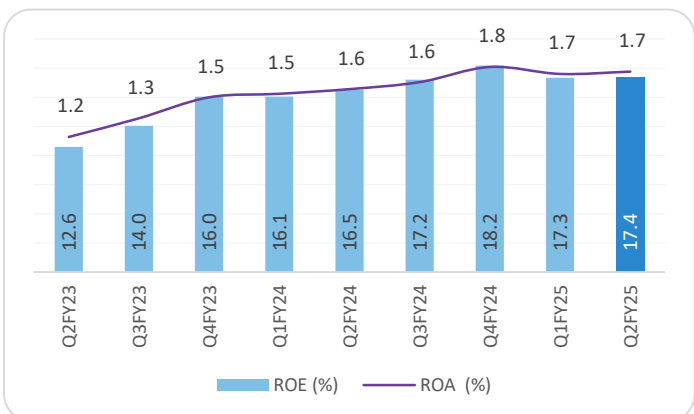
Source: Company, ACMIIL Research

Exhibit 5: Asset quality remains intact



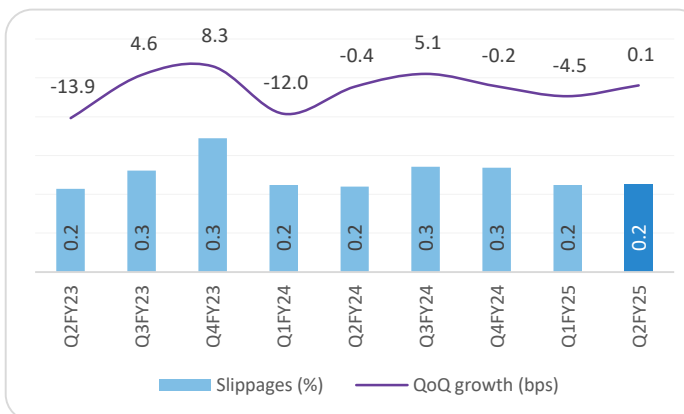
Source: Company, ACMIIL Research

Exhibit 6: Profitability ratios in line with the guidance



Source: Company, ACMIIL Research

Exhibit 7: Slippages reported flat for the quarter



Source: Company, ACMIIL Research

Financials (Consolidated)

Income Statement

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest earned	65,166	82,237	98,401	1,18,803	1,45,860
Interest expended	31,677	43,947	55,548	69,499	87,156
Net Interest Income	33,488	38,290	42,853	49,304	58,704
Other Income	11,589	16,589	20,295	32,829	43,528
Total Income	76,755	98,826	1,18,696	1,51,632	1,89,388
Salaries Wages and Employee Benefits	10,060	14,610	15,775	21,019	24,828
Other Operating Expenses	10,260	11,977	15,037	19,807	25,524
Operating expenses	20,320	26,588	30,812	40,827	50,352
Total expenditure	51,997	70,535	86,360	1,10,326	1,37,508
Pre provisioning operating profit	24,758	28,291	32,336	41,307	51,880
Provisions	10,389	7,290	7,633	9,964	10,895
Profit before tax	14,369	21,002	24,704	31,342	40,985
Tax	3,308	4,954	5,949	7,836	10,138
Profit after tax	11,061	16,048	18,755	23,507	30,847
EPS (Rs)	13.8	20.0	23.3	29.2	38.3

Source: Company, ACMIIL Research

Yields

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Yield on Advances	8.8	9.9	10.2	10.7	11.3
Yield on Investments	6.1	6.6	7.0	7.1	7.1
Cost of Funds	4.3	5.2	5.6	6.1	6.6
Net interest margin	4.4	4.3	4.1	4.1	4.2
Credit to deposits ratio	83.7	83.5	83.6	83.9	84.5
CASA	33.0	30.0	29.5	29.0	29.4

Source: Company, ACMIIL Research

Asset Quality

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Gross NPA (Rs mn)	10,630	6,470	7,653	8,383	8,861
Net NPA (Rs mn)	4,680	2,980	1,059	425	238
Gross NPA	2.3	1.4	0.9	0.8	0.8
Net NPA	0.7	0.4	0.1	0.0	0.0
Credit cost	1.5	0.7	0.6	0.7	0.7
Slippage	0.8	0.7	0.8	0.8	0.7

Source: Company, ACMIIL Research

Valuation

YE March (x)	FY23	FY24	FY25E	FY26E	FY27E
P/E	15.9	11.0	9.4	7.5	5.7
P/BV	2.0	1.8	1.5	1.2	1.0
P/Adj. BV	2.2	1.8	1.5	1.2	1.0

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,600	1,610	1,610	1,610	1,610
Reserves and surplus	84,240	98,790	1,16,830	1,40,337	1,71,184
Net Worth	85,840	1,00,400	1,18,439	1,41,946	1,72,794
Deposits	7,66,380	8,91,130	10,23,620	11,90,783	13,96,054
Borrowings	14,320	24,780	27,894	30,727	32,003
Other liabilities and provisions	35,250	39,540	45,943	49,731	53,830
Total equity and liabilities	9,01,790	10,55,850	12,15,897	14,13,187	16,54,680
Cash and balances with RBI	46,950	56,580	68,663	79,031	96,532
Investments	1,88,080	2,23,440	2,49,160	2,89,627	3,29,877
Advances	6,31,340	7,36,670	8,55,989	9,99,166	11,79,375
Fixed assets	4,350	4,330	4,729	4,929	5,129
Other assets	31,070	34,830	37,355	40,434	43,767
Total assets	9,01,790	10,55,850	12,15,897	14,13,187	16,54,680
BVPS (Rs)	107.3	124.7	147.2	176.4	214.7
Adj BVPS (Rs)	101.0	120.8	145.9	175.8	214.4

Source: Company, ACMIIL Research

Key Ratios

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Tier 1	16.8	15.5	15.4	15.4	15.4
CAR	18.6	16.7	16.4	16.3	16.3
ROA	1.3	1.6	1.7	1.8	2.0
ROE	13.1	16.0	15.8	16.6	17.9
Cost-to-income	45.1	48.4	48.8	49.7	49.3

Source: Company, ACMIIL Research

YoY growth

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	23.4	13.7	12.5	15.1	19.1
Pre provisioning operating profit	50.5	14.3	14.3	27.7	25.6
Profit before tax	54.3	46.2	17.6	26.9	30.8
Profit after tax	64.3	45.1	16.9	25.3	31.2
Advances	12.8	16.0	15.0	16.7	18.0
Deposits	11.6	16.3	14.9	16.3	17.2

Source: Company, ACMIIL Research

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
HOLD	$> -10\%$ to 15%

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