

Karur Vysya Bank (KVB)

Business growth intact; asset quality improves

Karur Vysya Bank (KVB) reported its Q3FY25 results, broadly in line with our estimated pre-quarter numbers and beat on PPOP/PAT. The bank's core portfolio, RAM, continues to grow at a healthy pace (4.2% QoQ/20% YoY) while the corporate segment remains a laggard. Deposits too reported a growth of 3.5% QoQ/15.7% YoY, thus, normalizing the bank's CD ratio by 24bps QoQ/131bps YoY to 83.5%. During the quarter, the bank saw the increased cost of funds, which capped the upside growth of NIMs at 4% (9bps lower than our estimate).

KVB's asset quality remains pristine as it improved sequentially with declining GNPA/NNPA. The bank expects that GNPA/NNPA going forward will be under 2%/1% due to the high portion of the secured book and prudent underwriting.

We expect its advances/deposits to grow at a CAGR of 17%/16.2% over FY24-27E while ROA to sustain at 1.8% along with PAT growth of 20% CAGR during the same period. It is currently trading at 1.6/1.3/1.1x of its FY25/26/27E Adj. BV. We maintain 'Buy' on Karur Vysya Bank while revising our target upwards to Rs 275 (from Rs 265 earlier). We value the bank at 1.6x of its FY26E Adj. BV.

Strengthening RAM portfolio

The bank's RAM portfolio saw a growth of 4.2% QoQ/20% YoY was led by its retail and commercial segment. The bank continues to emphasize its retail-secured high-margin segments while writing down low-yielding corporate loans. In the retail segment, the jewel/mortgage loans saw a growth of 32%/35% YoY during Q2FY25. Going forward, the bank expects to grow at 14% YoY in FY25E which will be mainly driven by secured retail loans. The bank is growing its jewel loan book in compliance with the RBI norms relating to the gold loan. The bank shall gradually grow its unsecured book (currently ~3% of the loan book) once it has gained confidence in the market. KVB is also increasing its footprint in the MFI portfolio in relatively less stressed areas like Karnataka and some districts of Tamil Nadu.

NIM to remain moderate in Q4FY25E

During the quarter, KVB saw a decline in its NIMs by 8bps QoQ/29bps YoY to 4% mainly due to an increase in the cost of deposits while the yields on advances remained flat. NIMs have contracted as the cost of funds continues to remain elevated in high-interest-rate scenarios. The company believes that declining interest rates or disbursement of higher-yielding loans shall improve NIMs going forward. KVB expects NIMs to remain at 3.85% in Q4FY25.

Costs to remain elevated as expansion continues

The company continues to invest in tech, expanding its footprint via branches and other states. Due to this, the bank expects that the cost-to-income shall remain elevated for the company. The bank has also hired a team for consultation to improve its efficiency and streamline the process. The bank has guided cost-to-income to remain near 50% in FY25E.

Guidance going ahead

Going forward KVB expects loan growth of 14% in FY25E while NIMs to remain at ~4% in FY25E. In Q4FY25, NIMs could see a further decline of 15bps QoQ to 3.85%. It expects that the decline in interest rates shall help NIMs due to its linkage to EBLR. The bank expects that its GNPA/NNPA shall remain under 2%/1% as asset quality shall remain intact. ROA for Q4FY25 shall be maintained above ~1.65%.

YE March, Rs mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	33,490	38,090	42,981	49,968	59,479
Pre provisioning operating profit	24,758	28,291	32,044	38,377	47,906
Profit before tax	14,369	21,002	24,689	28,399	36,995
Profit after tax	11,061	16,048	18,559	21,299	27,844
EPS (Rs)	13.8	20.0	23.1	26.5	34.6
Adj. BVPS (Rs)	101.0	120.8	144.6	169.5	202.3
Net interest margin (%)	4.4	4.3	4.1	4.1	4.2
P/E (x)	16.4	11.4	9.8	8.6	6.6
P/Adj. BV (x)	2.2	1.9	1.6	1.3	1.1

Source: Company, ACMIIL Research

BUY

Target: Rs 275

Key Data

Bloomberg code:	KVB:IN
Target price (Rs)	275
CMP (Rs)	225
Upside/ (Downside)	21%
Rating:	BUY
Shares outstanding (mn):	800
Mcap (Rs bn) :	181
52-week H/L (Rs):	229/219

Price Performance (%)

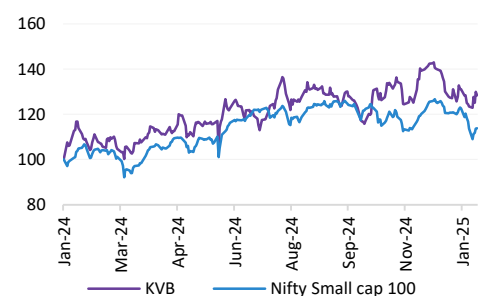
1 month	1.7
3 months	0.7
12 months	32.3

Shareholding Pattern (%)

	Mar '24	Jun '24	Sep '24
Promoter	2.2	2.2	2.1
FII's	15.4	15.1	15.1
DII's	36.2	35.7	37
Public/other	46.0	46.8	45.5
Pledge	6.7	4.6	4.7

Source: BSE

KVB performance vs. Nifty Small cap 100



Source: NSE

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Quarterly Performance

YE March, Rs mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	ACMIIL Est.	Var (%)
Interest earned	24,860	21,394	16.2	23,840	4.3	25,188	-1.3
Other Income	4,674	3,578	30.6	4,720	-1.0	5,435	-14.0
Total Income	29,534	24,972	18.3	28,560	3.4	30,623	-3.6
Interest expended	14,072	11,381	23.6	13,241	6.3	14,385	-2.2
Net Interest Income	10,788	10,013	7.7	10,600	1.8	10,804	-0.1
Salaries Wages and Employee Benefits	3,738	3,747	-0.2	3,570	4.7		
Other Operating Expenses	3,571	3,085	15.8	3,587	-0.4		
Operating expenses	7,310	6,832	7.0	7,157	2.1		
Total expenditure	21,382	18,213	17.4	20,398	4.8		
Pre provisioning operating profit	8,153	6,759	20.6	8,162	-0.1	7,888	3.4
Provisions	1,474	1,497	-1.5	1,798	-18.0		
Profit before tax	6,678	5,262	26.9	6,364	4.9		
Tax	1,718	1,146	50.0	1,628	5.5		
Profit after tax	4,960	4,116	20.5	4,736	4.7	4,722	5.0
EPS (Rs)	6.2	5.1	20.1	5.9	4.6	5.9	5.0

Source: Company, Bloomberg, ACMIIL Research

Business Parameters

YE March, Rs mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	ACMIIL Est.	Var (%)
Advances	8,28,380	7,26,920	14.0	8,02,990	3.2	8,27,357	0.1
Deposits	9,91,550	8,56,650	15.7	9,58,390	3.5	9,89,965	0.2
Credit to deposit ratio (%)	83.5	84.9	-131.2bps	83.8	-24bps	83.6	-3bps
ROA (%)	1.7	1.6	11bps	1.7	2bps	1.6	10bps
ROE (%)	17.4	17.2	22bps	17.4	6bps	16.6	81bps
CASA (%)	28.4	32.0	-359bps	29.0	-59bps	29.5	-110bps
NIMs (%)	4.0	4.3	-29bps	4.1	-8bps	4.1	-9bps
Cost-to-income (%)	47.3	50.3	-299.4bps	46.7	55bps	51.4	-415bps
Cost of deposit (%)	5.7	5.3	41bps	5.6	10bps		
Yield on advances (%)	10.2	10.2	0bps	10.1	8bps		

Source: Company, Bloomberg, ACMIIL Research

Capital Position

YE March (%)	Q3FY25	Q3FY24	YoY (bps)	Q2FY25	QoQ (bps)
CAR	15.9	15.4	52.0	16.3	-37.0
Tier 1	15.0	13.9	116.0	15.4	-35.8
Tier 2	0.9	1.5	-64.0	0.9	-1.2

Source: Company, ACMIIL Research

Asset Quality

YE March, Rs mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Gross NPA	6,910	11,520	-40.0	8,860	-22.0
Net NPA	1,670	3,050	-45.2	2,190	-23.7
Gross NPA (%)	0.8	1.6	-75bps	1.1	-27bps
Net NPA (%)	0.2	0.4	-22bps	0.3	-8bps
PCR (%)	96.9	94.8	206bps	96.1	78bps

Source: Company, ACMIIL Research

Bank's advances and deposits growth both have beaten our estimates.

Loan Segments

YE March, Rs mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	ACMIIL Est.	Var (%)
Commercial	2,98,240	2,43,980	22.2	2,86,880	4.0	2,95,302	1.0
Retail	2,04,760	1,70,900	19.8	1,96,850	4.0	2,06,961	-1.1
Agri	1,97,050	1,68,330	17.1	1,88,380	4.6	1,95,259	0.9
Corporate	1,28,330	1,43,710	-10.7	1,30,880	-1.9	1,29,835	-1.2
Gross advances	8,28,380	7,26,920	14.0	8,02,990	3.2	8,27,357	0.1

Source: Company, ACMIIL Research

RAM segment has driven the advances growth. Corporate segment showed a de-growth.

As a % of Total Advances

YE March (%)	Q3FY25	Q3FY24	YoY (bps)	Q2FY25	QoQ (bps)	ACMIIL Est.	Var (bps)
Commercial	36.0	33.6	243.9	35.7	27.6	35.7	31.1
Retail	24.7	23.5	120.8	24.5	20.3	25.0	-29.7
Agri	23.8	23.2	63.1	23.5	32.8	23.6	18.7
Corporate	15.5	19.8	-427.8	16.3	-80.7	15.7	-20.1

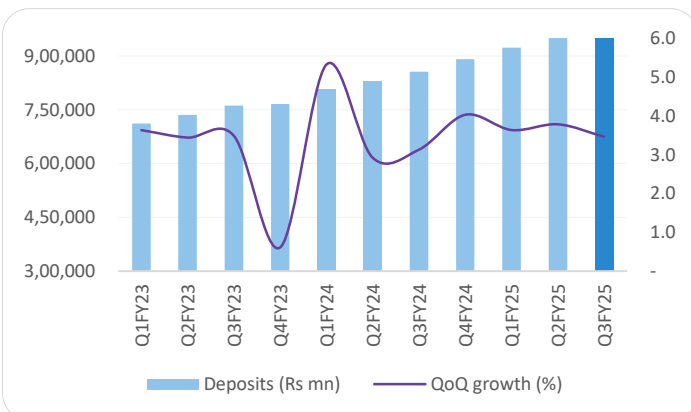
Source: Company, ACMIIL Research

Shedding low yielding loans and focusing more on granular retail deposits. Growth will be maintained at 14%.

Con-Call Key Take Away

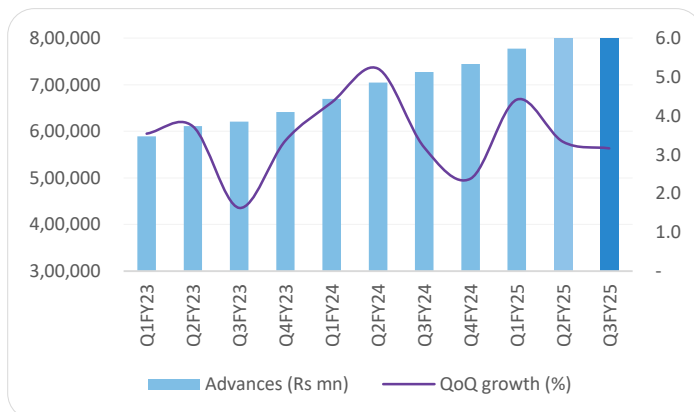
- **Growth momentum sustained:** KVB has given a steady and consistent growth. Advances grew ~14% on a YoY basis. This was driven by their RAM portfolio that contributed around ~20% YoY. Corporate lending remained a laggard, degrowing by ~8% YoY. Bank is working on three fronts: Growth, Profitability and Asset quality. The same growth momentum is expected to continue in Q4 as well.
- **Merging branch channel with open market channel:** The bank is merging their branch channel with open market channel. This is for streamlining their business and improving the overall efficiency at branch level.
- **Elevated cost to income:** The bank has various initiatives in place like the 'Feet on Street' initiative along with expansion of branches (plans to open 22 branches in Q4), hiring of more employees to connect with more customers. Bank has also hired a consultant in Jan 2025. This has led to the bank taking up higher upfront cost. Thus, cost will remain slightly elevated for the next few quarters before it starts to normalize. The bank has guided a cost to income ratio below 50%.
- **CASA remains a pain point:** CASA for the bank remains a pain point. KVB has undertaken various initiatives like 'Feet on Street' to engage with customers and garner more CASA. However, CASA ratio still remains low at ~28%. SME customers have working capital account with the bank rather than maintaining a current account. Thus, deposit growth remains a key focus area for the bank. KVB has launched 'Reconnect with Customer' initiative while hiring more people to work on acquisition as well as retention of customers.
- **Shedding low yielding loans:** The bank's strategy is to shed low yielding corporate loans and increase their secured granular high yielding segments. Thus corporate loan has seen decline of ~8% on YoY basis. As and when the deposit growth takes pace, the bank will restart their focus on corporate loans as well since the fee income has reduced due to low de-growth in corporate lending.
- **Shielded for ECL norms:** The bank is covered for ECL norms, if the RBI implements them. KVB has a floating provision of Rs 100 crore and each quarter they provide Rs 25 crore. They remain shielded if at all the norms are implemented.
- **MFI portfolio:** KVB's MFI portfolio currently stands at Rs 350 crore, which forms around 0.4% of the total advances. Bank started their MFI segment around 2 years back and are cautious for this segment. Location wise the bank is venturing in states with high recoveries like Telangana, Karnataka and few districts of Tamil Nadu.
- **NPA commentary:** Bank has a total restructured book of ~0.7%, majority of which are retail and commercial. All these are backed by security hence there is no additional stress here. Even if NPA happens, the bank will recover in 1-1.5 years. The TW book of the bank is close to Rs 4,800 crore, including mainly the corporate accounts. Current recoveries are Rs 175 crore per quarter.
- **Guidance:** The bank remains confident in maintain its advances and deposits growth at 14% each. NIMs will be slightly lower than Q3 at 3.85% in Q4FY25, but will maintain the 4% mark for the entire year. Cost of deposit will be higher by 10bps in next quarter given lower CASA deposits. ROA will be above the 1.65% mark. Asset quality is expected to be healthy with the management guiding the GNPA below 2% and NNPA below 1%.

Exhibit 1: Deposit growth driven by term deposits



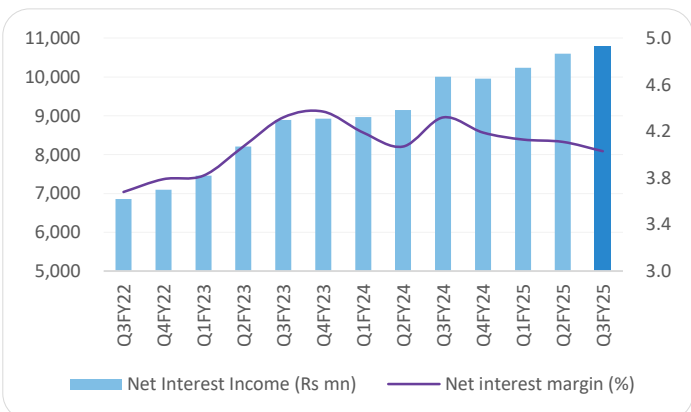
Source: Company, ACMIIL Research

Exhibit 2: Advances growth aided by RAM segment



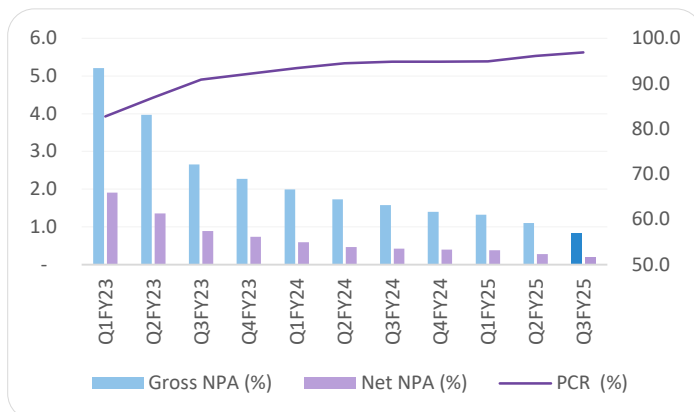
Source: Company, ACMIIL Research

Exhibit 3: Margins maintained at above 4% level



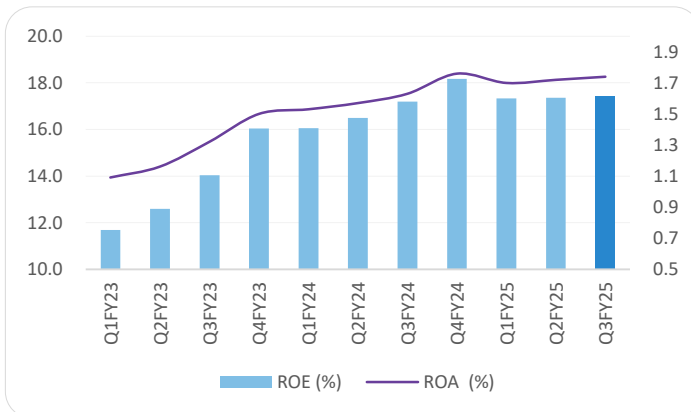
Source: Company, ACMIIL Research

Exhibit 4: NPA improved for the quarter



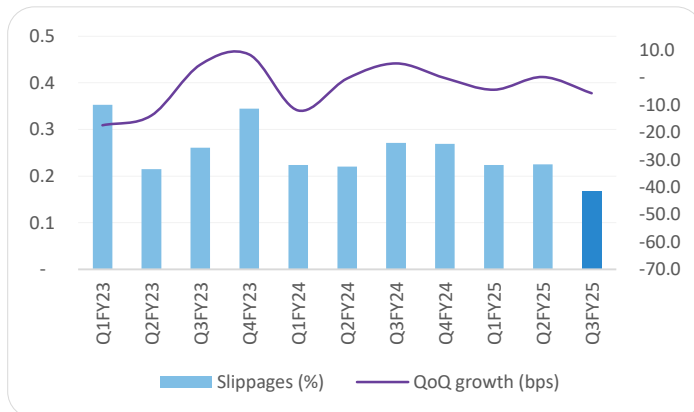
Source: Company, ACMIIL Research

Exhibit 5: ROE and ROA both maintained at the guided level



Source: Company, ACMIIL Research

Exhibit 6: Slippages declined for the quarter



Source: Company, ACMIIL Research

We maintain 'Buy' on Karur Vysya Bank while revising our target upwards to Rs 275 valuing the bank at 1.6x of its FY26E Adj. BV.

Valuation and outlook

KVB continues to see healthy growth in its loan book over and above the industry along with deposit growth. The bank saw a moderation in its NIMs which is expected to improve even further. The asset quality of the bank remains healthy due to the high proportion of secured book. The bank is expanding into different loan segments and exploring new geographies. However, the CASA deposit mobilization remains a challenge for the bank despite the initiatives taken a year ago.

We expect its advances/deposits to grow at a CAGR of 17%/16.2% over FY24-27E while ROA to sustain at 1.8% along with PAT growth of 20% CAGR during the same period. It is currently trading at 1.6/1.3/1.1x of its FY25/26/27E Adj. BV. We maintain 'Buy' on Karur Vysya Bank while revising our target upwards to Rs 275 (from Rs 265 earlier). We value the bank at 1.6x of its FY26E Adj. BV.

Valuation Chart

Exhibit 7: 1 yr forward P/Adj. BV (x)



Source: ACMIIL Research

Financials (Consolidated)

Income Statement

YE March, Rs mn	FY23	FY24	FY25E	FY26E	FY27E
Interest earned	65,166	82,237	98,285	1,19,685	1,46,908
Interest expended	31,677	43,947	55,304	69,717	87,429
Net Interest Income	33,488	38,290	42,981	49,968	59,479
Other Income	11,589	16,589	18,659	28,237	37,438
Total Income	76,755	98,826	1,16,944	1,47,921	1,84,347
Salaries Wages and Employee Benefits	10,060	14,610	15,093	20,505	24,167
Other Operating Expenses	10,260	11,977	14,504	19,322	24,845
Operating expenses	20,320	26,588	29,597	39,828	49,012
Total expenditure	51,997	70,535	84,900	1,09,544	1,36,441
Pre provisioning operating profit	24,758	28,291	32,044	38,377	47,906
Provisions	10,389	7,290	7,355	9,978	10,910
Profit before tax	14,369	21,002	24,689	28,399	36,995
Tax	3,308	4,954	6,130	7,100	9,151
Profit after tax	11,061	16,048	18,559	21,299	27,844
EPS (Rs)	13.8	20.0	23.1	26.5	34.6

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	6.9	7.1	7.1
Cost of Funds	4.3	5.2	5.7	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	28.4	27.9	28.3

Source: Company, ACMIIL Research

Asset Quality

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Gross NPA (Rs mn)	10,630	6,470	6,365	8,697	11,406
Net NPA (Rs mn)	4,680	2,980	1,849	3,093	4,576
Gross NPA	2.3	1.4	0.7	0.9	1.0
Net NPA	0.7	0.4	0.2	0.3	0.4
Credit cost	1.5	0.7	0.6	0.7	0.7
Slippage	0.8	0.7	0.8	1.0	0.8

Source: Company, ACMIIL Research

Valuation

YE March (x)	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	16.4	11.4	9.8	8.6	6.6
P/BV (x)	2.1	1.8	1.5	1.3	1.1
P/Adj. BV (x)	2.2	1.9	1.6	1.3	1.1

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	1,16,633	1,37,932	1,65,776
Net Worth	85,840	1,00,400	1,18,243	1,39,542	1,67,386
Deposits	7,66,380	8,91,130	10,25,243	11,93,003	13,98,342
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	12,17,323	14,13,002	16,51,561
Cash and balances with RBI	46,950	56,580	58,102	64,006	76,028
Investments	1,88,080	2,23,440	2,60,044	3,03,031	3,45,675
Advances	6,31,340	7,36,670	8,57,093	10,00,602	11,80,961
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	12,17,323	14,13,002	16,51,561
BVPS (Rs)	107.3	124.7	146.9	173.4	208.0
Adj BVPS (Rs)	101.0	120.8	144.6	169.5	202.3

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	1.6	1.6	1.8
ROE	13.1	16.0	15.7	15.3	16.6
Cost-to-income	45.1	48.4	48.0	50.9	50.6

Source: Company, ACMIIL Research

YoY growth

YE March (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	23.4	13.7	12.8	16.3	19.0
Pre provisioning operating profit	50.5	14.3	13.3	19.8	24.8
Profit before tax	54.3	46.2	17.6	15.0	30.3
Profit after tax	64.3	45.1	15.6	14.8	30.7
Advances	12.8	16.0	15.2	16.7	18.0
Deposits	11.6	16.3	15.0	16.4	17.2

Source: Company, ACMIIL Research

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

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