

20 January 2025

## Karur Vysya Bank

*Strong quarter, sturdy profitability to continue; retaining a Buy*

Decent operating performance combined with moderate provisions kept Karur Vysya Bank's profitability strong, with 1.74% RoA (up 2bps q/q). Overall asset quality and PCR improved, with GNPA at 0.8% (down 27bps q/q) and NNPA at 0.2% (down 8bps q/q). Key positives were: 1) decline in slippages (at 0.7% of loans), 2) lowest stress pipeline among peers (SMA 30+ pool at 39bps), 3) strong credit growth in core retail (22% y/y) and SME (20% y/y) segments, 4) NIM persisting above 4% and 5) a strong balance sheet. With credit growth likely in mid-teens and modest credit costs, earnings are expected to be strong. We retain our Buy rating, with a 12-mth TP of Rs288, 1.5x P/ABV on the FY27e book.

**Asset quality continues to improve.** GNPA and NNPA improved 27bps and 8bps q/q, respectively, on moderate slippages and higher write-offs. Q3 slippage was Rs1.4bn (~0.7% of loans), which was lower than that of last quarter and our expectations. The PCR (incl. write-offs) improved 78bps q/q to 96.9%. The standard restructured book was Rs6.1bn (down 3.6% q/q), 0.74% of loans. Overall SMA 30+ was Rs3.3bn (0.39% 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 FY25-27.

**RoA to remain above 1.6%.** With credit growth expected to be in mid-teens and a modest slippage run rate, medium-term credit costs are expected below 1%. Decent 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 Rs288 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	42,620	48,018	55,231
Pre-provisioning profit (Rs m)	24,758	28,291	32,107	35,882	41,017
Provisions (Rs m)	10,389	7,290	6,177	8,601	10,401
PAT (Rs m)	11,061	16,048	19,396	20,406	22,900
EPS (Rs)	13.8	20.0	24.1	25.3	28.4
NIM (%)	4.3	4.3	4.1	4.1	4.0
Cost-income (%)	45.1	48.3	47.1	47.6	47.5
RoE (%)	13.7	17.2	17.8	16.1	15.6
RoA (%)	1.3	1.6	1.7	1.6	1.6
Advances growth (%)	14.1	16.7	15.0	16.0	16.0
GNPA (%)	2.3	1.4	0.9	0.9	0.9
CAR (%)	18.6	16.8	17.1	16.8	16.8
P/E (x)	16.5	11.4	9.4	9.0	8.0
P / BV (x)	2.1	1.8	1.6	1.3	1.2
P / ABV (x)	2.2	1.9	1.6	1.4	1.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.288

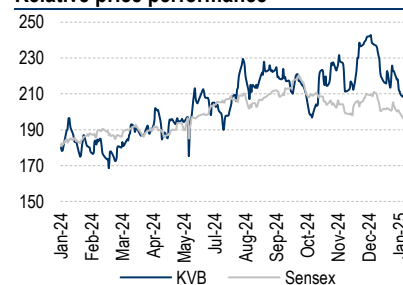
Share Price: Rs.227

Key data	KVB IN / KARU.BO
52-week high / low	Rs246 / 164
Sensex / Nifty	77073 / 23345
3-m average volume	\$6m
Market cap	Rs180bn / \$2074.1m
Shares outstanding	799m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	2.1	2.1	2.3
- of which, Pledged	4.7	4.7	8.2
Free float	97.9	97.9	97.7
- Foreign institutions	14.2	15.1	15.4
- Domestic institutions	38.5	37.0	38.2
- Public	45.2	45.8	44.1

Estimates revision (%)	FY26e	FY27e
NII	(3.8)	(4.5)
PPOP	(4.5)	(2.6)
PAT	(5.2)	(2.6)

### Relative price performance



Source: Bloomberg

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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	42,620	48,018	55,231
<i>NII growth (%)</i>	23.3	13.7	11.9	12.7	15.0
Non-interest income	11,589	16,587	18,080	20,430	22,882
Income	45,077	54,679	60,699	68,448	78,113
<i>Income growth (%)</i>	29.4	21.3	11.0	12.8	14.1
Operating expenses	20,320	26,388	28,592	32,566	37,096
PPoP	24,758	28,291	32,107	35,882	41,017
<i>PPoP growth (%)</i>	51.9	14.3	13.5	11.8	14.3
Provisions	10,389	7,290	6,177	8,601	10,401
PBT	14,369	21,002	25,930	27,281	30,616
Tax	3,308	4,954	6,534	6,875	7,715
PAT	11,061	16,048	19,396	20,406	22,900
<i>PAT growth (%)</i>	64.3	45.1	20.9	5.2	12.2
FDEPS (Rs)	13.8	20.0	24.1	25.3	28.4
DPS (Rs)	2.0	2.4	2.4	2.5	2.8

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	1,16,248	1,34,614	1,55,224
Deposits	7,66,376	8,91,127	10,33,708	11,99,101	13,78,966
Borrowings	14,320	24,784	16,109	17,720	19,492
Other liabilities	35,258	39,540	18,975	14,519	21,283
<b>Total liabilities</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>11,86,650</b>	<b>13,67,564</b>	<b>15,76,575</b>
Advances	6,31,341	7,36,675	8,47,176	9,82,724	11,39,960
Investments	1,88,083	2,23,435	2,45,779	2,82,646	3,25,042
Cash & bank balance	46,951	56,586	55,500	62,089	69,462
Fixed & other assets	35,418	39,156	38,196	40,106	42,111
<b>Total assets</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>11,86,650</b>	<b>13,67,564</b>	<b>15,76,575</b>
No. of shares (m)	802	804	805	805	805
<i>Deposit growth (%)</i>	11.6	16.3	16.0	16.0	15.0
<i>Advances growth (%)</i>	14.1	16.7	15.0	16.0	16.0

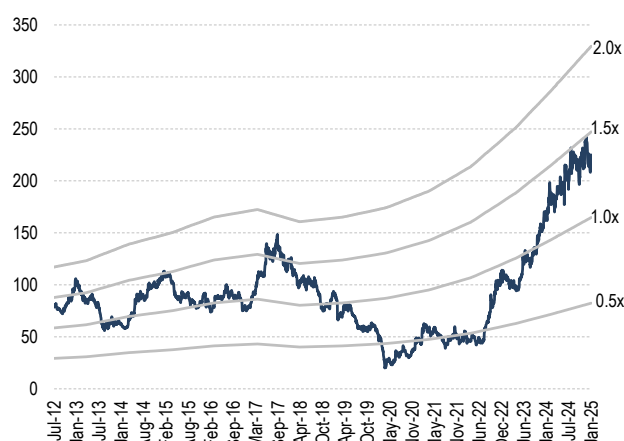
Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis, %**

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM	4.3	4.3	4.1	4.1	4.0
Other inc. / total inc.	25.7	30.3	29.8	29.8	29.3
Cost-income	45.1	48.3	47.1	47.6	47.5
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	82.0	82.0	82.7
Investment-deposit	24.5	25.1	23.8	23.6	23.6
Gross NPA	2.3	1.4	0.9	0.9	0.9
Net NPA	0.7	0.4	0.2	0.2	0.2
BV (Rs)	107.0	124.8	146.4	169.2	194.8
Adj. BV (Rs)	102.9	122.2	144.7	167.3	192.7
CAR	18.6	16.8	17.1	16.8	16.8
- Tier 1	16.8	15.5	16.1	15.9	16.0
RoE	13.7	17.2	17.8	16.1	15.6
RoA	1.3	1.6	1.7	1.6	1.6

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-book band**



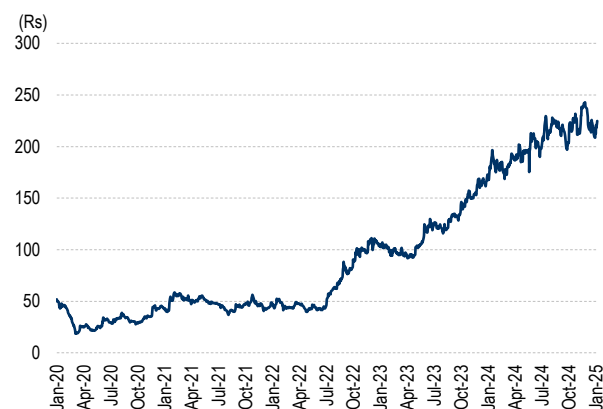
Source: Bloomberg

**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)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Interest income	14,735	15,795	16,952	17,683	18,829	19,971	21,394	21,846	22,845	23,840	24,860
Interest expense	7,277	7,581	8,062	8,757	9,858	10,817	11,381	11,891	12,602	13,241	14,072
<b>NII</b>	<b>7,459</b>	<b>8,214</b>	<b>8,890</b>	<b>8,926</b>	<b>8,971</b>	<b>9,154</b>	<b>10,013</b>	<b>9,955</b>	<b>10,244</b>	<b>10,600</b>	<b>10,788</b>
Y/Y growth (%)	16.9	20.7	29.4	25.7	20.3	11.4	12.6	11.5	14.2	15.8	7.7
Non-interest income	1,991	2,416	3,175	4,008	3,332	3,389	3,578	6,289	3,884	4,720	4,674
<b>Total income</b>	<b>9,450</b>	<b>10,629</b>	<b>12,065</b>	<b>12,934</b>	<b>12,302</b>	<b>12,543</b>	<b>13,591</b>	<b>16,243</b>	<b>14,127</b>	<b>15,320</b>	<b>15,462</b>
Y/Y growth (%)	12.7	25.8	36.7	41.3	30.2	18.0	12.6	25.6	14.8	22.1	13.8
Operating expenses	4,695	4,906	5,175	5,543	5,818	6,164	6,832	7,574	6,669	7,157	7,310
Of which, staff cost	2,357	2,339	2,557	2,807	3,189	3,276	3,747	4,398	3,335	3,570	3,738
<b>PPoP</b>	<b>4,755</b>	<b>5,723</b>	<b>6,890</b>	<b>7,391</b>	<b>6,484</b>	<b>6,379</b>	<b>6,759</b>	<b>8,669</b>	<b>7,459</b>	<b>8,162</b>	<b>8,153</b>
Y/Y growth (%)	16.2	52.5	71.6	67.5	36.4	11.5	-1.9	17.3	15.0	28.0	20.6
Total provisions	1,547	2,272	3,641	2,930	1,594	1,264	1,497	2,934	1,329	1,798	1,474
<b>PBT</b>	<b>3,208</b>	<b>3,451</b>	<b>3,249</b>	<b>4,460</b>	<b>4,890</b>	<b>5,115</b>	<b>5,262</b>	<b>5,735</b>	<b>6,129</b>	<b>6,364</b>	<b>6,678</b>
Tax	921	949	356	1,082	1,304	1,331	1,146	1,174	1,543	1,628	1,718
<b>PAT</b>	<b>2,287</b>	<b>2,502</b>	<b>2,893</b>	<b>3,378</b>	<b>3,586</b>	<b>3,785</b>	<b>4,116</b>	<b>4,561</b>	<b>4,587</b>	<b>4,736</b>	<b>4,960</b>
Y/Y growth (%)	110.1	51.3	56.0	58.3	56.8	51.2	42.3	35.0	27.9	25.1	20.5

Source: Company, Anand Rathi Research

**Fig 8 – Balance sheet**

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Equity capital	1,600	1,601	1,600	1,604	1,600	1,605	1,610	1,609	1,610	1,610	1,610
Reserves & surplus	76,650	77,888	80,800	84,236	87,840	90,024	94,180	98,792	1,04,240	1,07,397	1,12,310
Deposits	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	9,91,550
Borrowings	26,110	22,806	14,730	14,320	15,550	25,879	29,930	24,784	21,130	14,180	15,630
Other liabilities	22,430	25,214	31,250	35,258	33,930	36,157	46,310	39,541	38,270	44,159	42,630
<b>Equity and liabilities</b>	<b>8,38,470</b>	<b>8,63,650</b>	<b>8,90,130</b>	<b>9,01,794</b>	<b>9,46,070</b>	<b>9,84,349</b>	<b>10,28,680</b>	<b>10,55,852</b>	<b>10,88,740</b>	<b>11,25,731</b>	<b>11,63,730</b>
Deposits y/y growth (%)	10.5	12.5	13.9	11.6	13.4	12.8	12.5	16.3	14.4	15.4	15.7
Deposits q/q growth (%)	3.6	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6	3.8	3.5
<b>Assets</b>											
Cash and cash balances	42,520	46,906	44,020	42,795	51,980	46,142	53,010	55,879	53,250	54,571	50,460
Advances	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	8,23,020
Investments	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	2,49,600
Other assets	19,770	19,675	26,920	35,418	31,110	32,030	45,530	39,156	38,230	40,532	37,240
<b>Total Assets</b>	<b>8,38,470</b>	<b>8,63,650</b>	<b>8,90,130</b>	<b>9,01,794</b>	<b>9,46,070</b>	<b>9,84,349</b>	<b>10,28,680</b>	<b>10,55,852</b>	<b>10,88,740</b>	<b>11,25,731</b>	<b>11,63,730</b>
Advances y/y growth (%)	15.2	17.1	15.9	14.1	14.6	15.5	16.3	16.7	16.7	14.5	14.6
Advances q/q growth (%)	4.0	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5	3.4	3.4

Source: Company, Anand Rathi Research

**Fig 9 – Movement of GNPA**

GNPA	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Opening balance (Rs m)	24,565	16,743	14,582	13,300	12,190	11,519	10,416	10,245	8,856
Slippages (Rs m)	1,620	2,220	1,500	1,550	1,970	2,010	1,740	1,810	1,390
Gross slippage ratio (%)	1.1	1.4	1.0	0.9	1.1	1.1	0.9	0.9	0.7
Reductions (Rs m)	9,450	4,380	2,780	2,660	2,640	3,110	1,910	3,200	3,330
<b>Closing balance (Rs m)</b>	<b>16,743</b>	<b>14,582</b>	<b>13,297</b>	<b>12,191</b>	<b>11,519</b>	<b>10,416</b>	<b>10,245</b>	<b>8,856</b>	<b>6,909</b>
GNPA (%)	2.7	2.3	2.0	1.7	1.6	1.4	1.3	1.1	0.8
NNPA (%)	0.9	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.2
Restructured advances (%)	1.9	1.5	1.4	1.2	1.1	1.0	0.9	0.8	0.7
Stressed assets (%)	4.5	3.8	3.3	2.9	2.7	2.4	2.2	1.9	1.6

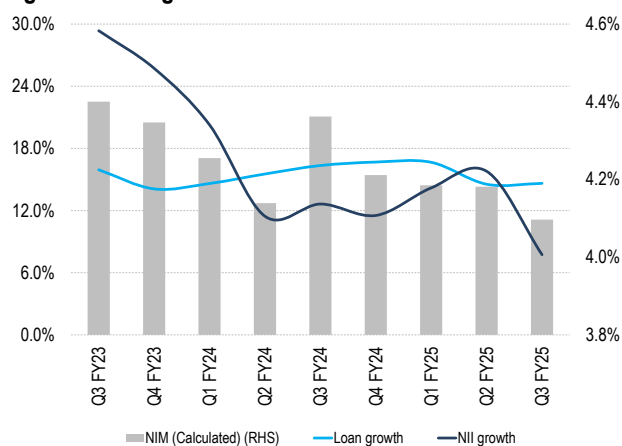
Source: Company, Anand Rathi Research

**Fig 10 – Break-up of advances (%)**

	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Corporate	22.9	20.8	20.2	20.5	19.8	18.7	17.6	16.3	15.5
Commercial	31.9	32.7	33.1	33.4	33.6	34.2	34.9	35.7	36.0
Housing	9.8	10.4	10.4	10.2	10.1	10.2	10.2	10.2	10.1
Auto	1.7	1.7	1.7	1.6	1.6	1.5	1.4	1.4	1.3
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Personal	0.5	0.6	0.5	0.6	0.5	0.4	0.4	0.4	0.3
Consumer Credit-BNPL	-	0.5	0.5	0.6	1.3	1.4	1.4	1.3	1.2
Jewel	2.8	3.3	3.3	3.1	2.9	2.9	3.4	3.5	3.8
LAP	3.4	5.1	5.1	5.2	5.3	5.5	5.8	6.1	6.4
Other Retail	4.0	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Farm	22.7	23.1	23.3	23.1	23.2	23.3	23.3	23.5	23.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

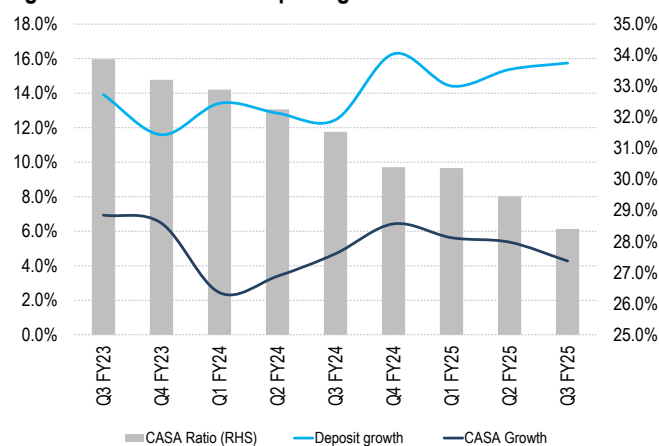
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM



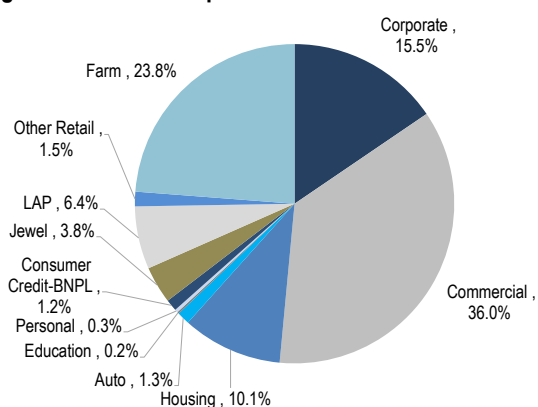
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth



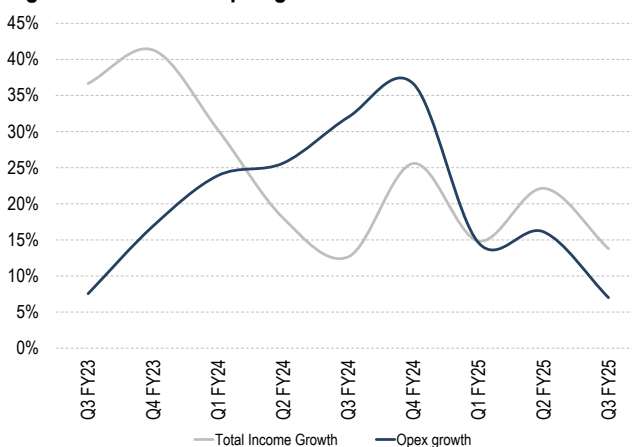
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



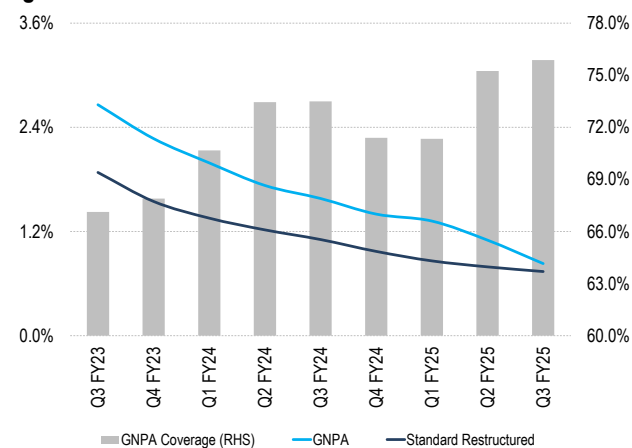
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



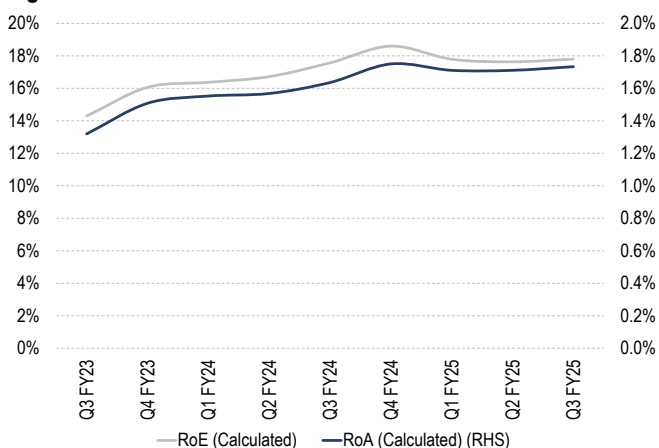
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – RoE vs. RoA



Source: Company, Anand Rathi Research

## Valuation

Our Rs288 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	48,018	49,901	(3.8)	55,231	57,841	(4.5)
Pre-provisioning profit	35,882	37,582	(4.5)	41,017	42,100	(2.6)
PAT	20,406	21,536	(5.2)	22,900	23,507	(2.6)

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.

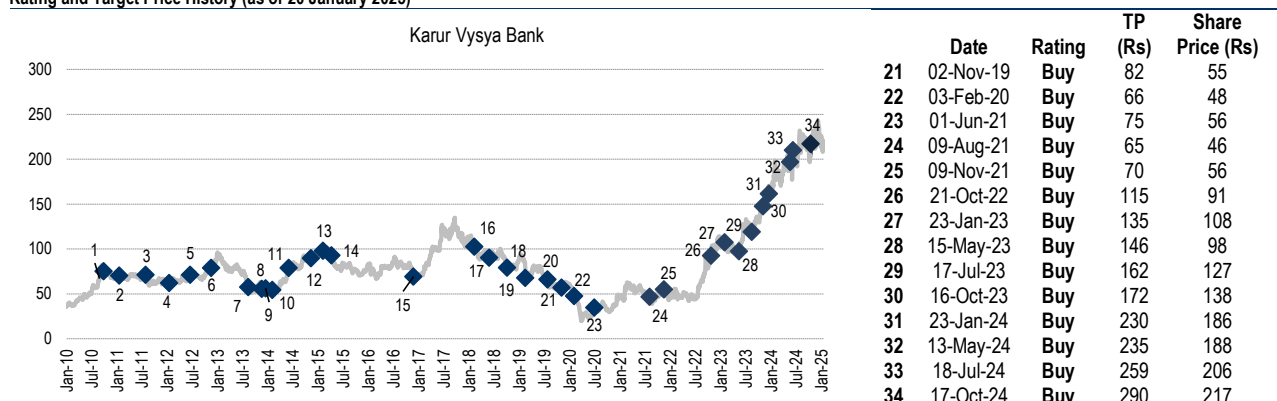
## Appendix

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### Important Disclosures on subject companies

#### Rating and Target Price History (as of 20 January 2025)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

#### 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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