

KBL reported an 11% PAT miss in 3Q at Rs2.8bn, due to lower margins – down by 21bps QoQ to 3% (partly due to change in penal interest recognition), and other income, as the bank adopted a calibrated growth approach amid rising liquidity/cost pressures. Incrementally, the bank would look at growth with clear focus on ramping up RAM (Retail, Agri, and MSME book) to deliver sustainably healthy RoAs over 1%. Headline asset quality continues to trend well with GNPA ratio down at 3.1%, which could fall below 3% as slippages remain contained, while the otherwise higher restructured book too moderates hereon. Bank is also gradually ramping-up its otherwise lower PCR (now at 56%), even if it means elevated provisioning in the interim. Factoring in relatively moderate growth, margin pressure in the near term, and slightly higher provisions, we have cut our earnings estimates for FY25-27 by 7-13%, and thus cut our TP to Rs275 (down 8%). However, for a bank delivering ~1.1% RoA, the stock is trading cheap at 0.5x Dec-26E ABV, and thus we retain BUY.

Karnataka Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	11,802	13,063	13,150	14,090	16,297
Loan growth (%)	5.6	19.3	11.4	13.2	15.1
NII growth (%)	27.9	3.6	1.3	10.7	15.8
NIM (%)	3.7	3.5	3.1	3.1	3.2
PPOP growth (%)	35.1	(2.0)	(11.7)	11.5	20.0
Adj. EPS (Rs)	37.9	37.9	34.8	37.3	43.2
Adj. EPS growth (%)	131.5	0.1	(8.0)	7.1	15.7
Adj. BV (INR)	219.8	249.2	280.3	312.6	348.5
Adj. BVPS growth (%)	21.1	13.3	12.5	11.5	11.5
RoA (%)	1.2	1.2	1.1	1.1	1.1
RoE (%)	15.2	13.7	11.5	11.2	11.8
P/E (x)	4.8	4.8	5.2	4.9	4.2
P/ABV (x)	0.8	0.7	0.7	0.6	0.5

Source: Company, Emkay Research

Calibrated credit growth, change in penal interest recognition drive down margins

The bank reported a moderate credit growth of 11% YoY/3.4% QoQ as it has adopted a calibrated growth approach with a clear focus on shedding low-yielding, short-term corporate loans, while ramping up the retail book (up 8% YoY/3% QoQ), including the GL, VF (including CV/CE), and M-LAP, thereby supporting margins in the long run. The bank's deposit growth was also lower at 9% YoY, while CASA ratio declined by 50bps QoQ to 30%, leading to higher CoF. This, coupled with lower loan yields due to non-recognition of penal interest after change in rules by the RBI led to a sharp 21bps QoQ fall in NIM to 3%. Separately, LCR improved to 152% in Q3 from 144% in Q2. The management has guided for the full year FY25 credit growth to be at 12%, and re-emphasized that RAM and SMID corporate segments shall be its key growth drivers.

Asset quality continues to hold up well; specific PCR improving gradually

Gross slippages were contained at Rs2.9bn/1.7% of loans, which coupled with better recoveries/upgrades led to a 10bps QoQ improvement in GNPA ratio to 3.1%. This coupled with increase in specific PCR to 56% (vs 55% in Q2), led to 7bps QoQ decline in NNPA ratio to 1.4%. The bank aims to bring down its GNPA/NNPA ratio to 3%/1% by Mar-25. We believe that with better operating profitability, the bank will ramp-up its otherwise sub-optimal specific PCR to more than 60%. Restructured book continues to decline and now stands at Rs11bn/1.5% of loans (vs Rs12bn/1.7% of loans in Q2).

We retain BUY with a change in TP to Rs275

Factoring in relatively moderate growth, margin pressure in the near term, and slightly higher provisions, we have cut our earnings estimates for FY25-27 by 7-13%, and thus cut our TP to Rs275 from Rs300. However, for a bank delivering ~1.1% RoA, the stock is trading cheap at 0.5x Dec-26E ABV; we retain BUY. **Key risks:** Slower-than-expected growth and resurgence of NPAs in the retail/SME sector due to macro/micro dislocation.

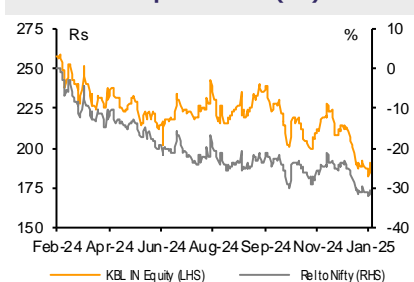
Target Price – 12M	Dec-25
Change in TP (%)	(8.3)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	50.7
CMP (01-Feb-25) (Rs)	182.5

Stock Data	Ticker
52-week High (Rs)	264
52-week Low (Rs)	180
Shares outstanding (mn)	377.9
Market-cap (Rs bn)	69
Market-cap (USD mn)	796
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	234.3
ADTV-3M (USD mn)	2.7
Free float (%)	100.0
Nifty-50	23,482
INR/USD	86.6
Shareholding, Dec-24	
Promoters (%)	-
FPIs/MFs (%)	11.2/20.2

Price Performance

(%)	1M	3M	12M
Absolute	(14.0)	(16.7)	(28.3)
Rel. to Nifty	(13.0)	(13.7)	(33.7)

1-Year share price trend (Rs)



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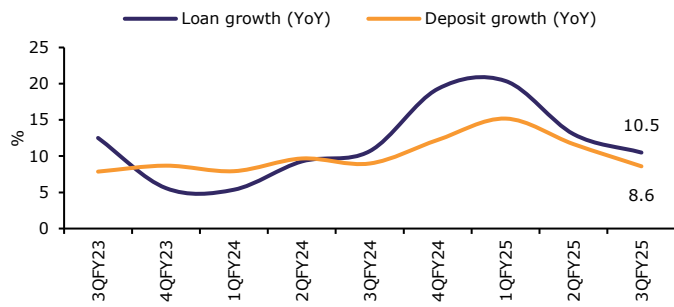
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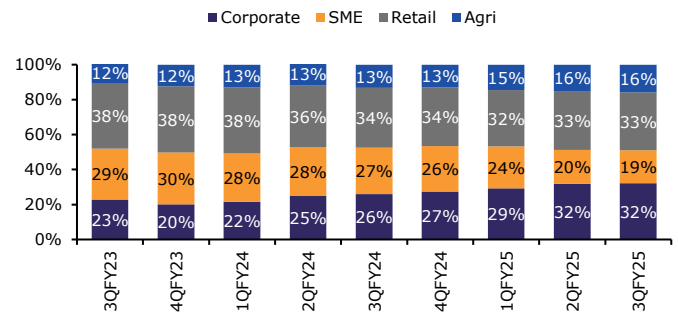
Story in Charts

Exhibit 1: Credit growth moderated further during the quarter



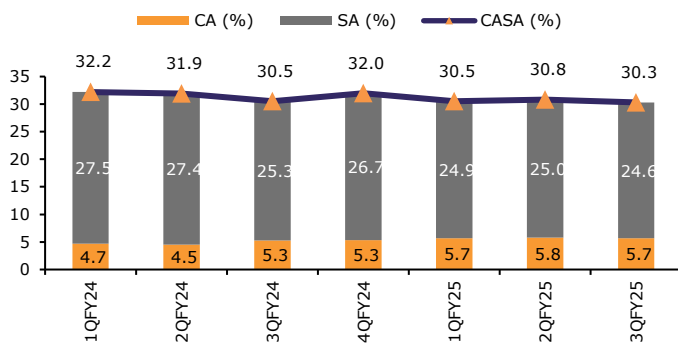
Source: Company, Emkay Research

Exhibit 2: Bank plans to ramp up RAM book



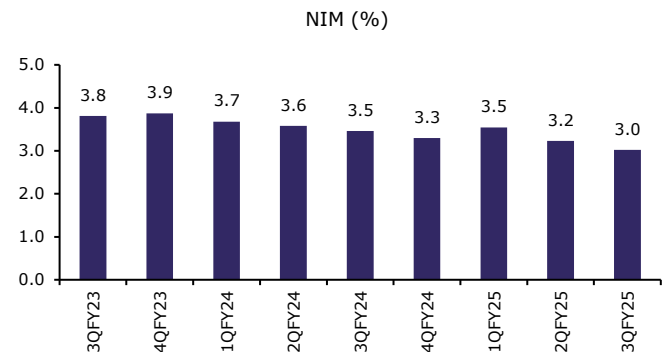
Source: Company, Emkay Research

Exhibit 3: CASA cannibalization continues, leading to lower CASA ratio...



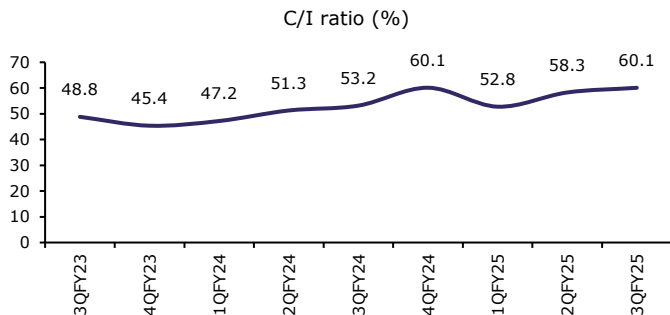
Source: Company, Emkay Research

Exhibit 4: ...margin slipped by 21bps QoQ due to recent RBI guidelines on penal interest and rising funding cost



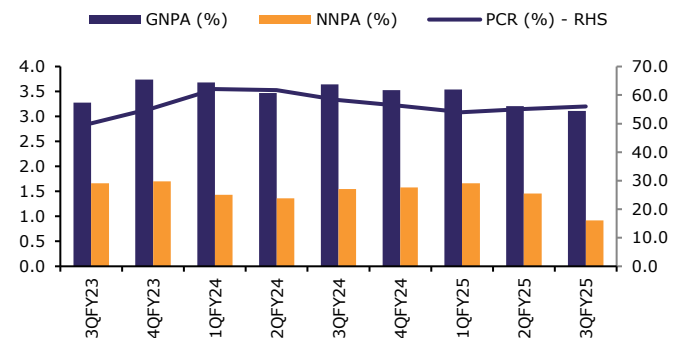
Source: Company, Emkay Research

Exhibit 5: Cost-income ratio inched up due to lower NII and other income



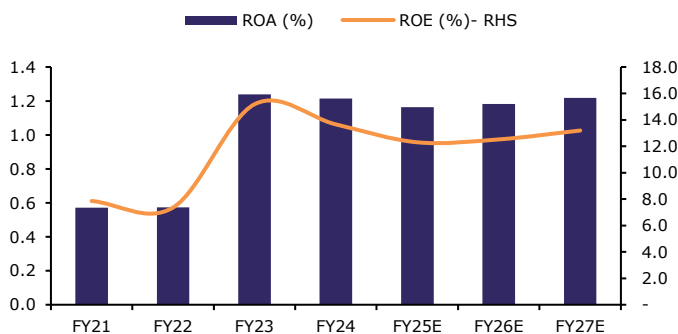
Source: Company, Emkay Research

Exhibit 6: Asset quality continues to improve



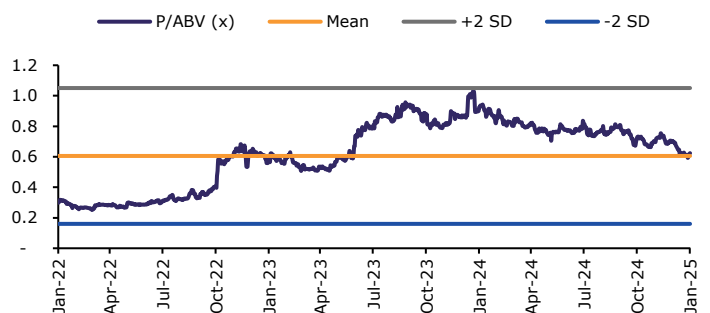
Source: Company, Emkay Research

Exhibit 7: We expect the bank to deliver healthy RoA of around 1.1%, led by contained credit cost and improving operating leverage



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.6x its one-year fwd ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q3FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	10,851	11,608	11,500	-7%	-6%	Calibrated credit growth, fall in margins and lower other income led to a miss
PPOP	4,331	4,890	4,750	-11%	-9%	Lower net income led to PPOP miss
PAT	2,836	3,190	3,100	-11%	-9%	Lower PPOP led to a PAT miss

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	21,126	22,006	22,780	22,341	22,430	6.2	0.4	82,985	90,272	9
Interest Expense	12,850	13,665	13,746	14,006	14,502	12.9	3.5	49,998	56,861	14
Net Interest Income	8,276	8,340	9,034	8,336	7,928	-4.2	-4.9	32,987	33,411	1
Global NIMs (reported)	3.46	3.30	3.54	3.23	3.02	-44bps	-21bps	3.45	3.13	-32bps
Non-interest Income	3,261	4,194	2,790	2,699	2,924	-10.3	8.3	13,189	11,518	-13
Operating Expenses	6,135	7,537	6,238	6,431	6,521	6.3	1.4	24,543	25,831	5
Pre-Provisioning Profit	5,402	4,998	5,586	4,604	4,331	-19.8	-5.9	21,633	19,098	-12
Provision & Contingencies	1,444	1,847	403	313	838	-42.0	167.4	6,006	2,453	-59
PBT	3,958	3,151	5,183	4,290	3,493	-11.7	-18.6	15,627	16,645	7
Income Tax Expense (Gain)	647	408	1,180	930	657	1.5	-29.3	2,565	3,495	36
Net Profit/(Loss)	3,311	2,742	4,003	3,361	2,836	-14.3	-15.6	13,063	13,150	1
Gross NPA (%)	3.64	3.53	3.54	3.21	3.11	-53bps	-10bps	3.53	3.01	-52bps
Net NPA (%)	1.55	1.58	1.66	1.46	0.92	-63bps	-54bps	1.58	1.32	-26bps
Deposits (Rs bn)	922	981	1,002	1,000	1,001	8.6	0.2	981	1,052	7
Net Advances (Rs bn)	692	715	740	740	765	10.5	3.4	715	796	11

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	49,308	44,929	-8.9%	57,371	49,340	-14.0%	67,410	56,320	-16.5%
PPOP	23,307	19,098	-18.1%	28,849	21,292	-26.2%	35,969	25,549	-29.0%
PAT	14,973	13,150	-12.2%	17,289	14,090	-18.5%	20,293	16,297	-19.7%
EPS (Rs)	39.7	34.8	-12.2%	45.8	37.3	-18.5%	53.8	43.2	-19.7%
BV (Rs)	321.1	302.2	-5.9%	359.9	332.0	-7.7%	405.6	366.2	-9.7%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	19.3	11.4	13.2	15.1
Deposit Growth (%)	12.2	7.2	13.0	15.3
NIM (%)	3.5	3.1	3.1	3.2
GNPA (%)	3.5	3.0	2.6	2.3
Credit Cost (%)	0.9	0.4	0.4	0.5

Source: Emkay Research

Exhibit 13: Key ratios and trends

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Loans (Rs mn)	625,321	599,516	614,890	654,223	692,160	715,086	740,148	739,523	764,786
YoY Growth (%)	12.51	5.58	5.36	9.27	10.69	19.28	20.37	13.04	10.49
QoQ Growth (%)	4.44	-4.13	2.56	6.40	5.80	3.31	3.50	-0.08	3.42
Corporate	23%	21%	22%	25%	26%	27%	29%	32%	32%
SME	29%	30%	28%	28%	27%	26%	24%	20%	19%
Retail	38%	38%	38%	36%	34%	34%	32%	33%	33%
Agri	12%	12%	13%	13%	13%	13%	15%	16%	16%
Liability Profile and Margin (%)									
Deposits (Rs mn)	845,970	873,680	869,600	895,317	921,950	980,580	1,001,640	999,680	1,001,185
Growth (YoY)	7.86	8.68	7.92	9.68	8.98	12.24	15.18	11.66	8.59
Growth (QoQ)	3.63	3.28	-0.47	2.96	2.97	6.36	2.15	-0.20	0.15
CASA	31.9	33.0	32.2	31.9	30.5	32.0	30.5	30.8	30.3
CA	0.0	4.7	4.7	4.5	5.3	5.3	5.7	5.8	5.7
SA	31.9	28.3	27.5	27.4	25.3	26.7	24.9	25.0	24.6
Branches (no of)	885.0	901.0	901.0	903.0	913.0	925.0	927.0	931.0	937.0
NIM	3.8	3.9	3.7	3.6	3.5	3.3	3.5	3.2	3.0
Asset Quality (%)									
GNPA	3.3	3.7	3.7	3.5	3.6	3.5	3.5	3.2	3.1
NNPA	1.7	1.7	1.4	1.4	1.6	1.6	1.7	1.5	0.9
PCR	50.1	55.5	62.1	61.8	58.2	56.2	54.0	55.2	56.0
Slippages	2.7	4.1	2.0	2.1	3.3	3.5	2.7	1.5	1.7
Capital Adequacy (%)									
CRAR	15.1	17.5	17.0	16.2	15.9	18.0	17.6	17.6	17.6
Tier I	12.2	14.2	13.8	13.1	13.7	16.2	15.9	15.9	16.0
ROE Decomposition (%)									
NII	3.6	3.7	4.1	3.9	3.8	3.6	6.2	5.7	2.7
Other Income	0.9	1.7	1.6	1.2	1.5	1.8	1.9	1.9	1.0
Opex	2.2	2.5	2.7	2.6	2.8	3.3	4.3	4.4	2.2
PPOP	2.3	3.0	3.0	2.5	2.5	2.2	3.8	3.2	1.5
Provisioning Cost	0.7	1.1	0.8	0.6	0.7	0.8	0.3	0.2	0.3
PBT	1.6	1.9	2.2	1.9	1.8	1.4	3.6	3.0	1.2
ROA	1.2	1.4	1.5	1.4	1.2	1.0	1.4	1.1	0.9
ROE	15.6	17.6	17.7	16.5	14.3	10.6	14.5	11.6	9.6

Source: Company, Emkay Research

Karnataka Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	72,202	82,985	90,272	97,166	106,183
Interest Expense	40,351	49,998	56,861	60,173	63,359
Net interest income	31,851	32,987	33,411	36,993	42,823
NII growth (%)	27.9	3.6	1.3	10.7	15.8
Other income	9,926	13,189	11,518	12,347	13,497
Total Income	41,777	46,177	44,929	49,340	56,320
Operating expenses	19,695	24,543	25,831	28,048	30,771
PPOP	22,082	21,633	19,098	21,292	25,549
PPOP growth (%)	35.1	(2.0)	(11.7)	11.5	20.0
Core PPOP	21,890	20,498	17,395	19,079	23,003
Provisions & contingencies	7,672	6,006	2,453	3,457	4,921
PBT	14,410	15,627	16,645	17,835	20,629
Extraordinary items	0	0	0	0	0
Tax expense	2,608	2,565	3,495	3,745	4,332
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	11,802	13,063	13,150	14,090	16,297
PAT growth (%)	132.1	10.7	0.7	7.2	15.7
Adjusted PAT	11,802	13,063	13,150	14,090	16,297
Diluted EPS (Rs)	37.9	37.9	34.8	37.3	43.2
Diluted EPS growth (%)	131.5	0.1	(8.0)	7.1	15.7
DPS (Rs)	5.0	6.0	6.5	7.5	9.0
Dividend payout (%)	13.2	15.9	18.7	20.1	20.9
Effective tax rate (%)	18.1	16.4	21.0	21.0	21.0
Net interest margins (%)	3.7	3.5	3.1	3.1	3.2
Cost-income ratio (%)	47.1	53.2	57.5	56.8	54.6
Shares outstanding (mn)	1,561.8	1,886.3	1,888.3	1,888.3	1,888.3

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	22,929.0	25,784.1	24,406.6	23,811.4	24,190.5
Net NPLs	10,212.7	11,291.8	10,494.8	9,286.4	8,466.7
GNPA ratio (%)	3.7	3.5	3.0	2.6	2.3
NNPA ratio (%)	1.7	1.6	1.3	1.0	0.8
Provision coverage (%)	53.7	54.3	57.0	61.0	65.0
Gross slippages	18,366.4	16,502.0	13,775.5	11,903.6	12,636.2
Gross slippage ratio (%)	3.2	2.7	1.7	1.3	1.2
LLP ratio (%)	1.3	0.9	0.4	0.4	0.5
NNPA to networth (%)	12.4	10.4	8.8	7.1	5.8
Capital adequacy					
Total CAR (%)	17.4	18.0	17.5	16.8	16.0
Tier-1 (%)	14.2	16.2	15.9	15.4	14.8
CET-1 (%)	14.2	16.2	15.6	15.2	14.5
RWA-to-Total Assets (%)	56.0	58.1	59.5	61.5	62.7
Miscellaneous					
Total income growth (%)	14.5	17.1	5.8	7.6	9.3
Opex growth (%)	8.8	24.6	5.2	8.6	9.7
Core PPOP growth (%)	38.1	(6.4)	(15.1)	9.7	20.6
PPOP margin (%)	26.9	22.5	18.8	19.4	21.3
PAT/PPOP (%)	53.4	60.4	68.9	66.2	63.8
LLP-to-Core PPOP (%)	35.0	29.3	14.1	18.1	21.4
Yield on advances (%)	9.8	10.1	9.5	9.2	8.9
Cost of funds (%)	4.7	5.2	5.4	5.2	4.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3,124	3,773	3,777	3,777	3,777
Reserves & surplus	79,010	104,712	115,155	126,173	138,843
Net worth	82,134	108,485	118,931	129,949	142,619
Deposits	873,680	980,578	1,051,531	1,188,544	1,369,971
Borrowings	5,427	40,995	26,647	29,312	33,708
Interest bearing liab.	879,107	1,021,574	1,078,178	1,217,856	1,403,679
Other liabilities & prov.	29,341	30,787	48,755	46,203	40,303
Total liabilities & equity	990,582	1,160,846	1,245,865	1,394,009	1,586,602
Net advances	599,516	715,086	796,410	901,139	1,037,290
Investments	233,264	243,021	247,261	271,927	304,693
Cash, other balances	52,042	76,561	78,857	86,743	95,418
Interest earning assets	884,375	1,038,034	1,119,354	1,254,864	1,433,417
Fixed assets	8,752	9,146	9,632	10,113	10,619
Other assets	87,457	113,665	116,879	129,032	142,565
Total assets	990,583	1,160,846	1,245,865	1,394,009	1,586,602
BVPS (Rs)	246.6	274.2	302.2	332.0	366.2
Adj. BVPS (INR)	219.8	249.2	280.3	312.6	348.5
Gross advances	612,233	729,579	810,322	915,664	1,053,014
Credit to deposit (%)	68.6	72.9	75.7	75.8	75.7
CASA ratio (%)	33.0	32.0	29.6	29.0	31.0
Cost of deposits (%)	4.5	5.2	5.5	5.3	4.9
Loans-to-Assets (%)	60.5	61.6	63.9	64.6	65.4
Net advances growth (%)	5.6	19.3	11.4	13.2	15.1
Deposit growth (%)	8.7	12.2	7.2	13.0	15.3
Book value growth (%)	15.6	11.2	10.2	9.9	10.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	4.8	4.8	5.2	4.9	4.2
P/B (x)	0.7	0.7	0.6	0.5	0.5
P/ABV (x)	0.8	0.7	0.7	0.6	0.5
P/PPOP (x)	12.9	16.0	18.1	16.2	13.5
Dividend yield (%)	2.7	3.3	3.6	4.1	4.9
DuPont-RoE split (%)					
NII/avg assets	3.3	3.1	2.8	2.8	2.9
Other income	1.0	1.2	1.0	0.9	0.9
Fee income	0.7	0.9	0.7	0.7	0.7
Opex	2.1	2.3	2.1	2.1	2.1
PPOP	2.3	2.0	1.6	1.6	1.7
Core PPOP	2.3	1.9	1.4	1.4	1.5
Provisions	0.8	0.6	0.2	0.3	0.3
Tax expense	0.3	0.2	0.3	0.3	0.3
RoA (%)	1.2	1.2	1.1	1.1	1.1
Leverage ratio (x)	13.3	11.9	11.1	11.0	11.3
RoE (%)	15.2	13.7	11.5	11.2	11.8
Quarterly data					
Rs mn, Y/E Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	8,276	8,340	9,034	8,336	7,928
NIM(%)	3.5	3.3	3.5	3.2	3.0
PPOP	5,402	4,998	5,586	4,604	4,331
PAT	3,311	2,742	4,003	3,361	2,836
EPS (Rs)	8.78	7.27	10.60	8.90	7.51

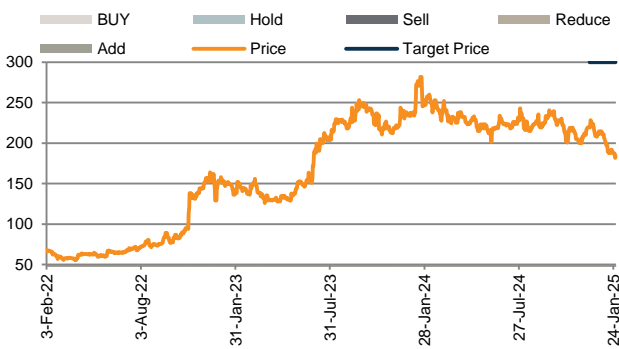
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Dec-24	220	300	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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