

KBL reported a 12% PAT miss in 4Q at Rs2.5bn, due to lower margin (down by 4bps QoQ to ~3%) and higher staff costs owing to higher actuarial provisioning on retirement benefits of Rs1.1bn. Credit growth too slipped, to 7% YoY/flat QoQ, due to muted growth in the MSME segment and corporate loans. However, the bank remains focused on ramping up its RAM book share and thus support its NIM. Headline NPA as well as restructured book continue to trend down, while the bank is gradually ramping up its otherwise lower PCR (now at 58%), even if it means elevated provisioning in the interim. Factoring in the slower growth, margin pressure, and higher opex as the bank builds up its retail franchise, we cut our earnings by 4/11% for FY26E/27E. However, for a bank delivering ~1% RoA, the stock is trading cheaply at 0.6x Mar-27E ABV; thus, we retain BUY with TP of Rs260, implying 0.8x Mar-27E ABV.

Credit growth, margins slip

The bank's credit growth moderated further to 7% YoY/flat QoQ owing to muted growth in the MSME segment and given the bank's calibrated growth approach of shedding low-yielding, short-term corporate loans. The bank's deposit growth was also lower, at 6.9% YoY, while CASA ratio improved by 149bps QoQ to 31.8% largely led by sharp jump in CA (+36% YoY/+25% QoQ). Further, NIM continues to moderate due to lower loan yields owing to non-recognition of penal interest (expect the impact to persist till Q2FY26) as well as higher cost of deposits.

Headline NPA ratio, restructured pool moderates

KBL's GNPA ratio marginally improved by 3bps to 3.08% led by contained slippages at Rs2.5bn/1.4% of loans as well as higher recovery (+73% QoQ). This, coupled with an increase in specific PCR to 58% (+215bps QoQ), led to an 8bps QoQ decline in NNPA ratio to 1.3%. The restructured book declined further to Rs9.95bn/1.3% of loans (vs Rs11bn/1.5% of loans in Q3) and should thus ease incremental NPA formation. The bank aims to maintain GNPA below 3% in FY26 and further reduce its NNPA levels. We believe that with better operating profitability, the bank will ramp up its otherwise sub-optimal specific PCR to more than 60%.

We retain BUY with unchanged TP of Rs260

Factoring in the slower growth, margin pressure, and higher opex as the bank builds up its retail franchise, we cut our earnings estimates by 4/11% for FY26E/27E. However, for a bank delivering ~1% RoA, the stock is trading cheaply at 0.6x Mar-27E ABV; thus, we retain BUY with TP of Rs260, implying 0.8x Mar-27E ABV. Key risks: Slower-than-expected growth and resurgence of NPAs in the retail/SME sector due to macro/micro dislocation.

Target Price – 12M	Mar-26
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	25.0

Stock Data	KBL IN
52-week High (Rs)	245
52-week Low (Rs)	162
Shares outstanding (mn)	377.9
Market-cap (Rs bn)	78
Market-cap (USD mn)	920
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	238.2
ADTV-3M (USD mn)	2.8
Free float (%)	100.0
Nifty-50	24,666.9
INR/USD	85.3

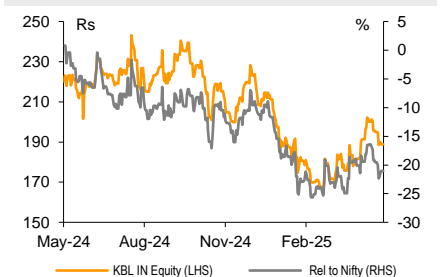
Shareholding, Mar-25

Promoters (%)	0.0
FPIs/MFs (%)	12.9/18.2

Price Performance

(%)	1M	3M	12M
Absolute	14.3	17.6	(6.9)
Rel. to Nifty	5.8	9.3	(16.2)

1-Year share price trend (Rs)



Karnataka Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	13,063	12,724	12,145	13,585	15,783
Loan growth (%)	19.3	7.0	12.2	14.1	16.1
NII growth (%)	3.6	0.4	0.3	13.3	15.3
NIM (%)	3.5	3.1	2.9	2.9	3.0
PPOP growth (%)	(2.0)	(15.5)	(2.0)	17.5	20.4
Adj. EPS (Rs)	37.9	33.7	32.1	35.9	41.8
Adj. EPS growth (%)	0.1	(11.0)	(4.6)	11.9	16.2
Adj. BV (INR)	249.2	286.5	314.5	346.4	383.9
Adj. BVPS growth (%)	13.3	15.0	9.8	10.1	10.8
RoA (%)	1.2	1.1	1.0	1.0	1.0
RoE (%)	13.7	11.0	9.6	9.8	10.5
P/E (x)	5.5	6.2	6.5	5.8	5.0
P/ABV (x)	0.8	0.7	0.7	0.6	0.5

Source: Company, Emkay Research

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Key Concall takeaways

Outlook on loans, deposits, and NIM

- The bank targets advance growth of 18% in FY26, with strong focus on RAM and the MSME segment, and a strategic replacement of low-yielding corporate loans with higher-yielding direct-to-corporate (primarily mid-corporate) loans. The mgmt. believes the growth target is optimistic, given current macro-economic conditions.
- UPI-based Credit Line: The bank has partnered with NAVI to offer a PL on EMI through UPI. This is a short-term 30-day product, with plans to launch a 60-day variant shortly. The product has demonstrated strong portfolio quality and timely repayments, with e-KYC processed in-house by the bank.
- The bank introduced 15 new products in FY25 across the retail and MSME segments; such products include i) KBL PEAK: educational loan for students; ii) KBL G PerL: PL for a government employee; iii) credit line for Chartered Accountants: a first-of-its-kind offering; iv) KBL Stree: a women-focused loan product; v) KBL ONE: corporate mobile banking (omni channel), and vi) KBL Genius: exclusive students SA product.
- Upcoming product launches include i) 'KBL One' Family Program, which will cater to 6 family members under a unified offering, ii) supply chain finance – scheduled for Q1FY26, and iii) merchant app to serve merchants accepting QR payments.
- The bank has undertaken major initiatives to replace high-cost bulk deposits with retail term deposits. As a result, retail deposits of the bank stood strong, at 68% of total deposits, while bulk deposits stood at 6.6% as of Mar-25.
- NIM adjusted for AFS reserve and penal charges reclassification is 3.06% for Q4FY25 and 3.23% for FY25, as against reported NIMs of 2.98% and 3.19%, respectively. The management mentioned that the impact of penal charges reclassification shall persist till Q2FY26.
- KBL's EBLR, linked to G-Sec and T-bills, unlike peers' repo-linked rates, has led to a ~50bps NIM impact in the past one year, though future EBLR cuts may be more muted than repo rate movements. Accordingly, the management guides NIMs in the range of 3.2-3.4% for FY26 which seems too optimistic.

Asset quality

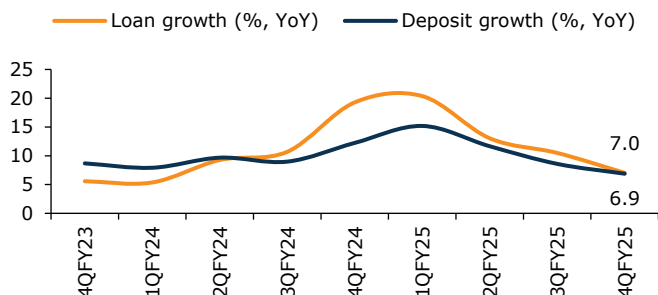
- The bank aims to maintain GNPA below 3% in FY26, and is focused on further reducing NNPA levels. Also, it plans to increase the PCR by a minimum of 1% each quarter, during FY26.
- The Standard restructured portfolio declined 37% YoY from FY24 to FY25, and 11% QoQ from Q3FY25 to Q4FY25 (1.3% of advances). Around 54% of the restructured portfolio comprises of loans that require a 30% recovery for upgradation, which the bank is currently focusing on.

Others

- Revision—of the discount rate for personal leave encashment liabilities—from 4% to 5%, led to one-time higher actuarial provisions of Rs1.13bn in Q4FY25.
- Cost-to-income was elevated to 60.1% in FY25, due to new operational investments and one-time actuarial provisions. However, this is projected to improve to 55% by FY26, driven by operational efficiencies and economies of scale.

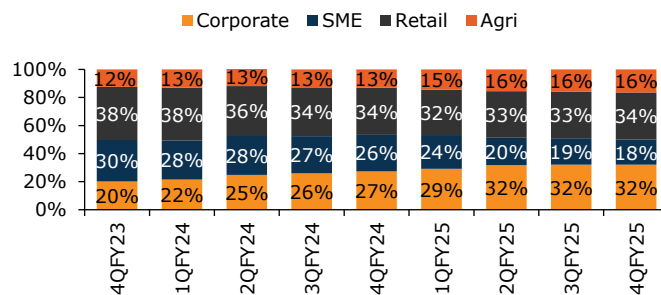
Story in charts

Exhibit 1: Credit growth continues to moderate further, due to slower growth in the corporate and MSME segments



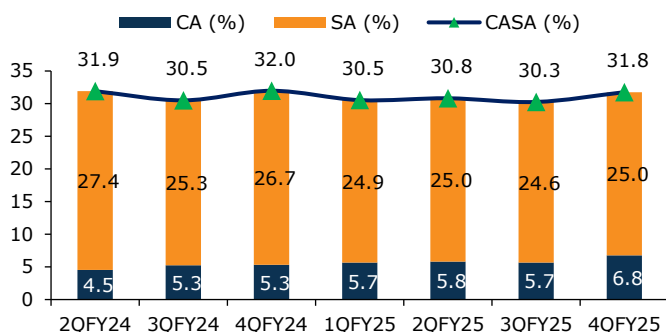
Source: Company, Emkay Research

Exhibit 2: The bank plans to ramp up its RAM book



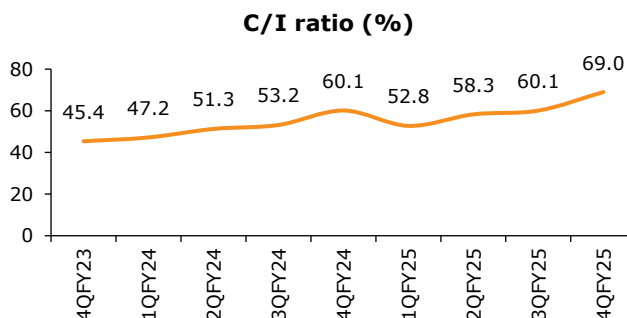
Source: Company, Emkay Research

Exhibit 3: Better CASA growth (especially led by strong CA growth), is leading to improvement in CASA ratio



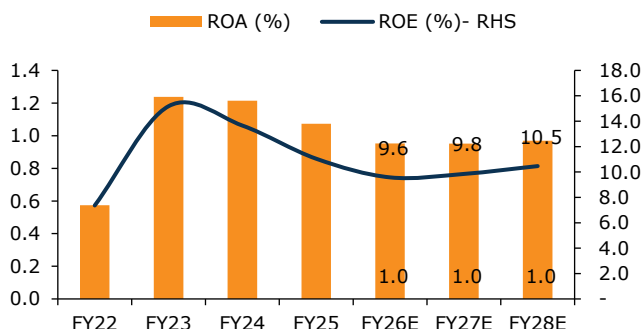
Source: Company, Emkay Research

Exhibit 5: Cost-income ratio inched up, due to higher staff costs owing to actuarial provisions of Rs1.1bn



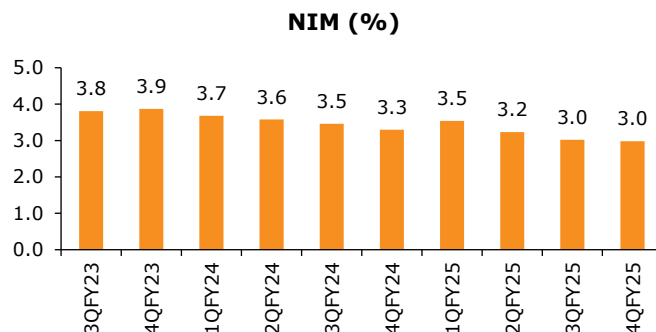
Source: Company, Emkay Research

Exhibit 7: We expect the bank to deliver a healthy RoA of around 1.0%, led by contained credit cost and improving operating leverage



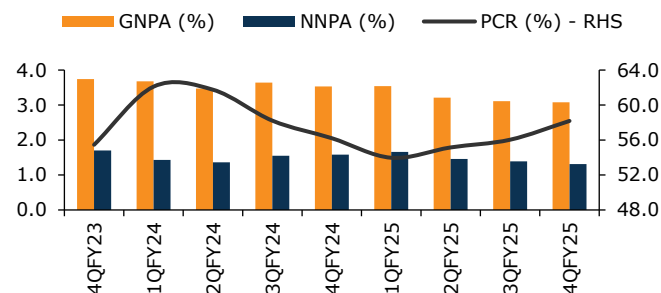
Source: Company, Emkay Research

Exhibit 4: Margin slipped slightly by 4bps QoQ due to impact of penal interest and higher CoF



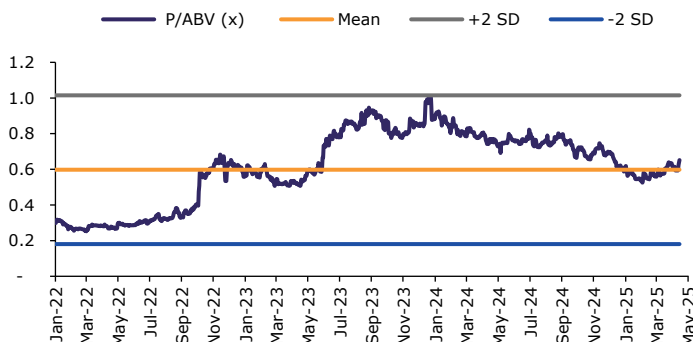
Source: Company, Emkay Research

Exhibit 6: Asset quality continues to improve, led by contained slippages as well as higher recovery, while PCR is gradually inching up QoQ



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.6x its 1Y forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q4FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	12,089	11,102	9,583	9%	26%	Higher other income led to a beat
PPOP	3,750	4,461	4,750	-16%	-21%	Higher staff cost (due to one-off actuarial provisioning) led to PPOP miss
PAT	2,524	2,857	3,086	-12%	-18%	PPoP miss partly offset by lower provisions, led to a PAT miss

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)	FY24	FY25A	YoY (%)
Interest Earned	22,006	22,780	22,341	22,430	22,585	2.6	0.7	82,985	90,136	9
Interest Expense	13,665	13,746	14,006	14,502	14,778	8.1	1.9	49,998	57,032	14
Net Interest Income	8,340	9,034	8,336	7,928	7,807	-6.4	-1.5	32,987	33,104	0
Global NIMs (reported)	3.30	3.54	3.23	3.02	2.98	-32bps	-4bps	3.45	3.14	-31bps
Non-interest Income	4,194	2,790	2,699	2,924	4,282	2.1	46.5	13,189	12,695	-4
Operating Expenses	7,537	6,238	6,431	6,521	8,339	10.6	27.9	24,543	27,529	12
Pre-Provisioning Profit	4,998	5,586	4,604	4,331	3,750	-25.0	-13.4	21,633	18,270	-16
Provision and Contingencies	1,847	403	313	838	311	-83.2	-62.9	6,006	1,864	-69
PBT	3,151	5,183	4,290	3,493	3,439	9.2	-1.5	15,627	16,406	5
Income Tax Expense (Gain)	408	1,180	930	657	916	124.3	39.4	2,565	3,682	44
Net Profit/(Loss)	2,742	4,003	3,361	2,836	2,524	-8.0	-11.0	13,063	12,724	-3
Gross NPA (%)	3.53	3.54	3.21	3.11	3.08	-45bps	-3bps	3.53	3.08	-45bps
Net NPA (%)	1.58	1.66	1.46	1.39	1.31	-27bps	-8bps	1.58	1.31	-27bps
Deposits (Rs bn)	981	1,002	1,000	1,001	1,048	6.9	4.7	981	1,048	7
Net Advances (Rs bn)	715	740	740	765	765	7.0	0.1	715	765	7

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	46,945	45,938	-2.1%	54,541	51,447	-5.7%	NA	58,812	NA
PPOP	19,488	17,911	-8.1%	24,432	21,050	-13.8%	NA	25,340	NA
PAT	12,586	12,145	-3.5%	15,256	13,585	-10.9%	NA	15,783	NA
EPS (Rs)	33.3	32.1	-3.6%	40.4	35.9	-11.0%	NA	41.8	NA
BV (Rs)	327.8	333.7	1.8%	359.2	363.7	1.2%	NA	398.9	NA

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY25	FY26E	FY27E	FY28E
Loan Growth (%)	7.0	12.2	14.1	16.1
Deposit Growth (%)	6.9	10.8	13.0	15.8
NIM (%)	3.1	2.9	2.9	3.0
GNPA (%)	3.1	2.7	2.4	2.1
Credit Cost (%)	0.3	0.3	0.4	0.5

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
Loans (Rs mn)	599,516	614,890	654,223	692,160	715,086	740,148	739,523	764,786	765,415
YoY Growth (%)	5.58	5.36	9.27	10.69	19.28	20.37	13.04	10.49	7.04
QoQ Growth (%)	-4.13	2.56	6.40	5.80	3.31	3.50	-0.08	3.42	0.08
Corporate	21%	22%	25%	26%	27%	29%	32%	32%	32%
SME	30%	28%	28%	27%	26%	24%	20%	19%	18%
Retail	38%	38%	36%	34%	34%	32%	33%	33%	34%
Agri	12%	13%	13%	13%	13%	15%	16%	16%	16%
Liability Profile and Margin (%)									
Deposits (Rs mn)	873,680	869,600	895,317	921,950	980,580	1,001,640	999,680	1,001,185	1,048,075
Growth (YoY)	8.68	7.92	9.68	8.98	12.24	15.18	11.66	8.59	6.88
Growth (QoQ)	3.28	-0.47	2.96	2.97	6.36	2.15	-0.20	0.15	4.68
CASA	33.0	32.2	31.9	30.5	32.0	30.5	30.8	30.3	31.8
CA	4.7	4.7	4.5	5.3	5.3	5.7	5.8	5.7	6.8
SA	28.3	27.5	27.4	25.3	26.7	24.9	25.0	24.6	25.0
Branches (no of)	901.0	901.0	903.0	913.0	925.0	927.0	931.0	937.0	952.0
NIM	3.9	3.7	3.6	3.5	3.3	3.5	3.2	3.0	3.0
Asset Quality (%)									
GNPA	3.7	3.7	3.5	3.6	3.5	3.5	3.2	3.1	3.1
NNPA	1.7	1.4	1.4	1.6	1.6	1.7	1.5	1.4	1.3
PCR	55.5	62.1	61.8	58.2	56.2	54.0	55.2	56.0	58.2
Slippages	4.1	2.0	2.1	3.3	3.5	2.7	1.5	1.7	1.4
Capital Adequacy (%)									
CRAR	17.5	17.0	16.2	15.9	18.0	17.6	17.6	17.6	19.9
Tier I	14.2	13.8	13.1	13.7	16.2	15.9	15.9	16.0	18.4
ROE Decomposition (%)									
NII	3.7	4.1	3.9	3.8	3.6	6.2	5.7	2.7	2.6
Other Income	1.7	1.6	1.2	1.5	1.8	1.9	1.9	1.0	1.4
Opex	2.5	2.7	2.6	2.8	3.3	4.3	4.4	2.2	2.8
PPOP	3.0	3.0	2.5	2.5	2.2	3.8	3.2	1.5	1.3
Provisioning Cost	1.1	0.8	0.6	0.7	0.8	0.3	0.2	0.3	0.1
PBT	1.9	2.2	1.9	1.8	1.4	3.6	3.0	1.2	1.2
ROA	1.4	1.5	1.4	1.2	1.0	1.4	1.1	0.9	0.8
ROE	17.6	17.7	16.5	14.3	10.6	14.5	11.6	9.6	8.6

Source: Company, Emkay Research

Karnataka Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	82,985	90,136	92,442	99,722	110,734
Interest Expense	49,998	57,032	59,237	62,101	67,364
Net interest income	32,987	33,104	33,206	37,621	43,370
NII growth (%)	3.6	0.4	0.3	13.3	15.3
Other income	13,189	12,695	12,733	13,826	15,442
Total Income	46,177	45,799	45,938	51,447	58,812
Operating expenses	24,543	27,529	28,027	30,397	33,472
PPOP	21,633	18,270	17,911	21,050	25,340
PPOP growth (%)	(2.0)	(15.5)	(2.0)	17.5	20.4
Core PPOP	20,498	17,290	16,637	19,585	23,655
Provisions & contingencies	6,006	1,864	2,340	3,407	4,843
PBT	15,627	16,406	15,571	17,643	20,497
Extraordinary items	3	0	0	0	0
Tax expense	2,565	3,682	3,426	4,058	4,714
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	13,060	12,724	12,145	13,585	15,783
PAT growth (%)	10.7	(2.6)	(4.5)	11.9	16.2
Adjusted PAT	13,063	12,724	12,145	13,585	15,783
Diluted EPS (Rs)	37.9	33.7	32.1	35.9	41.8
Diluted EPS growth (%)	0.1	(11.0)	(4.6)	11.9	16.2
DPS (Rs)	5.5	5.0	5.5	6.0	6.5
Dividend payout (%)	15.9	14.9	17.1	16.7	15.6
Effective tax rate (%)	16.4	22.4	22.0	23.0	23.0
Net interest margins (%)	3.5	3.1	2.9	2.9	3.0
Cost-income ratio (%)	53.2	60.1	61.0	59.1	56.9
Shares outstanding (mn)	377.3	378.0	378.0	378.0	378.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	25,784	24,021	23,821	24,150	24,496
Net NPLs	11,292	10,046	9,290	8,452	7,349
GNPA ratio (%)	3.5	3.1	2.7	2.4	2.1
NNPA ratio (%)	1.6	1.3	1.1	0.9	0.6
Provision coverage (%)	54.3	58.2	61.0	65.0	70.0
Gross slippages	16,502	12,068	11,355	10,953	11,550
Gross slippage ratio (%)	2.7	1.7	1.3	1.1	1.0
LLP ratio (%)	0.9	0.3	0.3	0.4	0.5
NNPA to networth (%)	10.4	8.3	7.0	5.9	4.7
Capital adequacy					
Total CAR (%)	18.0	19.9	17.5	16.7	15.8
Tier-1 (%)	16.2	18.4	16.0	15.4	14.7
CET-1 (%)	16.2	17.4	15.8	15.1	14.5
RWA-to-Total Assets (%)	53.9	54.0	58.5	59.0	58.7
Miscellaneous					
Total income growth (%)	17.1	6.9	2.3	8.0	11.1
Opex growth (%)	24.6	12.2	1.8	8.5	10.1
Core PPOP growth (%)	(6.4)	(15.6)	(3.8)	17.7	20.8
PPOP margin (%)	22.5	17.8	17.0	18.5	20.1
PAT/PPOP (%)	60.4	69.6	67.8	64.5	62.3
LLP-to-Core PPOP (%)	29.3	10.8	14.1	17.4	20.5
Yield on advances (%)	10.1	9.6	9.1	8.8	8.5
Cost of funds (%)	5.2	5.5	5.3	4.9	4.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,773	3,780	3,780	3,780	3,780
Reserves & surplus	104,712	117,074	126,900	137,990	151,100
Net worth	108,485	120,853	130,680	141,770	154,879
Deposits	980,578	1,048,075	1,161,667	1,312,313	1,519,279
Borrowings	43,995	19,406	21,866	24,696	27,951
Interest bearing liab.	1,024,574	1,067,480	1,183,533	1,337,009	1,547,229
Other liabilities & prov.	27,787	21,284	27,174	34,470	42,884
Total liabilities & equity	1,160,846	1,209,618	1,341,387	1,513,249	1,744,993
Net advances	715,086	765,415	858,914	980,030	1,137,896
Investments	243,021	245,365	264,089	297,096	342,057
Cash, other balances	79,927	79,843	82,847	86,906	100,570
Interest earning assets	1,038,034	1,090,623	1,205,851	1,364,031	1,580,523
Fixed assets	9,146	9,905	10,401	10,921	11,467
Other assets	113,665	109,089	125,135	138,297	153,003
Total assets	1,160,846	1,209,618	1,341,387	1,513,249	1,744,993
BVPS (Rs)	274.2	307.1	333.7	363.7	398.9
Adj. BVPS (INR)	249.2	286.5	314.5	346.4	383.9
Gross advances	729,579	779,390	873,445	995,727	1,155,044
Credit to deposit (%)	72.9	73.0	73.9	74.7	74.9
CASA ratio (%)	32.0	31.8	32.3	32.9	33.3
Cost of deposits (%)	5.2	5.4	5.2	4.9	4.6
Loans-to-Assets (%)	61.6	63.3	64.0	64.8	65.2
Net advances growth (%)	19.3	7.0	12.2	14.1	16.1
Deposit growth (%)	12.2	6.9	10.8	13.0	15.8
Book value growth (%)	11.2	12.0	8.7	9.0	9.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	5.5	6.2	6.5	5.8	5.0
P/B (x)	0.8	0.7	0.6	0.6	0.5
P/ABV (x)	0.8	0.7	0.7	0.6	0.5
P/PPOP (x)	3.6	4.3	4.4	3.7	3.1
Dividend yield (%)	2.9	2.4	2.7	2.9	3.1
DuPont-RoE split (%)					
NII/avg assets	3.1	2.8	2.6	2.6	2.7
Other income	1.2	1.1	1.0	1.0	0.9
Fee income	0.9	0.9	0.8	0.8	0.8
Opex	2.3	2.3	2.2	2.1	2.1
PPOP	2.0	1.5	1.4	1.5	1.6
Core PPOP	1.9	1.5	1.3	1.4	1.5
Provisions	0.6	0.2	0.2	0.2	0.3
Tax expense	0.2	0.3	0.3	0.3	0.3
RoA (%)	1.2	1.1	1.0	1.0	1.0
Leverage ratio (x)	11.9	10.8	10.5	10.8	11.3
RoE (%)	13.7	11.0	9.6	9.8	10.5

Quarterly data					
Rs mn, Y/E Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
NII	8,340	9,034	8,336	7,928	7,807
NIM (%)	3.3	3.5	3.2	3.0	3.0
PPOP	4,998	5,586	4,604	4,331	3,750
PAT	2,742	4,003	3,361	2,836	2,524
EPS (Rs)	7.3	10.6	8.9	7.5	6.7

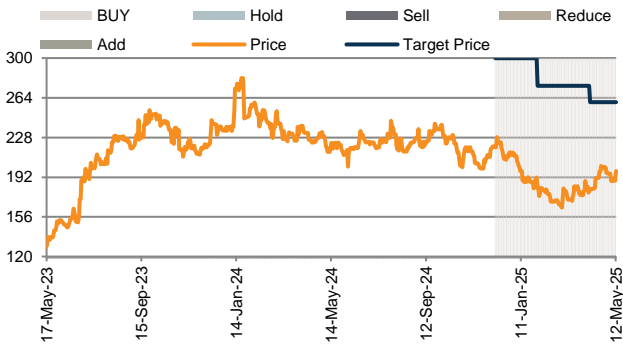
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-25	181	260	Buy	Anand Dama
01-Feb-25	183	275	Buy	Anand Dama
09-Dec-24	220	300	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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