

**Karur Vysya Bank (KVB) continued to report a robust performance, with PAT at Rs5.1bn and peer-best RoA at ~1.7%, which the bank guides to uphold, aided by healthy operating profitability and contained credit cost. Credit growth softened to 14% YoY/2% QoQ owing to strategic slowdown in the high-risk portfolio (BNPL, VF, PL) and low-yielding corporate book. Reported NIM was broadly stable at 4.05% owing to rebalancing of the portfolio toward better yielding, granular, secured retail advances. Asset quality continues to hold up well, with slippages contained at 1% of loans, leading to peer-best GNPA/NNPA ratio at 0.8/0.2% of loans. The bank targets clocking credit growth of 200bps above the industry's and margins moderating to 3.7–3.75% given policy rate cuts. We broadly maintain our FY26–27 estimates and expect KVB to deliver RoA/RoE of 1.6–1.7%/16–18% over FY26–28E, backed by strong RoA, asset quality, capital/provision buffers, and stable management. We reiterate BUY on KVB with TP of Rs300, valuing the bank at 1.5x Mar-27E ABV.**

#### Prioritizes margin over growth

KVB reported a measured credit growth of 14% YoY/2% QoQ, due to conscious pruning of its low-yielding corporate book (down 6% QoQ) and deceleration in the PL, BNPL, and VF book. The management remains cautious on BNPL (via tie up with Amazon), but plans expanding it when macro conditions improve. NIM was broadly stable at 4.05% owing to rebalancing of the portfolio toward better yielding, granular, secured retail advances. The bank targets growing 2% higher than the system in FY26, supported by a strong RAM performance. The higher EBLR book (~52%) in a swift rate-cut scenario is likely to put some pressure on margin; however, this would be mitigated by strategic interest rate cuts by the bank, in our view. Accordingly, KVB targets 3.7–3.75% margin in FY26.

#### Sustains one of the lowest GNPA/NNPA ratios among SMID PVBs

KVB's GNPA ratio further improved by 7bps QoQ to 0.8% of loans, owing to lower gross slippages, coupled with higher write-offs and better recoveries. With higher specific PCR of 74%, NNPA ratio stood at 0.2%, which is one of the lowest among peers. Further, the bank continues to hold contingent buffer at Rs1bn, to withstand any initial asset-quality risks. The restructured book further contracted to 0.6% vs 0.7% of loans in Q3FY25; the bank now carries ~41% provision cover on the book. It targets maintaining GNPA/NNPA ratio of under 1%/0.5%, with slippages contained below 1%.

#### We retain BUY; top pick among SMID banks

We broadly maintain our FY26–27 estimates, and expect KVB to deliver RoA/RoE of 1.6–1.7%/16–18% over FY26–28E, backed by strong RoA, asset quality, capital/provision buffers, and stable management. We reiterate BUY on the stock, with TP of Rs300, valuing the bank at 1.5x 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 (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.3

Stock Data	KVB IN
52-week High (Rs)	246
52-week Low (Rs)	164
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	180
Market-cap (USD mn)	2,110
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	488.9
ADTV-3M (USD mn)	5.7
Free float (%)	97.4
Nifty-50	24,945.4
INR/USD	85.4

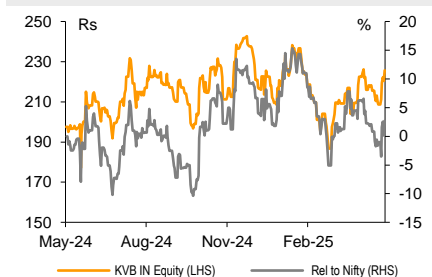
#### Shareholding, Mar-25

Promoters (%)	2.1
FPIs/MFs (%)	15.1/38.9

#### Price Performance

(%)	1M	3M	12M
Absolute	1.3	4.7	14.1
Rel. to Nifty	(3.2)	(3.7)	2.9

#### 1-Year share price trend (Rs)



#### Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	16,048	19,417	21,790	23,639	25,955
Loan growth (%)	16.7	14.0	13.5	14.0	14.9
NII growth (%)	13.8	11.6	8.9	12.2	14.8
NIM (%)	4.1	3.9	3.8	3.7	3.7
PPOP growth (%)	14.3	13.5	9.5	10.8	13.2
Adj. EPS (Rs)	20.0	24.1	27.1	29.4	32.2
Adj. EPS growth (%)	44.7	20.9	12.2	8.5	9.8
Adj. BV (INR)	122.1	146.6	170.6	196.4	224.4
Adj. BVPS growth (%)	18.9	20.1	16.4	15.1	14.3
RoA (%)	1.6	1.7	1.7	1.6	1.6
RoE (%)	17.2	17.7	16.9	15.8	15.2
P/E (x)	11.3	9.3	8.3	7.7	7.0
P/ABV (x)	1.8	1.5	1.3	1.1	1.0

Source: Company, Emkay Research

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## Key Concall takeaways

### Outlook on loans, deposits, and NIM

- The bank remains cautious on the MFI portfolio, while having commenced its MFI book coverage under CGFMU since 1-Apr-25. The MFI outstanding book stands at only 0.37% of the overall portfolio. The bank remains cautious of ramping this up, and shall wait for another one or two quarters, before macro conditions improve.
- Mortgage loans grew 34% YoY. The focus is more on cash flow rather than solely relying on the collateral.
- The co-lending Amazon BNPL program is performing well, and the book is around Rs8.4bn. However, in view of the household elevated leverage, the bank remains cautious of ramping up this book. The bank has further tightened onboarding norms, to exercise caution at present, and shall review it periodically. It would ramp up the book in due course, when macro conditions turn favorable.
- The corporate book declined 14%, primarily due to liability-side pressures, which are expected to ease. This is a temporary trend. Given its diversified exposure to NBFCs and other corporates, the bank sees value in exploring credit opportunities via investment routes, especially in AA- and below-rated entities, where risk-adjusted returns are attractive. The bank will continue pursuing credit substitute strategies within the corporate segment.
- KVB has shut down its precious metals division—a separate operational unit—due to lower margin and not being RoA-accretive. Its total precious metal book stands at Rs410mn as of FY25.
- The bank's partnerships for co-lending with NBFCs continue to perform well, and the loan book under this segment stands at Rs4.7bn; the bank has consciously lowered this book due to lower margin.
- In the MSME segment, the bank has implemented a robust digital loan origination system (LOS) since 2019, ensuring that every account undergoes stringent checks and validations. This has significantly reduced stress, with post-LOS stress levels at only 10–20% of pre-LOS figures. Additionally, the bank uses early warning signals and predictive analytics to proactively address potential stress. Most MSME loans are backed by collateral exceeding 100%, thus mitigating any loss given default. With active collection and monitoring teams, the bank remains confident of managing MSME stress and does not foresee any sudden deterioration.
- Deposit growth remains a key focus area for the bank, and various strategies have been initiated to strengthen deposit mobilization, including the establishment of an acquisition channel for both—term deposit and CASA growth. The bank had also launched new variants in CASA products which resulted in the opening of >19,000 CASA in FY25.
- The bank aims to achieve a 50% self-funding ratio for the corporate portfolio over time.
- KVB expects the CD ratio to be maintained at 85%.
- The bank believes that the peak deposit rates are largely behind; it is witnessing a decline in deposit rates, accompanied by a drop in CoD rates. Given the lagged impact of deposit cost movements, the bank anticipates a decrease in CoD starting Q2FY26. Accordingly, it targets clocking NIM at 3.7-3.75% in FY26.
- The share of EBLR-linked loans stands at 52%, while MCLR-linked loans account for 37%.

### Asset quality

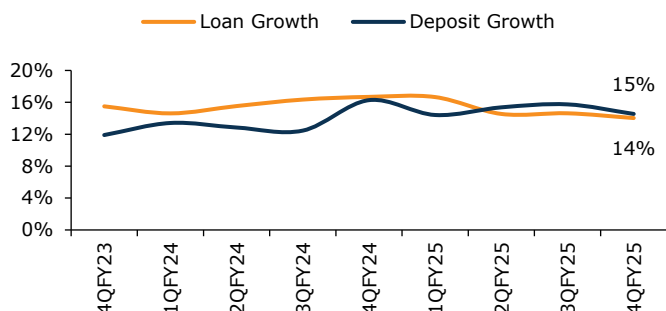
- The bank carries provision coverage of 41.2% on its restructured portfolio.
- GNPA is expected to remain below 1%, while NNPA is projected at around 0.5%, with slippages anticipated to stay under 1%.
- The bank has made Rs260mn in NPI provisions related to security receipts received for the resolution of a previously classified NPA account.

## Others

- Establishment expenses increased by Rs120mn to Rs3.85bn, mainly on account of the increase in pension obligations due to the drop in yields.
- 'Other income' includes a recovery of Rs1.82bn from previously written-off accounts.
- The bank added 50 branches in FY25, and plans to open 19 light branches and 9 regular branches by H1FY26, mostly in the southern and western parts of the country. The C/I ratio is expected to remain at around 50% in FY26.

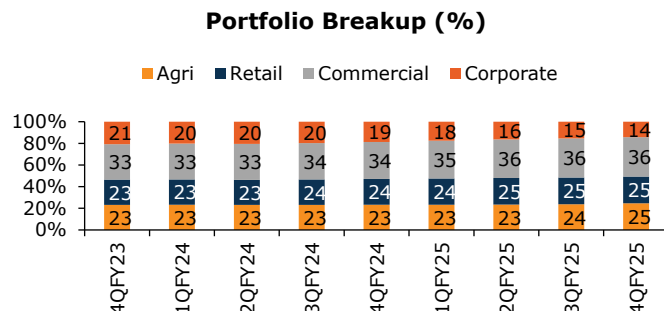
## Story in charts

**Exhibit 1: KVB reported a measured credit growth while deposit growth remained healthy**



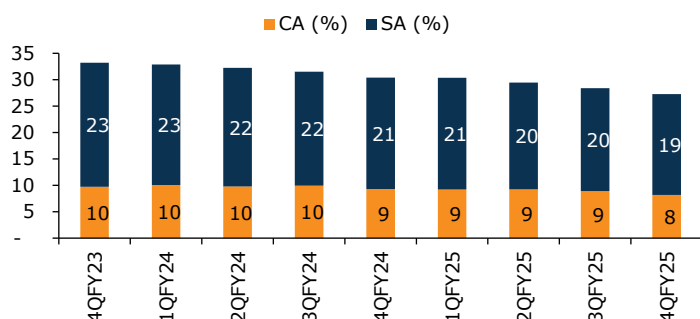
Source: Company, Emkay Research

**Exhibit 2: KVB continues to prune its low-yielding corporate book, while agri share increased QoQ**



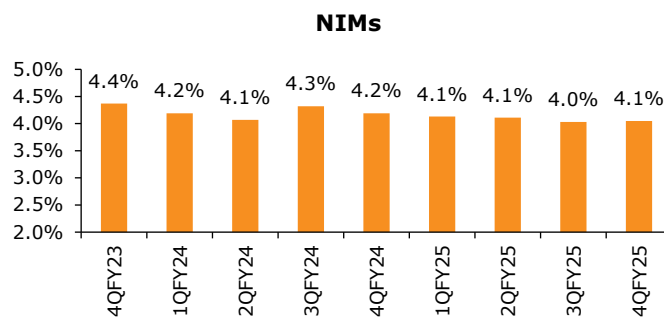
Source: Company, Emkay Research

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



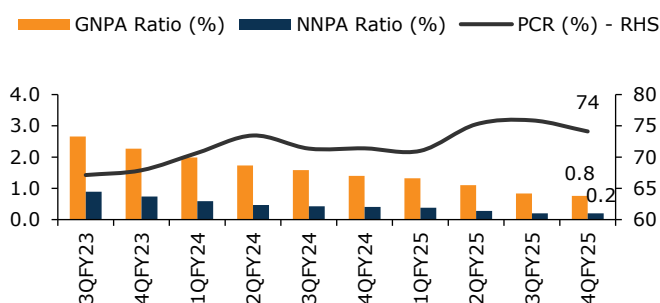
Source: Company, Emkay Research

**Exhibit 4: Shift toward better-yielding, granular, secured retail advances aid in maintaining margin QoQ**



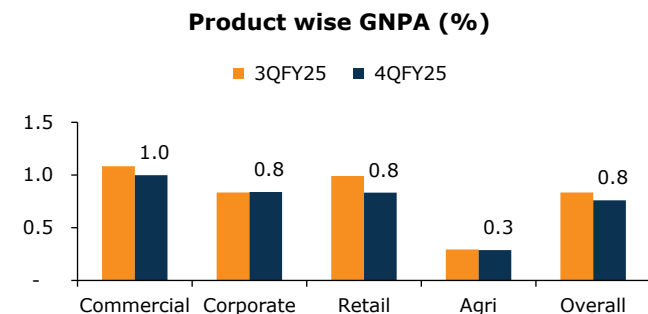
Source: Company, Emkay Research

**Exhibit 5: NPAs continued to trend down, while PCR remains strong**



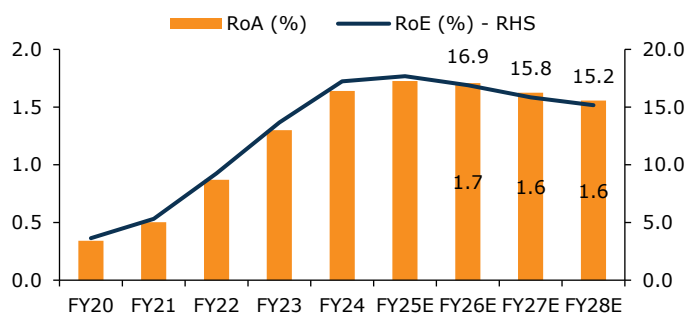
Source: Company, Emkay Research

**Exhibit 6: NPA across the product segment improves sequentially**



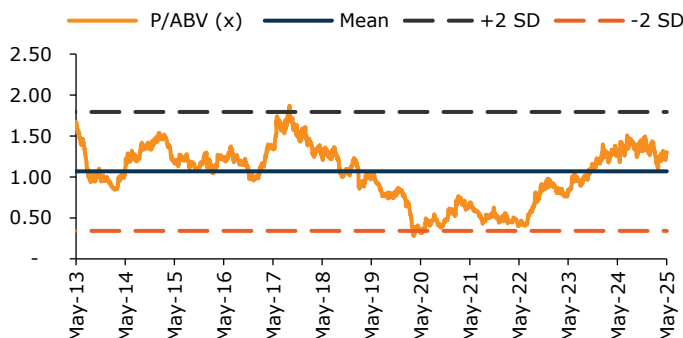
Source: Company, Emkay Research

**Exhibit 7: We expect return ratios to remain healthy, led by healthy operating profits and improving operating leverage**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 1.3x 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	15,986	15,743	15,023	2%	6%	Higher other income led to a beat
PPOP	8,350	8,231	8,106	1%	3%	Higher net income led to higher PPOP
PAT	5,134	5,374	4,950	-4%	4%	Higher provisions caused a PAT miss

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	4QFY24	4QFY24	1QFY25	2QFY25	4QFY25	YoY (%)	QoQ (%)	FY24	FY25A	YoY (%)
Interest Earned	21,846	22,845	23,840	24,860	25,159	15.2	1.2	82,040	96,705	18
Interest Expense	11,891	12,602	13,241	14,072	14,267	20.0	1.4	43,947	54,181	23
Net Interest Income	9,955	10,244	10,600	10,788	10,893	9.4	1.0	38,093	42,524	12
Global NIMs (reported)	4.19	4.13	4.11	4.03	4.05	-14bps	2bps	4.06	3.92	-14bps
Non-interest Income	6,289	3,884	4,720	4,674	5,093	-19.0	9.0	16,587	18,371	11
Operating Expenses	7,574	6,669	7,157	7,310	7,636	0.8	4.5	26,388	28,771	9
Pre-Provisioning Profit	8,669	7,459	8,162	8,153	8,350	-3.7	2.4	28,292	32,123	14
Provision & Contingencies	2,934	1,329	1,798	1,474	1,614	17.8	9.5	7,290	6,216	-15
PBT	5,735	6,129	6,364	6,678	6,736	-7.7	0.9	21,002	25,907	23
Income Tax Expense (Gain)	1,174	1,543	1,628	1,718	1,602	36.5	-6.7	4,954	6,491	31
Net Profit/(Loss)	4,561	4,587	4,736	4,960	5,134	-16.2	3.5	16,048	19,417	21
Gross NPA (%)	1.40	1.32	1.10	0.83	0.76	-64bps	-7bps	1.40	0.76	-64bps
Net NPA (%)	0.40	0.38	0.28	0.20	0.20	-21bps	0bps	0.40	0.20	-21bps
Deposits (Rs bn)	891	923	958	992	1,021	14.5	2.9	891	1,021	15
Net Advances (Rs bn)	737	770	796	823	840	14.0	2.1	737	840	14

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	66,631	66,706	0.1%	74,662	73,785	-1.2%	na	83,200	na
PPOP	34,751	35,166	1.2%	39,068	38,978	-0.2%	na	44,115	na
PAT	21,459	21,790	1.5%	23,646	23,639	0.0%	na	25,955	na
EPS (Rs)	26.7	27.1	1.5%	29.4	29.4	0.0%	na	32.2	na
BV (Rs)	170.7	172.2	0.9%	196.3	198.3	1.0%	na	226.9	na

Source: Company, Emkay Research

**Exhibit 12: Key assumptions**

	FY25	FY26E	FY27E	FY28E
Loan Growth (%)	14.0	13.5	14.0	14.9
Deposit Growth (%)	14.5	14.9	14.8	15.2
NIM (%)	3.9	3.8	3.7	3.7
GNPA (%)	0.8	0.7	0.8	0.9
Credit Cost (%)	0.6	0.7	0.7	0.8

Source: Emkay Research

## Exhibit 13: Key Ratios and Trends

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
<b>Loans (Rs mn)</b>	<b>631,341</b>	<b>659,730</b>	<b>695,074</b>	<b>717,980</b>	<b>736,675</b>	<b>769,650</b>	<b>796,188</b>	<b>823,020</b>	<b>840,045</b>
YoY Growth (%)	15.5	14.6	15.5	16.3	16.7	16.7	14.5	14.6	14.0
QoQ Growth (%)	2.3	4.5	5.4	3.3	2.6	4.5	3.4	3.4	2.1
<b>Liability Profile and Margin (%)</b>									
<b>Deposits (Rs mn)</b>	<b>766,376</b>	<b>807,150</b>	<b>830,685</b>	<b>856,650</b>	<b>891,127</b>	<b>923,490</b>	<b>958,385</b>	<b>991,550</b>	<b>1,020,780</b>
Growth (YoY)	11.9	13.4	12.8	12.5	16.3	14.4	15.4	15.7	14.5
Growth (QoQ)	0.6	5.3	2.9	3.1	4.0	3.6	3.8	3.5	2.9
CASA	33.2	32.9	32.3	31.5	30.4	30.4	29.5	28.4	27.3
CA	9.7	10.1	9.8	9.9	9.3	9.2	9.2	8.9	8.2
SA	23.5	22.8	22.5	21.6	21.1	21.2	20.2	19.5	19.1
Branches (no of)	799	808	824	831	838	840	841	866	888
NIM	4.37	4.19	4.07	4.32	4.19	64.13	4.11	4.03	4.05
<b>Asset Quality (%)</b>									
GNPA	2.3	2.0	1.7	1.6	1.4	1.3	1.1	0.8	0.8
NNPA	0.7	0.6	0.5	0.4	0.4	0.4	0.3	0.2	0.2
PCR	67.9	70.7	73.5	71.4	71.4	71.0	75.2	75.9	74.1
<b>Capital Adequacy (%)</b>									
CRAR	18.6	17.7	16.8	15.4	16.7	16.5	16.3	15.9	18.2
Tier I	16.8	16.0	15.2	13.9	15.5	15.6	15.4	15.0	17.1
<b>ROE Decomposition (%)</b>									
NII	4.0	3.9	3.8	4.0	3.8	3.8	3.8	3.8	3.7
Other Income	1.8	1.4	1.4	1.4	2.4	1.4	1.7	1.6	1.7
Opex	2.5	2.5	2.6	2.7	2.9	2.5	2.6	2.6	2.6
PPOP	3.3	2.8	2.6	2.7	3.3	2.8	2.9	2.8	2.8
Provisioning Cost	1.3	0.7	0.5	0.6	1.1	0.5	0.6	0.5	0.5
PBT	2.0	2.1	2.1	2.1	2.2	2.3	2.3	2.3	2.3
ROA	1.5	1.6	1.6	1.6	1.8	1.7	1.7	1.7	1.7
ROE	16.1	16.4	16.7	17.6	18.6	17.8	17.6	17.8	17.6

Source: Company, Emkay Research

Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	82,040	96,705	104,101	112,704	124,469
Interest Expense	43,947	54,181	57,800	60,737	64,817
Net interest income	38,093	42,524	46,301	51,967	59,652
NII growth (%)	13.8	11.6	8.9	12.2	14.8
Other income	16,587	18,371	20,405	21,818	23,549
Total Income	54,680	60,895	66,706	73,785	83,200
Operating expenses	26,388	28,771	31,539	34,807	39,085
PPOP	28,292	32,123	35,166	38,978	44,115
PPOP growth (%)	14.3	13.5	9.5	10.8	13.2
Core PPOP	25,348	28,444	30,751	33,900	38,784
Provisions & contingencies	7,290	6,216	6,035	7,374	9,416
PBT	21,002	25,907	29,131	31,604	34,699
Extraordinary items	-	-	-	-	-
Tax expense	4,954	6,491	7,341	7,964	8,744
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	16,048	19,417	21,790	23,639	25,955
PAT growth (%)	45.1	21.0	12.2	8.5	9.8
Adjusted PAT	16,048	19,417	21,790	23,639	25,955
Diluted EPS (Rs)	20.0	24.1	27.1	29.4	32.2
Diluted EPS growth (%)	44.7	20.9	12.2	8.5	9.8
DPS (Rs)	2.4	2.6	3.0	3.3	3.6
Dividend payout (%)	12.0	10.8	11.1	11.2	11.2
Effective tax rate (%)	23.6	25.1	25.2	25.2	25.2
Net interest margins (%)	4.1	3.9	3.8	3.7	3.7
Cost-income ratio (%)	48.3	47.2	47.3	47.2	47.0
Shares outstanding (mn)	804.4	805.1	805.1	805.1	805.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	10,417	6,418	6,850	8,326	10,953
Net NPLs	2,980	1,662	1,712	2,081	2,738
GNPA ratio (%)	1.4	0.8	0.7	0.8	0.9
NNPA ratio (%)	0.4	0.2	0.2	0.2	0.2
Provision coverage (%)	71.4	74.1	75.0	75.0	75.0
Gross slippages	4,992	6,730	8,630	9,838	11,942
Gross slippage ratio (%)	0.8	0.9	0.9	0.9	1.0
LLP ratio (%)	0.6	0.6	0.7	0.7	0.8
NNPA to networth (%)	2.9	1.4	1.2	1.3	1.5
Capital adequacy					
Total CAR (%)	16.7	18.2	17.8	17.3	17.2
Tier-1 (%)	15.5	17.1	16.9	16.5	16.5
CET-1 (%)	15.5	17.1	16.9	16.5	16.5
RWA-to-Total Assets (%)	57.9	55.5	58.0	60.0	60.0
Miscellaneous					
Total income growth (%)	28.5	16.7	8.2	8.0	10.0
Opex growth (%)	29.9	9.0	9.6	10.4	12.3
Core PPOP growth (%)	3.6	12.2	8.1	10.2	14.4
PPOP margin (%)	28.7	27.9	28.2	29.0	29.8
PAT/PPOP (%)	56.7	60.4	62.0	60.6	58.8
LLP-to-Core PPOP (%)	28.8	21.9	19.6	21.8	24.3
Yield on advances (%)	10.1	10.2	9.6	9.1	8.8
Cost of funds (%)	5.2	5.6	5.2	4.8	4.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,609	1,610	1,610	1,610	1,610
Reserves & surplus	98,796	117,685	137,060	158,043	181,099
Net worth	100,404	119,295	138,670	159,653	182,710
Deposits	891,124	1,020,780	1,172,972	1,346,850	1,551,931
Borrowings	24,783	12,170	12,778	13,417	14,088
Interest bearing liab.	915,907	1,032,950	1,185,750	1,360,267	1,566,019
Other liabilities & prov.	39,540	41,429	32,825	31,982	33,607
Total liabilities & equity	1,055,852	1,193,674	1,357,246	1,551,902	1,782,335
Net advances	736,675	840,045	953,713	1,086,845	1,248,838
Investments	223,435	238,313	275,832	315,785	362,421
Cash, other balances	56,586	78,067	83,003	95,219	105,706
Interest earning assets	1,016,695	1,156,425	1,312,547	1,497,849	1,716,965
Fixed assets	4,329	4,902	5,475	6,115	6,830
Other assets	34,828	32,347	39,224	47,938	58,540
Total assets	1,055,852	1,193,675	1,357,246	1,551,902	1,782,335
BVPS (Rs)	124.8	148.2	172.2	198.3	226.9
Adj. BVPS (INR)	122.1	146.6	170.6	196.4	224.4
Gross advances	744,112	844,802	958,850	1,093,089	1,257,052
Credit to deposit (%)	82.7	82.3	81.3	80.7	80.5
CASA ratio (%)	30.4	27.3	26.6	27.1	27.9
Cost of deposits (%)	5.1	5.6	5.2	4.8	4.4
Loans-to-Assets (%)	69.8	70.4	70.3	70.0	70.1
Net advances growth (%)	16.7	14.0	13.5	14.0	14.9
Deposit growth (%)	16.3	14.5	14.9	14.8	15.2
Book value growth (%)	16.6	18.7	16.2	15.1	14.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	11.3	9.3	8.3	7.7	7.0
P/B (x)	1.8	1.5	1.3	1.1	1.0
P/ABV (x)	1.8	1.5	1.3	1.1	1.0
P/PPOP (x)	6.4	5.7	5.2	4.7	4.1
Dividend yield (%)	1.1	1.2	1.3	1.5	1.6
DuPont-RoE split (%)					
NII/avg assets	3.9	3.8	3.6	3.6	3.6
Other income	1.7	1.6	1.6	1.5	1.4
Fee income	1.0	1.0	1.0	1.0	1.0
Opex	2.7	2.6	2.5	2.4	2.3
PPOP	2.9	2.9	2.8	2.7	2.6
Core PPOP	2.6	2.5	2.4	2.3	2.3
Provisions	0.7	0.6	0.5	0.5	0.6
Tax expense	0.5	0.6	0.6	0.5	0.5
RoA (%)	1.6	1.7	1.7	1.6	1.6
Leverage ratio (x)	10.5	10.2	9.9	9.8	9.7
RoE (%)	17.2	17.7	16.9	15.8	15.2

Quarterly data					
Rs mn	Q4Y24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
NII	9,955	10,244	10,600	10,788	10,893
NIM (%)	4.1	4.1	4.0	4.1	0
PPOP	8,669	7,459	8,162	8,153	8,350
PAT	6,125	4,587	4,736	4,960	5,134
EPS (Rs)	8.4	6.3	6.5	6.8	7.1

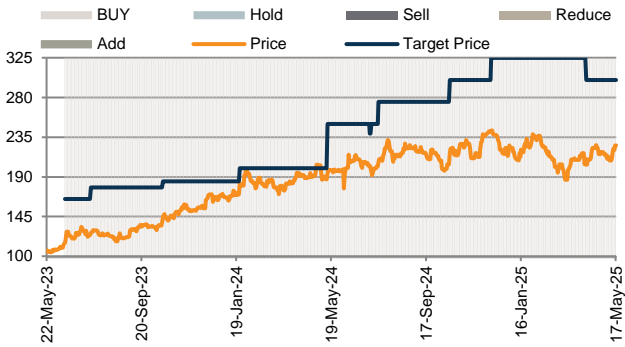
Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Apr-25	204	300	Buy	Anand Dama
21-Jan-25	228	325	Buy	Anand Dama
09-Dec-24	242	325	Buy	Anand Dama
17-Oct-24	217	300	Buy	Anand Dama
18-Jul-24	206	275	Buy	Anand Dama
09-Jul-24	196	250	Buy	Anand Dama
07-Jul-24	203	239	Buy	Anand Dama
14-May-24	194	250	Buy	Anand Dama
23-Jan-24	183	200	Buy	Anand Dama
30-Nov-23	155	185	Buy	Anand Dama
17-Oct-23	144	185	Buy	Anand Dama
17-Jul-23	127	178	Buy	Anand Dama
14-Jun-23	115	165	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research



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<b>SELL</b>	<15% downside

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