

19 May 2025

## Karur Vysya Bank

*Another strong quarter, sturdy profitability to continue; retaining a Buy*

Strong operating performance, combined with moderate provisions kept Karur Vysya Bank's profitability robust, with 1.73% RoA (down 1bp q/q). Headline asset quality remained stable, with GNPA at 0.76% (down 7bps q/q) and NNPA at 0.2% (stable q/q). Key positives were: 1) slippages under 1% (at 0.9% of loans), 2) the lowest stress pipeline among peers (SMA 30+ pool at 30bps), 3) strong credit growth in core SME (21% y/y) and retail (18% y/y) segments, 4) NIM persisting above 4% and 5) a strong balance sheet. With credit growth likely higher than the system and modest credit costs, earnings are expected to be strong. We retain our Buy, with a 12-mth TP of Rs282, 1.5x P/ABV on the FY27e book.

**Asset quality continues to improve.** GNPA improved 7bps q/q on moderate slippages and higher write-offs. Q4 slippages were Rs1.8bn (~0.9% of loans), higher than those of last quarter but within the guided-to range. For a bank where 1/3<sup>rd</sup> of the book is SME-focused, maintaining a slippage rate below 1% is quite commendable in our view. The standard restructured book was Rs5.4bn (down 11.7% q/q), 0.64% of loans. Overall SMA 30+ was Rs2.5bn (0.30% 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% through FY26-27.

**RoA to remain near 1.6%.** With credit growth expected to be higher than the system and a modest slippage run rate, medium-term credit costs are expected below 1%. Decent business growth, combined with strong margins and favourable credit costs would lead to strong medium-term profitability. We estimate ~1.6% RoA and ~15% RoE through FY26/27.

**Valuation.** Our TP of Rs282 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	FY25	FY26e	FY27e
Net interest income (Rs m)	33,488	38,092	42,524	45,473	51,613
Pre-provisioning profit (Rs m)	24,758	28,291	32,123	33,404	38,657
Provisions (Rs m)	10,389	7,290	6,216	7,157	9,141
PAT (Rs m)	11,061	16,048	19,416	19,633	22,077
EPS (Rs)	13.8	20.0	24.1	24.4	27.4
NIM (%)	4.3	4.3	4.2	4.0	4.0
Cost-income (%)	45.1	48.3	47.2	49.1	47.9
RoE (%)	13.7	17.2	17.7	15.3	15.1
RoA (%)	1.3	1.6	1.7	1.6	1.6
Advances growth (%)	14.1	16.7	14.0	13.0	14.0
GNPA (%)	2.3	1.4	0.8	0.7	0.7
CAR (%)	18.6	16.8	18.2	18.4	18.3
P/E (x)	16.4	11.3	9.4	9.3	8.2
P / BV (x)	2.1	1.8	1.5	1.3	1.2
P / ABV (x)	2.2	1.8	1.5	1.3	1.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.282

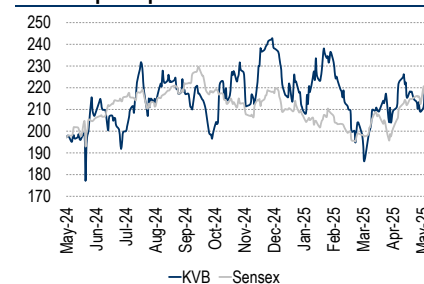
Share Price: Rs.226

Key data	KVB IN / KARU.BO
52-week high / low	Rs246 / 165
Sensex / Nifty	82059 / 24945
Market cap	Rs.182bn
Shares outstanding	799m

Shareholding pattern (%)	Mar'25	Dec'24	Sep'24
Promoters	2.1	2.1	2.1
- of which, Pledged	3.7	4.7	4.7
Free float	97.9	97.9	97.9
- Foreign institutions	15.1	14.2	15.1
- Domestic institutions	38.9	38.5	37.0
- Public	43.9	45.2	45.8

Estimates revision (%)	FY26e	FY27e
NII	(5.3)	(6.6)
PPOP	(6.9)	(5.8)
PAT	(3.8)	(3.6)

### 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	FY25	FY26e	FY27e
Net interest income	33,488	38,092	42,524	45,473	51,613
<i>NII growth (%)</i>	23.3	13.7	11.6	6.9	13.5
Non-interest income	11,589	16,587	18,371	20,208	22,633
Income	45,077	54,679	60,895	65,681	74,246
<i>Income growth (%)</i>	29.4	21.3	11.4	7.9	13.0
Operating expenses	20,320	26,388	28,771	32,277	35,589
PPoP	24,758	28,291	32,123	33,404	38,657
<i>PPoP growth (%)</i>	51.9	14.3	13.5	4.0	15.7
Provisions	10,389	7,290	6,216	7,157	9,141
PBT	14,369	21,002	25,907	26,247	29,515
Tax	3,308	4,954	6,491	6,614	7,438
PAT	11,061	16,048	19,416	19,633	22,077
<i>PAT growth (%)</i>	64.3	45.1	21.0	1.1	12.5
FDEPS (Rs)	13.8	20.0	24.1	24.4	27.4
DPS (Rs)	2.0	2.4	2.6	2.7	3.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (Rs m)**

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	1,604	1,609	1,610	1,610	1,610
Reserves & surplus	84,236	98,792	1,17,685	1,35,158	1,54,807
Deposits	7,66,376	8,91,127	10,20,780	11,43,273	12,91,899
Borrowings	14,320	24,784	12,170	12,778	13,417
Other liabilities	35,258	39,540	41,429	45,031	47,564
<b>Total liabilities</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>11,93,674</b>	<b>13,37,851</b>	<b>15,09,298</b>
Advances	6,31,341	7,36,675	8,40,045	9,49,251	10,82,146
Investments	1,88,083	2,23,435	2,38,313	2,62,144	2,88,358
Cash & bank balance	46,951	56,586	78,067	87,345	97,727
Fixed & other assets	35,418	39,156	37,249	39,112	41,067
<b>Total assets</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>11,93,674</b>	<b>13,37,851</b>	<b>15,09,298</b>
No. of shares (m)	802	804	805	805	805
<i>Deposit growth (%)</i>	11.6	16.3	14.5	12.0	13.0
<i>Advances growth (%)</i>	14.1	16.7	14.0	13.0	14.0

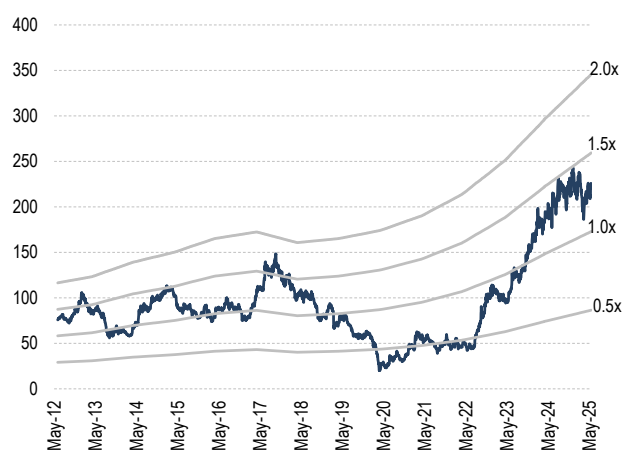
Source: Company, Anand Rathi Research

**Fig 3 – Ratio analysis, %**

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
NIM	4.3	4.3	4.2	4.0	4.0
Other inc. / total inc.	25.7	30.3	30.2	30.8	30.5
Cost-income	45.1	48.3	47.2	49.1	47.9
Provision coverage	67.9	71.4	74.1	75.0	75.0
Dividend payout	14.5	12.0	10.8	11.0	11.0
Credit-deposit	82.4	82.7	82.3	83.0	83.8
Investment-deposit	24.5	25.1	23.3	22.9	22.3
Gross NPA	2.3	1.4	0.8	0.7	0.7
Net NPA	0.7	0.4	0.2	0.2	0.2
BV (Rs)	107.0	124.8	148.2	169.9	194.3
Adj. BV (Rs)	102.9	122.2	146.7	168.5	192.7
CAR	18.6	16.8	18.2	18.4	18.3
- Tier 1	16.8	15.5	17.1	17.5	17.5
RoE	13.7	17.2	17.7	15.3	15.1
RoA	1.3	1.6	1.7	1.6	1.6

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-book band**



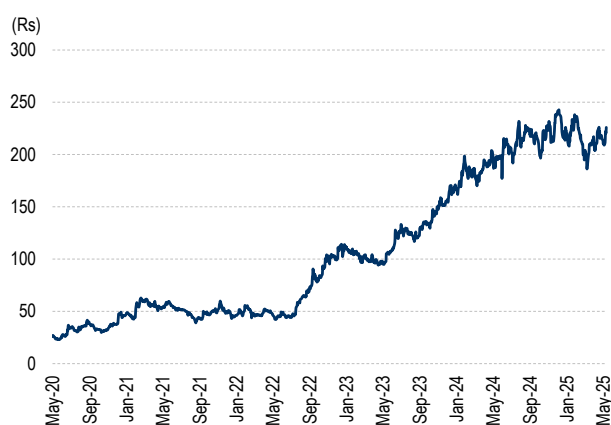
Source: Bloomberg

**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)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Interest income	15,795	16,952	17,683	18,829	19,971	21,394	21,846	22,845	23,840	24,860	25,159
Interest expense	7,581	8,062	8,757	9,858	10,817	11,381	11,891	12,602	13,241	14,072	14,267
<b>NII</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>	<b>10,893</b>
Y/Y growth (%)	20.7	29.4	25.7	20.3	11.4	12.6	11.5	14.2	15.8	7.7	9.4
Non-interest income	2,416	3,175	4,008	3,332	3,389	3,578	6,289	3,884	4,720	4,674	5,093
<b>Total income</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>	<b>15,986</b>
Y/Y growth (%)	25.8	36.7	41.3	30.2	18.0	12.6	25.6	14.8	22.1	13.8	-1.6
Operating expenses	4,906	5,175	5,543	5,818	6,164	6,832	7,574	6,669	7,157	7,310	7,636
Of which, staff cost	2,339	2,557	2,807	3,189	3,276	3,747	4,398	3,335	3,570	3,738	3,849
<b>PPoP</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>	<b>8,350</b>
Y/Y growth (%)	52.5	71.6	67.5	36.4	11.5	-1.9	17.3	15.0	28.0	20.6	-3.7
Total provisions	2,272	3,641	2,930	1,594	1,264	1,497	2,934	1,329	1,798	1,474	1,614
<b>PBT</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>	<b>6,736</b>
Tax	949	356	1,082	1,304	1,331	1,146	1,174	1,543	1,628	1,718	1,602
<b>PAT</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>	<b>5,134</b>
Y/Y growth (%)	51.3	56.0	58.3	56.8	51.2	42.3	35.0	27.9	25.1	20.5	12.6

Source: Company, Anand Rathi Research

**Fig 8 – Balance sheet**

(Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Equity capital	1,601	1,600	1,604	1,600	1,605	1,610	1,609	1,610	1,610	1,610	1,610
Reserves & surplus	77,888	80,800	84,236	87,840	90,024	94,180	98,792	1,04,240	1,07,397	1,12,310	1,17,685
Deposits	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	10,20,780
Borrowings	22,806	14,730	14,320	15,550	25,879	29,930	24,784	21,130	14,180	15,630	12,170
Other liabilities	25,214	31,250	35,258	33,930	36,157	46,310	39,541	38,270	44,159	42,630	41,429
<b>Equity and liabilities</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>	<b>11,93,674</b>
Deposits y/y growth (%)	12.5	13.9	11.6	13.4	12.8	12.5	16.3	14.4	15.4	15.7	14.5
Deposits q/q growth (%)	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6	3.8	3.5	2.9
<b>Assets</b>											
Cash and cash balances	46,906	44,020	42,795	51,980	46,142	53,010	55,879	53,250	54,571	50,460	73,542
Advances	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	8,40,045
Investments	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	2,38,313
Other assets	19,675	26,920	35,418	31,110	32,030	45,530	39,156	38,230	40,532	37,240	37,249
<b>Total Assets</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>	<b>11,93,674</b>
Advances y/y growth (%)	17.1	15.9	14.1	14.6	15.5	16.3	16.7	16.7	14.5	14.6	14.0
Advances q/q growth (%)	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5	3.4	3.4	2.1

Source: Company, Anand Rathi Research

**Fig 9 – Movement of GNPA**

GNPA	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Opening balance (Rs m)	16,743	14,582	13,300	12,190	11,519	10,416	10,245	8,856	6,909
Slippages (Rs m)	2,220	1,500	1,550	1,970	2,010	1,740	1,810	1,390	1,790
Gross slippage ratio (%)	1.4	1.0	0.9	1.1	1.1	0.9	0.9	0.7	0.9
Reductions (Rs m)	4,380	2,780	2,660	2,640	3,110	1,910	3,200	3,330	2,280
Closing balance (Rs m)	14,582	13,297	12,191	11,519	10,416	10,245	8,856	6,909	6,418
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
Restructured advances (%)	1.5	1.4	1.2	1.1	1.0	0.9	0.8	0.7	0.6
Stressed assets (%)	3.8	3.3	2.9	2.7	2.4	2.2	1.9	1.6	1.4

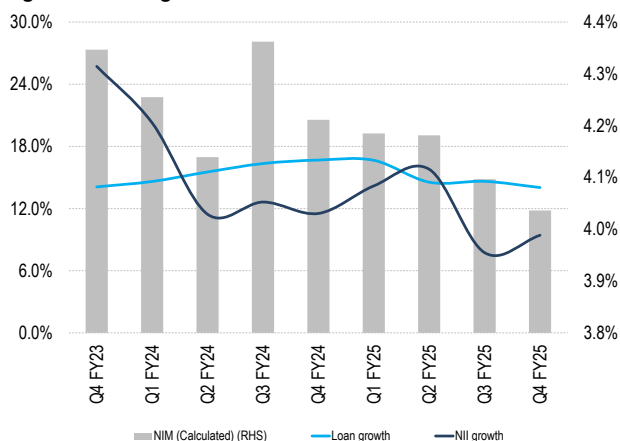
Source: Company, Anand Rathi Research

**Fig 10 – Break-up of advances (%)**

	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Corporate	20.8	20.2	20.5	19.8	18.7	17.6	16.3	15.5	14.3
Commercial	32.7	33.1	33.4	33.6	34.2	34.9	35.7	36.0	36.4
Housing	10.4	10.4	10.2	10.1	10.2	10.2	10.2	10.1	10.0
Auto	1.7	1.7	1.6	1.6	1.5	1.4	1.4	1.3	1.2
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Personal	0.6	0.5	0.6	0.5	0.4	0.4	0.4	0.3	0.3
Consumer Credit-BNPL	0.5	0.5	0.6	1.3	1.4	1.4	1.3	1.2	1.0
Jewel	3.3	3.3	3.1	2.9	2.9	3.4	3.5	3.8	4.1
LAP	5.1	5.1	5.2	5.3	5.5	5.8	6.1	6.4	6.5
Other Retail	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.4
Farm	23.1	23.3	23.1	23.2	23.3	23.3	23.5	23.8	24.6
<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>

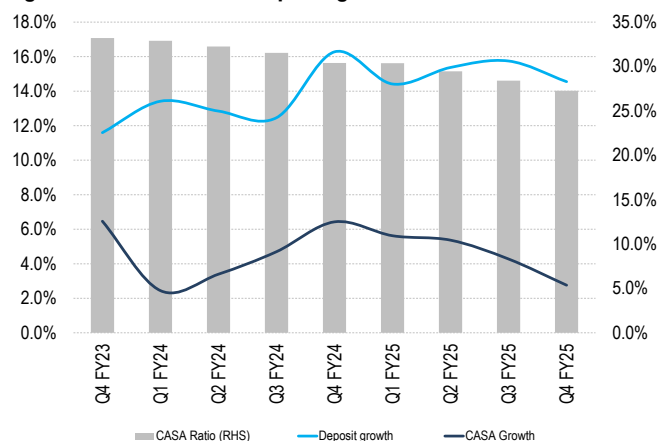
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM



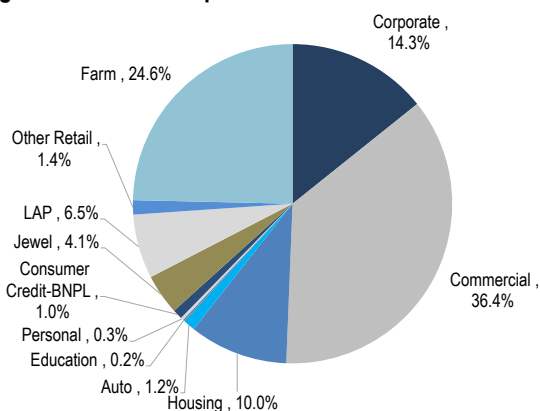
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth



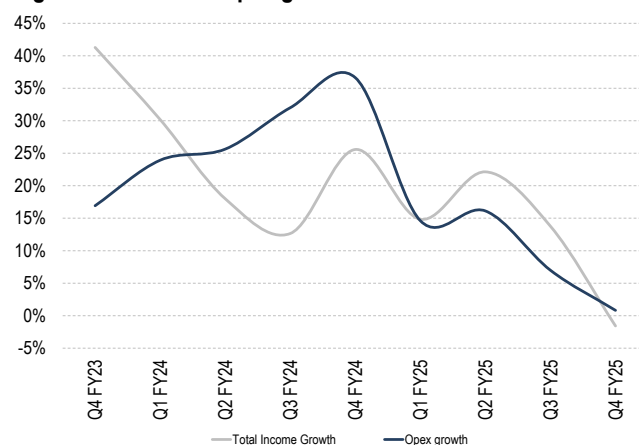
Source: Company, Anand Rathi Research

Fig 13 – Loan break-up



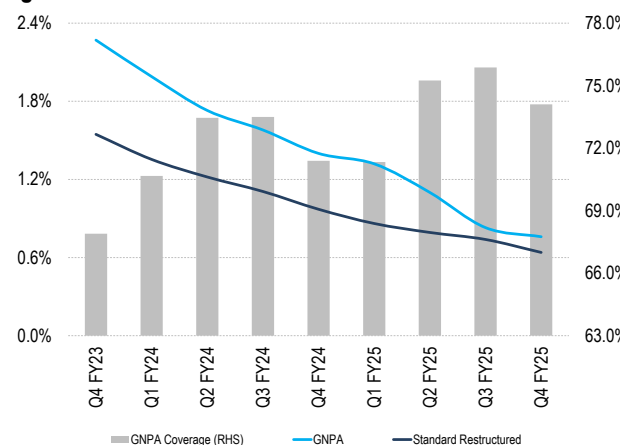
Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth



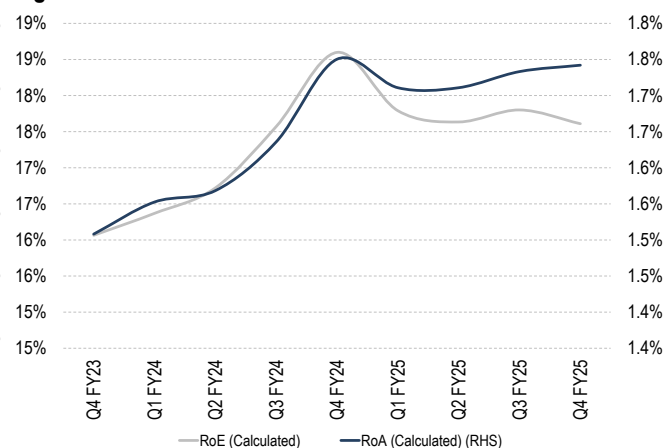
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – RoE vs. RoA



Source: Company, Anand Rathi Research

## Valuation

Our Rs282 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)	FY26e			FY27e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	45,473	48,018	(5.3)	51,613	55,231	(6.6)
Pre-provisioning profit	33,404	35,882	(6.9)	38,657	41,017	(5.8)
PAT	19,633	20,406	(3.8)	22,077	22,900	(3.6)

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.

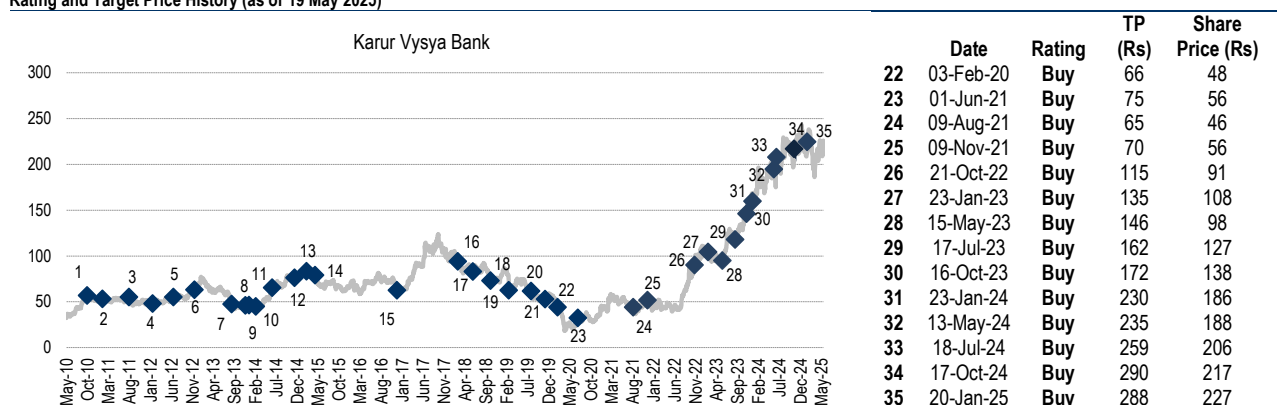
## Appendix

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### Important Disclosures on subject companies

#### Rating and Target Price History (as of 19 May 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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