

12 September 2025

India | Equity Research | Company Update

Karur Vysya Bank

Banking

Recovery from technical write-off: non-core but likely to be recurring

For Karur Vysya Bank (KVB), recovery from technical written-off (RTWO) contributed ~57bps to RoA (pre-tax) of ~2.3% for FY25. We note that disclosures and accounting for RTWO vary across banks; yet, KVB appears to exhibit the highest contribution from RTWO. While investors are justified in considering RTWO as non-core, we argue that for KVB it can be recurring (though moderating) in the near term. KVB's RTWO rate (~14% of O/s pool) is comparable vs. peers. Importantly, there is a massive difference in the quantum (~2–10x of the peers as proportion of loans / GNPA) and quality (new vintage, secured and with some recourse) of the pool. We model an unchanged mild moderating RTWO trajectory, but believe that RTWO should sustain healthy contribution at ~0.4%/0.3% for FY26E/FY27E. Maintain **BUY** with unchanged PAT/target multiple. Target price is revised to reflect the bonus share adjustment.

FY25 RoA strong at 1.7%; partly aided by strong TWO recovery

KVB's calculated RoA for FY25 of ~1.7% was the highest within its peer set and comparable to larger private banks such as HDFCB, Axis and just shy of KMB (adjusted basis). We note that KVB has higher contribution of RTWO in FY25, at 57bps of assets (vs. 35bps YoY), which could be argued as non-core.

Recovery rate comparable to peers

The disclosure levels and accounting treatment pertaining to RTWO vary across banks. RTWO is contingent on multiple factors, including quality, vintage and collateral of the underlying NPA pool. We note that banks such as CUBK, which have secured collateral, have sustained double-digits TWO recovery rate for the last 6–7 years. KVB's RTWO rate (~14% of the O/s pool), while up YoY, is still lower than CUBK's, though slightly higher than the single-digit run-rate at other banks, including PSBs. We note that KVB has an aggressive write-off policy (newer vintage), higher share of secured SME/retail in overall GNPA and seems to have some recourse in unsecured BNPL pool.

TWO pool is 2–10x of peers; RTWO could be more recurring

Interestingly, KVB's O/s TWO pool is ~2–10x its peers on various metrics. In terms of GNPA's, O/s TWO pool at KVB is >7x as compared to the ~1x at its peers. In term of loans, TWO pool is ~5.5% of loans vs. 1–2.5% at peers. PCR, including TWO at KVB, is ~97% vs. 74–89% at peers. Despite being non-core, we believe RTWO at KVB could be more recurring, basis the combination of recovery rate, GNPA composition and sheer size of O/s TWO pool. We model an unchanged mild moderating RTWO trajectory, but believe that RTWO should sustain healthy contribution at ~0.4%/0.3% for FY26E/FY27E.

Financial Summary

Y/E March	FY24A	FY25A	FY26E	FY27E
NII (INR bn)	38.2	42.6	45.3	54.2
Op. profit (INR bn)	28.3	32.1	31.8	36.6
Net Profit (INR bn)	16.0	19.4	20.5	23.3
EPS (INR)	16.7	20.1	21.3	24.1
EPS % change YoY	44.8	20.7	5.8	13.2
ABV (INR)	101.7	122.2	140.9	161.7
P/BV (x)	2.0	1.7	1.5	1.3
P/ABV (x)	2.0	1.7	1.5	1.3
Return on Assets (%)	1.6	1.7	1.6	1.6
Return on Equity (%)	17.2	17.7	16.0	15.8

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Market Data

Market Cap (INR)	203bn
Market Cap (USD)	2,290mn
Bloomberg Code	KVB IN
Reuters Code	KARU.BO
52-week Range (INR)	231 /154
Free Float (%)	97.0
ADTV-3M (mn) (USD)	7.3

Price Performance (%)	3m	6m	12m
Absolute	5.0	27.2	15.0
Relative to Sensex	6.2	17.1	14.9

ESG Score	2023	2024	Change
ESG score	73.0	77.4	4.4
Environment	51.5	55.3	3.8
Social	74.6	79.1	4.5
Governance	80.1	86.9	6.8

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
EPS	-	-

Previous Reports

25-07-2025: [Q1FY26 results review](#)

16-08-2025: [Banking Q1FY26 review](#)

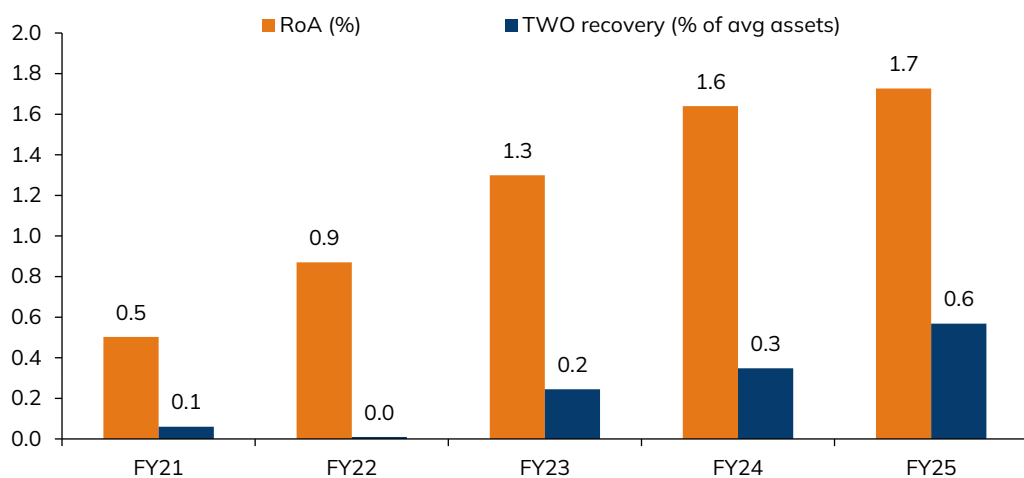
Maintain BUY; TP tweaked to adjust the bonus share

There is no change in our estimates. We maintain **BUY** on KVB with an unchanged target multiple of ~1.65x on FY27E ABV. Our target price, is, however, adjusted to INR 267 (vs. INR 320 earlier), due to the 1:5 bonus share adjustment.

Due to the imposition of adverse tariff, the outlook on the health of SME – especially export oriented ones – is a key monitorable. KVB has sizeable exposure to SME, within which textile, could see some headwinds if adversities persist. While we remain vigilant, we take comfort in the overall asset quality of the bank due to its lowest pool of net NPA, SMA levels, strong PCR and sizeable contingent buffer.

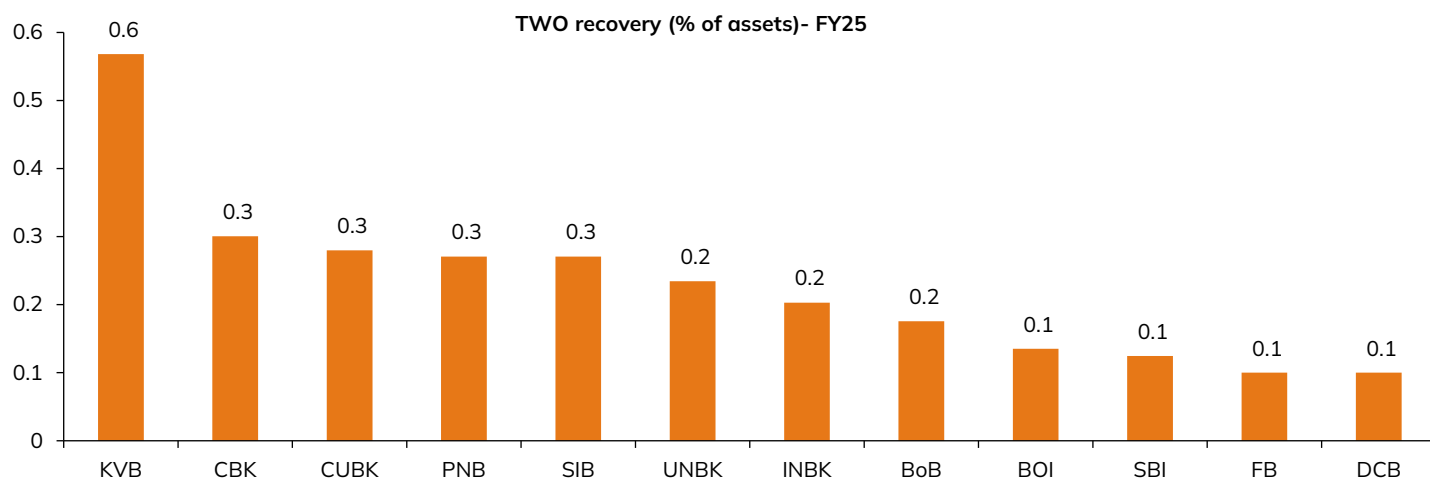
Key risk is adverse impact on portfolio quality as well as growth in external facing sectors such as textile amidst macro uncertainties.

Exhibit 1: KVB's TWO recovery contribution to overall RoA spiked in last 2 years



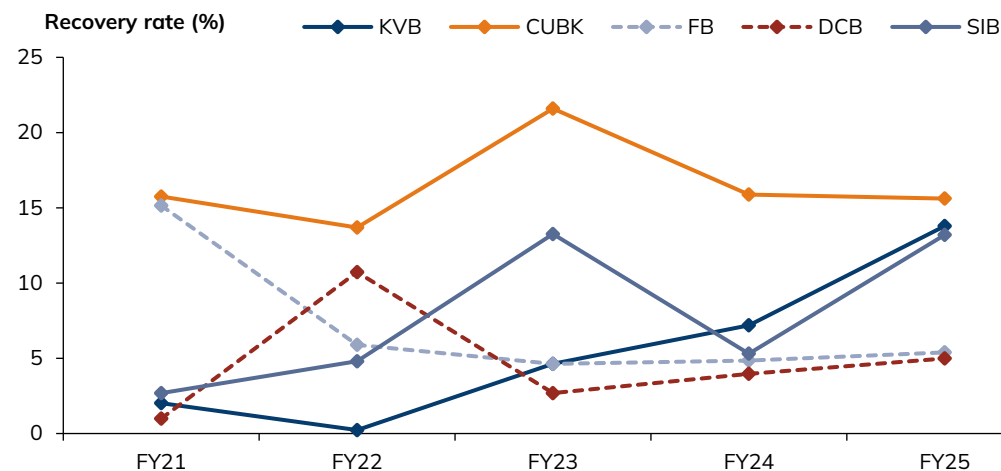
Source: Company data, I-Sec research

Exhibit 2: KVB has the highest contribution of TWO recovery in RoA at ~0.6% (pre-tax), across peers



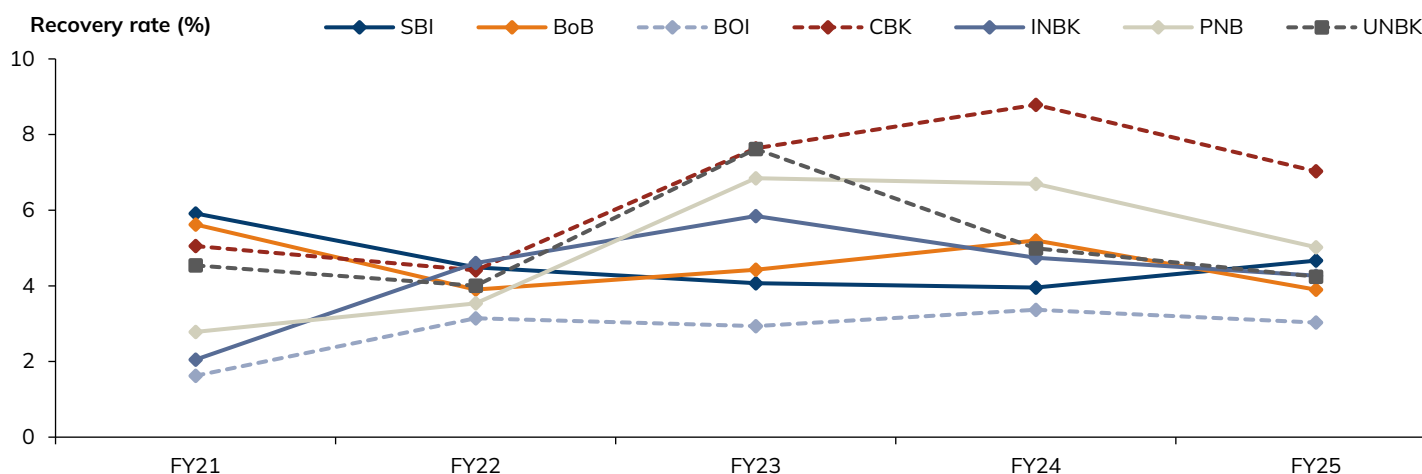
Source: I-Sec research, Company data

Exhibit 3: Importantly, KVB's recovery rate is akin to, or lower than, peers; banks focused on secured MSME such as CUBK and KVB have higher recovery rate; CUBK sustained double-digit rate over the last 5 years



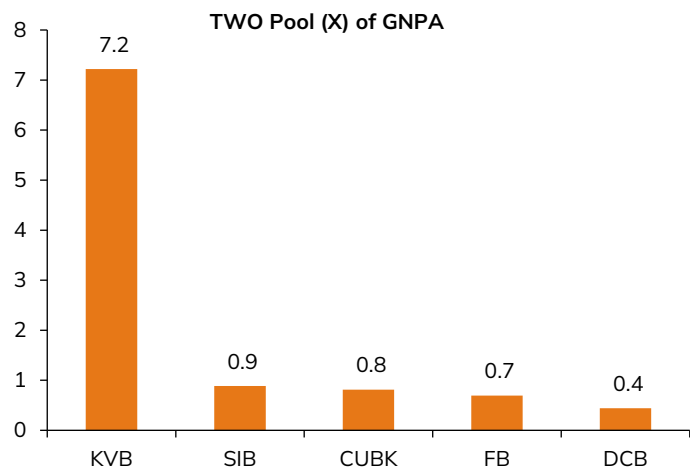
Source: I-Sec research, Company data

Exhibit 4: PSU banks' recovery rate has been range-bound and in single-digit; corporate NPA tends to have episodic recovery, though MSME NPA backed by hard collateral have better recovery rates



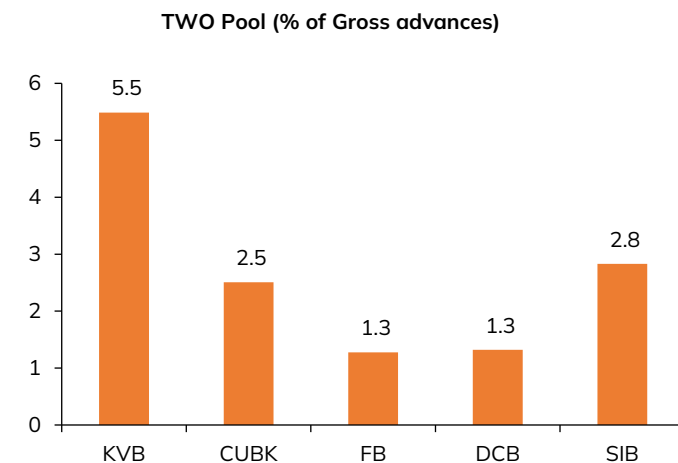
Source: I-Sec research, Company data

Exhibit 5: Importantly, TWO pool at KVB is over 7x of GNPA as compared to <1x for peers



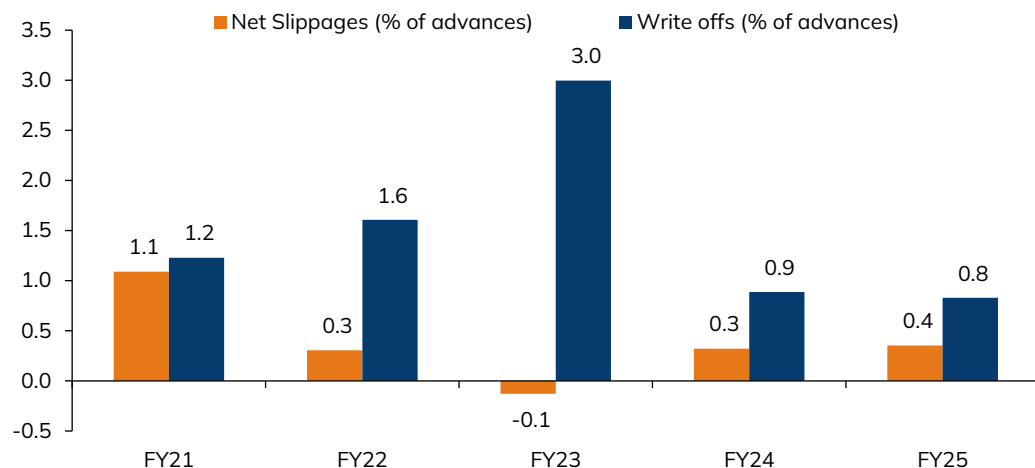
Source: I-Sec research, Company data

Exhibit 6: Similarly, KVB's TWO pool as % of advances is 2-4x its peers



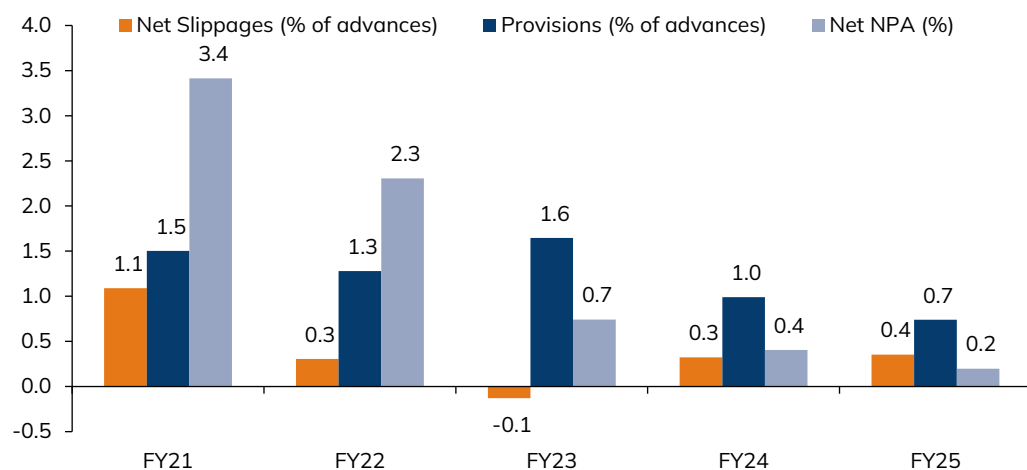
Source: I-Sec research, Company data

Exhibit 7: Between FY22–25, KVB has cumulatively written-off >6% of loans while net slippages have been <1% of loans



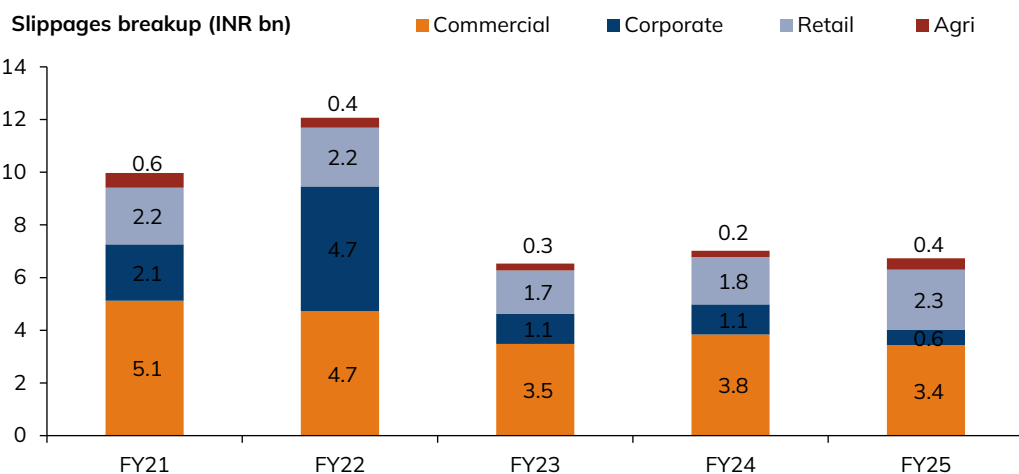
Source: I-Sec research, Company data

Exhibit 8: Despite miniscule net slippages, provisioning has been high due to higher write-offs and sharp decline in net NPA

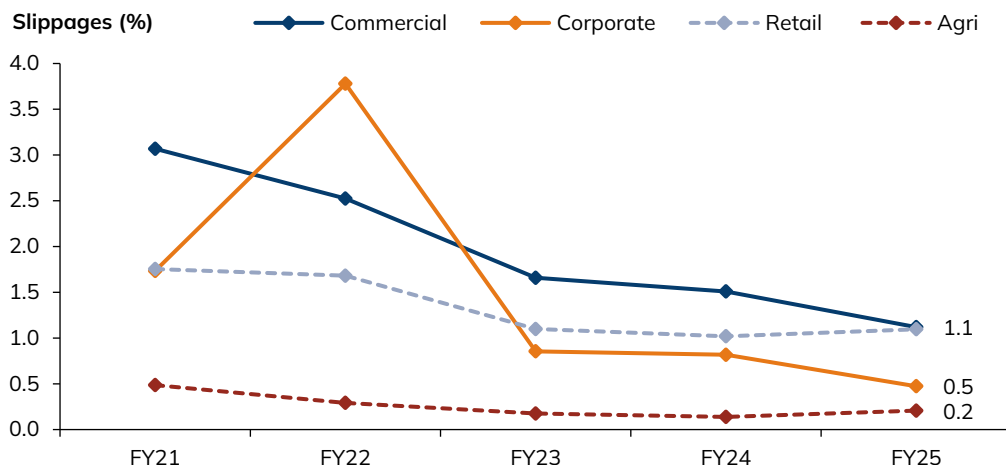


Source: I-Sec research, Company data

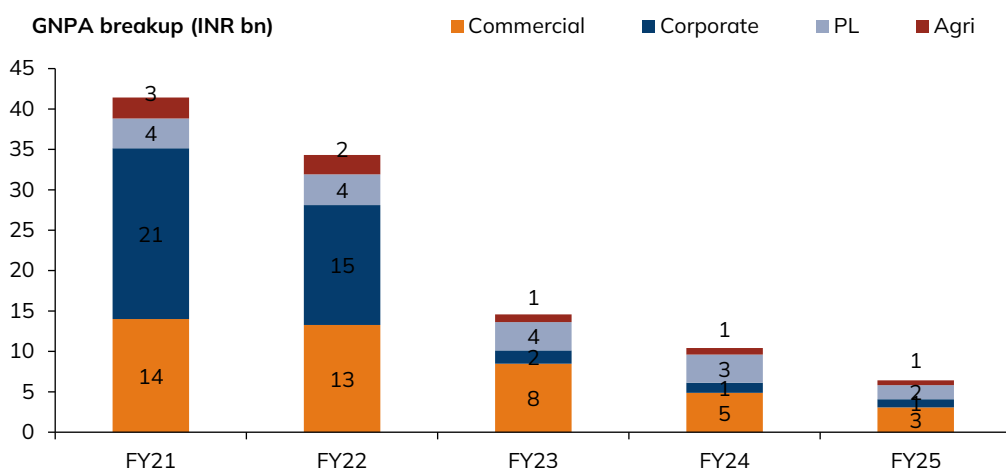
Exhibit 9: Slippages in the last 3 years have been driven by secured commercial and retail segment while contribution of corporate has been miniscule



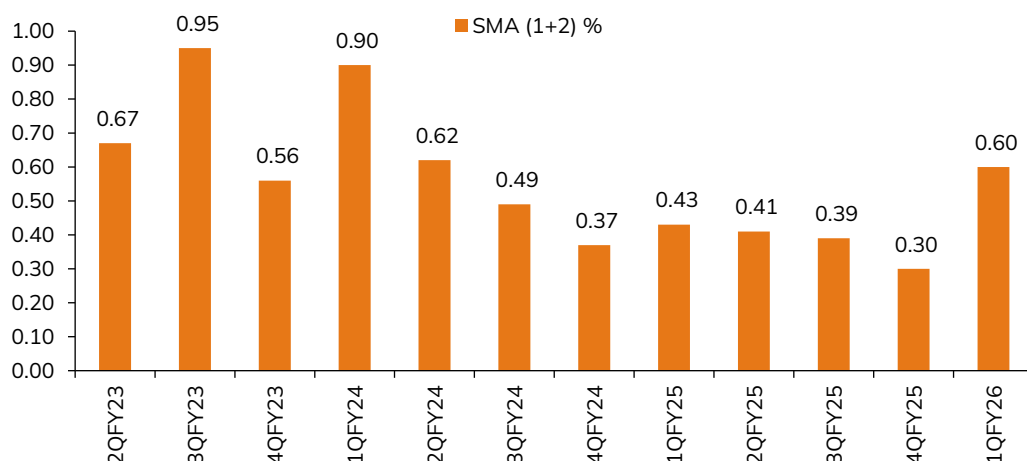
Source: I-Sec research, Company data

Exhibit 10: Slippages rate has improved for all four sub-segments over the years

Source: I-Sec research, Company data

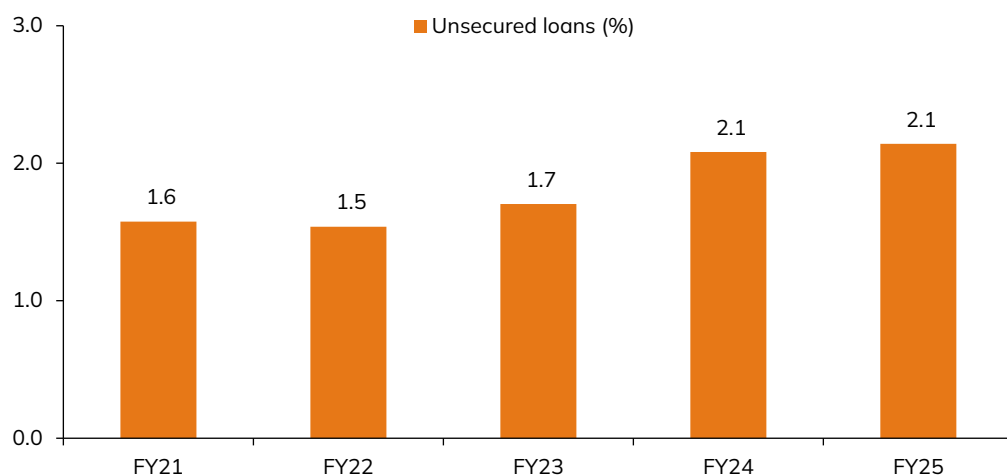
Exhibit 11: Share of corporate in overall GNPA has become negligible

Source: I-Sec research, Company data

Exhibit 12: SMA1+2 loans (all ticket size) have been steadily low at <1% of the loans, though saw uptick in Q1FY26; we believe, KVB has one of the lowest SMA 1+2 across peers

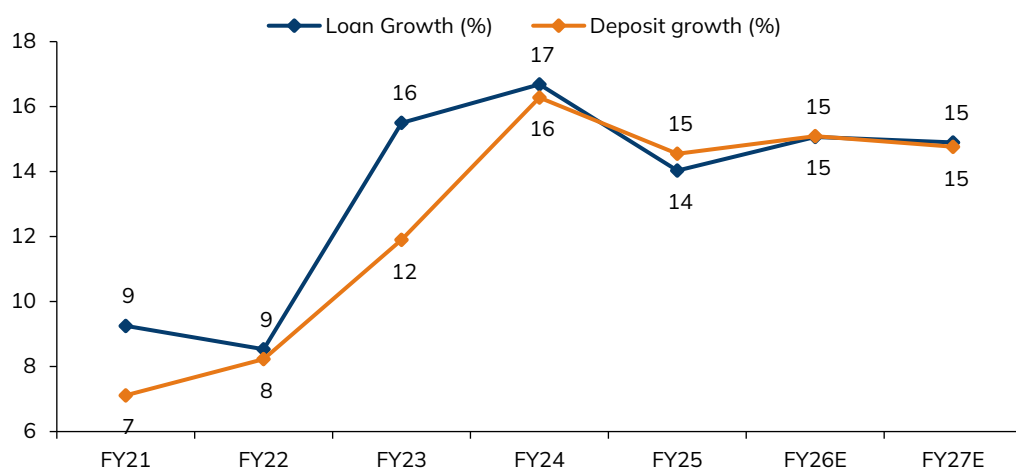
Source: I-Sec research, Company data

Exhibit 13: Share of unsecured loans has been muted; part of the unsecured retail (BNPL) stress could have recourse as well



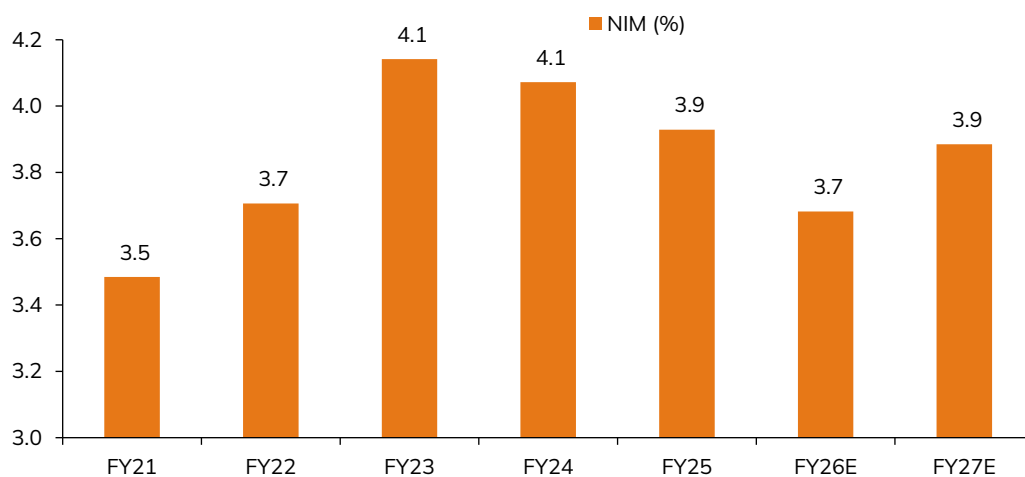
Source: I-Sec research, Company data

Exhibit 14: We expect KVB to deliver ~15% CAGR in loans and deposits over FY25–27E

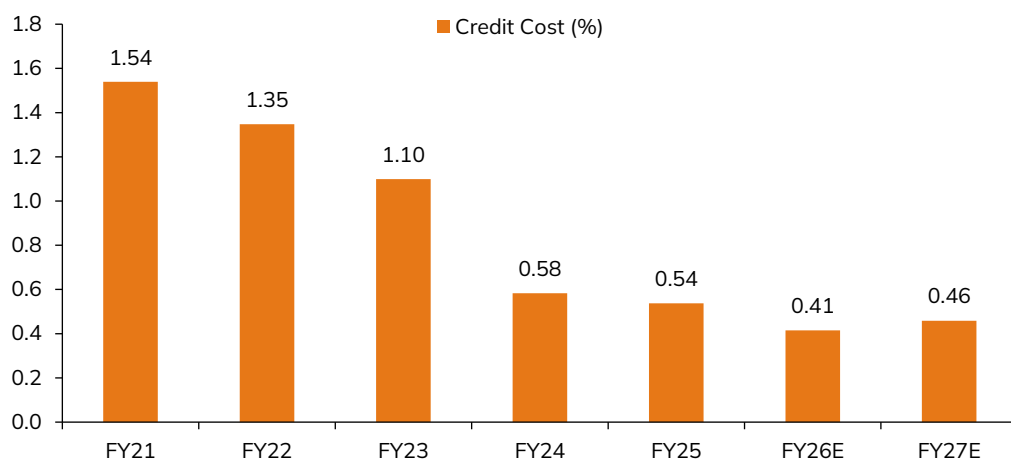


Source: Company data, I-Sec research

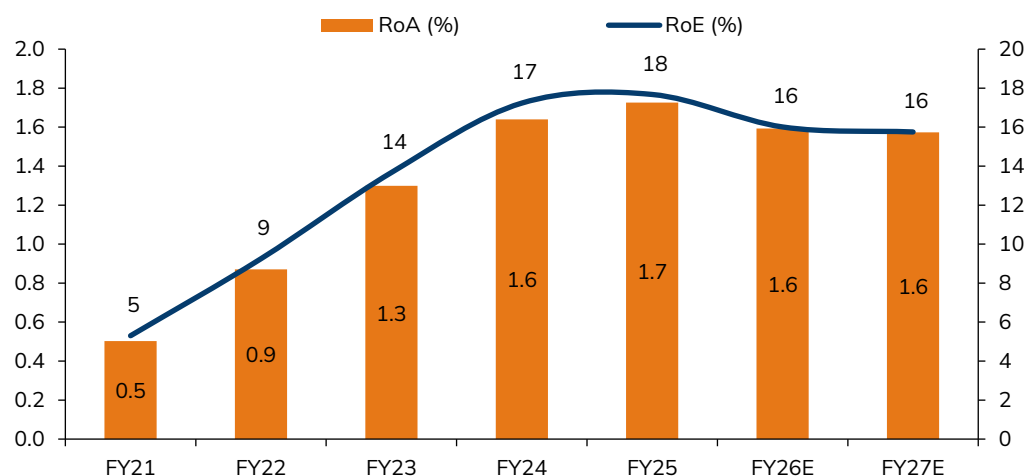
Exhibit 15: We expect a dip in NIM in FY26E due to lead-lag in interest rates, but healthy recovery in FY27E



Source: I-Sec research, Company data

Exhibit 16: We see muted credit costs, at ~40–45bps, for the FY25–27E period

Source: I-Sec research, Company data

Exhibit 17: We expect KVB to deliver best-in-class RoA/RoE of ~1.6%/16% for the next two years

Source: I-Sec research, Company data

Exhibit 18: We estimate the bank to deliver stable ~1.6% RoA for FY26–27; we model moderating but still healthy contribution of recovery from TWO

RoAs Tree (%)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	7.7	8.4	8.6	8.3	8.3
Interest Expense	3.7	4.5	4.8	4.8	4.6
NII	3.9	3.9	3.8	3.5	3.7
Non-interest income	1.4	1.7	1.6	1.4	1.3
- Fee income	1.1	1.0	1.0	0.9	0.9
- Trading gains	0.0	0.3	0.1	0.1	0.1
- Recovery from TWO	0.2	0.34	0.57	0.42	0.31
Net Revenue	5.3	5.6	5.4	5.0	4.9
Opex	2.4	2.7	2.6	2.5	2.5
Reported PPop	2.9	2.9	2.9	2.5	2.5
Core PPop	2.9	2.6	2.8	2.4	2.4
Provisioning	1.2	0.7	0.6	0.3	0.4
PBT	1.7	2.1	2.30	2.1	2.1
Tax	0.4	0.5	0.6	0.5	0.5
ROAs	1.3	1.6	1.7	1.6	1.6
Leverage	10.5	10.5	10.2	10.0	10.0
RoEs	13.7	17.2	17.7	16.0	15.8

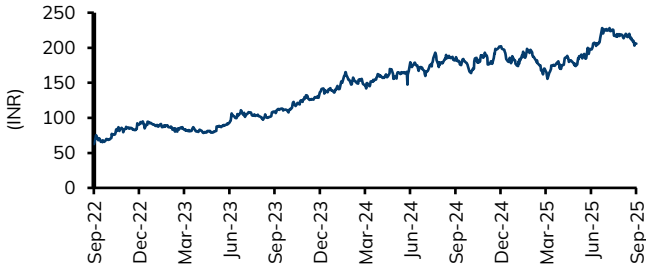
Source: I-Sec research, Company data

Exhibit 19: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	2.1	2.3	2.3
Institutional investors	53.2	38.2	38.2
MFs and other	31.6	21.2	21.2
Banks/ FIs	2.8	1.5	1.5
Insurance Cos.	4.9	0.0	0.0
FIs	13.9	15.4	15.4
Others	44.7	59.5	59.5

Source: Bloomberg, I-Sec research

Exhibit 20: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 21: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest income	82,132	96,780	1,06,829	1,22,847
Interest expense	43,947	54,181	61,557	68,666
Net interest income	38,184	42,599	45,272	54,181
Non-interest income	16,495	18,296	18,621	18,786
Operating income	54,679	60,895	63,893	72,968
Operating expense	26,388	28,771	32,057	36,410
Staff expense	14,610	14,492	15,941	18,014
Operating profit	28,291	32,123	31,836	36,558
Core operating profit	25,348	31,440	30,436	35,408
Provisions & Contingencies	7,290	6,216	4,380	5,483
Pre-tax profit	21,002	25,907	27,456	31,075
Tax (current + deferred)	4,954	6,491	6,911	7,822
Net Profit	16,048	19,416	20,545	23,254
Adjusted net profit	16,048	19,416	20,545	23,254

Source Company data, I-Sec research

Exhibit 22: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Cash and balance with RBI/Banks	56,586	78,067	83,084	95,220
Investments	2,23,435	2,38,313	2,56,033	2,81,584
Advances	7,36,675	8,40,045	9,66,614	11,10,616
Fixed assets	4,329	4,902	6,199	7,088
Other assets	34,827	32,347	73,821	76,304
Total assets	10,55,852	11,93,674	13,85,751	15,70,811
Deposits	8,91,127	10,20,780	11,74,830	13,48,298
Borrowings	24,784	12,170	12,078	11,987
Other liabilities and provisions	39,540	41,429	61,468	52,688
Share capital	1,931	1,932	1,932	1,932
Reserve & surplus	98,470	1,17,363	1,35,443	1,55,906
Total equity & liabilities	10,55,852	11,93,674	13,85,751	15,70,811
% Growth	17.1	13.1	16.1	13.4

Source Company data, I-Sec research

Exhibit 23: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	965	966	966	966
Adjusted EPS	16.7	20.1	21.3	24.1
Book Value per share	104	123	142	163
Adjusted BVPS	102	122	141	162
Valuation ratio				
PER (x)	12.6	10.4	9.9	8.7
Price/ Book (x)	2.0	1.7	1.5	1.3
Price/ Adjusted book (x)	2.0	1.7	1.5	1.3
Dividend Yield (%)	1.0	1.0	1.2	1.4
Profitability ratios (%)				
Yield on advances	10.0	10.2	9.8	10.0
Yields on Assets	8.4	8.6	8.3	8.3
Cost of deposits	5.1	5.5	5.5	5.3
Cost of funds	4.5	4.8	4.8	4.6
NIMs	4.1	3.9	3.7	3.9
Cost/Income	48.3	47.2	50.2	49.9
Dupont Analysis (as % of Avg Assets)				
Interest Income	8.4	8.6	8.3	8.3
Interest expended	4.5	4.8	4.8	4.6
Net Interest Income	3.9	3.8	3.5	3.7
Non-interest income	1.7	1.6	1.4	1.3
Trading gains	0.3	0.1	0.1	0.1
Fee income	1.4	1.6	1.3	1.2
Total Income	5.6	5.4	5.0	4.9
Total Cost	2.7	2.6	2.5	2.5
Staff costs	1.5	1.3	1.2	1.2
Non-staff costs	1.2	1.3	1.2	1.2
Operating Profit	2.9	2.9	2.5	2.5
Core Operating Profit	2.6	2.8	2.4	2.4
Non-tax Provisions	0.7	0.6	0.3	0.4
PBT	2.1	2.3	2.1	2.1
Tax Provisions	0.5	0.6	0.5	0.5
Return on Assets (%)	1.6	1.7	1.6	1.6
Leverage (x)	10.5	10.2	10.0	10.0
Return on Equity (%)	17.2	17.7	16.0	15.8
Asset quality ratios (%)				
Gross NPA	1.4	0.8	0.7	0.8
Net NPA	0.4	0.2	0.2	0.2
PCR	71.4	74.1	75.0	75.0
Gross Slippages	0.8	0.7	1.0	1.1
LLP / Avg loans	0.6	0.6	0.5	0.6
Total provisions / Avg loans	1.1	0.8	0.5	0.5
Net NPA / Networth	3.0	1.4	1.2	1.4
Capitalisation ratios (%)				
Core Equity Tier 1	15.5	17.1	16.7	16.1
Tier 1 cap. adequacy	15.5	17.1	16.7	16.1
Total cap. adequacy	16.7	18.2	17.5	16.9

Source Company data, I-Sec research

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