

08 September 2024

India | Equity Research | Company Update

Karur Vysya Bank

Banking

Well placed on LDR, growth, asset quality and RoA superiority

Karur Vysya Bank (KVB) has seen remarkable transformation under the current management with steady growth and superior RoA. KVB sports one of the lowest cost of deposits alongside superior NIMs among peers. The bank has one of the lowest LDRs (83%) and one of the highest LCRs (185%); thus, should sustain ~15% CAGR in loan growth through FY24–26E. All-inclusive SMA pool at <0.5% and amongst lowest net NPA (<0.4%) along with minimal exposure to unsecured retail nourishes our confidence on further moderation in credit costs. Overall, we expect KVB to sustain its leadership on RoA/RoE within the mid and small private banks space. Maintain **BUY**; target price revised to INR 270, valuing the stock at ~1.6x FY26E ABV. Envious positioning on LDR, LCR, asset quality and RoA should lead to further re-rating.

Primed for growth with favourable LDR/LCR; our growth estimates unchanged at ~15% CAGR FY24–26

Overall loan growth has been steady at ≥15% YoY for the last 8–9 quarters with KVB churning its low-yielding corporate book, taking advantage of superior growth in the non-corporate book. Deposits growth has been a challenge at a system level, though the bank plans to navigate this with additional resources (added 17% head-count YoY), distribution expansion and deeper relationships with clients. KVB plans to open 100 (including 80 'lite') branches in FY25. The bank has one of the lowest LDR (83%) and one of the highest LCR (185%) within private banks, which should help KVB sustain healthy ~15% CAGR in loans for FY24–26E; and thereby sustaining market share gains.

NIM peaked; estimate ~30bps dip over FY24–26E

While the CASA share (~30%) is comparable to peers, KVB has one of the lowest cost of deposits due to minimal share of bulk deposits, staggered SA offering and prudent liability management. We believe the bank's edge on cost should sustain going forward. With interest rate cycle almost turning and firm deposits costs, we expect systemic NIM to be under pressure going ahead with KVB being no exception. The bank has hefty share of MCLR loans and seems proactive in protecting NIM. Nonetheless, we conservatively estimate ~35bps cumulative dip in NIM for FY24–26E; thus, opening an upside to our estimate.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	33.5	38.1	41.8	46.8
Op. profit (INR bn)	24.8	28.3	29.5	32.3
Net Profit (INR bn)	11.1	16.0	18.4	19.8
EPS (INR)	13.8	20.0	22.9	24.6
EPS % change YoY	63.8	44.7	14.7	7.4
ABV (INR)	102.6	122.0	142.2	163.4
P/BV (x)	2.0	1.8	1.5	1.3
P/ABV (x)	2.1	1.8	1.5	1.3
Return on Assets (%)	1.3	1.6	1.6	1.5
Return on Equity (%)	13.7	17.2	17.0	15.8

Jai Prakash Mundhra

jai.mundhra@icicisecurities.com
+91 22 6807 7572

Chintan Shah

chintan.shah@icicisecurities.com

Hardik Shah

hardik.shah@icicisecurities.com

Market Data

Market Cap (INR)	175bn
Market Cap (USD)	2,080mn
Bloomberg Code	KVB IN
Reuters Code	KARU.BO
52-week Range (INR)	233 /125
Free Float (%)	97.0
ADTV-3M (mn) (USD)	6.4

Price Performance (%)	3m	6m	12m
Absolute	10.2	21.5	68.9
Relative to Sensex	4.4	12.0	47.0

Earnings Revisions (%)	FY25E	FY26E
PAT	1	2

Previous Reports

19-07-2024: [Q1FY25 results review](#)

14-05-2024: [Q4FY24 results review](#)

Low SMA pool/negligible exposure to unsecured retail provide comfort on benign credit costs

KVB has consistently been reporting possibly the lowest SMA 1+2 (all ticket size) at <1% for the last several quarters. Around 25% of the overall loans are minimal-risk gold loans. Gross and net slippages have been in tight range of ~1.0% and 0.5% annualised. Net slippages, net of recovery from TWO loans have been negligible. Net NPA, at 38bps, is one of the lowest in the industry. PCR, including TWO, stands strong at ~95%. RSA book is <1% and it has provided 100% on SR. Share of unsecured loans is <2%. The bank has also started to build in contingent provisions (o/s at INR 1.25bn or ~15bps). We estimate net slippages inching up to 0.5–0.6% for FY25/26 vs. 0.3% for FY24. However, given the low stock of net NPA (we estimate flattish level), credit costs are likely to moderate to ~50bps for FY25/26E (vs. ~60bps in FY24). Given muted SMA pool, the bank appears reasonably well placed on IndAS transition, as well.

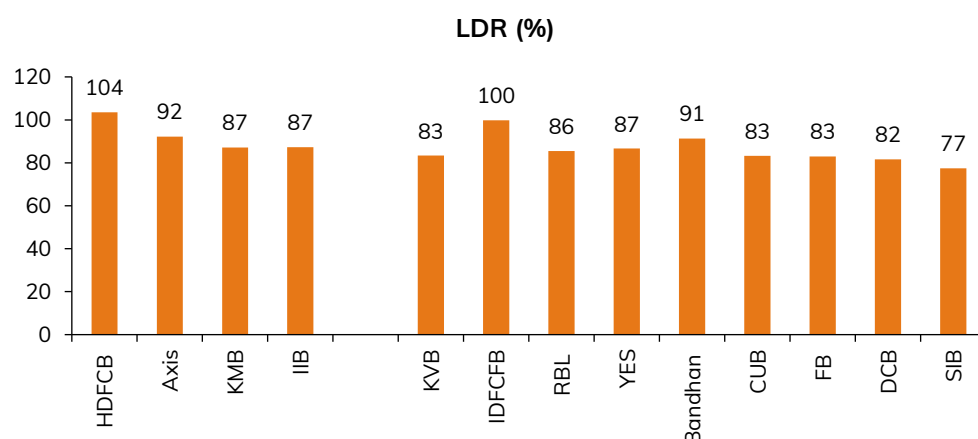
FY24–26E RoA/RoE to be amongst highest at 1.5–1.6% /16–17%

After being stagnant for few years, headcount has risen by ~17% YoY in FY24. However, opex growth is likely to be contained (and less than asset growth) due to higher base (bipartite settlement). We are conservatively building-in C/I at ~50% in FY26 vs. 48% in FY24. KVB has delivered 1.64% RoA for FY24, amongst the highest within peers. We estimate the bank to sustain its edge over peers and deliver RoA of 1.6/1.5% for FY25/26. RoE is estimated at 16–17% for FY24–26E.

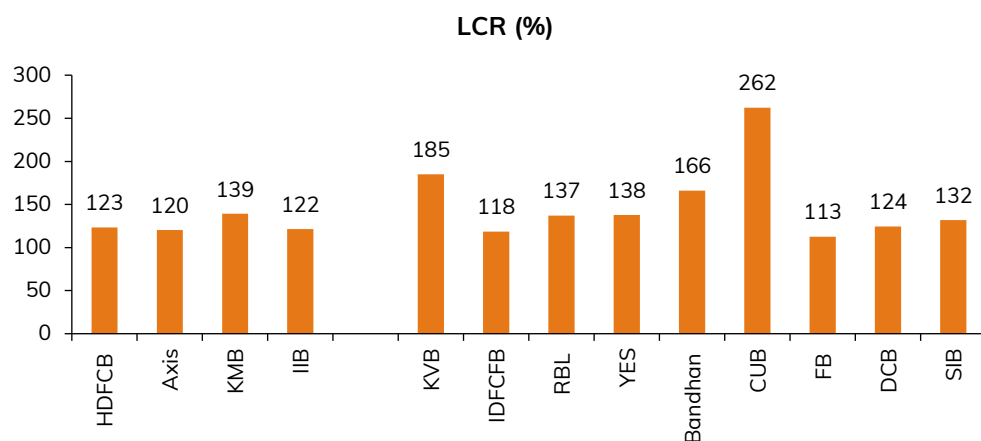
Maintain BUY; target price revised to INR 270

The stock trades attractive at 1.35x FY26 ABV and <9x FY26 EPS. We maintain **BUY** with target price revised to INR 270, valuing the stock at ~1.65x FY26E ABV. The stock has seen re-rating over the last few quarters, but the execution and RoA progression has been equally superior, in our view. We believe KVB's enviable positioning on LDR, LCR, asset quality and RoA should lead to further re-rating. Key risks are slower than expected deposits growth impacting growth and NIM.

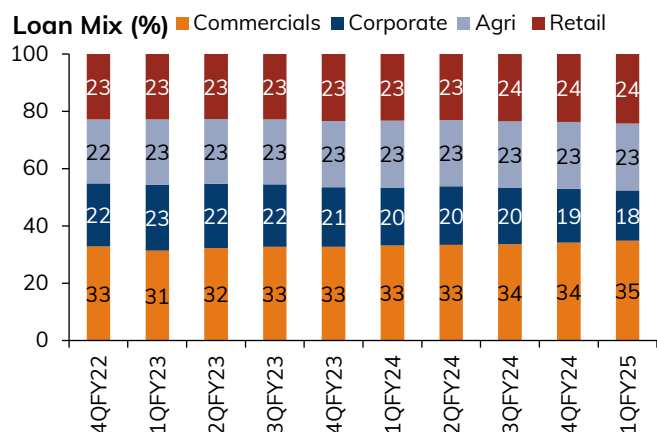
Exhibit 1: Elevated LDR appears to be key headwind for loan growth ahead; KVB appears well positioned with LDR at 83%, amongst lowest within peers.



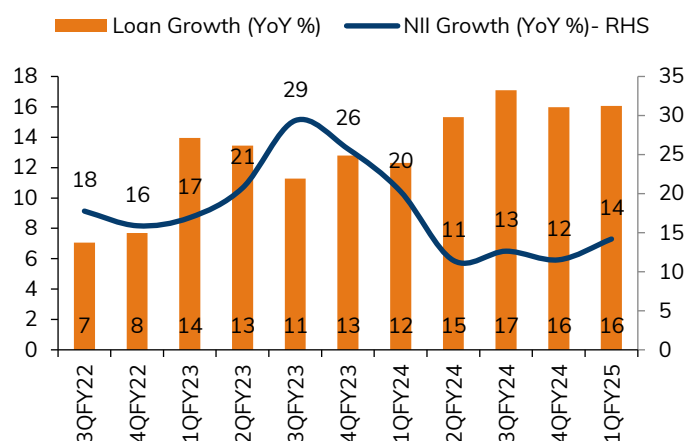
Source: I-Sec research, Company data

Exhibit 2: KVB is well-placed on LCR front as well, amongst highest across peers

Source: I-Sec research, Company data

Exhibit 3: Loan book broadly stable with small rise in commercial at the cost of corporate book.

Source: I-Sec research, Company data

Exhibit 4: Loan growth has been steady at 16-17% YoY.

Source: I-Sec research, Company data

Exhibit 5: Deposits trend over the quarters

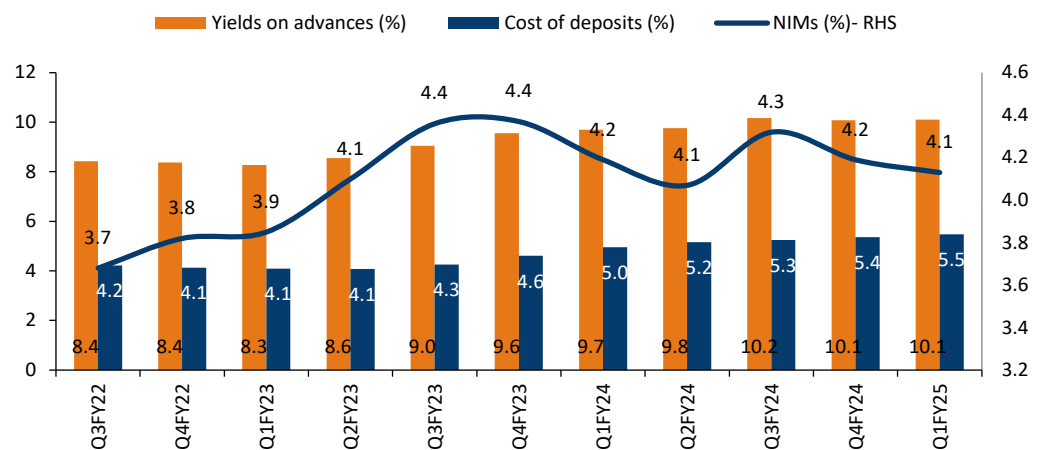
Particulars (INR mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Deposits	6,68,710	6,84,860	7,11,680	7,33,975	7,61,750	7,66,376	8,07,150	8,30,685	8,56,650	8,91,127	9,23,490
YoY % change	7.7	8.2	10.5	12.2	13.9	11.9	13.4	13.2	12.5	16.3	14.4
QoQ % change	2.2	2.4	3.9	3.1	3.8	0.6	5.3	2.9	3.1	4.0	3.6
CASA Deposits	2,41,270	2,39,040	2,59,160	2,59,140	2,58,000	2,54,490	2,65,490	2,67,940	2,70,120	2,70,850	2,80,420
YoY % change	12.2	10.4	15.0	11.9	6.9	6.5	2.4	3.4	4.7	6.4	5.6
QoQ % change	4.2	-0.9	8.4	0.0	-0.4	-1.4	4.3	0.9	0.8	0.3	3.5
CASA Ratio (%)	36.1	34.9	36.4	35.3	33.9	33.2	32.9	32.3	31.5	30.4	30.4
Term Deposits	4,27,440	4,45,820	4,52,520	4,74,835	5,03,750	5,11,886	5,41,660	5,62,745	5,86,530	6,20,277	6,43,070
YoY % change	5.3	7.1	8.1	12.4	17.9	14.8	19.7	18.5	16.4	21.2	18.7
QoQ % change	1.2	4.3	1.5	4.9	6.1	1.6	5.8	3.9	4.2	5.8	3.7

Source: Company data, I-Sec research

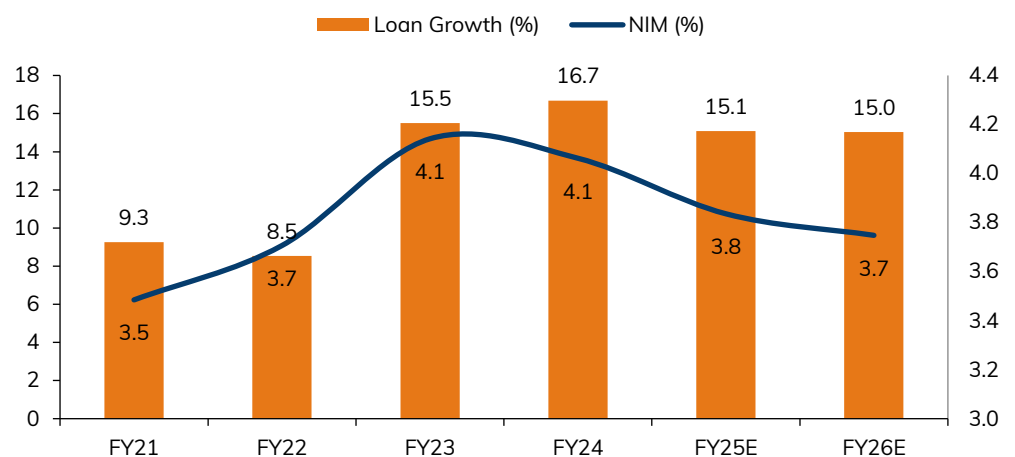
Exhibit 6: The bank has one of the lowest cost of deposits; the edge is likely to sustain in our view

Cost of deposits (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
FB	4.3	4.3	4.2	4.4	4.6	5.1	5.3	5.5	5.7	5.9	5.8
RBL	4.8	4.8	4.8	5.1	5.5	5.7	6.1	6.2	6.3	6.4	6.5
Bandhan	5.2	5.1	5.3	5.5	5.8	5.8	6.4	6.5	6.6	6.9	7.0
KVB	4.2	4.1	4.1	4.1	4.3	4.6	5.0	5.2	5.3	5.4	5.5
CUB	4.6	4.5	4.4	4.5	4.6	5.1	5.4	5.5	5.7	5.8	5.7
DCB	6.0	6.0	5.9	5.9	6.0	6.3	6.6	6.8	7.0	7.1	7.1
Yes	4.9	4.8	4.8	5.0	5.3	5.6	5.9	6.0	6.1	6.1	6.1
SIB	4.7	4.5	4.4	4.2	4.3	4.6	4.9	5.0	5.2	5.3	5.4

Source: I-Sec research, Company data

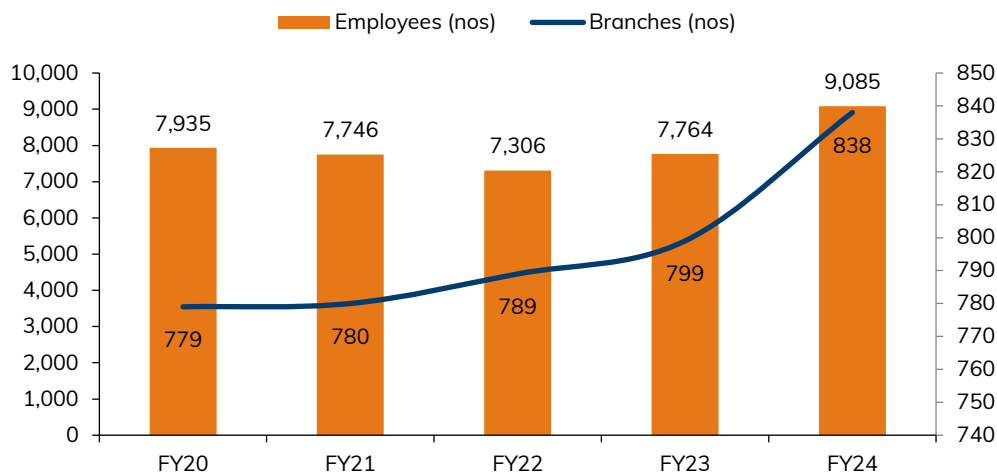
Exhibit 7: NIM have been moderating though still healthy at >4.0%


Source: I-Sec research, Company data

Exhibit 8: We estimate loan growth at ~15% CAGR for FY24-26; our NIM estimates are conservative with cumulative dip of ~30bps in the same period.


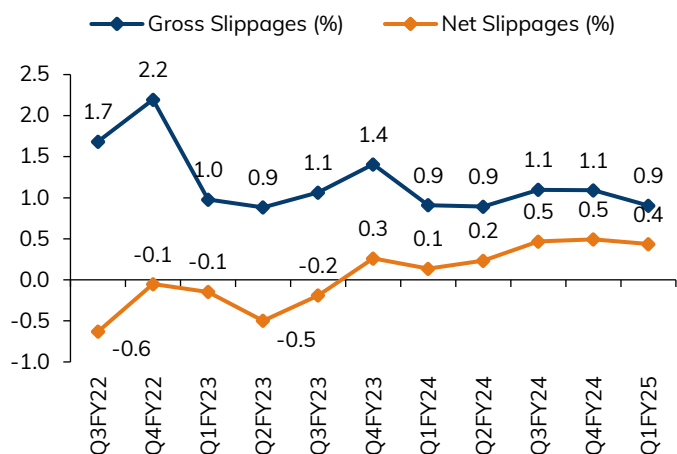
Source: I-Sec research, Company data

Exhibit 9: After being stagnant, staff count has risen significantly in FY24. The bank also intends to open ~100 branches (80 'lite' branch) in FY25.



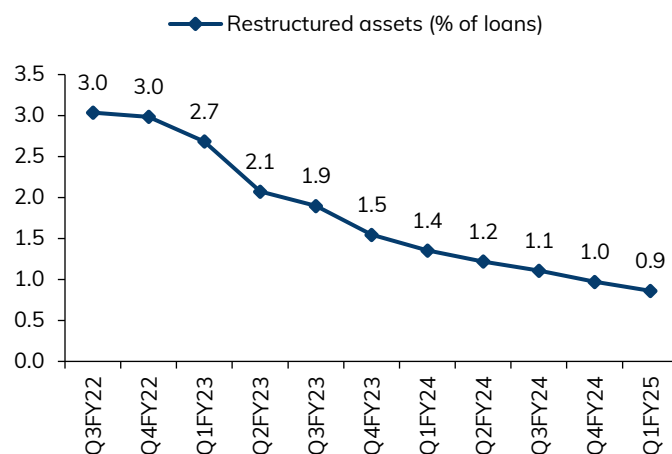
Source: I-Sec research, Company data

Exhibit 10: Gross and net slippages have been range-bound at ~1.0% and 0.5% respectively



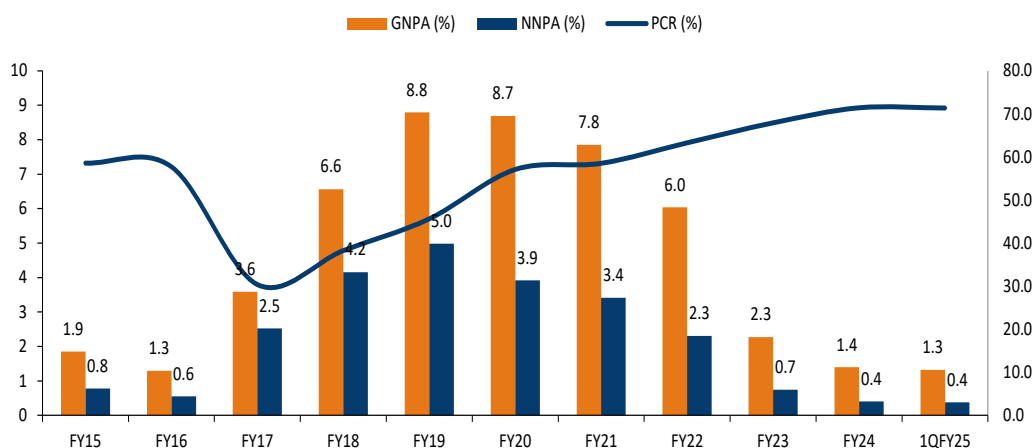
Source: I-Sec research, Company data

Exhibit 11: Restructured loans now have reduced to <1%

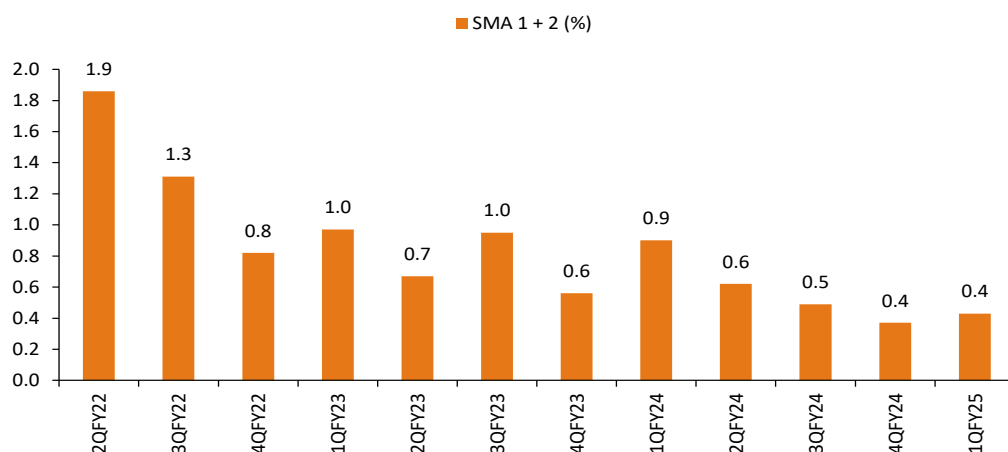


Source: I-Sec research, Company data

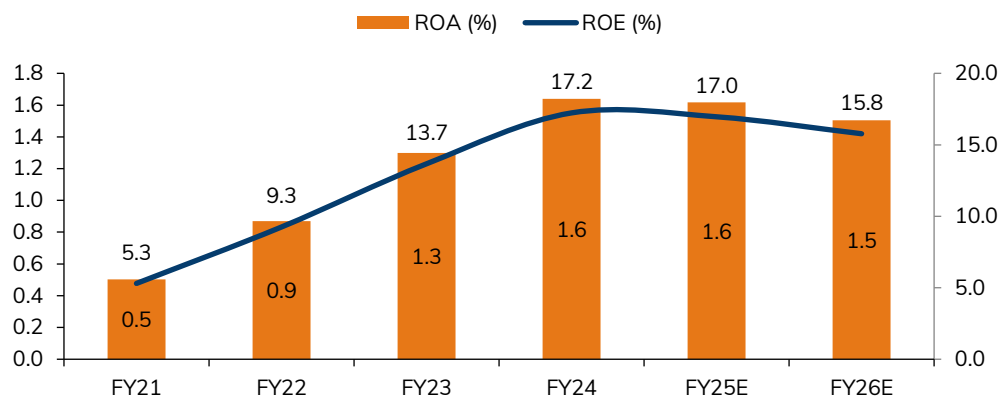
Exhibit 12: Remarkable improvement in asset quality with net NPA now at <0.4%.



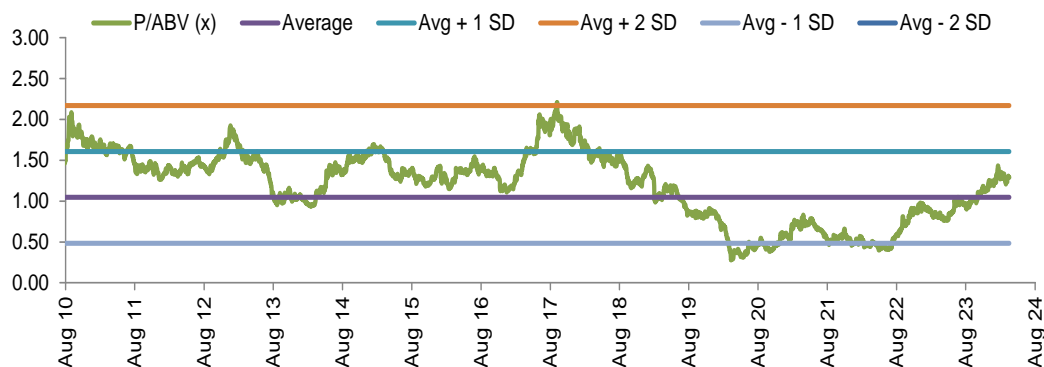
Source: I-Sec research, Company data

Exhibit 13: The bank has one of the lowest all-inclusive SMA 1+2 pool

Source: I-Sec research, Company data

Exhibit 14: Despite moderation, we estimate RoA to remain strong at >1.5%.

Source: I-Sec research, Company data

Exhibit 15: Despite healthy re-rating, stock is trading at 0.5SD above its long term average. We see healthy upside for re-rating.

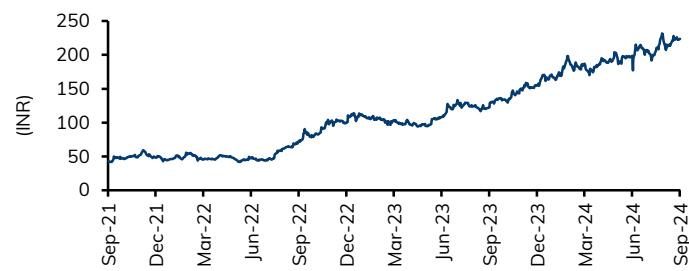
Source: I-Sec research, Company data

Exhibit 16: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	2.3	2.2	2.3
Institutional investors	38.2	51.6	38.4
MFs and other	21.1	29.0	21.2
Banks/ FIs	0.0	0.0	0.3
Insurance Cos.	1.5	5.2	1.5
FIs	15.5	17.4	15.4
Others	59.5	46.2	59.5

Source: Bloomberg, I-Sec research

Exhibit 17: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	65,165	82,039	95,860	1,07,733
Interest expense	31,677	43,947	54,092	60,949
Net interest income	33,488	38,092	41,768	46,784
Non-interest income	11,589	16,587	15,937	17,894
Operating income	45,077	54,679	57,705	64,677
Operating expense	20,320	26,388	28,198	32,374
Staff expense	10,060	14,610	14,610	16,802
Operating profit	24,758	28,291	29,507	32,303
Core operating profit	24,704	26,171	28,857	31,503
Provisions & Contingencies	10,389	7,290	4,916	5,890
Pre-tax profit	14,369	21,002	24,591	26,413
Tax (current + deferred)	3,308	4,954	6,190	6,648
Net Profit	11,061	16,048	18,402	19,765
Adjusted net profit	11,061	16,048	18,402	19,765

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Cash and balance with RBI/Banks	46,951	56,586	73,883	85,199
Investments	1,88,083	2,23,435	2,45,502	2,75,462
Advances	6,31,341	7,36,675	8,47,738	9,75,176
Fixed assets	4,350	4,329	5,528	6,314
Other assets	31,068	34,828	48,327	63,644
Total assets	9,01,794	10,55,852	12,20,979	14,05,795
Deposits	7,66,376	8,91,127	10,30,999	11,92,843
Borrowings	14,320	24,784	24,472	24,287
Other liabilities and provisions	35,258	39,541	48,914	54,678
Share capital	1,604	1,609	1,609	1,609
Reserve & surplus	84,236	98,792	1,14,985	1,32,378
Total equity & liabilities	9,01,794	10,55,852	12,20,979	14,05,795
% Growth	12.6	17.1	15.6	15.1

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
Adjusted EPS	13.8	20.0	22.9	24.6
Book Value per share	107	125	145	167
Adjusted BVPS	103	122	142	163
Valuation ratio				
PER (x)	15.8	11.0	9.6	8.9
Price/ Book (x)	2.0	1.8	1.5	1.3
Price/ Adjusted book (x)	2.1	1.8	1.5	1.3
Dividend Yield (%)	0.9	1.1	1.3	1.3
Profitability ratios (%)				
Yield on advances	9.0	10.0	10.0	9.8
Yields on Assets	7.7	8.4	8.4	8.2
Cost of deposits	4.2	5.0	5.3	5.2
Cost of funds	3.7	4.5	4.8	4.6
NIMs	4.1	4.1	3.8	3.7
Cost/Income	45.1	48.3	48.9	50.1
Dupont Analysis (as % of Avg Assets)				
Interest Income	7.7	8.4	8.4	8.2
Interest expended	3.7	4.5	4.8	4.6
Net Interest Income	3.9	3.9	3.7	3.6
Non-interest income	1.4	1.7	1.4	1.4
Trading gains	0.0	0.2	0.1	0.1
Fee income	1.4	1.5	1.3	1.3
Total Income	5.3	5.6	5.1	4.9
Total Cost	2.4	2.7	2.5	2.5
Staff costs	1.2	1.5	1.3	1.3
Non-staff costs	1.2	1.2	1.2	1.2
Operating Profit	2.9	2.9	2.6	2.5
Core Operating Profit	2.9	2.7	2.5	2.4
Non-tax Provisions	1.2	0.7	0.4	0.4
PBT	1.7	2.1	2.2	2.0
Tax Provisions	0.4	0.5	0.5	0.5
Return on Assets (%)	1.30	1.55	1.56	1.44
Leverage (x)	10.5	10.5	10.5	10.5
Return on Equity (%)	13.7	17.2	17.0	15.8
Asset quality ratios (%)				
Gross NPA	2.3	1.4	1.3	1.4
Net NPA	0.7	0.4	0.3	0.4
PCR	67.9	71.4	73.0	75.5
Gross Slippages	0.9	1.1	1.2	1.3
LLP / Avg loans	1.2	0.6	0.5	0.6
Total provisions / Avg loans	1.8	1.1	0.6	0.6
Net NPA / Networth	5.5	3.0	2.5	2.6
Capitalisation ratios (%)				
Core Equity Tier 1	16.8	15.5	15.2	14.7
Tier 1 cap. adequacy	16.8	15.5	15.2	14.7
Total cap. adequacy	18.6	16.7	16.3	15.5

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Jai Prakash Mundhra, MBA; Chintan Shah, CA; Hardik Shah, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
