

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.

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### 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

### 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

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.

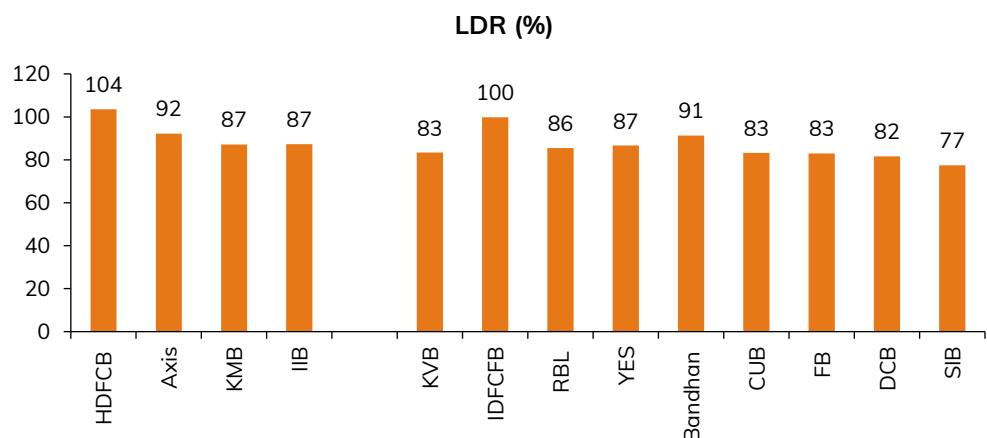
### FY24–26E RoA/RoE to be amongst highest at 1.5–1.6% /16–17%

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.

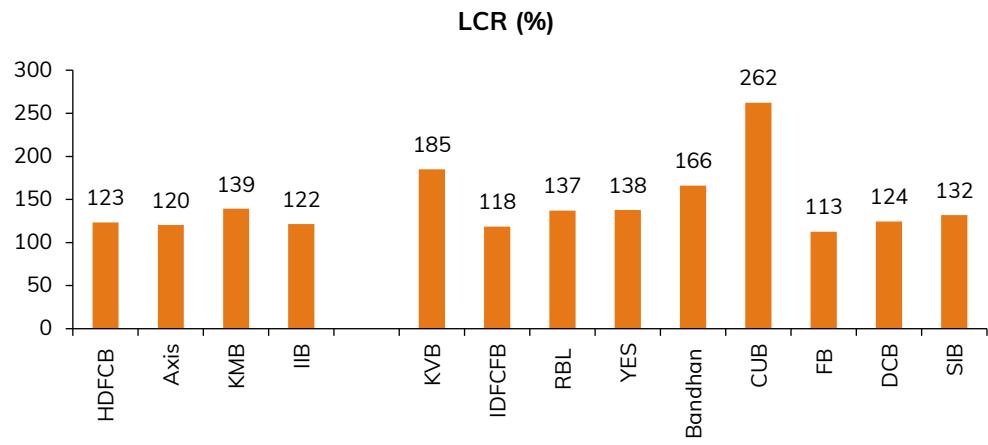
### Maintain BUY; target price revised to INR 270

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.

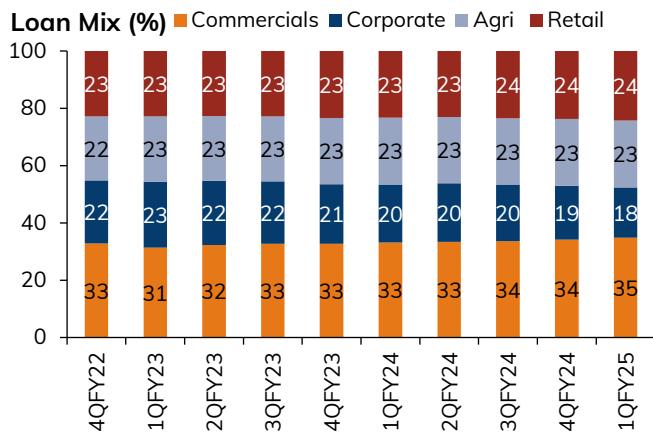
### Exhibit 1: Elevated LDR appears to be key headwind for loan growth ahead; KVB appears well positioned with LDR at 83%, amongst lowest within peers.



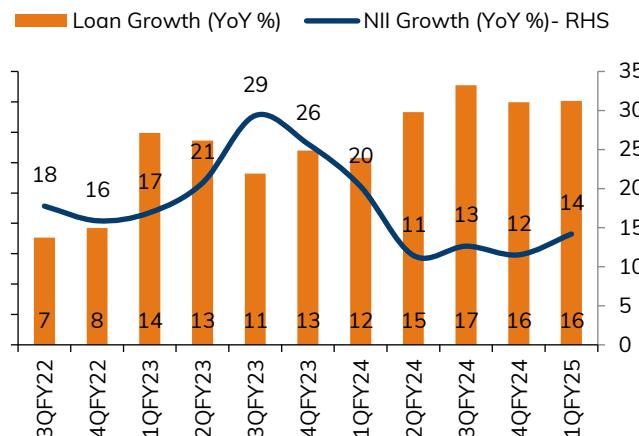
Source: I-Sec research, Company data

**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**

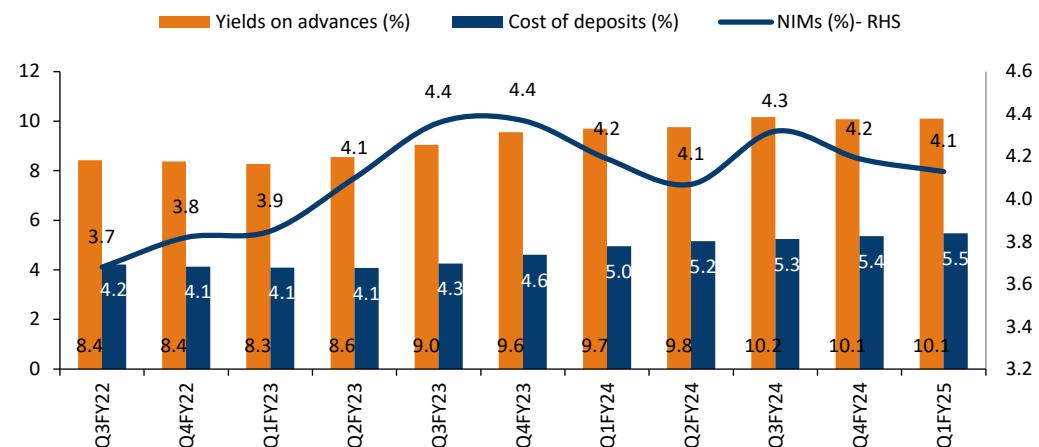
Particulars (INR mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Deposits	6,68,710	6,84,860	7,11,680	7,33,975	7,61,750	7,66,376	8,07,150	8,30,685	8,56,650	8,91,127	9,23,490
YoY % change	7.7	8.2	10.5	12.2	13.9	11.9	13.4	13.2	12.5	16.3	14.4
QoQ % change	2.2	2.4	3.9	3.1	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

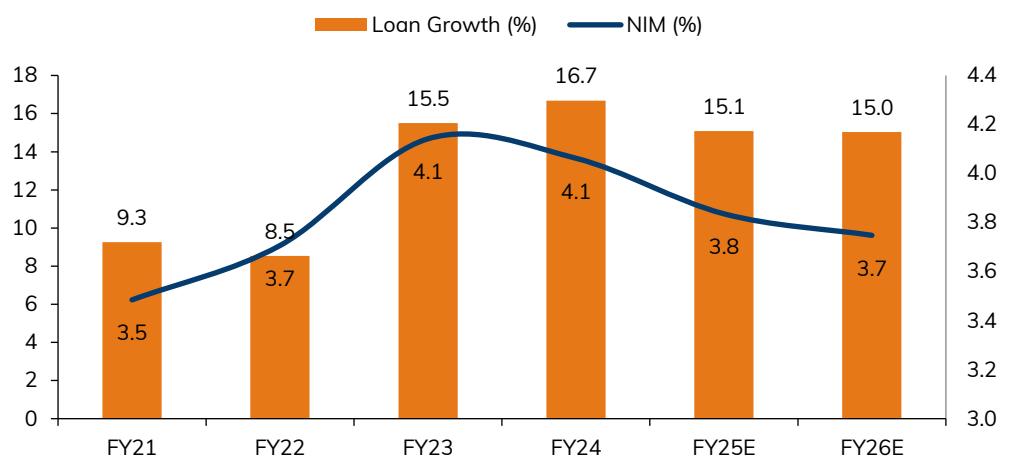
**Exhibit 6: The bank has one of the lowest cost of deposits; the edge is likely to sustain in our view**

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

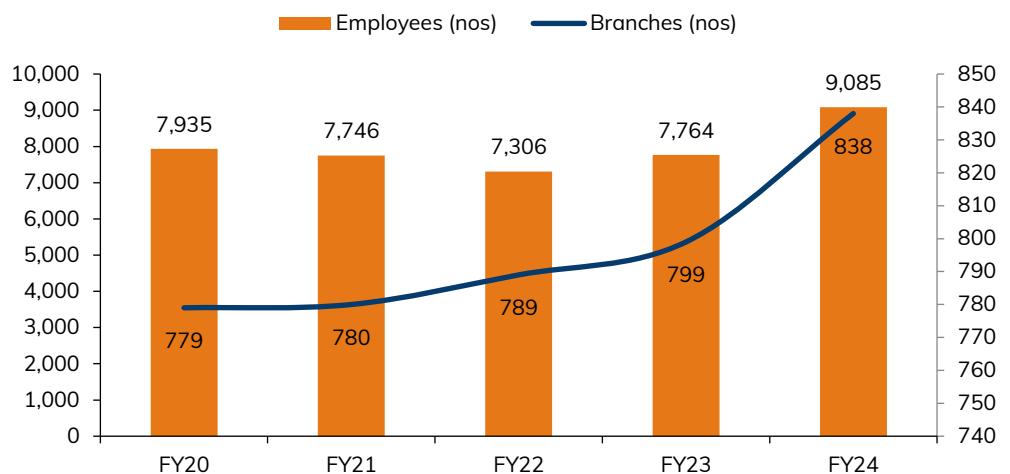
**Exhibit 7: NIM have been moderating though still healthy at >4.0%**


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.**


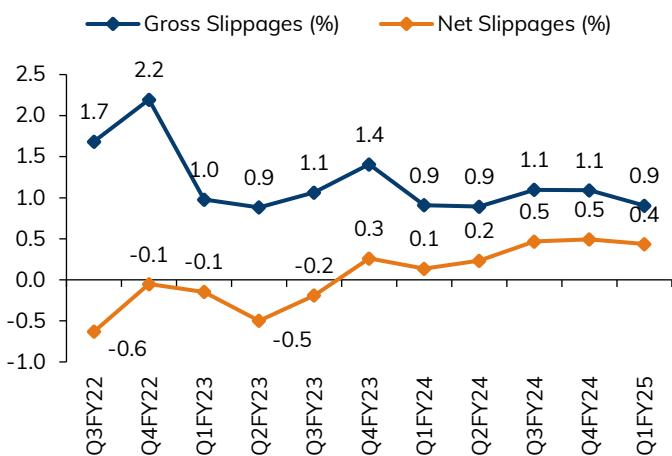
Source: I-Sec research, Company data

**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.**



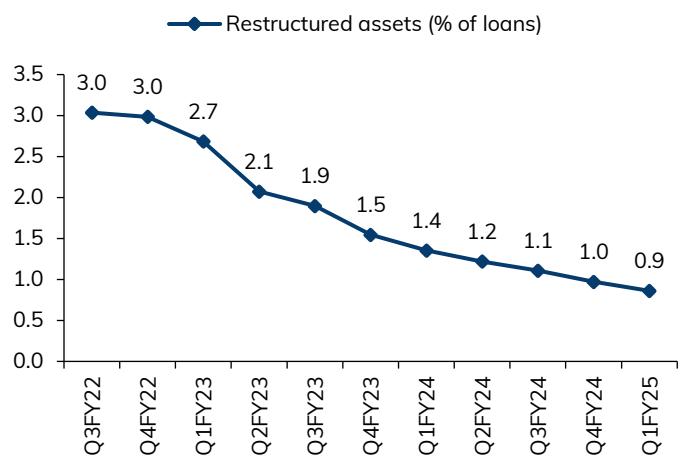
Source: I-Sec research, Company data

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



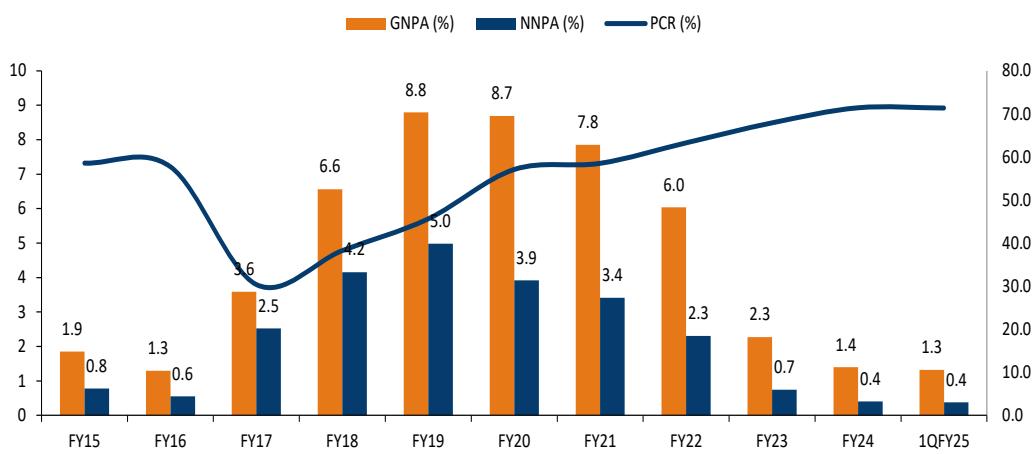
Source: I-Sec research, Company data

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

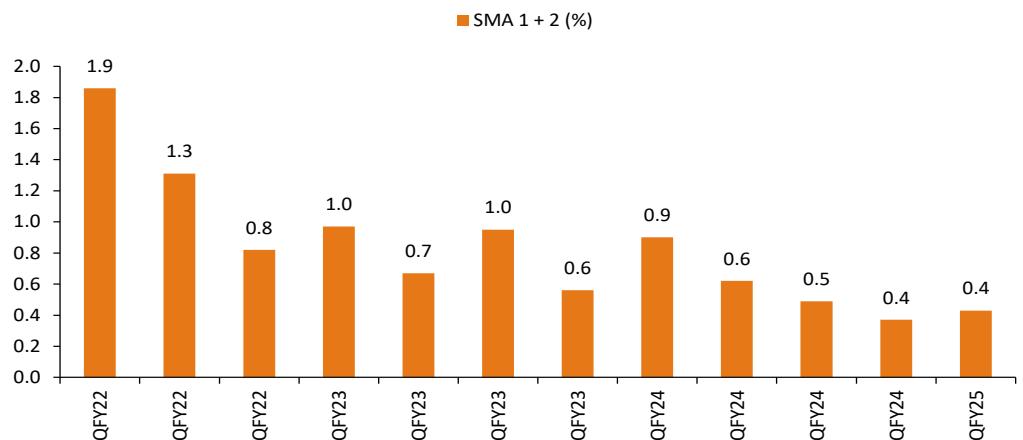


Source: I-Sec research, Company data

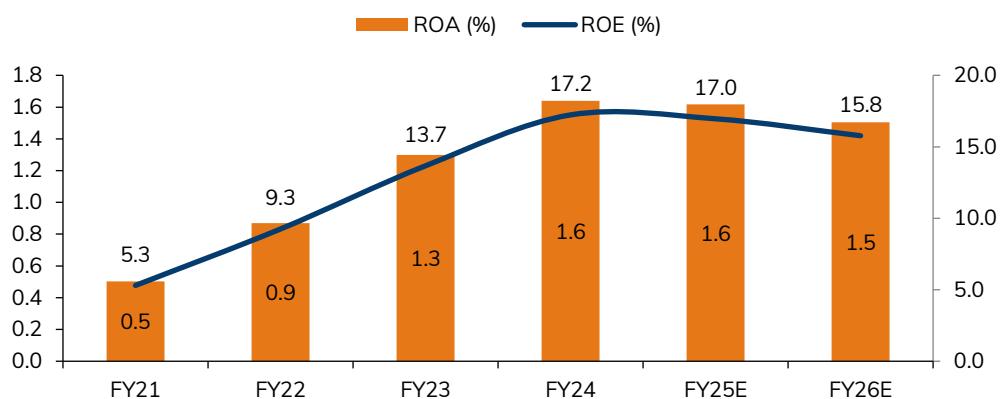
**Exhibit 12: Remarkable improvement in asset quality with net NPA now at <0.4%.**



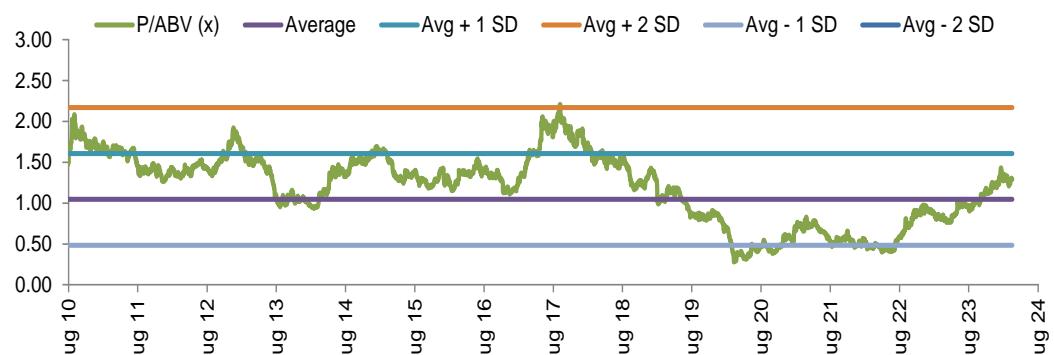
Source: I-Sec research, Company data

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

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
<b>Total assets</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>12,20,979</b>	<b>14,05,795</b>
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
<b>Total equity &amp; liabilities</b>	<b>9,01,794</b>	<b>10,55,852</b>	<b>12,20,979</b>	<b>14,05,795</b>
% 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
<b>No. of shares and per share data</b>				
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				
<b>PER (x)</b>	<b>15.8</b>	<b>11.0</b>	<b>9.6</b>	<b>8.9</b>
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 (%)				
<b>Yield on advances</b>	<b>9.0</b>	<b>10.0</b>	<b>10.0</b>	<b>9.8</b>
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)				
<b>Interest Income</b>	<b>7.7</b>	<b>8.4</b>	<b>8.4</b>	<b>8.2</b>
Interest expended	3.7	4.5	4.8	4.6
Net Interest Income	3.9	3.9	3.7	3.6
<b>Non-interest income</b>	<b>1.4</b>	<b>1.7</b>	<b>1.4</b>	<b>1.4</b>
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
<b>Total Cost</b>	<b>2.4</b>	<b>2.7</b>	<b>2.5</b>	<b>2.5</b>
<b>Staff costs</b>	<b>1.2</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>
Non-staff costs	1.2	1.2	1.2	1.2
Operating Profit	2.9	2.9	2.6	2.5
<b>Core Operating Profit</b>	<b>2.9</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>
Non-tax Provisions	1.2	0.7	0.4	0.4
PBT	1.7	2.1	2.2	2.0
<b>Tax Provisions</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
Return on Assets (%)	1.30	1.55	1.56	1.44
<b>Leverage (x)</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
Return on Equity (%)	13.7	17.2	17.0	15.8
<b>Asset quality ratios (%)</b>				
<b>Gross NPA</b>	<b>2.3</b>	<b>1.4</b>	<b>1.3</b>	<b>1.4</b>
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 (%)				
<b>Core Equity Tier 1</b>	<b>16.8</b>	<b>15.5</b>	<b>15.2</b>	<b>14.7</b>
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

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