

Karur Vysya Bank (KVB) continues to deliver strong earnings growth with PAT at Rs4.7bn and peer-best RoA at ~1.7%, driven by strong and stable margins @4.1%, contained opex, and higher recoveries from w-offs. Credit growth moderated a bit to 14.6% due to the bank's strategy to pull-out from the low yielding corporate book and deceleration in the PL/VF book; however, it continues to grow its secured LAP/GL book. Improvement in overall asset quality is maintained with GNPA ratio reducing to a low of 1.1%/NNPA at 0.3%, while shoring-up specific PCR to 75% and also building contingent/floating provision buffers. The only upset during 2Q was the continued fall in LCR to 128% (135% in Oct-24) from 185% in 1Q due to re-working instructions given by the RBI auditors for a few banks. We largely retain our earnings estimates, and expect the bank to continue delivering superior RoA/RoE at 1.7%/17-18% over FY25-27. We retain BUY with revised TP of Rs300 (earlier Rs275), rolling fwd at 1.6x Sept-26E ABV. KVB remains our top pick among SMID PVBs given strong RoA, asset quality, capital/provision buffers, and management stability.

Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	11,061	16,048	19,584	22,370	25,112
Loan growth (%)	15.5	16.7	14.8	14.9	15.9
NII growth (%)	23.3	13.8	13.0	14.2	15.2
NIM (%)	4.1	4.1	4.0	3.9	3.9
PPOP growth (%)	51.9	14.3	12.5	16.3	15.2
Adj. EPS (Rs)	13.8	20.0	24.3	27.8	31.2
Adj. EPS growth (%)	63.9	44.7	22.0	14.2	12.3
Adj. BV (Rs)	102.7	122.1	145.2	169.2	196.0
Adj. BVPS growth (%)	23.4	18.9	19.0	16.6	15.8
RoA (%)	1.3	1.6	1.7	1.7	1.7
RoE (%)	13.7	17.2	17.9	17.4	16.8
P/E (x)	15.7	10.9	8.9	7.8	7.0
P/ABV (x)	2.1	1.8	1.5	1.3	1.1

Source: Company, Emkay Research

Credit growth moderates a bit, but better portfolio mix aids margin stability

KVB reported a slight moderation in overall credit growth at 14.6% YoY/3.4% QoQ owing to conscious pruning of its corporate book (down 4% QoQ) and deceleration in the PL/VF book. The BNPL book in partnership with Amazon has also witnessed a fall due to rising asset quality noise in the low ticket BNPL segment. However, the bank has been consistently growing its secured retail gold loan (~7% QoQ) and LAP book (~10% QoQ). On the other hand, deposit growth has been slightly better at 15.4%/3.8% on the back of high bulk deposits growth, whereas the CASA cannibalization trend continues for yet another quarter. Despite rising funding costs across the banking system and so also for KVB, margins remained flattish at 4.1% in Q2FY25 owing to better portfolio mix toward high yielding retail book. Bank expects NIM to remain around 4% in 2HFY25 as well.

Asset quality remains benign, but bank ramps up prudent provisions

Overall gross slippages remain well contained at Rs1.8bn/1% of loans, which coupled with higher write-offs and better recoveries led to continued improvement in GNPA ratio to 1.1%, and NNPA ratio being one of the lowest among peers at 0.3%. Specific PCR ratio improved QoQ to 75% from 71% in Q1, while the bank continues to build prudent provisions (cum contingent buffer at Rs1bn/floating provisions at Rs0.5bn) to withstand any initial asset quality risks amid rising noise in the retail space. The restructured book further contracted to 0.8% of loans vs 0.9% in Q1FY25, and the bank carries ~40% provision on the book.

We retain BUY; top pick among SMID banks

We expect the bank to continue delivering superior RoA/RoE at 1.7%/17-18% over FY25-27E. We retain BUY with a revised TP of R300 (earlier Rs275), rolling forward at 1.6x Sep-26E ABV. KVB continues to be our top pick among SMID PVBs given strong RoA, asset quality, capital/provision buffers, and management stability. **Key risks:** Slower-than-expected growth, and resurgence of NPAs in the retail/SME sector due to macro/micro dislocation.

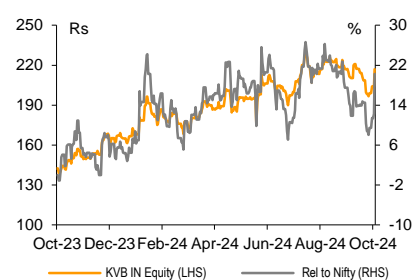
Target Price – 12M	Sep-25
Change in TP (%)	9.1
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	38.3
CMP (17-Oct-24) (Rs)	216.9

Stock Data	Ticker
52-week High (Rs)	233
52-week Low (Rs)	138
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	173
Market-cap (USD mn)	2,062
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	421.5
ADTV-3M (USD mn)	5.0
Free float (%)	97.0
Nifty-50	24,750
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	2.2
FPIs/MFs (%)	15.1/35.7

Price Performance

(%)	1M	3M	12M
Absolute	0.9	7.4	50.6
Rel. to Nifty	3.6	6.8	20.5

1-Year share price trend (Rs)



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Kunaal N

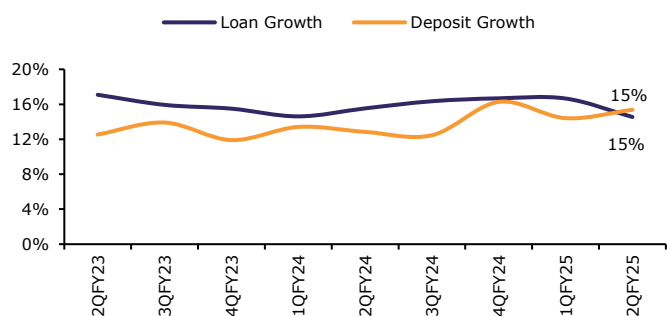
kunaal.n@emkayglobal.com
+91 22 6612 1275

Marazbaan Dastur

marazbaan.dastur@emkayglobal.com
+91 22 6612 1281

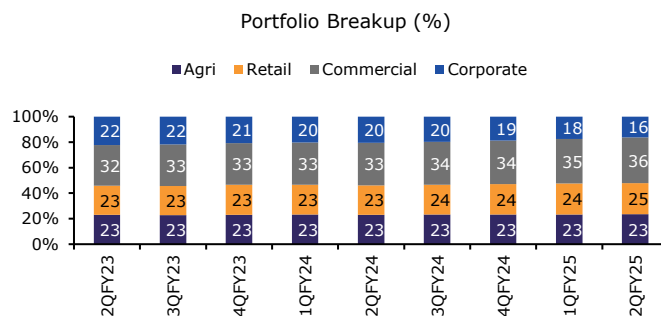
Story in Charts

Exhibit 1: Credit growth moderates a bit due to contraction in corporate, PL, and VF book



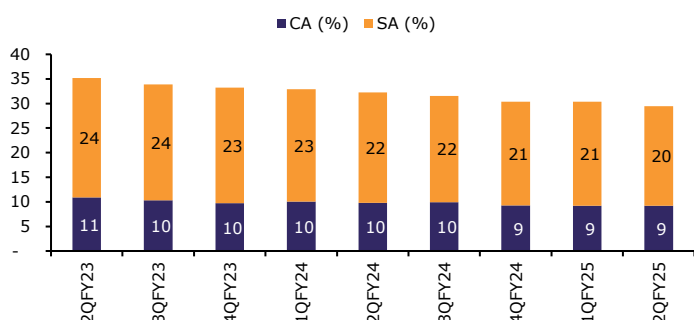
Source: Company, Emkay Research

Exhibit 2: Bank continues to prune its low-yielding corporate exposure leading to better blended loan yields



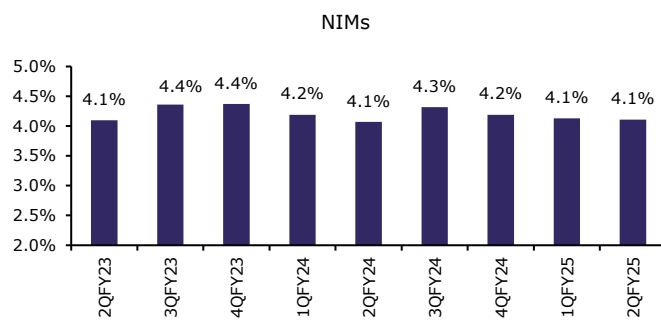
Source: Company, Emkay Research

Exhibit 3: CASA ratio continues to decline due to cannibalization toward TDs



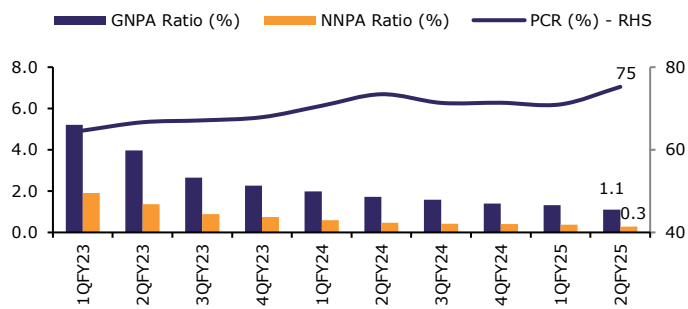
Source: Company, Emkay Research

Exhibit 4: Margin was flattish QoQ mainly due to improving portfolio mix



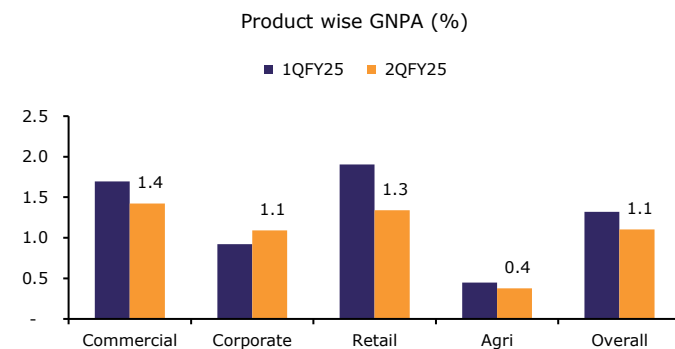
Source: Company, Emkay Research

Exhibit 5: NPAs continued to trend down due to higher write-offs and contained slippages...



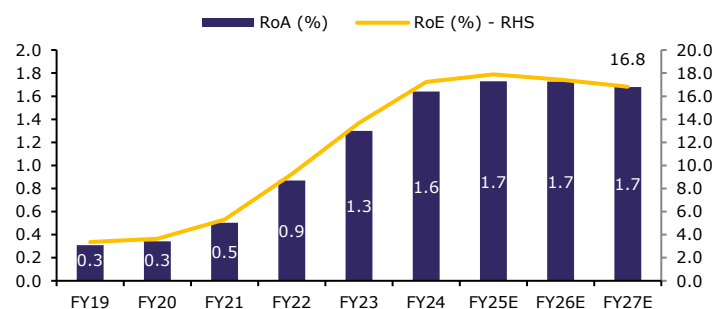
Source: Company, Emkay Research

Exhibit 6: Product-wise GNPA ratio well under control



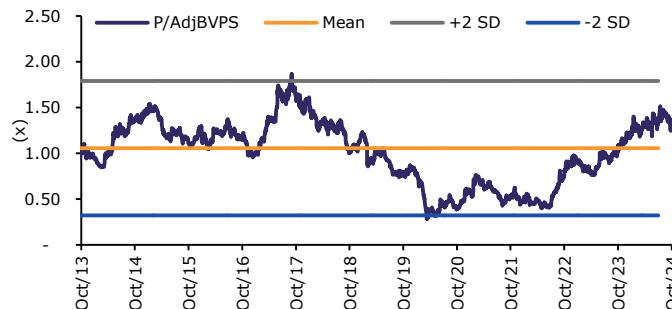
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to remain healthy, led by better growth/NIMs and improving operating leverage



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.2x its one-year fwd. ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	15,320	14,518	14,562	6%	5%	Higher other income led to beat on net income
PPOP	8,162	7,609	7,543	7%	8%	Higher net income partly coupled with contained opex led to a PPOP beat
PAT	4,736	4,644	4,570	2%	4%	PPOP beat partially off-set by higher LLP led to a slight PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	19,971	21,394	21,846	22,845	23,840	19.4	4.4	82,039	96,834	18
Interest Exp.	10,817	11,381	11,891	12,602	13,241	22.4	5.1	43,947	53,801	22
Net Interest Income	9,154	10,013	9,955	10,244	10,600	15.8	3.5	38,092	43,033	13
Global NIMs (reported)	4.07	4.32	4.19	4.13	4.11	4bps	-2bps	4.06	3.96	-10bps
Non-interest Income	3,389	3,578	6,289	3,884	4,720	39.3	21.5	16,587	17,387	5
Operating Expenses	6,164	6,832	7,574	6,669	7,157	16.1	7.3	26,388	28,580	8
Pre-Provisioning Profit	6,379	6,759	8,669	7,459	8,162	28.0	9.4	28,291	31,840	13
Provision & Contingencies	1,264	1,497	2,934	1,329	1,798	42.3	35.3	7,290	5,659	-22
PBT	5,115	5,262	5,735	6,129	6,364	24.4	3.8	21,002	26,182	25
Income Tax Expense (Gain)	1,331	1,146	1,174	1,543	1,628	22.4	5.5	4,954	6,598	33
Net Profit/(Loss)	3,785	4,116	4,561	4,587	4,736	25.1	3.3	16,048	19,584	22
Gross NPA (%)	1.73	1.58	1.40	1.32	1.10	-63bps	-22bps	1.40	1.04	-36bps
Net NPA (%)	0.47	0.43	0.40	0.38	0.28	-19bps	-10bps	0.40	0.26	-14bps
Deposits (Rs bn)	831	857	891	923	958	15.4	3.8	891	1,033	16
Net Advances (Rs bn)	695	718	737	770	796	14.5	3.4	737	845	15

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	60,509	60,421	-0.1%	69,025	68,916	-0.2%	79,326	78,352	-1.2%
PPOP	32,098	31,840	-0.8%	37,470	37,030	-1.2%	43,773	42,660	-2.5%
PAT	19,608	19,584	-0.1%	22,333	22,370	0.2%	25,197	25,112	-0.3%
EPS (Rs)	24.4	24.3	-0.2%	27.8	27.8	0.1%	31.3	31.2	-0.4%
BV (Rs)	146.3	147.3	0.7%	170.8	171.8	0.6%	198.4	199.3	0.4%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	16.7	14.8	14.9	15.9
Deposit Growth (%)	16.3	15.9	15.3	16.0
NIM (%)	4.1	4.0	3.9	3.9
GNPA (%)	1.4	1.0	1.1	1.2
Credit Cost (%)	0.7	0.7	0.8	0.9

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs mn)	601,614	617,090	631,341	659,730	695,074	717,980	736,675	769,650	796,188
Growth % (YoY)	17.1	15.9	15.5	14.6	15.5	16.3	16.7	16.7	14.5
Growth % (QoQ)	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5	3.4
Liability Profile & Margins (%)									
Deposits (Rs mn)	736,140	761,750	766,376	807,150	830,685	856,650	891,127	923,490	958,385
Growth (YoY)	12.5	13.9	11.9	13.4	12.8	12.5	16.3	14.4	15.4
Growth (QoQ)	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6	3.8
CASA	35.2	33.9	33.2	32.9	32.3	31.5	30.4	30.4	29.5
CA	10.9	10.3	9.7	10.1	9.8	9.9	9.3	9.2	9.2
SA	24.3	23.5	23.5	22.8	22.5	21.6	21.1	21.2	20.2
Branches (no.)	792	792	799	808	824	831	838	840	841
NIM	4.10	4.36	4.37	4.19	4.07	4.32	4.19	64.13	4.11
Asset Quality (%)									
GNPA	4.0	2.7	2.3	2.0	1.7	1.6	1.4	1.3	1.1
NNPA	1.4	0.9	0.7	0.6	0.5	0.4	0.4	0.4	0.3
PCR	66.7	67.1	67.9	70.7	73.5	71.4	71.4	71.0	75.2
Capital Adequacy (%)									
CRAR	18.3	17.9	18.6	17.7	16.8	15.4	16.7	16.5	16.3
Tier I	16.4	16.0	16.8	16.0	15.2	13.9	15.5	15.6	15.4
ROE Decomposition (%)									
NII	3.9	4.1	4.0	3.9	3.8	4.0	3.8	3.8	3.8
Other Income	1.1	1.4	1.8	1.4	1.4	1.4	2.4	1.4	1.7
Opex	2.3	2.4	2.5	2.5	2.6	2.7	2.9	2.5	2.6
PPOP	2.7	3.1	3.3	2.8	2.6	2.7	3.3	2.8	2.9
Provisioning Cost	1.1	1.7	1.3	0.7	0.5	0.6	1.1	0.5	0.6
PBT	1.6	1.5	2.0	2.1	2.1	2.1	2.2	2.3	2.3
ROA	1.2	1.3	1.5	1.6	1.6	1.6	1.8	1.7	1.7
ROE	12.7	14.3	16.1	16.4	16.7	17.6	18.6	17.8	17.6

Source: Company, Emkay Research

Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	65,166	82,040	96,834	109,704	124,001
Interest Expense	31,677	43,947	53,801	60,569	67,394
Net interest income	33,488	38,093	43,033	49,135	56,607
NII growth (%)	23.3	13.8	13.0	14.2	15.2
Other income	11,589	16,587	17,387	19,781	21,746
Total Income	45,077	54,680	60,421	68,916	78,352
Operating expenses	20,320	26,388	28,580	31,886	35,692
PPOP	24,758	28,292	31,840	37,030	42,660
PPOP growth (%)	51.9	14.3	12.5	16.3	15.2
Core PPOP	24,466	25,348	28,455	33,137	38,378
Provisions & contingencies	10,389	7,290	5,659	7,123	9,088
PBT	14,369	21,002	26,182	29,907	33,572
Extraordinary items	0	0	0	0	0
Tax expense	3,308	4,954	6,598	7,537	8,460
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	11,061	16,048	19,584	22,370	25,112
PAT growth (%)	64.3	45.1	22.0	14.2	12.3
Adjusted PAT	11,061	16,048	19,584	22,370	25,112
Diluted EPS (Rs)	0.0	0.0	0.0	0.0	0.0
Diluted EPS growth (%)	(100.0)	0.0	0.0	0.0	0.0
DPS (Rs)	2.0	2.4	2.9	3.3	3.7
Dividend payout (%)	14.5	12.0	11.9	11.9	11.9
Effective tax rate (%)	23.0	23.6	25.2	25.2	25.2
Net interest margins (%)	4.1	4.1	4.0	3.9	3.9
Cost-income ratio (%)	45.1	48.3	47.3	46.3	45.6
Shares outstanding (mn)	802.1	804.4	804.8	804.8	804.8

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	14,581.6	10,416.5	8,882.9	10,842.5	13,968.1
Net NPLs	4,681.5	2,979.7	2,220.7	2,710.6	3,492.0
GNPA ratio (%)	2.3	1.4	1.0	1.1	1.2
NNPA ratio (%)	0.7	0.4	0.3	0.3	0.3
Provision coverage (%)	67.9	71.4	75.0	75.0	75.0
Gross slippages	4,792.4	4,992.3	7,668.1	9,798.1	12,502.4
Gross slippage ratio (%)	0.8	0.8	0.9	1.0	1.1
LLP ratio (%)	1.1	0.6	0.7	0.8	0.9
NNPA to networth (%)	5.3	2.9	1.8	1.9	2.1
Capital adequacy					
Total CAR (%)	18.6	16.7	16.6	16.3	16.0
Tier-1 (%)	16.9	15.9	15.9	15.7	15.6
CET-1 (%)	16.9	15.9	15.9	15.7	15.6
RWA-to-Total Assets (%)	54.4	57.9	60.0	62.0	63.0
Miscellaneous					
Total income growth (%)	20.7	28.5	15.8	13.4	12.6
Opex growth (%)	9.6	29.9	8.3	11.6	11.9
Core PPOP growth (%)	45.6	3.6	12.3	16.5	15.8
PPOP margin (%)	32.3	28.7	27.9	28.6	29.3
PAT/PPOP (%)	44.7	56.7	61.5	60.4	58.9
LLP-to-Core PPOP (%)	27.9	17.5	20.6	22.1	24.2
Yield on advances (%)	9.2	10.1	10.2	10.1	9.9
Cost of funds (%)	4.3	5.2	5.5	5.3	5.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,604	1,609	1,610	1,610	1,610
Reserves & surplus	84,236	98,796	116,907	136,621	158,755
Net worth	85,841	100,404	118,516	138,231	160,365
Deposits	766,376	891,124	1,033,087	1,191,020	1,381,133
Borrowings	14,320	24,783	20,322	22,355	24,590
Interest bearing liab.	780,696	915,907	1,053,409	1,213,375	1,405,723
Other liabilities & prov.	35,258	39,540	35,839	33,932	39,160
Total liabilities & equity	901,794	1,055,852	1,207,765	1,385,537	1,605,248
Net advances	631,341	736,675	845,346	971,677	1,126,102
Investments	188,083	223,435	253,559	289,144	334,259
Cash, other balances	46,951	56,586	63,499	73,096	84,635
Interest earning assets	866,376	1,016,695	1,162,404	1,333,917	1,544,996
Fixed assets	4,350	4,329	4,703	5,252	5,866
Other assets	31,068	34,827	40,658	46,368	54,386
Total assets	901,794	1,055,852	1,207,765	1,385,537	1,605,248
BVPS (Rs)	107.0	124.8	147.3	171.8	199.3
Adj. BVPS (INR)	102.7	122.1	145.2	169.2	196.0
Gross advances	641,241	744,112	852,008	979,809	1,136,578
Credit to deposit (%)	82.4	82.7	81.8	81.6	81.5
CASA ratio (%)	33.2	30.4	28.0	27.5	28.1
Cost of deposits (%)	4.2	5.1	5.5	5.4	5.2
Loans-to-Assets (%)	70.0	69.8	70.0	70.1	70.2
Net advances growth (%)	15.5	16.7	14.8	14.9	15.9
Deposit growth (%)	11.9	16.3	15.9	15.3	16.0
Book value growth (%)	12.7	16.6	18.0	16.6	16.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	15.7	10.9	8.9	7.8	7.0
P/B (x)	2.0	1.7	1.5	1.3	1.1
P/ABV (x)	2.1	1.8	1.5	1.3	1.1
P/PPOP (x)	7.0	6.2	5.5	4.7	4.1
Dividend yield (%)	0.9	1.1	1.3	1.5	1.7
DuPont-RoE split (%)					
NII/avg assets	3.9	3.9	3.8	3.8	3.8
Other income	1.4	1.7	1.5	1.5	1.5
Fee income	0.9	0.9	0.9	0.9	1.0
Opex	2.4	2.7	2.5	2.5	2.4
PPOP	2.9	2.9	2.8	2.9	2.9
Core PPOP	2.9	2.6	2.5	2.6	2.6
Provisions	1.2	0.7	0.5	0.5	0.6
Tax expense	0.4	0.5	0.6	0.6	0.6
RoA (%)	1.3	1.6	1.7	1.7	1.7
Leverage ratio (x)	10.5	10.5	10.3	10.1	10.0
RoE (%)	13.7	17.2	17.9	17.4	16.8
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	9,154	10,013	9,955	10,244	10,600
NIM (%)	4.1	4.3	4.2	4.1	4.1
PPOP	6,379	6,759	8,669	7,459	8,162
PAT	3,785	4,116	4,561	4,587	4,736
EPS (Rs)	4.73	5.15	5.70	5.73	5.92

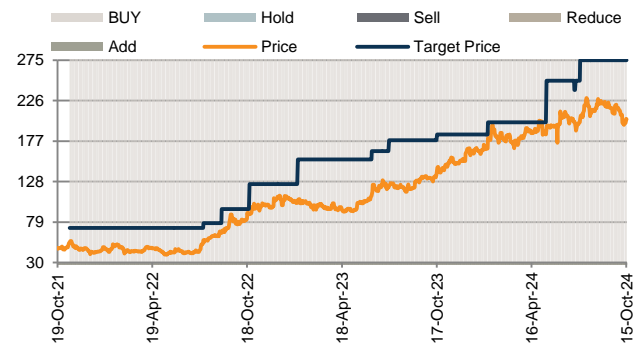
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
18-Jul-24	204	275	Buy	Anand Dama
09-Jul-24	194	250	Buy	Anand Dama
07-Jul-24	201	239	Buy	Anand Dama
14-May-24	192	250	Buy	Anand Dama
23-Jan-24	181	200	Buy	Anand Dama
30-Nov-23	153	185	Buy	Anand Dama
17-Oct-23	143	185	Buy	Anand Dama
17-Jul-23	123	178	Buy	Anand Dama
14-Jun-23	112	165	Buy	Anand Dama
16-May-23	95	155	Buy	Anand Dama
09-Mar-23	101	155	Buy	Anand Dama
23-Jan-23	106	155	Buy	Anand Dama
22-Oct-22	89	125	Buy	Anand Dama
03-Oct-22	77	95	Buy	Anand Dama
30-Aug-22	67	95	Buy	Anand Dama
26-Jul-22	57	78	Buy	Anand Dama
22-May-22	42	72	Buy	Anand Dama
01-Feb-22	48	72	Buy	Anand Dama
11-Nov-21	54	72	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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