31 July 2026

# Karnataka Bank

*Growth accelerates; profitability strengthens; maintain BUY*

Rating: **BUY**
Target Price (12-mth): Rs.364
Share Price: Rs.291

**Karnataka Bank reported a healthy performance in Q1FY27, with stronger margin, higher profitability and improved asset quality. Credit growth accelerated to 17% y/y in Q1FY27 from 6.9% y/y in Q4FY26, led by strong traction in RAM and mid-corporate segments, while the management reiterated its 15-20% loan growth guidance for FY27e. NIM expanded by 13bps q/q, driven by lower CoF. RoA improved 2bps q/q to 1.29% in Q1FY27, with the management aiming for 1.35-1.4%, going ahead. Asset quality strengthened further with lower slippages and healthy recoveries. With stable margin, healthy balance sheet growth, controlled slippages and a manageable ECL transition, we expect the bank's RoA to sustain above 1% over FY27/28e. Hence, we maintain BUY rating on the stock with a 12-month TP of Rs364, valuing it at 0.9x FY28e P/BV.**

**Asset quality improves:** The bank's asset quality strengthened further in Q1FY27, with GNPA declining by 20bps q/q to 2.58%, driven by lower slippages and steady recoveries/upgrades. Gross slippages improved both on q/q and y/y basis to 56bps, reflecting broad-based improvement across segments, while net slippages remained contained at 19bps. PCR improved 163bps q/q to 67%. The SMA-II pool increased to Rs7.5bn in Q1FY27 (from Rs6.4bn), while the overall SMA pool increased to Rs34.4bn, primarily due to temporary quarter-end aberrations arising from multiple holidays. Encouragingly, about 76% of incremental SMA additions was regularised after the quarter-end. On the transition to the ECL framework, the management expects the impact to be manageable, supported by the bank's comfortable capital position.

**Credit growth accelerates:** Credit growth accelerated to 17% y/y in Q1FY27 from 6.9% y/y in Q4FY26, led by strong momentum in corporate (up 25.2% y/y) and retail (up 17.8% y/y) advances. The management has guided for 15-20% loan growth in FY27e, driven by RAM and mid-corporate segments, while continuing to consciously run down the lower-yielding IBPC portfolio and redeploy capital towards higher-yielding assets. This should support margin, while sustaining healthy balance sheet growth.

**RoA to remain above ~1%:** The bank's NIM expanded by 13bps q/q to 3.2%, driven by 22bps sequential decline in CoF and 188bps q/q improvement in LDR, partly offset by 10bps sequential decline in yields on advances. We expect the bank's margin to remain broadly stable, supported by favourable asset-mix towards higher-yielding segments and stable deposit cost. Sequential decline in non-interest income is attributable to muted fee income, while employee expenses increased due to higher provisioning for retirement benefit (linked to yield movement), pushing the C/I ratio by 467bps q/q to 55.1%. Looking ahead, we believe stable margin, moderate credit cost and controlled slippages should support RoA sustaining above 1% over FY27/28e.

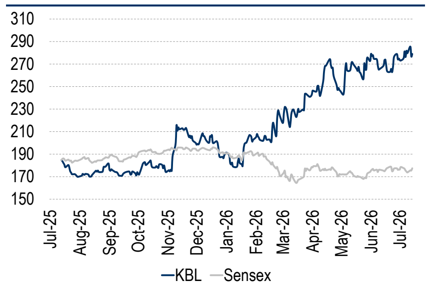
**Valuation:** We expect the bank's RoA to sustain above 1% over FY27/28e, led by stable margin, healthy balance sheet growth, controlled slippages and a manageable ECL transition. Hence, we maintain BUY rating on the stock with a TP of Rs364, valuing it at 0.9x FY28e P/BV. **Key Risks:** (a) Lower credit growth; and (b) higher slippages from agriculture and MSME books.

| Key Data | KBL IN / KBNK.BO |
|---|---|
| 52-week high / low | Rs293 / 169 |
| Sensex / Nifty | 77928 / 24317 |
| Market cap | Rs106bn |
| Shares outstanding | 378m |

| Shareholding Pattern (%) | June'26 | Mar'26 | Dec'25 |
|---|---|---|---|
| Promoters | - | - | - |
| - *of which, Pledged* | - | - | - |
| Free float | 100.0 | 100.0 | 100.0 |
| - Foreign institutions | 13.1 | 11.8 | 11.7 |
| - Domestic institutions | 15.8 | 16.2 | 15.8 |
| - Public | 71.2 | 72.1 | 72.5 |

| Estimates Revision (%) | FY27e | FY28e |
|---|---|---|
| NII | 3.5 | 4.5 |
| PPoP | 5.6 | 8.4 |
| PAT | 6.9 | 10.7 |

Relative Price Performance




*Source: Bloomberg*

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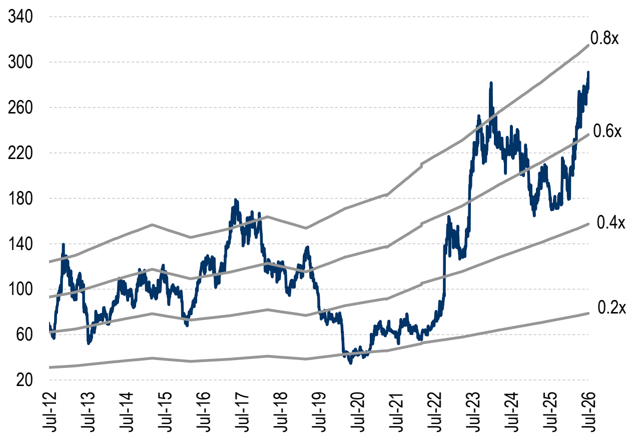
# Quick Glance – Financials and Valuations

## Fig 1 – Income Statement (Rs m)

| Y/E Mar | FY24 | FY25 | FY26 | FY27e | FY28e |
|---|---|---|---|---|---|
| Net interest income | 32,987 | 33,104 | 31,187 | 35,561 | 40,591 |
| *NII growth (%)* | 3.6 | 0.4 | -5.8 | 14.0 | 14.1 |
| Non-interest income | 13,189 | 12,695 | 14,029 | 15,572 | 17,596 |
| Total Income | 46,177 | 45,799 | 45,216 | 51,133 | 58,187 |
| *Income growth (%)* | 10.5 | -0.8 | -1.3 | 13.1 | 13.8 |
| Operating expenses | 24,543 | 27,529 | 25,475 | 28,460 | 31,355 |
| PPoP | 21,633 | 18,270 | 19,742 | 22,674 | 26,832 |
| *PPoP growth (%)* | -2.0 | -15.5 | 8.1 | 14.9 | 18.3 |
| Provisions | 6,006 | 1,864 | 3,161 | 4,377 | 6,216 |
| PBT | 15,627 | 16,406 | 16,581 | 18,297 | 20,616 |
| Tax | 2,565 | 3,682 | 3,476 | 4,098 | 4,618 |
| PAT | 13,063 | 12,724 | 13,105 | 14,198 | 15,998 |
| *PAT growth (%)* | 10.7 | -2.6 | 3.0 | 8.3 | 12.7 |
| EPS (Rs / sh) | 34.6 | 33.7 | 34.7 | 37.5 | 42.3 |
| DPS (Rs / sh) | 5.5 | 5.0 | 5.0 | 5.6 | 6.3 |

*Source: Company, Anand Rathi Research*

## Fig 4 – Price-to-Book Band




*Source: Bloomberg*

## Fig 2 – Balance Sheet (Rs m)

| Y/E Mar | FY24 | FY25 | FY26 | FY27e | FY28e |
|---|---|---|---|---|---|
| Share capital | 3,773 | 3,779 | 3,782 | 3,782 | 3,782 |
| Reserves & surplus | 1,04,712 | 1,17,074 | 1,28,463 | 1,40,531 | 1,54,130 |
| Deposits | 9,80,578 | 10,48,075 | 10,87,788 | 12,18,322 | 13,76,704 |
| Borrowings | 43,995 | 19,406 | 53,290 | 55,955 | 61,550 |
| Other liabilities | 27,787 | 21,284 | 20,244 | 24,345 | 19,885 |
| **Total Liabilities** | **11,60,846** | **12,09,618** | **12,93,566** | **14,42,935** | **16,16,051** |
| | | | | | |
| Advances | 7,15,086 | 7,65,415 | 8,18,096 | 9,32,630 | 10,72,524 |
| Investments | 2,43,021 | 2,45,365 | 2,67,388 | 2,88,779 | 3,06,106 |
| Cash & bank balance | 79,927 | 79,843 | 77,356 | 88,186 | 1,01,414 |
| Fixed & other assets | 1,22,811 | 1,18,995 | 1,30,725 | 1,33,340 | 1,36,007 |
| **Total assets** | **11,60,846** | **12,09,618** | **12,93,566** | **14,42,935** | **16,16,051** |
| No. of shares (m) | 377 | 378 | 378 | 378 | 378 |
| *Deposits growth (%)* | 12.2 | 6.9 | 3.8 | 12.0 | 13.0 |
| *Advances growth (%)* | 19.3 | 7.0 | 6.9 | 14.0 | 15.0 |

*Source: Company, Anand Rathi Research*

## Fig 5 – 1-Year Forward Price-to-BV

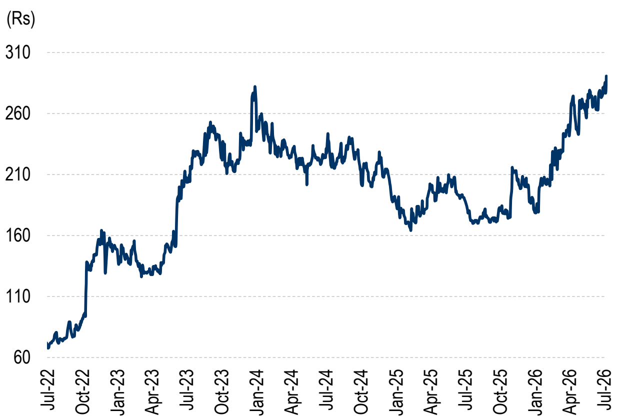

*Source: Company, Anand Rathi Research*

## Fig 3 – Ratio Analysis (%)

| Y/E Mar | FY24 | FY25 | FY26 | FY27e | FY28e |
|---|---|---|---|---|---|
| NIM | 3.4 | 3.1 | 2.8 | 2.9 | 2.9 |
| Cost-income | 53.2 | 60.1 | 56.3 | 55.7 | 53.9 |
| RoA | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 |
| RoE | 13.7 | 11.1 | 10.4 | 10.3 | 10.6 |
| DPS | 5.5 | 5.0 | 5.0 | 5.6 | 6.3 |
| Gross NPA | 3.5 | 3.1 | 2.8 | 2.6 | 2.3 |
| Net NPA | 1.6 | 1.3 | 1.0 | 0.9 | 0.8 |
| Provision coverage | 56.2 | 58.2 | 67.0 | 65.0 | 65.0 |
| BV (Rs) | 287.6 | 319.8 | 349.7 | 381.6 | 417.5 |
| CAR (%) | 18.0 | 19.9 | 20.1 | 19.1 | 18.3 |
| - Tier 1 | 16.2 | 18.4 | 18.7 | 17.9 | 17.2 |
| P / E (x) | 8.4 | 8.6 | 8.4 | 7.8 | 6.9 |
| P / BV (x) | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 |
| P / ABV (x) | 1.1 | 1.0 | 0.9 | 0.8 | 0.7 |

*Source: Company, Anand Rathi Research*

## Fig 6 – Price Movement




*Source: Bloomberg*

# Key Highlights

### Quarterly Snapshot

**Fig 7 – Income statement**

| (Rs m) | Q4FY25 | Q1FY26 | Q2FY26 | Q3FY26 | Q4FY26 | Q1FY27 |
|---|---|---|---|---|---|---|
| Interest income | 22,585 | 22,613 | 21,792 | 22,201 | 22,573 | 23,827 |
| Interest expense | 14,778 | 15,057 | 14,511 | 14,280 | 14,144 | 14,444 |
| **NII** | **7,807** | **7,556** | **7,281** | **7,921** | **8,430** | **9,383** |
| *y/y growth* (%) | -6.4 | -16.4 | -12.6 | -0.1 | 8.0 | 24.2 |
| Non-interest income | 4,282 | 3,584 | 3,434 | 3,023 | 3,989 | 3,554 |
| **Total Income** | **12,089** | **11,140** | **10,715** | **10,944** | **12,418** | **12,937** |
| *y/y growth* (%) | -3.6 | -5.8 | -2.9 | 0.8 | 2.7 | 16.1 |
| Operating expenses | 8,339 | 6,467 | 6,315 | 6,426 | 6,268 | 7,134 |
| Of which staff cost | 5,259 | 3,411 | 3,165 | 3,606 | 2,796 | 4,086 |
| **PPoP** | **3,750** | **4,673** | **4,400** | **4,518** | **6,150** | **5,803** |
| *y/y growth* (%) | -25.0 | -16.3 | -4.4 | 4.3 | 64.0 | 24.2 |
| Total provisions | 311 | 1,108 | 201 | 949 | 903 | 287 |
| **PBT** | **3,439** | **3,565** | **4,200** | **3,569** | **5,247** | **5,516** |
| Tax | 916 | 641 | 1,009 | 662 | 1,165 | 1,327 |
| **PAT** | **2,524** | **2,924** | **3,191** | **2,908** | **4,082** | **4,190** |
| *y/y growth* (%) | -8.0 | -27.0 | -5.0 | 2.5 | 61.7 | 43.3 |

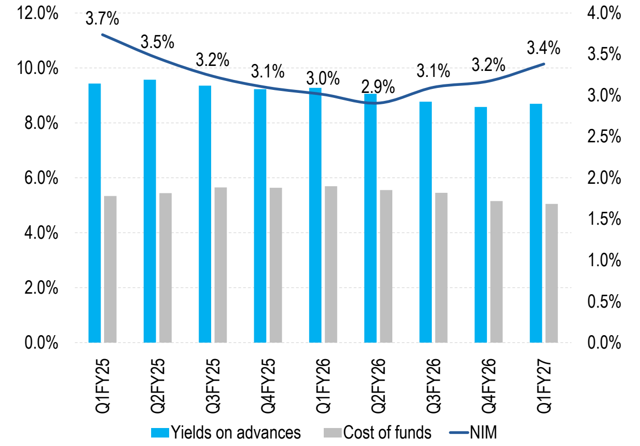
*Source: Company, Anand Rathi Research*

**Fig 8 – Balance Sheet**

| (Rs m) | Q4FY25 | Q1FY26 | Q2FY26 | Q3FY26 | Q4FY26 | Q1FY27 |
|---|---|---|---|---|---|---|
| Equity Capital | 3,780 | 3,780 | 3,781 | 3,782 | 3,782 | 3,782 |
| Reserves & Surplus | 1,17,074 | 1,20,103 | 1,22,111 | 1,24,931 | 1,28,463 | 1,33,288 |
| Deposits | 10,48,075 | 10,32,422 | 10,28,172 | 10,41,115 | 10,87,788 | 11,03,964 |
| Borrowings | 19,406 | 16,245 | 13,086 | 12,857 | 53,290 | 44,046 |
| Other Liabilities | 21,278 | 19,737 | 19,714 | 19,153 | 20,244 | 19,673 |
| **Total Liabilities** | **12,09,612** | **11,92,287** | **11,86,863** | **12,01,837** | **12,93,566** | **13,04,753** |
| y/y deposits growth (%) | 6.9 | 3.1 | 2.9 | 4.0 | 3.8 | 6.9 |
| q/q deposits growth (%) | 4.7 | -1.5 | -0.4 | 1.3 | 4.5 | 1.5 |
| | | | | | | |
| Cash and cash balances | 75,251 | 79,564 | 50,017 | 36,898 | 70,635 | 45,525 |
| Advances | 7,65,415 | 7,27,272 | 7,21,526 | 7,56,990 | 8,18,096 | 8,51,011 |
| Investments | 2,45,365 | 2,55,231 | 2,65,991 | 2,67,527 | 2,67,388 | 2,67,241 |
| Other Assets | 1,18,995 | 1,20,790 | 1,24,666 | 1,31,850 | 1,30,725 | 1,31,256 |
| **Total Assets** | **12,09,612** | **11,92,287** | **11,86,863** | **12,01,837** | **12,93,566** | **13,04,753** |
| y/y advances growth (%) | 7.0 | -1.7 | -2.4 | -1.0 | 6.9 | 17.0 |
| q/q advances growth (%) | 0.1 | -5.0 | -0.8 | 4.9 | 8.1 | 4.0 |

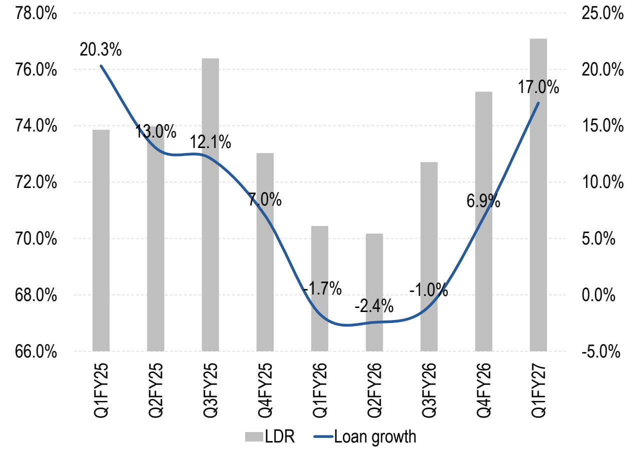
*Source: Company, Anand Rathi Research*

## Fig 9 – Yield, Cost and Margin



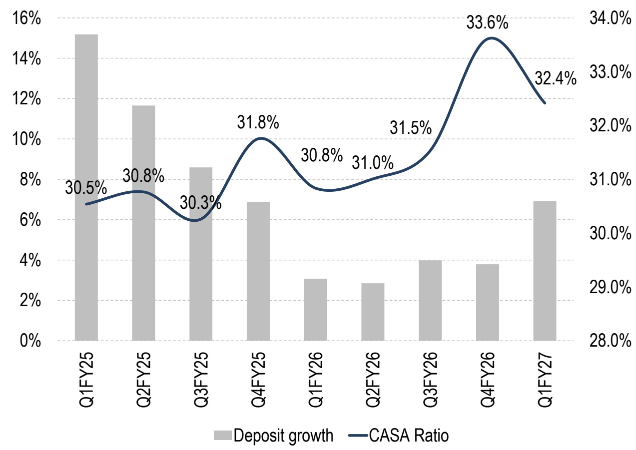

*Source: Company, Anand Rathi Research*

## Fig 10 – Credit Growth vs. LDR



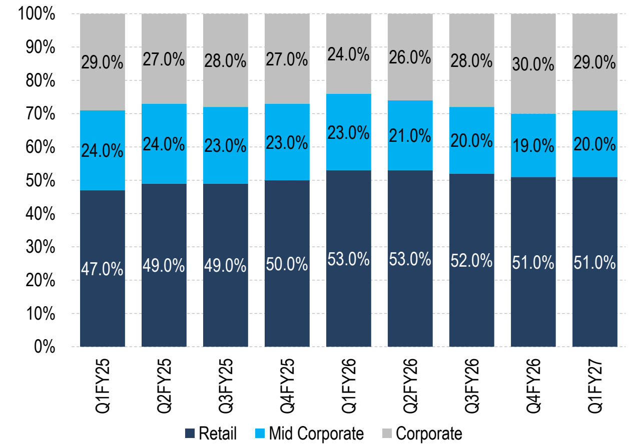

*Source: Company, Anand Rathi Research*

## Fig 11 – Deposit growth vs. CASA Ratio



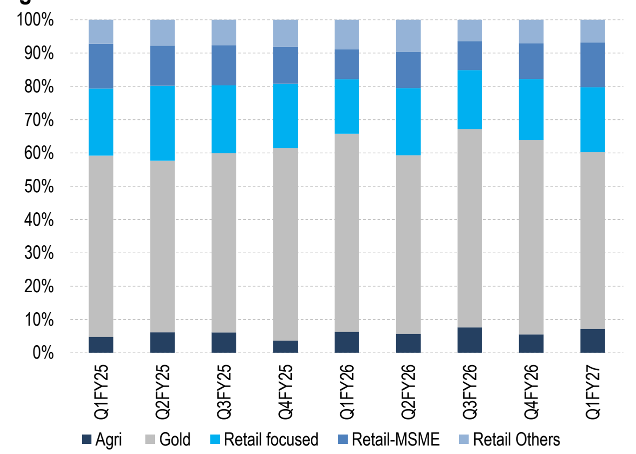

*Source: Company, Anand Rathi Research*

## Fig 12 – Loan-mix



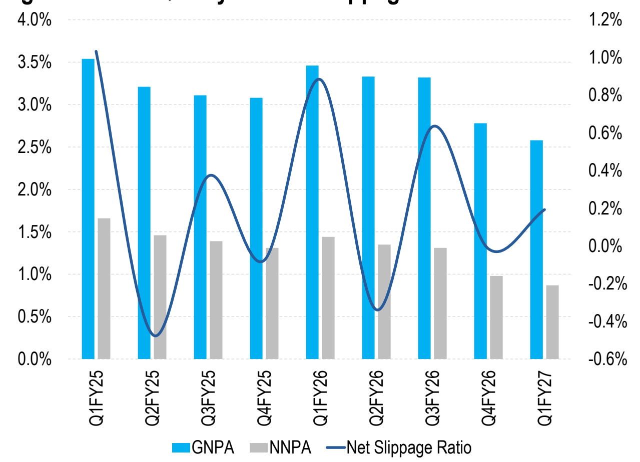

*Source: Company, Anand Rathi Research*

## Fig 13 – Break-down of Retail Disbursements




*Source: Company, Anand Rathi Research*

## Fig 14 – Asset Quality and Net Slippages




*Source: Company, Anand Rathi Research*

# Outlook and Valuation

We expect the bank's RoA to sustain above 1% over FY27/28e, led by stable margin, healthy balance sheet growth, controlled slippages and a manageable ECL transition. Hence, we maintain BUY rating on the stock with a TP of Rs364, valuing it at 0.9x FY28e P/BV.

**Fig 15 – Change in Estimates**

| (Rs m) | FY27e | | | FY28e | | |
|---|---|---|---|---|---|---|
| | New Estimates | Old Estimates | Change (%) | New Estimates | Old Estimates | Change (%) |
| NII | 35,561 | 34,349 | 3.5 | 40,591 | 38,831 | 4.5 |
| PPoP | 22,674 | 21,470 | 5.6 | 26,832 | 24,762 | 8.4 |
| PAT | 14,198 | 13,281 | 6.9 | 15,998 | 14,456 | 10.7 |

*Source: Anand Rathi Research*

## Key Risks

- Lower credit growth
- Higher slippages from agriculture and MSME books.

## Appendix

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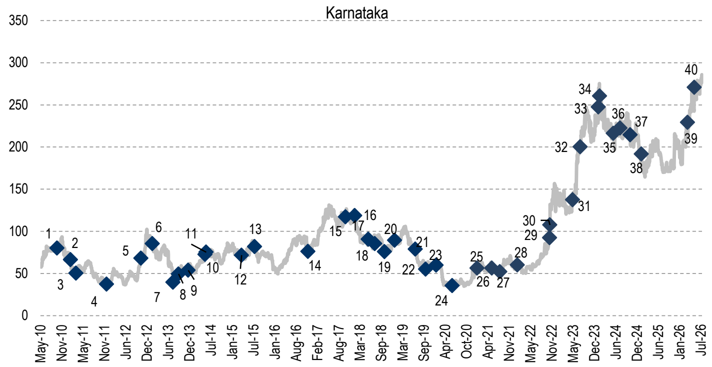


| | Date | Rating | TP (Rs) | Share Price (Rs) |
|---|---|---|---|---|
| 27 | 09-Aug-21 | Hold | 74 | 61 |
| 28 | 30-Jan-22 | Hold | 72 | 65 |
| 29 | 02-Nov-22 | Buy | 140 | 113 |
| 30 | 03-Feb-23 | Buy | 191 | 152 |
| 31 | 30-May-23 | Buy | 192 | 152 |
| 32 | 03-Aug-23 | Buy | 269 | 216 |
| 33 | 02-Nov-23 | Buy | 272 | 218 |
| 34 | 23-Jan-24 | Buy | 334 | 267 |
| 35 | 26-May-24 | Buy | 298 | 221 |
| 36 | 24-Jul-24 | Buy | 299 | 228 |
| 37 | 23-Oct-24 | Buy | 298 | 214 |
| 38 | 31-Jan-25 | Buy | 265 | 192 |
| 39 | 20-Mar-26 | Buy | 291 | 231 |
| 40 | 21-May-26 | Buy | 330 | 264 |

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|---|---|---|---|
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| Mid Caps (101st-250th company) | >20% | 0-20% | <0% |
| Small Caps (251st company onwards) | >25% | 0-25% | <0% |

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