

26 January 2026

## Karur Vysya Bank

*Margin-led beat with improving asset quality; BUY*

A strong quarter with loan growth accelerating to 17.3% y/y (vs 15.8% y/y in Q2FY26) and NIM up 22bps q/q with QoQ improvement in asset quality leading to Core-PPOP outgrowing balance sheet. The Board's decision to re-appoint Mr. Babu as CEO till Jul'28 is a key positive, providing strategic continuity and execution stability. We maintain high conviction BUY and expect credit growth to sustain ~300–400bps above system, driven by steady traction in core retail and commercial segments. With stable margins, healthy fees momentum and benign asset quality, we forecast RoE to sustain >16% over the medium term. We retain our BUY with a 12-month TP of Rs322, valuing the stock at 1.7x FY28E P/ABV.

**NIM expands sharply on lower Cost of Funds:** NIM expanded 22bps q/q, driven by a 16bps q/q decline in cost of funds and 6bps improvement in yields. With a higher share of fixed-rate loans (23%) and easing CoF trajectory, we expect NIMs to remain stable around current levels. Steady margins, healthy fee momentum and moderate credit costs should support profitability. We estimate RoA at >1.6% and RoE at >16% through FY26–28.

**Asset quality remains healthy.** Slippages were Rs1.5bn (0.7% of loans), lower than last quarter and our estimates. Slippages improved across all segments. Net slippages were ~39bps, on account of lower slippages and strong recoveries. GNPA improved 5bps q/q. Ahead, we expect the gross slippage rate to be under ~1% and net slippages to be under 50bps.

**Outlook and Valuation:** We maintain BUY rating on the stock with a 12-month TP of Rs322 (based on the two-stage DDM model), valuing it at 1.7x FY28E P/ABV. **Risks:** (a) Lumpy slippages from corporate book; an(b) stress in SME book.

Key Financials (Y/E Mar)	FY24	FY25	FY26e	FY27e	FY28e
Net interest income (Rs m)	38,184	42,599	48,009	55,581	64,023
Pre-provisioning profit (Rs m)	28,291	32,123	38,449	43,468	49,033
Provisions (Rs m)	7,288	6,216	6,135	9,680	11,299
PAT (Rs m)	16,049	19,416	24,558	25,273	28,225
EPS (Rs)	20.0	24.1	25.4	26.2	29.2
NIM (%)	4.3	4.2	4.0	4.0	4.0
Cost-income (%)	48.3	47.2	43.6	44.0	44.4
RoE (%)	17.2	17.7	18.8	16.5	16.0
RoA (%)	1.6	1.7	1.9	1.7	1.6
Advances growth (%)	16.7	14.0	18.0	17.0	16.5
GNPA (%)	1.4	0.8	0.6	0.7	0.7
CAR (%)	16.7	18.2	18.3	18.0	18.0
P/E (x)	13.3	11.0	10.4	10.1	9.1
P / BV (x)	2.1	1.8	1.8	1.6	1.4
P / ABV (x)	2.2	1.8	1.8	1.6	1.4

Source: Company, Anand Rathi Research

Rating: **BUY**

Target Price (12-mth): Rs.322

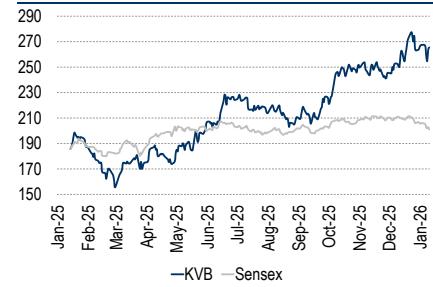
Share Price: Rs.265

Key Data	KVB IN / KARU.BO
52-week high / low	Rs280 / 155
Sensex / Nifty	81,538 / 25,049
Market cap	Rs256bn
Shares outstanding	967m

Shareholding Pattern (%)	Dec'25	Sep'25	June'25
Promoters	2.1	2.1	2.1
- of which, Pledged	3.8	3.7	3.7
Free float	97.9	97.9	97.9
- Foreign institutions	16.9	15.8	15.4
- Domestic institutions	40.2	40.0	39.5
- Public	40.9	42.1	43.0

Estimates Revision (%)	FY27e	FY28e
NII	4.7	4.8
PPOP	8.4	7.2
PAT	10.2	8.3

### 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	FY26e	FY27e	FY28e
Net interest income	38,184	42,599	48,009	55,581	64,023
NII growth (%)	14.0	11.6	12.7	15.8	15.2
Non-interest income	16,495	18,296	20,107	22,055	24,239
Income	54,679	60,895	68,116	77,636	88,262
Income growth (%)	21.3	11.4	11.9	14.0	13.7
Operating expenses	26,388	28,771	29,668	34,169	39,229
PPoP	28,291	32,123	38,449	43,468	49,033
PPoP growth (%)	14.3	13.5	19.7	13.1	12.8
Provisions	7,288	6,216	6,135	9,680	11,299
PBT	21,003	25,907	32,314	33,788	37,734
Tax	4,954	6,491	7,755	8,515	9,509
PAT	16,049	19,416	24,558	25,273	28,225
PAT growth (%)	45.1	21.0	26.5	2.9	11.7
EPS (Rs)	20.0	24.1	25.4	26.2	29.2
DPS (Rs)	2.4	2.6	2.8	2.9	3.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance Sheet (Rs m)**

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	1,609	1,610	1,933	1,933	1,933
Reserves & surplus	98,792	117,685	1,39,542	1,62,036	1,87,156
Deposits	8,91,127	10,20,780	11,77,980	13,66,457	15,85,090
Borrowings	24,784	12,170	33,467	35,140	36,897
Other liabilities	39,540	41,429	38,813	39,957	39,738
<b>Total liabilities</b>	<b>10,55,852</b>	<b>11,93,674</b>	<b>13,91,735</b>	<b>16,05,523</b>	<b>18,50,814</b>
Advances	7,36,675	8,40,045	9,91,254	11,59,767	13,51,128
Investments	2,23,435	2,38,313	3,00,274	3,36,307	3,80,027
Cash & bank balance	56,586	78,067	61,096	68,382	76,539
Fixed & other assets	39,156	37,249	39,112	41,067	43,120
<b>Total assets</b>	<b>10,55,852</b>	<b>11,93,674</b>	<b>13,91,735</b>	<b>16,05,523</b>	<b>18,50,814</b>
No. of shares (m)	804	805	966	966	966
Deposit growth (%)	16.3	14.5	15.4	16.0	16.0
Advances growth (%)	16.7	14.0	18.0	17.0	16.5

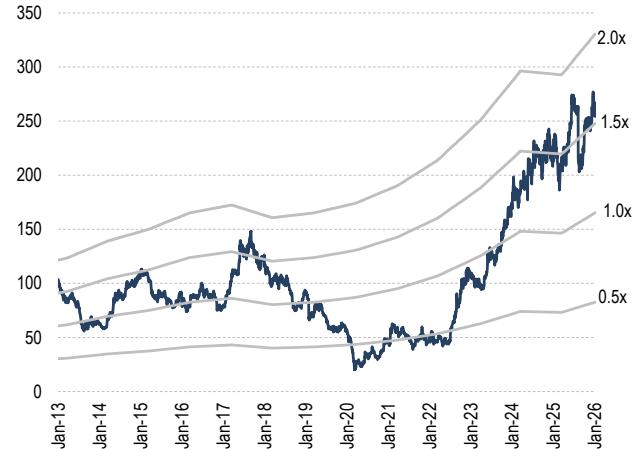
Source: Company, Anand Rathi Research

**Fig 3 – Ratio Analysis (%)**

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
NIM	4.3	4.2	4.0	4.0	4.0
Other inc. / total inc.	30.2	30.0	29.5	28.4	27.5
Cost-income	48.3	47.2	43.6	44.0	44.4
Provision coverage	71.4	74.1	73.0	72.0	70.0
Dividend payout	12.0	10.8	11.0	11.0	11.0
Credit-deposit	82.7	82.3	84.1	84.9	85.2
Investment-deposit	25.1	23.3	25.5	24.6	24.0
Gross NPA	1.4	0.8	0.6	0.7	0.7
Net NPA	0.4	0.2	0.2	0.2	0.2
BV (Rs)	124.8	148.2	146.4	169.7	195.7
Adj. BV (Rs)	122.2	146.7	145.1	168.1	193.7
CAR	16.7	18.2	18.3	18.0	18.0
- Tier 1	15.5	17.1	17.4	17.2	17.3
RoE	17.2	17.7	18.8	16.5	16.0
RoA	1.6	1.7	1.9	1.7	1.6

Source: Company, Anand Rathi Research

**Fig 4 – Price-to-Book Band**



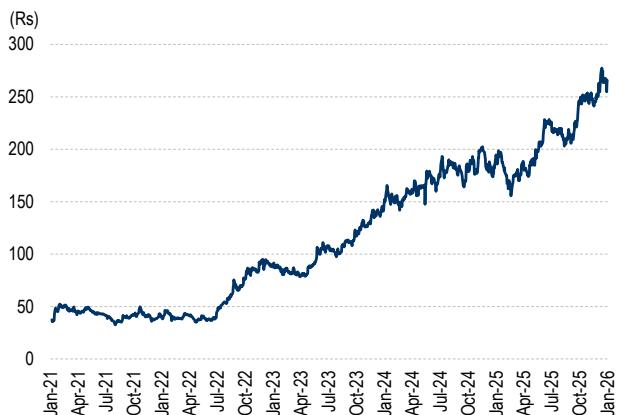
Source: Bloomberg

**Fig 5 – 1-Year Fwd. Price-to-BV**



Source: Company, Anand Rathi Research

**Fig 6 – Price Movement**



Source: Bloomberg

## Conference Call Highlights

### Guidance

- Full-year NIM guidance is maintained at 3.9-3.95%.
- RoA is expected to be above 1.85%.
- Credit growth guidance of ~2% above industry growth remains intact.
- GNPA and NNPA are likely to remain below 1.5% and 1%, respectively.
- Slippages are guided to remain lower than 1% of loan book.

### Retail Advances Performance

- Retail advances rose 6% q/q, mainly driven by growth in gold loans and mortgage loans.
- Collaboration between branch channel and open market channel continued to gain traction. Early asset bookings enabled steady interest income generation in FY26 so far.
- Given lower yields and heightened competition, the bank has consciously moderated growth in housing loans and vehicle loans.

### Commercial Banking Performance

- The bank consciously exited a few weaker commercial accounts in Q3FY26. Certain accounts were allowed to be taken over by other banks due to pricing that did not meet the bank's risk-reward framework.
- Lower utilisation levels were observed in sectors i.e., textiles.
- The management reiterated its focus on commercial growth while maintaining a disciplined risk-reward balance.

### Agriculture Loan Portfolio

- Agricultural gold loans constituted 91% of agriculture portfolio, while other agricultural loans accounted for 9%.
- LTV ratio stood at 55.6%, indicating adequate margin coverage.
- Continued improvement in TAT and customer engagement aided growth, despite intense competition.

### Liability Franchise and Deposit Growth

- Total deposits grew by 4% in Q3FY26, aided by growth in retail TDs and CASA.
- Higher-than-expected inflows into CAs towards Q3-end also aided deposit growth. Strategy of prioritising higher balance variance SAs through branch and sales channels is yielding results.

### NIM Performance

- NIM expansion was driven by: (a) 16bps reduction in CoF; (b) 6bps rise in yield on funds.
- Cost of deposits fell 13bps q/q due to repricing of deposits in Q3FY26.

- The bank improved asset mix by increasing fixed-rate loans, helping arrest yield pressure with (a) fixed-rate loans increased from 15% (Sept-25) to 23% (Dec-25); (b) decline in MCLR-linked loans to 20% from 29%; and (c) increase in EBLR-linked loans to 55% from 54%.
- Yield on investments improved by 4 bps led by: (a) reinvestment at higher yields; (b) preference for state development loans over central government securities; and (c) selective rise in non-SLR investments.
- Considering 25bps rate cut in Dec-25 (which will fully impact Q4FY26), the management expects FY26 NIM at 3.9-3.95%.

#### **Branch Expansion and Strategic Initiatives:**

- The bank opened 10 branches during 9MFY26 comprising of: (a) seven light branches; (b) three regular branches. It plans to open six branches in Q4FY26.
- Key new initiatives include: (a) revamp of credit card business with new variants expected by quarter-end; (b) measured scaling of credit cards with a strong focus on risk; (c) launch of affordable housing loans on pilot basis; and (d) final stages of technical integration with a co-lending partner.

#### **Update on MFI Portfolio**

- Enhanced guardrails by self-regulatory organisations have led to: (a) improved risk management; and (b) greater focus on portfolio quality and long-term stability.
- Past issues related to multi-lender risk and delinquency have largely been addressed.
- All fresh exposures from April onwards are covered under the guaranteed cover.

## Key Highlights

### Quarterly Snapshot

#### Fig 7 – Income Statement

(Rs m)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Interest income	18,829	19,971	21,394	21,846	22,845	23,840	24,860	25,159	25,686	28,080	27,942
Interest expense	9,858	10,817	11,381	11,891	12,602	13,241	14,072	14,267	14,892	15,468	15,549
<b>NII</b>	<b>8,971</b>	<b>9,154</b>	<b>10,013</b>	<b>9,955</b>	<b>10,244</b>	<b>10,600</b>	<b>10,788</b>	<b>10,893</b>	<b>10,794</b>	<b>12,612</b>	<b>12,393</b>
y/y growth (%)	20.3	11.4	12.6	11.5	14.2	15.8	7.7	9.4	5.4	19.0	14.9
Non-interest income	3,332	3,389	3,578	6,289	3,884	4,720	4,674	5,093	4,473	5,123	5,090
<b>Total income</b>	<b>12,302</b>	<b>12,543</b>	<b>13,591</b>	<b>16,243</b>	<b>14,127</b>	<b>15,320</b>	<b>15,462</b>	<b>15,986</b>	<b>15,266</b>	<b>17,735</b>	<b>17,482</b>
y/y growth (%)	30.2	18.0	12.6	25.6	14.8	22.1	13.8	-1.6	8.1	15.8	13.1
Operating expenses	5,818	6,164	6,832	7,574	6,669	7,157	7,310	7,636	7,211	7,561	7,429
Of which, staff cost	3,189	3,276	3,747	4,398	3,335	3,570	3,738	3,849	3,649	3,651	3,632
<b>PPoP</b>	<b>6,484</b>	<b>6,379</b>	<b>6,759</b>	<b>8,669</b>	<b>7,459</b>	<b>8,162</b>	<b>8,153</b>	<b>8,350</b>	<b>8,055</b>	<b>10,174</b>	<b>10,053</b>
y/y growth (%)	36.4	11.5	-1.9	17.3	15.0	28.0	20.6	-3.7	8.0	24.6	23.3
Total provisions	1,594	1,264	1,497	2,934	1,329	1,798	1,474	1,614	1,181	2,744	1,048
<b>PBT</b>	<b>4,890</b>	<b>5,115</b>	<b>5,262</b>	<b>5,735</b>	<b>6,129</b>	<b>6,364</b>	<b>6,678</b>	<b>6,736</b>	<b>6,874</b>	<b>7,430</b>	<b>9,006</b>
Tax	1,304	1,331	1,146	1,174	1,543	1,628	1,718	1,602	1,659	1,691	2,106
<b>PAT</b>	<b>3,586</b>	<b>3,785</b>	<b>4,116</b>	<b>4,561</b>	<b>4,587</b>	<b>4,736</b>	<b>4,960</b>	<b>5,134</b>	<b>5,215</b>	<b>5,740</b>	<b>6,900</b>
y/y growth (%)	56.8	51.2	42.3	35.0	27.9	25.1	20.5	12.6	13.7	21.2	39.1

Source: Company, Anand Rathi Research

#### Fig 8 – Balance Sheet

(Rs m)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Equity capital	1,600	1,605	1,610	1,609	1,610	1,610	1,610	1,610	1,610	1,933	1,930
Reserves & surplus	87,840	90,024	94,180	98,792	1,04,240	1,07,397	1,12,310	1,17,685	1,22,850	1,26,031	1,32,800
Deposits	8,07,150	8,30,685	8,56,650	8,91,127	9,23,490	9,58,385	9,91,550	10,20,780	10,66,500	11,04,916	11,45,950
Borrowings	15,550	25,879	29,930	24,784	21,130	14,180	15,630	12,170	18,430	25,166	30,310
Other liabilities	33,930	36,157	46,310	39,541	38,270	44,159	42,630	41,429	44,320	42,945	44,680
<b>Equity and liabilities</b>	<b>9,46,070</b>	<b>9,84,349</b>	<b>10,28,680</b>	<b>10,55,852</b>	<b>10,88,740</b>	<b>11,25,731</b>	<b>11,63,730</b>	<b>11,93,674</b>	<b>12,53,710</b>	<b>13,00,990</b>	<b>13,55,670</b>
y/y deposits growth (%)	13.4	12.8	12.5	16.3	14.4	15.4	15.7	14.5	15.5	15.3	15.6
q/q deposits growth (%)	5.3	2.9	3.1	4.0	3.6	3.8	3.5	2.9	4.5	3.6	3.7
<b>Assets</b>											
Cash and cash balances	51,980	46,142	53,010	55,879	53,250	54,571	50,460	73,542	67,120	59,049	49,830
Advances	6,59,730	6,95,074	7,17,980	7,36,675	7,69,650	7,96,188	8,23,020	8,40,045	8,89,440	9,21,849	9,65,420
Investments	2,00,540	2,08,345	2,09,270	2,23,435	2,26,570	2,32,138	2,49,600	2,38,313	2,54,000	2,78,237	2,97,820
Other assets	31,110	32,030	45,530	39,156	38,230	40,532	37,240	37,249	37,620	38,847	41,260
<b>Total Assets</b>	<b>9,46,070</b>	<b>9,84,349</b>	<b>10,28,680</b>	<b>10,55,852</b>	<b>10,88,740</b>	<b>11,25,731</b>	<b>11,63,730</b>	<b>11,93,674</b>	<b>12,53,710</b>	<b>13,00,990</b>	<b>13,55,670</b>
y/y advances growth (%)	14.6	15.5	16.3	16.7	16.7	14.5	14.6	14.0	15.6	15.8	17.3
q/q advances growth (%)	4.5	5.4	3.3	2.6	4.5	3.4	3.4	2.1	5.9	3.6	4.7

Source: Company, Anand Rathi Research

**Fig 9 – Movement of GNPA**

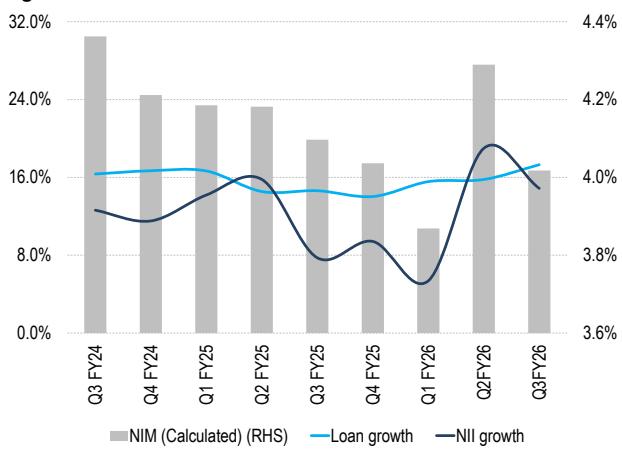
GNPA	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Opening balance (Rs m)	12,190	11,519	10,416	10,245	8,856	6,909	6,418	5,926	7,078
Slippages (Rs m)	1,970	2,010	1,740	1,810	1,390	1,790	1,880	3,500	1,540
<i>Gross slippage ratio (%)</i>	1.1	1.1	0.9	0.9	0.7	0.9	0.9	1.6	0.7
Reductions (Rs m)	2,640	3,110	1,910	3,200	3,330	2,280	2,370	2,350	1,750
<b>Closing balance (Rs m)</b>	<b>11,519</b>	<b>10,416</b>	<b>10,245</b>	<b>8,856</b>	<b>6,909</b>	<b>6,418</b>	<b>5,926</b>	<b>7,078</b>	<b>6,869</b>
GNPA (%)	1.6	1.4	1.3	1.1	0.8	0.8	0.7	0.8	0.7
NNPA (%)	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2
Restructured advances (%)	1.1	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4
Stressed assets (%)	2.7	2.4	2.2	1.9	1.6	1.4	1.2	1.3	1.2

Source: Company, Anand Rathi Research

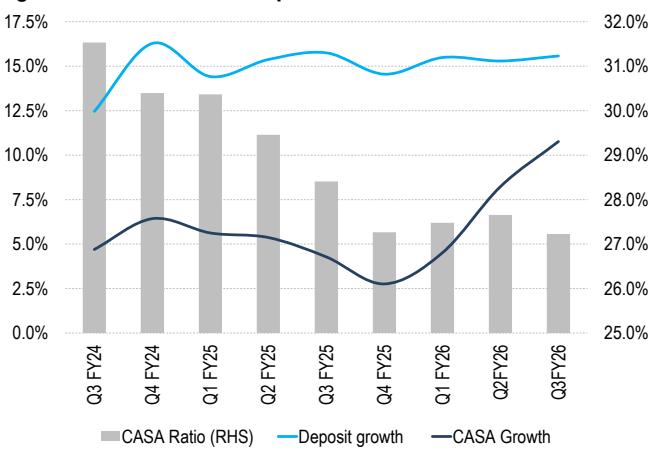
**Fig 10 – Break-up of Advances (%)**

	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Corporate	19.8	18.7	17.6	16.3	15.5	14.3	14.3	13.9	14.1
Commercial	33.6	34.2	34.9	35.7	36.0	36.4	36.2	35.8	35.4
Housing	10.1	10.2	10.2	10.2	10.1	10.0	9.2	8.9	8.5
Auto	1.6	1.5	1.4	1.4	1.3	1.2	1.1	1.0	0.9
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Personal	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2
Consumer Credit-BNPL	1.3	1.4	1.4	1.3	1.2	1.0	0.9	1.0	0.9
Jewel	2.9	2.9	3.4	3.5	3.8	4.1	4.7	5.2	5.5
LAP	5.3	5.5	5.8	6.1	6.4	6.5	7.4	8.0	8.7
Other Retail	1.6	1.5	1.5	1.5	1.5	1.4	1.5	1.4	1.3
Farm	23.2	23.3	23.3	23.5	23.8	24.6	24.3	24.4	24.3
<b>Total</b>	<b>100.0</b>								

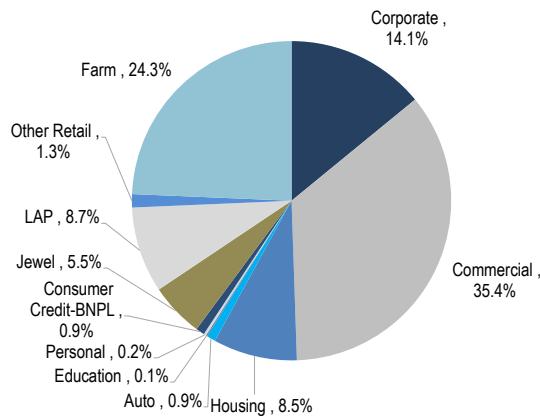
Source: Company, Anand Rathi Research

**Fig 11 – Credit Growth vs. NIM**

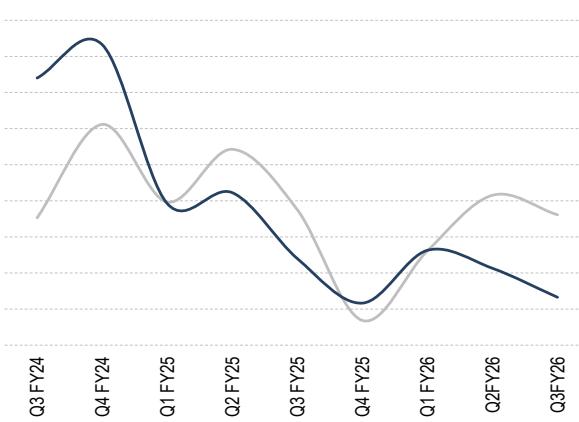
Source: Company, Anand Rathi Research

**Fig 12 – CASA Ratio vs. Deposit Growth**

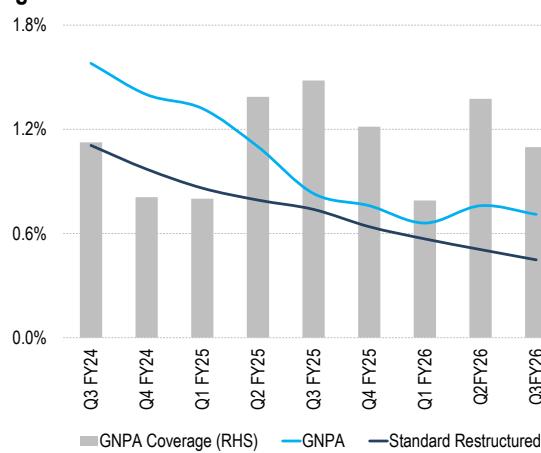
Source: Company, Anand Rathi Research

**Fig 13 – Loan Break-up**

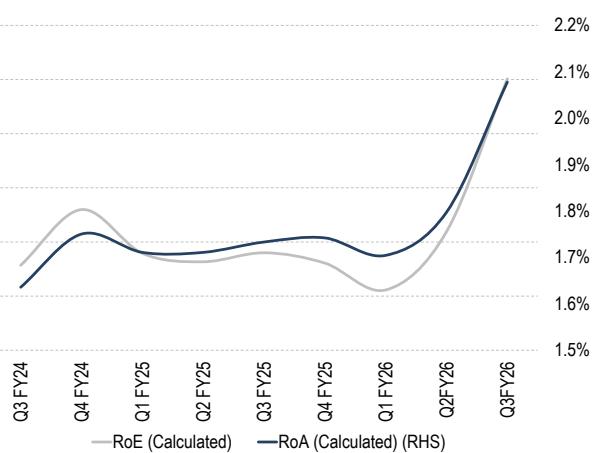
Source: Company, Anand Rathi Research

**Fig 14 – Income vs. Opex Growth**

Source: Company, Anand Rathi Research

**Fig 15 – Restructured Assets vs. GNPA**

Source: Company, Anand Rathi Research

**Fig 16 – RoE vs. RoA**

Source: Company, Anand Rathi Research

## Valuation

We are sanguine regarding the bank's loan growth potential, largely driven by its retail and commercial books. We maintain BUY rating on the stock with a 12-month TP of Rs322 (based on the two-stage DDM model), valuing it at 1.7x FY28e P/ABV.

**Fig 17 – Change in Estimates**

(Rs m)	FY27e			FY28e		
	New	Old	Change (%)	New	Old	Change (%)
Net interest income	55,581	53,066	4.7	64,023	61,105	4.8
Pre-provisioning profit	43,468	40,115	8.4	49,033	45,752	7.2
PAT	25,273	22,938	10.2	28,225	26,059	8.3

*Source: Anand Rathi Research*

### Risks

- Higher slippages (especially from corporate portfolio) could lead to volatile asset quality.
- Stress in the SME book.

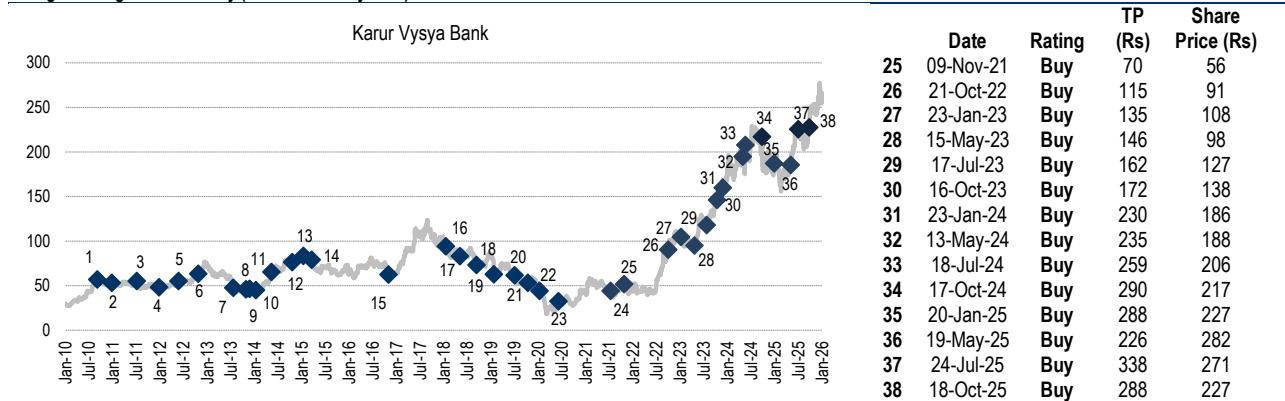
## Appendix

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