

Leadership void may disrupt retailization thrust; D/g to ADD

BFSI - Banks ▶ Company Update ▶ June 30, 2025

CMP (Rs): 196 | TP (Rs): 220

We change our rating to ADD from Buy for Karnataka Bank (KBL) and cut our TP by 15% to Rs220. KBL's MD and CEO Srikrishnan Hari Hara Sarma (ex-Jio Payments Bank), appointed in Jun-23, and ED Sekhar Rao tendered their resignation and will be relieved effective 15-Jul-25 and 31-Jul-25, respectively. These exits reportedly followed Board-level differences over a Rs15.3mn consultancy spend flagged by auditors in May-25 which exceeded the directors' delegated authority and was not ratified, making it recoverable from the directors. We believe this could be just another reason for the friction gradually building up between the new management and the Board. Such leadership churns are not uncommon in regional PVBs post management overhauls, with mixed outcomes across peers—some successful (KVB, RBL, Federal, SIB), and others less so (DCB, LVB). We believe the management void would impact KBL's transformation process, including retailization and hence growth. Factoring this in, we trim earnings by 6-13% over FY26-28E and our target multiple to 0.6x Jun-27E ABV from 0.8x Mar-27E. We however take comfort in KBL's inexpensive valuations, higher capital levels, and hopes of the Board hiring an external MD to help the bank maintain its transformational journey.

Friction with the Board leads to resignations

Reportedly, the friction with the Board on alleged superseding of authority to approve consultancy bills being flagged by auditors ultimately led to resignations by the CEO and ED. However, we believe that the management's flip-flop view on growth and the relative underperformance vs guidance too could have played a role in this friction with the Board. Additionally, we believe that a radical business approach in an otherwise traditional organization could have added to the discord. In a separate event, the bank identified cross-border UPI transaction discrepancies of ~Rs0.19bn, calling for appointment of a forensic auditor in Apr-25 to probe the issue.

MD and ED resignation – Setback to the bank's transformational journey

Srikrishnan Hari Hara Sarma, a seasoned banker, was Karnataka Bank's first external MD and CEO, appointed in Jun-23 for a 3-year term, with an aim to transform KBL into a new-age, retail-oriented entity. Under his leadership, KBL initiated bold management, portfolio, and tech overhaul, while raising Rs15bn capital to boost its CET 1 capital to a high of 18.4% in 4QFY25 from ~13%. Sarma had also launched a major digitalization and retailization drive in the bank which could now be disrupted, in our view, and thus hurt growth. Notably, the first round of radical top management changes in regional PVBs has typically ultimately met with such a fate; hence, this occurrence within KBL is not surprising. However, such changes have also been successful in a few banks (eg KVB, RBL, Federal Bank, SIB), while being less so for a few others (DCB, LVB). Thus, the onus will be on the Board to hire an external MD and CEO, who takes the transformational journey ahead and aligns well with the bank's vision.

Target Price – 12M	Jun-26
Change in TP (%)	(15.4)
Current Reco.	ADD
Previous Reco.	BUY
Upside/(Downside) (%)	12.2

Stock Data	KBL IN
52-week High (Rs)	245
52-week Low (Rs)	162
Shares outstanding (mn)	378.0
Market-cap (Rs bn)	74
Market-cap (USD mn)	862
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	278.8
ADTV-3M (USD mn)	3.3
Free float (%)	100.0
Nifty-50	25,517.1
INR/USD	85.8

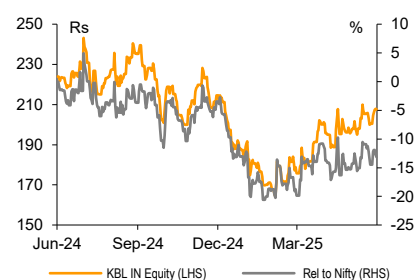
Shareholding, Mar-25

Promoters (%)	0.0
FPIs/MFs (%)	12.9/18.2

Price Performance

(%)	1M	3M	12M
Absolute	(1.1)	11.3	(12.6)
Rel. to Nifty	(4.1)	2.6	(17.8)

1-Year share price trend (Rs)



Karnataka Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	13,063	12,724	10,603	12,530	14,760
Loan growth (%)	19.3	7.0	7.1	10.1	14.1
NII growth (%)	3.6	0.4	(7.2)	12.6	15.2
NIM (%)	3.5	3.1	2.8	2.9	3.0
PPOP growth (%)	(2.0)	(15.5)	(13.1)	17.2	22.3
Adj. EPS (Rs)	37.9	33.7	28.1	33.2	39.1
Adj. EPS growth (%)	0.1	(11.0)	(16.7)	18.2	17.8
Adj. BV (INR)	249.2	286.5	310.4	338.9	373.2
Adj. BVPS growth (%)	13.3	15.0	8.4	9.2	10.1
RoA (%)	1.2	1.1	0.8	0.9	1.0
RoE (%)	13.7	11.0	8.4	9.2	10.0
P/E (x)	5.2	5.8	7.0	5.9	5.0
P/ABV (x)	0.8	0.7	0.6	0.6	0.5

Source: Company, Emkay Research

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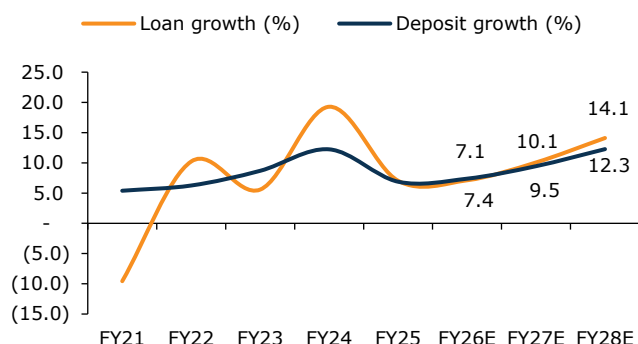
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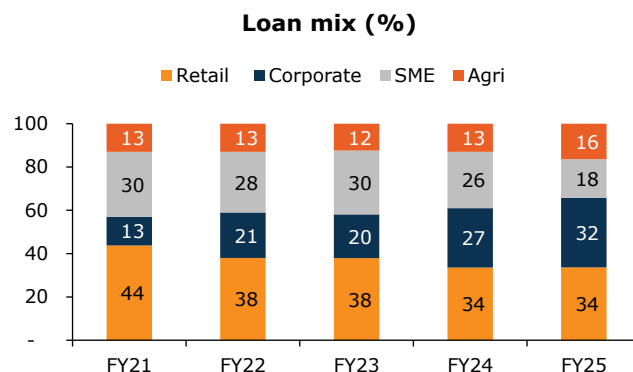
Story in charts

Exhibit 1: Loan growth moderates in FY25, while the management gives guidance for improvement in growth with strong focus on the RAM book



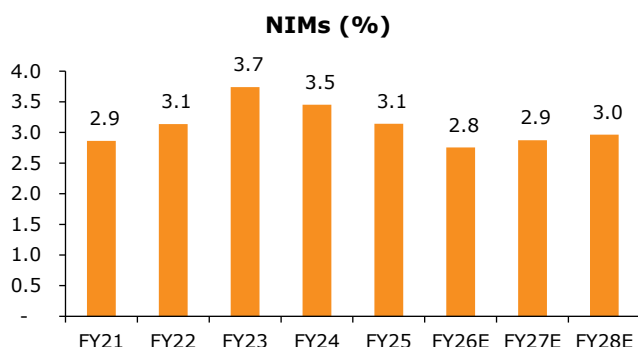
Source: Company, Emkay Research

Exhibit 2: Loan mix has changed, with a tilt toward the retail and corporate book



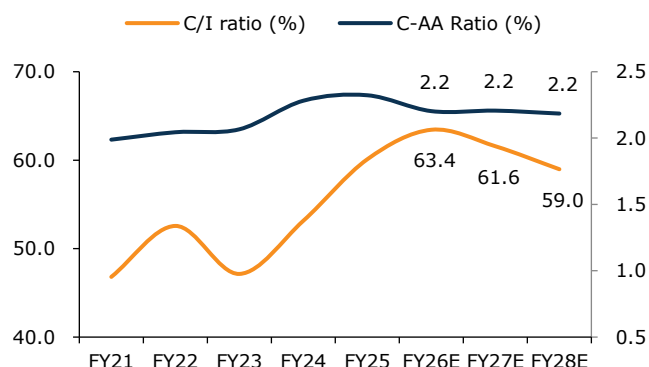
Source: Company, Emkay Research

Exhibit 3: Margin to remain range-bound at 2.8-3.0%, led by better portfolio mix and decline in CoF owing to better retail liability



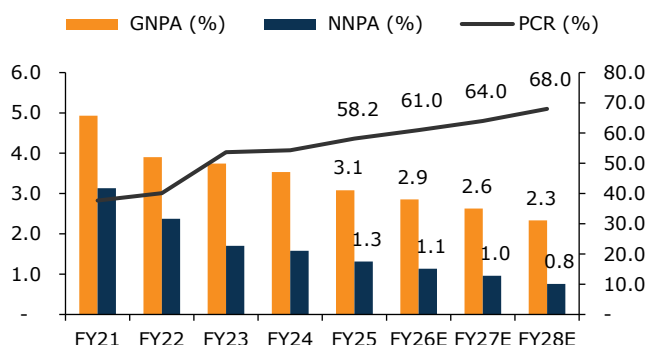
Source: Company, Emkay Research

Exhibit 4: Steady improvement in operating leverage should protect RoA



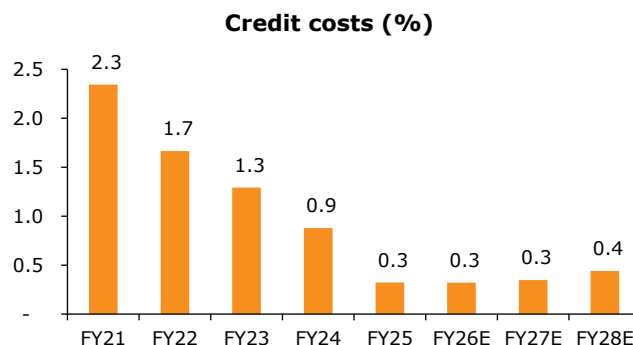
Source: Company, Emkay Research

Exhibit 5: Asset quality continues to steadily improve, while PCR is inching up gradually...

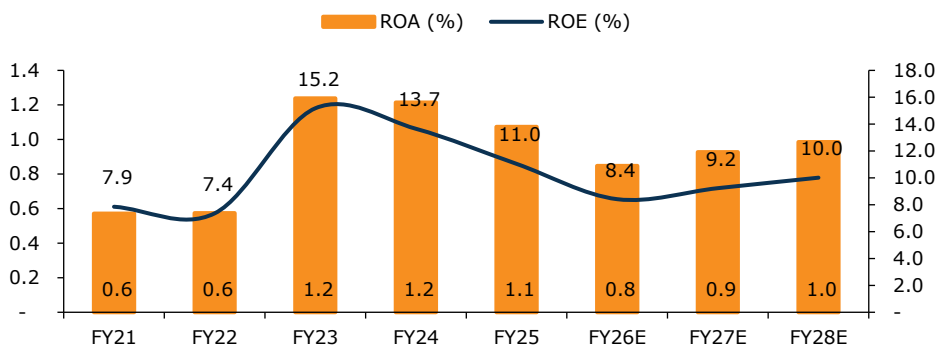


Source: Company, Emkay Research

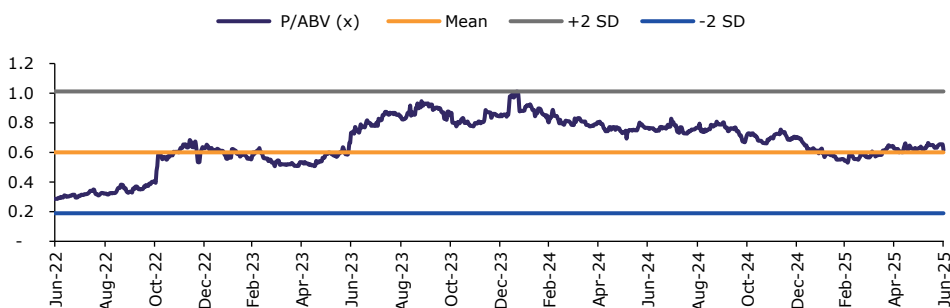
Exhibit 6: ...which should lead to contained credit costs



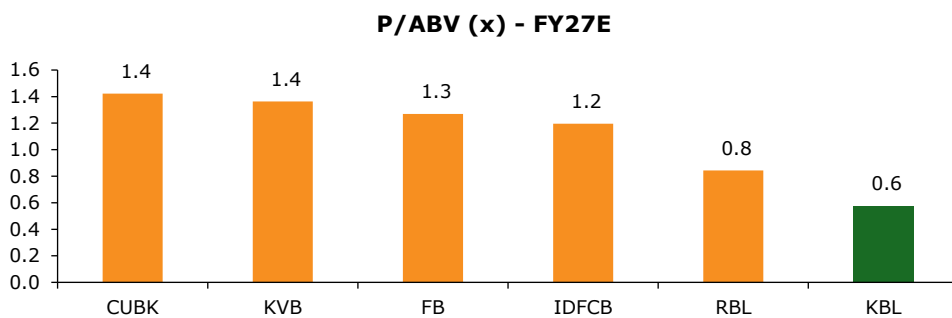
Source: Company, Emkay Research

Exhibit 7: Improvement in margins and operating leverage, and contained credit costs, would aid the healthy RoA/RoE trajectory

Source: Emkay Research

Exhibit 8: The stock currently trades at 0.6x 1Y forward ABV...

Source: Bloomberg, Emkay Research

Exhibit 9: ... and at in-expensive valuations compared with peers

Source: Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	45,938	43,436	-5.4%	51,447	48,438	-5.8%	58,812	55,466	-5.7%
PPOP	17,911	15,881	-11.3%	21,050	18,612	-11.6%	25,340	22,755	-10.2%
PAT	12,145	10,603	-12.7%	13,585	12,530	-7.8%	15,783	14,760	-6.5%
EPS (Rs)	32.1	28.1	-12.7%	35.9	33.2	-7.8%	41.8	39.1	-6.5%
BV (Rs)	333.7	329.6	-1.2%	363.7	356.8	-1.9%	398.9	389.3	-2.4%

Source: Company, Emkay Research

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June 30, 2025| 3

Karnataka Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	82,985	90,136	88,084	93,020	100,080
Interest Expense	49,998	57,032	57,376	58,458	60,263
Net interest income	32,987	33,104	30,708	34,562	39,817
NII growth (%)	3.6	0.4	(7.2)	12.6	15.2
Other income	13,189	12,695	12,728	13,875	15,649
Total Income	46,177	45,799	43,436	48,438	55,466
Operating expenses	24,543	27,529	27,555	29,826	32,711
PPOP	21,633	18,270	15,881	18,612	22,755
PPOP growth (%)	(2.0)	(15.5)	(13.1)	17.2	22.3
Core PPOP	20,498	17,290	14,607	17,083	20,997
Provisions & contingencies	6,006	1,864	2,287	2,547	3,832
PBT	15,627	16,406	13,594	16,065	18,923
Extraordinary items	3	0	0	0	0
Tax expense	2,565	3,682	2,991	3,534	4,163
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	13,060	12,724	10,603	12,530	14,760
PAT growth (%)	10.7	(2.6)	(16.7)	18.2	17.8
Adjusted PAT	13,063	12,724	10,603	12,530	14,760
Diluted EPS (Rs)	37.9	33.7	28.1	33.2	39.1
Diluted EPS growth (%)	0.1	(11.0)	(16.7)	18.2	17.8
DPS (Rs)	6.0	5.0	5.5	6.0	6.5
Dividend payout (%)	15.9	14.9	19.6	18.1	16.6
Effective tax rate (%)	16.4	22.4	22.0	22.0	22.0
Net interest margins (%)	3.5	3.1	2.8	2.9	3.0
Cost-income ratio (%)	53.2	60.1	63.4	61.6	59.0
Shares outstanding (mn)	377.3	378.0	378.0	378.0	378.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	25,784	24,021	23,830	24,105	24,419
Net NPLs	11,292	10,046	9,294	8,678	7,814
GNPA ratio (%)	3.5	3.1	2.9	2.6	2.3
NNPA ratio (%)	1.6	1.3	1.1	1.0	0.8
Provision coverage (%)	54.3	58.2	61.0	64.0	68.0
Gross slippages	16,502	12,068	10,848	9,179	10,464
Gross slippage ratio (%)	2.7	1.7	1.3	1.0	1.0
LLP ratio (%)	0.9	0.3	0.3	0.3	0.4
NNPA to networth (%)	10.4	8.3	7.1	6.2	5.1
Capital adequacy					
Total CAR (%)	18.0	19.9	17.7	17.4	16.9
Tier-1 (%)	16.2	18.4	16.2	16.0	15.6
CET-1 (%)	16.2	18.4	16.2	16.0	15.6
RWA-to-Total Assets (%)	53.9	54.0	59.5	59.7	59.4
Miscellaneous					
Total income growth (%)	17.1	6.9	(2.0)	6.0	8.3
Opex growth (%)	24.6	12.2	0.1	8.2	9.7
Core PPOP growth (%)	(6.4)	(15.6)	(15.5)	17.0	22.9
PPOP margin (%)	22.5	17.8	15.8	17.4	19.7
PAT/PPOP (%)	60.4	69.6	66.8	67.3	64.9
LLP-to-Core PPOP (%)	29.3	10.8	15.7	14.9	18.3
Yield on advances (%)	10.1	9.6	8.8	8.7	8.3
Cost of funds (%)	5.2	5.5	5.2	4.9	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,773	3,780	3,780	3,780	3,780
Reserves & surplus	104,712	117,074	125,358	135,393	147,480
Net worth	108,485	120,853	129,138	139,173	151,260
Deposits	980,578	1,048,075	1,125,484	1,231,868	1,382,968
Borrowings	43,995	19,406	21,866	24,696	27,951
Interest bearing liab.	1,024,574	1,067,480	1,147,350	1,256,564	1,410,918
Other liabilities & prov.	27,787	21,284	15,640	15,197	21,493
Total liabilities & equity	1,160,846	1,209,618	1,292,128	1,410,934	1,583,671
Net advances	715,086	765,415	819,916	902,470	1,029,797
Investments	243,021	245,365	256,491	280,202	313,432
Cash, other balances	79,927	79,843	80,314	84,818	91,710
Interest earning assets	1,038,034	1,090,623	1,156,721	1,267,490	1,434,939
Fixed assets	9,146	9,905	10,401	10,921	11,467
Other assets	113,665	109,089	125,006	132,524	137,265
Total assets	1,160,846	1,209,618	1,292,128	1,410,934	1,583,671
BVPS (Rs)	274.2	307.1	329.6	356.8	389.3
Adj. BVPS (INR)	249.2	286.5	310.4	338.9	373.2
Gross advances	729,579	779,390	834,452	917,897	1,046,403
Credit to deposit (%)	72.9	73.0	72.9	73.3	74.5
CASA ratio (%)	32.0	31.8	31.4	31.6	32.4
Cost of deposits (%)	5.2	5.4	5.2	4.9	4.5
Loans-to-Assets (%)	61.6	63.3	63.5	64.0	65.0
Net advances growth (%)	19.3	7.0	7.1	10.1	14.1
Deposit growth (%)	12.2	6.9	7.4	9.5	12.3
Book value growth (%)	11.2	12.0	7.3	8.2	9.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	5.2	5.8	7.0	5.9	5.0
P/B (x)	0.7	0.6	0.6	0.5	0.5
P/ABV (x)	0.8	0.7	0.6	0.6	0.5
P/PPOP (x)	3.4	4.0	4.1	3.5	2.9
Dividend yield (%)	3.1	2.6	2.8	3.1	3.3
DuPont-RoE split (%)					
NII/avg assets	3.1	2.8	2.5	2.6	2.7
Other income	1.2	1.1	1.0	1.0	1.0
Fee income	0.9	0.9	0.8	0.8	0.9
Opex	2.3	2.3	2.2	2.2	2.2
PPOP	2.0	1.5	1.3	1.4	1.5
Core PPOP	1.9	1.5	1.2	1.3	1.4
Provisions	0.6	0.2	0.2	0.2	0.3
Tax expense	0.2	0.3	0.2	0.3	0.3
RoA (%)	1.2	1.1	0.8	0.9	1.0
Leverage ratio (x)	11.9	10.8	10.4	10.4	10.6
RoE (%)	13.7	11.0	8.4	9.2	10.0

Quarterly data					
Rs mn	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
NII	8,340	9,034	8,336	7,928	7,807
NIM (%)	3.3	3.5	3.2	3.0	3.0
PPOP	4,998	5,586	4,604	4,331	3,750
PAT	2,742	4,003	3,361	2,836	2,524
EPS (Rs)	7.9	10.6	8.9	7.5	6.7

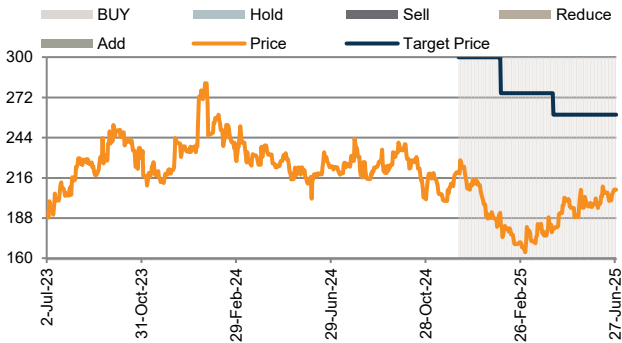
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
15-May-25	200	260	Buy	Anand Dama
09-Apr-25	181	260	Buy	Anand Dama
01-Feb-25	183	275	Buy	Anand Dama
09-Dec-24	220	300	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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