India I Equities

Financials

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

24 July 2025

Karur Vysya Bank

Decent quarter, expected to generate 15%+ RoE; Buy

Rating: **Buy**
Target Price (12-mth): Rs.338
Share Price: Rs.271

Lower margins were counterbalanced by lower opex and provisions, which kept Karur Vysya Bank's profitability robust, with 1.73% RoA (stable q/q). Headline asset quality improved, with GNPA at 0.66% (down 10bps q/q) and NNPA at 0.19% (down 1bps q/q). Key positives were 1) slippages <1% (0.9% of loans), 2) the lowest stress pipeline of peers (SMA 30+ pool at 60bps), 3) strong credit growth in core retail (20% y/y) and SME (19% y/y) segments and 4) a strong balance sheet. With credit growth likely higher than the system and modest credit costs, earnings are expected to be good. We retain our Buy, with a 12-mth TP of Rs338, 1.5x P/ABV on the FY28e book.

Slippage run-rate less than 1% of loans. GNPA declined 10bps q/q on modest slippages and higher write-offs. Q1 slippages were Rs1.9bn (~0.9% of loans), more than those of the prior quarter but within the guided-to range. For a bank where a third of the book is SME-focused, maintaining a slippage rate below 1% is commendable in our view. The standard restructured book was Rs5.1bn (down 5.8% q/q), 0.57% of loans. Overall SMA 30+ was Rs5.4bn (0.6% of loans), among the lowest of peers. With most of the stress already delinquent, near-term net slippages are likely to be negative. We expect GNPA to hold below 1% in the medium term.

RoE to be >15%. NIM declined 19bps q/q on account of the repo-cut. We believe it would continue under pressure in the next quarter, then stabilize. Decent credit growth (13-14%), combined with strong margins (>3.8%) and favourable credit costs (<1%) would lead to strong medium-term profitability. We estimate ~1.6% RoA and ~15% RoE through FY26-28.

Valuation. Our TP of Rs338 is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on its FY28e book. **Risks:** Lumpy slippages from the corporate book; stress in the SME book.

Key financials (YE Mar)	FY24	FY25	FY26e	FY27e	FY28e
Net interest income (Rs m)	38,092	42,524	45,473	51,613	58,795
Pre-provisioning profit (Rs m)	28,291	32,123	34,936	39,669	45,132
Provisions (Rs m)	7,290	6,216	7,157	9,141	10,421
PAT (Rs m)	16,048	19,416	20,778	22,834	25,964
EPS (Rs)	20.0	24.1	25.8	28.4	32.2
NIM (%)	4.3	4.2	4.0	4.0	4.0
Cost-income (%)	48.3	47.2	46.5	46.3	46.1
RoE (%)	17.2	17.7	16.2	15.4	15.3
RoA (%)	1.6	1.7	1.6	1.6	1.6
Advances growth (%)	16.7	14.0	13.0	14.0	14.0
GNPA (%)	1.4	0.8	0.7	0.7	0.7
CAR (%)	16.8	18.2	18.5	18.5	18.8
P/E (x)	13.6	11.2	10.5	9.5	8.4
P / BV (x)	2.2	1.8	1.6	1.4	1.2
P / ABV (x)	2.2	1.8	1.6	1.4	1.2

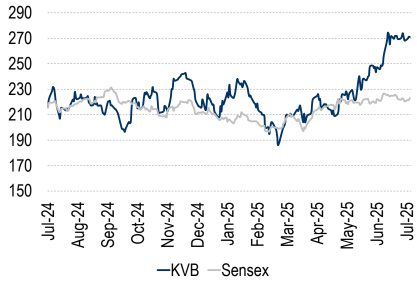
Source: Company, Anand Rathi Research

Key data	KVB IN / KARU.BO
52-week high / low	Rs.278 / 184
Sensex / Nifty	82,184 / 25,062
Market cap	Rs.218bn
Shares outstanding	805m

Shareholding pattern (%)	Jun'25	Mar'25	Dec'24
Promoters	2.1	2.1	2.1
- *of which, Pledged*	3.7	3.7	4.7
Free float	97.9	97.9	97.9
- Foreign institutions	15.4	15.1	14.2
- Domestic institutions	39.5	38.9	38.5
- Public	43.0	43.9	45.2

Estimates revision (%)	FY26e	FY27e
NII	0.0	(0.0)
PPOP	4.6	2.6
PAT	5.8	3.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Net interest income	38,092	42,524	45,473	51,613	58,795
NII growth (%)	13.7	11.6	6.9	13.5	13.9
Non-interest income	16,587	18,371	19,841	22,222	24,888
Income	54,679	60,895	65,314	73,834	83,684
Income growth (%)	21.3	11.4	7.3	13.0	13.3
Operating expenses	26,388	28,771	30,378	34,166	38,551
PPoP	28,291	32,123	34,936	39,669	45,132
PPoP growth (%)	14.3	13.5	8.8	13.5	13.8
Provisions	7,290	6,216	7,157	9,141	10,421
PBT	21,002	25,907	27,778	30,527	34,711
Tax	4,954	6,491	7,000	7,693	8,747
PAT	16,048	19,416	20,778	22,834	25,964
PAT growth (%)	45.1	21.0	7.0	9.9	13.7
EPS (Rs)	20.0	24.1	25.8	28.4	32.2
DPS (Rs)	2.4	2.6	2.8	3.1	3.5

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band

Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	1,609	1,610	1,610	1,610	1,610
Reserves & surplus	98,792	1,17,685	1,36,178	1,56,500	1,79,609
Deposits	8,91,127	10,20,780	11,43,273	12,91,899	14,59,846
Borrowings	24,784	12,170	12,778	13,417	14,088
Other liabilities	39,540	41,429	44,012	45,871	48,153
Total liabilities	**10,55,852**	**11,93,674**	**13,37,851**	**15,09,298**	**17,03,306**
Advances	7,36,675	8,40,045	9,49,251	10,82,146	12,33,647
Investments	2,23,435	2,38,313	2,62,144	2,88,358	3,17,194
Cash & bank balance	56,586	78,067	87,345	97,727	1,09,344
Fixed & other assets	39,156	37,249	39,112	41,067	43,120
Total assets	**10,55,852**	**11,93,674**	**13,37,851**	**15,09,298**	**17,03,306**
No. of shares (m)	804	805	805	805	805
Deposit growth (%)	16.3	14.5	12.0	13.0	13.0
Advances growth (%)	16.7	14.0	13.0	14.0	14.0

Source: Company, Anand Rathi Research

Fig 5 – One-year-forward price-to-book value

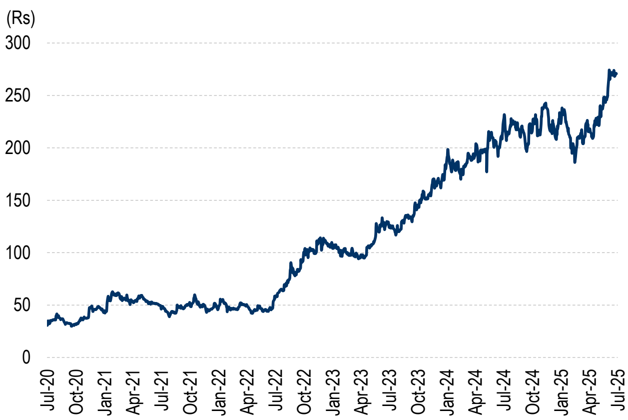
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis, %

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
NIM	4.3	4.2	4.0	4.0	4.0
Other inc. / total inc.	30.3	30.2	30.4	30.1	29.7
Cost-income	48.3	47.2	46.5	46.3	46.1
Provision coverage	71.4	74.1	75.0	75.0	75.0
Dividend payout	12.0	10.8	11.0	11.0	11.0
Credit-deposit	82.7	82.3	83.0	83.8	84.5
Investment-deposit	25.1	23.3	22.9	22.3	21.7
Gross NPA	1.4	0.8	0.7	0.7	0.7
Net NPA	0.4	0.2	0.2	0.2	0.2
BV (Rs)	124.8	148.2	171.1	196.4	225.1
Adj. BV (Rs)	122.2	146.7	169.7	194.8	223.2
CAR	16.8	18.2	18.5	18.5	18.8
- Tier 1	15.5	17.1	17.6	17.7	18.1
RoE	17.2	17.7	16.2	15.4	15.3
RoA	1.6	1.7	1.6	1.6	1.6

Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
Interest income	16,952	17,683	18,829	19,971	21,394	21,846	22,845	23,840	24,860	25,159	25,686
Interest expense	8,062	8,757	9,858	10,817	11,381	11,891	12,602	13,241	14,072	14,267	14,892
NII	**8,890**	**8,926**	**8,971**	**9,154**	**10,013**	**9,955**	**10,244**	**10,600**	**10,788**	**10,893**	**10,794**
Y/Y growth (%)	*29.4*	*25.7*	*20.3*	*11.4*	*12.6*	*11.5*	*14.2*	*15.8*	*7.7*	*9.4*	*5.4*
Non-interest income	3,175	4,008	3,332	3,389	3,578	6,289	3,884	4,720	4,674	5,093	4,473
Total income	**12,065**	**12,934**	**12,302**	**12,543**	**13,591**	**16,243**	**14,127**	**15,320**	**15,462**	**15,986**	**15,266**
Y/Y growth (%)	*36.7*	*41.3*	*30.2*	*18.0*	*12.6*	*25.6*	*14.8*	*22.1*	*13.8*	*-1.6*	*8.1*
Operating expenses	5,175	5,543	5,818	6,164	6,832	7,574	6,669	7,157	7,310	7,636	7,211
Of which, staff cost	2,557	2,807	3,189	3,276	3,747	4,398	3,335	3,570	3,738	3,849	3,649
PPoP	**6,890**	**7,391**	**6,484**	**6,379**	**6,759**	**8,669**	**7,459**	**8,162**	**8,153**	**8,350**	**8,055**
Y/Y growth (%)	*71.6*	*67.5*	*36.4*	*11.5*	*-1.9*	*17.3*	*15.0*	*28.0*	*20.6*	*-3.7*	*8.0*
Total provisions	3,641	2,930	1,594	1,264	1,497	2,934	1,329	1,798	1,474	1,614	1,181
PBT	**3,249**	**4,460**	**4,890**	**5,115**	**5,262**	**5,735**	**6,129**	**6,364**	**6,678**	**6,736**	**6,874**
Tax	356	1,082	1,304	1,331	1,146	1,174	1,543	1,628	1,718	1,602	1,659
PAT	**2,893**	**3,378**	**3,586**	**3,785**	**4,116**	**4,561**	**4,587**	**4,736**	**4,960**	**5,134**	**5,215**
Y/Y growth (%)	*56.0*	*58.3*	*56.8*	*51.2*	*42.3*	*35.0*	*27.9*	*25.1*	*20.5*	*12.6*	*13.7*

Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs m)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
Equity capital	1,600	1,604	1,600	1,605	1,610	1,609	1,610	1,610	1,610	1,610	1,610
Reserves & surplus	80,800	84,236	87,840	90,024	94,180	98,792	104,240	107,397	112,310	117,685	122,850
Deposits	761,750	766,376	807,150	830,685	856,650	891,127	923,490	958,385	991,550	1,020,780	1,066,500
Borrowings	14,730	14,320	15,550	25,879	29,930	24,784	21,130	14,180	15,630	12,170	18,430
Other liabilities	31,250	35,258	33,930	36,157	46,310	39,541	38,270	44,159	42,630	41,429	44,320
Equity and liabilities	**890,130**	**901,794**	**946,070**	**984,349**	**1,028,680**	**1,055,852**	**1,088,740**	**1,125,731**	**1,163,730**	**1,193,674**	**1,253,710**
Deposits y/y growth (%)	*13.9*	*11.6*	*13.4*	*12.8*	*12.5*	*16.3*	*14.4*	*15.4*	*15.7*	*14.5*	*15.5*
Deposits q/q growth (%)	*3.5*	*0.6*	*5.3*	*2.9*	*3.1*	*4.0*	*3.6*	*3.8*	*3.5*	*2.9*	*4.5*
Assets											
Cash and cash balances	44,020	42,795	51,980	46,142	53,010	55,879	53,250	54,571	50,460	73,542	67,120
Advances	617,090	631,341	659,730	695,074	717,980	736,675	769,650	796,188	823,020	840,045	889,440
Investments	187,260	188,083	200,540	208,345	209,270	223,435	226,570	232,138	249,600	238,313	254,000
Other assets	26,920	35,418	31,110	32,030	45,530	39,156	38,230	40,532	37,240	37,249	37,620
Total Assets	**890,130**	**901,794**	**946,070**	**984,349**	**1,028,680**	**1,055,852**	**1,088,740**	**1,125,731**	**1,163,730**	**1,193,674**	**1,253,710**
Advances y/y growth (%)	*15.9*	*14.1*	*14.6*	*15.5*	*16.3*	*16.7*	*16.7*	*14.5*	*14.6*	*14.0*	*15.6*
Advances q/q growth (%)	*2.6*	*2.3*	*4.5*	*5.4*	*3.3*	*2.6*	*4.5*	*3.4*	*3.4*	*2.1*	*5.9*

Source: Company, Anand Rathi Research

Fig 9 – Movement of GNPA

GNPA	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
Opening balance (Rs m)	14,582	13,300	12,190	11,519	10,416	10,245	8,856	6,909	6,418
Slippages (Rs m)	1,500	1,550	1,970	2,010	1,740	1,810	1,390	1,790	1,880
Gross slippage ratio (%)	*1.0*	*0.9*	*1.1*	*1.1*	*0.9*	*0.9*	*0.7*	*0.9*	*0.9*
Reductions (Rs m)	2,780	2,660	2,640	3,110	1,910	3,200	3,330	2,280	2,370
Closing balance (Rs m)	**13,297**	**12,191**	**11,519**	**10,416**	**10,245**	**8,856**	**6,909**	**6,418**	**5,926**
GNPA (%)	*2.0*	*1.7*	*1.6*	*1.4*	*1.3*	*1.1*	*0.8*	*0.8*	*0.7*
NNPA (%)	*0.6*	*0.5*	*0.4*	*0.4*	*0.4*	*0.3*	*0.2*	*0.2*	*0.2*
Restructured advances (%)	*1.4*	*1.2*	*1.1*	*1.0*	*0.9*	*0.8*	*0.7*	*0.6*	*0.6*
Stressed assets (%)	*3.3*	*2.9*	*2.7*	*2.4*	*2.2*	*1.9*	*1.6*	*1.4*	*1.2*

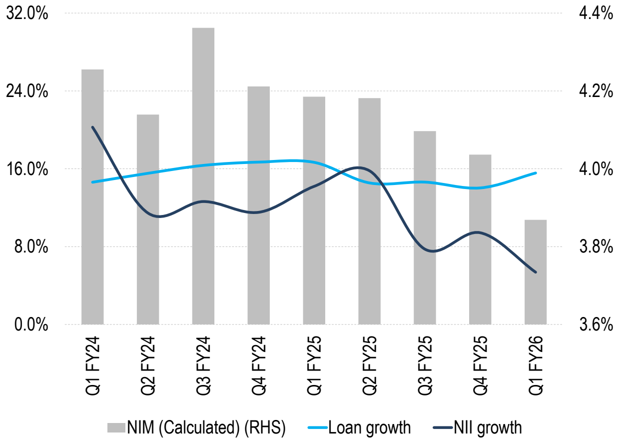
Source: Company, Anand Rathi Research

Fig 10 – Break-up of advances (%)

	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
Corporate	20.2	20.5	19.8	18.7	17.6	16.3	15.5	14.3	14.3
Commercial	33.1	33.4	33.6	34.2	34.9	35.7	36.0	36.4	36.2
Housing	10.4	10.2	10.1	10.2	10.2	10.2	10.1	10.0	9.2
Auto	1.7	1.6	1.6	1.5	1.4	1.4	1.3	1.2	1.1
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Personal	0.5	0.6	0.5	0.4	0.4	0.4	0.3	0.3	0.2
Consumer Credit-BNPL	0.5	0.6	1.3	1.4	1.4	1.3	1.2	1.0	0.9
Jewel	3.3	3.1	2.9	2.9	3.4	3.5	3.8	4.1	4.7
LAP	5.1	5.2	5.3	5.5	5.8	6.1	6.4	6.5	7.4
Other Retail	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.5
Farm	23.3	23.1	23.2	23.3	23.3	23.5	23.8	24.6	24.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

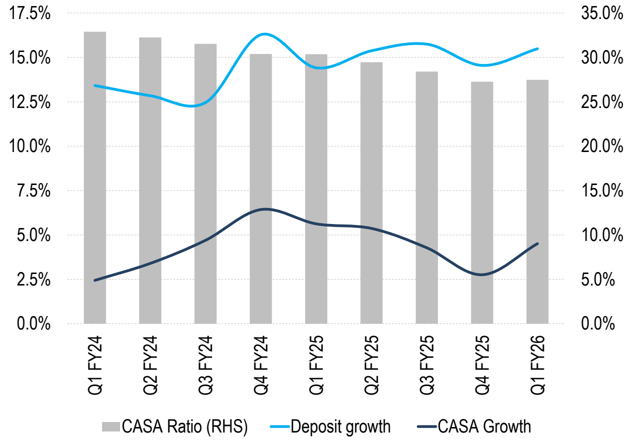
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NIM



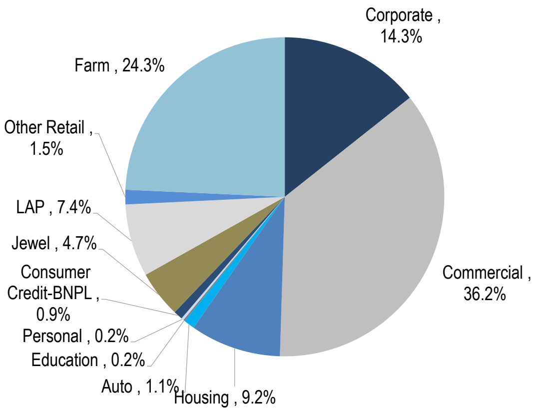
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth



Source: Company, Anand Rathi Research

Fig 13 – Loan break-up

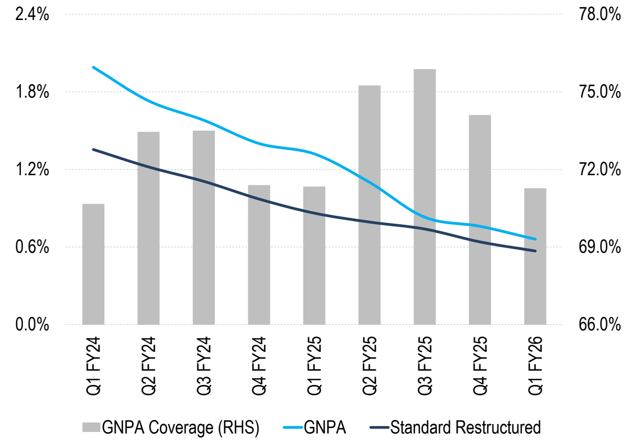


Source: Company, Anand Rathi Research

Fig 14 – Income vs. Opex growth

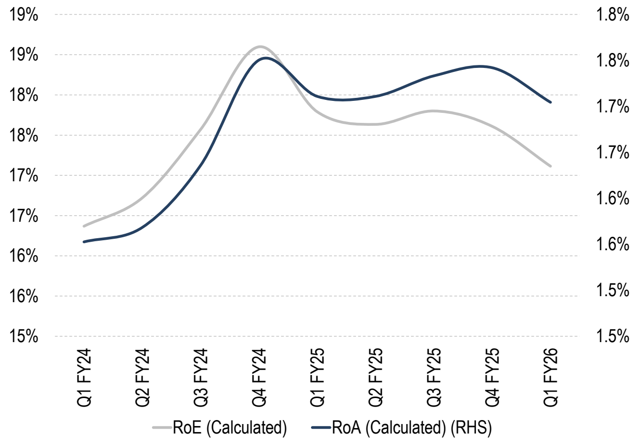
Source: Company, Anand Rathi Research

Fig 15 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 16 – RoE vs. RoA



Source: Company, Anand Rathi Research

Valuation

Our Rs338 target price is based on the two-stage DDM model. This implies a ~1.5x P/ABV multiple on the FY28e book.

We are sanguine regarding the bank's loan growth potential, largely driven by its retail and commercial books.

Fig 17 – Change in estimates

	FY26e			FY27e		
(Rs m)	New	Old	Chg %	New	Old	Chg %
Net interest income	45,473	45,473	0.0	51,613	51,613	(0.0)
Pre-provisioning profit	34,936	33,404	4.6	39,669	38,657	2.6
PAT	20,778	19,633	5.8	22,834	22,077	3.4

Source: Anand Rathi Research

Risks

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

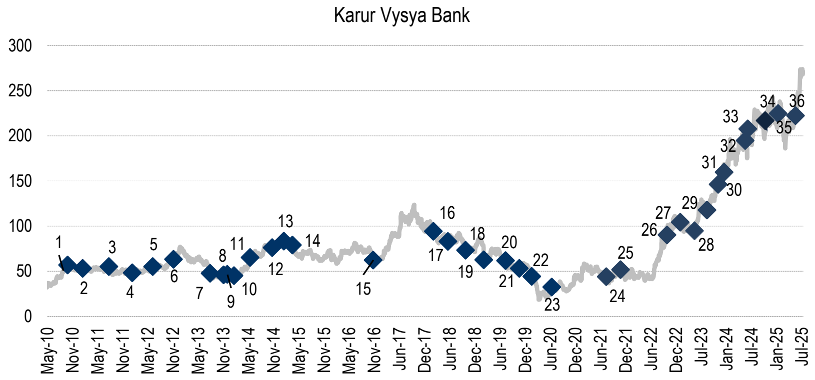
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 24 July 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
21	02-Nov-19	**Buy**	82	55
22	03-Feb-20	**Buy**	66	48
23	01-Jun-21	**Buy**	75	56
24	09-Aug-21	**Buy**	65	46
25	09-Nov-21	**Buy**	70	56
26	21-Oct-22	**Buy**	115	91
27	23-Jan-23	**Buy**	135	108
28	15-May-23	**Buy**	146	98
29	17-Jul-23	**Buy**	162	127
30	16-Oct-23	**Buy**	172	138
31	23-Jan-24	**Buy**	230	186
32	13-May-24	**Buy**	235	188
33	18-Jul-24	**Buy**	259	206
34	17-Oct-24	**Buy**	290	217
35	20-Jan-25	**Buy**	288	227
36	19-May-25	**Buy**	226	282

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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