

Karur Vysya Bank Ltd

Elevated corporate slippages a one off

Our view - Corporate book not to throw up any more negative surprises

Asset Quality – Gross slippages rose materially on sequential basis due to one off corporate slippages: Gross NPA additions amounted to Rs. 3.5bn for 2QFY26, translating to an annualized slippage ratio of 1.5% for the quarter. Slippages were elevated due to 2 lumpy corporate slippages worth Rs 2.18bn, which have been materially provided for during the quarter itself. There is no other stressed account in the corporate book and the SMA30 plus book is currently nil. There was also a large recovery worth Rs 2.95bn from written off accounts during the quarter. Provisions were Rs 2.77bn, up by 132.2% QoQ and 52.6% YoY, translating to calculated annualised all-inclusive credit cost of 121bps. NPA provisions were Rs 2.61bn, of which Rs 1.86bn was due to the 2 lumpy corporate slippages.

Net Interest Margin – Like for like NIM expectedly contracted on sequential basis but management was able to reiterate guidance: NIM was at 3.77%, down -9bps QoQ and -35bps YoY. This NIM figure excludes the impact from the large recovery from technically written off accounts. Yield on Advances for 2Q was down by -24bps QoQ and cost of deposits was down by -17bps QoQ. Repricing of term deposits will enable 10 bps reduction in the cost of deposits in 3Q. NIM to be around 3.7-3.75% in FY26 which is a reiteration of prior guidance.

Balance sheet growth – Loan growth outcome remained healthy and management guided for reasonable growth: The gross advances for the bank stood at Rs. 938 bn, up by 5.0% QoQ and 16.8% YoY. Retail segment was up 6.6% QoQ and 22% YoY. Management guided that the bank will grow its advances by 2% points above the industry-level growth in FY26.

We maintain 'Buy' rating on KVB with a revised price target of Rs 275: We value KVB at 1.7x FY27E P/BV for an FY26E/FY27E/28E RoE profile of 14.4%/15.0%/15.8%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **Opex control:** Total cost to income ratio was at 42.6% down -460/-408bps QoQ/YoY and the Cost to assets was at 2.4% up/down by 1/-22bps QoQ/YoY.
- **Fee income:** Core fee income to average assets was at 0.8%, down -3/-5bps QoQ/YoY.

Exhibit 1: Result table

Particulars (Rs mn)	Q2FY26	Q1FY26	% qoq	Q2FY25	% yoy
Total Interest Income	28,079	25,686	9.3	23,840	17.8
Interest Expense	(15,468)	(14,892)	3.9	(13,241)	16.8
Net Interest Income	12,611	10,794	16.8	10,600	19.0
Fee Income	2,530	2,510	0.8	2,320	9.1
Non-fee Income	2,593	1,963	32.1	2,400	8.0
Total Non-Interest Income	5,123	4,473	14.5	4,720	8.5
Total Income	17,734	15,266	16.2	15,320	15.8
Employee Expense	(3,651)	(3,649)	0.1	(3,570)	2.3
Non-employee Opex	(3,910)	(3,562)	9.8	(3,587)	9.0
Total Operating expenses	(7,561)	(7,211)	4.9	(7,157)	5.6
PPOP	10,173	8,055	26.3	8,162	24.6
Provisions	(2,744)	(1,181)	132.2	(1,798)	52.6
PBT	7,429	6,874	8.1	6,364	16.7
Tax	(1,691)	(1,659)	1.9	(1,628)	3.8
PAT	5,739	5,215	10.1	4,736	21.2

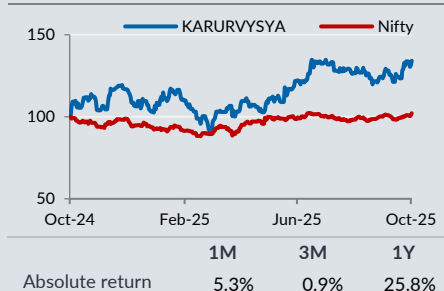
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 227
Target Price	: Rs 274
Potential Return	: +21%

Stock data (as on October 17, 2025)

Nifty	25,710
52 Week h/l (Rs)	232 / 155
Market cap (Rs/USD mn)	218887 / 2487
Outstanding Shares (mn)	966
6m Avg t/o (Rs mn):	585
Div yield (%):	1.0
Bloomberg code:	KVB IN
NSE code:	KARURVYSYA

Stock performance



Shareholding pattern (As of Jun'25 end)

Promoter	2.1%
FII+DII	54.9%
Others	43.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	275	265

Financial Summary

(Rs mn)	FY26E	FY27E	FY28E
NII	44,823	52,260	61,004
PPOP	31,685	37,452	44,792
Net Profit	18,424	21,978	26,623
Growth (%)	-5.1	19.3	21.1
EPS (Rs)	19.1	22.7	27.6
BVPS (Rs)	141	162	187
P/E (x)	11.9	10.0	8.2
P/BV (x)	1.6	1.4	1.2
ROE (%)	14.4	15.0	15.8
ROA (%)	1.4	1.5	1.6
Tier-1 (%)	16.2	15.8	15.5

in earnings estimates

Rs. bn	FY26E	FY27E	FY28E
EPS (New)	19.1	22.7	27.6
EPS (Old)	19.3	23.1	27.1
% change	-1.1%	-1.6%	1.9%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs. 3.5bn for 2QFY26, translating to an annualized slippage ratio of 1.5% for the quarter. (Gross NPA additions had amounted to Rs. 1.88bn during 1QFY26.)
 - Slippages were elevated due to 2 lumpy corporate slippages worth Rs 2.18bn, which have been materially provided for during the quarter itself.
 - **More on corporate asset quality**
 - **Overall prospective outlook**
 - There is no other stressed account in the corporate book and the SMA30 plus book is currently nil.
 - Management does not expect any hit from the corporate book in the second half.
 - **Nature of accounts that slipped**
 - The large accounts that slipped were also in the stress pipeline and part of the SMA book as of June.
 - These accounts have nothing do with the United States and related aspects.
 - Exposure to the US is small and should not create any issues for the bank.
 - **Overall Slippage Guidance**
 - Gross slippage ratio to be below 1.0% in FY26.
- **Recoveries and Upgrades**
 - Recoveries and upgrades (from live accounts) amounted to Rs. 0.84bn for 2QFY26, implying net NPA addition of Rs. 2.66bn for the quarter.
 - There was a large recovery worth Rs 2.95bn from written off accounts, due to which Rs 1.56bn went into other income and Rs 1.39bn went into interest income.
 - The total recovery was Rs 3.44bn, of which Rs 2.05bn went into other income and Rs 1.39bn went into interest income.
 - Management stated that the bank would be able to recover Rs 6bn like last year by March.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 2.77bn, up by 132.2% QoQ and 52.6% YoY, translating to calculated annualised all-inclusive credit cost of 121bps.
 - **Breakup of provisions**
 - NPA provisions – Rs 2.61bn, of which Rs 1.86bn was due to the 2 lumpy corporate slippages
 - Standard asset provisions – Rs 0.1bn
 - Restructured book provisions – Reversal of Rs 0.18bn
 - **Credit cost**
 - Specific credit cost for the quarter was 27 bps on non-annualised basis and will normalise lower going forward.
 - **ECL considerations**
 - The bank had started to prepare for ECL 1.5 years and management does not see the same impacting the bank adversely.
 - Management does not see provisioning levels rise for the bank due to ECL.

(Con call takeaways continue on the next page)

- **GNPA ratio**
 - GNPA ratio stands at 0.84%, up by 10bps QoQ but down -34bps YoY while NNPA ratio stands at 0.20%, flat QoQ but down -9bps YoY.
 - **Guidance**
 - The GNPA will be below 1.5% and NNPA will be below 1.0% in FY26.
- **Restructured book**
 - Standard Restructured book stood at around Rs. 4.68bn or 0.50% of gross advances.
- **SMA**
 - The SMA 2 book was at Rs 2.52bn or 0.27% of loans Vs 0.60% in 1QFY26.

Net interest margin

- **NIM for the quarter**
 - NIM was at 3.77%, down -9bps QoQ and 35bps YoY.
 - This NIM figure excludes the impacted from the large recovery from technically written off accounts.
 - **Guidance**
 - NIM to be around 3.7-3.75% in FY26 which is a reiteration of prior guidance.
- **Cost of Deposits**
 - Cost of Deposits was at 5.60% for 2QFY26, down by -17bps QoQ.
 - Repricing of term deposits will enable 10 bps reduction in the cost of deposits in 3Q.
 - This is despite the fact that a key term deposit cost has been hiked by 20 bps since repricing (churn) of term deposits would continue till 3Q.
- **Yield on Advances**
 - Yield on Advances was at 9.76% for 2QFY26, down by -24bps QoQ.
 - **Gold loans**
 - Gold loan rates have been hiked to 10.25% for agri gold loans and 11.4% for retail gold loans.
 - Both gold loans categories have been made fixed rate.
- **Loan to Deposit Ratio**
 - The loan to deposit ratio was at 83.4% for 2QFY26.
- **Loan Mix by rate category**
 - The share of EBLR loans is 54%
 - The share of MCLR loans is 29%
 - The share of fixed rate loans is 15%.

Fee income

- Fee income will be driven by retail advances, cross sell and non-fund business.

Deposits growth

- The deposits were at Rs. 1,104 bn, up by 3.6% QoQ and 15.3% YoY.
- Term deposits grew by 3.4% QoQ and 18.2% YoY.
- CASA ratio was at 27.6%, up by 18bps QoQ.

(Con call takeaways continue on the next page)

Loan growth

- The gross advances for the bank stood at Rs. 938 bn, up by 5.0% QoQ and 16.8% YoY.
- **Segmental Growth**
 - Commercial segment was up 2.8% QoQ and 15.8% YoY.
 - Agriculture was up 4.2% QoQ and 20% YoY
 - Corporate was up 0.5% QoQ but down -1.6% YoY.
 - Including credit substitutes, corporate credit was up 5% QoQ and 7% YoY.
 - Retail was up 6.6% QoQ and 22% YoY.
 - **Retail Segmental Growth**
 - Home Loan was up by 0.7% QoQ and 1.4% YoY.
 - Mortgages (LAP) were up 12.6% QoQ and 51% YoY.
 - Jewel Loan was up 13.2% QoQ and 69% YoY.
 - BNPL was up 10% QoQ but down -12.2% YoY.
- **Priority Sector Lending**
 - The bank has met all the limits and sub-limits in priority sector lending.
- **Guidance**
 - The bank will grow its advances by 2% points above the industry-level growth in FY26.

Operating expenses

- **Total opex**
 - Total Opex, at Rs. 7.56bn, is up 4.9% QoQ and 5.6% YoY.
 - Cost to income ratio came in at 42.6%, down by -460bps QoQ and -408bps YoY.
- **Staff expenses**
 - The staff opex is up by 0.1% QoQ and 2.3% YoY.
- **Non-staff expenses**
 - Non-staff opex is up by 9.8% QoQ and 9.0% YoY.
 - **Branch expansion**
 - 7 branch was added in 1HFY26, of which 5 were light branches.
 - **Guidance**
 - The bank will add 21 more branches 2HFY26.

Capital adequacy

- The total capital adequacy ratio was at 16.6%, up by 30bps YoY.
- Tier I capital adequacy ratio was at 15.6%, up by 19bps YoY.

Return Ratio

- The return on Assets was at 1.81% in 2QY26, up 9bp QoQ
- **Guidance**
 - RoA to be maintained in the range of 1.55% to 1.65% in FY26.

Exhibit 2: Key quarterly balance sheet / business data

Particulars (Rs mn)	Q2FY26	Q1FY26	% qoq	Q2FY25	% yoy	Q2FY26*	chg qoq*	chg yoy*
Gross advances	938,040	893,740	5.0	802,990	16.8	100.0	0bps	0bps
Corporate	128,780	128,120	0.5	130,880	(1.6)	13.7	-61bps	-257bps
Commercial	332,090	323,110	2.8	286,880	15.8	35.4	-75bps	-32bps
Agriculture	226,140	217,080	4.2	188,380	20.0	24.1	-18bps	65bps
Retail (Personal Banking)	240,230	225,430	6.6	196,850	22.0	25.6	39bps	110bps
Housing loan	82,890	82,320	0.7	81,730	1.4	8.8	-37bps	-134bps
Jewel loans	48,000	42,400	13.2	28,410	69.0	5.1	37bps	158bps
Mortgage (LAP) loans	74,130	65,830	12.6	49,090	51.0	7.9	54bps	179bps
Vehicle loans	9,290	9,820	(5.4)	11,070	(16.1)	1.0	-11bps	-39bps
Consumer Credit-BNPL	9,040	8,220	10.0	10,300	(12.2)	1.0	4bps	-32bps
Personal loans	2,510	2,220	13.1	2,860	(12.2)	0.3	2bps	-9bps
Educational loans	1,480	1,420	4.2	1,500	(1.3)	0.2	0bps	-3bps
Others loans	12,890	13,200	(2.3)	11,890	8.4	1.4	-10bps	-11bps
Total deposits	1,104,916	1,066,500	3.6	958,385	15.3	100.0	0bps	0bps
CA deposits	97,760	93,920	4.1	88,410	10.6	8.8	4bps	-38bps
SA deposits	207,790	199,140	4.3	193,910	7.2	18.8	13bps	-143bps
Term deposits	799,366	773,440	3.4	676,065	18.2	72.3	-18bps	180bps
Investments	278,237	254,000	9.5	232,138	19.9	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	23.2	22.2	97bps	22.6	61bps	NA	NA	NA
Borrowings	25,166	18,430	36.5	14,180	77.5	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	2.2	1.7	53bps	1.5	77bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share.

Exhibit 3: Key quarterly ratios

(%)	Q2FY26	Q1FY26	chg qoq	Q2FY25	chg yoy
Net interest margin	3.77	3.86	-9bps	4.12	-35bps
Yield on advances	9.76	10.00	-24bps	10.08	-32bps
Cost of deposits	5.60	5.77	-17bps	5.56	4bps
Loan to Deposit ratio	83.4	83.4	3bps	83.1	36bps
Non-int. income / Total Income	28.9	29.3	-41bps	30.8	-192bps
Fee Income to Avg. Total Assets	0.8	0.8	-3bps	0.8	-5bps
Cost to Income ratio	42.6	47.2	-460bps	46.7	-408bps
Opex to Avg. Total Assets	2.4	2.4	1bps	2.6	-22bps
Credit Cost	1.2	0.5	67bps	0.9	29bps
RoA	1.8	1.7	8bps	1.7	9bps
RoE	17.9	16.8	118bps	17.4	58bps
Annualised Slippage Ratio	1.5	0.9	67bps	0.9	62bps
Provision coverage ratio	75.2	71.3	390bps	75.2	-8bps
Gross NPA	0.8	0.7	10bps	1.1	-34bps
Net NPA	0.2	0.2	0bps	0.3	-9bps
Capital adequacy ratio	16.6	17.4	-78bps	16.3	30bps
Tier I capital ratio	15.6	16.3	-75bps	15.4	19bps

Source: Company, YES Sec – Research, * Annualised Gross NPA Addition Ratio

Exhibit 4: Quarterly Actuals Vs Estimates

Q2FY26 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	12,611	11,085	13.8
Pre-Prov. Operating Profit	10,173	7,490	35.8
Profit After Tax	5,739	4,581	25.3

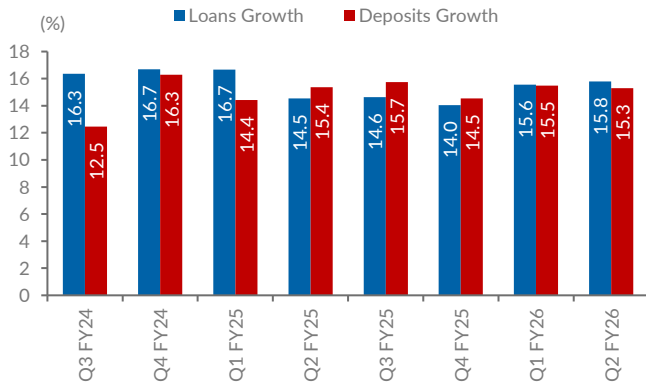
Source: Company, YES Sec – Research

Exhibit 5: Non-Interest Income Break-up

(Rs mn)	Q2FY26	Q1FY26	% qoq	Q2FY25	% yoy
Fee Income	2,530	2,510	0.8	2,320	9.1
Other Income	2,593	1,963	32.1	2,400	8.0
Total Non-Interest Income (A+B)	5,123	4,473	14.5	4,720	8.5

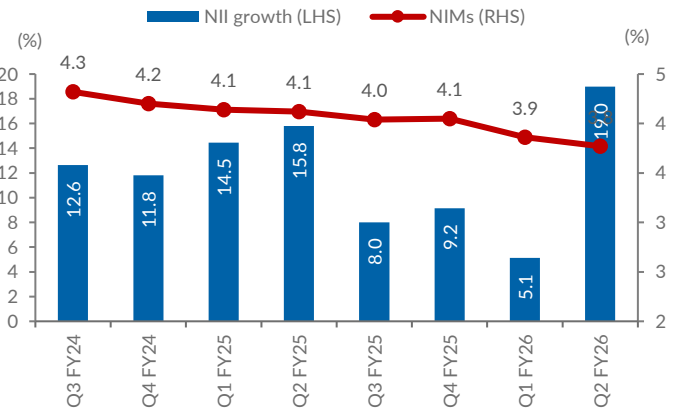
Source: Company, YES Sec – Research

Exhibit 6: Loans and Deposits growth (YoY %)



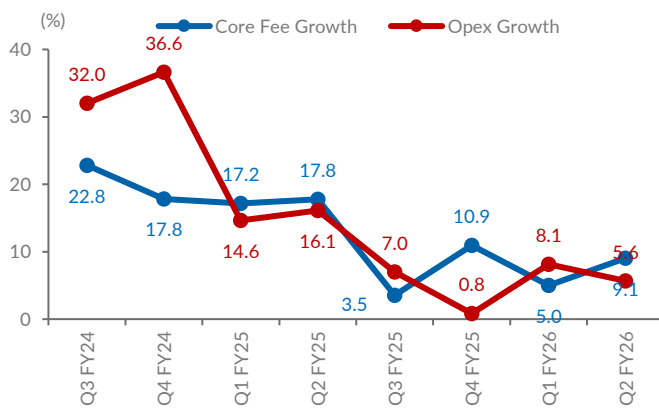
Source: Company, YES Sec – Research

Exhibit 7: NII growth (YoY %) and NIM



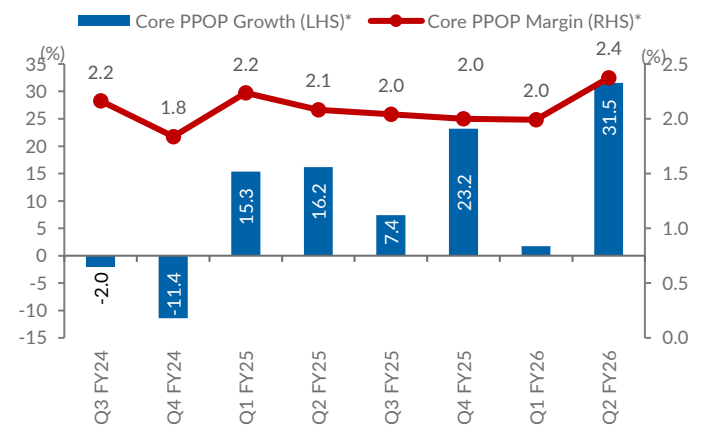
Source: Company, YES Sec – Research

Exhibit 8: Core Fee and Opex growth (YoY %)



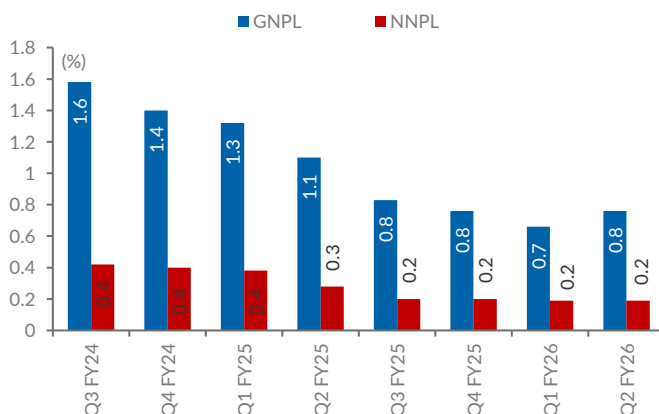
Source: Company, YES Sec – Research

Exhibit 9: Core PPOP growth (YoY %) and Core PPOP margin (%)



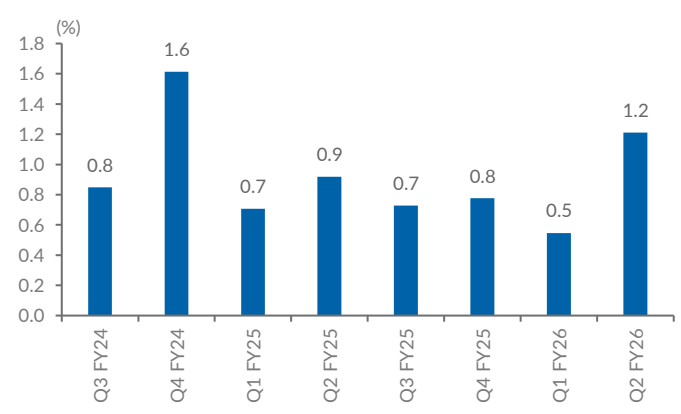
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 10: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 11: Credit Cost (%)



Source: Company, YES Sec – Research

Exhibit 12: 1-year rolling P/BV band



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 13: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

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Exhibit 14: Balance sheet

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Total cash & equivalents	56,586	78,067	74,058	85,167	97,942
Investments	223,435	238,313	271,482	312,204	359,035
Advances	736,675	840,045	974,453	1,120,621	1,288,714
Fixed assets	4,329	4,902	5,392	5,931	6,524
Other assets	33,508	32,347	38,817	46,580	55,896
Total assets	1,054,533	1,193,674	1,364,202	1,570,503	1,808,111
Net worth	100,401	119,295	135,948	156,154	181,007
Deposits	891,127	1,020,780	1,182,069	1,357,470	1,559,182
Borrowings	24,784	12,170	18,890	26,199	34,603
Other liabilities	38,221	41,429	27,295	30,680	33,319
Total liabilities incl. Equity	1,054,533	1,193,674	1,364,202	1,570,503	1,808,111

Source: Company, YES Sec – Research

Exhibit 15: Income statement

Y/e 31 Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	82,132	96,780	106,045	123,124	142,797
Interest expense	(43,947)	(54,181)	(61,222)	(70,864)	(81,793)
Net interest income	38,184	42,599	44,823	52,260	61,004
Non-interest income	16,495	18,296	19,299	21,850	25,127
Total income	54,679	60,895	64,122	74,109	86,131
Operating expenses	(26,388)	(28,771)	(32,437)	(36,657)	(41,339)
PPoP	28,291	32,123	31,685	37,452	44,792
Provisions	(7,290)	(6,216)	(7,119)	(8,149)	(9,295)
Profit before tax	21,002	25,907	24,566	29,304	35,497
Taxes	(4,954)	(6,491)	(6,141)	(7,326)	(8,874)
Net profit	16,048	19,416	18,424	21,978	26,623

Source: Company, YES Sec – Research

Exhibit 16: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	8.4	8.6	8.3	8.4	8.5
Interest expense	-4.5	-4.8	-4.8	-4.8	-4.8
Net interest income	3.9	3.8	3.5	3.6	3.6
Non-interest income	1.7	1.6	1.5	1.5	1.5
Total income	5.6	5.4	5.0	5.1	5.1
Operating expenses	-2.7	-2.6	-2.5	-2.5	-2.4
PPoP	2.9	2.9	2.5	2.6	2.7
Provisions	-0.7	-0.6	-0.6	-0.6	-0.6
Profit before tax	2.1	2.3	1.9	2.0	2.1
Taxes	-0.5	-0.6	-0.5	-0.5	-0.5
Net profit	1.6	1.7	1.4	1.5	1.6

Source: Company, YES Sec – Research

Exhibit 17: Change in Annual Estimates

Y/e 31 Mar (Rs. mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	44,823	52,260	61,004	44,545	52,444	60,012	0.6	(0.4)	1.7
Pre-Prov. Operating Profit	31,685	37,452	44,792	31,386	37,803	43,991	1.0	(0.9)	1.8
Profit after tax	18,424	21,978	26,623	18,631	22,338	26,136	(1.1)	(1.6)	1.9

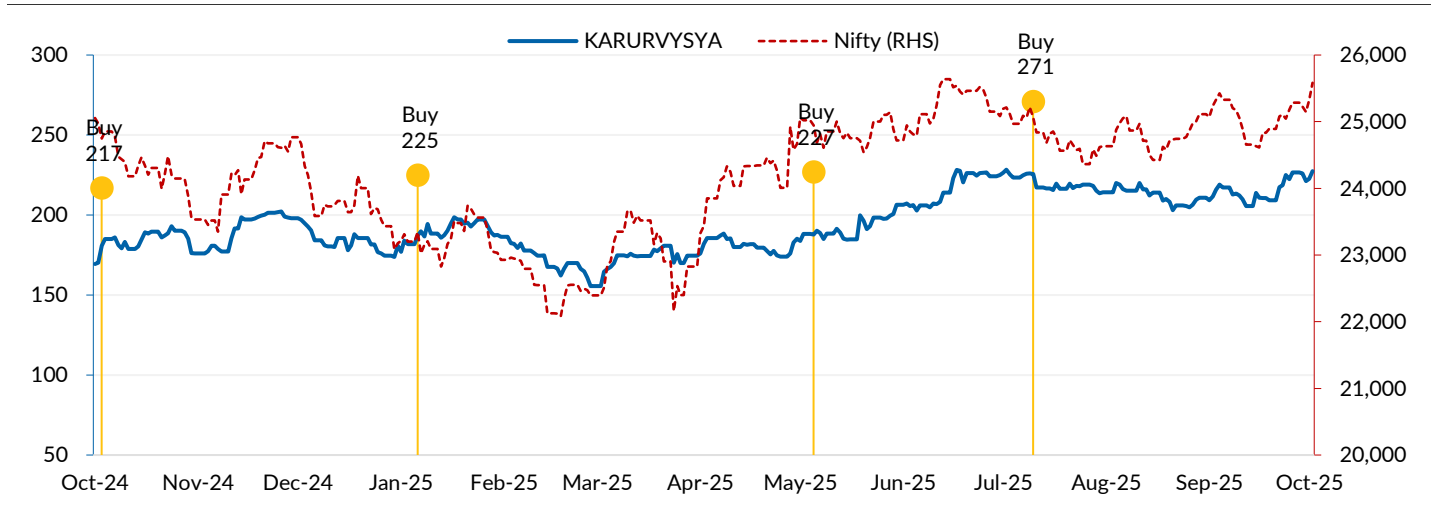
Source: Company, YES Sec – Research

Exhibit 18: Ratio analysis

Y/e 31 Mar	FY24	FY25	FY26E	FY27E	FY28E
Growth matrix (%)					
Net interest income	14.0	11.6	5.2	16.6	16.7
PPoP	14.3	13.5	-1.4	18.2	19.6
Net profit	45.1	21.0	-5.1	19.3	21.1
Loans	16.7	14.0	16.0	15.0	15.0
Deposits	16.3	14.5	15.8	14.8	14.9
Profitability Ratios (%)					
Net interest margin	4.2	4.2	3.7	3.8	3.9
Return on Average Equity	17.2	17.7	14.4	15.0	15.8
Return on Average Assets	1.6	1.7	1.4	1.5	1.6
Per share figures (Rs)					
EPS	20.0	24.1	19.1	22.7	27.6
BVPS	125	148	141	162	187
ABVPS	121	146	139	159	185
Valuation multiples					
P/E	11.4	9.4	11.9	10.0	8.2
P/BV	1.8	1.5	1.6	1.4	1.2
P/ABV	1.9	1.6	1.6	1.4	1.2
NIM internals (%)					
Yield on loans	10.0	10.2	9.8	9.9	10.0
Cost of deposits	5.1	5.5	5.4	5.4	5.4
Loan-deposit ratio	82.7	82.3	82.4	82.6	82.7
CASA ratio	30.4	27.3	27.3	27.3	27.3
Opex control (%)					
Cost/Income ratio	48.3	47.2	50.6	49.5	48.0
Cost to average assets	2.7	2.6	2.5	2.5	2.4
Capital adequacy (%)					
Tier 1 capital ratio	15.5	15.5	16.2	15.8	15.5
Asset quality (%)					
Slippage ratio	0.7	0.6	0.9	0.9	0.9
Gross NPL ratio	1.4	0.8	0.9	0.9	0.9
Credit cost	0.6	0.6	0.7	0.7	0.7
Net NPL ratio	0.4	0.2	0.2	0.2	0.2

Source: Company, YES Sec – Research;

Recommendation Tracker



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