



# Karur Vysya Bank

## Strong FY24, consistency to aid re-rating

### Core steady, other income and curtailed credit costs drive PAT beat

Karur Vysya Bank's (KVB IN) Q4FY24 PAT rose >35% YoY/ 10% QoQ to INR 4.6bn, better than estimated, aided by higher other income and curtailed credit cost despite floating provisions. Q4 saw reported NIM dip 13bps QoQ, but adjusted for one-time recovery (in Q3FY24), NIMs were up 6bps QoQ (better than estimated). Opex was high given wage and pension (including MTM) provisions hit core. Asset quality continued to be steady with curtailed slippages feeding into GNPL at 1.4% and NNPL at 40bps, at the lowest level, which is commendable. KVB has performed well this cycle and has been more consistent than peers. We believe consistency on core is the key to a sustained rerating.

### NIM better-than-expected, focus on profitability over growth

NIMs optically declined 13bps QoQ to 4.19%, but excluding one-time recovery benefit in Q3FY24 (of 19bps), NIMs improved 6bps QoQ, as the bank continued to focus on profitability. The loan growth looked lower as KVB chose to let go of some corporate portfolio (low yielding), which restricted NII (flat QoQ). Expect NIM headwinds to persists hereon with deposit costs likely to be sticky, and much will depend on the rate cycle. KVB has been aggressive on BNPL loans in Q4 (consumer credit BNPL up 16% QoQ). While this has FLDG arrangement, we remain skeptical of the strategy as it may lend to earnings volatility given product dynamics.

### Asset quality steady, credit cost seems optically high on reclassification

Slippages were curtailed at INR 2bn (1.3% on lagged loan), feeding into lower headline GNPL. Analyzing various segments, slippages seem to have broadly normalized. Credit cost seemed optically higher as KVB reclassified SR's MTM as provisions, steady otherwise. KVB in Q4 made further floating provisions of INR 250mn, taking the outstanding to INR 1bn, buffering the balance sheet. KVB has raised coverage (calculated) to +70% from 55% in FY20, lending comfort, in our view.

### Valuation: Maintain BUY with a higher TP of INR 220

KVB has overcome tough times to deliver a strong Q4. GNPL and NNPL are at the lowest level in a decade. In our view, KVB is reasonably positioned to deliver sustained return ratios, with ROA of 1.5% and ROE of 15% by FY26E – the best in the past decade. Following better revenue traction and improved NIMs, we raise FY25E/26E EPS by 10%/4%. This with roll-over to FY26E feeds into a raised TP of INR 220 (earlier INR 198) – Maintain **BUY**. That said, we believe further rerating may rather be gradual and contingent on sustained earnings consistency.

## Rating: Buy

Target Price: INR 220

Upside: 18%

CMP: INR 187 (as on 13 May 2024)

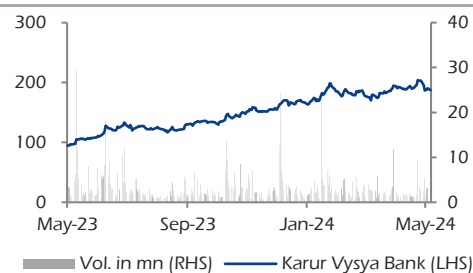
### Key data\*

Bloomberg /Reuters Code	KVB IN/KARU.BO
Current /Dil. Shares O/S (mn)	800/800
Mkt Cap (INR bn/USD mn)	150/1,792
Daily Vol. (3M NSE Avg.)	2,443,310
Face Value (INR)	2

1 USD = INR 83.5

Note: \*as on 13 May 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	2.3	2.2	2.2	2.2
Institutional Investors	38.2	50.4	49.9	51.6
Other Investors	7.6	4.8	5.7	4.9
General Public	51.9	42.5	42.1	41.3

Source: NSE

Price performance (%)	3M	6M	12M
Nifty	1.7	13.7	20.7
Karur Vysya Bank	5.4	17.9	94.5
City Union Bank	11.9	4.7	8.6
DCB Bank	0.8	13.3	11.9

Source: Bloomberg

YE March (INR mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY24	YoY (%)	Q4FY24E	Variance (%)
Operating Profit	8,669	6,759	28.3	7,391	17.3	6,307	37.4
PBT	5,735	5,262	9.0	4,460	28.6	5,031	14.0
Net Profit	4,561	4,116	10.8	3,378	35.0	3,916	16.5

### Key financials

YE March (INR bn)	PPoP (INR bn)	YoY (%)	NP (INR bn)	YoY (%)	EPS (INR)	YoY (%)	P/PPoP (x)	RoAE (%)	RoAA (%)	P/E (x)	P/ABV (x)
FY23	25	51.9	11	64.3	14	63.9	6.1	13.7	1.3	13.7	1.83
FY24	28	14.3	16	45.1	20	44.7	5.4	17.2	1.7	9.4	1.54
FY25E	31	26.2	17	57.4	22	56.9	4.8	16.0	1.6	8.7	1.31
FY26E	35	22.9	19	16.0	23	16.0	4.4	14.7	1.5	8.1	1.13

Note: Pricing as on 13 May 2024; Source: Company, Elara Securities Estimate

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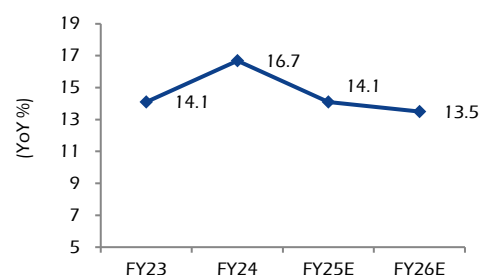
Elara Securities (India) Private Limited

## Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E
<b>Net interest income</b>	<b>33,488</b>	<b>38,092</b>	<b>41,870</b>	<b>46,921</b>
<i>YoY growth (%)</i>	<i>23.3</i>	<i>13.7</i>	<i>9.9</i>	<i>12.1</i>
Fee income	11,589	16,587	17,485	18,994
Trading profits	180	400	300	300
Non-interest income	11,589	16,587	17,485	18,994
Net operating revenue	45,078	54,679	59,355	65,915
<i>YoY growth (%)</i>	<i>29.4</i>	<i>21.3</i>	<i>8.6</i>	<i>11.1</i>
Operating expenses	20,320	26,388	28,116	31,136
<i>YoY growth (%)</i>	<i>9.6</i>	<i>29.9</i>	<i>6.5</i>	<i>10.7</i>
<b>Pre-provisioning operating profit</b>	<b>24,758</b>	<b>28,291</b>	<b>31,240</b>	<b>34,780</b>
<i>YoY growth (%)</i>	<i>51.9</i>	<i>14.3</i>	<i>10.4</i>	<i>11.3</i>
Provisions	10,389	7,290	7,971	9,884
Profit before tax	14,369	21,002	23,268	24,896
Tax	3,308	4,954	5,864	6,274
<b>Profit after tax</b>	<b>11,061</b>	<b>16,048</b>	<b>17,405</b>	<b>18,622</b>
<i>YoY growth (%)</i>	<i>64.3</i>	<i>45.1</i>	<i>8.5</i>	<i>7.0</i>
Balance sheet (INR mn)	FY23	FY24	FY25E	FY26E
Customer loans	631,341	736,675	840,546	954,020
<i>YoY growth (%)</i>	<i>14.1</i>	<i>16.7</i>	<i>14.1</i>	<i>13.5</i>
Investments	188,083	223,435	250,512	279,079
Cash & bank balances	46,951	56,586	61,981	69,729
Fixed assets	4,350	4,329	4,459	4,589
Other assets	31,068	34,828	35,176	35,528
<b>Total Assets</b>	<b>901,794</b>	<b>1,055,852</b>	<b>1,192,673</b>	<b>1,342,944</b>
Net worth	85,841	100,401	117,341	135,462
Deposits	766,376	891,127	1,002,518	1,125,828
<i>YoY growth (%)</i>	<i>11.6</i>	<i>16.3</i>	<i>12.5</i>	<i>12.3</i>
Borrowings	14,320	24,784	30,492	36,327
Other liabilities	35,258	39,541	42,321	45,328
<b>Total Liabilities</b>	<b>901,794</b>	<b>1,055,852</b>	<b>1,192,673</b>	<b>1,342,944</b>
Key operating ratios	FY23	FY24	FY25E	FY26E
<b>Year to 31 Mar (%)</b>				
Lending yield	8.9	9.1	9.0	8.8
Cost of Funds	4.1	5.0	4.3	4.3
Spreads	3.8	3.8	3.6	3.5
Net interest margin	4.1	4.0	3.9	3.8
CASA Ratio	33.2	30.4	30.2	30.4
Non-interest income / operating income	25.7	30.3	29.5	28.8
Cost/income	45.1	48.3	47.4	47.2
Operating expense/avg assets	2.4	2.7	2.5	2.5
Credit costs / avg loans	1.8	1.1	1.0	1.1
Effective tax rate	23.0	23.6	25.2	25.2
Loan deposit ratio	82.4	82.7	83.8	84.7
ROA decomposition (%)	FY23	FY24	FY25E	FY26E
Nil /Assets	4.1	4.0	3.9	3.8
Fees/Assets	1.4	1.7	1.6	1.5
Invst profits/Assets	0.0	0.0	0.0	0.0
Net revenues/Assets	5.5	5.8	5.5	5.4
Opex /Assets	(2.5)	(2.8)	(2.6)	(2.5)
Provisions/Assets	(1.3)	(0.8)	(0.7)	(0.8)
Taxes/Assets	(0.4)	(0.5)	(0.5)	(0.5)
Total costs/Assets	(4.1)	(4.1)	(3.9)	(3.9)
ROA	1.3	1.7	1.6	1.5
Equity/Assets	9.9	9.9	10.0	10.3
ROAE -RHS	13.7	17.2	16.0	14.7
Key financial ratios (%)	FY23	FY24	FY25E	FY26E
<b>Year to 31 Mar (%)</b>				
Tier I Capital adequacy				
Gross NPL	2.2	1.4	1.2	1.3
Net NPL	0.7	0.4	0.3	0.2
Slippage ratio	0.8	1.1	1.0	1.1
Assets / equity (x)	10.5	10.5	10.2	9.9
<b>Per share data</b>				
EPS (INR)	14	20	22	23
<i>YoY growth (%)</i>	<i>64</i>	<i>45</i>	<i>8</i>	<i>7</i>
BVPS (INR)	107	125	146	168
adj- BVPS (INR)	103	122	144	167
Dividend yields	1.60	1.92	2.00	2.16
<b>Valuation (x)</b>				
P/BV	1.76	1.51	1.29	1.12
P/ABV	1.83	1.54	1.31	1.13
P/E	13.66	9.44	8.71	8.14

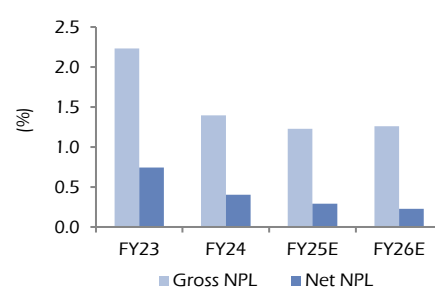
Note: Pricing as on 13 May 2024; Source: Company, Elara Securities Estimate

### Loan growth (%)



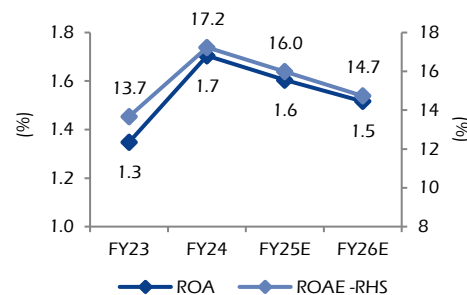
Source: Company, Elara Securities Estimate

### Gross & net NPL (%)



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

### Sequential loan growth granular in nature

- Overall loan growth of 16% YoY and 2.4% QoQ was granular in nature, as it was largely led by the RAM sector. The management expects growth from these segments to sustain in the future. Segment-wise, commercial and retail segments posted decent Q4, up 4.3% and 3.3% respectively. The gold loan portfolio was sustained at 25% of the total loan book, with loan-to-value (LTV) of 64% providing sufficient cushion. The management expects loan growth momentum at 14%+ in FY25, which may be led by commercial, retail and agri loans.
- Corporate loans saw a sequential moderation by 2.9% QoQ (while it grew 4.5% YoY), as KVB shed low-yielding advances. KVB has been engaging in conversations with corporates, which as these loans were price sensitive, to shed the book and invest it in higher-yielding products. In the overall risk profile of the corporate book, the proportion of A & above rated customers declined from 39% to 36% annually.
- Within the retail segment, growth was led by housing and mortgage loans. Unsecured portfolio more than doubled YoY. Within the unsecured pool, consumer credit (BNPL) loans saw strong traction, up 250% YoY/16.1% QoQ (albeit on low base). However, such growth is not expected to continue going ahead and some signs of moderation were already observed – Personal loans growth declined by 10.5% QoQ. With respect to retail segment, KVB is exploring the DSA channel to deepen its geographies, to keep credit quality in check.
- Partnerships: KVB currently hold a total portfolio of INR 19bn towards NBFC partnership. It has five NBFC partners (some are underway). Education loans are expected to pick momentum as KVB has partnered with major partners to explore high-ticket sizes. With respect to the BNPL partnership with Amazon, KVB has a total portfolio of INR 10bn. KVB expects to grow via the partnership route, keeping its delinquencies under control as these segments are yield-accretive for the bank.
- Currently, the CD ratio is ~83%, and the management endeavors to maintain it at same levels.

### Deposit accretion, key monitorable

- Overall deposits growth was 4% QoQ and 16.3% YoY, led by term deposits growth of 5.8% QoQ and 21.2% YoY. With sluggish growth in CASA, the ratio declined to 30.4% from 31.5% in Q3. With primary focus on granularity, 82% of KVB's term deposits are less than INR 500mn.

### NIM up in Q4; H2FY25 may see further headwinds

- Q4 NIM declined by 13bps sequentially to 4.19% (KVB had earlier guided for Q4 NIM of 4%). But in Q3, NIM included the impact of 19bps due to interest recovery from a large corporate NPA account. Excluding this, NIM rose 6bps sequentially.
- KVB expects margin to be ~4% in H1FY25. With floating book of EBLR-44% and MCLR-42%, margin change in H2FY25 may be key monitorable. If no rate cut were to take place, pressure would increase on deposits, thus compressing margins in 3.8-4% range.
- The cost of deposits rose 11bps QoQ to 5.36% (KVB had guided for a 15bps increase in Q4).

### Asset quality continues to be strong

- GNPL/NNPL declined to 1.4%/0.4% in Q4FY24 from 1.6%/0.4% in Q3, respectively. Slippages ratio was largely stable at 0.7% in Q4. Recovery from technical write-off accounts in Q4 was INR 1.3bn. The net slippages ratio has been in the negative for the past six quarters. With improved recoveries and decline in slippages, KVB expects gross slippages to sustain below 1.0%. And its headline GNPA/NNPA may remain below 2% and 1%, respectively.
- The standard restructured book declined further to 0.96% of advances from 1.1% in Q3FY24. KVB holds 42% provisions on the restructured pool. Security receipts have been fully provided. The overall stress book (GNPL + restructured book) pared down to ~2.6% from 2.8% in Q3FY24.
- Overall credit cost for FY24 was 0.65%. The management has maintained its credit cost target of 75bps for FY25.
- KVB has created provisions of INR 250mn per quarter in FY24 towards floating provisioning to meet contingencies and ECL.

## Cost-to-income ratio to remain constant

- With respect to wage revisions, KVB has provided INR 1,140mn in FY24 (INR 740bn till Dec-23 and INR 400mn in Q4FY24). With change in benchmarking rates, there was an uptick in liabilities for pension arrangements amounting to INR 300mn in Q4. KVB expects normalized quarterly run rate of INR 3,250-3,500mn (1.35% of assets) in FY25.
- The cost-income ratio (excluding reversal one-off) was 51.62% versus 50.27% in Q3FY24, up due to additional provisions on wage revisions and for pension liability. Thus, KVB endeavors to sustain the ratio at ~50%.
- Branch addition: KVB has added 35 branches in FY24. It expects to add 80 light branches and 20 regular branches in South and West India, in FY25.
- Other income in Q4 rose 76% QoQ, marked by one-off reversal of INR 1,570mn, pertaining to reversal of SR investment provision. Release of provision is on account of SR receipts crossing 8 years (regulatory requirement).

**Exhibit 1: P&L highlights – Q4 reported PAT at INR 4.56bn (up 35% YoY and 10.8% QoQ)**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
NII	7,459	8,214	8,890	8,926	8,971	9,154	10,013	9,955
Other income	1,991	2,416	3,175	4,008	3,332	3,389	3,578	6,289
Net revenue	9,450	10,629	12,065	12,934	12,302	12,543	13,591	16,243
Opex	4,695	4,906	5,175	5,543	5,818	6,164	6,832	7,574
PPoP	4,755	5,723	6,889	7,391	6,484	6,379	6,759	8,669
Provisions	1,546	2,272	3,641	2,930	1,594	1,264	1,497	2,934
PAT	2,288	2,502	2,893	3,378	3,586	3,785	4,116	4,561
<b>YoY (%)</b>								
NII	16.9	20.7	29.4	25.7	20.3	11.4	12.6	11.5
Other income	(0.8)	48.1	62.3	95.1	67.4	40.3	12.7	56.9
Net revenue	12.7	26.0	36.7	41.3	30.2	18.0	12.7	25.6
Opex	9.4	4.5	7.5	16.9	23.9	25.6	32.0	36.6
PPoP	16.2	53.1	71.5	67.5	36.4	11.5	(1.9)	17.3
Provisions	(36.8)	38.4	149.2	109.1	3.1	(44.4)	(58.9)	0.1
PAT	110.1	51.2	56.0	58.3	56.8	51.2	42.3	35.0
<b>QoQ (%)</b>								
NII	5.1	10.1	8.2	0.4	0.5	2.0	9.4	(0.6)
Other income	(3.1)	21.3	31.4	26.2	(16.9)	1.7	5.6	75.8
Net revenue	3.2	12.5	13.5	7.2	(4.9)	2.0	8.4	19.5
Opex	(1.0)	4.5	5.5	7.1	5.0	5.9	10.8	10.9
PPoP	7.7	20.4	20.4	7.3	(12.3)	(1.6)	6.0	28.3
Provisions	10.4	46.9	60.3	(19.5)	(45.6)	(20.7)	18.4	96.0
PAT	7.2	9.4	15.6	16.8	6.2	5.5	8.8	10.8

Source: Company, Elara Securities Research

**Exhibit 2: Loans grew by 16% YoY/2.4% QoQ**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Loan book	588,900	611,340	620,810	641,680	669,560	704,480	726,920	744,230
% YoY	12.6	13.5	11.3	12.8	13.7	15.2	17.1	16.0
% QoQ	3.5	3.8	1.5	3.4	4.3	5.2	3.2	2.4

Source: Company, Elara Securities Research

**Exhibit 3: RAM segment, key growth driver for advances, constituting ~81% of total loan book**

Loan book mix	(INR mn)			Loan mix (%)			Growth (%)	
	Q4FY23	Q3FY24	Q4FY24	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ(%)
Retail	150,120	170,900	176,620	23.4	23.5	23.7	17.7	3.3
Agriculture	148,330	168,330	173,630	23.1	23.2	23.3	17.1	3.1
Commercial	209,800	243,980	254,490	32.7	33.6	34.2	21.3	4.3
Corporate	133,430	143,710	139,490	20.8	19.8	18.7	4.5	-2.9
<b>Total</b>	<b>641,680</b>	<b>726,920</b>	<b>744,230</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>16.0</b>	<b>2.4</b>

Source: Company, Elara Securities Research

**Exhibit 4: Housing/LAP, Jewels and Consumer Credit (BNPL) continue to drive retail loan**

Retail loan-book mix	(INR mn)						Loan growth YoY (%)				Loan mix (%)			
	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Housing	64,640	66,960	69,810	72,540	73,570	75,630	16.2	16.0	13.8	12.9	44.7	44.7	43.0	42.8
Jewel	17,290	21,070	21,830	21,590	20,960	21,470	17.9	19.7	21.2	1.9	14.0	13.3	12.3	12.2
LAP	30,090	32,510	31,980	34,500	38,850	41,160	30.6	29.0	29.1	26.6	20.5	21.3	22.7	23.3
Vehicle	11,180	11,090	11,260	11,390	11,350	11,320	2.6	2.1	1.5	2.1	7.2	7.0	6.6	6.4
Personal	6,210	3,800	6,860	7,750	3,720	3,330	13.2	15.5	(40.1)	(12.4)	4.4	4.8	2.2	1.9
Consumer Credit - BNPL	0	3,040	0	0	9,280	10,770	-	-	-	254.3	-	-	5.4	6.1
Educational	1,470	1,450	1,410	1,430	1,430	1,460	(6.0)	(5.3)	(2.7)	0.7	0.9	0.9	0.8	0.8
Others	10,490	10,200	12,950	13,050	11,740	11,480	15.8	10.4	11.9	12.5	8.3	8.0	6.9	6.5
<b>Total</b>	<b>141,370</b>	<b>150,120</b>	<b>156,100</b>	<b>162,250</b>	<b>170,900</b>	<b>176,620</b>	<b>17.6</b>	<b>17.1</b>	<b>20.9</b>	<b>17.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Elara Securities Research

**Exhibit 5: Deposit growth led by term deposit, CASA declined sequentially by 110bps to 30.4%**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Deposits	709,610	733,980	759,320	766,380	807,150	830,680	856,650	891,130
% YoY	10.2	12.2	13.5	11.9	13.7	13.2	12.8	16.3
% QoQ	3.6	3.4	3.5	0.9	5.3	2.9	3.1	4.0
Current account	79,780	80,190	78,790	74,540	81,170	81,550	85,080	82,830
% YoY	17.2	15.1	6.4	7.7	1.7	1.7	8.0	11.1
% QoQ	15.3	0.5	(1.7)	(5.4)	8.9	0.5	4.3	(2.6)
Savings account	179,380	178,950	179,210	179,950	184,320	186,390	185,040	188,020
% YoY	13.0	10.5	7.2	6.0	2.8	4.2	3.3	4.5
% QoQ	5.6	(0.2)	0.1	0.4	2.4	1.1	(0.7)	1.6
Term deposits	450,450	474,840	501,320	511,890	541,660	562,740	586,530	620,280
% YoY	8.0	12.4	17.3	14.8	20.2	18.5	17.0	21.2
% QoQ	1.0	5.4	5.6	2.1	5.8	3.9	4.2	5.8
CASA ratio	36.52	35.31	33.98	33.21	32.89	32.26	31.53	30.39

Source: Company, Elara Securities Research

**Exhibit 6: NIM compressed by 13bps QoQ, excluding higher one-offs in Q3FY24, NIMs were up 6 bps QoQ**

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net interest margin (NIM)	3.85	4.10	4.32	4.37	4.19	4.07	4.32	4.19

Source: Company, Elara Securities Research

**Exhibit 7: Cost of funds and deposits up ~11bps each QoQ to 5.41% and 5.36% respectively**

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Yield on advances	8.35	8.64	9.04	9.55	9.69	9.76	10.16	10.08
Cost of funds	4.13	4.13	4.29	4.64	4.99	5.19	5.30	5.41
Cost of deposits	4.10	4.09	4.26	4.61	4.96	5.16	5.25	5.36

Source: Company, Elara Securities Research

**Exhibit 8: Asset quality continues to strengthen with GNPA/NNPA at 1.4%/0.4%**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Opening GNPA	34,310	31,070	24,570	16,740	14,580	13,300	12,190	11,520
Slippages	1,390	1,310	1,620	2,220	1,500	1,550	1,970	2,010
Reductions	4,630	7,810	9,450	4,380	2,780	2,660	2,640	3,110
Closing GNPA	31,070	24,570	16,740	14,580	13,300	12,190	11,520	10,420
GNPL (%)	5.2	4.0	2.7	2.3	2.0	1.7	1.6	1.4
NNPL (%)	1.9	1.4	0.9	0.7	0.6	0.5	0.4	0.4
PCR (%) - Calculated	64.7	67.8	67.1	67.9	70.7	73.5	73.5	71.4
Credit cost (%) - Calculated	1.10	1.55	2.40	1.88	0.99	0.75	0.85	1.61

Source: Company, Elara Securities Research

**Exhibit 9: GNPA declined for all segments, except Retail**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Agriculture	1,270	1,260	1,210	960	890	840	800	810
Commercial	12,550	12,000	10,840	8,480	7,360	6,730	5,800	4,870
Corporate	13,480	7,500	1,020	1,640	1,680	1,540	1,770	1,260
Retail	3,770	3,810	3,670	3,500	3,370	3,080	3,150	3,480
<b>Total</b>	<b>31,070</b>	<b>24,570</b>	<b>16,740</b>	<b>14,580</b>	<b>13,300</b>	<b>12,190</b>	<b>11,520</b>	<b>10,420</b>

Source: Company, Elara Securities Research

**Exhibit 10: Outstanding stressed book declined by 20bps to 2.6% of loans**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
GNPL	31,070	24,570	16,740	14,580	13,300	12,190	11,520	10,420
Std. restructured book	15,180	12,250	11,600	9,760	8,930	8,470	7,950	7,150
Net security receipts	1,300	1,190	0	0	0	0	0	0
<b>Total stress book</b>	<b>46,250</b>	<b>36,820</b>	<b>28,340</b>	<b>24,340</b>	<b>22,230</b>	<b>20,660</b>	<b>19,470</b>	<b>17,570</b>
Stress book (%) of loans	7.9	6.0	4.6	3.8	3.2	3.0	2.8	2.6

Source: Company, Elara Securities Research

**Exhibit 11: KVB well-capitalized with tier-1 of 15.46%**

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Tier-1	17.25	16.20	16.00	16.79	15.96	15.19	13.87	15.46
Tier-2	1.96	1.87	1.86	1.77	1.71	1.65	1.52	1.21
<b>CRAR</b>	<b>19.21</b>	<b>18.07</b>	<b>17.86</b>	<b>18.56</b>	<b>17.67</b>	<b>16.84</b>	<b>15.39</b>	<b>16.67</b>

Source: Company, Elara Securities Research

**Exhibit 12: Q4FY24 results**

(INR mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Interest income	21,846	21,394	2.1	17,683	23.5
Interest expenses	11,891	11,381	4.5	8,757	35.8
Net interest income	9,955	10,013	-0.6	8,926	11.5
Other income	6,289	3,578	75.8	4,008	56.9
Operating expenses	7,574	6,832	10.9	5,543	36.6
Staff expense	4,398	3,747	17.4	2,807	56.7
Other opex	3,177	3,085	3.0	2,737	16.1
Pre prov op profit (PPP)	8,669	6,759	28.3	7,391	17.3
Provisions	2,934	1,497	96.0	2,930	0.1
Profit before tax	5,735	5,262	9.0	4,460	28.6
Provision for tax	1,174	1,146	2.5	1,082	8.5
Profit after tax	4,561	4,116	10.8	3,378	35.0
EPS (INR)	5.7	5.1		4.2	
<b>Ratios (%)</b>					
NII / GII	45.6	46.8		50.5	
Cost - income	46.6	50.3		42.9	
Provisions / PPOP	33.8	22.1		39.6	
Tax rate	20.5	21.8		24.3	
<b>Balance sheet data</b>					
Advances (INR bn)	737	718	2.6	631	16.7
Deposits (INR bn)	891	857	4.0	766	16.3
CD ratio (%)	82.7	83.8		82.4	
<b>Asset quality</b>					
Gross NPA	10,416	11,519	(9.6)	14,582	(28.6)
Gross NPAs (%)	1.4	1.6		2.3	
Net NPA	2,980	3,053	(2.4)	4,682	(36.4)
Net NPA(%)	0.4	0.4		0.7	
Provision coverage (%)	71.4	73.5		67.9	

Source: Company, Elara Securities Research

**Exhibit 13: Change in estimates**

(INR mn)	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net interest income	41,870	46,921	41,304	47,310	1.4	(0.8)
Operating profit	31,240	34,780	28,348	33,168	10.2	4.9
Net profit	17,405	18,622	15,761	17,958	10.4	3.7
<b>TP (INR)</b>		<b>220</b>		<b>198</b>		<b>11.1</b>

Source: Elara Securities Estimate

## Q4FY24 conference call – Highlights

### Business momentum

- KVB crossed total business of ~INR 1.6tn in Q4, up 3% QoQ and 16% YoY.
- Q4 ROA was 1.76% and full-year FY24 1.63%. KVB's aim is to sustain growth momentum and ensure that ROA is ~1.60-1.65%.

### Advances and deposits

- Advances grew 16% YoY/2.4% QoQ, with broad-based growth across all the segments.
- Retail advances grew by 3.3% QoQ, primarily led by mortgage loans and personal loans. For retail growth, KVB is exploring the DSA channel to deepen its geographies, keeping its risk underwriting intact.
- Personal loans moderated sequentially, led by a decline of ~11% YoY. Amazon-BNPL partnership of three years is showing robust growth, with total book size at INR 10bn. This book has historically provided low stress and high margin. This book has a yield of 12%+ and tenure of these loans is < six months.
- KVB continues to focus on MSMEs, particularly semi-urban and urban – This supported growth in commercial banking. New initiatives under the commercial banking business are progressing well, with a portfolio of INR 1,260mn. In Q4, KVB added centers in Coimbatore, Chennai, and Hyderabad (Bengaluru center is underway), with a team size of 48. These are in formative stages, and are showing continued growth. In commercial banking, loans with ticket size ranging within INR 50-250mn were extended. KVB's primary focus is on fresh acquisition. Working capital loans have shown good traction.
- The corporate book decelerated in Q4. In Q4, KVB took a conscious decision to shed low-yielding corporate advances. The focus is on granularizing the portfolio for better yield and risk management.
- BNPL portfolio: KVB has an FLDG arrangement of 5% with NBFC partnership (as per revised guidelines). Delinquencies are under control across all partnerships (including Amazon).
- With respect to the draft RBI circular on Infra and CRE exposures, KVB expects 1-2 DDCOs cases to be hit.
- Agriculture book grew by 17% YoY. KVB achieved PSLC targets throughout Q4.
- NBFC partnerships: Total book stands at INR 19bn . KVB currently has five arrangements and is working on more tie-ups.

- KVB has a microfinance book of INR 1,350mn – this book will support margins in FY25.
- Education loans – KVB has onboarded partnerships in this segment and may work on high-tickets loans.
- Deposits grew 16.3% YoY and 4% QoQ. The focus is to continue retail term deposits. KVB is developing a BC channel (500 BCs to function in FY25, so as to increase NTB customers and cross-sell opportunities).
- CASA mobilization – Other opportunities in different class segments led to a decline in CASA. KVB is continuously endeavoring to garner CASA deposits. It would continue to focus on TPP products – Insurance and Mutual Funds.
- CD ratio is at ~83% and KVB will be comfortable at ~CD ratio of 85%.
- Granular loan book in the RAM vertical was led by a decrease in the share of corporate book (current share at ~19%). The challenge in deposit may continue to exist on the cost front.
- With rebalancing in portfolio, KVB had guided for a loan growth of 14% YoY, with adequate deposit growth in FY25.

### Asset quality

- Asset quality continued to improve, with GNPLs/NNPLs at 1.4%/0.4% versus 1.6%/0.4% in Q3FY24. Management expects to sustain a GNPA/NNPA target of <2.0/<1.0%.
- Gross slippages were under control at INR 1.30bn – 0.67% of the book. Slippages have been under control at <1% in Q4FY24 and the management expects to maintain it <1%.
- KVB has adequately provided for NPA, standard and prudential. Further, it has created a provision of INR 250mn towards floating provisioning to meet contingencies and ECL (outstanding: INR 1,000mn).
- AIF investments amounted to INR 125.5mn. KVB does not maintain any provision against the same and no risk is seen in downstream exposures.
- Credit cost guidance for FY25 is unchanged at 75bps (guidance maintained).
- Standard restructured declined to 0.96%. KVB holds a provision of 42% against it.
- KVB saw total recovery of INR 1.32bn from TWO accounts in Q4 (INR 3.4bn in FY24). It expects similar run-rate to continue in FY25.



**Cost and margins**

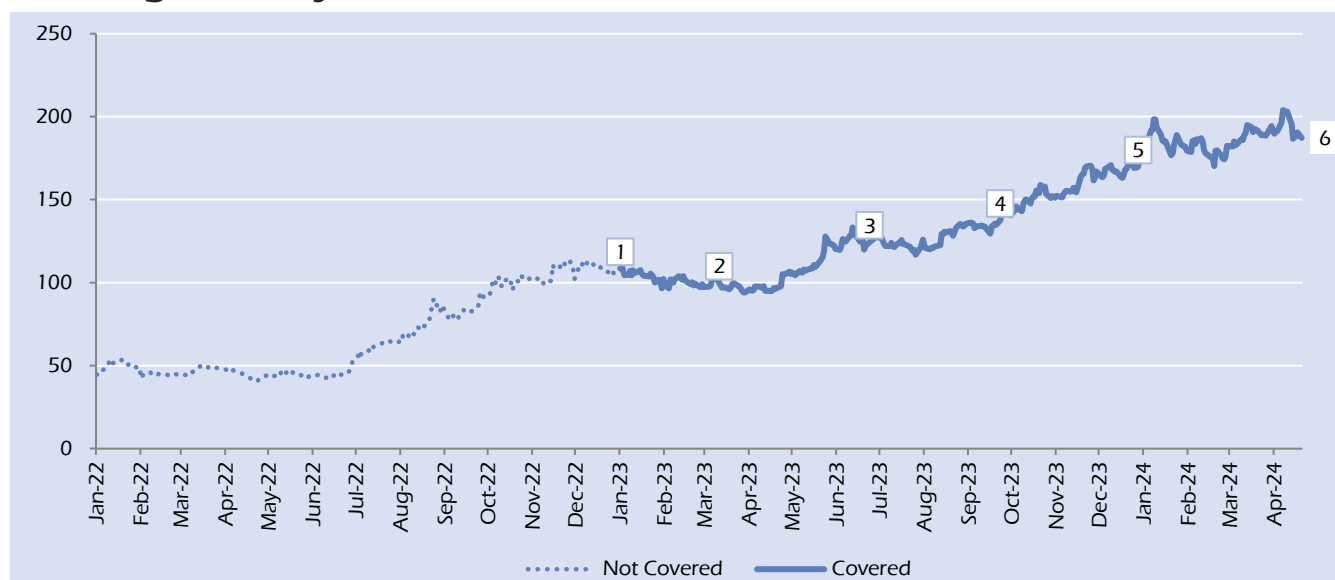
- Q4 NIM declined 13bps sequentially to 4.19% (KVB had earlier guided for NIM of 4% in Q4FY24). But in Q3, NIM included the impact of 19bps due to interest recovery in a large corporate NPA account. Excluding this, NIM increased by 6bps sequentially.
- KVB expects the margins to be ~4% in H1FY25. With floating book of EBLR-44% and MCLR-42%, margin change in H2FY25 may be key monitorable. But in case of a rate cut scenario, if no rate cut were to take place, pressure would likely increase on deposits, thereby compressing margins in the range of 3.8-4%.
- The cost of deposits rose 11bps QoQ to 5.36% (KVB guided for a 15bps rise in Q4).

**Other highlights**

- With respect to wage revisions, KVB has provided for INR 1,140mn in FY24 (INR 740bn till Dec-23 and INR 400mn in Q4FY24). With change in benchmarking rates, there was an uptick in liabilities for pension arrangements amounting to INR 300mn in Q4. KVB expects normalized quarterly run rate of INR 3,250-3,500mn (1.35% of assets) in FY25.
- The cost-income ratio (excluding reversal one-off) came in at 51.62% versus 50.27% in Q3FY24, up due to additional provisions on wage revisions and for pension liability. Thus, KVB endeavors to sustain the ratio at ~50%.

- Branch addition:** Eight branches were added in semi-urban areas (KVB had earlier guided for eight branches in Q4). KVB has added 35 branches in FY24. It expects to add 80 light branches and 20 regular branches in South and West India in FY25.
- With CRAR at 16.6%, KVB has adequate headroom to grow.
- Other income in Q4 rose 76% QoQ, marked by one-off of INR 1,570mn, pertaining to reversal of SR investment provision. The same has been utilized for provision for NPI. Release is on account of reclassification of SR receipts as they crossed SR guidelines of eight years [rephrase].
- Fees income growth will be led by cross-sell income. LC business is down due to a slowdown in global business. Guarantees have helped generate income on non-fund based exposures.
- KVB has implemented hybrid branch banking model – BSC and BRLC – 1,300 resources are working on this model. It has structured >24 product variants.

## Coverage History



	Date	Rating	Target Price	Closing Price
1	24-Jan-2023	Buy	INR 140	INR 109
2	3-Apr-2023	Buy	INR 125	INR 100
3	17-July-2023	Buy	INR 150	INR 127
4	16-Oct-2023	Buy	INR 165	INR 138
5	20-Jan-2024	Buy	INR 198	INR 170
6	13-May-2024	Buy	INR 220	INR 187

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<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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