

Good quarter, consistency key to re-rating

20 January 2025

Karur Vysya Bank's (KVB IN) Q3FY25 PAT rose >20% YoY to ~INR 4.96bn, surpassing estimates, aided by higher revenue traction and curtailed credit cost despite prudential provisions. Q3 was characterized by steady delivery across key metrics, enabling it to deliver > 15% YoY PPOP growth, RoA of >1.7% and RoE of 17% plus. Asset quality continues to be steady, with curtailed slippages feeding into GNPL at 83bps and NNPL at 28bps, at the lowest level, which is commendable. KVB has performed well this cycle and has been more consistent than peers. Despite being conservative, we see the bank consistently delivering 1.5% RoA and 15% plus RoE in the medium term (it seems a steady compounder). There could be certain variabilities on NIMs when interest rate tables turn, which needs to be monitored. We see limited positive triggers hereon and a re-rating thus will be gradual. Maintain Accumulate with TP raised to INR 264 (from INR 242), as we roll over to September 2026E.

Steady performance across key metrics: In Q3, loan growth was steady (up 3.4% QoQ), supported by growth in the RAM segment even as corporate book continued to decline (down 2% QoQ). NIMs, however, were down 8bps QoQ (to 4.03%, above the guided range), given the pressure on funding cost (up 11bps QoQ), restricting NII growth to sub-2% QoQ (as estimated). KVB seems to be benefiting from the changing loan construct (dip in lower-yielding corporate book as KVB continued to focus on profitability), but funding cost is a challenge. We see NIM headwinds hereon with deposit costs likely sticky and yields contingent on the rate cycle. But KVB has the cushion to mitigate the impact via curtailed credit cost, thus rendering steady earnings momentum.

Asset quality holding up; credit cost curtailed despite prudent provisions: Slippages were curtailed at INR 1.4bn (0.8% on lagged loan), which with steady recovery/upgrades and higher write-offs fed into lower GNPL. Looking at various segments, slippages seem to have been broadly normalized. Provisions were, however, higher as KVB further added INR 250mn towards prudential provisions and maintained >75% coverage.

KVB has delivered on asset quality in a much better manner and aims to sustain this performance, but we are conservatively building in ~1% credit cost, which may offer upside to our estimates. Coverage (calculated) of >75% with floating buffer lends comfort, in our view. Two factors that warrant monitoring are: a) slippages in the retail segment (till now trends are stable) and b) transition to ECL, which will be a key variable, in our view.

Maintain Accumulate with TP raised to INR 264: KVB has overcome tough times to deliver a strong performance. The bank has delivered much better than peers during the cycle and outcomes are getting more predictable. Rolling into September 2026E feeds into a raised TP of INR 264 (from INR 242) – 1.5x P/BV assigned for RoA/RoE of 1.5%/14-15% in the medium term. That said, given limited scope of positive surprise in core performance, a re-rating would be gradual. Thus, we maintain Accumulate.

Key Financials

YE Mar (INR bn)	FY23	FY24	FY25E	FY26E	FY27E
PPoP (INR bn)	24.8	28.3	31.1	34.1	38.3
YoY (%)	51.9	14.3	10.0	9.6	12.1
NP (INR bn)	11.1	16.0	18.4	18.7	20.8
YoY (%)	64.3	45.1	14.7	1.5	11.5
EPS (INR)	13.8	20.0	22.9	23.2	25.9
YoY (%)	63.9	44.7	14.7	1.5	11.5
P/PPoP (x)	7.3	6.4	5.8	5.3	4.7
RoAE (%)	13.7	17.2	16.8	14.7	14.2
RoAA (%)	1.3	1.7	1.7	1.5	1.5
P/E (x)	16.4	11.3	9.9	9.7	8.7
P/ABV (x)	2.2	1.8	1.5	1.3	1.2

Note: Pricing as on 20 January 2025; Source: Company, Elara Securities Estimate

Rating: [Accumulate](#)

Target Price: [INR 264](#)

Upside: [17%](#)

CMP: [INR 225](#)

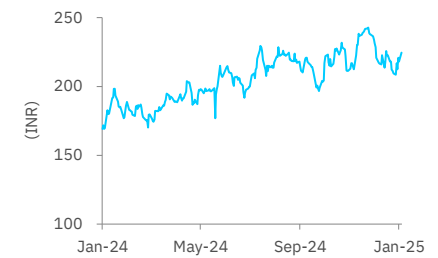
As on 20 January 2025

Key data

	KVB IN
Bloomberg	KVB IN
Reuters Code	KARU.NS
Shares outstanding (mn)	-
Market cap (INR bn/USD mn)	180/2075
Enterprise Value (INR bn/USD mn)	0/0
Avg daily volume 3M (INR mn/USD mn)	446/5
52 week high/low	246/164
Free float (%)	98

Note: as on 20 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	2.2	2.2	2.1	2.1
% Pledged	6.7	4.6	-	-
FII	15.4	15.1	15.1	14.8
DII	36.2	35.7	37.0	38.5
Others	46.2	47.1	45.8	44.6

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(6.1)	(4.8)	8.2
Karur Vysya Bank	1.2	6.9	32.3
NSE Mid-cap	(6.0)	(1.4)	14.7
NSE Small-cap	(6.4)	(2.9)	15.1

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Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	33,488	38,092	42,109	46,737	52,442
YoY growth (%)	23.3	13.7	10.5	11.0	12.2
Fee income	11,589	16,587	17,468	18,873	20,633
Trading profits	180	400	700	700	800
Non-interest income	11,589	16,587	17,468	18,873	20,633
Net operating revenue	45,078	54,679	59,577	65,610	73,074
YoY growth (%)	29.4	21.3	9.0	10.1	11.4
Operating expenses	20,320	26,388	28,443	31,486	34,816
YoY growth (%)	9.6	29.9	7.8	10.7	10.6
Pre-provisioning operating profit	24,758	28,291	31,134	34,123	38,258
YoY growth (%)	51.9	14.3	10.0	9.6	12.1
Provisions	10,389	7,290	6,517	9,147	10,419
Profit before tax	14,369	21,002	24,617	24,977	27,839
Tax	3,308	4,954	6,203	6,294	7,016
Profit after tax	11,061	16,048	18,414	18,683	20,824
YoY growth (%)	64.3	45.1	14.7	1.5	11.5
Balance sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY26E
Customer loans	631,341	736,675	850,123	970,840	1,110,641
YoY growth (%)	14.1	16.7	15.4	14.2	14.4
Investments	188,083	223,435	251,209	285,600	321,542
Cash & bank balances	46,951	56,586	55,958	63,810	71,970
Fixed assets	4,350	4,329	4,459	4,589	4,719
Other assets	31,068	34,828	35,176	38,693	41,789
Total Assets	901,794	1,055,852	1,196,924	1,363,532	1,550,661
Net worth	85,841	100,401	118,350	136,531	156,854
Deposits	766,376	891,127	1,022,123	1,165,220	1,330,681
YoY growth (%)	11.6	16.3	14.7	14.0	14.2
Borrowings	14,320	24,784	14,130	16,453	14,544
Other liabilities	35,258	39,541	42,321	45,328	48,582
Total Liabilities	901,794	1,055,852	1,196,924	1,363,532	1,550,661
Key operating ratios (%)	FY23	FY24	FY25E	FY26E	FY26E
Lending yield	9.0	10.0	9.9	9.7	9.5
Cost of Funds	4.1	5.0	5.2	5.2	5.1
Spreads	3.8	3.8	3.5	3.4	3.3
Net interest margin	4.1	4.0	3.9	3.8	3.7
CASA Ratio	33.2	30.4	27.8	28.1	28.4
Non-interest income / operating income	25.7	30.3	29.3	28.8	28.2
Cost/income	45.1	48.3	47.7	48.0	47.6
Operating expense/avg assets	2.4	2.7	2.5	2.5	2.4
Credit costs / avg loans	1.8	1.1	0.8	1.0	1.0
Effective tax rate	23.0	23.6	25.2	25.2	25.2
Loan deposit ratio	82.4	82.7	83.2	83.3	83.5
ROA decomposition (%)	FY23	FY24	FY25E	FY26E	FY26E
NII /Assets	4.1	4.0	3.9	3.8	3.7
Fees/Assets	1.4	1.7	1.5	1.5	1.4
Invst profits/Assets	0.0	0.0	0.1	0.1	0.1
Net revenues/Assets	5.5	5.8	5.5	5.3	5.2
Opex /Assets	(2.5)	(2.8)	(2.6)	(2.5)	(2.5)
Provisions/Assets	(1.3)	(0.8)	(0.6)	(0.7)	(0.7)
Taxes/Assets	(0.4)	(0.5)	(0.6)	(0.5)	(0.5)
Total costs/Assets	(4.1)	(4.1)	(3.8)	(3.8)	(3.7)
ROA	1.3	1.7	1.7	1.5	1.5
Equity/Assets	9.9	9.9	10.1	10.3	10.4
ROAE	13.7	17.2	16.8	14.7	14.2
Key financial ratios (%)	FY23	FY24	FY25E	FY26E	FY26E
Gross NPL	2.2	1.4	0.7	0.9	0.9
Net NPL	0.7	0.4	0.2	0.2	0.3
Slippage ratio	0.8	1.1	0.9	1.1	1.1
Assets / equity (x)	10.5	10.5	10.1	10.0	9.9
Per share data					
EPS (INR)	14	20	23	23	26
YoY growth (%)	64	45	15	1	11
BVPS (INR)	107	125	147	170	195
adj- BVPS (INR)	103	122	146	168	192
Dividend yields	1.60	1.92	2.00	2.16	2.16
Valuation (x)					
P/BV	2.11	1.81	1.53	1.33	1.16
P/ABV	2.19	1.85	1.55	1.35	1.17
P/E	16.36	11.31	9.86	9.71	8.71

Note: Pricing as on 20 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)	Q3FY25E	Variance (%)
Operating profit	8,153	8,162	-0.1	6,759	20.6	7,667	6.3
PBT	6,678	6,364	4.9	5,262	26.9	6,074	10.0
Net profit	4,960	4,736	4.7	4,116	20.5	4,545	9.1

Source: Company, Elara Securities Estimate

Loan growth supported by RAM segment

- ▶ Overall loan growth of 14% YoY and 3.2% QoQ was granular in nature, largely led by the RAM sector. Segment-wise, agriculture segment was up 4.6% QoQ, followed by retail and commercial segments, up 4% QoQ each.
- ▶ The gold loan portfolio grew sharply, comprising ~26% of the total loan book, with loan-to-value (LTV) of 66%, providing sufficient cushion. In Q3, most of the growth in the agri book was from gold loans, in compliance with recent RBI regulations issued in Sep '24.
- ▶ Corporate loans continued to moderate, down by 10.7% YoY/1.9% QoQ, due to lower yields and cautious stance in exposure to a few sectors. In the overall risk profile of the corporate book, the proportion of A & above rated customers was steady at 33%. KVB's growth would be led by fund-based exposure (<INR 1bn) and non-fund based business. Also, the management expects some growth in corporate book once the deposit challenge subsides.
- ▶ In the retail segment, growth was led by Jewel and LAP loans. Within the unsecured pool, consumer credit (BNPL) and personal loans contracted. Given industry-wide challenges in this segment, KVB would be cautious to grow the book.
- ▶ Currently, the CD ratio is ~83%.

Deposit accretion, key focus

- ▶ Overall deposits growth was 15.7% YoY and 3.5% QoQ, led by term deposits growth of 5% QoQ, while current accounts saw a QoQ contraction, resulting in a drop in CASA ratio to 28.4%.
- ▶ The management highlighted that challenges are prominent in retention of deposits than garnering, as balances getting deployed in other investment vehicles.
- ▶ KVB aims to grow the deposit book 14% in FY25.

KVB endeavoring to maintain NIM at 3.85% in Q4FY25

- ▶ Q3 NIM declined by 8bps QoQ to 4.03% due to higher rise cost of funds than yield on advances. KVB aims to achieve NIM at 3.85% in Q4, by shedding lower-yielding corporate book with focus on building granular secured advances in the RAM segment and prudent treasury operations.
- ▶ Cost of deposits increased by 11bps QoQ. KVB expects it to increase by 10bps in Q4FY25.
- ▶ Yield on advances increased by 8bps QoQ as KVB raised EBLR, the trajectory of which would depend on rate cut expected next month. On the other hand, yield on investments would remain in the same range as in Q4FY25.

Asset quality continues to be steady

- ▶ GNPL/NNPL declined to 0.8%/0.2% in Q3FY25 from 1.1%/0.3% in Q2FY25, respectively. Slippages ratio improved to 0.6% in Q3FY25. With improved recoveries and decline in slippages, KVB expects its headline GNPA/NNPA to remain below 2% and 1%, respectively.
- ▶ Standard restructured book declined further to 0.73% of advances from 0.78% in Q2FY25. KVB holds ~45% provisions on the restructured pool. Security receipts have been fully provided for. The overall stress book (GNPL + restructured book) pared down to 1.9% from 2.2% in Q2FY25.
- ▶ Overall credit cost (calculated) for Q3FY25 was 0.71%. In Q3FY25, KVB made provisions of INR 250mn as a prudent measure.
- ▶ KVB has recovered INR 1.8bn from technically written-off accounts in Q3.

Other highlights

- ▶ The cost-income ratio was 47.3% versus 46.7% in Q2FY25. KVB endeavors to sustain the ratio at ~50%. It expects fee income to return once growth in the corporate book improves.
- ▶ RoA would be maintained at 1.65%+.
- ▶ KVB plans to add 20 branches in Q4FY25, which would keep the cost-to-income elevated.

Exhibit 1: P&L highlights – Q3FY25 reported PAT at INR 4.96bn (up by +20% YoY/4.7% QoQ) – led by lower credit costs

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	8,890	8,926	8,971	9,154	10,013	9,955	10,244	10,600	10,788
Other income	3,175	4,008	3,332	3,389	3,578	6,289	3,884	4,720	4,674
Net revenue	12,065	12,934	12,302	12,543	13,591	16,243	14,127	15,320	15,462
Opex	5,175	5,543	5,818	6,164	6,832	7,574	6,669	7,157	7,310
PPoP	6,889	7,391	6,484	6,379	6,759	8,669	7,459	8,162	8,153
Provisions	3,641	2,930	1,594	1,264	1,497	2,934	1,329	1,798	1,474
PAT	2,893	3,378	3,586	3,785	4,116	4,561	4,587	4,736	4,960
YoY (%)									
NII	29.4	25.7	20.3	11.4	12.6	11.5	14.2	15.8	7.7
Other income	62.3	95.1	67.4	40.3	12.7	56.9	16.6	39.3	30.6
Net revenue	36.7	41.3	30.2	18.0	12.7	25.6	14.8	22.1	13.8
Opex	7.5	16.9	23.9	25.6	32.0	36.6	14.6	16.1	7.0
PPoP	71.5	67.5	36.4	11.5	(1.9)	17.3	15.0	28.0	20.6
Provisions	149.2	109.1	3.1	(44.4)	(58.9)	0.1	(16.6)	42.3	(1.5)
PAT	56.0	58.3	56.8	51.2	42.3	35.0	27.9	25.1	20.5
QoQ (%)									
NII	8.2	0.4	0.5	2.0	9.4	(0.6)	2.9	3.5	1.8
Other income	31.4	26.2	(16.9)	1.7	5.6	75.8	(38.2)	21.5	(1.0)
Net revenue	13.5	7.2	(4.9)	2.0	8.4	19.5	(13.0)	8.4	0.9
Opex	5.5	7.1	5.0	5.9	10.8	10.9	(12.0)	7.3	2.1
PPoP	20.4	7.3	(12.3)	(1.6)	6.0	28.3	(14.0)	9.4	(0.1)
Provisions	60.3	(19.5)	(45.6)	(20.7)	18.4	96.0	(54.7)	35.3	(18.0)
PAT	15.6	16.8	6.2	5.5	8.8	10.8	0.6	3.3	4.7

Source: Company, Elara Securities Research

Exhibit 2: Loans grew by 14% YoY/3.2% QoQ

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Loan book	620,810	641,680	669,560	704,480	726,920	744,230	777,100	802,990	828,380
% YoY	11.3	12.8	13.7	15.2	17.1	16.0	16.1	14.0	14.0
% QoQ	1.5	3.4	4.3	5.2	3.2	2.4	4.4	3.3	3.2

Source: Company, Elara Securities Research

Exhibit 3: RAM segment is the key growth driver for advances, constituting +84% of the total loan book

Loan-book mix	(INR mn)			Loan mix (%)			Loan growth (%)	
	Q3FY24	Q2FY25	Q3FY25	Q3FY24	Q2FY25	Q3FY25	YoY (%)	QoQ(%)
Retail	170,900	196,850	204,760	23.5	24.5	24.7	19.8	4.0
Agriculture	168,330	188,380	197,050	23.2	23.5	23.8	17.1	4.6
Commercial	243,980	286,880	298,240	33.6	35.7	36.0	22.2	4.0
Corporate	143,710	130,880	128,330	19.8	16.3	15.5	(10.7)	(1.9)
Total	726,920	802,990	828,380	100.0	100.0	100.0	14.0	3.2

Source: Company, Elara Securities Research

Exhibit 4: LAP and Jewels continue to drive Retail loans

Retail loan-book mix	(INR mn)			Loan growth YoY (%)			Loan mix (%)		
	Q3FY24	Q2FY25	Q3FY25	Q3FY24	Q2FY25	Q3FY25	Q3FY24	Q2FY25	Q3FY25
Housing	73,570	81,730	84,050	13.8	13.7	14.2	43.0	41.5	41.0
Jewel	20,960	28,410	31,230	21.2	31.6	49.0	12.3	14.4	15.3
LAP	38,850	49,090	52,660	29.1	34.3	35.5	22.7	24.9	25.7
Vehicle	11,350	11,070	10,710	1.5	(2.6)	(5.6)	6.6	5.6	5.2
Personal	3,720	2,860	2,620	(40.1)	(30.6)	(29.6)	2.2	1.5	1.3
Consumer Credit - BNPL	9,280	10,300	9,770	NA	151.2	5.3	5.4	5.2	4.8
Educational	1,430	1,500	1,500	(2.7)	4.9	4.9	0.8	0.8	0.7
Others	11,740	11,890	12,220	11.9	6.4	4.1	6.9	6.0	6.0
Total	170,900	196,850	204,760	20.9	21.3	19.8	100.0	100.0	100.0

Source: Company, Elara Securities Research

Exhibit 5: Deposit growth led by term deposit, CASA declined to 28.5%

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Deposits	759,320	766,380	807,150	830,680	856,650	891,130	923,490	958,390	991,550
% YoY	13.5	11.9	13.7	13.2	12.8	16.3	14.4	15.4	15.7
% QoQ	3.5	0.9	5.3	2.9	3.1	4.0	3.6	3.8	3.5
Current account	78,790	74,540	81,170	81,550	85,080	82,830	87,270	88,410	88,280
% YoY	6.4	7.7	1.7	1.7	8.0	11.1	7.5	8.4	3.8
% QoQ	(1.7)	(5.4)	8.9	0.5	4.3	(2.6)	5.4	1.3	(0.1)
Savings account	179,210	179,950	184,320	186,390	185,040	188,020	193,150	193,910	193,390
% YoY	7.2	6.0	2.8	4.2	3.3	4.5	4.8	4.0	4.5
% QoQ	0.1	0.4	2.4	1.1	(0.7)	1.6	2.7	0.4	(0.3)
Term deposits	501,320	511,890	541,660	562,740	586,530	620,280	643,070	676,070	709,880
% YoY	17.3	14.8	20.2	18.5	17.0	21.2	18.7	20.1	21.0
% QoQ	5.6	2.1	5.8	3.9	4.2	5.8	3.7	5.1	5.0
CASA ratio	33.98	33.21	32.89	32.26	31.53	30.39	30.37	29.46	28.41

Source: Company, Elara Securities Research

Exhibit 6: NIM compressed by 8bps QoQ to 4.03%

%	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net interest margin (NIM)	4.32	4.37	4.19	4.07	4.32	4.19	4.13	4.11	4.03

Source: Company, Elara Securities Research

Exhibit 7: Cost of deposits inched up further, up by 10bps sequentially to 5.66%

%	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Yield on advances	9.04	9.55	9.69	9.76	10.16	10.08	10.10	10.08	10.16
Cost of funds	4.29	4.64	4.99	5.19	5.30	5.41	5.49	5.55	5.66
Cost of deposits	4.26	4.61	4.96	5.16	5.25	5.36	5.48	5.56	5.66

Source: Company, Elara Securities Research

Exhibit 8: Asset quality continues to strengthen, with GNPA/NNPA at 0.83%/0.20%

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Opening GNPA	24,570	16,740	14,580	13,300	12,190	11,520	10,420	10,250	8,860
Slippages	1,620	2,220	1,500	1,550	1,970	2,010	1,740	1,810	1,390
Reductions	9,450	4,380	2,780	2,660	2,640	3,110	1,910	3,200	3,330
Closing GNPA	16,740	14,580	13,300	12,190	11,520	10,420	10,250	8,860	6,920
GNPL (%)	2.66	2.27	1.99	1.73	1.58	1.40	1.32	1.10	0.83
NNPL (%)	0.89	0.74	0.59	0.47	0.42	0.40	0.38	0.28	0.20
PCR (%) - Calculated	67.13	67.89	70.67	73.45	73.50	71.39	71.34	75.25	75.87
Credit cost (%) - Calculated	2.40	1.88	0.99	0.75	0.85	1.61	0.71	0.92	0.73

Source: Company, Elara Securities Research

Exhibit 9: GNPA across all segments improved

GNPLs – INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Agriculture	1,210	960	890	840	800	810	810	710	580
Commercial	10,840	8,480	7,360	6,730	5,800	4,870	4,590	4,080	3,230
Corporate	1,020	1,640	1,680	1,540	1,770	1,260	1,260	1,430	1,070
Retail	3,670	3,500	3,370	3,080	3,150	3,480	3,590	2,640	2,030
Total	16,740	14,580	13,300	12,190	11,520	10,420	10,250	8,860	6,910

Source: Company, Elara Securities Research

Exhibit 10: Outstanding stressed book declined by 30bps to 1.9% of loans

INR mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
GNPLs	16,740	14,580	13,300	12,190	11,520	10,420	10,250	8,860	6,910
Std. restructured book	11,600	9,760	8,930	8,470	7,950	7,150	6,630	6,310	6,080
Net security receipts	0	0	0	0	0	0	0	0	0
Total stress book	28,340	24,340	22,230	20,660	19,470	17,570	16,880	15,170	12,990
Stress book (%) of loans	4.6	3.8	3.2	3.0	2.8	2.6	2.5	2.2	1.9

Source: Company, Elara Securities Research

Exhibit 11: KVB well capitalized with tier-1 at 15.03%

%	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Tier-1	16.00	16.79	15.96	15.19	13.87	15.46	15.58	15.39	15.03
Tier-2	1.86	1.77	1.71	1.65	1.52	1.21	0.89	0.89	0.88
CRAR	17.86	18.56	17.67	16.84	15.39	16.67	16.47	16.28	15.91

Source: Company, Elara Securities Research

Q3FY25 earnings call – Highlights

Business momentum

- ▶ KVB is seeing steady and consistent growth, and is confident that momentum may continue in Q4FY25.
- ▶ Loan book grew 14% YoY and 3% QoQ. RAM vertical grew 20% YoY/4% QoQ and continue focus on inclusive banking [unclear].
- ▶ Jewel and home loans supported growth in the retail segment.
- ▶ In the current year, KVB made certain structural changes by merging the brand channel and open market channel called NEO. In the first phase, this has been implemented in 244 branches – These branches were able to use open market channel also for sourcing retail business. This will be expanded further so that all potential branches can use customer data and support open market channel for sourcing business.
- ▶ Agri loan grew 5% QoQ, of which majority was from gold loans (in-line with RBI’s regulation in Sep ’24).
- ▶ Corporate loan book de-grew 2% QoQ, due to cautious approach on expanding loan book on account of lower yield and exposure to some sectors. The focus is on fund-based (<INR 1bn ticket size) and non-fund based. KVB would re-evaluate its strategy on corporate book growth once deposit challenges reduce.
- ▶ KVB has started its MFI business in the past two years. The book currently stands at INR 3.5bn (cautious on growth). Recoveries are good in Telangana and Karnataka. KVB is not extending operations in Kerala and North India.
- ▶ KVB may push the pedal on growth in unsecured loans such as BNPL and personal loans once asset quality challenges in the industry subside.
- ▶ In LAP, the focus is on ticket size less than INR 10mn, the purpose for which they are taking and cash flow evaluation is the key point before sanctioning Stress in this portfolio is minimal.

- ▶ Deposits growth is the key focus area (growth was 3% QoQ). TD grew 5% QoQ, and there was an uptick in retail deposits in Q3FY25. Challenges in CASA continue. The challenge is not in acquisition of new deposit account, it is more on retention as it is getting deployed in other investment vehicles. []
- ▶ KVB reiterated its advances and deposit growth guidance of 14% YoY for FY25.

Asset quality

- ▶ Annualized slippage was 0.68% in Q3FY25.
- ▶ Recovery from written off accounts in Q3FY25 was INR 1.75bn. Total written off book stood at INR 47-48bn.
- ▶ KVB made following provisions in Q3FY25 – INR 1.01bn towards NPA migration, standard assets INR 0.09bn and restructured book - INR 0.17bn. KVB made prudent provision of INR 25bn (as in prior two quarters). Restructured provisions are not due to some asset quality challenge but are a prudent measure.
- ▶ KVB continued to guide for credit cost at 0.75% for FY25 (GNPA <2% and NNPA <1%).

Cost and margins

- ▶ Q3FY25 NIM was 4.03% and 9MFY25 NIM 4.09%, shedding low-yielding corporate advances, with focus on high-yielding granular secured advances in the RAM segment. Prudent treasury advances led to sustaining margins above 4%.
- ▶ The cost of deposits increased by 10bps and yield on advances improved by 8bps QoQ.
- ▶ The cost of deposits may slightly rise by 10bps in Q4FY25.
- ▶ Yield may depend on the policy rate changes expected in the next month.
- ▶ Yield on investment similar range in Q4FY25 as well.
- ▶ NIM may touch 3.85% in Q4FY25.
- ▶ A 5bps impact on account of CRR would always be there.

Other highlights

- ▶ Expect ROA at above 1.65% (KVB is confident of maintaining this).
- ▶ C/I was 47.2% – KVB seeks to keep it below 50%.
- ▶ KVB added 25 branches in Q3FY25 and plans to open 22 in Q4FY25.
- ▶ **Fee income:** While distribution and cross-sell are growing, the drop in corporate advances has impacted fee income by INR 10bn.

Exhibit 12: Q3FY25 results highlight

INR mn	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Interest income	24,860	23,840	4.3	21,394	16.2
Interest expenses	14,072	13,241	6.3	11,381	23.6
Net interest income	10,788	10,600	1.8	10,013	7.7
Other income	4,674	4,720	(1.0)	3,578	30.6
Operating expenses	7,310	7,157	2.1	6,832	7.0
Staff expense	3,738	3,570	4.7	3,747	(0.2)
Other opex	3,571	3,587	(0.4)	3,085	15.8
Pre prov op profit (PPP)	8,153	8,162	(0.1)	6,759	20.6
Provisions	1,474	1,798	(18.0)	1,497	(1.5)
Profit before tax	6,678	6,364	4.9	5,262	26.9
Provision for tax	1,718	1,628	5.5	1,146	50.0
Profit after tax	4,960	4,736	4.7	4,116	20.5
EPS (INR)	6.2	5.9		5.1	
Ratios (%)					
NII / GII	43.4	44.5		46.8	
Cost - income	47.3	46.7		50.3	
Provisions / PPOP	18.1	22.0		22.1	
Tax rate	25.7	25.6		21.8	
Balance sheet					
Advances (INR bn)	823	796	3.4	718	14.6
Deposits (INR bn)	992	958	3.5	857	15.7
CD ratio (%)	83.0	83.1		83.8	
Asset quality					
Gross NPA	6,909	8,856	(22.0)	11,519	(40.0)
Gross NPAs (%)	0.8	1.1		1.6	
Net NPA	1,667	2,192	(24.0)	3,053	(45.4)
Net NPA(%)	0.2	0.3		0.4	
Provision coverage (%)	75.9	75.2		73.5	

Source: Company, Elara Securities Research

Exhibit 13: Change in estimates

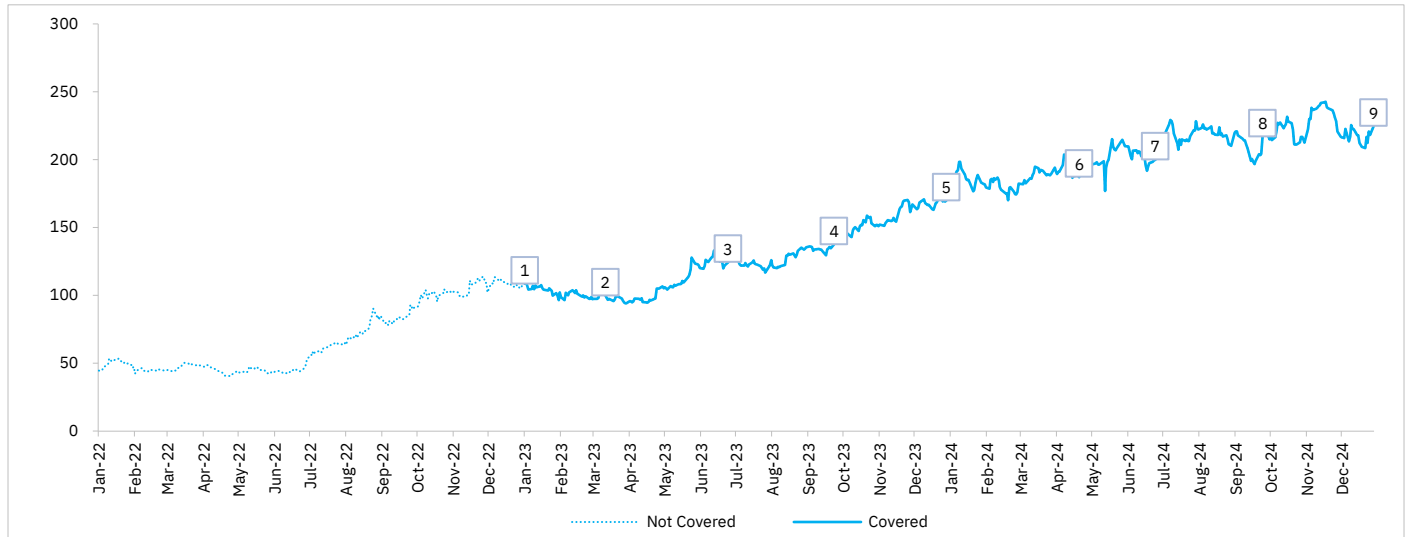
(INR mn)	Revised		Earlier		% Change		New
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	
Net interest income	42,770	47,236	42,109	46,737	(1.5)	(1.1)	52,442
Operating profit	31,495	34,110	31,134	34,123	(1.1)	0.0	38,258
Net profit	17,871	18,418	18,414	18,683	3.0	1.4	20,824
TP (INR)		264		242			9

Source: Elara Securities Estimate

Abbreviation

ABV	Adjusted book value per share
BVPS	Book value per share
CA	Current Accounts
CASA Ratio	Current and savings account ratio
CBG	Commercial banking group
EBLR	External benchmark lending rate
ECLGs	Emergency Credit Line Guarantee Scheme
EPS	Earnings per share
GCA	Gross customer assets
GNPL	Gross non-performing loans
LAP	Loans against property
MC	Mid-corporate
MCLR	Marginal Cost of Funds based Lending Rate
MTM	Mark to market
NII	Net interest income
NIM	Net interest margin
NNPL	Net non-performing loans
PCR	Provision Coverage Ratio
PPoP	Pre-provision operating profit
RoA	Return on Assets
RoE	Return on Equity
SBB	Small Business banking
SME	Small and medium-sized enterprises
SR	Security Receipts
TD	Term Deposits
WBG	Wholesale banking group

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-Jul-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
7	18-Jul-2024	Buy	INR 242	INR 205
8	17-Oct-2024	Accumulate	INR 242	INR 217
9	20-Jan-2025	Accumulate	INR 264	INR 225

Guide to Research Rating

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

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