

## Strong all-round performance; retain as top pick among SMIDs

BFSI - Banks ▶ Result Update ▶ July 18, 2024

TARGET PRICE (Rs): 275

KVB continued with its strong performance, delivering a 4% PAT beat and one of the highest RoAs among SMID banks, at 1.7%. This was mainly led by healthy credit growth at 17% YoY/4.5% QoQ, core margin above 4.1%, and lower LLP (at 60bps), given that it has one of the lowest NNPA ratios among peers at 0.4%. The management reiterated its unwavering focus on profitability (RoA: ~1.6-1.7%) led by healthy core margins/fees and steady improvement in operating leverage. KVB is gradually pruning its large corporate book, incl. exposure to NBFCs, while ramping up its retail portfolio including secured gold loans. KVB does not see any meaningful impact from the Telangana farm-loan waiver, given that bulk of agri loans are secured by gold. Building in the Q1FY25 beat, we raise FY25-27E earnings 4-6%, and expect KVB to continue delivering superior RoA/RoE at 1.6-1.7%/17-18% over FY25-27E. We retain BUY on the stock and revise up our TP to Rs275/share (earlier Rs250), rolling forward at 1.6x Jun-26E ABV. KVB remains our top pick among SMID banks, given its strong RoA, asset quality, capital/provision buffers, and management stability.

## Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	11,061	16,048	19,576	22,333	24,814
Loan growth (%)	15.5	16.7	14.6	15.0	15.9
NII growth (%)	23.3	13.7	13.5	14.0	16.0
NIM (%)	4.1	4.1	4.0	4.0	4.0
PPOP growth (%)	51.9	14.3	13.3	16.9	15.5
Adj. EPS (Rs)	13.8	20.0	24.3	27.8	30.8
Adj. EPS growth (%)	63.9	44.7	22.0	14.1	11.1
Adj. BV (INR)	102.7	122.0	143.4	167.3	193.7
Adj. BVPS growth (%)	23.4	18.9	17.5	16.7	15.8
RoA (%)	1.3	1.6	1.7	1.7	1.6
RoE (%)	13.7	17.2	18.0	17.5	16.7
P/E (x)	15.0	10.3	8.5	7.4	6.7
P/ABV (x)	2.0	1.7	1.4	1.2	1.1

Source: Company, Emkay Research

## Healthy credit growth, coupled with healthy margins

KVB posted healthy credit growth at 17% YoY/4.5% QoQ, with clear focus on ramping up its high-yielding and secured retail book. This reflects in KVB's conscious decision to grow its retail gold loan and LAP book. On the other hand, the bank is gradually pruning its corporate book (incl. exposure to NBFCs), given higher risk weights and rising asset-quality concerns. The BNPL book in partnership with Amazon (5% FLDG) has been largely stable QoQ, due to seasonality. Funding cost has been on the rise across the banking sector, as also for KVB – up by 12bps QoQ to 5.5%; but the improving portfolio mix toward the high-yielding retail book/MCLR raise led to contained margin contraction at ~6bps QoQ to 4.13% in Q1FY25. KVB expects NIM to stay well above 4% in Q2FY25 too.

## Benign asset quality trend continues

Overall gross slippages remain contained at Rs1.7bn/1.1% of loans which, coupled with better growth, led to continued moderation in the GNPA ratio to 1.3% and the NNPA ratio being the lowest among peers at 0.4%. The restructured book further contracted to 0.9% of loans vs. 1% in Q4FY24, and the bank carries ~40% provision on the book. The bank does not see any meaningful impact from the Telangana farm loan waiver, given that bulk of the agri loans are secured by gold. However, it carries contingent provision to the tune of Rs1bn, for absorbing any low-intensity initial stress.

## We retain BUY; top pick among SMID banks

Factoring in the Q1FY25 beat, we raise FY25-27E earnings by 4-6%, and expect KVB to continue delivering superior RoA/RoE at 1.6-1.7%/17-18% over FY25-27E. We retain BUY and revise up our TP to Rs275/sh, rolling forward at 1.6x Jun-26E ABV. KVB remains our top pick among SMID banks, given its strong RoA delivery, capital/provision buffers, asset quality, and management stability. **Key risks:** Slower-than-expected growth, and resurgence of NPAs in the retail/SME sector due to macro/micro dislocation.

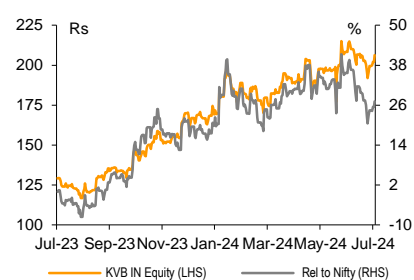
Target Price – 12M	Jun-25
Change in TP (%)	10.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.3
CMP (18-Jul-24) (Rs)	206.3

Stock Data	Ticker
52-week High (Rs)	220
52-week Low (Rs)	116
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	165
Market-cap (USD mn)	1,971
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	524.9
ADTV-3M (USD mn)	6.3
Free float (%)	97.0
Nifty-50	24,801
INR/USD	83.7
<b>Shareholding, Mar-24</b>	
Promoters (%)	2.2
FPIs/MFs (%)	15.4/36.2

## Price Performance

(%)	1M	3M	12M
Absolute	(3.5)	9.4	62.3
Rel. to Nifty	(8.7)	(2.3)	29.0

## 1-Year share price trend (Rs)



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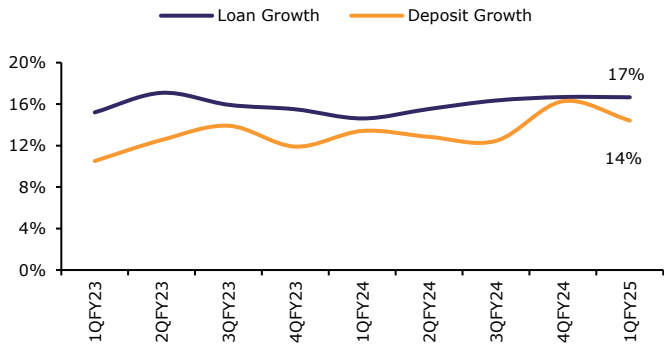
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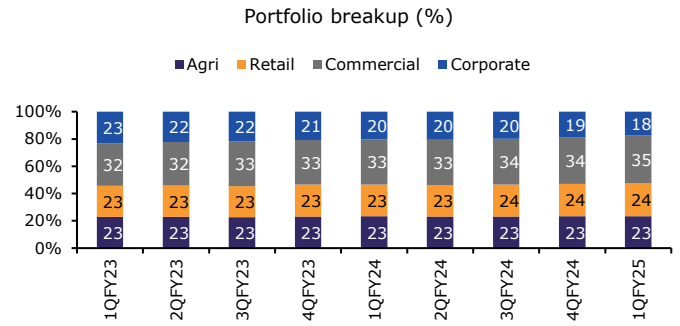
# Story in Charts

**Exhibit 1: Credit growth continues to trend well, led by RAM**



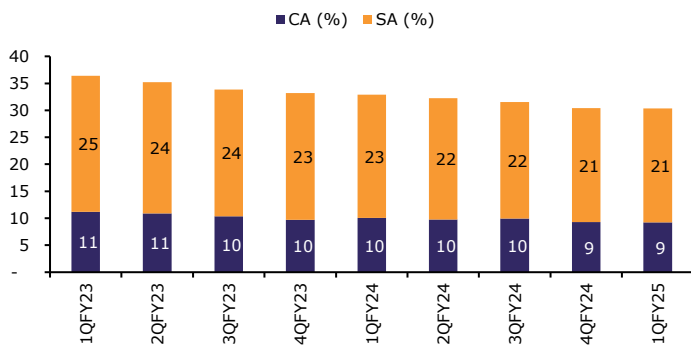
Source: Company, Emkay Research

**Exhibit 2: KVB continues to prune its low-yielding corporate exposure, leading to better blended loan yields**



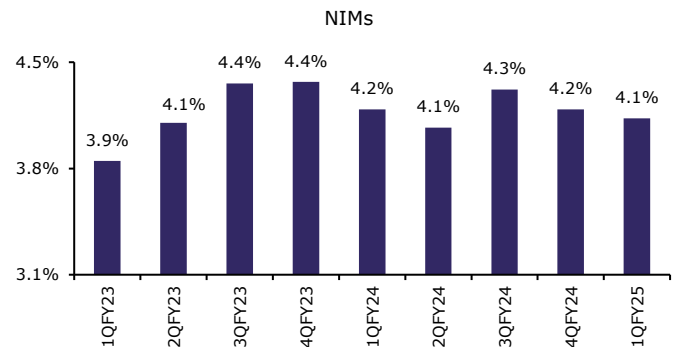
Source: Company, Emkay Research

**Exhibit 3: CASA ratio has stabilized in Q1FY25**



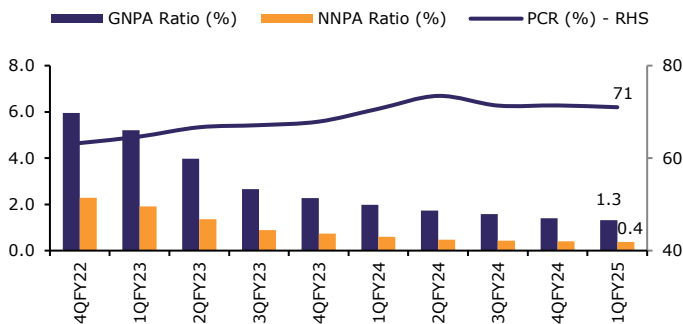
Source: Company, Emkay Research

**Exhibit 4: Margin contraction was limited to only 6bps QoQ, mainly due to the improving portfolio mix and MCLR raise**



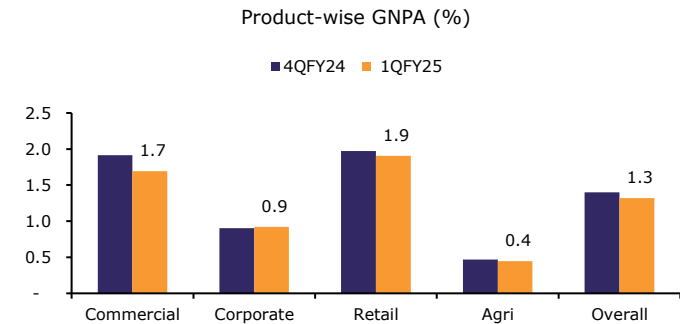
Source: Company, Emkay Research

**Exhibit 5: NPAs continued to trend down due to lower slippages...**



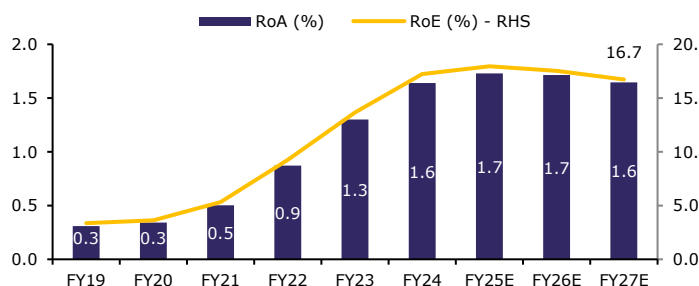
Source: Company, Emkay Research

**Exhibit 6: ...and owing to the overall healthy fall in segmental NPAs as well, except in retail**



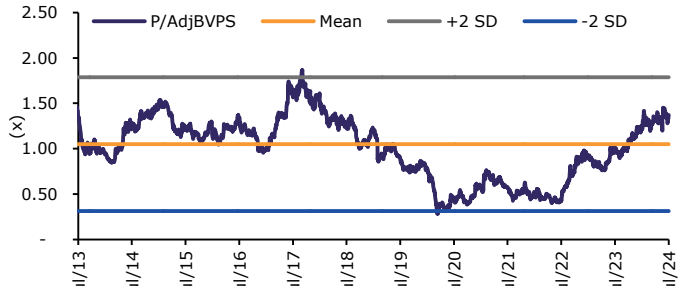
Source: Company, Emkay Research

**Exhibit 7: We expect return ratios to remain healthy led by better growth/NIMs and improving operating leverage**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 1.4x its one-year fwd ABV**



Source: Bloomberg, Emkay Research

**Exhibit 9: Actuals vs Estimates (Q1FY25)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	14,127	13,999	12,927	1%	9%	Higher NII led to higher net income
PPOP	7,459	7,389	7,112	1%	5%	Higher net income partly offset by higher other opex led to a slight PPOP beat
PAT	4,587	4,405	4,455	4%	3%	PPOP beat and lower LLP led to a PAT beat

Source: Company, Emkay Research

**Exhibit 10: Quarterly Summary**

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	18,829	19,971	21,394	21,846	22,845	21.3	4.6	82,039	95,763	17
Interest Expense	9,858	10,817	11,381	11,891	12,602	27.8	6.0	43,947	52,523	20
Net Interest Income	8,971	9,154	10,013	9,955	10,244	14.2	2.9	38,092	43,240	14
Global NIMs (reported)	4.19	4.07	4.32	4.19	4.13	-6bps	-6bps	4.06	3.98	-8bps
Non-interest Income	3,332	3,389	3,578	6,289	3,884	16.6	-38.2	16,587	17,227	4
Operating Expenses	5,818	6,164	6,832	7,574	6,669	14.6	-12.0	26,388	28,411	8
Pre Provisioning Profit	6,484	6,379	6,759	8,669	7,459	15.0	-14.0	28,291	32,056	13
Provision and Contingencies	1,594	1,264	1,497	2,934	1,329	-16.6	-54.7	7,290	5,954	-18
PBT	4,890	5,115	5,262	5,735	6,129	25.3	6.9	21,002	26,102	24
Income Tax Expense (Gain)	1,304	1,331	1,146	1,174	1,543	18.3	31.4	4,954	6,525	32
Net Profit/(Loss)	3,586	3,785	4,116	4,561	4,587	27.9	0.6	16,048	19,576	22
Gross NPA (%)	1.99	1.73	1.58	1.40	1.32	-67bps	-8bps	1.40	1.24	-16bps
Net NPA (%)	0.59	0.47	0.43	0.40	0.38	-21bps	-2bps	0.40	0.36	-4bps
Deposits (Rs bn)	807	831	857	891	923	14.4	3.6	891	1,024	15
Net Advances (Rs bn)	660	695	718	737	770	16.7	4.5	737	844	15

Source: Company, Emkay Research

**Exhibit 11: Revision in estimates**

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	60,235	60,467	0.4%	67,724	69,026	1.9%	76,856	78,816	2.6%
PPOP	31,457	32,056	1.9%	35,809	37,470	4.6%	41,525	43,262	4.2%
PAT	18,812	19,576	4.1%	21,130	22,333	5.7%	23,641	24,814	5.0%
EPS (Rs)	23.4	24.3	4.0%	26.3	27.8	5.6%	29.4	30.8	4.9%
BV (Rs)	145.2	146.3	0.7%	168.1	170.7	1.6%	193.7	197.9	2.1%

Source: Company, Emkay Research

**Exhibit 12: Key assumptions**

	FY24	FY25E	FY26E	FY27E
Loan Growth (%)	16.7	14.6	15.0	15.9
Deposit Growth (%)	16.3	14.9	15.8	16.7
NIM (%)	4.1	4.0	4.0	4.0
GNPA (%)	1.4	1.2	1.3	1.4
Credit Cost (%)	0.7	0.8	0.9	1.0

Source: Emkay Research

**Exhibit 13: Key Ratios and Trends**

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Loans (Rs mn)	575,590	601,614	617,090	631,341	659,730	695,074	717,980	736,675	769,650
Growth - YoY (%)	15.2	17.1	15.9	15.5	14.6	15.5	16.3	16.7	16.7
Growth - QoQ (%)	5.3	4.5	2.6	2.3	4.5	5.4	3.3	2.6	4.5
<b>Liability Profile &amp; Margins (%)</b>									
Deposits (Rs mn)	711,680	736,140	761,750	766,376	807,150	830,685	856,650	891,127	923,490
Growth - YoY	10.5	12.5	13.9	11.9	13.4	12.8	12.5	16.3	14.4
Growth - QoQ	3.9	3.4	3.5	0.6	5.3	2.9	3.1	4.0	3.6
CASA	36.4	35.2	33.9	33.2	32.9	32.3	31.5	30.4	30.4
- CA	11.2	10.9	10.3	9.7	10.1	9.8	9.9	9.3	9.2
- SA	25.2	24.3	23.5	23.5	22.8	22.5	21.6	21.1	21.2
Branches (no. of)	789	792	792	799	808	824	831	838	840
NIM	3.85	4.10	4.36	4.37	4.19	4.07	4.32	4.19	64.13
<b>Asset Quality (%)</b>									
GNPA	5.2	4.0	2.7	2.3	2.0	1.7	1.6	1.4	1.3
NNPA	1.9	1.4	0.9	0.7	0.6	0.5	0.4	0.4	0.4
PCR	64.7	66.7	67.1	67.9	70.7	73.5	71.4	71.4	71.0
<b>Capital Adequacy (%)</b>									
CRAR	19.2	18.3	17.9	18.6	17.7	16.8	15.4	16.7	16.5
Tier I	17.3	16.4	16.0	16.8	16.0	15.2	13.9	15.5	15.6
<b>ROE Decomposition (%)</b>									
NII	3.6	3.9	4.1	4.0	3.9	3.8	4.0	3.8	3.8
Other Income	1.0	1.1	1.4	1.8	1.4	1.4	1.4	2.4	1.4
Opex	2.3	2.3	2.4	2.5	2.5	2.6	2.7	2.9	2.5
PPOP	2.3	2.7	3.1	3.3	2.8	2.6	2.7	3.3	2.8
Provisioning Cost	0.8	1.1	1.7	1.3	0.7	0.5	0.6	1.1	0.5
PBT	1.6	1.6	1.5	2.0	2.1	2.1	2.1	2.2	2.3
ROA	1.1	1.2	1.3	1.5	1.6	1.6	1.6	1.8	1.7
ROE	11.9	12.7	14.3	16.1	16.4	16.7	17.6	18.6	17.8

Source: Company, Emkay Research

## Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	65,166	82,039	95,763	108,812	122,977
Interest Expense	31,677	43,947	52,523	59,527	65,808
<b>Net interest income</b>	<b>33,488</b>	<b>38,092</b>	<b>43,240</b>	<b>49,286</b>	<b>57,169</b>
NII growth (%)	23.3	13.7	13.5	14.0	16.0
Other income	11,589	16,587	17,227	19,740	21,647
<b>Total Income</b>	<b>45,077</b>	<b>54,679</b>	<b>60,467</b>	<b>69,026</b>	<b>78,816</b>
Operating expenses	20,320	26,388	28,411	31,556	35,554
<b>PPOP</b>	<b>24,758</b>	<b>28,291</b>	<b>32,056</b>	<b>37,470</b>	<b>43,262</b>
PPOP growth (%)	51.9	14.3	13.3	16.9	15.5
<b>Core PPOP</b>	<b>24,466</b>	<b>26,291</b>	<b>29,456</b>	<b>34,350</b>	<b>39,830</b>
Provisions & contingencies	10,389	7,290	5,954	7,693	10,176
<b>PBT</b>	<b>14,369</b>	<b>21,002</b>	<b>26,102</b>	<b>29,778</b>	<b>33,086</b>
Extraordinary items	0	0	0	0	0
Tax expense	3,308	4,954	6,525	7,444	8,271
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>11,061</b>	<b>16,048</b>	<b>19,576</b>	<b>22,333</b>	<b>24,814</b>
PAT growth (%)	64.3	45.1	22.0	14.1	11.1
<b>Adjusted PAT</b>	<b>11,061</b>	<b>16,048</b>	<b>19,576</b>	<b>22,333</b>	<b>24,814</b>
<b>Diluted EPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Diluted EPS growth (%)	(100.0)	0.0	0.0	0.0	0.0
<b>DPS (Rs)</b>	<b>2.0</b>	<b>2.4</b>	<b>2.9</b>	<b>3.3</b>	<b>3.7</b>
<b>Dividend payout (%)</b>	<b>14.5</b>	<b>12.0</b>	<b>11.9</b>	<b>11.9</b>	<b>12.0</b>
Effective tax rate (%)	23.0	23.6	25.0	25.0	25.0
Net interest margins (%)	4.1	4.1	4.0	4.0	4.0
Cost-income ratio (%)	45.1	48.3	47.0	45.7	45.1
Shares outstanding (mn)	802.1	804.4	804.4	804.4	804.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Asset quality</b>					
Gross NPLs	14,581.6	10,421.6	10,592.0	12,747.6	15,475.4
Net NPLs	4,681.5	2,981.2	3,071.7	3,696.8	4,487.9
GNPA ratio (%)	2.3	1.4	1.2	1.3	1.4
NNPA ratio (%)	0.7	0.4	0.4	0.4	0.4
Provision coverage (%)	67.9	71.4	71.0	71.0	71.0
Gross slippages	4,792.4	7,030.0	8,520.1	10,778.0	13,639.0
Gross slippage ratio (%)	0.8	1.1	1.0	1.1	1.2
LLP ratio (%)	1.1	0.7	0.8	0.9	1.0
NNPA to networth (%)	5.3	2.9	2.5	2.6	2.7
<b>Capital adequacy</b>					
Total CAR (%)	18.6	16.7	16.4	16.1	15.7
Tier-1 (%)	16.8	15.5	15.4	15.2	15.0
CET-1 (%)	16.9	15.9	15.8	15.5	15.3
RWA-to-Total Assets (%)	54.4	57.9	60.0	62.0	63.0
<b>Miscellaneous</b>					
Total income growth (%)	20.7	28.5	14.6	13.8	12.5
Opex growth (%)	9.6	29.9	7.7	11.1	12.7
Core PPOP growth (%)	45.6	7.5	12.0	16.6	16.0
PPOP margin (%)	32.3	28.7	28.4	29.1	29.9
PAT/PPOP (%)	44.7	56.7	61.1	59.6	57.4
LLP-to-Core PPOP (%)	27.9	18.4	20.9	23.0	25.5
Yield on advances (%)	9.2	10.1	10.1	10.0	9.8
Cost of funds (%)	4.3	5.2	5.3	5.2	5.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,604	1,609	1,609	1,609	1,609
Reserves & surplus	84,236	98,792	116,036	135,714	157,552
<b>Net worth</b>	<b>85,841</b>	<b>100,401</b>	<b>117,644</b>	<b>137,323</b>	<b>159,161</b>
Deposits	766,376	891,127	1,024,040	1,186,069	1,383,842
Borrowings	14,320	24,784	28,766	33,545	37,847
<b>Interest bearing liab.</b>	<b>780,696</b>	<b>915,911</b>	<b>1,052,807</b>	<b>1,219,615</b>	<b>1,421,689</b>
<b>Other liabilities &amp; prov.</b>	<b>35,258</b>	<b>39,541</b>	<b>39,460</b>	<b>36,329</b>	<b>39,267</b>
<b>Total liabilities &amp; equity</b>	<b>901,794</b>	<b>1,055,852</b>	<b>1,209,911</b>	<b>1,393,267</b>	<b>1,620,117</b>
Net advances	631,341	736,675	844,492	970,763	1,125,596
Investments	188,083	223,435	252,388	289,426	336,590
Cash, other balances	46,951	56,586	63,168	73,177	85,301
<b>Interest earning assets</b>	<b>866,376</b>	<b>1,016,696</b>	<b>1,160,048</b>	<b>1,333,366</b>	<b>1,547,487</b>
Fixed assets	4,350	4,329	7,804	8,711	9,725
Other assets	31,068	34,828	42,059	51,190	62,905
<b>Total assets</b>	<b>901,794</b>	<b>1,055,852</b>	<b>1,209,911</b>	<b>1,393,267</b>	<b>1,620,117</b>
BVPS (Rs)	107.0	124.8	146.3	170.7	197.9
Adj. BVPS (INR)	102.7	122.0	143.4	167.3	193.7
Gross advances	641,241	744,115	852,012	979,814	1,136,584
Credit to deposit (%)	82.4	82.7	82.5	81.8	81.3
CASA ratio (%)	33.2	30.4	29.1	28.4	28.8
Cost of deposits (%)	4.2	5.0	5.2	5.1	4.9
Loans-to-Assets (%)	70.0	69.8	69.8	69.7	69.5
Net advances growth (%)	15.5	16.7	14.6	15.0	15.9
Deposit growth (%)	11.9	16.3	14.9	15.8	16.7
Book value growth (%)	12.7	16.6	17.2	16.7	15.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	15.0	10.3	8.5	7.4	6.7
P/B (x)	2.0	1.7	1.4	1.2	1.1
P/ABV (x)	2.0	1.7	1.4	1.2	1.1
P/PPOP (x)	6.7	5.9	5.2	4.4	3.8
Dividend yield (%)	1.0	1.2	1.4	1.6	1.8
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.9	3.9	3.8	3.8	3.8
Other income	1.4	1.7	1.5	1.5	1.4
Fee income	1.1	1.1	1.1	1.1	1.1
Opex	2.4	2.7	2.5	2.4	2.4
<b>PPOP</b>	<b>2.9</b>	<b>2.9</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>
Core PPOP	2.9	2.7	2.6	2.6	2.6
Provisions	1.2	0.7	0.5	0.6	0.7
Tax expense	0.4	0.5	0.6	0.6	0.5
<b>RoA (%)</b>	<b>1.3</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.6</b>
Leverage ratio (x)	10.5	10.5	10.4	10.2	10.2
<b>RoE (%)</b>	<b>13.7</b>	<b>17.2</b>	<b>18.0</b>	<b>17.5</b>	<b>16.7</b>
<b>Quarterly data</b>					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	8,971	9,154	10,013	9,955	10,244
NIM(%)	4.2	4.1	4.3	4.2	4.2
PPOP	6,484	6,379	6,759	8,669	7,459
PAT	3,586	3,785	4,116	4,561	4,587
EPS (Rs)	4.48	4.73	5.15	5.70	5.73

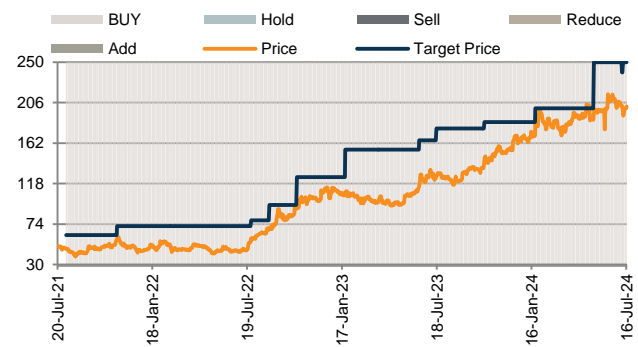
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Jul-24	196	250	Buy	Anand Dama
07-Jul-24	203	239	Buy	Anand Dama
14-May-24	194	250	Buy	Anand Dama
23-Jan-24	183	200	Buy	Anand Dama
30-Nov-23	155	185	Buy	Anand Dama
17-Oct-23	144	185	Buy	Anand Dama
17-Jul-23	127	178	Buy	Anand Dama
14-Jun-23	115	165	Buy	Anand Dama
16-May-23	98	155	Buy	Anand Dama
09-Mar-23	104	155	Buy	Anand Dama
23-Jan-23	109	155	Buy	Anand Dama
22-Oct-22	91	125	Buy	Anand Dama
03-Oct-22	79	95	Buy	Anand Dama
30-Aug-22	69	95	Buy	Anand Dama
26-Jul-22	59	78	Buy	Anand Dama
22-May-22	45	72	Buy	Anand Dama
01-Feb-22	51	72	Buy	Anand Dama
11-Nov-21	58	72	Buy	Anand Dama
05-Aug-21	47	62	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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