BUY Karur Vysya Bank

Margin slips, but sustained momentum in RoA

BFSI - Banks | Result Update | **July 25, 2025**

CMP (Rs): 271 | TP (Rs): 325

Karur Vysya Bank (KVB)'s robust performance continued in 1Q too, with strong credit growth of 15% YoY led by RAM and sustained peer-best RoA of 1.7% (PAT at Rs5.2bn), which the bank would uphold, per management guidance. Given higher share of EBLR-linked loans, the bank reported a sharp 19bps QoQ contraction in margin to 3.9%. However, KVB has taken measures to limit margin contraction, including a sharp SA rate cut to an industry-low of 2% in a select bucket (under Rs0.1mn), apart from TD rate cuts. Asset quality continues to hold up well, with slippages at a low of 1% of loans, leading to the peer-best GNPA/NNPA ratio at 0.7/0.2% of loans. The bank sprung a surprise with its announcement of bonus share issuance in the 1:5 ratio. We broadly maintain our FY26-28 estimates and expect KVB to deliver RoA/RoE of 1.6-1.7%/16-17% over the same period. Factoring in the superior RoA delivery, healthy capital buffer, and stable management, we reiterate BUY on KVB while raising our TP by ~8% to Rs325 (Rs300 earlier), valuing the bank at 1.5x Jun-27E ABV.

Strong growth, though margin subsides

KVB reported healthy gross credit growth of ~15% YoY/6% QoQ, mainly led by strong traction in RAM. After multiple quarters of decline, the corporate book inched up 6% QoQ. Deposit growth too was strong, at 16% YoY/4.5% QoQ, while CASA ratio improved QoQ to 27.5%. However, NIM declined sharply by 19bps to ~3.9% owing to a 21bps decline in yields and elevated CoD at ~5.8%. The mgmt expects CoD to remain elevated in Q2, albeit to ease gradually, as the bank has cut SA as well as TD rates. The mgmt indicated that 53% of its loan portfolio is EBLR-linked; of this, around 37% is scheduled for repricing in Q2 which would hence lead to a ~10bps yield contraction. Thus, the management expects NIM to remain in the range of 3.7-3.75% during FY26.

Sustains lowest GNPA/NNPA among SMID PVBs

KVB's GNPA ratio further improved by 10bps QoQ to peer-best levels of 0.7%/0.2% of loans, owing to continued lower gross slippages and higher recoveries/write-offs. KVB maintains caution on unsecured loans, while remaining vigilant about the rising noise in the SME space. The bank has recently seen a reduction in specific PCR to 71% from a high of 76% in 3QFY25, which we believe it needs to sustain. We expect the bank's credit cost to remain low at around 0.7-0.8% over FY26-28E and, thus, support RoA.

We retain BUY; KVB the top pick among SMID banks

We broadly maintain our FY26-28 estimates and expect KVB to deliver RoA/RoE of 1.6-1.7%/16-17% over the same period. Factoring in the superior RoA delivery, healthy capital buffer, and stable management, we reiterate BUY on the stock with a revised up TP of Rs325, valuing the bank at 1.5x Jun-27E ABV. Key risks: Slower-than-expected growth, and resurgence of NPAs in the retail/SME sector due to macro/micro dislocation.

Target Price – 12M	Jun-26
Change in TP (%)	**8.3**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.9

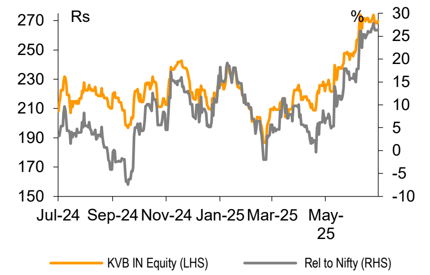
Stock Data	KVB IN
52-week High (Rs)	278
52-week Low (Rs)	184
Shares outstanding (mn)	799.2
Market-cap (Rs bn)	216
Market-cap (USD mn)	2,504
Net-debt, FY26E (Rs mn)	NA
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	734.0
ADTV-3M (USD mn)	8.5
Free float (%)	97.4
Nifty-50	25,062.1
INR/USD	86.4

Shareholding, Mar-25	
Promoters (%)	2.1
FPIs/MFs (%)	15.1/38.9

Price Performance

(%)	1M	3M	12M
Absolute	8.9	21.7	26.4
Rel. to Nifty	9.7	16.7	23.1

1-Year share price trend (Rs)



Karur Vysya Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Net profit	16,048	19,416	21,909	23,809	26,710
Loan growth (%)	16.7	14.0	14.0	15.0	15.9
NII growth (%)	13.8	11.6	6.3	12.5	16.3
NIM (%)	4.1	3.9	3.7	3.6	3.6
PPOP growth (%)	14.3	13.5	8.4	11.2	15.0
Adj. EPS (Rs)	20.0	24.1	27.2	29.6	33.2
Adj. EPS growth (%)	44.7	20.9	12.8	8.7	12.2
Adj. BV (INR)	122.1	146.6	170.8	196.8	225.7
Adj. BVPS growth (%)	18.9	20.1	16.5	15.2	14.7
RoA (%)	1.6	1.7	1.7	1.6	1.6
RoE (%)	17.2	17.7	17.0	15.9	15.5
P/E (x)	13.6	11.2	10.0	9.2	8.2
P/ABV (x)	2.2	1.8	1.6	1.4	1.2

Source: Company, Emkay Research

Anand Dama
anand.dama@emkayglobal.com
+91-22-66242480

Nikhil Vaishnav
nikhil.vaishnav@emkayglobal.com
+91-22-66242485

Kunaal N
kunaal.n@emkayglobal.com
+91-22-66121275

Key Concall takeaways

Outlook on loans, deposits, and NIM

- The bank remains cautious about unsecured lending and continues with its conservative approach.
- The bank has identified 144 branches for driving mortgage growth through the branch banking channel.
- Synergy between the branch and open market channels remains strong, supporting balanced business growth.
- The retail jewel loan segment continues to see strong organic demand, with no reclassification involved.
- Peak SA rate (for balances up to Rs100k) has been reduced to 2%. Peak TD rates have been cut, from 7.5% to 6.85%.
- NIM for FY26 is expected to remain rangebound at 3.7-3.75%, factoring in the lagged impact of CoD, in line with industry trends. CoD is expected to be stable in Q2, and reduction will begin from Q3, with deposit repricing expected to commence then. The recent CRR cut is unlikely to provide any significant benefit.
- The bank's loan book comprises 53% EBLR-linked and 35% MCLR-linked loans. Around 37% of the EBLR book is scheduled for repricing in Q2, which is expected to reduce yields by ~10bps in that quarter.
- The EBLR-linked portfolio includes both, working capital and term loans. WC reprices immediately, while term loans are being repriced across Q1 and the upcoming Jul-Aug period.
- The bank expects credit growth to log 2% above the industry growth.

Asset quality

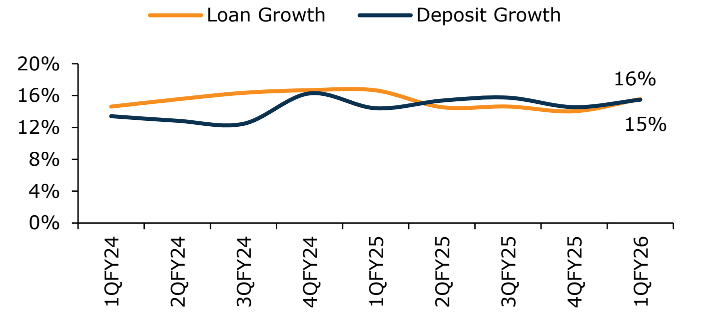
- GNPA is expected to remain below 1%, while NNPA is projected at around 0.5%, with slippages anticipated to stay under 1%.

Others

- Other income includes recovery of Rs0.78bn vs Rs1.82bn from previously written-off accounts**.**
- The bank is hiring selectively, focusing only on necessary replacements and strategic additions.
- The bank added 40 branches in FY25 with a focus on 'light branches' (with only 3-4 staff members) to drive liability growth, while asset origination is handled by larger hub branches.
- Return ratios are expected in the 1.5-1.65% range for FY26.

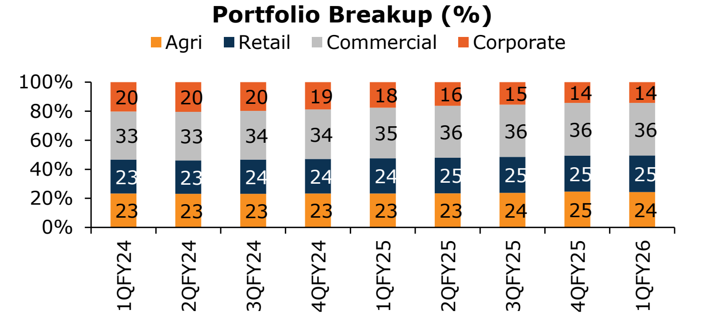
Story in charts

Exhibit 1: KVB reported healthy credit growth, driven by broad-based growth and deposit growth



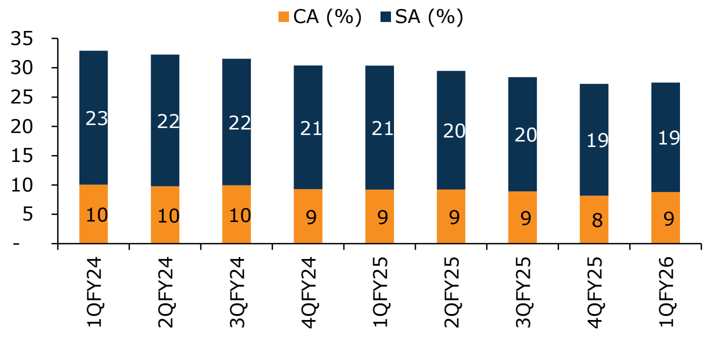
Source: Company, Emkay Research

Exhibit 2: Bank portfolio mix is largely stable QoQ



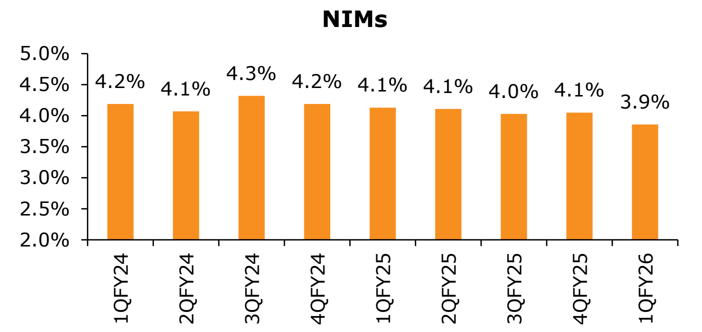
Source: Company, Emkay Research

Exhibit 3: CASA growth remains healthy, leading to stable CASA ratio



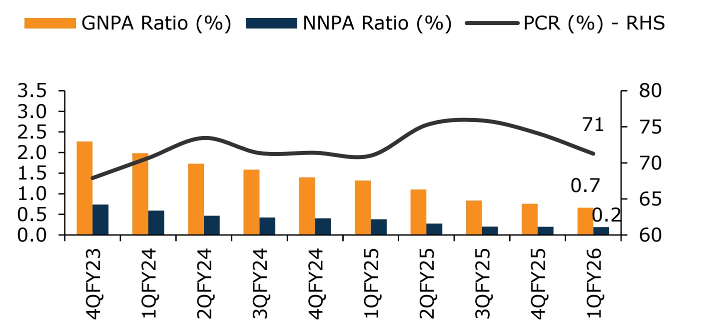
Source: Company, Emkay Research

Exhibit 4: NIM declined sharply by 19bps to ~3.9%, owing to a 21bps decline in yields and elevated CoD at ~5.8%



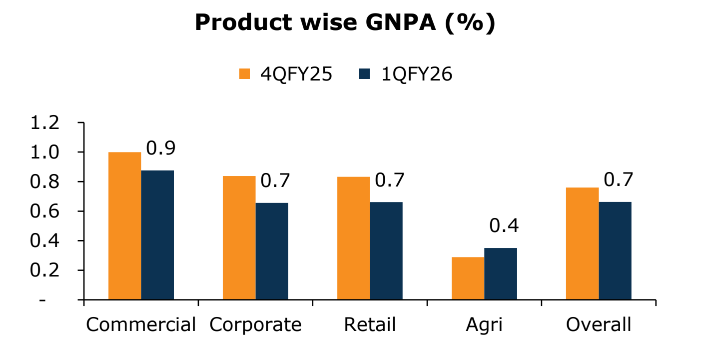
Source: Company, Emkay Research

Exhibit 5: NPAs continued to trend downward QoQ



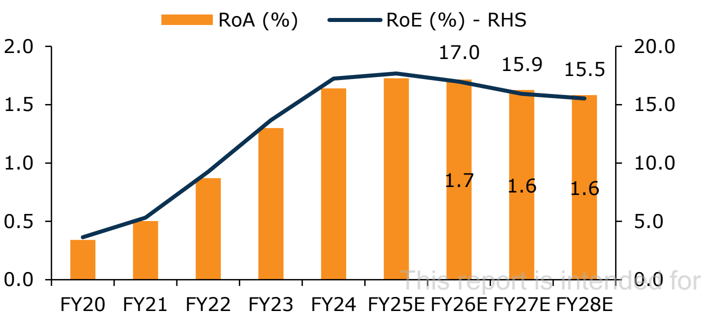
Source: Company, Emkay Research

Exhibit 6: NPA across the product segment improves sequentially



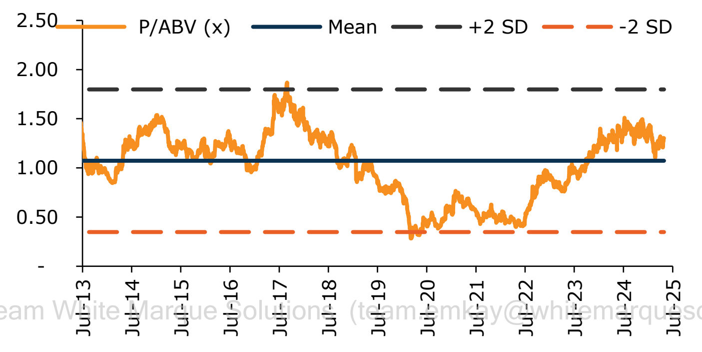
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to remain healthy, led by healthy operating profits and improving operating leverage



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at ~1.4x its 1Y forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs Estimates (Q1FY26)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	15,266	15,642	15,023	-2%	2%	Marginal decline in NII and other income led to a miss
PPOP	8,055	8,106	8,106	-1%	-1%	Marginal decline in net income and contained opex led to stable PPoP
PAT	5,215	5,091	4,950	2%	5%	Lower provisions led to a PAT miss

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)	FY25	FY26E	YoY (%)
Interest Earned	22,845	23,840	24,860	25,159	25,686	12.4	2.1	96,705	103,663	7
Interest Expense	12,602	13,241	14,072	14,267	14,892	18.2	4.4	54,181	58,477	8
Net Interest Income	10,244	10,600	10,788	10,893	10,794	5.4	-0.9	42,524	45,186	6
Global NIMs (reported)	4.13	4.11	4.03	4.05	3.86	-27bps	-19bps	3.92	3.66	-26bps
Non-interest Income	3,884	4,720	4,674	5,093	4,473	15.2	-12.2	18,371	20,406	11
Operating Expenses	6,669	7,157	7,310	7,636	7,211	8.1	-5.6	28,771	30,773	7
Pre-Provisioning Profit	7,459	8,162	8,153	8,350	8,055	8.0	-3.5	32,123	34,818	8
Provision & Contingencies	1,329	1,798	1,474	1,614	1,181	-11.1	-26.8	6,216	5,568	-10
PBT	6,129	6,364	6,678	6,736	6,874	12.1	2.0	25,907	29,250	13
Income Tax Expense (Gain)	1,543	1,628	1,718	1,602	1,659	7.6	3.6	6,491	7,342	13
Net Profit/(Loss)	4,587	4,736	4,960	5,134	5,215	13.7	1.6	19,417	21,909	13
Gross NPA (%)	1.32	1.10	0.83	0.76	0.66	-66bps	-10bps	0.76	0.71	-5bps
Net NPA (%)	0.38	0.28	0.20	0.20	0.19	-19bps	-1bps	0.20	0.18	-2bps
Deposits (Rs bn)	923	958	992	1,021	1,067	15.5	4.5	1,021	1,173	15
Net Advances (Rs bn)	770	796	823	840	889	15.6	5.9	840	958	14

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY26E			FY27E			FY28E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	66,381	65,592	-1.2%	73,315	72,667	-0.9%	82,629	82,673	0.1%
PPOP	34,842	34,818	-0.1%	38,507	38,704	0.5%	43,544	44,526	2.3%
PAT	21,790	21,909	0.5%	23,639	23,809	0.7%	25,955	26,710	2.9%
EPS (Rs)	27.1	27.2	0.6%	29.4	29.6	0.7%	32.2	33.2	2.9%
BV (Rs)	172.2	172.4	0.1%	198.3	198.7	0.2%	226.9	228.3	0.6%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY25	FY26E	FY27E	FY28E
Loan Growth (%)	14.0	14.0	15.0	15.9
Deposit Growth (%)	14.5	14.9	14.8	15.2
NIM (%)	3.9	3.7	3.6	3.6
GNPA (%)	0.8	0.7	0.8	0.9
Credit Cost (%)	0.6	0.7	0.7	0.8

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Loans (Rs mn)	**659,730**	**695,074**	**717,980**	**736,675**	**769,650**	**796,188**	**823,020**	**840,045**	**889,440**
YoY Growth (%)	14.6	15.5	16.3	*16.7*	*16.7*	14.5	14.6	14.0	*15.6*
QoQ Growth (%)	4.5	5.4	3.3	*2.6*	*4.5*	3.4	3.4	2.1	*5.9*
Liability Profile and Margin (%)									
Deposits (Rs mn)	**807,150**	**830,685**	**856,650**	**891,127**	**923,490**	**958,385**	**991,550**	**1,020,780**	**1,066,500**
Growth (YoY)	13.4	12.8	12.5	*16.3*	*14.4*	15.4	15.7	14.5	*15.5*
Growth (QoQ)	5.3	2.9	3.1	*4.0*	*3.6*	3.8	3.5	2.9	*4.5*
CASA	32.9	32.3	31.5	30.4	30.4	29.5	28.4	27.3	27.5
CA	10.1	9.8	9.9	9.3	9.2	9.2	8.9	8.2	8.8
SA	22.8	22.5	21.6	21.1	21.2	20.2	19.5	19.1	18.7
Branches (no of)	808	824	831	838	840	841	866	888	888
NIM	4.19	4.07	4.32	4.19	64.13	4.11	4.03	4.05	3.86
Asset Quality (%)									
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
PCR	70.7	73.5	71.4	71.4	71.0	75.2	75.9	74.1	71.3
Capital Adequacy (%)									
CRAR	17.7	16.8	15.4	16.7	16.5	16.3	15.9	18.2	17.4
Tier I	16.0	15.2	13.9	15.5	15.6	15.4	15.0	17.1	16.3
ROE Decomposition (%)									
NII	3.9	3.8	4.0	3.8	3.8	3.8	3.8	3.7	3.5
Other Income	1.4	1.4	1.4	2.4	1.4	1.7	1.6	1.7	1.5
Opex	2.5	2.6	2.7	2.9	2.5	2.6	2.6	2.6	2.4
PPOP	2.8	2.6	2.7	3.3	2.8	2.9	2.8	2.8	2.6
Provisioning Cost	0.7	0.5	0.6	1.1	0.5	0.6	0.5	0.5	0.4
PBT	2.1	2.1	2.1	2.2	2.3	2.3	2.3	2.3	2.2
ROA	1.6	1.6	1.6	1.8	1.7	1.7	1.7	1.7	1.7
ROE	16.4	16.7	17.6	18.6	17.8	17.6	17.8	17.6	17.1

Source: Company, Emkay Research

Karur Vysya Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	82,040	96,705	103,663	112,435	124,977
Interest Expense	43,947	54,181	58,477	61,593	65,867
Net interest income	**38,093**	**42,524**	**45,186**	**50,843**	**59,110**
NII growth (%)	13.8	11.6	6.3	12.5	16.3
Other income	16,587	18,371	20,406	21,825	23,563
Total Income	**54,680**	**60,895**	**65,592**	**72,667**	**82,673**
Operating expenses	26,388	28,771	30,773	33,963	38,147
PPOP	**28,292**	**32,123**	**34,818**	**38,704**	**44,526**
PPOP growth (%)	14.3	13.5	8.4	11.2	15.0
Core PPOP	**25,348**	**28,444**	**30,403**	**33,626**	**39,194**
Provisions & contingencies	7,290	6,216	5,568	6,917	8,865
PBT	**21,002**	**25,907**	**29,250**	**31,787**	**35,661**
Extraordinary items	-	-	-	-	-
Tax expense	4,954	6,491	7,342	7,979	8,951
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	**16,048**	**19,416**	**21,909**	**23,809**	**26,710**
PAT growth (%)	45.1	21.0	12.8	8.7	12.2
Adjusted PAT	**16,048**	**19,416**	**21,909**	**23,809**	**26,710**
Diluted EPS (Rs)	**20.0**	**24.1**	**27.2**	**29.6**	**33.2**
Diluted EPS growth (%)	44.7	20.9	12.8	8.7	12.2
DPS (Rs)	**2.4**	**2.6**	**3.0**	**3.3**	**3.6**
Dividend payout (%)	**12.0**	**10.8**	**11.0**	**11.2**	**10.8**
Effective tax rate (%)	23.6	25.1	25.1	25.1	25.1
Net interest margins (%)	4.1	3.9	3.7	3.6	3.6
Cost-income ratio (%)	48.3	47.2	46.9	46.7	46.1
Shares outstanding (mn)	804.4	805.1	805.0	805.0	805.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,609	1,610	1,610	1,610	1,610
Reserves & surplus	98,796	117,685	137,179	158,331	182,143
Net worth	**100,404**	**119,295**	**138,789**	**159,941**	**183,753**
Deposits	891,124	1,020,780	1,172,972	1,346,850	1,551,931
Borrowings	24,783	12,170	12,778	13,417	14,088
Interest bearing liab.	**915,907**	**1,032,950**	**1,185,750**	**1,360,267**	**1,566,019**
Other liabilities & prov.	**39,540**	**41,429**	**36,947**	**46,142**	**60,210**
Total liabilities & equity	**1,055,852**	**1,193,674**	**1,361,486**	**1,566,350**	**1,809,982**
Net advances	736,675	840,045	957,953	1,101,293	1,276,485
Investments	223,435	238,313	275,832	315,785	362,421
Cash, other balances	56,586	78,067	83,003	95,219	105,706
Interest earning assets	**1,016,695**	**1,156,425**	**1,316,788**	**1,512,297**	**1,744,612**
Fixed assets	4,329	4,902	5,475	6,115	6,830
Other assets	34,827	32,347	39,224	47,938	58,540
Total assets	**1,055,852**	**1,193,674**	**1,361,486**	**1,566,350**	**1,809,982**
BVPS (Rs)	124.8	148.2	172.4	198.7	228.3
Adj. BVPS (INR)	122.1	146.6	170.8	196.8	225.7
Gross advances	744,112	844,802	963,074	1,107,535	1,284,741
Credit to deposit (%)	82.7	82.3	81.7	81.8	82.3
CASA ratio (%)	30.4	27.3	26.6	27.1	27.9
Cost of deposits (%)	5.1	5.6	5.3	4.9	4.5
Loans-to-Assets (%)	69.8	70.4	70.4	70.3	70.5
Net advances growth (%)	16.7	14.0	14.0	15.0	15.9
Deposit growth (%)	16.3	14.5	14.9	14.8	15.2
Book value growth (%)	16.6	18.7	16.4	15.2	14.9

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Asset quality					
Gross NPLs	10,417	6,418	6,828	8,323	11,008
Net NPLs	2,980	1,662	1,707	2,081	2,752
GNPA ratio (%)	1.4	0.8	0.7	0.8	0.9
NNPA ratio (%)	0.4	0.2	0.2	0.2	0.2
Provision coverage (%)	71.4	74.1	75.0	75.0	75.0
Gross slippages	4,992	6,730	8,186	9,968	12,205
Gross slippage ratio (%)	0.8	0.9	0.9	0.9	1.0
LLP ratio (%)	0.6	0.6	0.7	0.7	0.8
NNPA to networth (%)	2.9	1.4	1.2	1.3	1.5
Capital adequacy					
Total CAR (%)	16.7	18.2	17.7	17.1	17.0
Tier-1 (%)	15.5	17.1	16.8	16.4	16.4
CET-1 (%)	15.5	17.1	16.8	16.4	16.4
RWA-to-Total Assets (%)	57.9	55.5	58.0	60.0	60.0
Miscellaneous					
Total income growth (%)	28.5	16.7	7.8	8.2	10.6
Opex growth (%)	29.9	9.0	7.0	10.4	12.3
Core PPOP growth (%)	3.6	12.2	6.9	10.6	16.6
PPOP margin (%)	28.7	27.9	28.1	28.8	30.0
PAT/PPOP (%)	56.7	60.4	62.9	61.5	60.0
LLP-to-Core PPOP (%)	28.8	21.9	18.3	20.6	22.6
Yield on advances (%)	10.1	10.2	9.6	9.1	8.8
Cost of funds (%)	5.2	5.6	5.3	4.8	4.5

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	13.6	11.2	10.0	9.2	8.2
P/B (x)	2.2	1.8	1.6	1.4	1.2
P/ABV (x)	2.2	1.8	1.6	1.4	1.2
P/PPOP (x)	7.6	6.7	6.2	5.6	4.9
Dividend yield (%)	0.9	1.0	1.1	1.2	1.3
DuPont-RoE split (%)					
NII/avg assets	3.9	3.8	3.5	3.5	3.5
Other income	1.7	1.6	1.6	1.5	1.4
Fee income	1.0	1.0	1.0	1.0	1.0
Opex	2.7	2.6	2.4	2.3	2.3
PPOP	**2.9**	**2.9**	**2.7**	**2.6**	**2.6**
Core PPOP	2.6	2.5	2.4	2.3	2.3
Provisions	0.7	0.6	0.4	0.5	0.5
Tax expense	0.5	0.6	0.6	0.5	0.5
RoA (%)	**1.6**	**1.7**	**1.7**	**1.6**	**1.6**
Leverage ratio (x)	10.5	10.2	9.9	9.8	9.8
RoE (%)	**17.2**	**17.7**	**17.0**	**15.9**	**15.5**

Quarterly data

Rs mn	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
NII	10,244	10,600	10,788	10,893	10,794
NIM (%)	4.1	4.1	4.0	4.1	3.9
PPOP	7,459	8,162	8,153	8,350	8,055
PAT	4,587	4,736	4,960	5,134	5,215
EPS (Rs)	5.7	5.9	6.2	6.4	6.5

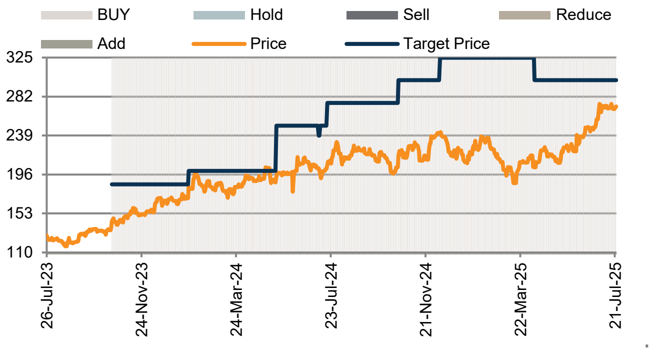
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
20-May-25	228	300	Buy	Anand Dama
09-Apr-25	204	300	Buy	Anand Dama
21-Jan-25	228	325	Buy	Anand Dama
09-Dec-24	242	325	Buy	Anand Dama
17-Oct-24	217	300	Buy	Anand Dama
18-Jul-24	206	275	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

Emkay Global Financial Services Ltd.
CIN - L67120MH1995PLC084899
7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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Seshadri Kumar Sen

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