

After ~9 months of credit portfolio consolidation following the management issue, Karnataka Bank (KBL) has returned to growth, delivering 7% YoY credit growth. This, coupled with improving margins on the back of lower funding costs, seasonally higher fee income, and lower opex/credit costs led to strong profitability, with PAT at Rs4.1bn and RoA at 1.3%. Headline NPA ratios improved meaningfully, with GNPA ratio down 54bps QoQ to 2.8% on lower slippages (0.8% of loans), with the management expecting further improvement as legacy stress is behind and no meaningful impact from the West Asia crisis. The bank aspires to deliver >1% RoA in FY27, driven by healthy growth, contained operating costs, and lower credit costs. However, we believe it still needs to scale up its relatively low PCR at 65% and account for ECL impact, which, coupled with moderating recovery from the write-off pool, could keep RoAs ~1%. Retain ADD with a higher TP of Rs280 (from Rs260), valuing the bank at 0.7x FY28E ABV. We believe further re-rating will depend on sustained strong financial performance and management stability.

Back in growth mode; lower CoF leads to healthy margin uptick

KBL's credit growth improved to 7% YoY/8% QoQ to Rs818bn, though growth remained below system levels. Growth was driven by healthy traction in the retail and corporate segments, while MSME growth stayed sluggish and agriculture growth remained muted YoY. The bank continues to focus on the RAM segments, strategically replacing low-yielding corporate loans with higher-yielding direct (mainly mid-corporate) exposures. Deposit growth remained moderate at 4% YoY/4% QoQ to Rs1,088bn; however, healthy CASA accretion led to a 208bps QoQ improvement in CASA ratio to 33.6%. NIM expanded 15bps QoQ to 3.1%, supported by better loan yields, improved CASA mix, and lower reliance on bulk deposits. The management believes margins have largely bottomed out and expects to sustain +3%, and guides for 15–20% credit growth in FY27.

Lower slippages drive down NPAs

Gross slippages declined 97bps QoQ to 0.8%; additionally, higher recoveries, upgrades, and write-offs led to a 54bps QoQ improvement in GNPA ratio to 2.8%. NNPA improved to 1.0%, aided by a 417bps QoQ increase in specific PCR to 65.4%. The restructured book improved to Rs8.1bn/1.0% of loans (vs 8.7bn/1.2% of loans in Q2). The management indicated that exposure to Middle East-linked deposits remains limited.

We retain ADD with a higher TP of Rs280

We believe that the bank still needs to scale up its relatively low PCR at 65% and account for ECL impact, which coupled with moderating recoveries from the write-off pool, could keep RoAs ~1%. Retain ADD with a higher TP of Rs280 (from Rs260), valuing the bank at 0.7x FY28E ABV. We believe further re-rating will depend on sustained strong financial performance 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	Mar-27
Change in TP (%)	7.7
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	6.1

Stock Data	KBL IN
52-week High (Rs)	275
52-week Low (Rs)	169
Shares outstanding (mn)	378.2
Market-cap (Rs bn)	100
Market-cap (USD mn)	1,031
Net-debt, FY27E (Rs mn)	NA
ADTV-3M (mn shares)	5.5
ADTV-3M (Rs mn)	923.0
ADTV-3M (USD mn)	9.5
Free float (%)	100.0
Nifty-50	23,659.0
INR/USD	96.8

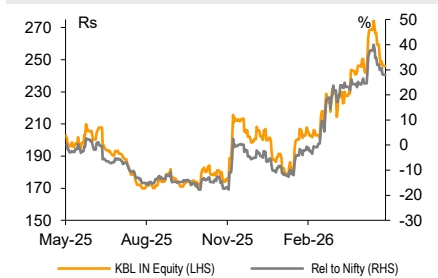
Shareholding, Mar-26

Promoters (%)	0.0
FPIs/MFs (%)	11.8/16.2

Price Performance

(%)	1M	3M	12M
Absolute	7.5	30.2	31.2
Rel. to Nifty	10.7	40.7	36.8

1-Year share price trend (Rs)



Karnataka Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Net profit	12,724	13,105	14,276	15,902	18,448
Loan growth (%)	7.0	6.9	15.3	16.2	17.2
NII growth (%)	0.4	(5.8)	13.8	14.6	16.5
NIM (%)	3.1	2.8	2.9	2.9	2.9
PPOP growth (%)	(15.5)	8.1	12.8	15.7	17.7
Adj. EPS (Rs)	33.7	34.7	37.7	42.0	48.8
Adj. EPS growth (%)	(11.0)	2.9	8.9	11.4	16.0
Adj. BV (INR)	285.8	320.2	354.1	391.1	433.1
Adj. BVPS growth (%)	14.7	12.0	10.6	10.5	10.7
RoA (%)	1.1	1.0	1.0	1.0	1.0
RoE (%)	11.1	10.4	10.3	10.5	11.0
P/E (x)	7.8	7.6	7.0	6.3	5.4
P/ABV (x)	0.9	0.8	0.7	0.7	0.6

Source: Company, Emkay Research

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Key concall takeaways

Outlook on loans, deposits, and NIM

- Karnataka Bank's growth strategy is increasingly centered around improving the quality of its balance sheet rather than pursuing aggressive expansion at the cost of profitability.
- The management is consciously shifting the loan mix toward higher-yielding retail, agriculture, MSME (RAM), and mid-corporate segments, while reducing exposure to low-yield corporate loans and IBPC portfolios. For FY27, the bank has guided for 15–20% advances growth, 10–15% deposit growth, CASA above 33%, and overall business growth of ~15%, reflecting confidence in sustaining healthy momentum.
- The bank believes its retail strategy will create a more stable and profitable growth engine over time, supported by better customer granularity and improved earnings quality.
- Karnataka Bank has delivered a meaningful recovery in margins, with Q4 NIM improving to 3.07% from 2.92% in Q3, supported by better loan yields, stronger CASA mobilization, and reduced dependence on expensive bulk deposits.
- The management believes margins have likely bottomed out and aims to maintain +3% NIM going forward, with further support expected from higher-yield retail growth, fee income expansion, and tighter cost discipline.
- The bank's loan book is largely linked to floating benchmarks, with nearly 55% linked to treasury bill-based EBLR and ~60–65% overall floating-linked structures, providing some responsiveness to market rate movements.
- Continued optimization of the liability mix and focus on granular deposits should support margin resilience, despite competitive funding conditions.
- Cost optimization remains a key management priority, with the bank focusing on improving operating leverage through better productivity, tighter cost controls, and stronger income generation. The management has emphasized that efficiency gains will increasingly come through technology-led process improvements rather than pure manpower reduction.

Asset quality

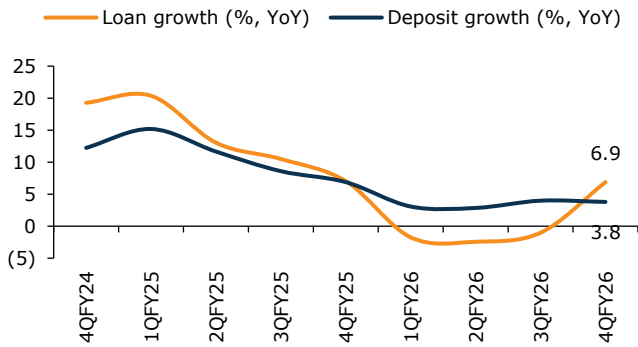
- The management also highlighted that exposure to Middle East-linked deposits remains limited, reducing the risk of material disruption from geopolitical developments in that region.
- The management has significantly tightened underwriting standards, strengthened stress monitoring, and enhanced recovery infrastructure, resulting in better loan book quality and lower credit risk.
- The bank's strategic emphasis remains on disciplined borrower selection, stronger collections, and preserving asset quality even while accelerating growth.
- The management believes this improvement reflects structural execution changes rather than temporary cyclical benefits, making the recovery in credit quality more sustainable.

Others

- Karnataka Bank remains strongly capitalized, with a CRAR of 20.1% and robust Tier-1 capital, providing ample balance sheet flexibility to fund growth without near-term dilution concerns.
- The management is also exploring AI-led automation and process optimization initiatives to improve productivity, reduce turnaround times, and enhance customer experience.
- On the product side, the bank plans to launch new offerings, including agri-input loans, programmable CBDC solutions, NFC-based tap-and-pay payments, and expanded housing/MSME lending products, which should support customer acquisition and diversify revenue streams.

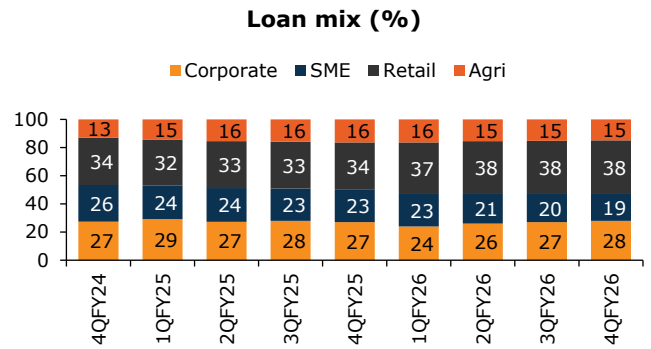
Story in charts

Exhibit 1: Credit growth gradually improved, driven by healthy traction in retail and corporate segments, while deposit growth remains moderate



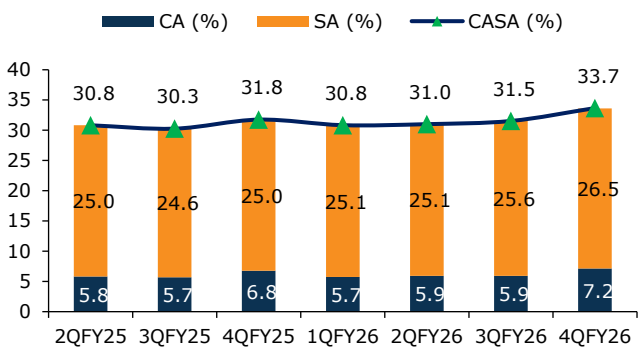
Source: Company, Emkay Research

Exhibit 2: Corporate share inched up marginally QoQ, while the bank plans to ramp up its RAM book



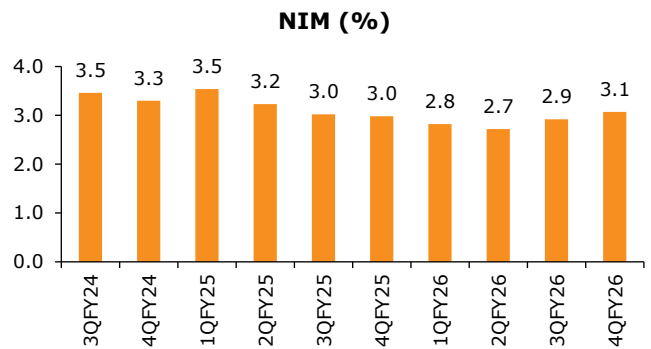
Source: Company, Emkay Research

Exhibit 3: Healthy CASA accretion led to a 208bps QoQ improvement in CASA ratio



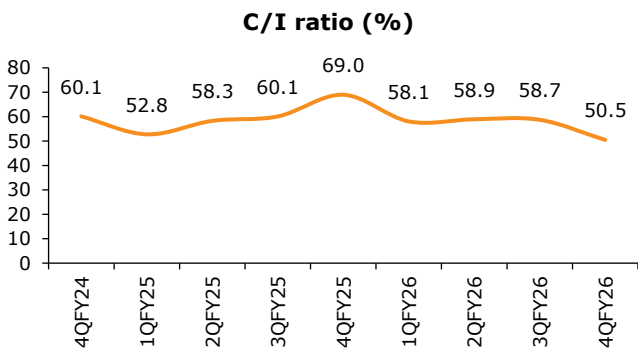
Source: Company, Emkay Research

Exhibit 4: NIM further expanded 15bps QoQ to 3.1%, supported by a 7bps rise in yields and lower CoF



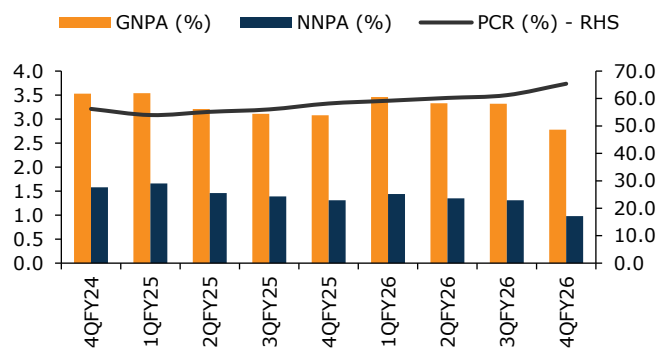
Source: Company, Emkay Research

Exhibit 5: Cost-income ratio improved QoQ due to sharp decline in employee costs



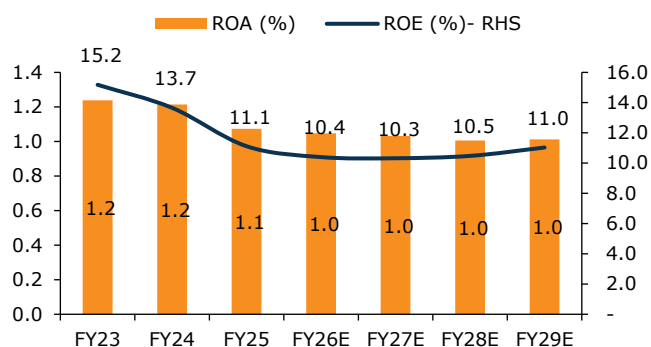
Source: Company, Emkay Research

Exhibit 6: Gross slippages declined QoQ, coupled with higher recoveries, upgrades, and write-offs, leading to an improvement in GNPA ratio, while PCR is gradually inching up QoQ

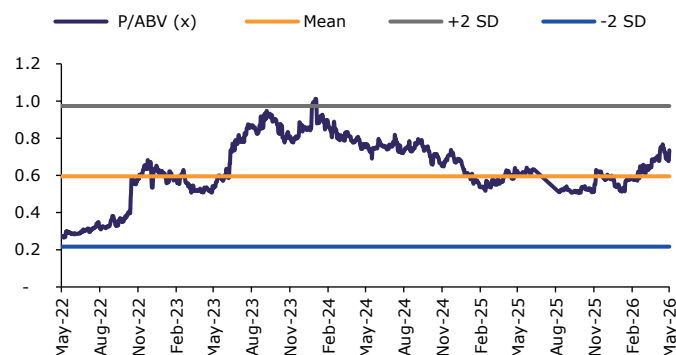


Source: Company, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions.com)

Exhibit 7: We expect the bank to deliver a healthy RoA of ~1.0%, led by contained credit costs and improving operating leverage

Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 0.7x its 1Y forward ABV

Source: Company, Emkay Research

Exhibit 9: Actuals vs Estimates (Q4FY26)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	12,418	11,592	11,797	7%	5%	Higher other income led to a beat
PPOP	6,150	4,972	5,228	24%	18%	Higher net income and controlled opex led to a beat
PAT	4,082	3,026	3,674	35%	11%	Higher PPOP, coupled with stable provisions, led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

(Rs mn)	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	YoY (%)	QoQ (%)	FY26	FY27E	YoY (%)
Interest earned	22,585	22,613	21,792	22,201	22,573	-0.1	1.7	89,178	95,861	7
Interest expense	14,778	15,057	14,511	14,280	14,144	-4.3	-1.0	57,991	60,369	16
Net interest income	7,807	7,556	7,281	7,921	8,430	8.0	6.4	31,187	35,493	-5
Global NIMs (reported)	2.98	2.82	2.72	2.92	3.07	9bps	15bps	2.79	2.86	-66bps
Non-interest income	4,282	3,584	3,434	3,023	3,989	-6.9	31.9	14,029	14,399	6
Operating expenses	8,339	6,467	6,315	6,426	6,268	-24.8	-2.5	25,475	27,619	4
Pre-provisioning profit	3,750	4,673	4,400	4,518	6,150	64.0	36.1	19,742	22,273	-9
Provision and contingencies	311	1,108	201	949	903	190.7	-4.8	3,161	3,970	-47
PBT	3,439	3,565	4,200	3,569	5,247	52.6	47.0	16,581	18,303	6
Income tax expense (Gain)	916	641	1,009	662	1,165	27.2	76.1	3,476	4,027	36
Net profit/(loss)	2,524	2,924	3,191	2,908	4,082	61.7	40.4	13,105	14,276	0.3
Gross NPA (%)	3.08	3.46	3.33	3.32	2.78	-30bps	-54bps	2.78	2.40	-75bps
Net NPA (%)	1.31	1.44	1.35	1.31	0.98	-33bps	-33bps	0.98	0.78	-60bps
Deposits (Rs bn)	1,048	1,032	1,028	1,041	1,088	3.8	4.5	1,088	1,241	11
Net Advances (Rs bn)	765	727	722	757	818	6.9	8.1	818	943	14

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY27E			FY28E			FY29E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	49,213	49,892	1.4%	55,723	56,377	1.2%	NA	64,493	NA
PPOP	21,637	22,273	2.9%	25,052	25,768	2.9%	NA	30,330	NA
PAT	13,852	14,276	3.1%	15,228	15,902	4.4%	NA	18,448	NA
EPS (Rs)	36.6	37.7	3.0%	40.3	42.0	4.4%	NA	48.8	NA
BV (Rs)	363.4	369.2	1.6%	397.2	405.3	2.0%	NA	447.6	NA

Source: Company, Emkay Research

This report is intended for Team White Marquee Solutions (team.emkay@whitemarquesolutions)

Exhibit 12: Key assumptions

	FY26A	FY27E	FY28E	FY29E
Loan growth (%)	6.9	15.3	16.2	17.2
Deposit growth (%)	3.8	14.1	15.1	16.4
NIM (%)	2.8	2.9	2.9	2.9
GNPA (%)	2.8	2.4	2.1	1.9
Credit cost (%)	0.4	0.5	0.5	0.5

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
Loans (Rs mn)	715,086	740,148	739,523	764,786	765,415	727,272	721,526	756,990	818,096
YoY growth (%)	19.28	20.37	13.04	10.49	7.04	-1.74	-2.43	-1.02	6.88
QoQ growth (%)	3.31	3.50	-0.08	3.42	0.08	-4.98	-0.79	4.92	8.07
Corporate	27%	29%	27%	28%	27%	24%	26%	27%	28%
SME	26%	24%	24%	23%	23%	23%	21%	20%	19%
Retail	34%	32%	33%	33%	34%	37%	38%	38%	38%
Agri	13%	15%	16%	16%	16%	16%	15%	15%	15%
Liability profile and margin (%)									
Deposits (Rs mn)	980,580	1,001,640	999,680	1,001,185	1,048,075	1,032,422	1,028,172	1,041,115	1,087,788
Growth (YoY)	12.24	15.18	11.66	8.59	6.88	3.07	2.85	3.99	3.79
Growth (QoQ)	6.36	2.15	-0.20	0.15	4.68	-1.49	-0.41	1.26	4.48
CASA	32.0	30.5	30.8	30.3	31.8	30.8	31.0	31.5	33.6
CA	5.3	5.7	5.8	5.7	6.8	5.7	5.9	5.9	7.2
SA	26.7	24.9	25.0	24.6	25.0	25.1	25.1	25.6	26.5
Branches (no of)	925.0	927.0	931.0	937.0	952.0	953.0	955.0	960.0	975.0
NIM	3.3	3.5	3.2	3.0	3.0	2.8	2.7	2.9	3.1
Asset quality (%)									
GNPA	3.5	3.5	3.2	3.1	3.1	3.5	3.3	3.3	2.8
NNPA	1.6	1.7	1.5	1.4	1.3	1.4	1.4	1.3	1.0
PCR	56.2	54.0	55.2	56.0	58.2	59.2	60.2	61.2	65.4
Slippages	3.5	2.7	1.5	1.7	1.4	2.2	1.3	1.7	0.8
Capital adequacy (%)									
CRAR	18.0	17.6	17.6	17.6	19.9	20.5	20.8	19.9	20.1
Tier I	16.2	15.9	15.9	16.0	18.4	18.9	19.3	18.4	18.7
ROE decomposition (%)									
NII	3.6	6.2	5.7	2.7	2.6	2.5	2.4	2.7	2.7
Other income	1.8	1.9	1.9	1.0	1.4	1.2	1.2	1.0	1.3
Opex	3.3	4.3	4.4	2.2	2.8	2.2	2.1	2.2	2.0
PPOP	2.2	3.8	3.2	1.5	1.3	1.6	1.5	1.5	2.0
Provisioning cost	0.8	0.3	0.2	0.3	0.1	0.4	0.1	0.3	0.3
PBT	1.4	3.6	3.0	1.2	1.2	1.2	1.4	1.2	1.7
ROA	1.0	1.4	1.1	0.9	0.8	1.0	1.0	0.9	1.3
ROE	10.6	14.5	11.6	9.6	8.6	9.6	10.1	9.1	12.7

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

Karnataka Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Interest Income	90,136	89,178	95,861	108,517	123,147
Interest Expense	57,032	57,991	60,369	67,839	75,769
Net interest income	33,104	31,187	35,493	40,678	47,378
NII growth (%)	0.4	(5.8)	13.8	14.6	16.5
Other income	12,695	14,029	14,399	15,699	17,116
Total Income	45,799	45,216	49,892	56,377	64,493
Operating expenses	27,529	25,475	27,619	30,609	34,163
PPOP	18,270	19,742	22,273	25,768	30,330
PPOP growth (%)	(15.5)	8.1	12.8	15.7	17.7
Core PPOP	17,419	18,262	21,089	24,524	29,025
Provisions & contingencies	1,864	3,161	3,970	4,981	5,732
PBT	16,406	16,581	18,303	20,787	24,598
Extraordinary items	0	0	0	0	0
Tax expense	3,682	3,476	4,027	4,885	6,149
Minority interest	0	0	0	0	0
Income from JV/Associates	-	-	-	-	-
Reported PAT	12,724	13,105	14,276	15,902	18,448
PAT growth (%)	(2.6)	3.0	8.9	11.4	16.0
Adjusted PAT	12,724	13,105	14,276	15,902	18,448
Diluted EPS (Rs)	33.7	34.7	37.7	42.0	48.8
Diluted EPS growth (%)	(11.0)	2.9	8.9	11.4	16.0
DPS (Rs)	5.5	5.0	5.5	6.0	6.5
Dividend payout (%)	16.3	14.4	14.6	14.3	13.3
Effective tax rate (%)	22.4	21.0	22.0	23.5	25.0
Net interest margins (%)	3.1	2.8	2.9	2.9	2.9
Cost-income ratio (%)	60.1	56.3	55.4	54.3	53.0
Shares outstanding (mn)	377.9	378.2	378.2	378.2	378.2

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Asset quality					
Gross NPLs	24,021	23,209	22,979	23,346	24,257
Net NPLs	10,046	8,032	7,353	7,004	7,277
GNPA ratio (%)	3.1	2.8	2.4	2.1	1.9
NNPA ratio (%)	1.3	1.0	0.8	0.6	0.6
Provision coverage (%)	58.2	65.4	68.0	70.0	70.0
Gross slippages	12,068	11,314	11,506	12,235	13,013
Gross slippage ratio (%)	1.7	1.5	1.2	1.1	1.0
LLP ratio (%)	0.2	0.4	0.5	0.5	0.5
NNPA to networth (%)	8.4	6.1	5.1	4.4	4.1
Capital adequacy					
Total CAR (%)	19.9	20.1	20.3	18.9	17.6
Tier-1 (%)	18.4	18.7	18.7	17.6	16.5
CET-1 (%)	16.2	16.9	16.8	15.9	15.1
RWA-to-Total Assets (%)	50.9	51.6	50.5	51.5	52.4
Miscellaneous					
Total income growth (%)	6.9	0.4	6.8	12.7	12.9
Opex growth (%)	12.2	(7.5)	8.4	10.8	11.6
Core PPOP growth (%)	(15.0)	4.8	15.5	16.3	18.4
PPOP margin (%)	17.8	19.1	20.2	20.7	21.6
PAT/PPOP (%)	69.6	66.4	64.1	61.7	60.8
LLP-to-Core PPOP (%)	10.7	17.3	18.8	20.3	19.8
Yield on advances (%)	9.6	8.5	8.3	8.2	8.0
Cost of funds (%)	5.5	5.3	5.0	4.9	4.7

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	3,779	3,782	3,782	3,782	3,782
Reserves & surplus	117,074	128,463	140,419	153,824	169,597
Net worth	120,853	132,245	144,201	157,606	173,379
Deposits	1,048,075	1,087,788	1,241,399	1,428,434	1,662,225
Borrowings	19,406	53,290	50,776	55,553	60,808
Interest bearing liab.	1,067,480	1,141,078	1,292,175	1,483,987	1,723,034
Other liabilities & prov.	21,284	20,244	37,459	48,052	57,648
Total liabilities & equity	1,209,618	1,293,566	1,473,835	1,689,644	1,954,061
Net advances	765,415	818,096	943,218	1,095,917	1,284,363
Investments	245,365	267,388	301,703	341,061	389,660
Cash, other balances	79,843	77,356	87,222	96,459	107,690
Interest earning assets	1,090,623	1,162,841	1,332,143	1,533,437	1,781,713
Fixed assets	9,905	10,601	11,131	11,687	12,272
Other assets	109,089	120,125	130,561	144,519	160,076
Total assets	1,209,618	1,293,566	1,473,835	1,689,644	1,954,061
BVPS (Rs)	306.4	337.0	369.2	405.3	447.6
Adj. BVPS (INR)	285.8	320.2	354.1	391.1	433.1
Gross advances	779,390	833,273	958,844	1,112,259	1,301,343
Credit to deposit (%)	73.0	75.2	76.0	76.7	77.3
CASA ratio (%)	31.8	33.6	33.7	34.3	35.1
Cost of deposits (%)	5.5	5.3	5.1	5.0	4.8
Loans-to-Assets (%)	63.3	63.2	64.0	64.9	65.7
Net advances growth (%)	7.0	6.9	15.3	16.2	17.2
Deposit growth (%)	6.9	3.8	14.1	15.1	16.4
Book value growth (%)	11.8	10.0	9.6	9.8	10.4

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	7.8	7.6	7.0	6.3	5.4
P/B (x)	0.9	0.8	0.7	0.7	0.6
P/ABV (x)	0.9	0.8	0.7	0.7	0.6
P/PPOP (x)	5.5	5.1	4.5	3.9	3.3
Dividend yield (%)	2.1	1.9	2.1	2.3	2.5
DuPont-RoE split (%)					
NII/avg assets	2.8	2.5	2.6	2.6	2.6
Other income	1.1	1.1	1.0	1.0	0.9
Fee income	1.0	0.9	0.8	0.8	0.8
Opex	2.3	2.0	2.0	1.9	1.9
PPOP	1.5	1.6	1.6	1.6	1.7
Core PPOP	1.5	1.5	1.5	1.6	1.6
Provisions	0.2	0.3	0.3	0.3	0.3
Tax expense	0.3	0.3	0.3	0.3	0.3
RoA (%)	1.1	1.0	1.0	1.0	1.0
Leverage ratio (x)	10.8	10.3	10.4	10.8	11.3
RoE (%)	11.1	10.4	10.3	10.5	11.0

Quarterly data

Rs mn	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26
NII	7,807	7,556	7,281	7,921	8,430
NIM (%)	3.0	2.8	2.7	2.9	3.1
PPOP	3,750	4,673	4,400	4,518	6,150
PAT	2,524	2,924	3,191	2,908	4,082
EPS (Rs)	6.7	7.7	8.4	7.7	10.8

Source: Company, Emkay Research

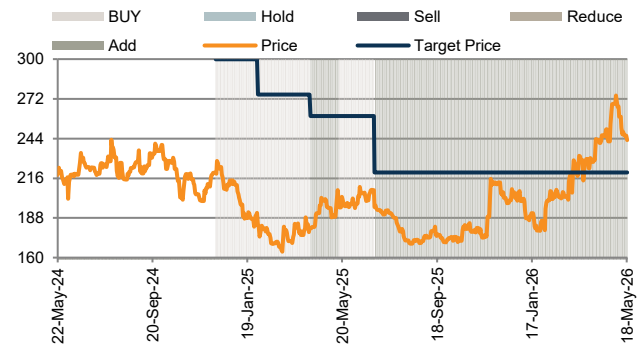
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
30-Jun-25	196	220	Add	Anand Dama
15-May-25	200	260	Buy	Anand Dama
09-Apr-25	181	260	Add	Anand Dama
09-Apr-25	181	260	Buy	Anand Dama
01-Feb-25	183	275	Buy	Anand Dama
09-Dec-24	220	300	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

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