

Miss on All Fronts; Growth Poised for H2FY26 Recovery!

Est. Vs. Actual for Q4FY25: NII – **MISS**; PPOP – **MISS**; PAT – **MISS**

Changes in Estimates post Q4FY25

FY26E/FY27E (in %): NII -4.3/+0.2; PPOP -8.8/-0.8; PAT -8.2/+1.1

Recommendation Rationale

- Slower Growth in FY25; Meaningful Acceleration Expected in H2FY26:** In FY25, the slower growth can be primarily attributed to the portfolio churn towards retail loans and direct-to-corporate from the opportunistic lower-yielding large and PSU/NBFC lending pursued earlier. Pursuant to its strategy to improve the share of direct-to-corporate loans, the bank has seen a ~Rs 1,300 Cr churn from the NBFC advances to the direct-to-corporate segment in FY25. Furthermore, KTKBANK has aligned its processes and beefed up sales and leadership teams in the retail and MSME segment as it readies to push the growth pedal going into FY26. The bank is eyeing to exit FY26 with credit growth delivery of ~14-15%, with a loan book of ~Rs 90,000 Cr. **The management remains confident that the new product launches and investments made so far will yield results, enabling KTKBANK to deliver a healthy growth in FY26 and further accelerate the pace of growth going into FY27E. We pencil in credit growth of ~15% CAGR over FY25-27E.**
- Margin improvement levers present:** While the CASA accretion in Q4FY25 was strong, margins remained under pressure with CoF inching-up sharply. However, the bank has revised its deposit rates downwards based on both tenor and deposit value and expects the benefits of the rate revision to reflect in the CoF from Q1FY26 onwards. Apart from the higher CoF, KTKBANK's NIMs were impacted by the reclassification of penal interest to penal charges (impact of 6bps in FY25) and the impact of the reclassification could be seen for the next couple of quarters. That said, KTKBANK's margins would find support from (1) Improving mix of better-yielding segments in the portfolio, (2) Expectations of a controlled contraction in yields despite ~70% of the loans are T-bill linked, wherein downward repricing is expected to be shallow vs. repo rate linked loans, (3) Bank's ability to reprice corporate assets on a quarterly basis, and (4) Scope to accelerate credit growth with a lower LDR. Thus, **the management expects margins to improve by 10- 20bps in FY26, with NIMS ranging between 3.2-3.4%.**

Sector Outlook: Positive

Company Outlook: With investments made and strengthening processes and teams ripe to yield results, we expect KTKBANK to resume its growth journey, though gradually from FY26E onwards. Focus on granular retail deposits, particularly CASA deposits, remains unabated. We believe KTKBANK has multiple levers in place to protect and improve its margins over the medium term, thereby enabling the bank to improve RoAs. With a majority of the investments already made, Opex growth is expected to remain controlled, driving cost ratios downwards. We expect RoA/RoE to remain at 1.1-1.2%/11-13% over FY25-27E, driven by the aforementioned factors. **Growth delivery on guided lines, and sustenance remain key levers for a meaningful re-rating in the stock.**

Current Valuation: 0.75x FY27E ABV; **Earlier Valuation:** 0.75x Sep'26E ABV

Current TP: Rs 270/share; **Earlier TP:** Rs 255/share

Recommendation: We maintain our **BUY** recommendation on the stock at inexpensive valuations

Alternative BUY Ideas from our Sector Coverage

DCB Bank (TP – Rs 160), **Federal Bank** (TP – Rs 230), **City Union Bank** (TP – Rs 225)

Financial Performance:

- Operational Performance:** KTKBANK's advances growth was muted at 7% YoY and flat QoQ. Within this, retail advances grew by 15/3% YoY/QoQ. Resultantly, the mix of Retail-Corporate loans stood at 50:50 vs 49:51 QoQ. Deposit growth was also subdued at 7/5% YoY/QoQ. CASA deposits and TDs grew by 6/10% and 7/3% YoY/QoQ respectively. CASA ratio improved to 31.8% vs 30.3% QoQ.
- Financial Performance:** NII de-grew by 6/2% YoY/QoQ owing to weak advances growth and margin compression of 4bps QoQ. NIM declined to 2.98% vs 3.02% QoQ. Non-interest income growth was better than expected at 2/46% YoY/QoQ. Opex growth was elevated at 11/30% YoY/QoQ, driven higher employee expenses (+20/53% YoY/QoQ). C-I Ratio shot up significantly to 69% vs 60.1% each YoY/QoQ. PPOP de-grew by 25/19% YoY/QoQ. Credit costs were benign at 16bps vs 44bps QoQ. PAT de-grew by 8/11% YoY/QoQ.
- Asset quality** improved marginally with GNPA/NNPA down 3/8bps QoQ and stood at 3.08/1.31%. Slippages during the quarter stood at Rs 255 Cr, lower QoQ (-13% QoQ). Slippages ratio stood at 1.3% vs 3/1.6% YoY/QoQ.

Key Financials (Standalone)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	781	-1.5	-6.4	793	-1.3
PPOP	375	-13.4	-25.0	433	-13.2
Net Profit	252	-11.0	-8.0	284	-10.6
NNPA (%)	1.3	-8 bps	-27 bps	1.4	-6 bps
RoA (%)	0.8	-12 bps	-11 bps	1.0	-12 bps

Source: Company, Axis Securities Research

(CMP as of 14th May, 2025)

CMP (Rs)	208
Upside /Downside (%)	30%
High/Low (Rs)	245/162
Market cap (Cr)	7,842
Avg. daily vol. (6m) Shrs.	12,90,448
No. of shares (Cr)	37.8

Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	0.0	0.0	0.0
FII's	10.3	11.2	12.9
MFs / UTI	21.6	19.7	17.5
Others	68.1	69.1	69.6

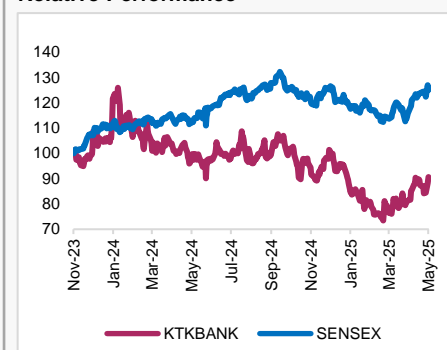
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	3,310	3,636	4,369
PPOP	1,827	2,022	2,599
Net Profit	1,272	1,236	1,590
EPS (Rs)	33.7	32.7	42.1
ABV (Rs)	293.2	322.9	358.5
P/ABV (x)	0.7	0.6	0.6
RoA (%)	1.2	1.1	1.2
NNPA (%)	1.3	1.1	0.9

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-4.3	0.2
PPOP	-8.3	-0.8
PAT	-8.2	1.1

Relative Performance



Source: AceEquity, Axis Securities Research

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Key Takeaways

- **Asset Quality stress under control:** KTKBANK has seen an impressive improvement in asset quality driven by controlled slippages and a healthy pace of recoveries. **The bank does not expect any negative surprises on asset quality, even from the restructured book. Going into FY26, the bank expects to contain slippages at <2%, thereby keeping credit costs benign at <50bps.**
- Currently, ~50% of the restructured book is standard, with repayments happening timely. However, owing to regulatory requirements of not classifying a restructured account as standard until 30% of the repayment is done, these accounts continue to remain in the restructured book. The bank has also set up a collection team for the retail vertical as it looks to accelerate growth in the portfolio, while avoiding any accidents on the asset quality front.
- **One-time employee Opex hurts Cost ratios; Improvement likely over medium term:** KTKBANK's Opex growth was elevated at 11/30% YoY/QoQ in Q4FY25, driven by a one-time employee expense to the tune of Rs 113 Cr. The management expects employee expenses to grow by ~Rs 150-200 Cr in FY26. With most of the investments towards building the retail franchise already made and the bank undertaking cost optimisation measures, the management expects the C-I Ratio to improve to 55% in FY26.
- **Focus on granular deposits to continue:** KTKBANK has seen a significant shift towards retail deposits from high-cost bulk deposits, which stood at 6.6% in FY25. The bank will continue to de-focus on bulk deposits going ahead. Hereon, focus will continue to remain on improving CASA deposits through sales strategy and regional structures.

Outlook

- The credit growth delivery has been slightly delayed, resulting in us trimming our growth estimates marginally. Thus, anticipating growth to pick up in H2FY26 and anticipating slight margin pressures in H1FY26, we reduce our NII/Earnings estimates by 4/8% each for FY26, while broadly retaining our FY27E estimates. We expect KTKBANK to deliver an Advances/NII/Earnings growth of 15/15/12% CAGR over FY25-27E.

Valuation & Recommendation

- **We believe current valuations are attractive for the potential RoA/RoE delivery of 1.1-1.2%/11-13% over the medium term.** We value the bank at 0.75x FY27E ABV vs. its current valuation of ~0.6x FY27E ABV to arrive at a target price of Rs 270/share, implying an upside of 30% from the CMP. **We maintain our BUY rating on the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.
- Asset Quality challenges could pose challenges for credit costs and impact our earnings estimates.

Change in Estimates

(Rs Cr)

	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	3,636	4,369	3,801	4,362	-4.3	0.2
PBP	2,022	2,599	2,206	2,619	-8.3	-0.8
PAT	1,236	1,590	1,345	1,572	-8.2	1.1

Source: Company, Axis Securities Research

Results Review (Standalone)
(Rs Cr)

	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
Net Interest Income	781	834	-6.4	793	-1.5	3,310	3,299	0.4
Non-Interest Income	428	419	2.1	292	46.5	1,270	1,319	-3.7
Operating expenses	834	754	10.6	652	27.9	2,753	2,454	12.2
Staff Cost	526	437	20.4	343	53.5	1,538	1,373	12.1
Pre-provision profits	375	500	-25.0	433	-13.4	1,827	2,163	-15.5
Provisions and contingencies	31	185	-83.2	84	-62.9	186	601	-69.0
PBT	344	315	9.2	349	-1.5	1,641	1,563	5.0
Provision for Tax	92	41	124.3	66	39.4	368	256	43.6
PAT	252	274	-8.0	284	-11.0	1,272	1,306	-2.6
Business Update								
Gross Advances	77,959	73,002	6.8	77,860	0.1	77,959	73,002	6.8
Deposits	1,04,807	98,058	6.9	1,00,119	4.7	1,04,807	98,058	6.9
CASA Deposits	33,281	31,349	6.2	30,352	9.7	33,281	31,349	6.2
CASA Ratio	31.8	32.0	-22bps	30.3	144bps	31.8	32.0	-22bps
C-D Ratio	74.4	74.4	-6bps	77.8	-338bps	74.4	74.4	-6bps
Yields on Advances	9.4	9.7	-31bps	9.4	6bps	9.9	9.4	52bps
Cost of Deposits	5.8	5.5	32bps	5.6	15bps	5.3	4.6	67bps
NIMs (%)	3.0	3.3	-32bps	3.0	-4bps	3.5	3.6	-14bps
Cost-Income ratio (%)	69.0	60.1	885bps	60.1	889bps	53.2	47.1	601bps
Asset Quality								
Gross NPA (%)	3.1	3.5	-45bps	3.1	-3bps	3.1	3.5	-45bps
Net NPA (%)	1.3	1.6	-27bps	1.4	-8bps	1.3	1.6	-27bps
PCR (%)	81.4	79.2	220bps	80.6	78bps	81.4	79.2	220bps
Slippages	255	527	-51.7	293	-12.9	1,207	1,650	-51.7
Slippage Ratio %	1.3	3.0	-169bps	1.6	-22bps	1.6	2.5	-169bps
Capital Adequacy								
CRAR	19.9	18.0	190bps	17.6	226bps	19.9	18.0	190bps
Tier I	18.4	16.2	223bps	16.0	239bps	18.4	16.2	223bps
Tier II	1.5	1.8	-33bps	1.6	-13bps	1.5	1.8	-33bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Net Interest Income	3,299	3,310	3,636	4,369
Other Income	1,319	1,270	1,399	1,557
Total Income	4,618	4,580	5,035	5,927
Total Operating Exp	2,454	2,753	3,013	3,327
PPOP	2,163	1,827	2,022	2,599
Provisions & Contingencies	601	186	370	473
PBT	1,563	1,641	1,652	2,126
Provision for Tax	256	368	416	536
PAT	1,306	1,272	1,236	1,590

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
SOURCES OF FUNDS				
Equity Share Capital	377	378	378	378
Reserves & Surplus	10,471	11,707	12,758	14,109
Net Worth	10,848	12,085	13,136	14,487
Deposits	98,058	1,04,807	1,17,179	1,32,661
Borrowings	1,02,457	1,06,748	1,19,849	1,38,514
Other Liabilities	2,779	2,128	2,382	2,740
Total Liabilities	1,16,085	1,20,962	1,35,366	1,55,742
APPLICATION OF FUNDS				
Cash & Bank Balance	7,993	7,984	8,224	8,979
Investments	24,302	24,537	26,964	30,527
Advances	71,509	76,541	87,268	1,01,383
Fixed & Other Assets	12,281	11,899	12,910	14,854
Total Assets	1,16,085	1,20,962	1,35,366	1,55,742

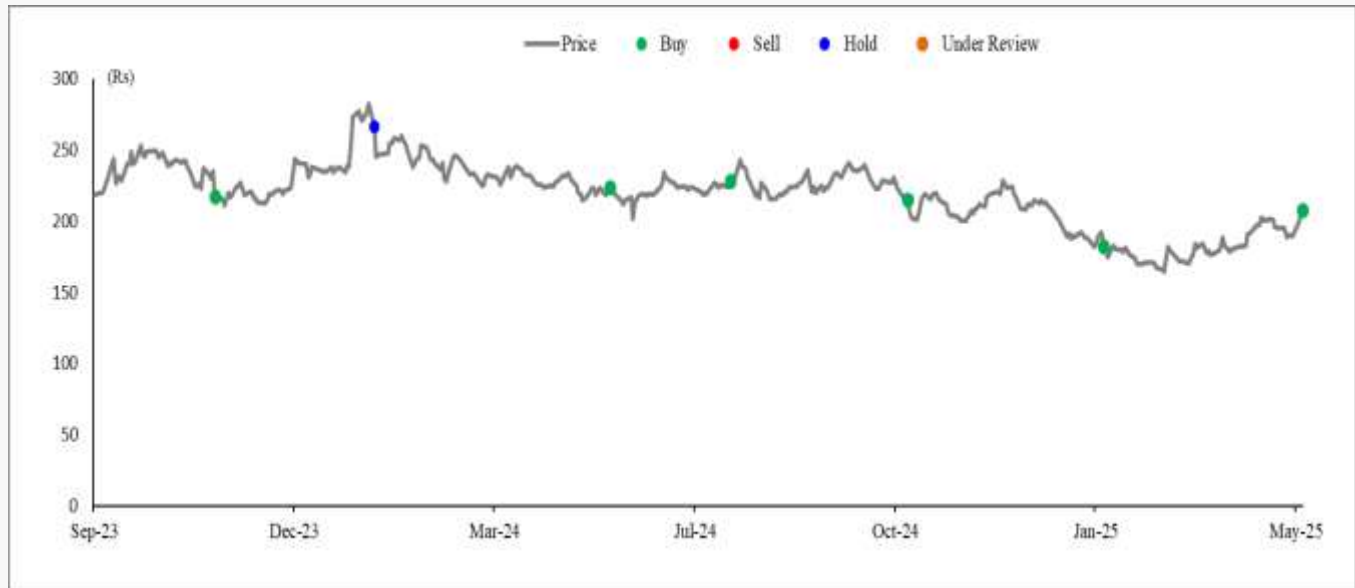
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25	FY26E	FY27E
VALUATION RATIOS				
EPS	34.6	33.7	32.7	42.1
Earnings Growth (%)	-8.4	-2.8	-2.9	28.7
BVPS	287.6	319.8	347.5	383.3
Adj. BVPS	257.6	293.2	322.9	358.5
ROAA (%)	1.2	1.2	1.1	1.2
ROAE (%)	13.7	12.0	11.0	12.9
P/E (x)	6.0	6.2	6.3	4.9
P/ABV (x)	0.8	0.7	0.6	0.6
PROFITABILITY				
NIM (%)	3.5	3.2	3.2	3.4
Cost-Income Ratio (%)	53.2	60.1	59.8	56.1
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	19.3	7.0	14.0	16.2
Deposit Growth (%)	12.2	6.9	11.8	13.2
C/D Ratio (%)	72.9	73.0	74.5	76.4
Equity/Assets (%)	15.2	15.8	15.1	14.3
Equity/Loans (%)	9.3	10.0	9.7	9.3
CAR (%)	18.0	19.9	19.3	18.5
Tier 1 CAR (%)	16.2	18.4	17.9	17.2
ASSET QUALITY				
Gross NPLs (%)	3.6	3.1	2.7	2.3
Net NPLs (%)	1.6	1.3	1.1	0.9
Coverage Ratio (%)	56.2	58.2	60.0	60.0
Credit costs (%)	0.9	0.3	0.5	0.5
ROAA TREE				
Net Interest Income	3.1	2.8	2.8	3.0
Non-Interest Income	1.2	1.1	1.1	1.1
Operating Cost	2.3	2.3	2.4	2.3
Provisions	0.6	0.2	0.3	0.3
Tax	0.2	0.2	0.2	0.2
ROAA	1.2	1.2	1.1	1.2
Leverage (x)	11.3	10.3	10.2	10.5
ROAE	13.7	12.0	11.0	12.9

Source: Company, Axis Securities Research

Karnataka Bank Price Chart and Recommendation History



Date	Reco	TP	Research
03-Nov-23	BUY	250	Result Update
24-Jan-24	HOLD	275	Result Update
27-May-24	BUY	255	Result Update
25-Jul-24	BUY	275	Result Update
24-Oct-24	BUY	275	Result Update
03-Feb-25	BUY	255	Result Update
15-May-25	BUY	270	Result Update

Source: Axis Securities Research

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