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India | Equity Research | Results Update

Karur Vysya Bank

Banking

Strong quarter with steady NIM/RoA/AQ; FY26 NIM guidance appears conservative

Karur Vysya Bank (KVB) reported a steady and strong quarter with Q4FY25 PAT of INR 5.13bn, up 13% YoY (3% beat). RoA was broadly unchanged QoQ, at 1.73%, for the quarter; for FY25, it was up 9bps to 1.72%. Granular (RAM) growth remains strong at ~20% YoY, though overall growth was restricted to 14% YoY due to a conscious shedding of corporate (down 14% YoY). Cost of deposits inched up but so did yields; thus, NIM was up 2bps QoQ to 4.05% (against guidance of ~15bps decline QoQ). KVB continues to guide conservatively on NIM (down 30–40bps YoY for FY26). Tier-1 remains strong at >17%. Our estimates are broadly unchanged and we expect the bank to deliver strong ~1.6%/16% RoA/RoE for FY26E/FY27E. Maintain **BUY** with an unchanged TP of INR 300.

Investment thesis intact despite weak NIM guidance; BUY

Our investment thesis on KVB remains unchanged. In the current cycle, KVB has built strong resilience in growth (RAM growth at ~20% YoY), opex (front-loaded investments in manpower, tech) and asset quality (one of the lowest NNPA). While NIM pressure is inevitable due to ~52% share of EBLR loans, we do not envisage the NIM outcomes at KVB to differ starkly from peers. Further, as the bank has relatively higher (vs peers) NIM/RoA, its earnings sensitivity for a comparable NIM decline should be lower (vs. peers). We are modelling ~25bps YoY NIM decline and flattish other income (lower TWO recovery contribution) YoY for FY26. Yet, we believe KVB should sustain the highest RoA/RoE within its peers (and comparable to large private banks). Maintain **BUY** with an unchanged target price of INR 300, valuing the stock at ~1.55x FY27E ABV and ~10x EPS. Key risk is slower-than-expected deposits mobilisation impacting growth.

20% YoY – granular growth; FY26 guidance of 2% over system

Bank sustained robust growth in the RAM segment at ~20% YoY (up 3% QoQ). However, overall growth, though healthy, was contained at 14% YoY (up 2% QoQ), as corporate remained a drag. Corporate book shrank 14% YoY/6% QoQ. Within RAM, growth was broad based – each sub-segment contributing ~18–21% YoY growth. Within retail, jewel loan growth was robust at 61% YoY (up 11% QoQ) while LAP was also healthy at 34% YoY (up 4% QoQ). Overall gold loans (including agri) growth was robust at 25% YoY (up 6% QoQ).

Financial Summary

Y/E March	FY24A	FY25A	FY26E	FY27E
NII (INR bn)	38.1	42.6	45.3	53.8
Op. profit (INR bn)	28.3	32.1	31.8	36.8
Net Profit (INR bn)	16.0	19.4	20.5	23.3
EPS (INR)	20.0	24.1	25.4	28.9
EPS % change YoY	44.7	20.9	5.4	13.9
ABV (INR)	122.0	146.6	168.9	193.9
P/BV (x)	1.8	1.5	1.3	1.2
P/ABV (x)	1.8	1.5	1.3	1.2
Return on Assets (%)	1.6	1.7	1.6	1.6
Return on Equity (%)	17.2	17.7	16.0	15.8

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Market Data

Market Cap (INR)	180bn
Market Cap (USD)	2,109mn
Bloomberg Code	KVB IN
Reuters Code	KARU.BO
52-week Range (INR)	246 /164
Free Float (%)	97.0
ADTV-3M (mn) (USD)	5.7

Price Performance (%)	3m	6m	12m
Absolute	4.7	4.0	14.1
Relative to Sensex	(3.3)	(1.8)	3.2

ESG Score	2023	2024	Change
ESG score	73.0	77.4	4.4
Environment	51.5	55.3	3.8
Social	74.6	79.1	4.5
Governance	80.1	86.9	6.8

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	(1)	(1)

Previous Reports

04-04-2025: [Quarterly results preview](#)29-03-2025: [Company Update](#)

Gold loan's share has risen to ~28% of the overall loans vs. 25% YoY. KVB has been conscious in unsecured loans. BNPL has declined 22% YoY/14% QoQ, while personal loans have declined 29% YoY/9% QoQ. Unsecured loans, however, only form ~2.2% of the overall loans. The bank has decided to wind down its precious metals division, due to the segment's weak RoA.

For FY26, management guides for loan growth to be 200bps over systemic growth. Growth would remain driven by RAM. Corporate growth would be opportunistic and may revive, once liability mix improves. We maintain our loan growth estimate of ~15% CAGR for FY25–27.

Term deposits (TD) drive deposits growth; LDR stable

Deposits growth was healthy at 3% QoQ/15% YoY. CASA growth was soft, declining 1% QoQ (up 3% YoY). CASA ratio stood at 27.3% vs. 28.4% QoQ and 30.4% YoY. Deposits growth remains driven by TD growth (up 20% YoY and 5% QoQ). The bank opened 19k new-variant CASA accounts with an O/s aggregated balance of INR 4bn. LDR remained stable and comfortable at ~82%.

Q4FY25 NIM better than guidance; however, FY26 guidance muted

Unfavourable liabilities mix pushed CoD up further to 5.74% vs 5.66% QoQ. Yields on advances, too, despite the repo rate cut, inched-up 5bps QoQ to 10.21%. Yields on investment also jumped QoQ. Reported NIM improved to 4.05% vs. 4.03% QoQ and was notably above guided range of 3.85%. NII growth was reasonable at 1% QoQ (up 9% YoY). The bank guides for cost of deposits to start improving from Q2FY26. Basis ~52% EBLR share and ~100bps cumulative rate cut, it guides FY26 NIM to be 3.7–3.75% vs. 4.09% in FY25. We estimate a NIM decline of ~25bps in FY26.

Slippages rise marginally QoQ, but asset quality remains comfortable

Gross slippages increased QoQ but were comfortable at 0.9% (vs. 0.7% QoQ and 1.1% YoY). Net of recoveries, slippages remained muted at 0.4%. Net slippages, net of TWO recovery, continue to be negative. Headline GNPA declined 7% QoQ. GNPA ratio improved 7bps QoQ to 0.76%. PCR declined ~180bps QoQ, but remained comfortable at 74.1%. PCR including TWO stood strong at 97%. Net NPA remained flat QoQ (and one of the lowest across peers) at 0.2%.

SMA 1+2 minuscule at 0.3%; estimate credit costs to be comfortable

SMA 1+2 loans remain miniscule at 30bps (vs. 39bps QoQ), and one of the lowest in the industry. Restructured standard advances declined to INR 5.4bn or 64bps of loans (vs. 74bps QoQ). SR book remains nil.

Provisions, during the quarter, included INR 260mn of NPI provisions (pertaining to SR but P&L neutral). KVB continues to provide INR 250mn as contingent provisions. The stock of contingent/floating provisions now stands at INR 2 bn (~24bps of loans).

For FY25, the bank reported gross/net slippages of ~80bps/35bps. We estimate gross slippages at ~85bps/90bps for FY26/FY27. We estimate net slippages of ~45bps/60bps for FY26/FY27. Given the secured book and strong PCR, we estimate credit costs at 40–45bps for FY25–27.

Other highlights

Fee income growth was robust at 13% QoQ (up 11% YoY). Recoveries from written-off accounts remained strong at INR 1.82bn, taking total recoveries to ~INR 6.4bn in FY25. Management expects the strong recovery momentum to continue in FY26 as well. Core PPOP (adjusted for TWO recovery) grew 13% YoY/3% QoQ. Tier-1 stood strong at >17%.

Q4FY25 earnings call takeaways

Broad outlook

- Advances growth would be 2% above system. Growth will likely be led by RAM. Corporate growth would be opportunistic. Near-term growth would be driven by RAM; and once liability mix is better, corporate shall grow again. Would like to fund corporate book via substitute (vs. loan).
- Liability growth would be in-line with credit growth. CD ratio: 85%. Branch additions: 19 lite branches, 9 regular branches in 1HFY26, mostly in southern and western regions of India.
- Had outperformed on NIM guidance. FY26 NIM to be 3.7–3.75% vs. 4.09%. This is assuming 50bps of further rate cut. The bank has 52% share of EBLR loans, which would see quick repricing.
- Cost to income to be ~50% for FY26.
- Strong recoveries momentum should be retained in FY26 as well. Slippages guidance for FY26 at <1% of advances.
- FY26 RoA guidance at 1.55–1.65%. Board is yet to take a call if the bank should continue with contingent provisions

Gold loans

- The bank has decided to wind down precious metals division, due to less attractive RoA. This division does bullion loans to manufacturers in wholesale segment. O/s book had come down from INR 6.5bn to INR 410mn.
- The draft guidelines on gold loan mandates detailed appraisal at lenders' end, like usual loans. This could lead to a rise in turnaround time. The bank would train the frontline staff and bring in efficiency. However, the issue is not unique to KVB but is relevant for all lenders. There is no material impact on the business, from the current draft guidelines.

Advances

- The bank is cautious on its MFI book. It has taken CGFMU on incremental disbursement starting 1 Apr'25. Current O/s MFI portfolio is small, at 0.37%.
- Personal loans are only given to select BNPL customers.
- Commercial loans: KVB had started with low ticket size to test the waters. Initially, average ticket size was INR 2–2.5mn. Subsequently, the bank started pushing for higher ticket size as the stress remained in control. Potential yield impact for going for higher ticket size is ~5–10 bps; however, it gets offset from savings in opex.
- H1FY26, would focus on RAM for growth, as corporate lending yields adjusted for deposits mix are still less attractive.
- O/s co-lending book is INR 4.72bn. The traction is slow. Co-lending would remain slower as focus is more on organic retail growth.
- Unsecured book is 2.22% of overall loans.

Deposits and NIM

- Have launched new CASA variants. It opened 19k accounts with aggregated balances of INR 4bn.

- The accretion in CASA is strong but there is pressure on existing balances due to superior and multiple avenues
- Less focus on period end, short-term flow.
- Expect Q2FY26 to start seeing decline in CoD
- KVB had earlier guided for ~3.85% NIM level for Q4FY25. The bank has outperformed its guidance, helped by increased focus on favorable loan mix.
- NIM to be ~3.7–3.75% for FY26 vs 4.09% in FY25.
- Loan book mix: 52% is EBLR; and 37% is MCLR.
- The current self-funding proportion on the wholesale book is low. However, over the medium term, the bank intends to reach 50% self-funding ratio.

Asset quality/others

- NPI and other provisions (INR 260mn) include some provisions on security receipts.
- Other income includes INR 1.82bn of recovery from TWO.
- Staff costs are higher, mainly on pension as yields have declined,
- Opex for FY25 is up 9% YoY.
- Well compliant on PSL for all quarters.

Q3FY25 earnings call takeaways

Guidance for Q4FY25

- Advance and deposit growth- at above 14% YoY.
- Cost of deposits- 10bps rise QoQ. Yield on investment – stable QoQ.
- NIM- 3.85% assuming repo rate cut (else should be ~3.95%).
- Credit cost guidance- 0.75%.
- Slippages - <1%, GNPA/NNPA- <2%/<1%.
- RoA - above 1.65%.

Advances

- Guidance of 14% advances growth sustains.
- Engaged leading consultancy firm to help ramp up commercial banking segment.
- Corporate growth declined in line with bank's strategy. Focus is more on FB growth with exposure of less than INR 1bn.
- Total MFI book- INR 3.5bn. Bank has tied up with four BCs in MFI in states where there is no stress - Telangana, Karnataka, some districts of TN where behaviour is good. Bank does not have exposure in problem states of Kerala, Bihar, Punjab, etc. The exposure is very small and the bank is mindful of the stress.
- Gold loans- KVB has already complied with RBI's guidelines released in Dec'24. No loans under interest subvention scheme. Entire gold loan is branch generated (no third party is involved).
- Growth in PL and BNPL book declined QoQ given the cautious stance. Once the environment is good, bank has the option to grow this book. The bank has ~5 BNPL customers and even selecting a minority proportion could open floodgates.

Deposits

- Steps taken at branch level to arrest deposit drawdown in ETB book.
- New sales team has been doing well. Acquisition of CASA has been good, however, it is not getting reflected in o/s balances as retention is impacted by customers diverting funds to other avenues like MF, real estate and other banks. The bank has stepped up its servicing team for better deepening and retention of balances.

Asset Quality

- No additional stress is expected in restructured book, INR 170mn worth is provided on prudential basis. 41.81% PCR on restructured advances.
- Recovery in TWO- bank had big corporate accounts in written-off book where recovery tends to be volatile. However, it has visibility on INR 18-20bn worth of TWO pool. In next 4 quarters, bank expects recovery of INR 4-5bn it has ramped up legal / recovery team.
- LAP- majority loans are below INR 10mn. Stress under this portfolio is minimal as onboarding checks are thorough.
- Sufficiently covered for ECL guidelines.

Others

- Fee income growth has been impacted by lower corporate offtake.
- Bank has opened 25 branches in Q3FY25 (of which 19 would be lite branches) and it plans to open 22 branches in Q4FY25.
- Reported CRAR is without including interim PAT.
- Reduction in EBLR of 5bps was mainly due to CRR cut.
- The bank has merged branch and neo channel for efficient sourcing. It has been done to 240 branches and would be expanded to other branches in coming quarters.

Exhibit 1: Q4FY25 result review

Financial Highlights					
INR mn	Q4FY24	Q4FY25	YoY (%)	Q3FY25	QoQ (%)
Interest Earned	21,846	25,159	15.2	24,860	1.2
Interest Expended	11,891	14,267	20.0	14,072	1.4
Net Interest Income	9,955	10,893	9.4	10,788	1.0
Other Income	6,289	5,093	-19.0	4,674	9.0
Total Income	28,134	30,253	7.5	29,534	2.4
Total Net Income	16,243	15,986	-1.6	15,462	3.4
Staff Expenses	4,398	3,849	-12.5	3,738	3.0
Other operating expenses	3,177	3,787	19.2	3,571	6.0
Operating Profit	8,669	8,350	-3.7	8,153	2.4
Provision & Contingencies	2,934	1,614	-45.0	1,474	9.5
Provision for tax	1,174	1,602	36.5	1,718	-6.7
Reported Profit	4,561	5,134	12.6	4,960	3.5
Other Highlights					
INR bn	Q4FY24	Q4FY25	YoY (%)	Q3FY25	QoQ (%)
Advances	737	840	14.0	823	2.1
Deposits	891	1,021	14.5	992	2.9
Gross NPA	10	6	-38.4	7	-7.1
Gross NPA (%)	1.40	0.76	-64 bps	0.83	-7 bps
Net NPA	3	2	-44.2	2	-0.3
Net NPA (%)	0.40	0.20	-20 bps	0.20	0 bps
Provision Coverage (%)	71.4	74.1	271 bps	75.9	-177 bps

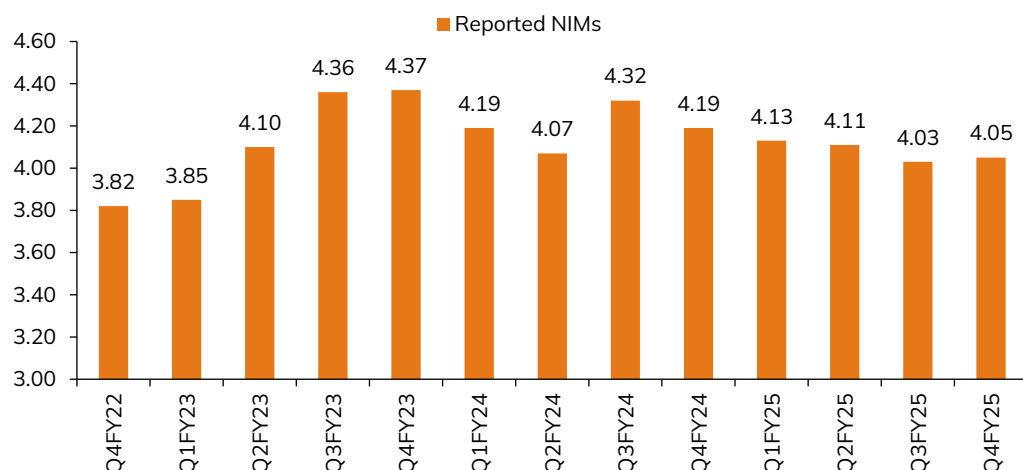
Source: Company data, I-Sec research

Exhibit 2: Deposits trend over the quarters

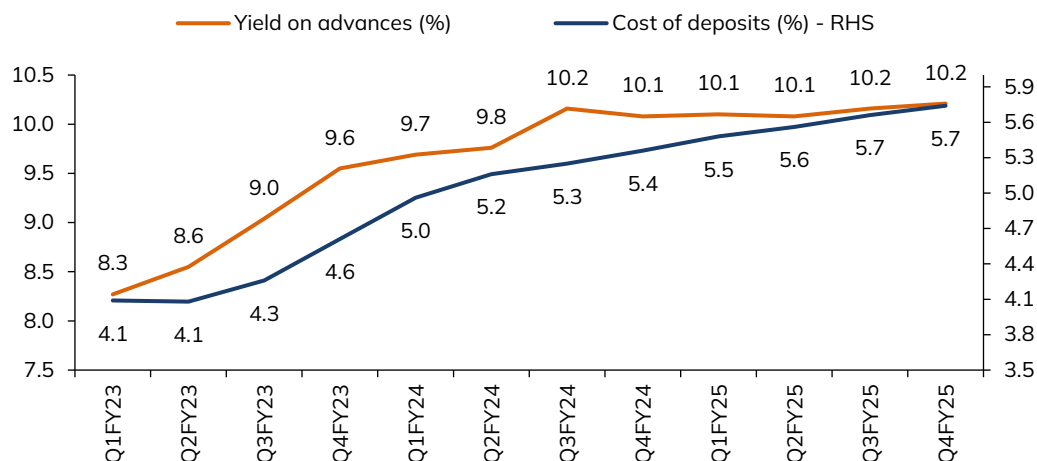
Particulars (INR mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Deposits	7,33,975	7,61,750	7,66,376	8,07,150	8,30,685	8,56,650	8,91,127	9,23,490	9,58,385	9,91,550	10,20,780
YoY % change	12.2	13.9	11.9	13.4	13.2	12.5	16.3	14.4	15.4	15.7	14.5
QoQ % change	3.1	3.8	0.6	5.3	2.9	3.1	4.0	3.6	3.8	3.5	2.9
CASA Deposits	2,59,140	2,58,000	2,54,490	2,65,490	2,67,940	2,70,120	2,70,850	2,80,420	2,82,320	2,81,670	2,78,320
YoY % change	11.9	6.9	6.5	2.4	3.4	4.7	6.4	5.6	5.4	4.3	2.8
QoQ % change	0.0	-0.4	-1.4	4.3	0.9	0.8	0.3	3.5	0.7	-0.2	-1.2
CASA Ratio (%)	35.3	33.9	33.2	32.9	32.3	31.5	30.4	30.4	29.5	28.4	27.3
Term Deposits	4,74,835	5,03,750	5,11,886	5,41,660	5,62,745	5,86,530	6,20,277	6,43,070	6,76,065	7,09,880	7,42,460
YoY % change	12.4	17.9	14.8	19.7	18.5	16.4	21.2	18.7	20.1	21.0	19.7
QoQ % change	4.9	6.1	1.6	5.8	3.9	4.2	5.8	3.7	5.1	5.0	4.6

Source: Company data, I-Sec research

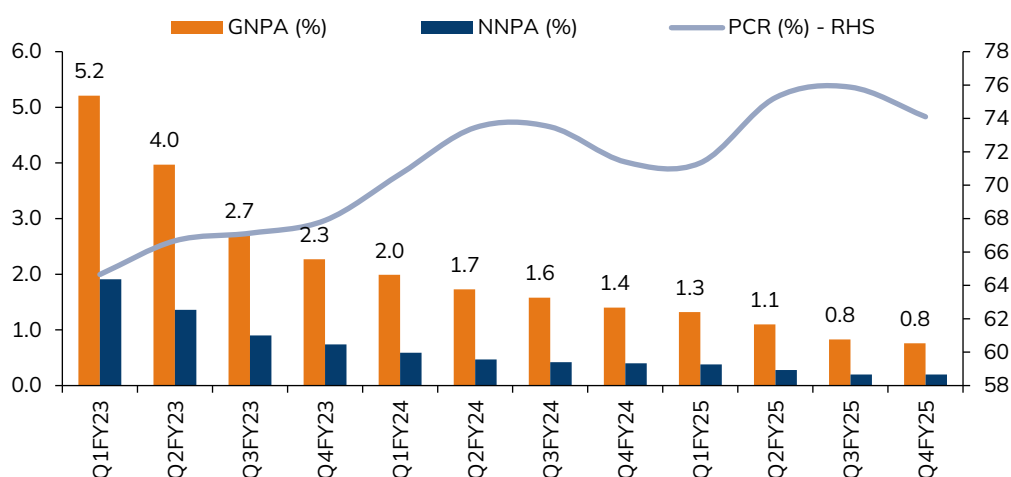
Exhibit 3: Reported NIM trend (%)



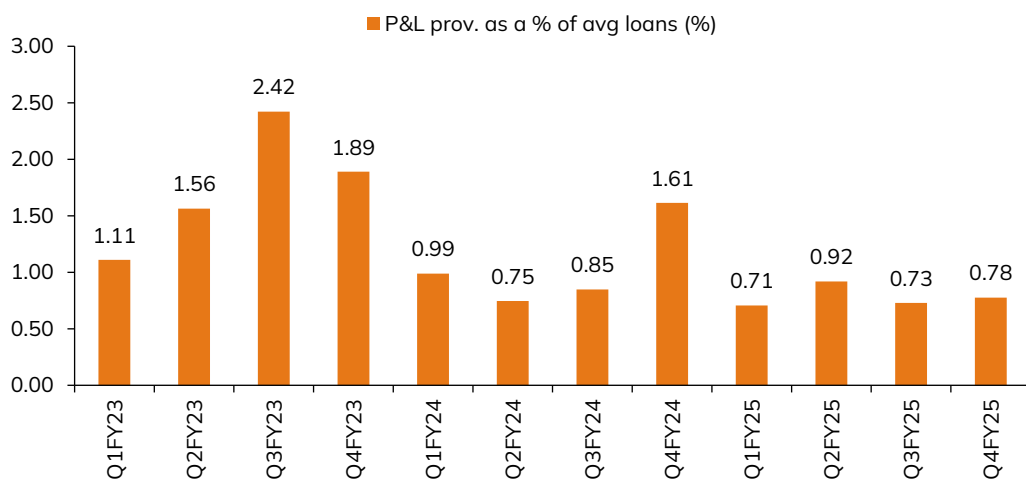
Source: Company data, I-Sec research

Exhibit 4: Cost of deposits continues to inch up

Source: I-Sec research, Company data

Exhibit 5: Net NPA stable at 20bps

Source: Company data, I-Sec research

Exhibit 6: Reported provisions trend (includes INR 250mn of contingent)

Source: Company data, I-Sec research

Exhibit 7: Segment-wise loan growth

Loan mix (INR mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)	Mix (%)
Corporate	1,43,710	1,39,490	1,36,520	1,30,880	1,28,330	1,20,470	-13.6	-6.1	14
Retail	1,70,900	1,76,620	1,88,400	1,96,850	2,04,760	2,08,960	18.3	2.1	25
Agri	1,68,330	1,73,630	1,81,350	1,88,380	1,97,050	2,08,180	19.9	5.6	25
SME	2,43,980	2,54,490	2,70,830	2,86,880	2,98,240	3,07,300	20.8	3.0	36
Gross Advances	7,26,920	7,44,230	7,77,100	8,02,990	8,28,380	8,44,910	13.5	2.0	100

Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'24	Dec'24	Mar'25
Promoters	2.1	2.1	2.3
Institutional investors	52.1	53.2	38.2
MFs and other	30.2	31.6	21.2
Banks/ FIs	0.0	2.8	1.5
Insurance Cos.	4.8	4.9	0.0
FIs	17.1	13.9	15.4
Others	45.8	44.7	59.5

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest income	82,039	96,780	1,06,415	1,22,701
Interest expense	43,947	54,181	61,108	68,902
Net interest income	38,092	42,599	45,307	53,799
Non-interest income	16,587	18,296	18,639	19,211
Operating income	54,679	60,895	63,946	73,009
Operating expense	26,388	28,771	32,132	36,222
Staff expense	14,610	14,492	15,941	17,854
Operating profit	28,291	32,123	31,814	36,787
Core operating profit	25,348	31,123	30,514	35,587
Provisions & Contingencies	7,290	6,216	4,458	5,641
Pre-tax profit	21,002	25,907	27,356	31,147
Tax (current + deferred)	4,954	6,491	6,885	7,840
Net Profit	16,048	19,416	20,470	23,307
Adjusted net profit	16,048	19,416	20,470	23,307

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Cash and balance with RBI/Banks	56,586	78,067	83,084	95,220
Investments	2,23,435	2,38,313	2,56,033	2,81,583
Advances	7,36,675	8,40,045	9,66,314	11,10,316
Fixed assets	4,329	4,902	6,199	7,088
Other assets	34,828	32,347	74,045	76,590
Total assets	10,55,852	11,93,674	13,85,675	15,70,797
Deposits	8,91,127	10,20,780	11,74,830	13,48,298
Borrowings	24,784	12,170	12,078	11,986
Other liabilities and provisions	39,540	41,429	61,457	52,693
Share capital	1,609	1,610	1,610	1,610
Reserve & surplus	98,792	1,17,685	1,35,699	1,56,209
Total equity & liabilities	10,55,852	11,93,674	13,85,675	15,70,797
% Growth	17.1	13.1	16.1	13.4

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	804	805	805	805
Adjusted EPS	20.0	24.1	25.4	28.9
Book Value per share	125	148	171	196
Adjusted BVPS	122	147	169	194
Valuation ratio				
PER (x)	11.3	9.3	8.9	7.8
Price/ Book (x)	1.8	1.5	1.3	1.2
Price/ Adjusted book (x)	1.8	1.5	1.3	1.2
Dividend Yield (%)	1.1	1.2	1.4	1.5
Profitability ratios (%)				
Yield on advances	10.0	10.2	9.8	10.0
Yields on Assets	8.4	8.6	8.3	8.3
Cost of deposits	5.1	5.5	5.4	5.3
Cost of funds	4.5	4.8	4.7	4.7
NIMs	4.1	3.9	3.7	3.9
Cost/Income	48.3	47.2	50.2	49.6
Dupont Analysis (as % of Avg Assets)				
Interest Income	8.4	8.6	8.3	8.3
Interest expended	4.5	4.8	4.7	4.7
Net Interest Income	3.9	3.8	3.5	3.6
Non-interest income	1.7	1.6	1.4	1.3
Trading gains	0.3	0.1	0.1	0.1
Fee income	1.4	1.5	1.3	1.2
Total Income	5.6	5.4	5.0	4.9
Total Cost	2.7	2.6	2.5	2.5
Staff costs	1.5	1.3	1.2	1.2
Non-staff costs	1.2	1.3	1.3	1.2
Operating Profit	2.9	2.9	2.5	2.5
Core Operating Profit	2.6	2.8	2.4	2.4
Non-tax Provisions	0.7	0.6	0.3	0.4
PBT	2.1	2.3	2.1	2.1
Tax Provisions	0.5	0.6	0.5	0.5
Return on Assets (%)	1.6	1.7	1.6	1.6
Leverage (x)	10.5	10.2	10.1	10.0
Return on Equity (%)	17.2	17.7	16.0	15.8
Asset quality ratios (%)				
Gross NPA	1.4	0.8	0.7	0.8
Net NPA	0.4	0.2	0.2	0.2
PCR	71.4	74.1	75.0	75.0
Gross Slippages	0.8	0.9	1.0	1.1
LLP / Avg loans	0.6	0.6	0.5	0.6
Total provisions / Avg loans	1.1	0.8	0.5	0.5
Net NPA / Networth	3.0	1.4	1.3	1.5
Capitalisation ratios (%)				
Core Equity Tier 1	15.5	17.1	16.6	16.1
Tier 1 cap. adequacy	15.5	17.1	16.6	16.1
Total cap. adequacy	16.7	18.2	17.5	16.9

Source Company data, I-Sec research

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