

23 September 2025

India | Equity Research | Company Update

Karur Vysya Bank

Banking

Exposure to US exporting units appears much manageable

We hosted Karur Vysya Bank (KVB)'s senior management in Chennai. Investors discussions were centred around the SME portfolio's health, especially export-oriented units amidst higher US tariffs and change, if any, in the operating environment for the SME units. KVB has conducted a thorough review of its SME portfolio. The overall Exposure at Impact (EAI) for all industries' export to US is ~1.2% of the overall loans. Further, exposure to US, where US contributes to over 60% of annual turnover, is contained at 0.56% of the total loans. Within this, textile exposure (above 60% export to US) stands lower at ~0.3% of the loans. In our view, the first order impact appears manageable. Although we would closely monitor the second order impact, if any. Our estimates are unchanged. Maintain **BUY** with an unchanged TP of INR 267, valuing the stock at ~1.65x FY27E ABV. Key risk is adverse impact on portfolio quality as well as growth amidst macro uncertainties.

US tariffs – limited direct impact on portfolio

KVB has released detailed information to exchange ([link](#)) explaining its overall exposure and sensitivity. EAI for all industries' export to US is ~1.2% (~INR 10.7bn) of the overall loans. Further, exposure to US, where US contributes to over 60% of the turnover, is contained at 0.56% (~INR 5bn). Within this, textile exposure stands at ~0.3% of loans or INR 2.6bn. Exposure to the more sensitive 'apparel and home textile exports' stands minimal at 11bps (~INR 1bn). The bank's initial discussion with customers suggests no material business disruption and contained SMA levels. Besides, KVB seems to have provided for over and above IRAC on textile. In our view, the first order impact appears manageable; although, we would closely monitor the second order impact, if any.

Asset quality comfortable, though uptick in SMA2 last quarter

KVB has amongst the lowest NNPA (0.2%) and highest PCR (97% including TWO). SMA 1+2 loans, at <1%, have also been consistently among the lowest across banks. KVB, however, saw SMA 2 inching up in Q1FY26 to 34bps vs. 8bps QoQ, mainly due to customer-specific issues (not sector related stress). We remain confident of lower credit costs YoY for FY26, though slippages in Q2FY26 may see uptick, if there is no rollback in the SMA 2 book.

Recovery from TWO likely to moderate, but appears recurring

While we model moderating contribution of recovery from TWO in FY26E/FY27E at 0.4%/0.3%, we believe KVB could still outperform peers. As detailed in our report ([link](#)), KVB's recovery rate is comparable. Importantly, its TWO pool is much higher (2–10x of peers) and of better quality (recent vintage, secured nature and some recourse). KVB aims for stable TWO recovery YoY for FY26.

Financial Summary

Y/E March	FY24A	FY25A	FY26E	FY27E
NII (INR bn)	38.2	42.6	45.3	54.2
Op. profit (INR bn)	28.3	32.1	31.8	36.6
Net Profit (INR bn)	16.0	19.4	20.5	23.3
EPS (INR)	16.7	20.1	21.3	24.1
EPS % change YoY	44.8	20.7	5.8	13.2
ABV (INR)	101.7	122.2	140.9	161.7
P/BV (x)	2.0	1.7	1.5	1.3
P/ABV (x)	2.0	1.7	1.5	1.3
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)	210bn
Market Cap (USD)	2,382mn
Bloomberg Code	KVB IN
Reuters Code	KARU.BO
52-week Range (INR)	231 /154
Free Float (%)	97.0
ADTV-3M (mn) (USD)	6.6

Price Performance (%)	3m	6m	12m
Absolute	7.1	29.6	23.6
Relative to Sensex	5.5	20.1	24.3

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.

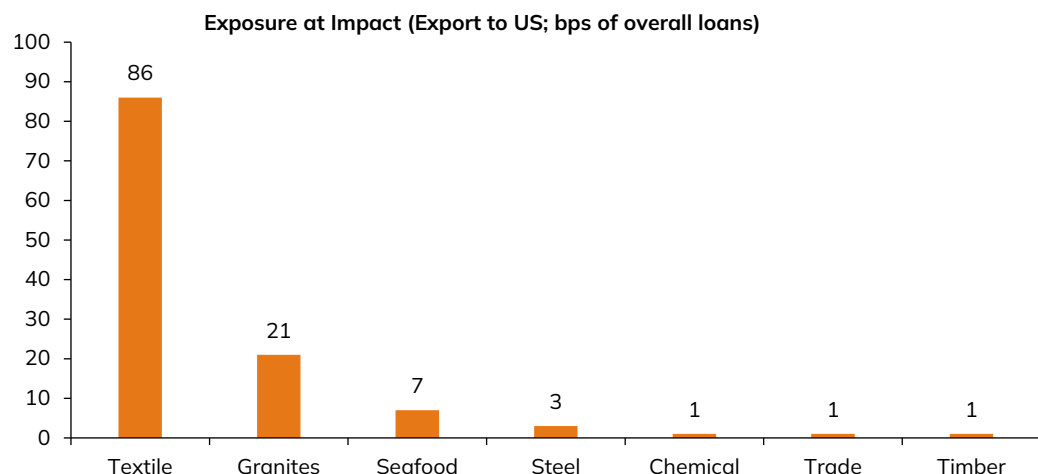
Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
EPS	-	-

Previous Reports

12-09-2025: [Company Update](#)

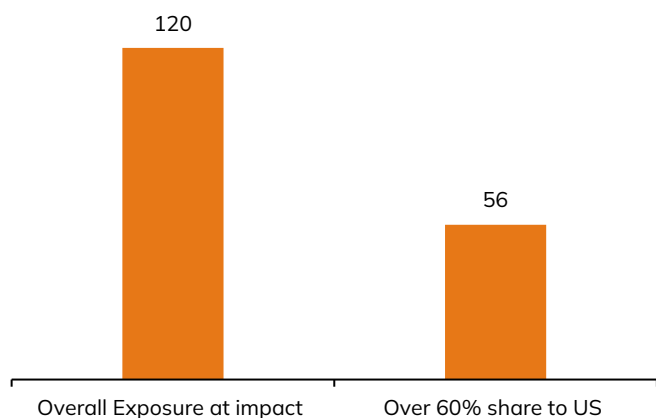
25-07-2025: [Q1FY26 results review](#)

Exhibit 1: Exposure to US export stands contained at 1.2% of overall loans

Source: I-Sec research, Company data

Exhibit 2: Within 1.2% EAI, 56bps of loans are such where US share (in turnover) is over 60%

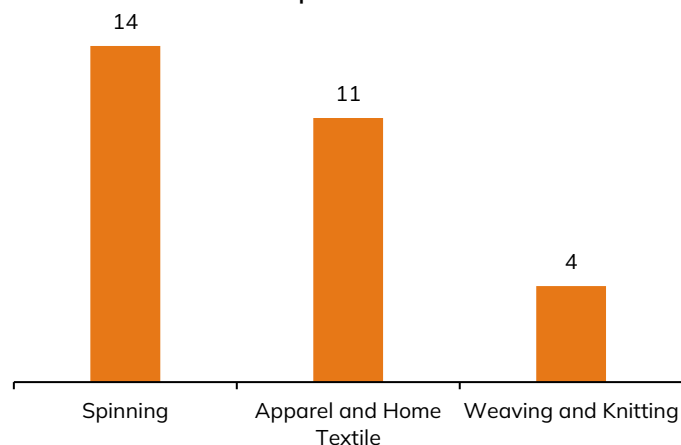
Exposure at Impact (bps of loans)



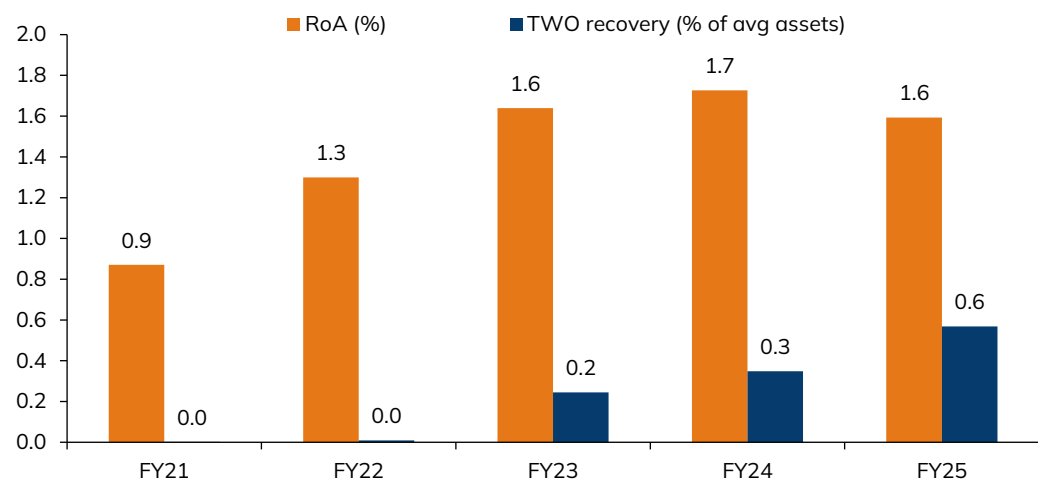
Source: Company data, I-Sec research

Exhibit 3: Textile (apparel and home) constitutes ~29bps (11bps) within 56bps of EAI with over 60% US share

in bps of loans

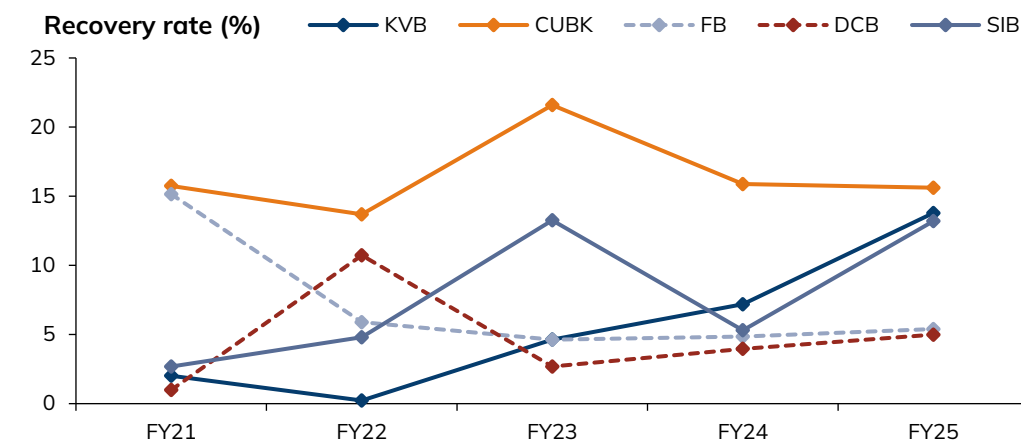


Source: Company data, I-Sec research

Exhibit 4: KVB's TWO recovery contribution to overall RoA jumped in last 2 years

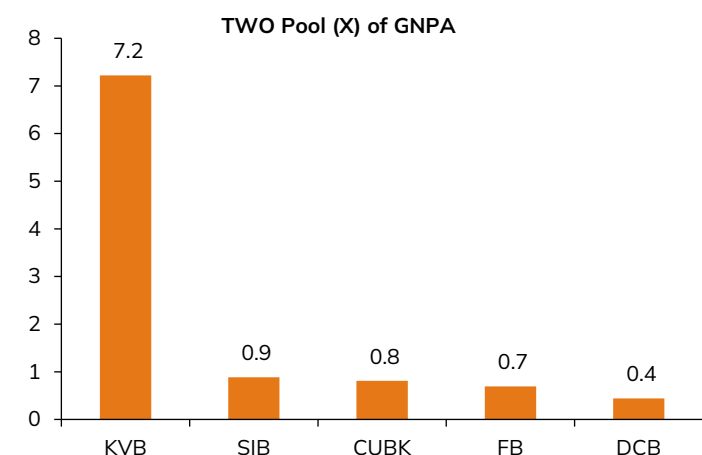
Source: Company data, I-Sec research

Exhibit 5: Importantly, KVB's recovery rate is akin to, or lower than, peers; banks focused on secured MSME such as CUBK and KVB have higher recovery rate; CUBK sustained double-digit rate over the last 5 years



Source: I-Sec research, Company data

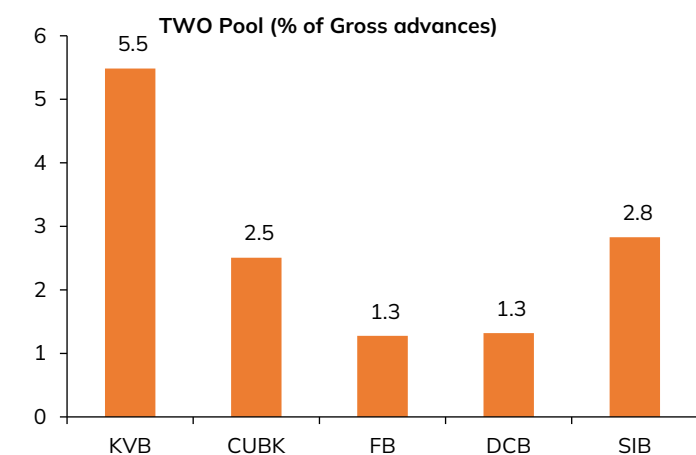
Exhibit 6: Importantly, TWO pool at KVB is over 7x of GNPA as compared to <1x for peers



Source: I-Sec research, Company data

Note: Data as of Q1FY26

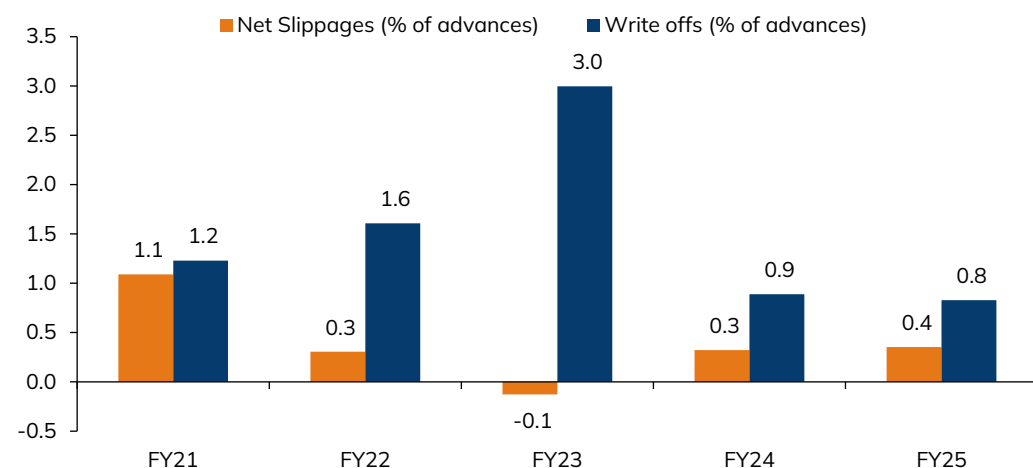
Exhibit 7: Similarly, KVB's TWO pool as % of advances is 2–4x its peers



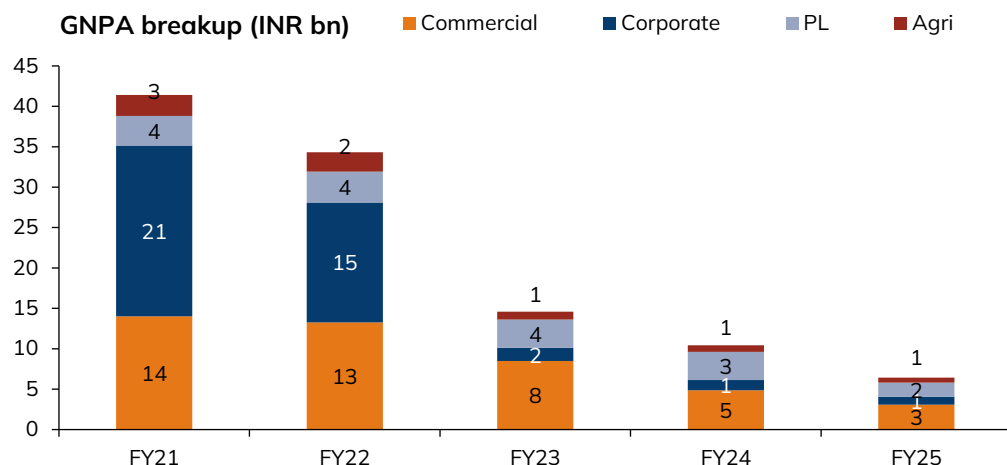
Source: I-Sec research, Company data

Note: Data as of Q1FY26

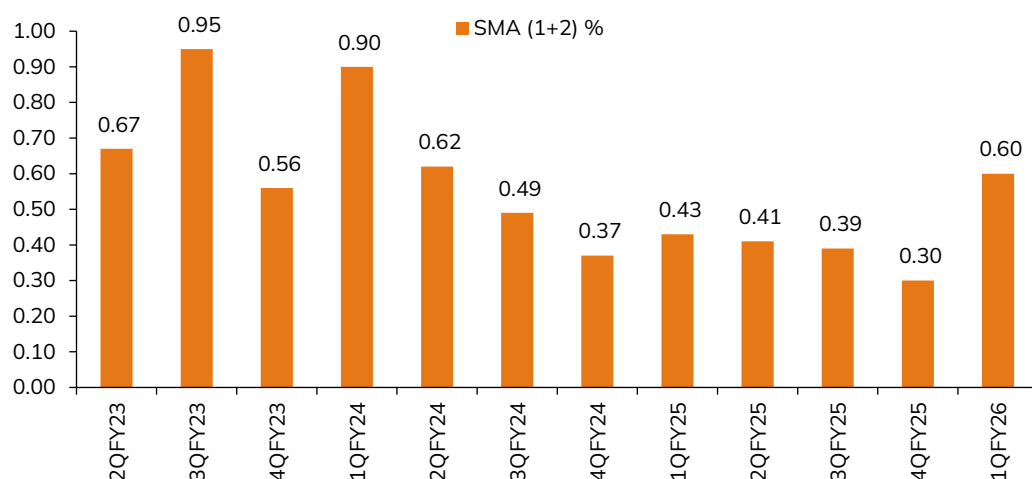
Exhibit 8: Between FY22–25, KVB has cumulatively written-off >6% of loans while net slippages have been <1% of loans



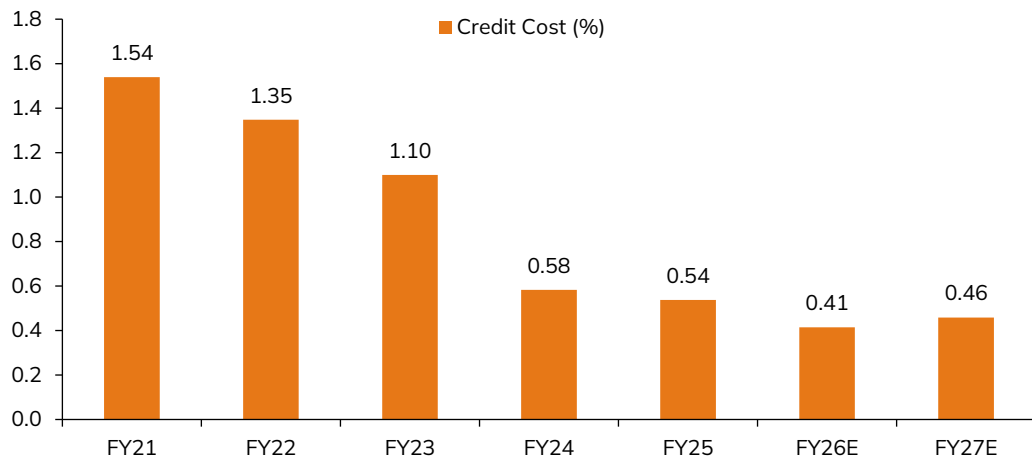
Source: I-Sec research, Company data

Exhibit 9: Share of corporate in overall GNPA has become negligible

Source: I-Sec research, Company data

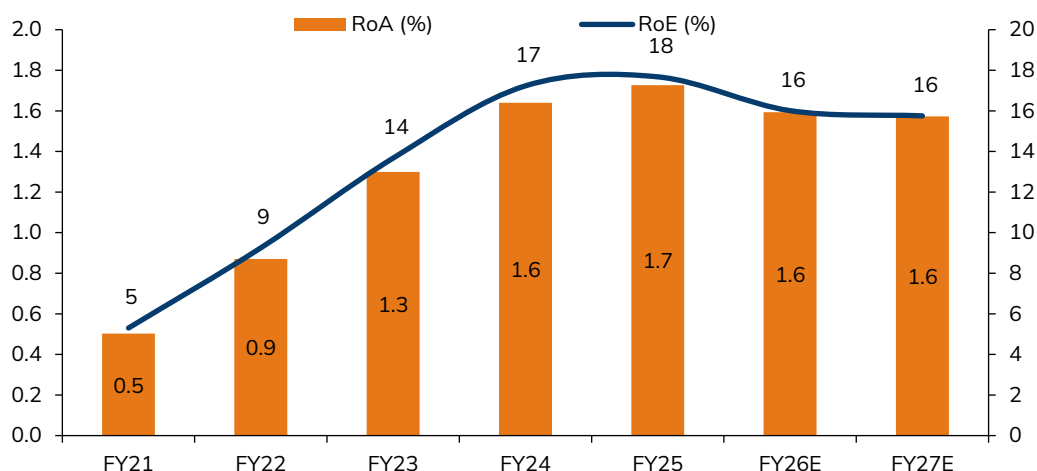
Exhibit 10: SMA1+2 loans (all ticket size) have been steadily low at <1% of the loans and amongst lowest across banks. However, Q1FY26 saw minor uptick.

Source: I-Sec research, Company data

Exhibit 11: We see muted credit costs, at ~40–45bps, for the FY25–27E period

Source: I-Sec research, Company data

Exhibit 12: We expect KVB to deliver best-in-class RoA/RoE of ~1.6%/16% for the next two years



Source: I-Sec research, Company data

Exhibit 13: We estimate the bank to deliver stable ~1.6% RoA for FY26-27; we model moderating but still healthy contribution of recovery from TWO

RoAs Tree (%)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	7.7	8.4	8.6	8.3	8.3
Interest Expense	3.7	4.5	4.8	4.8	4.6
NII	3.9	3.9	3.8	3.5	3.7
Non-interest income	1.4	1.7	1.6	1.4	1.3
- Fee income	1.1	1.0	1.0	0.9	0.9
- Trading gains	0.0	0.3	0.1	0.1	0.1
- Recovery from TWO	0.2	0.34	0.57	0.42	0.31
Net Revenue	5.3	5.6	5.4	5.0	4.9
Opex	2.4	2.7	2.6	2.5	2.5
Reported PPOP	2.9	2.9	2.9	2.5	2.5
Core PPOP	2.9	2.6	2.8	2.4	2.4
Provisioning	1.2	0.7	0.6	0.3	0.4
PBT	1.7	2.1	2.30	2.1	2.1
Tax	0.4	0.5	0.6	0.5	0.5
ROAs	1.3	1.6	1.7	1.6	1.6
Leverage	10.5	10.5	10.2	10.0	10.0
RoEs	13.7	17.2	17.7	16.0	15.8

Source: I-Sec research, Company data

Exhibit 14: Shareholding pattern

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

Source: Bloomberg, I-Sec research

Exhibit 15: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Interest income	82,132	96,780	1,06,829	1,22,847
Interest expense	43,947	54,181	61,557	68,666
Net interest income	38,184	42,599	45,272	54,181
Non-interest income	16,495	18,296	18,621	18,786
Operating income	54,679	60,895	63,893	72,968
Operating expense	26,388	28,771	32,057	36,410
Staff expense	14,610	14,492	15,941	18,014
Operating profit	28,291	32,123	31,836	36,558
Core operating profit	25,348	31,440	30,436	35,408
Provisions & Contingencies	7,290	6,216	4,380	5,483
Pre-tax profit	21,002	25,907	27,456	31,075
Tax (current + deferred)	4,954	6,491	6,911	7,822
Net Profit	16,048	19,416	20,545	23,254
Adjusted net profit	16,048	19,416	20,545	23,254

Source Company data, I-Sec research

Exhibit 17: 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	2,81,584
Advances	7,36,675	8,40,045	9,66,614	11,10,616
Fixed assets	4,329	4,902	6,199	7,088
Other assets	34,827	32,347	73,821	76,304
Total assets	10,55,852	11,93,674	13,85,751	15,70,811
Deposits	8,91,127	10,20,780	11,74,830	13,48,298
Borrowings	24,784	12,170	12,078	11,987
Other liabilities and provisions	39,540	41,429	61,468	52,688
Share capital	1,931	1,932	1,932	1,932
Reserve & surplus	98,470	1,17,363	1,35,443	1,55,906
Total equity & liabilities	10,55,852	11,93,674	13,85,751	15,70,811
% Growth	17.1	13.1	16.1	13.4

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
No. of shares and per share data				
No. of shares (mn)	965	966	966	966
Adjusted EPS	16.7	20.1	21.3	24.1
Book Value per share	104	123	142	163
Adjusted BVPS	102	122	141	162
Valuation ratio				
PER (x)	13.0	10.8	10.2	9.0
Price/ Book (x)	2.1	1.8	1.5	1.3
Price/ Adjusted book (x)	2.0	1.7	1.5	1.3
Dividend Yield (%)	0.9	1.0	1.2	1.3
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	5.5	5.3
Cost of funds	4.5	4.8	4.8	4.6
NIMs	4.1	3.9	3.7	3.9
Cost/Income	48.3	47.2	50.2	49.9
Dupont Analysis (as % of Avg Assets)				
Interest Income	8.4	8.6	8.3	8.3
Interest expended	4.5	4.8	4.8	4.6
Net Interest Income	3.9	3.8	3.5	3.7
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	1.6	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	1.2	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	10.0	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	0.7	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	1.2	1.4
Capitalisation ratios (%)				
Core Equity Tier 1	15.5	17.1	16.7	16.1
Tier 1 cap. adequacy	15.5	17.1	16.7	16.1
Total cap. adequacy	16.7	18.2	17.5	16.9

Source Company data, I-Sec research

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