Initiating Coverage Report

KARUR VYSYA BANK

09 April 2025

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KVB Bank Ltd (KVB)

Delivering consistent and superior returns amidst industry headwinds

Amidst the slowing down of banking sector earnings and a broader market sell off, bank investors would likely focus their attention on select quality bank stocks that can deliver superior growth and are protected from contemporary asset quality shocks. We view KVB is favourably placed to withstand the current industry headwinds. KVB has amongst the best-in-class asset quality metrics and 98% secured loans. With high coverage and low & reducing incremental asset quality stress, KVB's credit costs are likely to reduce versus the industry's worsening profile. Further, the bank's loans growth momentum remains strong and is likely to accelerate (despite the sector slow down), bolstered by its RAM segment and a low CD ratio. Improvement in cost metrics will further strengthen the returns. Overall, KVB can consistently deliver 1.6-1.7% ROA in medium term. We view investors would find KVB attractive to own with better-than-industry earnings growth, superior asset quality metrics and attractive valuation. BUY.

Credit costs to reduce driven by low incremental stress and already built strong coverage
Majority of the loans are secured, shielding KVB from asset quality shocks in the current cycle. KVB's slippages have been moderating which is driving its very low NPA ratios. Other parts of potential stress like forward flows or standard restructured book are also reducing. Notably, KVB is an outperformer in asset quality metrics with the least NPA ratio and amongst the highest coverage as compared to peers. Overall, we expect KVB's credit costs to reduce due to low incremental stress and prudential provisions already built in.

Loan growth to remain strong and further accelerate as rate cuts continue
This is driven by KVB's RAM sectors, which has registered a very strong momentum despite the industry slowdown. We think KVBs RAM sectors can continue to grow at ~20% for the next three years. Corporate sector has been de-growing since the last six quarters as RAM sector provided superior loans yields. We think, corporate sector contraction will reduce into FY26 and should start exhibiting weak growth by FY27, as deposit and liquidity conditions become more amenable with the rate cuts.

Operating income growth to surpass opex growth
KVB has already front-loaded staff headcount, which would slow down the staff costs growth going forward. Further, slowing down of investment expense and some productivity emanating from already commenced branches, we should likely start see slowing down of costs growth below the operating income growth.

Margins to stabilize after bottoming out soon against industry's margin contraction trajectory
High MCLR proportion will help slow down the loans downward repricing, providing additional time for liabilities to reprice. Counterintuitively, its weak CASA ratio might prove to be a blessing in rate downcycle, with higher proportion of term deposits to reprice. The bank has been focusing on higher yielding RAM segment versus lower yielding corporates, which would also start providing some uplift to margins beginning FY26. Given the cost of funds will continue to rise this quarter, we see NIMs to bottom in Q4 and then deliver a ~flat trajectory.

Consequently, set to deliver consistent 1.6%-1.7% ROA returns despite industry headwinds
KVB used to be a 1.5%-1.7% ROA bank, bank in FY09-FY12. However, we saw reduction to 0.9% by FY15 and 0.3% by FY19, driven by corporate asset quality cycle and other reasons. Since then, multiple transformation initiatives have helped improve ROA back to 1.6% - 1.7% ROA for FY24 and 9MFY25. We think improving asset quality, robust loan growth, healthier costs efficiency and somewhat resilient NIMs will help deliver a consistent return of 1.6%-1.7% ROA going forward.

Another leg of re-rating on cards, BUY
Once the rate hikes began in May-22, expanding NIMs and ROA rerated the stock to just above book by early 2024, as compared to 0.2-0.3x in Apr-20. Since then, the stock has remained around ~ 1.1x-1.3x, with currently trading at 1.08x with the broader market sell-off. We think investors need to consider if a bank delivering 16%+ forward ROE, should it trade around just 1.1x book. Also, with the industry headwinds around revenue growth and asset quality (implying slowdown of earnings), wouldn't a bank possessing levers to relatively insulate itself, be a better portfolio holding? We believe as investors see KVB gracefully endure the industry headwinds, delivering superior earnings growth and consistent returns, it is likely to be re-rated. The street seems to be underestimating the improvement in credit costs, robustness of loan growth and ameliorating cost metrics.

Rating: BUY	Upside: 34%
Current Price: 212	Target Price: 285

|Market data

Bloomberg:	KVB: IN
52-week H/L (Rs):	246.0/164.1
Mcap (Rs bn/USD bn):	170.57/1.98
Shares outstanding (mn):	805.0
Free float:	97%
Face Value (Rs):	2

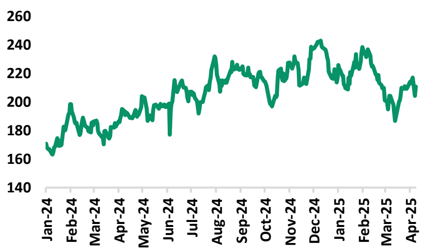
Source: Bloomberg, NSE, SMIFS Research

|Price performance (%)

	1M	3M	12M	36M
Nifty 500	0.2%	-7.9%	-1.6%	33.5%
Nifty Banks	4.2%	1.4%	4.0%	33.8%
KVB	3.9%	-0.2%	9.4%	306.4%

*As on 8th Apr 2025; Source: Bloomberg, SMIFS Research

|Share Price (%)



Source: Ace Equity, SMIFS Research

|Inside the report

- Detailed **asset quality analysis and how KVB stands out versus peers**.
- **NIM decomposition** into key drivers on both assets and liabilities side.
- A **bottom-analysis for credit growth**, depicting trajectory of growth for RAM and corporate sectors.
- **Dupont ROE analysis** showing how the bank is set deliver consistent and superior returns.
- Why KVB is set to have **another leg of re-rating**? Why **KVB is attractive to own** for investors **when system earnings growth is slowing down**?

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(Rs m)	Op. Income	% YoY	PPOP	% YoY	PAT	% YoY	P/E	P/B (x)	ROA (%)	ROE(%)
FY23	45,078	29%	24,758	52%	11,061	64%	7.6	1.0	1.30%	13.7%
FY24	54,679	21%	28,291	14%	16,048	45%	9.1	1.5	1.64%	17.2%
FY25E	60,157	10%	31,560	12%	18,930	18%	9.0	1.5	1.68%	17.4%
FY26E	66,107	10%	34,733	10%	21,578	14%	7.9	1.3	1.67%	17.0%
FY27E	76,205	15%	40,895	18%	25,632	19%	6.7	1.1	1.70%	17.4%

Source: Company, SMIFS Research Estimates. PPOP = Pre- Provision Operating Profit

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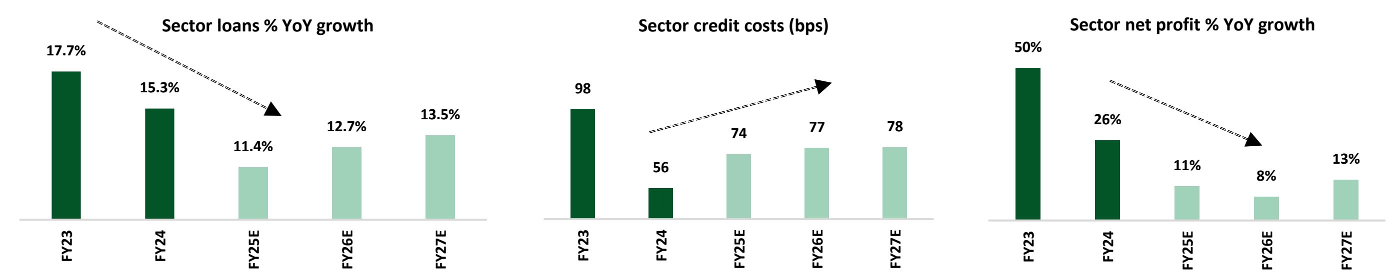
[I] Executive Summary

Amidst banking sector earnings growth slowing down, investors would favour select names which can endure the debilitating headwinds. Sector earnings growth is decelerating driven by three reasons. Loan growth is slowing down, driven by sector's elevated credit to deposit ratio (CD) ratio. This would persist near-term despite the RBI's already commenced rate easing cycle. Secondly, margins have been contracting since the end of rate hike cycle end (back in FY23) as cost of funds have been surging up. Now, with the commencement of rate cuts cycle, source of contraction has been switching from liabilities to asset side (as sector has largely floating rate loans) driving additional margin contraction. Thirdly, credit costs will continue to normalise upwards due to contemporary pressures in unsecured segment, the delayed impact of rate hikes as well as recoveries becoming hard to find. Consequently, it might become tougher for investors to favour banks sector in relative sense. So, select banks which could withstand the industry pressures and deliver superior earnings growth, might make it worthwhile for the investors to own them. We view KVB is one such bank with improving credit costs (despite industry's worsening trend), higher-than-industry-loan growth and somewhat resilient NIMs.

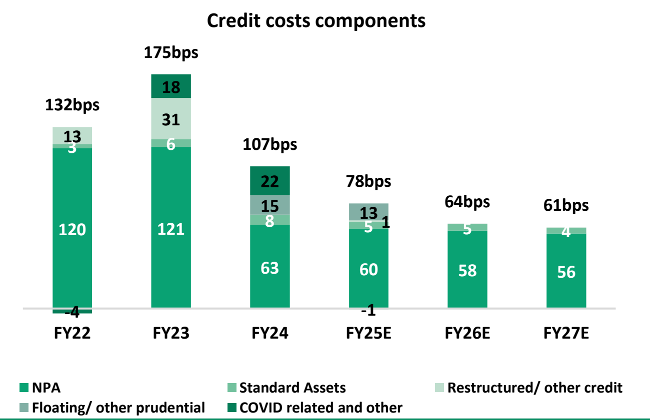
Fig 1: Decelerating loans growth, contracting margins & normalising credit costs would drive slowdown of sector earnings growth



Source: Company, RBI, Bloomberg, SMIFS Research; Sector loans growth, credit costs, net profit include following banks: HDFCB, AXSB, BANDHAN, BOB, CBK, CUBK, DCBB, ICICIBC, IDFCFB, INBK, IIB, KVB, KMB, RBK, SBIN, FB, UNBK, YES. For FY23 AXSB net profit, we excluded exceptional items for Citi consumer acquisition.

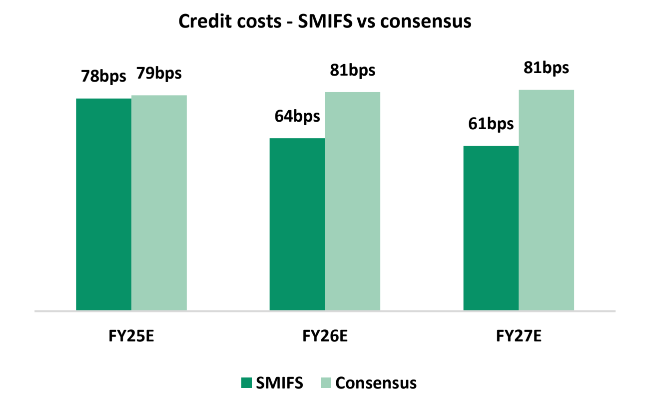
KVB's credit costs will improve despite industry's worsening trends. Majority of the loans are secured, shielding KVB from asset quality shocks in the current cycle. KVB's slippages have been moderating which is driving low NPL ratios. Other parts of potential stress like forward flows or standard restructured book are also reducing. NPA coverage is very robust at 76%, amongst the best in peers. KVB is an outperformer in asset quality metrics with the least NPA ratio compared to its peers. Overall, we expect KVB's credit costs to reduce due to low incremental stress and prudential provisions already built in.

Fig 2: We think credit costs will decline with low incremental stress and high coverage



Source: Company, SMIFS Research

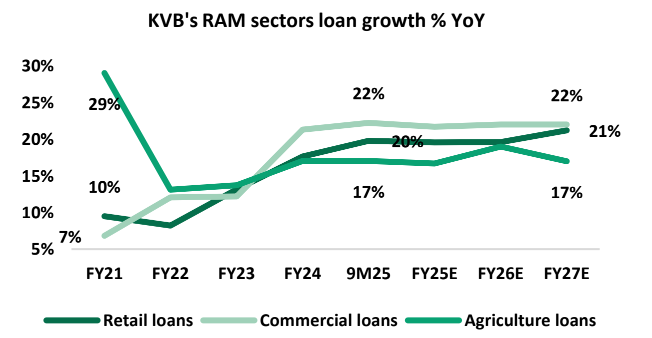
Fig 3: Consensus has higher credit costs profile versus SMIFS



Source: Company, Bloomberg, SMIFS Research

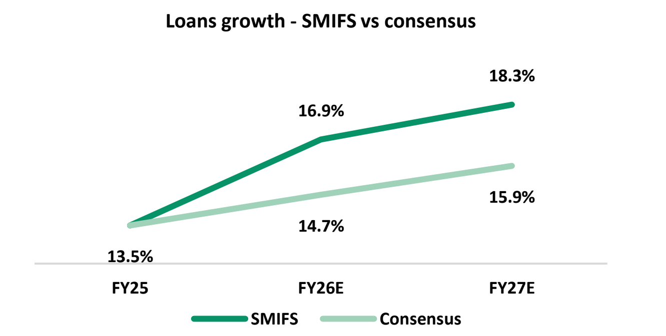
Loans growth to accelerate despite the industry slowdown. Over a period of last four to five years, with management focusing on RAM sectors and the completion of COVID moratorium, the RAM sectors have been able to register strong growth, with FY24 of 19% and 9M25 of 20% (as compared to 11-13% in FY21-FY23). We expect this momentum to continue into the forecast period. Corporate sector has been deliberately de-focused due to asset quality issues in the past and has de-grown for the last six quarters on account of lower yield. We expect the sector to continue contraction into FY26 and then show weak growth in FY27, with the focus staying on the RAM sectors. Overall, this would deliver an accelerating growth profile, better than consensus estimates. We think consensus has failed to consider the impact of KVB's low CD ratio (vs its pvt. banks peers) and strong deposit growth momentum, which would provide superior funding power particularly with the rate cuts cycle.

Fig 4: RAM sectors growth is likely to stay robust



Source: Company, SMIFS Research

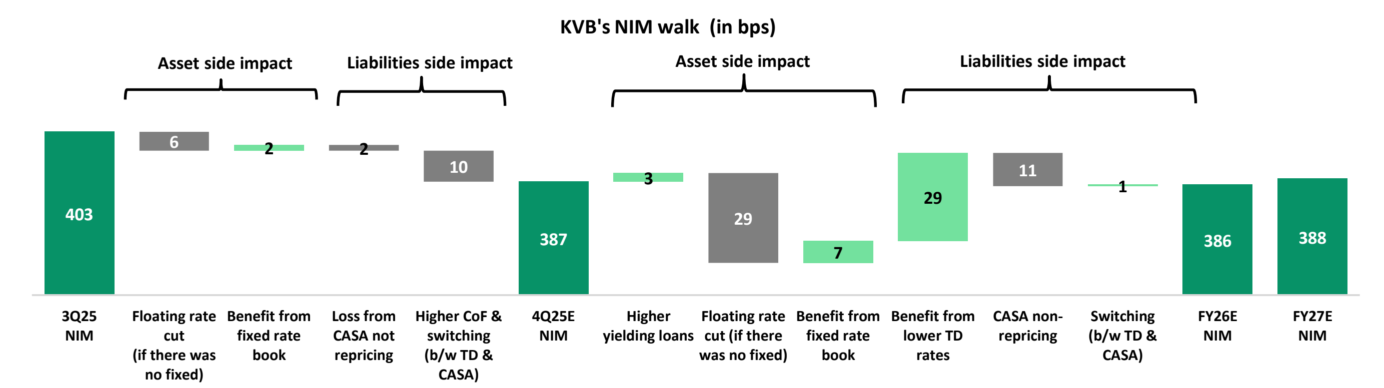
Fig 5: …delivering accelerating loans growth profile, higher than what consensus is estimating



Source: Company, Bloomberg, SMIFS Research; FY25 data from advance release

NIMs to bottom in Q4 and then stay flat as compared to industry's likely continued declining trajectory. High MCLR proportion will help slow down loans downward repricing, providing time for at least some of the deposits pricing to catch up. Additionally, its weak CASA ratio might prove to be a blessing in rate downcycle as it would have larger share of term deposits to reprice downwards. Further, we expect some marginal improvement in CASA ratio, which will marginally reduce cost of funds. Management's strategy of replacement of some corporate loans with RAM would help offset some of the rate cuts impact. Given the cost of funds will likely continue to rise this quarter, it will result in continued declining trajectory into Q4. Post Q4, we would start seeing a stabilised margins trajectory.

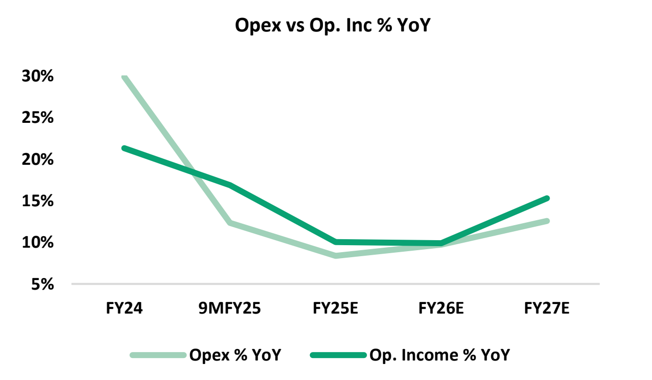
Fig 6: NIMs would stay resilient post fourth quarter with high MCLR proportion, movement towards higher yielding loans and low CASA ratio



Source: Company, SMIFS Research, *75bps policy rate cut until FY27.

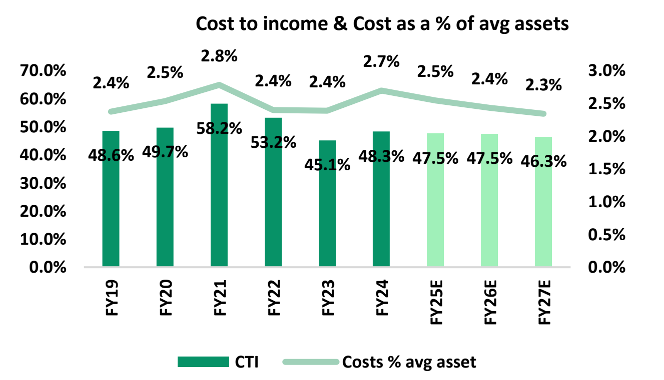
Operating expenses would grow lower than the income growth. KVB has already front-loaded staff headcount, which would slow down staff costs growth going forward. It is further gradually increasing branches. KVB has been under transformation for last seven to eight years and has invested into many initiatives, like sourcing of new management, digital credit underwriting, developing multi-channel strategy, asset quality initiatives, building CASA and deposit sales teams etc. Consequently, we view investment costs are going to somewhat slow as bank had already invested into many of the transformation initiatives. With staff costs front loaded, gradual addition of branches and possibly some productivity coming from already commenced branches, we should likely start see slowing down of costs growth below operating income growth.

Fig 7: Costs growth is likely to go below the operating income growth



Source: Company, SMIFS Research

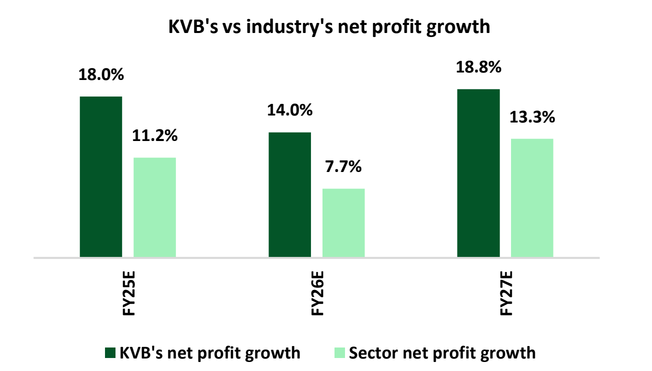
Fig 8: … delivering reducing cost metrics



Source: Company, SMIFS Research

Consequently, we think KVB can deliver superior earnings growth (versus industry) and consistent returns, which could drive re-rating. As market digests improving credit costs (despite industry's increasing), robustness of loans growth (despite the industry growth slowing down), stable NIMs post Q4 (while industry's contracts), uplift from improving costs, we should likely start seeing stock re-rating. The momentum in earnings drivers would deliver PAT growth of 18%/ 14%/19%, higher than industry, which could induce price performance better than the banks index. At 1.08x vs 1.7% ROA, it is favourably placed on both absolute basis as well as compared to peers.

Fig 9: KVB will deliver stronger than industry net profit growth in next three years



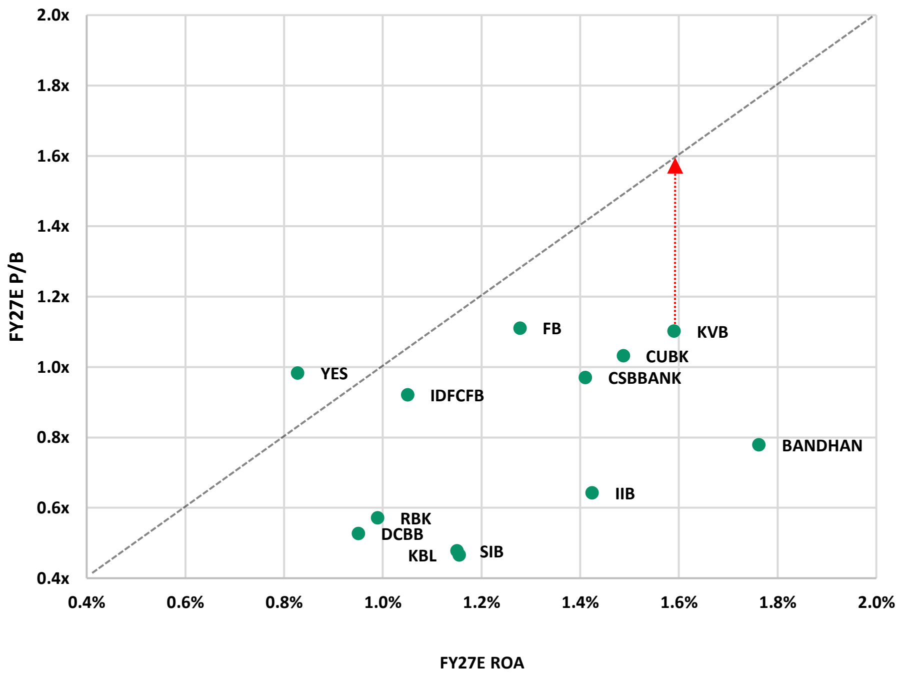
Source: Bloomberg, SMIFS Research

Fig 10: ...delivering consistent 1.6%-1.7% ROA

	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	3.51%	3.93%	3.89%	3.75%	3.62%	3.65%
Other inc	0.99%	1.36%	1.69%	1.60%	1.50%	1.40%
Op Income	**4.51%**	**5.30%**	**5.59%**	**5.35%**	**5.13%**	**5.05%**
Staff ex	1.22%	1.18%	1.49%	1.29%	1.19%	1.12%
Other exp	1.18%	1.21%	1.20%	1.26%	1.24%	1.22%
Opex	**2.40%**	**2.39%**	**2.70%**	**2.54%**	**2.43%**	**2.34%**
Op Profit	**2.11%**	**2.91%**	**2.89%**	**2.81%**	**2.69%**	**2.71%**
Prov.	0.90%	1.22%	0.74%	0.55%	0.45%	0.43%
PBT	**1.20%**	**1.69%**	**2.15%**	**2.26%**	**2.25%**	**2.28%**
Tax	0.33%	0.39%	0.51%	0.58%	0.57%	0.58%
ROA	**0.87%**	**1.30%**	**1.64%**	**1.68%**	**1.67%**	**1.70%**
Leverage	10.6x	10.5x	10.5x	10.3x	10.2x	10.2x
ROE	**9.25%**	**13.67%**	**17.23%**	**17.41%**	**17.05%**	**17.40%**

Source: Company, SMIFS Research

Fig 11: KVB is one of the best placed banks in terms of risk-rewards



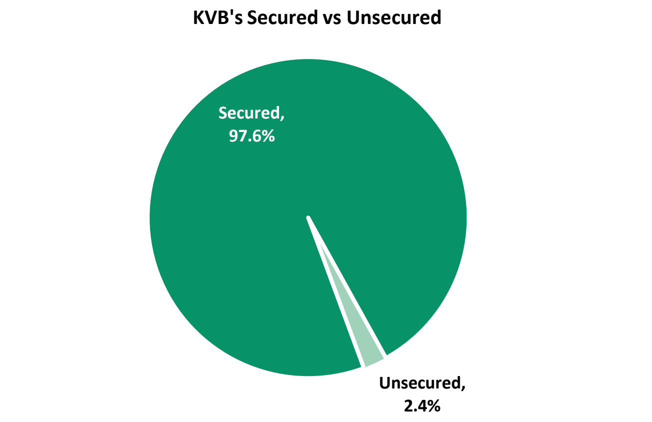
Source: Company, Bloomberg, SMIFS Research; Note the grey line at 45-degree angle is not the best fit line and just to help in visualisation.

[II] Investment Rationale

1. Credit costs to improve despite industry's worsening trends

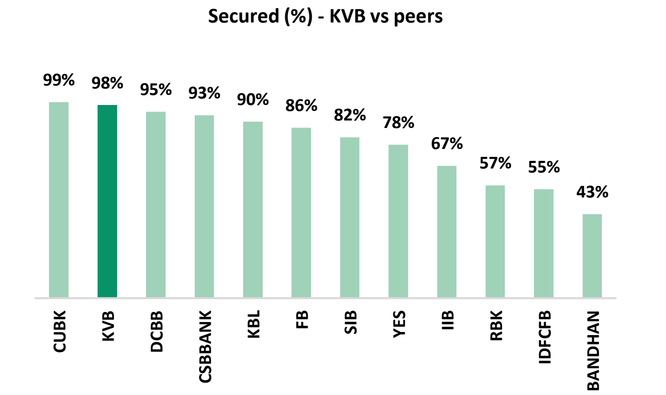
Majority of the loans are secured, shielding KVB from asset quality shocks in the current cycle. 97.6% of the KVB's loans are secured. Unsecured product Buy-Now-Pay-Later (BNPL, a collaboration with Amazon and Axio) is just 1.2% of total loans. BNPL has been consciously degrown in the last three quarters given the industry-wide stress in the unsecured segment. Further there is FLDG of 5% on BNPL, making the net NPA effectively zero on BNPL, as delinquencies on this segment have been much below the 5%. Micro finance is just 0.4% of the overall book and the bank ventured into this just 2 years back. MF operations are majorly in the Telangana, Karnataka and Tamil Nadu, where recoveries have been good. For Kerala, KVB is not extending any operations. For North India including Bihar, Chandigarh and Punjab, KVB does not have any operations. Overall, unsecured portion is just 2.4% of total loans.

Fig 12: Almost all the KVB's loans are secured



Source: Company, SMIFS Research

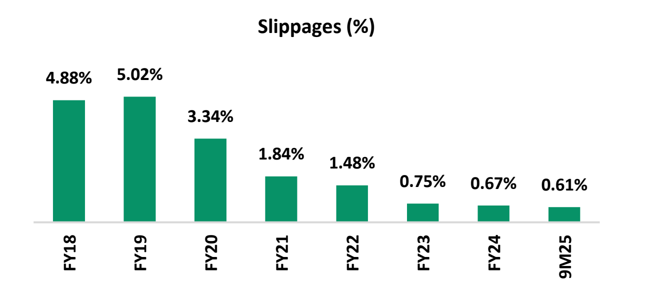
Fig 13: KVB has the second highest secured assets compared to its small and mid-sized private bank peers



Source: Company, SMIFS Research; Based on FY24 annual report data

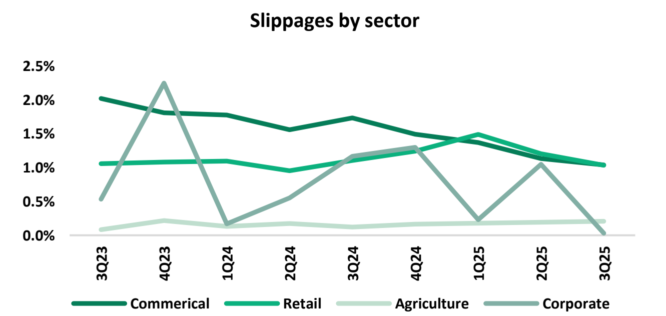
KVB's slippages have been moderating. KVB is experiencing reducing slippages with 9M25 at 0.61% versus FY19 at 5.02%. By sectors, slippages are also moderating. Agricultural slippages have remained in a low range of 0.1% to 0.2% for the last two years, given most of the agri. portfolio (82%) is essentially jewel loans. Commercial slippages are at 1.0% in 3Q25 (1.1% in 9M25 vs 1.7% in FY24) and for Retail 1.0% in 3Q25 (1.1% in 9M25 & FY24). Corporate didn't have any material slippages in 3Q (0.5% in 9M25 vs 0.8% in FY24).

Fig 14: Slippages are modest and reducing over the last five years



Source: Company, SMIFS Research

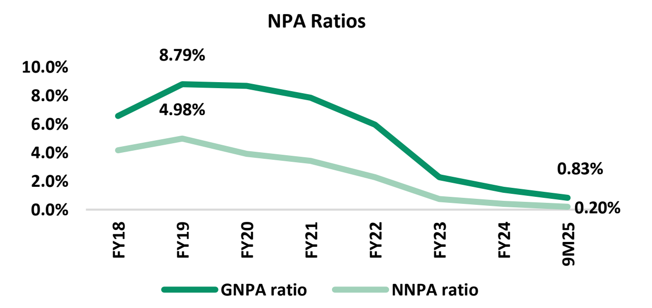
Fig 15: … and decreasing across the sectors



Source: Company, SMIFS Research

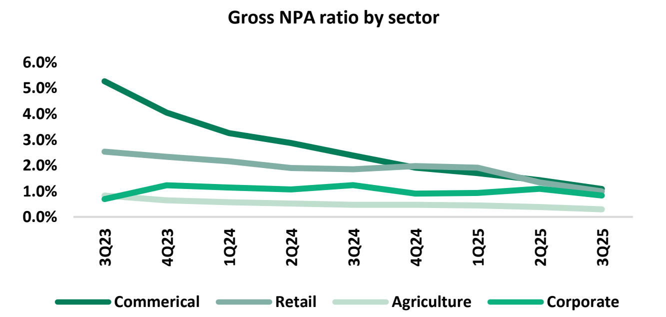
…which is driving low NPL ratios. Gross NPA ratio for KVB is 0.8% in 9M25 vs 1.4% in FY24 and net NPA ratio at 0.2% (vs 0.4% in FY24). By sectors, Gross NPA ratio has reduced with Commercial at 1.1% (vs 1.9% at FY24), Retail 1.0% (2.0% at FY24), Agriculture at 0.3% (vs 0.5% at FY24) and Corporate at 0.8% (vs 0.9%).

Fig 16: NPA ratios have reduced to net being just 0.2% and gross at 0.8%



Source: Company, SMIFS Research

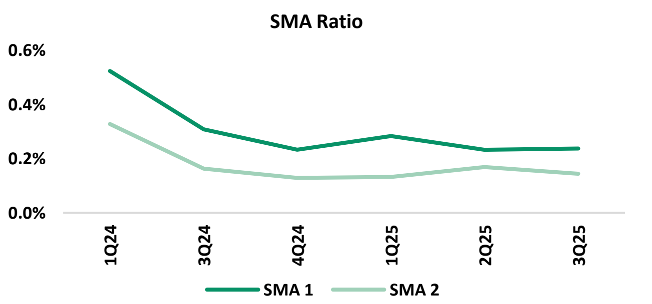
Fig 17: NPA ratios have also moderated for all sectors



Source: Company, SMIFS Research

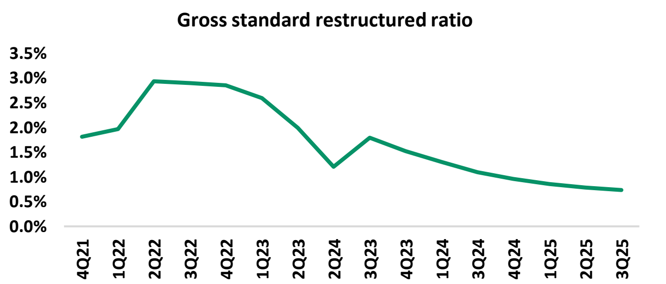
Other parts of potential stress like forward flows or standard restructured book are also falling. SMA 1 ratio is stable at 0.24%. SMA 2 ratio has reduced to 0.14% vs 0.17% prior quarter. Standard restructured has reduced to 0.73% (vs 0.96% at FY24). Management during the Q325 results briefing mentioned that they are not seeing any additional stress in restructured book and KVB has 45% provisions on standard book.

Fig 18: Forward flows have been reducing or are stable



Source: Company, SMIFS Research

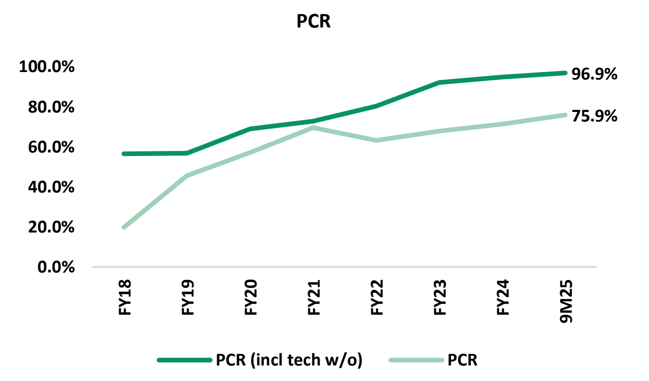
Fig 19: Standard restructured book is just 0.7% of total loans and KVB has comfortable 45 % provisions on it



Source: Company, SMIFS Research

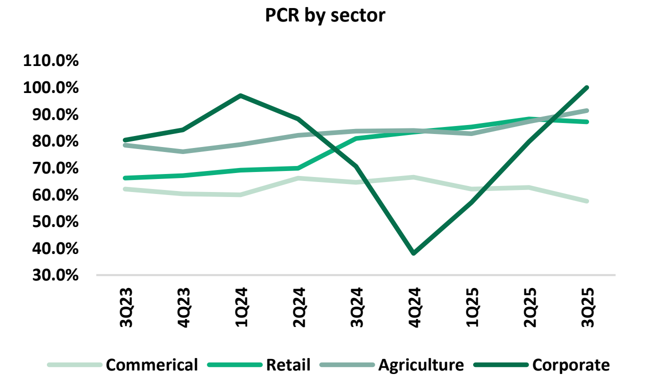
Further, NPA coverage is very robust. Over the years, KVB has steadily built a healthy coverage. Currently PCR is at 76% and with tech. write off at 97%, as compared to before COVID (FY19) at 44% (with write off 57%). By sectors, coverage for commercial is at 58%, retail at 87%, Agriculture at 91% and corporate at 100%.

Fig 20: NPAs are well covered with high PCR



Source: Company, SMIFS Research

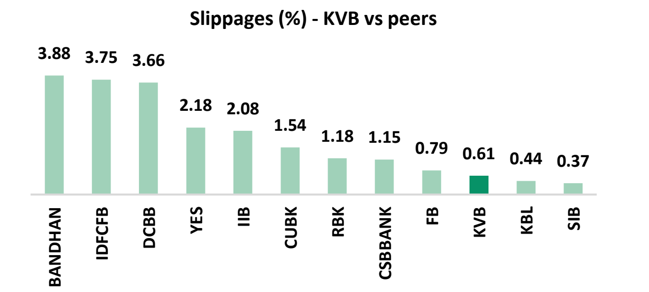
Fig 21: …and across all sectors



Source: Company, SMIFS Research

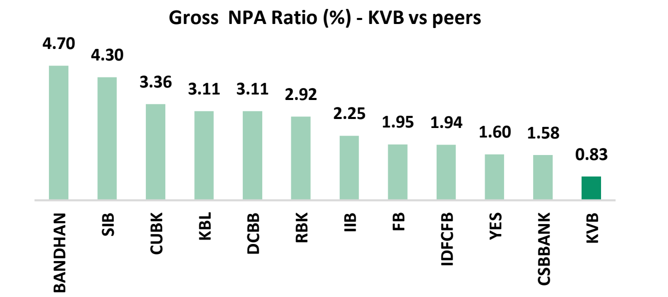
KVB is an outperformer in asset quality metrics amongst its small and mid-sized private bank peers. Its 3Q25 NPA ratios, with gross at 0.8% and net at 0.2%, are the lowest amongst peers. PCR is second highest at 76%. 9M25 Slippages are third lowest at 0.6%.

Fig 22: KVB's 9M25 slippages are just 0.61%, one of the lowest amongst small & mid -sized peers



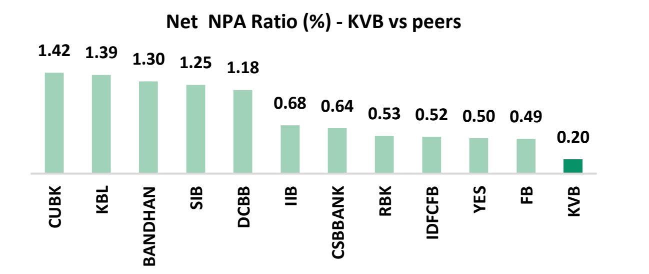
Source: Company, SMIFS Research

Fig 23: Gross NPA ratio is lowest as compared to its peers



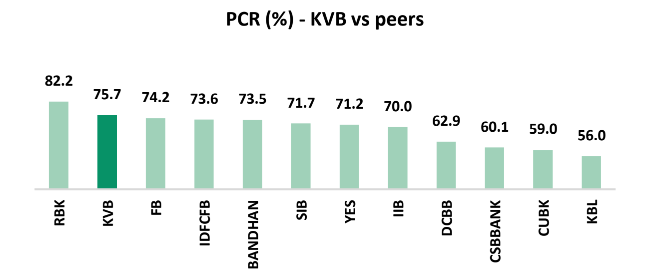
Source: Company, SMIFS Research

Fig 24: Net NPA ratio is also the least



Source: Company, SMIFS Research

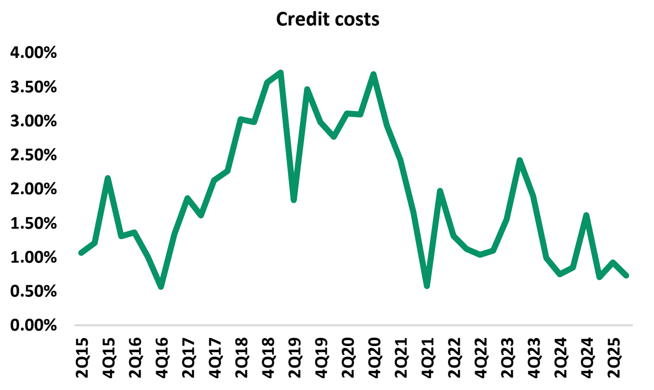
Fig 25: PCR ratio is second highest



Source: Company, SMIFS Research

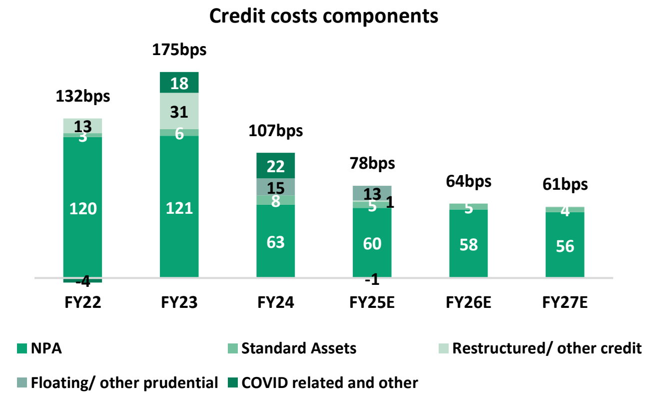
Overall we expect KVB's credit costs to reduce due to low incremental stress and prudential provisions already built in. Management had been using the relatively benign environment to build strong coverage for the last few years. Further, KVB had built in floating provisions of Rs 100 cr last year (Rs 25cr in each quarter). Similarly, even in FY25, it is on a path to add another Rs 100 cr this year (25 crores each added in 1Q to 3Q25). This is to take care of future expected/unexpected stress like transition to ECL etc. Going forward, we see credit costs declining given incremental new stress is reducing (as seen in moderating NPA ratios and SMAs). The coverage is already high and prudential provisions have already been built in. Further there are additional 45% of provisions on standard restructured book. With 98% secured book and considering the anticipated rate easing, we don't see any reason for credit cost costs to worsen from hereon for KVB unlike the industry.

Fig 26: Credit costs have become increasingly benign



Source: Company, SMIFS Research

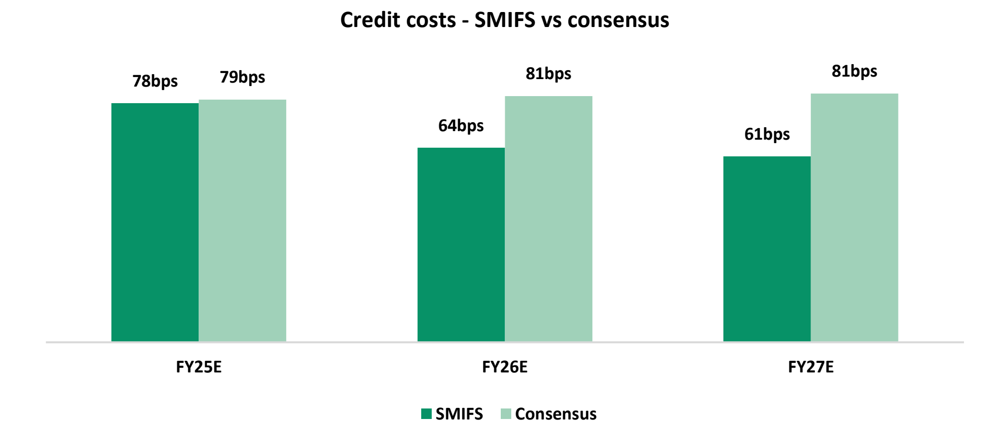
Fig 27: We think credit costs will decline with low incremental stress and high coverage



Source: Company, SMIFS Research

However, consensus is estimating higher credit costs going forward. Consensus expect credit costs to increase to 79bps from 78bps in 9M25 and then slightly increase to 81bps in FY26/FY27. However, we expect credit costs to decrease to 61bps by FY27.

Fig 28: Consensus has higher credit costs profile versus SMIFS

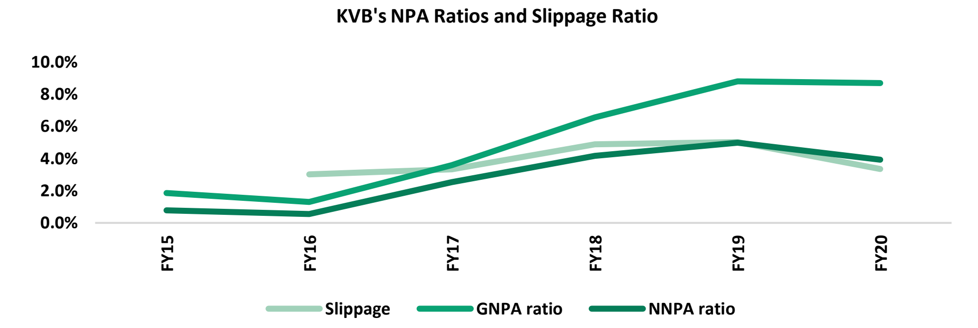


Source: Company, Bloomberg, SMIFS Research

Looking back at the Corporate asset quality cycle (FY15-FY20)

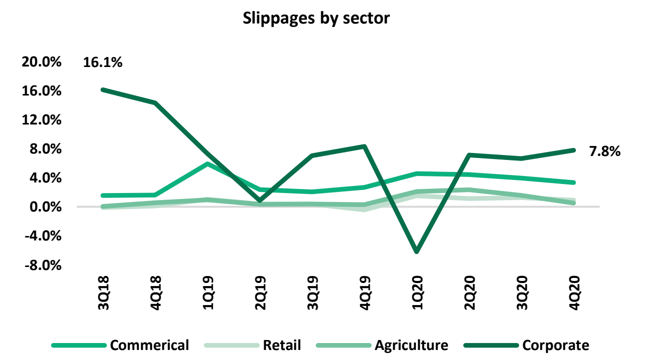
KVB suffered from corporate asset quality cycle during FY15-20. Like many other banks, KVB experienced severe asset quality issues during the FY15-FY20 period particularly related to consortium banking. One of the key issues of consortium banking was limited decision-making power (as they had to defer to the leader of consortium), which limited banks' ability to solve problematic loans. KVB had peak corporate slippages of over 16% and GNPA ratio of over 20% during the cycle.

Fig 29: KVB faced severe asset quality issues during FY15-FY20 related to corporate sector



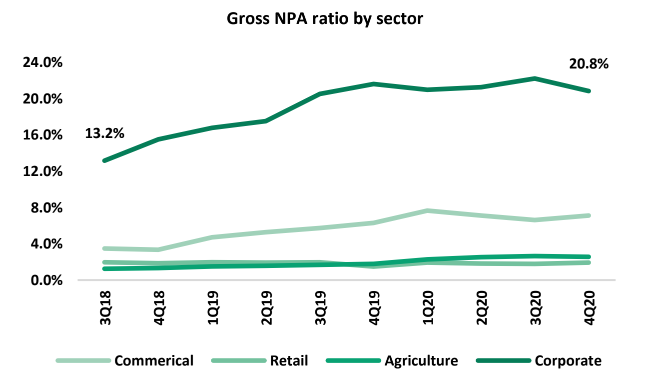
Source: Company, SMIFS Research

Fig 30: Corporate sector had slippages of over 16%



Source: Company, SMIFS Research

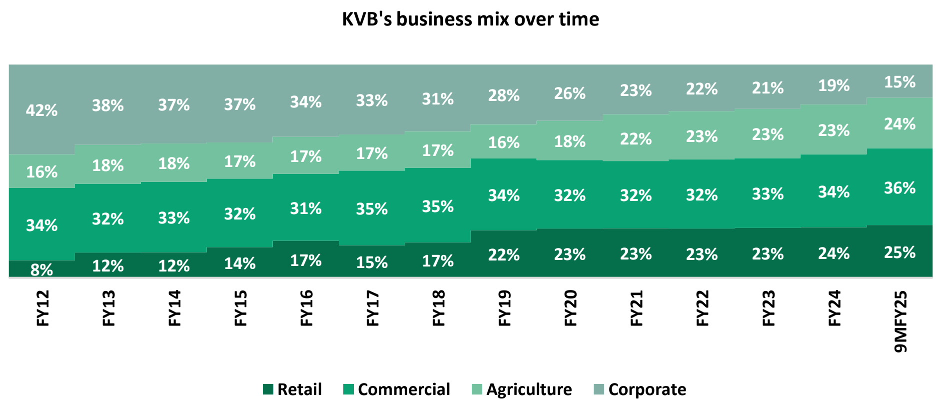
Fig 31: …and GNPA of over 20% during the asset quality cycle



Source: Company, SMIFS Research

Consequently, management decided to deprioritise the corporate segment. While retail was already a focus sector before FY14, the asset quality cycle accelerated the process of deprioritisation of corporate segment and evolving into a bank focused on Retail, Agriculture and MSME (RAM) sectors. RAM sectors now constitute 85% vs 63% in FY14. Also, efforts were made to focus on sole banking and multiple banking arrangements, rather than consortium lending.

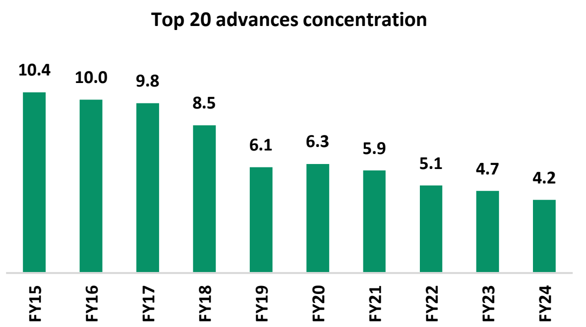
Fig 32: RAM segment is now 85% vs 63% in FY14



Source: Company, SMIFS Research

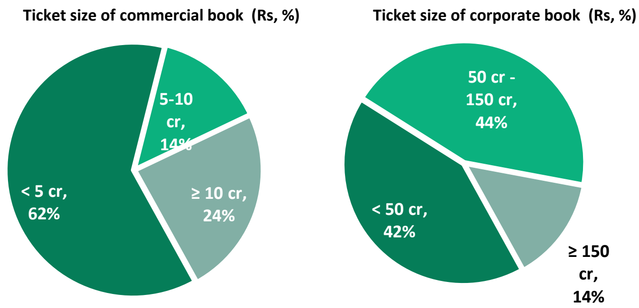
The bank also focused on enhancing granularity across its book. As KVB moved away from corporate sector, its lending implicitly became more granularized. Concentration of top 20 loans has decreased from 10% in FY15 to 4% currently. Average ticket size of commercial book is Rs 53 lacs with 62% of loans less than Rs 5 crores ticket size. For corporate sector, 42% of loans are less than 50 crores and 86% are below Rs 150 crores, with average ticket size being Rs 37.8 cr.

Fig 33: Top 20 advances are now just 4%



Source: Company, SMIFS Research

Fig 34: Ticket size of commercial and corporate book shows sufficient granularisation



Source: Company, SMIFS Research

Further, KVB introduced digital underwriting and augmented recovery efforts. KVB introduced complete digital underwriting for its products around FY20 and employed risk-based pricing. Almost all RAM is now based on digital underwriting while for corporate RM model is employed. There are around 60-80 scorecards which run behind loan origination system to help decide if loan can be sanctioned. This helped removed branch level discretion as loans were now primarily sanctioned based on risk adjusted pricing based on digital model. Earlier sanction rate was as high as 95% but because of this transition, sanction rate reduced to around 40%. KVB also improved recovery efforts with setting up specialised teams for monitoring and collections. Overall, the asset quality initiatives worked wonders for the bank, and we can see improving asset quality metrics since the COVID period.

Fig 35: Summary of asset quality initiatives post corporate asset quality cycle (FY15-FY20)

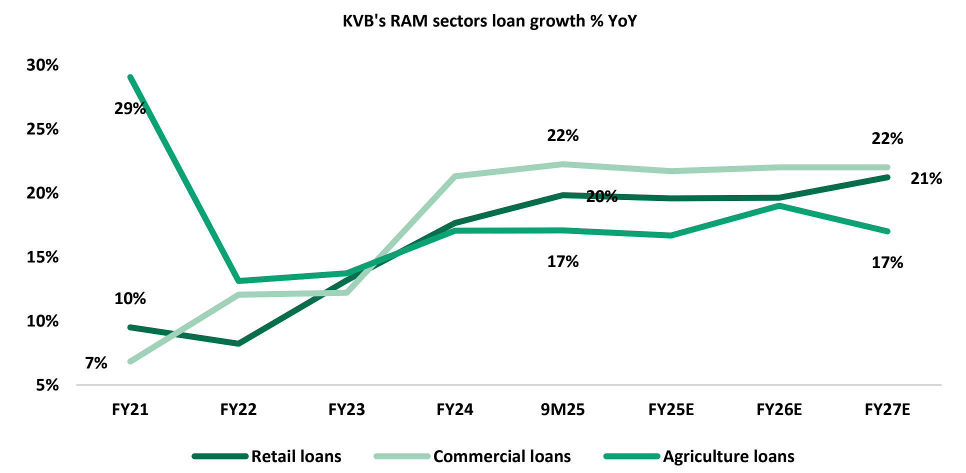
Initiatives	Description
Digital underwriting	Transitioned to digital underwriting model for most of its lending around FY20. This removed branch's discretion and loans were assessed on a digital underwriting model. This helped in significant improvement in credit quality metrics
Risk based pricing	KVB started employing risk-based model for offering rates to customers. This improved credit quality and helped NIMs
Moved away from consortium lending	KVB started focusing on sole-lending to independently take pricing and approval decisions
Deprioritised Corporate lending	KVB reduced its dependence on corporate and relied more on RAM sectors
Improved granularity	Focused more on retail and granular loans. Within the corporate, focused on smaller and less chunky loans to protect against asset quality shocks
Renewed collection & recovery efforts	Developed mechanism for follow-up with risk customers. Specialized team for monitoring, recovery and collection

Source: Company, SMIFS Research

2. Loans growth to accelerate despite the industry slowdown

KVB's RAM sectors have registered a very strong momentum, which is likely to persist. Currently all the RAM sectors are generating strong growth momentum with retail 20% YoY, agriculture 17% and commercial 22% despite system's broad-based slowdown of loans growth. When COVID commenced back in FY20-FY21, MSME and retail sectors were affected delivering very weak growth. However, agriculture loans (primarily jewel loans) boomed delivering a very robust growth of 29% in FY21. Over a period of last four to five years, with management focusing on RAM sectors and the completion of COVID moratorium, the RAM sectors have been able to register strong growth, with FY24 of 19% and 9M25 of 20% (as compared to 11-13% in FY21-FY23). We expect this momentum to continue into the forecast period with commercial loans to grow at 22% and retail at 20-21%. We expect agriculture loans to remain strong in FY26 but should somewhat moderate by FY27. This is because a lot of MFI demand (which has been under stress) has shifted to gold loans for the industry. Once MFI stabilises, the gold loans growth would somewhat moderate.

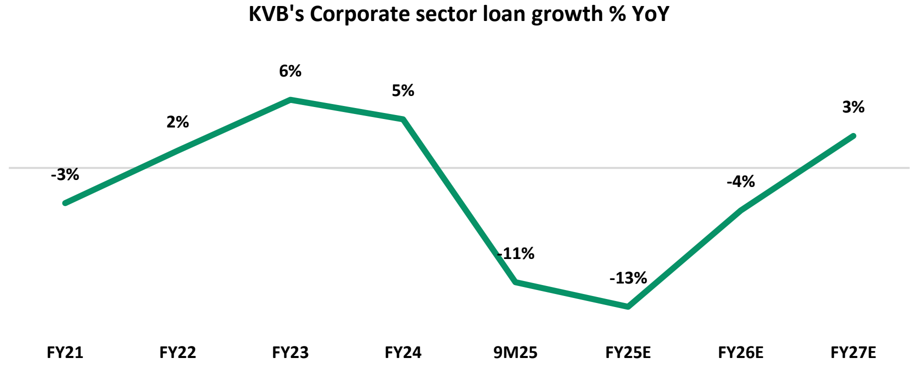
Fig 36: RAM sectors' growth is likely to stay robust



Source: Company, SMIFS Research

Corporate sector has been deliberately deprioritised. As mentioned in the asset quality section, corporate had been deprioritised due to significant asset quality issues faced by the bank during FY15-FY20. Now, due to tough deposit market with liquidity issues, management has been avoiding the corporate sector (including NBFCs) due to low yields and thus focusing on higher yielding RAM sectors particularly MSME. Thus, the corporate sector has de-grown in the last six quarters. We expect the sector to continue contraction into FY26, with the focus staying on the RAM sectors. But by FY27, corporate should start delivering some growth as the deposit market will likely become more amenable with the rate easing and the resolution of contemporary liquidity issues. While the bank would ideally prefer to have 80:20 RAM vs corporate mix, but higher yields in RAM segment would likely result in RAM segment growing higher than corporate medium term in our view.

Fig 37: Corporate sector has been consciously de-focused by the management due to asset quality issues in the past as well as more recently on account of lower yields



Source: Company, SMIFS Research

KVB's strong growth has been a result of multiple transformation initiatives including adoption of multi-channel strategy over the last six to seven years. Prior to FY18, branches were the standalone distribution channel. However, since then KVB evolved from a 'Branch' based business to a one that engages the market through alternate distribution mechanisms i.e. outbound sales force, Fintech partnerships, co-origination, aggregation through third parties. For eg they launched KVB NEO to let the bank access open-market distribution channels for retail business. Now in FY25, they have merged this with the branch channel to facilitate the branches to use both channels. KVB also has multiple channels for commercial sector. They have open market channel called KVB Smart for working capital loans. For the branch channel they have Small business Group for loans up to Rs 5 cr. For loans of Rs 5 cr to 25 cr, they have dedicated centres (18 centres) called Business Banking Unit, which are based on RM model. For corporate banking again (> Rs 25 cr), there are 8 dedicated centres and based on RM model.

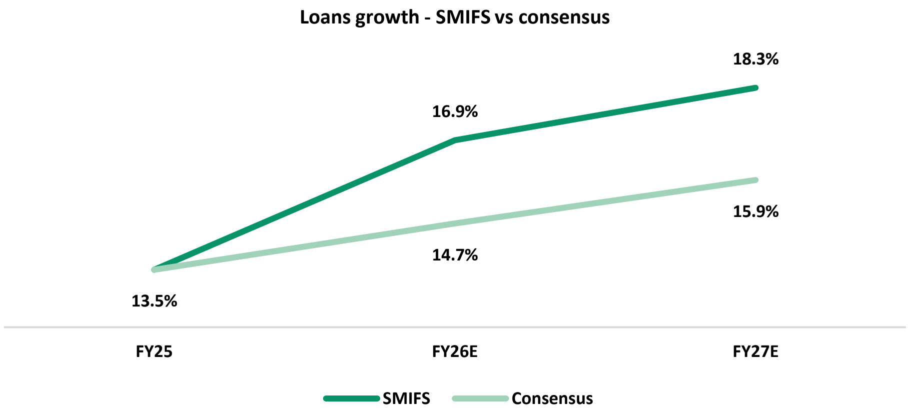
Fig 38: KVB has undertaken many initiatives to accelerate loan growth

Segment	Initiatives
Retail	**[1]** Launched **NEO** Channel in 2019, which is an open market (sourcing) channel. Dubbed as a 'A bank within a bank' to let the bank access alternate distribution channels. It consists of experts from Business, Risk, Product, Sales, HR, digitally powered sales, specialist underwriters, data analysts and seasoned collections team. It was primarily used for retail business, particularly LAP and, also for home loans. In recent periods, they merged this open market channel and the branch channel where they implemented the initiative in 244 branches for sourcing retail business. **[2] Co-lending** with NBFCs like Chola for CV/CE, IIFL finance for gold loans, BNPL partnership with Amazon (Axio), Ugro for MSME co-lending. Also tied up with fintech players for origination of other type of loans.
Commercial	**[1] KVB Smart**, is an open market sourcing channel for commercial business for working capital loans. **[2] Small Business Group (SBG)**, branch channel specialized unit, for exposure upto Rs 5 crores exposure **[3]** Business banking units, branch channel specialized unit which manages exposures of Rs 5 crores -Rs25 crores **[4] Transaction Banking Group** specializes in cash management services, providing collection and payment products and supply chain finance for business of all sizes. In addition to participating in all 3 TReDS platforms for financing MSME vendors, it adopts digital technology to leverage the partnerships with fintechs to drive growth. **[5] Precious Metal Division**, started in 2019, is a dedicated division for bullion business for jewellers and jewellery manufacturers.
Agriculture	Besides the bread-and-butter agricultural jewel loans, also started focusing on direct agriculture lending and sourcing business through fintech partners.

Source: Company, SMIFS Research

We expect loans growth to accelerate and deliver better growth than consensus estimates. Consensus expects loans growth staying in 15-16% despite a rate cut. However, we expect loans growth to increase from 14% currently to reach over 18% by FY27, driven by better growth in RAM segment as well as a weak growth from the corporate segment (negative growth should likely cease in FY26). We think consensus has failed to consider the impact of KVB's low CD ratio (vs its pvt. banks peers) and strong deposit growth momentum, which would provide superior funding power particularly with the rate cuts.

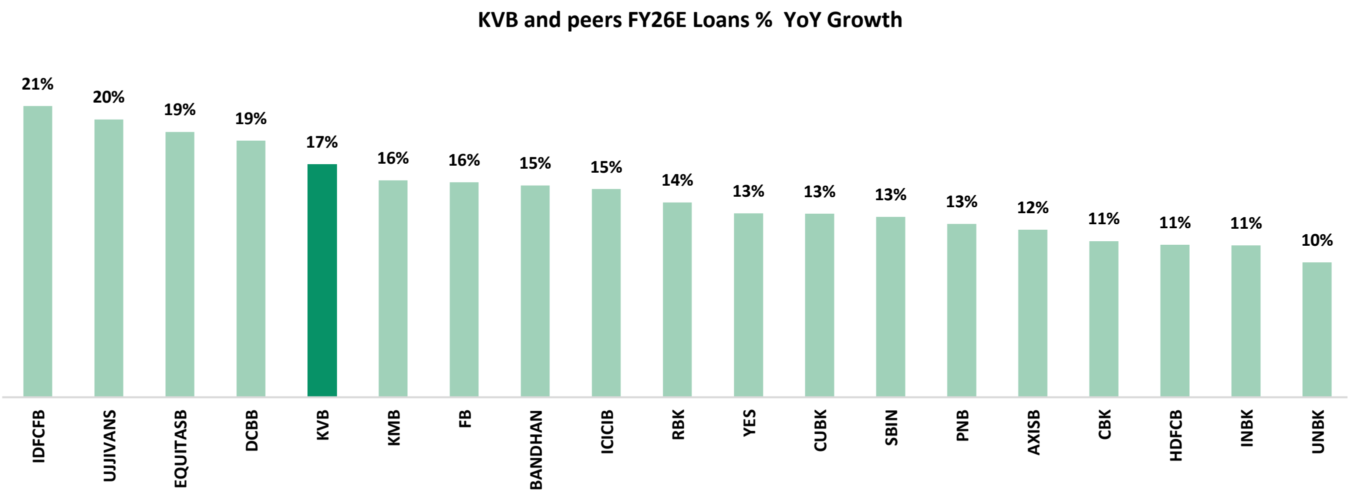
Fig 39: Our loan growth estimates are 2% higher than consensus



Source: Company, Bloomberg, SMIFS Research; FY25 data from advance release

… better than many of its peers and the system. KVB's strong loan growth will be ahead of many of its peers. We view system is like to continue 11-13% growth even in FY26 as the growth will be constrained by a high CD ratio. Thus, KVB is likely to gain some market share as it will likely show superior growth of 17%, 4-6% higher than system.

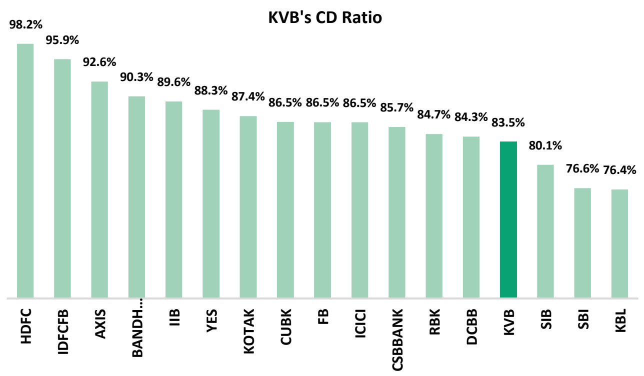
Fig 40: KVB is likely to have one of the highest loans growth amongst most peers



Source: Company, Bloomberg, SMIFS Research; SMIFS estimate for KVB and Consensus estimates for other banks. Consensus loan growth for KVB is 15%.

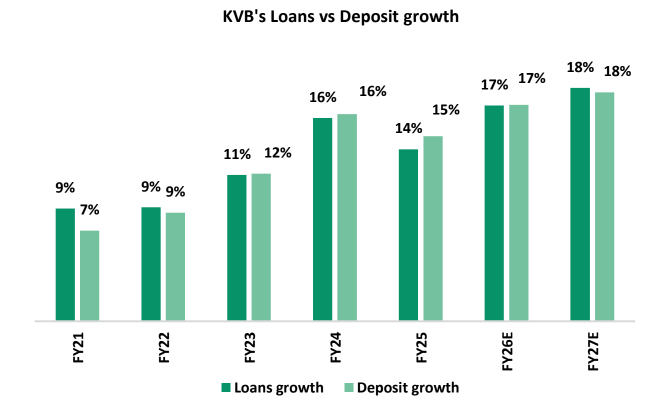
Liquidity is not a barrier for growth for KVB. KVB has a CD ratio of 83.5% in 3Q (4Q: 82.8% based on advance release) lower than many of its private banks' peers. LCR at 129% is decent. Further it has a strong deposit growth momentum where deposit growth can match loans growth. We expect this to continue into the forecast years.

Fig 41: KVB has a CD ratio of 83.5%, one of the lowest amongst peers



Source: Company, SMIFS Research; 9M25 data

Fig 42: KVB's deposit growth momentum remains strong



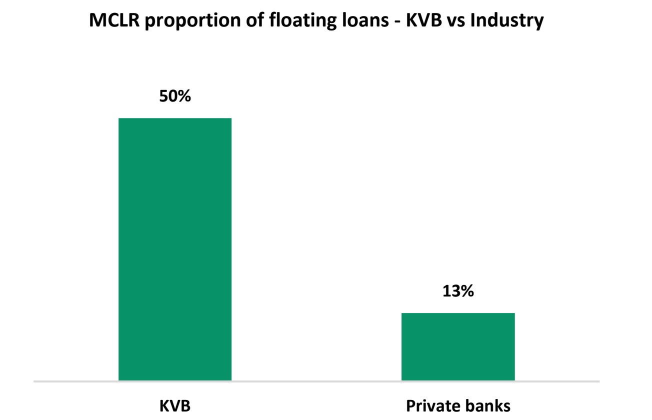
Source: Company, SMIFS Research

3. NIMs to bottom and then stay stable contrary to industry's likely declining trajectory

<u>During the rate hike cycle in FY23, KVB's NIMs rising trajectory sustained for longer vs pvt. bank peers</u>

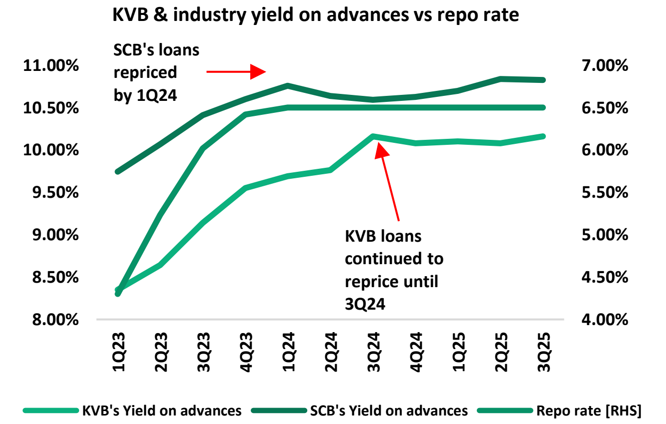
Back in FY23 when RBI hiked rates, KVB's high MCLR high proportion resulted in delayed repricing of loan book versus the industry. KVB's over 80% floating rate loans book is equally split between MCLR and EBLR. As a result, when RBI was hiking rates from May-22 to Feb-23, it took two to three quarters more for KVB to fully reprice by 3Q24 even as while industry yields were repriced by 4Q23/1Q24.

Fig 43: Around 50% of its floating book is linked to MCLR vs peers at just 13 %



Source: Company, RBI, SMIFS Research

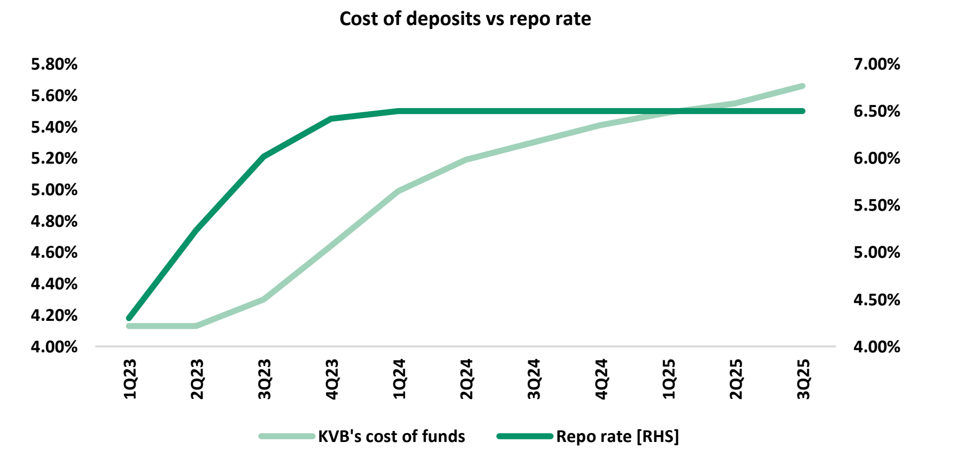
Fig 44: …which drove slower repricing of loans yields for KVB versus industry, when the RBI was hiking repo rates



Source: Company, RBI, SMIFS Research

But liabilities continued to reprice, even until 3Q25. For cost of deposits, the repricing takes much longer as compared to loans. KVB's deposit costs are still rising, despite rates hikes finishing back in FY23.

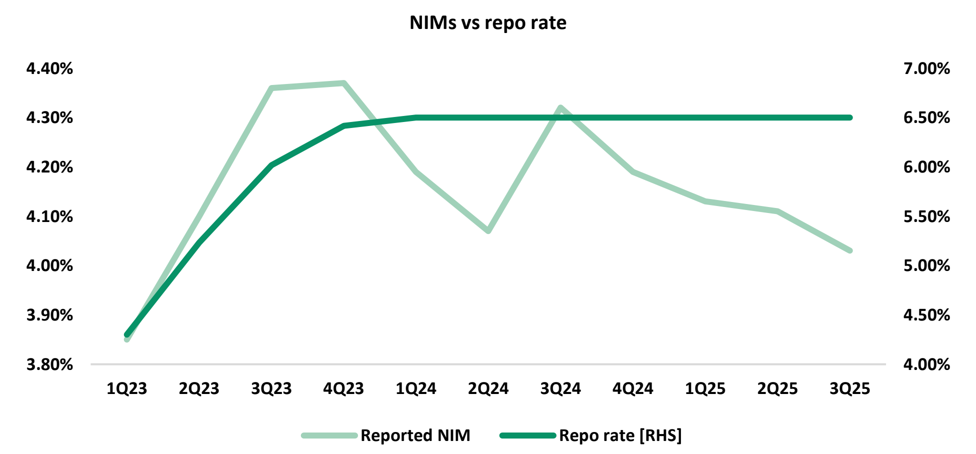
Fig 45: KVB's cost of funds are still rising



Source: Company, RBI, SMIFS Research

The delayed repricing of the loans delivered a rising margin trajectory for an elongated time. KVB's NIMs rose from 1Q23 to 4Q23 when rates were rising. But for the next two quarters, the margins fell when cost of deposits rose larger than yields on advances. For 3Q24, however, NIM again rose again as yields of advances rose higher than cost of deposits. Further there was interest recovery from one account, which further surged yields. Thus, margins were able to rise to even until 3Q24 as yields on advances rose for longer due to high proportion of MCLR. Post 3Q24, NIMs embarked on a declining trajectory, as cost of funds continued rising but yields on advances had stabilised.

Fig 46: Post 3Q24, NIMs are on a declining trajectory



Source: Company, RBI, SMIFS Research

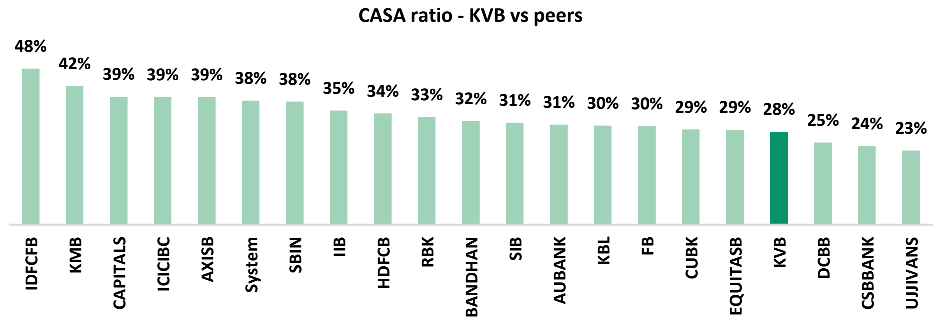
Going forward into the rate cuts cycle, we expect NIMs to be largely stable post fourth quarter

High MCLR proportion will help slow down loans downward repricing, providing time for at least some of the deposits pricing to catch up. During the already commenced rate easing cycle, MCLR linked loans will decelerate the slowdown of overall loans yields versus peers. As a results, it would be a much smoother and less steep margin decline trajectory as deposits will get more time to reprice downwards.

Management's strategy of replacement of some corporate loans with RAM would help offset some of the rate cuts impact. Management is consistently increasing the proportion of RAM loans and replacing the low yield corporate loans. This would help offset some of the impact with the change in business mix.

Counterintuitively entering the rate cuts cycle with low CASA ratio helps. During the rate hike cycle, banks possessing strong CASA were benefitted with higher margin expansion, as CASA doesn't reprice much reducing cost of funds. However, in rate easing cycle, this is just the opposite with the banks having low CASA ratio benefiting from the cuts as higher proportion of term deposits gets repriced lower as they mature. Thus, KVB's low CASA ratio of 28% (4Q: 27% based on advance release) would place it in a better position than many of its peers. Just to be clear, banks having higher CASA ratio will still have lower cost of funds, it's just in delta terms, banks with low CASA proportion would get benefited more in the rate downcycle.

Fig 47: KVB has one of the lowest CASA ratios, which would help in rate easing cycle



Source: Company, SMIFS Research; 3Q data

Management has been trying to stem the CASA attrition with multiple initiatives. KVB has experienced decreasing CASA ratio for last 11 quarters. This has been mainly due to attrition of its existing customer base. Management has been trying to reduce the CASA outflow using various initiatives. They have hired around 1,200 – 1,300 people for sales channel for liabilities acquisition in last one year. They created exclusive teams for salary account, Government business, trade and forex etc. Further, they have hired around 1,600 -1,700 people at branch level for "Branch sales and service executives (BSSE)" team who have marketing and reconnecting with customer responsibilities in addition to their clerical job. Prior to this, KVB's branch employees had to source liabilities in addition to other responsibilities like agri, commercial and retail loans, recoveries etc. Further KVB has revamped the liabilities model and launched 24 new deposits products last March. Prior to this, the products were very basic, resulting in customers choosing other banks due to lack of choices. They have also used digital banking to improve customer's onboarding turnaround time.

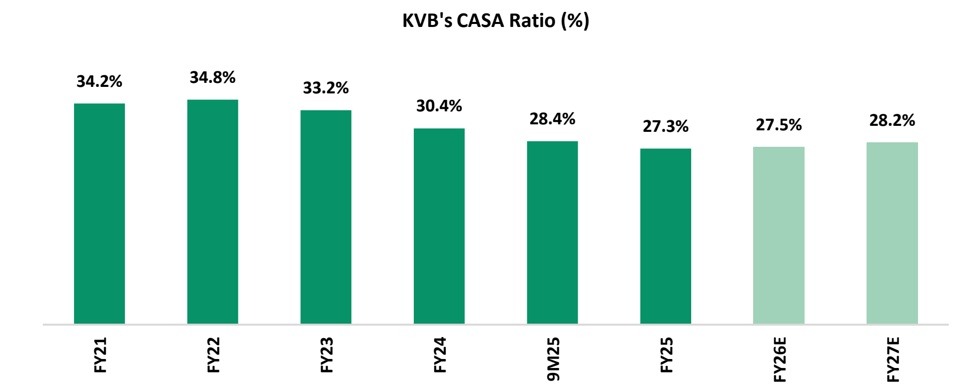
Fig 48: CASA initiatives in last one and a half years

Initiatives	Description
Exclusive sales channels for Deposit & CASA growth	Hired about 1,200 -1,300 salespeople to acquire new customers and build relationships. Created separate channels for corporate salary, institutional, NRE, government business, trade and FOREX, business correspondent and recruited national sales managers from the market to manage this business.
Reconnect with Customers	Hired around 1,700 BSSE staff who would help with marketing products and connecting with customers at the branch level. They would also aim for customers retention and deepen existing relationship in addition to new sales and clerical responsibilities.
Introduction of new products	Revamped liability model and launched 24 new variants of CASA products.
Digital onboarding of customers	100% New to bank & Existing customers savings account are opened digitally. All the Current Accounts opened digitally through assisted mode. All Term Deposits are opened digitally through Branch Channel / via Self-Serve TD module in Dlite.

Source: Company, SMIFS Research

We expect some marginal improvement in CASA ratio, which will marginally reduce cost of funds. Deposit market remain onerous in 4Q due to competitive pricing and sustained liquidity deficit, despite rate cuts and many liquidity measures employed by RBI. As a result, there was still higher growth of term deposits versus CASA resulting in reduction in CASA ratio in Q4. However, starting next quarter, we think we should start seeing deposit market getting eased given the already commenced rate cuts cycle. Thus, there would be switching back to CASA from term deposits in due course. Also, KVB's multiple CASA initiatives and efforts would likely see some benefit driving marginal improvement in CASA ratio.

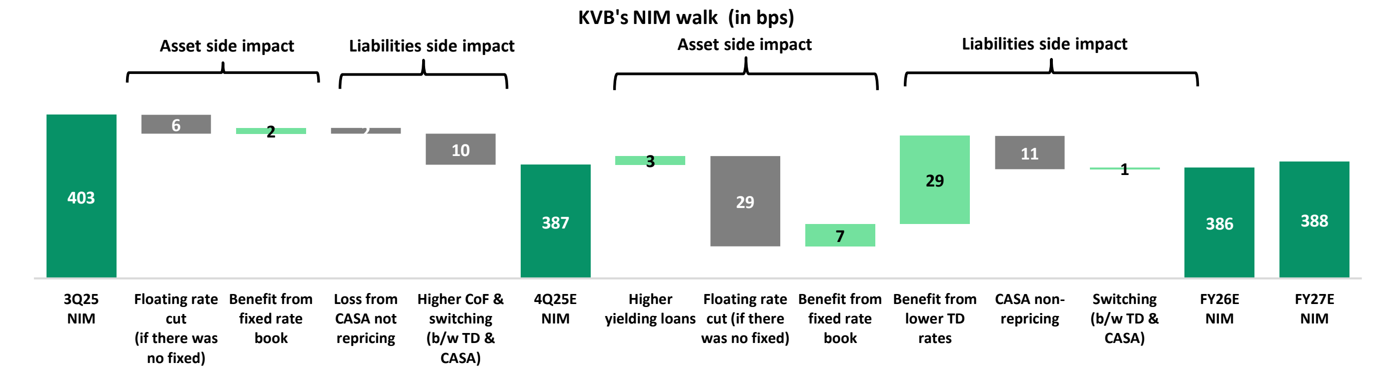
Fig 49: CASA ratio should start improving marginally starting FY26



Source: Company, SMIFS Research

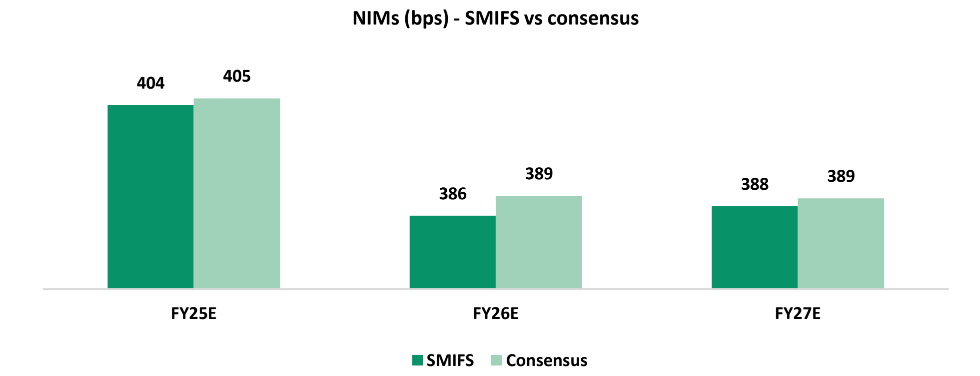
We expect NIMs to bottom in 4Q and then remain stable. Many banks are likely to have a declining margins trajectory as rate cut cycle has begun. However, this would not hold true for KVB in our view. We still expect margins to contract in Q4 down to 387bps as rise in cost of funds will be higher than the increase in yields on advances. However, post 4Q we expect the margins to stabilise. For FY26, on asset side 3 bps are added by changing business mix towards high yield RAM loans, 7 bps from benefit of fixed book which doesn't reprice, offset by the impact of rate cuts of 29 bps. On liabilities side, 29 bps are added by repricing of term deposits and 1 bps on account of TD to CASA switching, offset by 11 bps from CASA non-repricing. Overall, this adds up to 386 bps in FY26 vs exit FY25 NIM at 387bps. In FY27, we expect just 2 bps expansion to 388bps.

Fig 50: NIMs would stay resilient post fourth quarter with high MCLR proportion, movement towards higher yielding loans and low CASA ratio



Source: Company, SMIFS Research, *75 bps policy rate cut until FY27.

Fig 51: Our NIM estimates are roughly in-line for FY25E and FY27E but are lower in FY26E

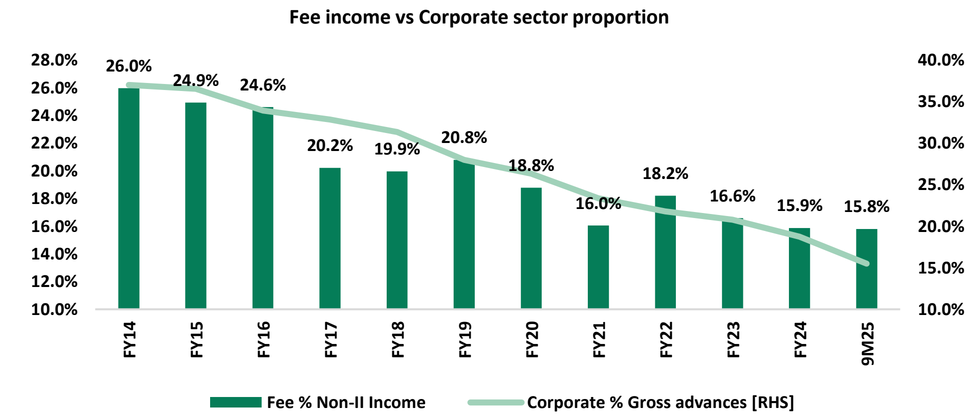


Source: Company, Bloomberg, SMIFS Research

4. Non-interest income growth to remain at inferior levels versus the history

KVB's deprioritisation of corporate book has reduced its fee generating ability. Back in FY14, when corporate loans proportion was 37% of total, fees was 26% of other income. Now when corporate loans have dropped to 15%, fees have reduced to just 16% of income. KVB is trying to find new avenues of fees to make up for this decline.

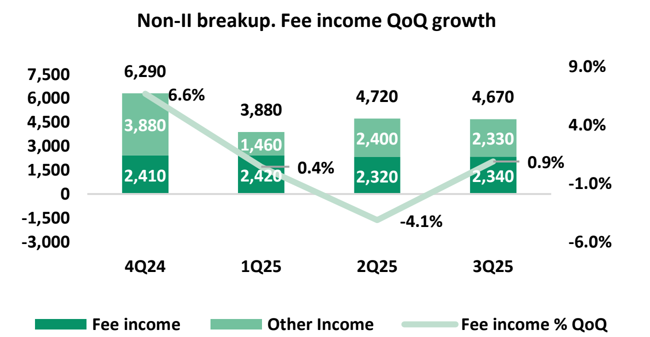
Fig 52: Over the years, fee income has fallen as corporate loans proportion (of total loans) has reduced



Source: Company, SMIFS Research

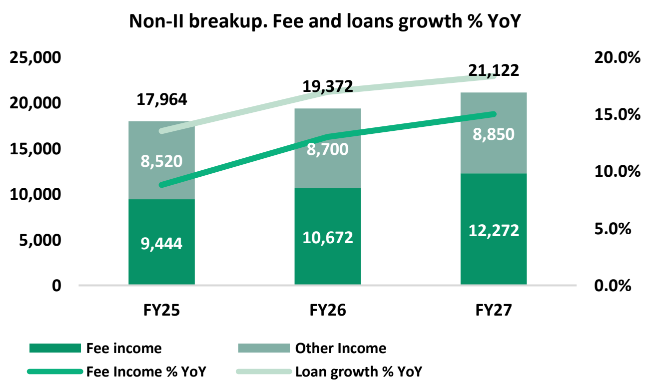
We expect fees growth to be lower than loan growth going forward. Core fees registered decent growth rate of 16-18% in last three years with improving disbursements. However, it has now started slowing down with 9M25's moderated growth of 12.9% YoY. QoQ momentum seems to have weakened with just +0.9%/-4.1%/0.4% in 3Q25/2Q25/1Q25. The distribution fee and cross-sell fees are increasing but processing fees is negatively impacted by reduced (and de-growing) corporate advances. Thus, the bank has been focusing on non-fund-based income (from corporate banking) and efforts are being made to increase third party income. KVB is also reducing discounts and concessions on processing charges. We view for the next three years, fee income growth would increase but would stay lower than the loans growth. Further, in last two years, there has been strong recoveries from technical write off. Going forward we think recoveries would likely stabilise and not increase beyond a point. That said, there would be gains from treasury due to the interest rate cuts. Overall, decelerated momentum in fees, stabilising recoveries but higher treasury income would result in relatively modest growth in non-II.

Fig 53: Fee income growth has slowed down substantially in last four quarters which is likely to continue



Source: Company, SMIFS Research

Fig 54: Consequently, we expect non-II to grow slower than the loans growth

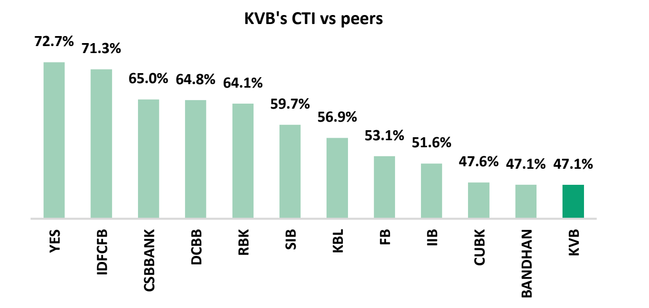


Source: Company, SMIFS Research

5. We expect operating expenses growth to be lower than the operating income growth

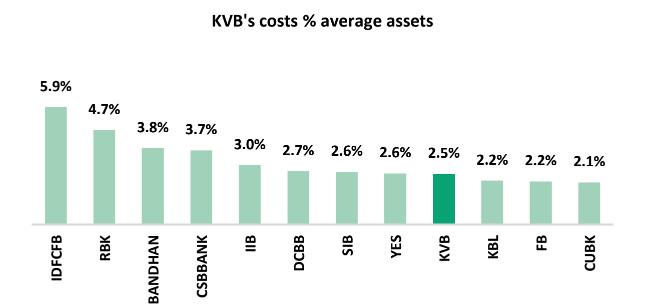
Costs metrics looks respectable versus peers. KVB's 9MFY25 CTI of 47.1% is amongst the best when compared to small and mid-sized peers. Even for costs % average assets, it is placed amongst the best. In 9MFY25, some of the peers have been affected by asset quality issues (unlike KVB) impacting their margins, resulting in higher CTI for those banks. We note that if we were to compare for FY24, KVB's cost metrics would look somewhat worse given KVB had front loaded staff costs.

Fig 55: KVB has amongst the lowest CTI as compared to its peers in 9MFY25



Source: Company, SMIFS Research; 9MFY25 data

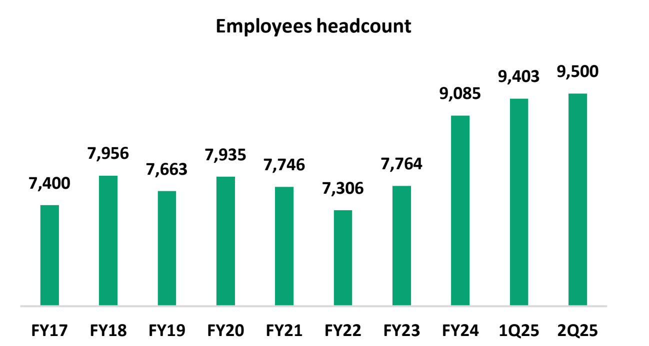
Fig 56: Costs % average assets is also not that high



Source: Company, SMIFS Research; 9MFY25 data

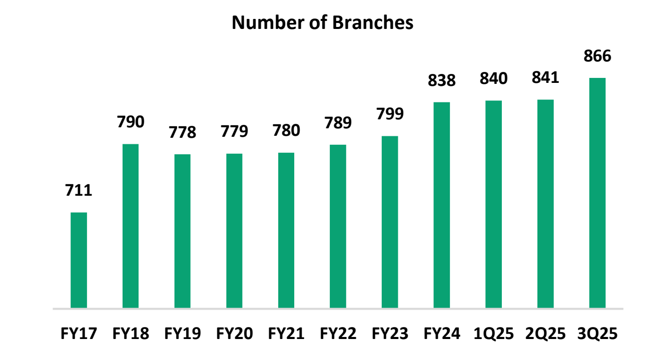
KVB has front loaded staff headcount and is gradually increasing branch count. In last one to two years, KVB has onboarded 1,200 to 1,300 staff just for sourcing and for acquisition team for liabilities, as the bank wanted to revamp the liability model. Further they added around 1,600 -1,700 staff at branches for Branch sales and service executive team. Many of these are front loaded costs as KVB wanted to get the staff ready for the upcoming branches in future. KVB didn't add any branches in FY18-FY22 and only started adding in last two and half years. They added 10 branches in FY23, 39 branches in FY24 and 28 branches in 9MFY25. They have opened 22 branches in fourth quarter, as they had planned earlier. They also opened only 19 lite branches (which only focus on liabilities) in 9M25, versus original target of 80 lite branches due to preferred space unavailability. The branches breakeven in around roughly 1.5 to 2 years. Thus, they should start generating some productivity going forward.

Fig 57: In last two to three years, KVB has added significant staff headcount for sales as well as for the existing and upcoming branches



Source: Company, SMIFS Research

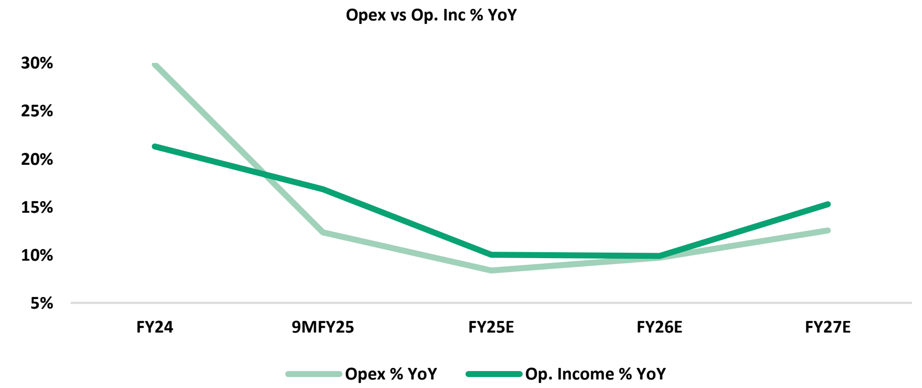
Fig 58: KVB continues to open new branches with most of them being added in last two and a half years



Source: Company, SMIFS Research

Costs would grow lower than the income growth. KVB has been under transformation for last seven to eight years and has invested into many initiatives, like sourcing of new management, digital credit underwriting, developing multi-channel strategy, asset quality initiatives, building CASA and deposit sales teams etc. Consequently, we view investment costs are going to somewhat slow as bank had already invested into many of the transformation initiatives. With staff costs front loaded, gradual addition of branches and possibly some productivity coming from already commenced branches, we should likely start see slowing down of costs growth below operating income growth.

Fig 59: Opex growth will continue below the revenue growth like 9MFY25



Source: Company, SMIFS Research

6. KVB is likely back to being a 1.6-1.7% ROA bank

Improving asset quality, robust loan growth, stable NIMs and healthier costs efficiency will drive consistent returns. KVB used to deliver 1.5-1.7% ROA returns from FY09-FY12. However, post FY12 initially contracting NIMs, higher costs (KVB was expanding branches/ATMs and increasing headcount) and then later commencement of corporate asset quality cycle reduced the ROA to 0.9% by FY15 and 0.3% by FY19. By FY24, KVB was back to 1.64% ROA with the help of stronger NIMs, benefit from benign asset quality (reflected in low credit costs and strong recoveries in non-II) as well as benefit from core fees (higher disbursements). For 1Q25 to 3Q25, KVB continued to enjoy 1.71% -1.73% ROA returns with improving credit costs as well as benefit from decent non-II and still robust loans growth. Going forward, we view there is likely to be drop in returns in Q425 to ~1.6% ROA given NIM contraction. However, post Q4 NIMs will stay stable, loan growth would pick up momentum with the rate cuts and asset quality & costs metrics would improve. Consequently, KVB will once again deliver ~1.7% ROA in FY26 and FY27E, with a very gradual improving returns profile.

Fig 60: Dupont analysis show a consistent returns profile

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	3.47%	3.41%	3.30%	3.51%	3.93%	3.89%	3.75%	3.62%	3.65%
Other inc	1.41%	1.68%	1.48%	0.99%	1.36%	1.69%	1.60%	1.50%	1.40%
Op Income	**4.88%**	**5.09%**	**4.78%**	**4.51%**	**5.30%**	**5.59%**	**5.35%**	**5.13%**	**5.05%**
Staff ex	1.12%	1.24%	1.61%	1.22%	1.18%	1.49%	1.29%	1.19%	1.12%
Other exp	1.25%	1.29%	1.17%	1.18%	1.21%	1.20%	1.26%	1.24%	1.22%
Opex	**2.37%**	**2.53%**	**2.78%**	**2.40%**	**2.39%**	**2.70%**	**2.54%**	**2.43%**	**2.34%**
Op Profit	**2.51%**	**2.56%**	**2.00%**	**2.11%**	**2.91%**	**2.89%**	**2.81%**	**2.69%**	**2.71%**
Prov.	2.04%	2.16%	1.25%	0.90%	1.22%	0.74%	0.55%	0.45%	0.43%
PBT	**0.47%**	**0.40%**	**0.75%**	**1.20%**	**1.69%**	**2.15%**	**2.26%**	**2.25%**	**2.28%**
Tax	0.16%	0.05%	0.24%	0.33%	0.39%	0.51%	0.58%	0.57%	0.58%
ROA	**0.31%**	**0.34%**	**0.50%**	**0.87%**	**1.30%**	**1.64%**	**1.68%**	**1.67%**	**1.70%**
Leverage	10.7x	10.6x	10.5x	10.6x	10.5x	10.5x	10.3x	10.2x	10.2x
ROE	**3.32%**	**3.61%**	**5.30%**	**9.25%**	**13.67%**	**17.23%**	**17.41%**	**17.05%**	**17.40%**

NIMs to remain stable post 4Q25E. Loans growth to remain strong

Core fee has lost momentum with low proportion of corporate loans

Opex to grow lower than the op. income growth as staff costs already front loaded and many investment initiatives already done

Credit costs to reduce due to low new incremental stress and high provisions coverage already built in

Source: Company, SMIFS Research

7. What street seems to be missing?

We estimate credit costs to reduce vs consensus expectations of flat to slightly higher. We expect credit costs to reduce from 78bps in 9MFY25 to 61bps by FY27 due to reducing incremental stress, already built-in high coverage and low unsecured sector contribution. Consensus expect it to increase slightly to 79-81bps from FY25-FY27E.

We expect higher loans growth for next two years. Our loan growth is 2% higher than consensus estimates for next two years. This is driven by loan growth momentum in RAM segment, supported by a low CD ratio.

Our margins are broadly in-line for FY25E/FY27E but lower in FY26E. Post Q425E (SMIFS: 3.87%, Consensus: 3.92%), this implies a roughly stable NIM trajectory for SMIFS versus consensus' slightly declining trajectory

We expect better opex metrics versus consensus. We expect better than consensus opex growth (0 to 3% lower), driven by lower staff costs as headcount costs have already been front loaded in recent periods.

Overall we expect +4/+10% higher profit growth for FY26/ FY27. This is driven by stronger loan growth, stable NIMs, better credit costs and lower opex growth.

Fig 61: Our Net profit estimates are 4-10% above consensus for next two years

	FY25E			FY26E			FY27E		
₹m , %	SMIFS	Consensus	Variation	SMIFS	Consensus	Variation	SMIFS	Consensus	Variation
NIM	4.04	4.05	-0.01	3.86	3.89	-0.03	3.88	3.89	-0.01
Average Loans	794.5	799.9	-0.7%	916.5	918.7	-0.2%	1,078.7	1,059.8	1.8%
Net Interest Income	42,193	42,552	-0.8%	46,736	47,705	-2.0%	55,083	54,553	1.0%
Total non-II	17,964	17,846	0.7%	19,372	19,463	-0.5%	21,122	21,528	-1.9%
Operating Income	**60,157**	**60,397**	**-0.4%**	**66,107**	**67,168**	**-1.6%**	**76,205**	**76,081**	**0.2%**
Staff cost	14,464	14,710	-1.7%	15,404	16,433	-6.3%	16,945	18,398	-7.9%
Other opex	14,133	13,970	1.2%	15,970	15,776	1.2%	18,365	17,922	2.5%
Opex	**28,597**	**28,680**	**-0.3%**	**31,374**	**32,209**	**-2.6%**	**35,310**	**36,320**	**-2.8%**
Pre Provisions Profit	**31,560**	**31,717**	**-0.5%**	**34,733**	**34,959**	**-0.6%**	**40,895**	**39,761**	**2.9%**
Provisions	6,150	6,351	-3.2%	5,770	7,401	-22.0%	6,490	8,623	-24.7%
Profit before Tax	**25,410**	**25,366**	**0.2%**	**28,963**	**27,558**	**5.1%**	**34,405**	**31,138**	**10.5%**
Tax	6,480	6,448	0.5%	7,386	6,857	7.7%	8,773	7,897	11.1%
PAT	**18,930**	**18,918**	**0.1%**	**21,578**	**20,701**	**4.2%**	**25,632**	**23,241**	**10.3%**
DPS (₹)	2.8	2.9	-2.9%	3.3	3.2	0.6%	3.8	3.6	5.0%
EPS (₹)	23.5	23.4	0.6%	26.8	25.4	5.4%	31.8	29.0	9.8%
Payout	11.9%	12.3%	-0.4%	12.1%	12.7%	-0.6%	11.9%	12.5%	-0.5%
BVPS (₹)	145.4	144.0	1.0%	169.0	166.2	1.7%	197.0	192.2	2.5%
ROA (%)	1.68%	1.67%	0.0%	1.67%	1.59%	0.1%	1.70%	1.59%	0.1%
ROE (%)	17.4%	17.3%	0.1%	17.0%	16.2%	0.8%	17.4%	16.0%	1.4%
Loan growth	13.5%	15.0%	-1.4%	16.9%	14.7%	2.2%	18.3%	15.9%	2.4%
Deposit growth	14.5%	14.9%	-0.4%	17.0%	14.6%	2.4%	18.0%	15.2%	2.8%
CD Ratio	82.8%	83.5%	-0.8%	82.7%	83.6%	-0.9%	83.0%	84.1%	-1.2%
CASA Ratio	27.3%	28.8%	-1.5%	27.5%	28.3%	-0.8%	28.2%	28.1%	0.1%
Non-II Ratio	29.9%	29.5%	0.3%	29.3%	29.0%	0.3%	27.7%	28.3%	-0.6%
CTI	47.5%	47.5%	0.1%	47.5%	48.0%	-0.5%	46.3%	47.7%	-1.4%
Credit Costs (% avg loans)	0.78%	0.79%	-0.01%	0.64%	0.81%	-0.17%	0.61%	0.81%	-0.21%

Source: Company, Bloomberg, SMIFS Research Estimates

8. 4Q25 Preview

NIM decline in 4Q to drive negative profit growth sequentially. We expect NIM to decline to 387bps -16bps QoQ resulting in NII growth of -2% QoQ. KVB has already released its 4Q loan growth of 13.5% YoY. We forecast flat other income sequentially. We expect cost growth to grow at modest 2.1% sequentially with the reduced staff costs growth. We estimate slightly higher credit costs in 4Q of 75bps (vs 73 bps prior quarter) with modestly increased slippages and continued prudential provisions of Rs25cr. Overall, this delivers net profit growth of 1.9% YoY/ -6.3% QoQ.

Fig 62: We expect net profit growth of +1.9% YoY/ -6.3% QoQ in 4Q

Particulars (Rs Mn, %)	Q4FY25E	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Net Interest Income	10,562	9,955	6.1%	10,788	-2.1%
Other Income	4,686	6,289	-25.5%	4,674	0.2%
Operating Income	**15,248**	**16,243**	**-6.1%**	**15,462**	**-1.4%**
Opex	7,462	7,574	-1.5%	7,310	2.1%
Pre-Provisions Profit	**7,786**	**8,669**	**-10.2%**	**8,153**	**-4.5%**
Provisions	1,548	2,934	-47.2%	1,474	5.0%
PBT	**6,238**	**5,735**	**8.8%**	**6,678**	**-6.6%**
Tax	1,591	1,174	35.5%	1,718	-7.4%
PAT	**4,648**	**4,561**	**1.9%**	**4,960**	**-6.3%**
Loans	8,44,861	7,44,230	13.5%	8,28,380	2.0%
Loans growth (% YoY)	13.5%	16.7%	-3.2%	14.6%	-1.1%
Deposits	10,20,781	8,91,127	14.5%	9,91,550	2.9%
Deposit growth (% YoY)	14.5%	16.3%	-1.7%	15.7%	-1.2%
Credit Costs (bps, % average loans)	75	161	-87	73	2

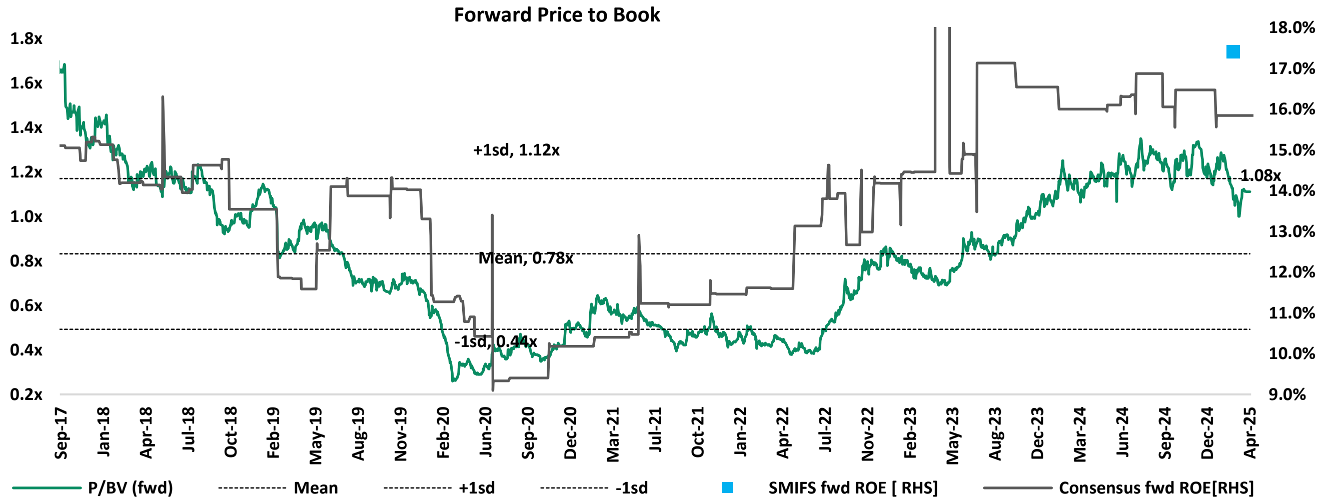
Source: Company, Bloomberg, SMIFS Research Estimates; 4Q24 credit costs included one off Rs 157cr SR investments provisions reversal as per RBI master direction

[III] Valuation, Recommendation and Risks

1. Can KVB have another leg of re-rating?

After the beginning of the rate hike cycle in FY23, KVB had first leg of re-rating. Back in 2017, KVB was trading at ~1.7x. However, corporate asset quality cycle and then COVID de-rated the stock to just 0.2x-0.3x by Apr-20. Later the stock stabilised in valuation range of 0.4x-0.5x. Once the rate hikes started in May-22, expanding NIMs and ROA rerated the stock to above book by early 2024. Since then, the stock has remained in around 1.1x-1.3x and currently trading at ~1.08x, after the market sell down.

Fig 63: Should KVB be priced at 1.1x vs potential 16%+ROE?

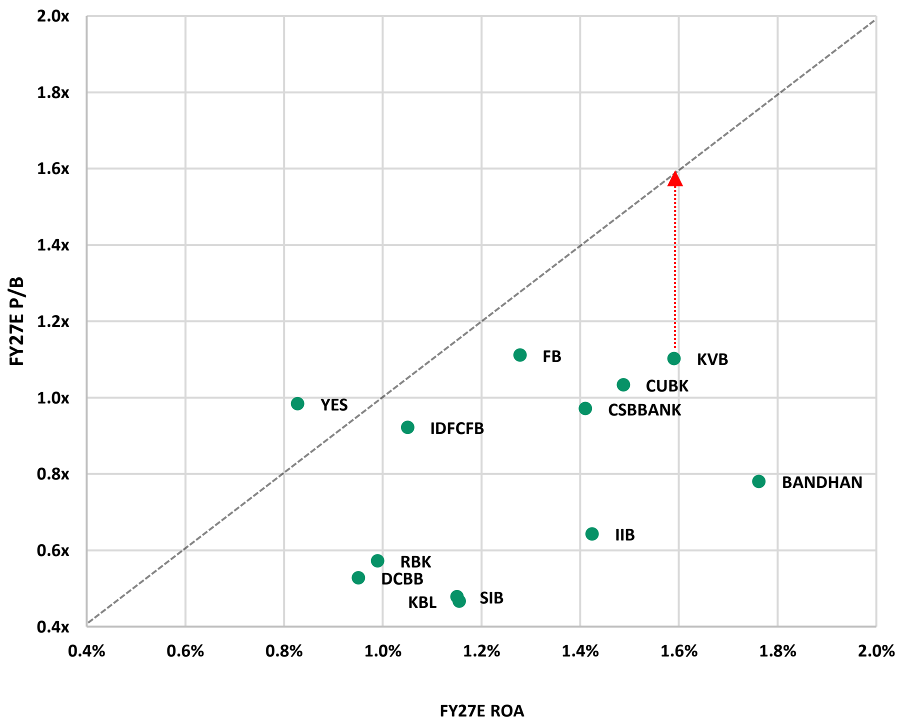


Source: Company, Bloomberg, SMIFS Research Estimates; Blue dot is SMIFS FY27E ROEs. Bloomberg data looks at 1 years ahead, currently at FY27E.

Currently valuation and returns looks disconnected when we look at the forward data, unlike pre-COVID period. Currently KVB is trading just above book for a 16-17% forward ROE. This seems somewhat disconnected when we look at history, particularly pre-covid when valuation was moving in line with returns. For eg back in Sep 17 at 15% fwd ROE KVB used to trade at 1.6-1.7x. Mid 2018, it used to trade at ~1.1x for 14% ROE.

Scatter chart comparison with peers show KVB in favourable light in terms of risk rewards. FB trades at same multiple of ~1.1x for much lower returns 1.3% ROA/ 14% ROE. YES bank trades at book for 0.8% ROA/ 8.9% ROE. IDFC at 0.9x for 1.1% ROA and 11% ROE. With the market sell off, many peers also look attractive aside from KVB. For eg DCB at 0.5x for 1% ROA.

Fig 64: KVB is one of the best placed banks in terms of risk-rewards



Source: Company, Bloomberg, SMIFS Research; Note the grey line at 45-degree angle is not the best fit line and just to help in visualisation.

Does KVB has scope for another leg of re-rating? Since Jan-24, after the NIM expansion had ended, the stock is trading at narrow range 1.1x -1.3x with currently at around 1.1x book with the market sell down. There are two questions that investors need to consider? Firstly, should a bank delivering 16%+ ROE trade at just above book? Secondly, with the industry headwinds around revenue growth and asset quality and consequently implying slowdown of earnings, wouldn't a bank which has levers to relatively insulate itself be a better holding? We think as investors see the bank delivering improving asset quality profile (while the industry worsens), superior loans growth (as industry slows down) and somewhat resilient NIMs (as industry contracts), the stock is likely to have another leg of -rerating.

We rate Buy with a target price of Rs. **285**. Our Excess return model produces a target price of Rs 285. This implies P/B of 1.45x on Sep-27 forward book. We have assumed beta of ~1.2 and market risk premium of ~5.5%, terminal ROE of 16.5%, terminal growth of 5%.

2. Risks

[1] Higher than expected NIM decline due to any setbacks in sourcing higher yield RAM loans including competition, industry slowdown etc. Further if deposit market remains tough, it could lead to higher-than-expected pressure on margins.

[2] Credit costs worsening due to higher-than-expected slippages particularly in commercial segment. Lower than expected recoveries could result in higher than anticipated net credit costs.

[3] Higher than expected opex growth on account of enhanced staff hiring, acceleration in new branches count or any new investment initiatives.

[4] Lower than anticipated loan growth due to challenges in RAM segment like slowing down of jewel loans, deceleration in housing loans etc, could reduce revenue growth

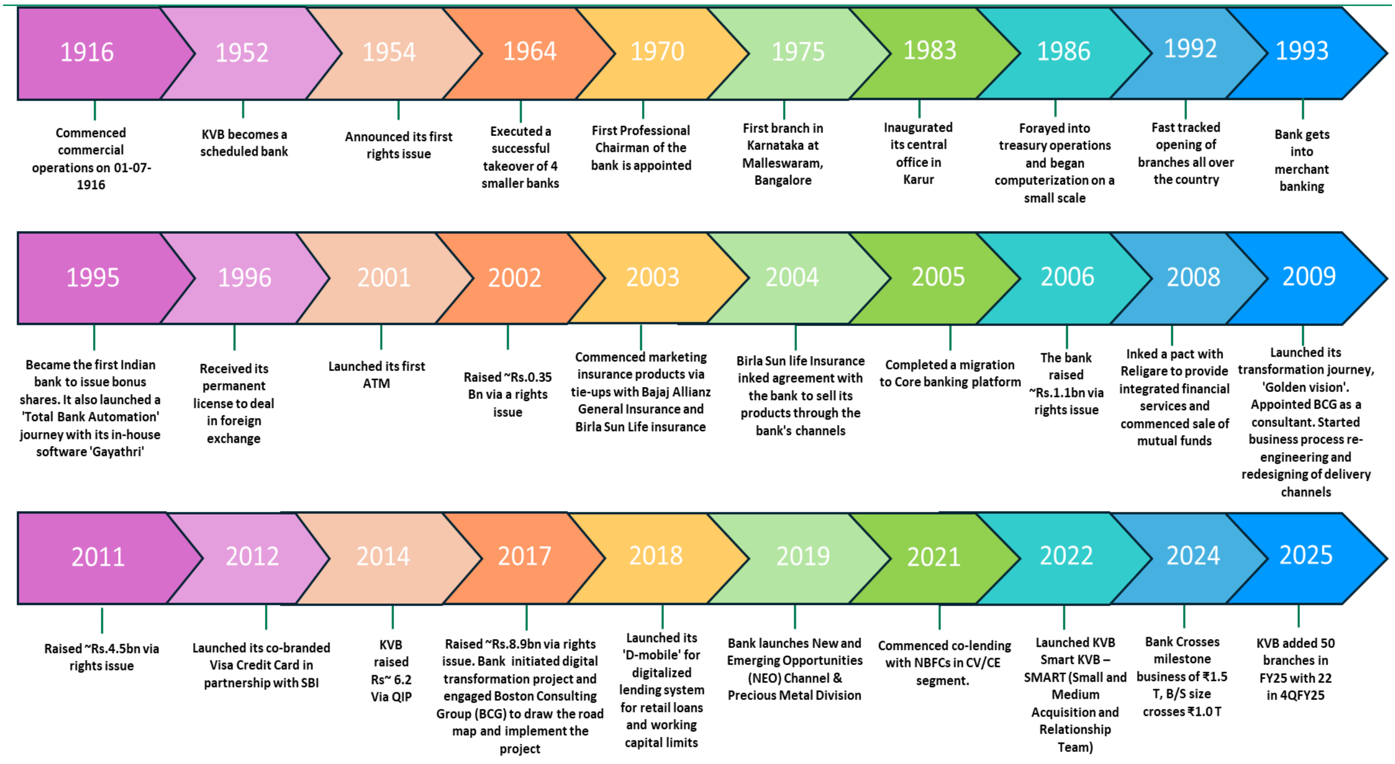
[IV] About the Company

Karur Vysya Bank is one of the oldest private sector banks in India and classified as an old generation private sector bank. It is a scheduled commercial bank regulated by the Reserve Bank of India. It is professionally managed and governed. It has 888 branches across 20 states and 3 union territories. KVB has a headcount of around 10,000 employees.

1. History

Karur Vysya Bank - was set up in Karur in 1916 by Late Shri M A Venkatarama Chettiar and the Late Shri Athi Krishna Chettiar to provide financial support to the traders and agriculturists in and around Karur, a textile town in Tamil Nadu.

Fig 65: Historical Milestones

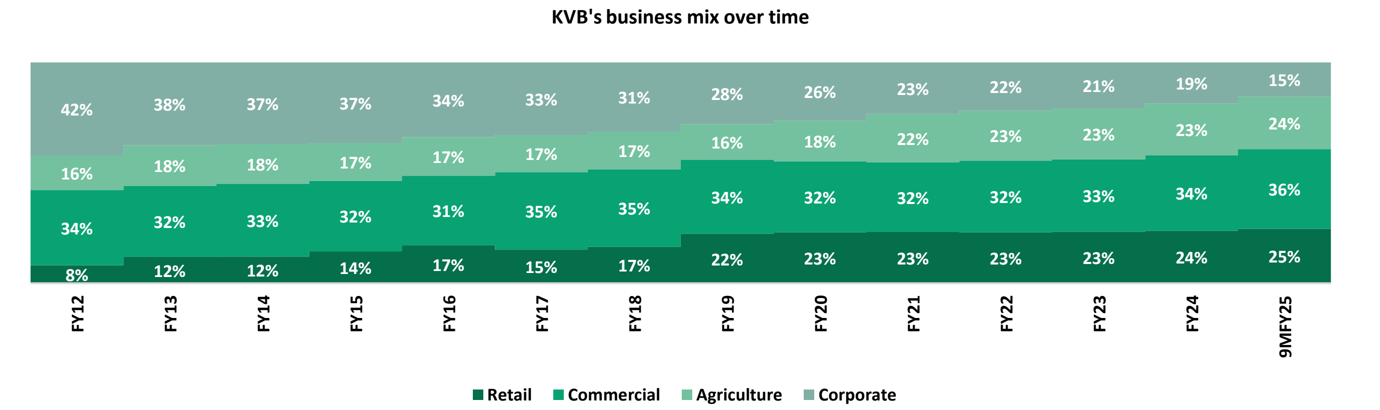


Source: Company, SMIFS Research

2. Business Mix

KVB has evolved to become a diversified bank with focus on SME, Retail and Agri sectors. Earlier, KVB was primarily a corporate & business bank (constituting 76% of total in FY12). However, due to asset quality issues in the past and more recently higher yields in non-corporate segments, the bank has focused on RAM sectors over the years (currently having 85% of total mix) making it much more diversified.

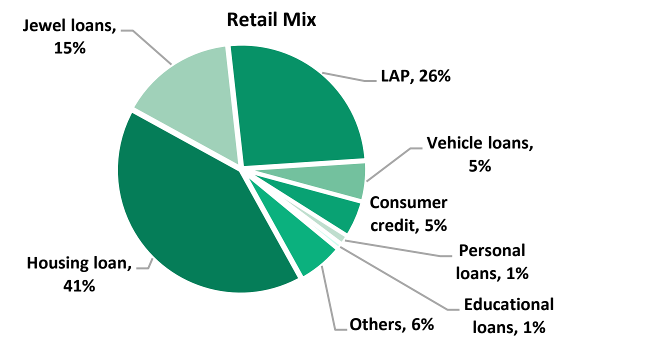
Fig 66: Business mix has evolved from corporate and business bank earlier to a one now focusing on RAM sectors



Source: Company, SMIFS Research

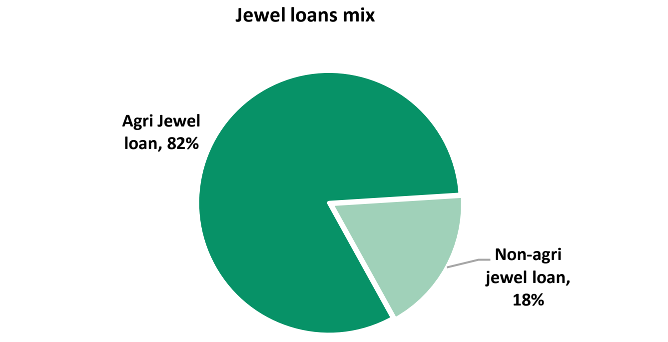
By products, home loans and LAP are the largest products in retail sectors. Home loans constitute about 41% and LAP 26% of the total retail loans respectively. If we were to look at proportion of total loans, home loans constitute 10% and LAP 6% currently versus 6% and 2% respectively in FY17.

Fig 67: Home loans and LAP together constitute 67% of total retail loans, followed by jewel loans at 15%.



Source: Company, SMIFS Research

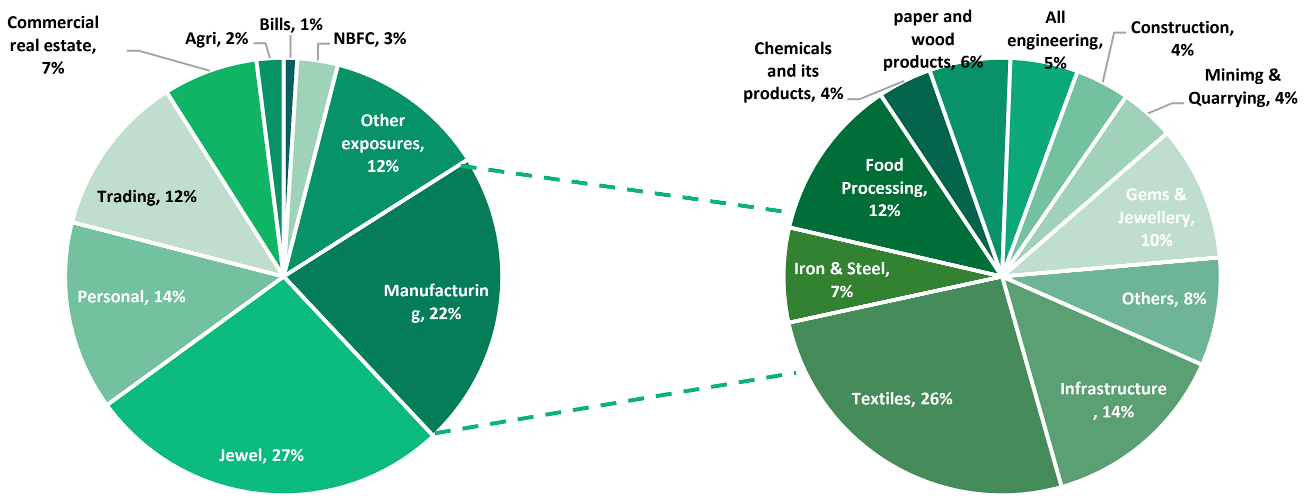
Fig 68: 82% of jewel loans are agricultural loans. 91% of agriculture sector loans are jewel loans



Source: Company, SMIFS Research

Jewel and Manufacturing are largest segments, followed by personal loans. Within manufacturing, textile is the largest sub-segment constituting 26% of the total. Both trading and agriculture segments have roots in KVB's history as the bank used to provided financial support to the traders and agriculturists in and around Karur, a textile town in Tamil Nadu.

Fig 69: Jewel loans, manufacturing, personal and trading together constitute 75% of total loans

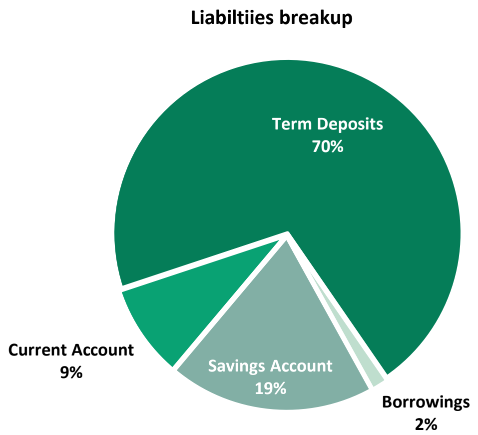


Source: Company, SMIFS Research

3. Liability Franchise

Most of the loans are funded by deposits. The deposit franchise quite weak as compared to peers with CASA ratio at just 28%. Borrowing is just 2% of total funding

Fig 70: 98% of the funding is through deposits



Source: Company; 9M25 data

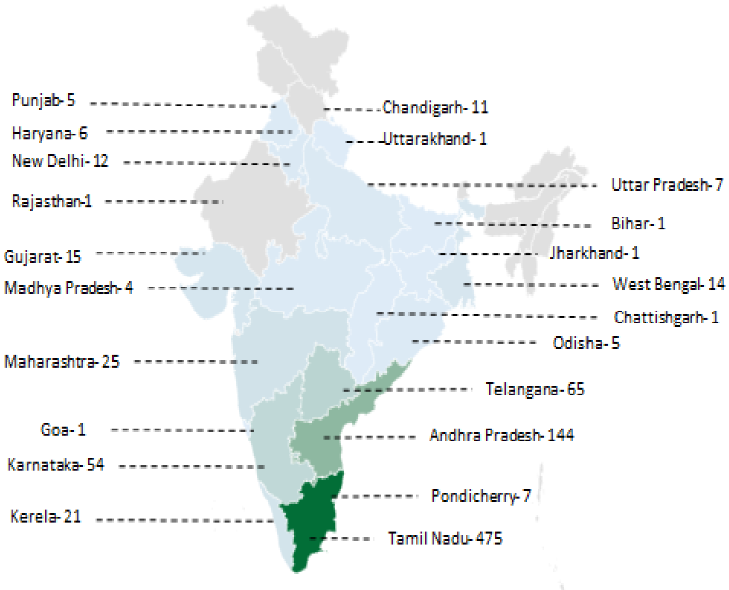
4. Branch Network

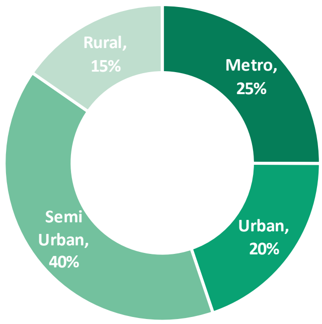
KVB is a regional bank with more than 50% branches in Tamil Nadu and close to 90% branches in South India. 75% branches are outside Metro cities. KVB didn't add many branches from FY18-FY22 and accelerated the pace in only last 2.5 years. Currently there are 888 branches (by 28th mar 2025)

Fig 71: Branches and units - breakup by type and geography

Category	31-Dec-24	31-Mar-24	31-Mar-23
Branches	866	838	799
ATMs+ cash recyclers	2197	2262	2240

Category	No of branches	Business Banking unit	Corporate Buisness Unit	Asset Recovery Branches	Other offices
Metro	217	10	9	8	8
Urban	171	3	-	-	-
Semi Urban	345	1	-	-	-
Rural	133	-	-	-	-
Total	**866**	**14**	**9**	**8**	**8**
BC Outlets	378	-	-	-	-



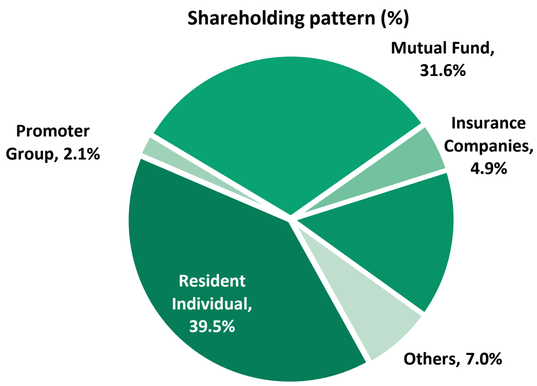


Source: Company, SMIFS Research

5. Shareholders and ownership

Key shareholders are HDFC Asset Management with holding of 7.1% followed by Rakesh Jhunjhunwala (4.5%), Nippon AM (4.1%) and L&T MF (4%). In terms of type, individuals own 39.5%, followed by mutual funds at 31.6% and FPI 14.8%.

Fig 72: Key Shareholders



Holder Name	% Out
HDFC Asset Management Co Ltd	7.2
Jhunjhunwala Rakesh	4.5
Nippon Life India Asset Management Ltd	4.1
L&T Mutual Fund Trustee Ltd/India	4.0
SBI Funds Management Ltd	3.0
Ntasian Discovery Master fund	2.6
Axis Asset Management Co Ltd/India	2.8
Emirate of Abu Dhabi United Arab Emirates	2.1
Franklin Resources Inc	2.0
Vanguard Group Inc/The	1.9
UTI Asset Management Co Ltd	1.3
Dimensional Fund Advisors LP	1.4
Dhawan Ashish	1.3
Edelweiss Asset Management Ltd	1.3
Blackrock Inc	1.3
Agrawal Mukul	1.3
Acacia Partners LP	1.0

Source: Company, Bloomberg, SMIFS Research

[V] Corporate Governance

Founders’ futuristic vision and foresight is reflected in some corporate governance related clauses inserted more than century back at the bank’s inception. While Banking Regulation Act came into force only in 1949, they included a clause in 1916 itself to prevent Directors from taking loans from the bank. Further, they thought that the employees too should be participatory in the future of the bank. Thus, they planned stock options where every manager was to have 50 shares, offices 20 shares and cashiers 40 shares.

More than a century later, we see KVB following strong corporate governance standards, particularly post the transformation initiatives in last six to seven years. Board is now sufficiently independent. Directors are seasoned professionals with diverse experience and skillsets. Further they have two women directors on board.

1. Board of Directors

Board of directors have diverse skillset and experience. Many directors have decades of rich experience notably in top PSU banks, RBI, consulting company, law firms etc. The Chairman Dr Meena Hemchandra was a former Executive Director of Reserve Bank of India in-charge of Supervision of Banks, Non-Banking Finance Companies and Cooperative Banks from June 2015 till her superannuation in November 2017.

The board currently has 11 members versus nine last year. Since the last five years, the composition has become more independent. In F20, KVB had 54% independent directors and currently it has increased to 64%. Also, number of woman directors have also increased from one in FY23/ FY24 to now two (when Smt. Srimathy Sridhar joined the board in Sep 2024).

Fig 73: Board of Directors Composition

Particulars	FY20	FY21	FY22	FY23	FY24	FY25
Non-Executive Independent director	6	6	6	6	6	7
Non-Executive Non-Independent director	4	4	4	2	1	1
Executive Director	1	1	1	1	2	3
Total strength	**11**	**11**	**11**	**9**	**9**	**11**
Woman Directors	**1**	**1**	**2**	**1**	**1**	**2**
Independent	1	1	2	1	1	2
Non-Independent	0	0	0	0	0	0

Source: Company, SMIFS Research

Fig 74: Board of Directors Profile

Name	Role	Description
Dr Meena Hemchandra	**Non-Executive Independent (Part-time) Chairperson**	With over four decades of experience at the RBI, she has held key roles, including Executive Director overseeing bank supervision, treasury management, and foreign exchange operations, as well as board positions at Union Bank of India, Canara Bank, and ECGC. She brings expertise in banking sector regulation, financial matters, corporate governance, and IT/cyber security governance.
Shri B Ramesh Babu	**Managing Director and Chief Executive Officer**	Shri B. Ramesh Babu is a strategic planner and seasoned banking professional with extensive managerial expertise. He excels in HR initiatives, relationship management, crisis management, and executing strategic goals. Previously, he served as Deputy Managing Director & Chief Operating Officer at State Bank of India (SBI) where he oversaw retail business while also serving on the boards of SBI's associate banks and non-banking subsidiaries.
Shri R Ramkumar	**Non-Executive Non-Independent Director**	He is a member of the promoter's family and has expertise in textiles and Human Resources. He has rich experience in textiles sector and export of home textiles.
Shri K G Mohan	**Non-Executive Independent Director**	Shri K.G. Mohan is a senior IT professional with extensive experience in business management, transformation, and strategic deployment of technology, including cybersecurity frameworks. An IIT Madras alumnus with a PGDIE from NITIE, he has held global IT leadership roles at Unilever for 27 years, serving as VP IT and CIO for South Asia/Africa and Global VP IT for Networking and Telecommunication, and later at Johnson & Johnson as VP IT and CIO for Asia Pacific.
Dr Harshavardhan R	**Non-Executive Independent Director**	Dr Harshavardhan R is an independent business advisor with over two decades of experience in management consulting and financial services. He previously served as Senior Advisor at Bain & Company, leading its financial services practice in India, and has worked with other global firms like Boston Consulting Group and Arthur Andersen.
Shri Murali Ramaswami	**Non-Executive Independent Director**	Shri Murali Ramaswami is a seasoned banker with over three decades of experience, having retired as Executive Director of Bank of Baroda in 2020 after starting his career at Vijaya Bank in 1984. A highly qualified professional, he holds a B. Com from Madras University, AICWA, DBF, CAIIB, and an MBA specializing in Corporate Finance and Foreign Trade & market research, making him well-versed in all areas of the banking sector.
CA Dr Chinnasamy Ganesan	**Non-Executive Independent Director**	CA Dr Chinnasamy Ganesan is a highly experienced Chartered Accountant with over three decades of expertise in audit, financial reporting, taxation, and advisory services. he has extensively worked with Indian and multinational clients across diverse sectors such as automotive, IT, healthcare, banking, and insurance.
Shri R Vidhya Shankar	**Non-Executive Independent Director**	Shri R. Vidhya Shankar is a highly accomplished legal professional with a Bachelor of Commerce and Bachelor of Law degree from Bharathiyar University, Coimbatore, where he was a gold medallist and achieved a rare first class in Law. Specializing in corporate law, he excels in corporate transactions, restructuring, litigations, arbitrations, capital market matters, FEMA compliances, and cross-border transactions.
Shri J Natarajan	**Executive Director**	Shri J. Natarajan began his career at Karur Vysya Bank as a trainee in 1982 and later rose through the ranks to become General Manager in 2010, Chief General Manager in 2017, President in 2019, and Executive Director in 2024. With 18 years of branch banking experience and expertise in Treasury, Finance, and Merchant Banking, he played a pivotal role in implementing the bank's core banking solution, digital lending systems, and integrated treasury operations. As Head of HR, he introduced People Soft solutions, and as President, he established centralized operations and expense management centers, while also launching the bank's bullion business in 2019.
Smt Srimathy Sridhar	**Non-Executive Independent Director**	Smt. Srimathy Sridhar is a seasoned banking professional with over 34 years of experience. She started her career at Andhra Bank in 1985 and later joined Canara Bank, where she rose to the position of Chief General Manager. She has extensive expertise in retail and corporate credit, risk management, treasury, HR, and internal control, having headed the Large Corporate Vertical and a major circle at Canara Bank.
Shri Sankar Balabhadrapatruni	**Executive Director**	He is a seasoned banker with over 35 years of experience at various positions in SBI. He has held key leadership roles, including Deputy Managing Director for Stressed Assets, Chief General Manager for SME, and Chief Operating Officer, where he managed large-scale operations, NPAs worth ~INR 82,000 crores, and regional banking activities. His expertise includes risk management, internal audits, and driving operational efficiency through technology.

Source: Company, SMIFS Research

2. Promoter shareholding

Promoter and Promoter Group own just 2.1% of the stock, with rest owned by retail (39.5%), mutual funds (31.6%), FPIs (14.8%), insurance companies (4.9%) and others (7.0%)

Fig 75: Promoter Shareholding

Period	% of promoter shareholding
FY20	2.1
FY21	2.1
FY22	2.3
FY23	2.2
FY24	2.2
Dec-24	2.1

Source: Company, SMIFS Research

3. Remuneration of non-executive directors.

Overall remuneration paid to non -executive directors was 0.11% of PBT in FY24, of which independent directors' remuneration was 0.09% of PBT.

Fig 76: Remuneration paid to non-executive directors for FY24

Particulars (Rs. in Mn)	Independent/ non-independent	Sitting fees	Fixed remuneration	Others	% of PBT
Dr. Meena Hemchandra	Independent	2.6	-	-	*0.01%*
Dr. K S Ravichandran	Independent	2.2	1.0	-	*0.02%*
R Ramkumar	Non-Independent	2.5	1.0	-	*0.02%*
K G Mohan	Independent	2.3	1.0	-	*0.02%*
Dr Harshavardhan R	Independent	2.6	1.0	-	*0.02%*
Murali Ramaswami	Independent	2.7	1.0	-	*0.02%*
CA Dr Chinnasamy Ganesan	Independent	1.6	0.9	-	*0.01%*
M V Srinivasamoorthi*	Non-Independent	0.9	0.4	-	*0.01%*
Total		**17.3**	**6.3**	**-**	***0.11%***

Source: Company, SMIFS Research; * Director demitted office during the FY 2023-24, consequent to completion of his tenure.

4. Related party transaction

There are minimal related party transactions, all related to deposits and interest paid for KMP.

Fig 77: Related Party Transactions

Details of related party transactions (Rs mn)	FY20	FY21	FY22	FY23	FY24
Deposits	24.6	0.1	0.3	3.0	5.6
Interest Paid	1.9	0.0	0.0	0.2	0.4
Total	**26.5**	**0.1**	**0.3**	**3.2**	**6.0**

Source: Company, SMIFS Research

5. Contingent liabilities

Contingent liabilities all look normal, related to business-as-usual like bank guarantees, forward exchange contracts etc.

Fig 78: Contingent liabilities

Particulars (Rs mn)	FY20	FY21	FY22	FY23	FY24
Claims against the bank not acknowledged as debts	33	57	1,696	496	477
Liability for partly paid investments	-	-	-	-	-
Liability on account of outstanding forward exchange contracts	36,798	49,221	46,516	57,364	76,609
Guarantees given on behalf of constituents:					
In India	28,918	22,864	22,472	24,906	31,613
Outside India	10,282	-	-	-	-
Acceptances, Endorsements and Other Obligations	-	9,164	9,552	12,502	8,891
Other Items for which the bank is contingently liable	8,349	19,939	12,368	8,779	14,284
Total	**84,380**	**1,01,244**	**92,603**	**1,04,048**	**1,31,875**

Source: Company, SMIFS Research

6. Auditor's compensation

Auditor's compensation is 0.06% of PBT in FY24 and was 0.08% of PBT in FY23.

Fig 79: Auditor's compensation

Years	Auditor name	Audit type	Auditors remuneration (Rs in Mn)	% of PBT
FY24	M/s Sundaram & Srinivasan M/s M/s R G N Price & Co	Statutory	12.1	0.06%
FY23	M/s Sundaram & Srinivasan M/s M/s R G N Price & Co	Statutory	11	0.08%

Source: SMIFS research; Company; Fee is before taxes. Additional out of pocket expenses with a cap of 10% of fees is permitted. For FY25, auditors are M/s. Kalyaniwalla & Mistry LLP and M/s. Varma & Varma

7. CSR

Key CSR focus areas are:

(1) **Hygiene and healthcare**: Construction of toilets in educational institutes, providing clean drinking water though setting up RO plans etc
(2) **Education**: construction of classroom, providing scholarships
(3) **Arts and Culture**: restoration of building of historical importance, setting up public libraries
(4) **Environment**: protection of environment and its sustainability

Spends are consistent over years.

Fig 80: CSR activities spends

Years	Avg. Net profit (Last 3 years) *	Prescribed expenditure	Total spends	Amount transferred to specified schedule VII fund	Amount transferred to unspent CSR account	Spends as a % of the prescribed limit
FY24	9,674	181	81	0	103	44.5
FY23	5,792	116	59	0	70	50.6
FY22	3,799	76	37	9	30	48.4

Source: Company, SMIFS Research; * Avg annual profit of the company taken as per sec 135(5) as given in annual report

8. Management Profile

KVB has a very experienced management team, with decades of experience in the industry.

Fig 81: Management Profile

Name	Role	Description
B Ramesh Babu	**Managing Director and Chief Executive Officer**	Shri B. Ramesh Babu is a seasoned banking professional with extensive managerial expertise. He is currently serving as Managing Director & CEO of the bank, a role he was re-appointed to for a second three-year term effective July 29, 2023. He excels in HR initiatives, relationship management, crisis management, and executing strategic goals under high-pressure scenarios, with a strong focus on customer service and financial inclusion. Previously, he served as Deputy Managing Director & Chief Operating Officer at State Bank of India (SBI) where he oversaw retail business and operations for over 21,000 branches and 1,20,000 touchpoints, while also serving on the boards of SBI's associate banks and non-banking subsidiaries. A postgraduate in Commerce from Andhra University and a Certified Associate of the Indian Institute of Bankers, he holds expertise in international factoring and payment systems, complemented by a distinguished diploma from Factors Chain International, Netherlands.
Ramshankar R	**Chief Financial Officer**	27+ years of expertise in finance, accounts, and banking. He joined KVB in 2012 and has handled retail, branch banking, divisional office administration, corporate banking before moving to Finance and Control Department of the bank reporting to CFO. Prior to KVB, he has worked in HDFC Bank, ICICI Bank and ING Vysya.
Natarajan J	**Executive Director**	Shri J. Natarajan began his career at Karur Vysya Bank as a trainee in 1982 and, later rose through the ranks to become General Manager in 2010, Chief General Manager in 2017, President in 2019, and Executive Director in 2024. With 18 years of branch banking experience and expertise in Treasury, Finance, and Merchant Banking, he played a pivotal role in implementing the bank's core banking solution, digital lending systems, and integrated treasury operations. As Head of HR, he introduced People Soft solutions, and as President, he established centralized operations and expense management centers, while also launching the bank's bullion business in 2019. His leadership in digital transformation and operational efficiency has significantly enhanced the bank's scalability and risk management.
Chandrasekaran M S	**Chief Operating Officer**	32+ Years of Experience in banking. He had joined the Bank in Oct 2023 after superannuation from Axis Bank as SVP and Head – Branch Snap and Revenue Audits. Prior to Axis Bank, he had served in the State Bank of India in multiple role, last being NRI Manager at Pondicherry
Shekhar Ramarajan	**Head - Corporate and Institutional Group**	Over 2 decades of experience in leading Banks, NBFCs and HFCs like ICICI Bank, Standard Chartered Bank, Kotak Mahindra Bank, Aditya Birla Finance, Manappuram Finance and Aditya Birla Housing Finance. Shekhar joined KVB in June 2019 as the Chief Risk Officer for NEO
Immanuel Gnanaraj Daniel	**Chief Human Resources Officer**	Extensive HR leadership experience at Kotak Mahindra Bank, [24]7.ai, DuPont, and WNS Global Services/ Holds an MBA in Business Administration and a BE in Automobile Engineering, bringing over two decades of expertise in HR strategy and talent management
Sekar S	**Chief Information Officer**	With over 39 years in the banking sector, he plays a crucial role in shaping KVB's technology strategy and operations.
R V S Ramanjaneya Kumar	**Head - Commercial Banking Group**	31+ years of experience in the banking sector.
S T Gopal	**Head- Retail liabilities**	Mr. Gopal has been a domain banker for 34 years and has experience of 16 years in the Liability Acquisition Business. Before joining KVB, Gopal held various positions at ICICI bank, Axis bank, IndusInd Bank and ING Vysya Bank, including Senior Vice President & Zonal Head, Zonal Head - Consumer Banking, and Regional Head.
Nitin Rangaswami	**Head- Retail Assets**	With over 20 years of experience and has worked with top banks where he was instrumental part of teams involved in launching new products and charting growth strategies. He specialises in setting up new businesses, expansion and buidling distribution network

Source: Company, SMIFS Research

[VI] Financial Statements

Fig 82: KVB Income Statement, Balance Sheet and Key Figures on Annual Basis

Income Statement					
INR mn	FY23	FY24	FY25E	FY26E	FY27E
Interest income	65,166	82,039	96,650	1,09,501	1,27,277
Interest expenses	31,677	43,947	54,457	62,765	72,195
Net interest income	**33,488**	**38,092**	**42,193**	**46,736**	**55,083**
Non interest income	11,589	16,587	17,964	19,372	21,122
Operating income	**45,078**	**54,679**	**60,157**	**66,107**	**76,205**
Employee expenses	10,060	14,610	14,464	15,404	16,945
Other expenses	10,260	11,777	14,133	15,970	18,365
Operating expenses	**20,320**	**26,388**	**28,597**	**31,374**	**35,310**
Operating profit	**24,758**	**28,291**	**31,560**	**34,733**	**40,895**
Provisions	10,389	7,290	6,150	5,770	6,490
PBT	**14,369**	**21,002**	**25,410**	**28,963**	**34,405**
Tax	3,308	4,954	6,480	7,386	8,773
PAT	**11,061**	**16,048**	**18,930**	**21,578**	**25,632**
Basic EPS (Rs)	13.81	19.99	23.52	26.80	31.84
DPS (Rs)	2.00	2.40	2.80	3.25	3.80
Payout ratio	14.5%	12.0%	11.9%	12.1%	11.9%

Growth % YoY					
INR mn	FY23	FY24	FY25E	FY26E	FY27E
Interest income	16.6%	25.9%	17.8%	13.3%	16.2%
Interest expenses	10.3%	38.7%	23.9%	15.3%	15.0%
Net interest income	**23.3%**	**13.7%**	**10.8%**	**10.8%**	**17.9%**
Non interest income	50.7%	43.1%	8.3%	7.8%	9.0%
Operating income	**29.4%**	**21.3%**	**10.0%**	**9.9%**	**15.3%**
Employee expenses	6.4%	45.2%	-1.0%	6.5%	10.0%
Other expenses	12.8%	14.8%	20.0%	13.0%	15.0%
Operating expenses	**9.6%**	**29.9%**	**8.4%**	**9.7%**	**12.5%**
Operating profit	**51.9%**	**14.3%**	**11.6%**	**10.1%**	**17.7%**
Provisions	48.6%	-29.8%	-15.6%	-6.2%	12.5%
PBT	**54.3%**	**46.2%**	**21.0%**	**14.0%**	**18.8%**
Tax	28.4%	49.8%	30.8%	14.0%	18.8%
PAT	**64.3%**	**45.1%**	**18.0%**	**14.0%**	**18.8%**
Basic EPS (Rs)	64.0%	44.8%	17.7%	13.9%	18.8%
DPS (Rs)	25.0%	20.0%	16.7%	16.1%	16.9%
Payout ratio	-4.5%	-2.5%	-0.1%	0.2%	-0.2%

Balance Sheet					
INR mn	FY23	FY24	FY25E	FY26E	FY27E
Cash & bal. with RBI	42,795	55,879	51,958	60,791	71,733
Balance with Banks	4,157	706	3,471	4,061	4,792
Investments	1,88,083	2,23,435	2,56,930	2,99,773	3,48,799
Advances	6,31,341	7,36,675	8,36,284	9,78,025	11,57,391
Fixed Assets	4,350	4,329	4,632	4,863	5,107
Other Assets	31,068	34,828	38,310	40,226	42,237
Total Assets	**9,01,794**	**10,55,852**	**11,91,585**	**13,87,738**	**16,30,058**
Capital	1,604	1,609	1,610	1,610	1,610
Reserves and Surplus	84,236	98,792	1,15,468	1,34,430	1,57,002
Total Equity	**85,841**	**1,00,401**	**1,17,078**	**1,36,040**	**1,58,612**
Deposits	7,66,376	8,91,127	10,20,781	11,94,313	14,09,290
Borrowings	14,320	24,784	15,767	17,529	20,306
Other Liabilities	35,258	39,541	37,959	39,857	41,850
Total Liabilities	**8,15,954**	**9,55,451**	**10,74,506**	**12,51,699**	**14,71,445**
BVPS (₹)	107.0	124.8	145.4	169.0	197.0

Growth % YoY					
INR mn	FY23	FY24	FY25E	FY26E	FY27E
Cash and bal. with RBI	19.1%	30.6%	-7.0%	17.0%	18.0%
Balance with Banks	-68.8%	-83.0%	391.3%	17.0%	18.0%
Investments	9.2%	18.8%	15.0%	16.7%	16.4%
Advances	14.1%	16.7%	13.5%	16.9%	18.3%
Fixed Assets	-9.1%	-0.5%	7.0%	5.0%	5.0%
Other Assets	48.8%	12.1%	10.0%	5.0%	5.0%
Total Assets	**12.7%**	**17.1%**	**12.9%**	**16.5%**	**17.5%**
Capital	0.3%	0.3%	0.1%	0.0%	0.0%
Reserves and Surplus	13.3%	17.3%	16.9%	16.4%	16.8%
Total Equity	**13.0%**	**17.0%**	**16.6%**	**16.2%**	**16.6%**
Deposits	11.6%	16.3%	14.5%	17.0%	18.0%
Borrowings	6.9%	73.1%	-36.4%	11.2%	15.8%
Other Liabilities	45.0%	12.1%	-4.0%	5.0%	5.0%
Total Liabilities	**12.6%**	**17.1%**	**12.5%**	**16.5%**	**17.6%**
BVPS (₹)	12.7%	16.6%	16.5%	16.2%	16.6%

Ratios & Key Figures					
%	FY23	FY24	FY25E	FY26E	FY27E
Loans Mix, CD and CASA Ratio					
Loans Mix					
-Housing	10%	10%	10%	10%	10%
-Jewel	3%	3%	4%	4%	4%
-LAP	5%	6%	7%	8%	9%
-Vehicle loans	2%	2%	1%	1%	1%
-Consumer credit	0%	1%	1%	1%	1%
-Personal loans	1%	0%	0%	0%	0%
-Educational loans	0%	0%	0%	0%	0%
-Others	2%	2%	1%	1%	1%
Retail	23%	24%	25%	26%	26%
Commercial	33%	34%	37%	38%	39%
Agriculture	23%	23%	24%	24%	24%
Corporate	21%	19%	14%	12%	10%
CASA Ratio	33%	30%	27%	27%	28%
CD Ratio (LDR)	84%	84%	83%	83%	83%
Margins					
Reported NIM	4.18%	4.19%	4.04%	3.86%	3.88%
Calculated NIMs	4.29%	4.27%	4.10%	3.93%	3.94%
Yield on Int ear assets	8.3%	9.2%	9.4%	9.2%	9.1%
Cost of funds	4.3%	5.2%	5.6%	5.6%	5.5%
P&L Ratios					
Core fees % Non-II	17%	16%	16%	16%	16%
Non-II Ratio	26%	30%	30%	29%	28%
Staff costs % opex	50%	55%	51%	49%	48%
CTI	45%	48%	48%	47%	46%
Tax Rate	23%	24%	26%	26%	26%

Ratios & Key Figures					
%	FY23	FY24	FY25E	FY26E	FY27E
Capital Ratios					
Tier 1 Ratio	16.8%	15.5%	16.5%	16.6%	16.6%
Capital Adequacy Ratio (%)	18.6%	16.7%	17.4%	17.5%	17.5%
RWA % Assets	54.4%	57.9%	56.5%	56.5%	56.5%
RWA % yoy	17.8%	24.5%	10.1%	16.5%	17.5%
Asset Quality					
Gross NPA Ratio	2.3%	1.4%	0.7%	0.7%	0.6%
Net NPA Ratio	0.7%	0.4%	0.2%	0.2%	0.1%
PCR	67.9%	71.4%	76.0%	76.0%	76.0%
Slippage ratio	0.8%	0.7%	0.7%	0.7%	0.7%
Credit costs	1.8%	1.1%	0.8%	0.6%	0.6%
Returns					
ROA	1.3%	1.6%	1.7%	1.7%	1.7%
ROE	13.7%	17.2%	17.4%	17.0%	17.4%
Valuation					
P/B	0.98x	1.46x	1.46x	1.25x	1.08x
P/E	7.6x	9.1x	9.0x	7.9x	6.7x
Div. Yield	1.9%	1.3%	1.3%	1.5%	1.8%

Fig 83: KVB Income Statement, Balance Sheet and Key Figures on Quarterly Basis

Income Statement					
INR mn	3Q24	4Q24	1Q25	2Q25	3Q25
Interest Income	21,394	21,846	22,845	23,840	24,860
Interest Expense	11,381	11,891	12,602	13,241	14,072
Net Interest Income	**10,013**	**9,955**	**10,244**	**10,600**	**10,788**
Non-Interest Income	3,578	6,289	3,884	4,720	4,674
Operating Income	**13,591**	**16,243**	**14,127**	**15,320**	**15,462**
Employee expenses	3,747	4,398	3,335	3,570	3,738
Other expenses	3,085	3,177	3,334	3,587	3,571
Operating expenses	**6,832**	**7,574**	**6,669**	**7,157**	**7,310**
Operating profit	**6,759**	**8,669**	**7,459**	**8,162**	**8,153**
Provisions	1,497	2,934	1,329	1,798	1,474
PBT	**5,262**	**5,735**	**6,129**	**6,364**	**6,678**
Tax	1,146	1,174	1,543	1,628	1,718
PAT	**4,116**	**4,561**	**4,587**	**4,736**	**4,960**
Basic EPS (₹)	5.13	5.67	5.70	5.89	6.16

Growth % qoq					
INR mn	3Q24	4Q24	1Q25	2Q25	3Q25
Interest Income	7.1%	2.1%	4.6%	4.4%	4.3%
Interest Expense	5.2%	4.5%	6.0%	5.1%	6.3%
Net Interest Income	**9.4%**	**-0.6%**	**2.9%**	**3.5%**	**1.8%**
Non-Interest Income	5.6%	75.8%	-38.2%	21.5%	-1.0%
Operating Income	**8.4%**	**19.5%**	**-13.0%**	**8.4%**	**0.9%**
Employee expenses	14.4%	17.4%	-24.2%	7.1%	4.7%
Other expenses	6.8%	3.0%	5.0%	7.6%	-0.4%
Operating expenses	**10.8%**	**10.9%**	**-12.0%**	**7.3%**	**2.1%**
Operating profit	**6.0%**	**28.3%**	**-14.0%**	**9.4%**	**-0.1%**
Provisions	18.4%	96.0%	-54.7%	35.3%	-18.0%
PBT	**2.9%**	**9.0%**	**6.9%**	**3.8%**	**4.9%**
Tax	-13.9%	2.5%	31.4%	5.5%	5.5%
PAT	**8.8%**	**10.8%**	**0.6%**	**3.3%**	**4.7%**
Basic EPS (₹)	8.7%	10.5%	0.5%	3.3%	4.6%

Balance Sheet					
INR mn	3Q24	4Q24	1Q25	2Q25	3Q25
Cash and bal. with RBI	53,010	55,879	53,250	54,571	50,460
Balance with Banks	2,890	706	1,040	2,302	3,410
Investments	2,09,270	2,23,435	2,26,570	2,32,138	2,49,600
Advances	7,17,980	7,36,675	7,69,650	7,96,188	8,23,020
Fixed Assets	4,210	4,329	4,430	4,628	4,620
Other Assets	41,320	34,828	33,800	35,904	32,620
Total Assets	**10,28,680**	**10,55,852**	**10,88,740**	**11,25,731**	**11,63,730**
Capital	1,610	1,609	1,610	1,610	1,610
Reserves and Surplus	94,180	98,792	1,04,240	1,07,397	1,12,310
Total Equity	**95,790**	**1,00,401**	**1,05,850**	**1,09,007**	**1,13,920**
Deposits	8,56,650	8,91,127	9,23,490	9,58,385	9,91,550
Borrowings	29,930	24,784	21,130	14,180	15,630
Other Liabilities	46,310	39,541	38,270	44,159	42,630
Total Liabilities	**9,32,890**	**9,55,451**	**9,82,890**	**10,16,725**	**10,49,810**
BVPS (₹)	119.0	124.8	131.5	135.4	141.5

Growth % qoq					
INR mn	3Q24	4Q24	1Q25	2Q25	3Q25
Cash and bal. with RBI	14.9%	5.4%	-4.7%	2.5%	-7.5%
Balance with Banks	4.7%	-75.6%	47.2%	121.3%	48.2%
Investments	0.4%	6.8%	1.4%	2.5%	7.5%
Advances	3.3%	2.6%	4.5%	3.4%	3.4%
Fixed Assets	-0.5%	2.8%	2.3%	4.5%	-0.2%
Other Assets	48.6%	-15.7%	-3.0%	6.2%	-9.1%
Total Assets	**4.5%**	**2.6%**	**3.1%**	**3.4%**	**3.4%**
Capital	0.3%	-0.1%	0.1%	0.0%	0.0%
Reserves and Surplus	4.6%	4.9%	5.5%	3.0%	4.6%
Total Equity	**4.5%**	**4.8%**	**5.4%**	**3.0%**	**4.5%**
Deposits	3.1%	4.0%	3.6%	3.8%	3.5%
Borrowings	15.7%	-17.2%	-14.7%	-32.9%	10.2%
Other Liabilities	28.1%	-14.6%	-3.2%	15.4%	-3.5%
Total Liabilities	**4.5%**	**2.4%**	**2.9%**	**3.4%**	**3.3%**
BVPS (₹)	4.2%	4.9%	5.3%	3.0%	4.5%

Ratios & Key Figures					
%	3Q24	4Q24	1Q25	2Q25	3Q25
Loans Mix, CD and CASA Ratio					
Loans Mix					
-Housing	10%	10%	10%	10%	10%
-Jewel	3%	3%	3%	4%	4%
-LAP	5%	6%	6%	6%	6%
-Vehicle loans	2%	2%	1%	1%	1%
-Consumer credit	1%	1%	1%	1%	1%
-Personal loans	1%	0%	0%	0%	0%
-Educational loans	0%	0%	0%	0%	0%
-Others	2%	2%	1%	1%	1%
Retail	24%	24%	24%	25%	25%
Commercial	34%	34%	35%	36%	36%
Agriculture	23%	23%	23%	23%	24%
Corporate	20%	19%	18%	16%	15%
CASA Ratio	32%	30%	30%	29%	28%
CD Ratio (LDR)	85%	84%	84%	84%	84%
Margins					
Reported NIM	4.32%	4.19%	4.13%	4.11%	4.03%
Calculated NIMs	4.36%	4.21%	4.19%	4.18%	4.10%
Yield on Int ear assets	9.3%	9.2%	9.3%	9.4%	9.4%
Cost of funds	5.2%	5.3%	5.4%	5.5%	5.7%
P&L Ratios					
Core fees % Non-II	17%	15%	17%	15%	15%
Non-II Ratio	26%	39%	27%	31%	30%
Staff costs % opex	55%	58%	50%	50%	51%
CTI	50%	47%	47%	47%	47%
Tax Rate	22%	20%	25%	26%	26%

Ratios & Key Figures					
%	3Q24	4Q24	1Q25	2Q25	3Q25
Capital Ratios					
Tier 1 Ratio	13.9%	15.5%	15.6%	15.4%	15.0%
Capital Adequacy Ratio (%)	15.4%	16.7%	16.5%	16.3%	15.9%
RWA % Assets	57.9%	57.9%	57.3%	56.2%	55.6%
RWA % qoq	9.6%	2.7%	2.0%	1.5%	2.4%
Asset Quality					
Gross NPA Ratio	1.6%	1.4%	1.3%	1.1%	0.8%
Net NPA Ratio	0.4%	0.4%	0.4%	0.3%	0.2%
PCR	73.5%	71.4%	71.3%	75.2%	75.9%
Slippage ratio	1.1%	1.1%	0.9%	0.9%	0.7%
Credit costs	0.8%	1.6%	0.7%	0.9%	0.7%
Returns					
ROA	1.64%	1.75%	1.71%	1.71%	1.73%
ROE	17.57%	18.60%	17.79%	17.63%	17.80%

[VII] Comps: Valuation and Asset Quality

Fig 84: Valuation Comps

Bank Name	BB Ticker	Last Price	Market Cap	P/E			P/B			ROE			ROA			Net Profit Growth		
		08-04-2025	₹ th cr	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
HDFC Bank	HDFCB	1,769.2	1,353.8	20.1x	18.1x	15.5x	2.76x	2.48x	2.21x	14.4	14.4	14.9	1.80	1.83	1.88	10.4	12.7	13.0
ICICI bank	ICICIBC	1,299.9	918.5	19.8x	18.1x	15.9x	3.33x	2.88x	2.50x	17.9	16.8	16.7	2.32	2.24	2.24	14.0	9.6	14.5
SBI	SBIN	768.6	685.9	9.7x	9.5x	8.5x	1.63x	1.43x	1.25x	17.5	15.7	15.4	1.08	1.00	1.01	15.1	2.2	11.9
Axis	AXSB	1,077.9	333.8	12.9x	11.8x	10.3x	1.90x	1.65x	1.43x	15.8	14.8	14.8	1.70	1.67	1.71	4.2	8.1	15.4
Kotak Mahindra bank	KMB	2,055.2	408.6	26.0x	26.1x	22.7x	3.58x	3.14x	2.81x	14.8	12.9	13.0	2.45	2.17	2.15	13.7	0.3	14.3
Bank of Baroda	BOB	235.8	122.0	6.4x	6.4x	5.9x	0.96x	0.86x	0.77x	15.8	14.2	13.8	1.15	1.04	1.01	6.9	1.2	9.0
Punjab National bank	PNB	96.9	111.4	6.7x	6.4x	6.0x	0.92x	0.81x	0.72x	14.1	13.2	12.5	0.98	0.93	0.93	98.1	5.3	6.8
Canara Bank	CBK	89.4	81.1	5.1x	4.9x	4.7x	0.84x	0.75x	0.67x	18.0	15.8	14.8	1.01	0.96	0.95	10.6	2.0	4.7
Union bank	UNBK	120.8	92.2	5.4x	5.6x	5.1x	0.86x	0.77x	0.69x	16.8	14.3	13.7	1.20	1.09	1.07	26.4	-1.6	7.6
IndusInd bank	IIB	679.7	52.9	9.3x	6.6x	5.4x	0.79x	0.72x	0.64x	8.7	11.3	12.4	1.05	1.35	1.42	-37.7	42.8	23.0
Indian bank	INBK	547.1	73.7	6.9x	6.6x	6.2x	1.16x	1.02x	0.91x	17.6	16.0	14.9	1.30	1.20	1.16	30.7	5.0	6.7
Yes bank	YES	17.2	53.8	22.5x	15.9x	11.9x	1.15x	1.07x	0.98x	5.0	6.9	8.9	0.50	0.67	0.83	81.3	40.4	36.3
Federal bank	FB	190.5	46.8	11.5x	10.0x	8.5x	1.42x	1.26x	1.11x	13.1	13.3	14.0	1.22	1.26	1.28	7.9	15.9	18.0
IDFC first bank	IDFCFB	57.9	42.4	25.3x	13.2x	8.6x	1.12x	1.03x	0.92x	4.8	8.1	11.3	0.51	0.83	1.05	-43.5	91.4	52.4
AU SFB	AUBANK	545.6	40.6	19.2x	15.1x	11.7x	2.43x	2.11x	1.80x	14.1	14.8	16.2	1.57	1.61	1.70	37.0	28.1	26.3
Bandhan	BANDHAN	150.0	24.2	7.8x	6.6x	5.5x	1.02x	0.89x	0.78x	13.3	14.1	14.7	1.64	1.72	1.76	41.6	17.6	15.8
Karur Vyasa Bank	**KVB**	**211.9**	**17.1**	**9.0x**	**8.3x**	**7.2x**	**1.47x**	**1.27x**	**1.10x**	**17.4**	**16.3**	**16.2**	**1.67**	**1.59**	**1.59**	**17.8**	**9.5**	**12.5**
City Union bank	CUBK	161.9	12.0	10.7x	9.7x	8.6x	1.29x	1.16x	1.03x	12.5	12.3	12.4	1.50	1.49	1.49	9.6	10.0	12.6
RBL bank	RBK	169.8	10.3	15.4x	8.1x	5.7x	0.67x	0.63x	0.57x	4.3	8.1	10.4	0.47	0.81	0.99	-41.2	87.1	40.0
Karnataka bank	KBL	180.8	6.8	5.1x	4.9x	4.0x	0.58x	0.52x	0.47x	11.8	11.1	12.0	1.15	1.10	1.16	3.4	4.1	20.4
Equitas SFB	EQUITASB	56.3	6.4	26.2x	9.0x	6.3x	1.06x	0.96x	0.86x	4.6	11.2	14.4	0.50	1.21	1.45	-66.7	169.2	41.9
Ujjivan SFB	UJJIVANS	37.5	7.3	9.4x	7.4x	5.7x	1.20x	1.05x	0.92x	13.3	15.1	17.1	1.80	2.00	2.16	-40.1	27.0	30.7
South Indian bank	SIB	23.4	6.1	4.9x	4.8x	3.7x	0.62x	0.56x	0.48x	13.4	12.3	13.9	1.00	0.97	1.15	19.9	4.5	22.7
CSB bank	CSBBANK	323.8	5.6	10.3x	8.4x	7.0x	1.31x	1.13x	0.97x	13.8	14.5	15.9	1.36	1.38	1.41	-0.7	21.8	24.9
DCB	DCBB	114.3	3.6	6.0x	5.1x	4.0x	0.67x	0.60x	0.53x	11.4	12.1	13.6	0.89	0.89	0.95	12.1	18.7	25.9

Source: Company, Bloomberg, SMIFS Research; Consensus number for forecasts including KVB

Fig 85: Asset quality ratios versus peers

Bank Name 9M25 data	BB Ticker	Mcap (₹ th cr)	GNPA Ratio	NNPA Ratio	Gross Restructured Ratio	Provisions Coverage	Slippage Ratio	Credit Costs (% Avg Loans)
IndusInd bank	IIB	52.9	2.3	0.7	0.2	70	2.1	1.73
Yes bank	YES	53.8	1.6	0.5	0.8	71	2.2	0.43
Federal bank	FB	46.8	2.0	0.5	0.7	74	0.8	0.35
IDFC first bank	IDFCFB	42.4	1.9	0.5		74	3.8	2.59
Bandhan	BANDHAN	24.2	4.7	1.3		74	3.9	2.69
Karur Vyasa Bank	**KVB**	**17.1**	**0.8**	**0.2**	**0.7**	**76**	**0.6**	**0.78**
City Union bank	CUBK	12.0	3.4	1.4	1.5	59	1.5	0.51
RBL bank	RBK	10.3	2.9	0.5	0.3	82	1.2	3.32
Karnataka bank	KBL	6.8	3.1	1.4	1.5	56	0.4	0.28
South Indian bank	SIB	6.1	4.3	1.3	0.5	72	0.4	0.47
CSB bank	CSBBANK	5.6	1.6	0.6		60	1.1	0.25
DCB	DCBB	3.6	3.1	1.2	2.1	63	3.7	0.42

Source: Company, Bloomberg, SMIFS Research; *RBL restructured ratio is net of provisions

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