

BUY

TP: Rs 362 | ▲ 15%

KARUR VYSYA BANK

| Banking

| 08 May 2026

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Return profile and AQ metrics to outperform peers

- Asset quality (AQ) remains better than peers in Q4FY26; stressed assets stay low at 0.45% of the total assets
- Return ratios improved and remained better vs peers, despite prudential provisions of Rs 1.6bn towards sectors that may get affected
- Maintain BUY with revised TP of Rs 362 (earlier Rs 306); ascribing 1.8x Mar'28E ABV (from 1.6x) vs currently trading at 1YF P/ABV of ~1.8x

AQ remains better vs peers: Karur Vysya Bank (KVB)'s asset quality (AQ) remains best-in-class, with GNPA/NNPA at 0.75%/0.19% in Q4FY26, while annualised slippages remained controlled at 0.75%. The bank maintained healthy provision buffers with PCR (ex. TWO) at 74.6%, resulting in a sequential flat NNPA ratio of 0.19%. Further, SMA 30+ improved to 0.17% in Mar'26 from 0.24% in Dec'25. Stressed assets (NNPA + standard restructured + net SRs) further declined to Rs 6.2bn (0.45% of total assets) in Mar'26 from Rs 6.5bn (0.48%) in Dec'25 — reflecting a continued improvement in the overall stress pool. Management expects both slippages and NNPA to remain below 1% in FY27.

Return ratios improved, outperforming peers: KVB reported PPop of Rs 12.5bn (+49% YoY) in Q4FY26; 21.6% above our estimates, aided by one-offs including Rs 217mn of interest on income tax refund and ~Rs 150mn pension-related opex benefit. NIMs improved to 4.25% in Q4FY26 (ex-one-offs), supported by a decline in CoF to 5.47% (-9bps QoQ) and improvement in YoA to 9.93% (+16bps QoQ). The rise in YoA mainly came on a higher share of fixed-rate/gold loans and runoff of lower-yielding corporate accounts. Management expects NIMs to moderate to 3.75–3.8% in FY27 due to higher deposit costs and pressure on lending yields amid competitive intensity and relationship retention efforts. Despite higher provisions at Rs 2.6bn (+59.6% YoY), PAT increased 41% YoY to Rs 7.2bn and was 9.8% above our estimates; largely aided by one-off gains. The increase in provisions was mainly due to prudential provisions of Rs 1.6bn in Q4FY26 towards sectors identified (textile, ceramics, fertilizers, chemicals, granite, quartz, etc) that may get affected due to ongoing geopolitical tensions. Return ratios remain better vs peers, with RoA/RoE at 2.1%/20.6%; management guided for FY27 RoA at 1.7–1.8%.

Maintain BUY: KVB's adequate capital position (Tier I of 17.7% as of Mar'26), higher credit growth vs system levels (~17% YoY) & pristine AQ - all resulted in a consistent outperformance vs peers in terms of return profile. We expect the bank to deliver RoA/ RoE of 1.9%/17.6% by FY29E. Hence, we maintain BUY and roll over the valuation to 1.8x Mar'28E ABV (from 1.6x) with revised TP of Rs 362 (earlier Rs 306) vs currently trading at 1Y forward P/ABV of ~1.8x.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KVB IN/Rs 314
Market cap	US\$ 3.2bn
Free float	98%
3M ADV	US\$ 10.9mn
52wk high/low	Rs 343/Rs 169
Promoter/FPI/DII	2%/19%/39%

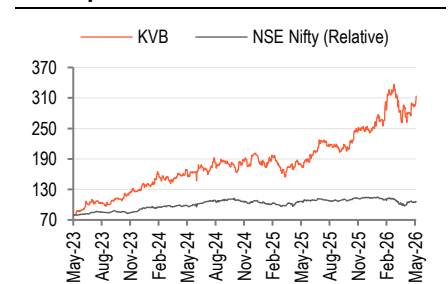
Source: NSE | Price as of 7 May 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
NII (Rs mn)	49,386	53,621	62,777
NII growth (%)	15.9	8.6	17.1
Adj. net profit (Rs mn)	25,103	26,914	31,304
EPS (Rs)	26.0	27.8	32.4
Consensus EPS (Rs)	26.0	27.5	31.5
P/E (x)	12.1	11.3	9.7
P/BV (x)	2.1	1.8	1.6
ROA (%)	2.0	1.8	1.9
ROE (%)	19.3	17.6	17.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Income Statement							
Interest Income	20,805	21,306	23,292	22,864	23,652	13.7	3.4
Income on investments	4,214	4,175	4,672	4,978	5,014	19.0	0.7
Int. on bal. with RBI & inter-bank funds & Others	141	204	116	100	371	163.4	271.2
Interest income	25,159	25,686	28,080	27,942	29,037	15.4	3.9
Interest expense	14,267	14,892	15,468	15,549	15,449	8.3	(0.6)
Net interest income	10,893	10,794	12,612	12,393	13,588	24.7	9.6
Growth YoY (%)	9.2	5.1	19.0	14.9	24.7		
Fee Income	2,640	2,510	2,530	2,660	2,800	6.1	5.3
Others	2,453	1,963	2,593	2,430	3,358	36.9	38.2
Non-interest income	5,093	4,473	5,123	5,090	6,158	20.9	21.0
Growth YoY (%)	(18.7)	15.9	8.5	8.9	20.9		
Total income	15,986	15,266	17,735	17,482	19,746	23.5	12.9
Growth YoY (%)	(1.6)	8.1	15.8	13.1	23.5		
Staff expenses	3,849	3,649	3,651	3,632	3,408	(11.5)	(6.2)
Other operating expenses	3,787	3,562	3,910	3,796	3,871	2.2	2.0
Operating expenses	7,636	7,211	7,561	7,429	7,278	(4.7)	(2.0)
Pre-Provisioning Profit (PPoP)	8,350	8,055	10,174	10,053	12,468	49.3	24.0
Growth YoY (%)	(3.7)	8.0	24.6	23.3	49.3		
Provisions	1,614	1,181	2,744	1,048	2,577	59.6	145.9
Growth YoY (%)	(45.0)	(11.1)	52.6	(28.9)	59.6		
Exceptional Item	-	-	-	-	-	-	-
PBT	6,736	6,874	7,430	9,006	9,891	46.8	9.8
Tax	1,602	1,659	1,691	2,106	2,641	64.9	25.4
PAT	5,134	5,215	5,740	6,900	7,250	41.2	5.1
Growth YoY (%)	12.6	13.7	21.2	39.1	41.2		
Per Share							
FV (Rs)	2	2	2	2	2		
EPS (Rs)	6.4	5.4	5.9	7.1	7.5	17.6	5.0
Book Value (Rs)	123.5	128.8	132.4	139.6	145.9	18.2	4.5

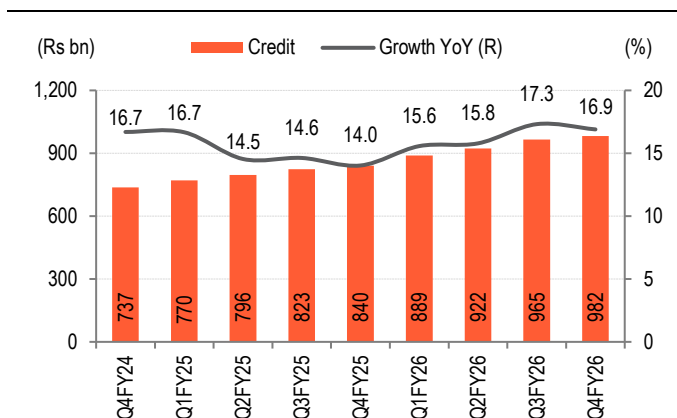
Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

Balance sheet (Rs mn)	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26	YoY (%)	QoQ (%)
Deposits	10,20,780	10,66,500	11,04,916	11,45,950	11,56,657	13.3	0.9
Growth YoY (%)	14.5	15.5	15.3	15.6	13.3		
Advances	8,40,045	8,89,440	9,21,849	9,65,420	9,81,906	16.9	1.7
Growth YoY (%)	14.0	15.6	15.8	17.3	16.9		
Investment	2,38,313	2,54,000	2,78,237	2,97,820	2,90,199	21.8	(2.6)
Equity	1,19,295	1,24,460	1,27,963	1,34,730	1,41,079	18.3	4.7
Assets	11,93,674	12,53,710	13,00,990	13,55,670	13,66,031	14.4	0.8
Growth YoY (%)	13.2	15.3	15.6	16.5	14.4		
Yield (%)							
Yield on Funds	8.82	8.66	9.06	8.68	8.80	(2bps)	12bps
Cost of Funds	5.59	5.63	5.59	5.39	5.24	(36bps)	(15bps)
Spread	3.22	3.04	3.48	3.28	3.56	34bps	28bps
Net Interest Margin	4.05	3.86	3.77	3.99	4.25	20bps	26bps
Ratios (%)							
Other Income / Net Income	31.9	29.3	28.9	29.1	31.2	(67bps)	207bps
Cost to Income ratio	47.8	47.2	42.6	42.5	36.9	(1,091bps)	(563bps)
CASA ratio	27.3	27.5	27.7	27.2	26.9	(36bps)	(32bps)
C/D ratio	82.3	83.4	83.4	84.2	84.9	260bps	65bps
Investment to Assets	20.0	20.3	21.4	22.0	21.2	128bps	(72bps)
Assets Quality							
GNPA	6,418	5,926	7,078	6,869	7,439	15.9	8.3
NNPA	1,662	1,703	1,758	1,833	1,862	12.0	1.6
Provision	4,756	4,223	5,321	5,037	5,577	17.3	10.7
GNPA (%)	0.76	0.66	0.76	0.71	0.75	(1bps)	4bps
NNPA (%)	0.20	0.19	0.19	0.19	0.19	(1bps)	0bps
Provision (%)	73.68	71.21	75.17	73.32	74.97	128bps	165bps
Others (Nos)							
Branches	888	888	895	898	901	13	3
ATMs	2,252	2,226	2,225	2,211	2,213	(39)	2

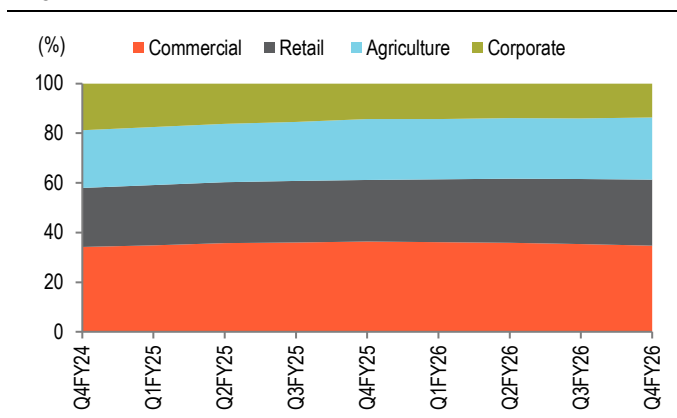
Source: Company, BOBCAPS Research

Fig 3 – Advances grew 16.9% YoY...



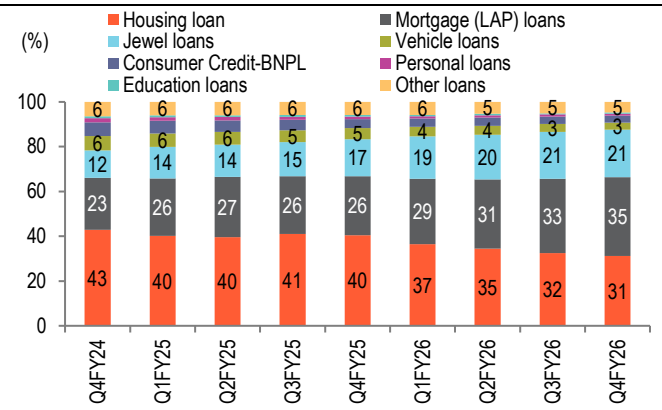
Source: Company, BOBCAPS Research

Fig 4 – ...with a focus on RAM segment that grew 18% YoY



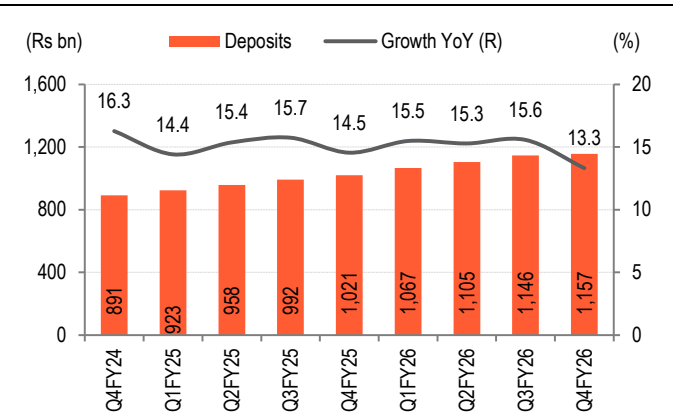
Source: Company, BOBCAPS Research

Fig 5 – Retail loan mix



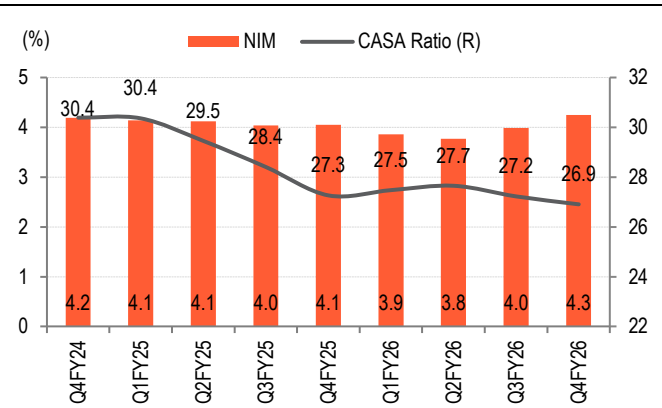
Source: Company, BOBCAPS Research

Fig 6 – Deposits grew 13.3% YoY



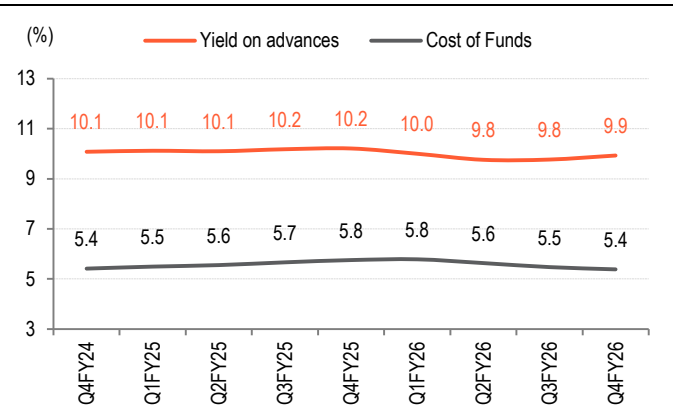
Source: Company, BOBCAPS Research

Fig 7 – NIM improved, mainly due to higher yields



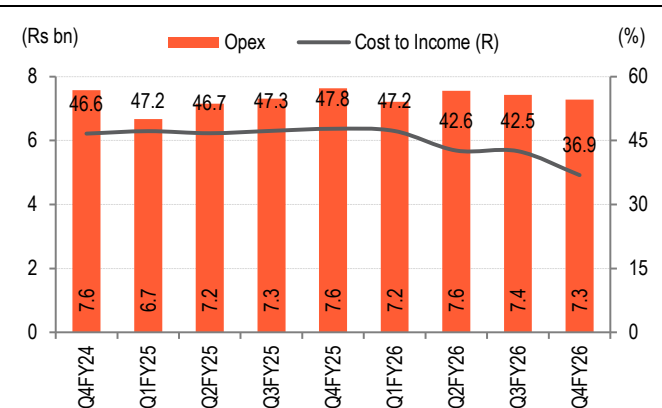
Source: Company, BOBCAPS Research

Fig 8 – COF down, mainly on deposit repricing



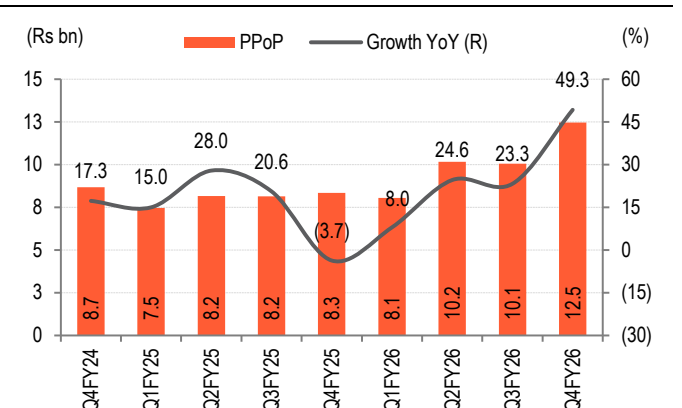
Source: Company, BOBCAPS Research

Fig 9 – Cost-to-income ratio improved



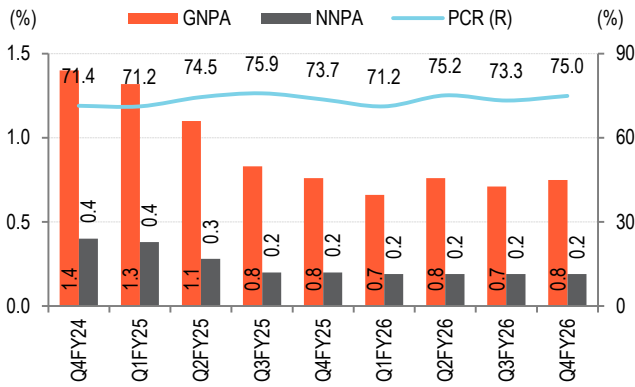
Source: Company, BOBCAPS Research

Fig 10 – PPOp grew 49.3% YoY



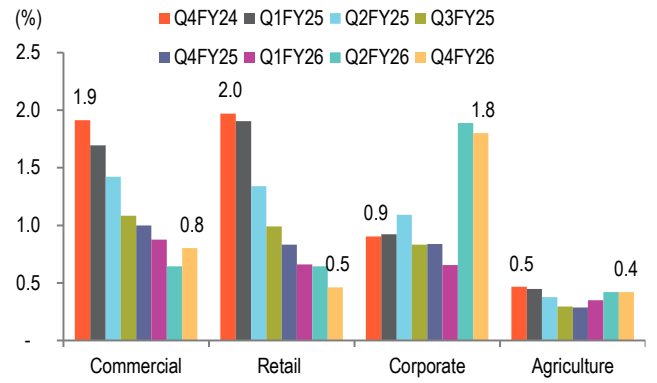
Source: Company, BOBCAPS Research

Fig 11 – AQ remains the best amongst peers



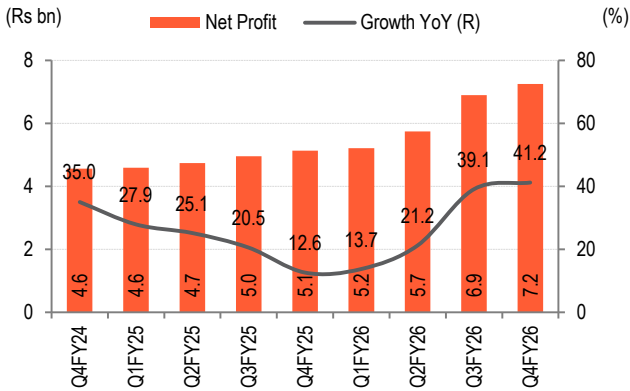
Source: Company, BOBCAPS Research

Fig 12 – GNPA trend segment-wise



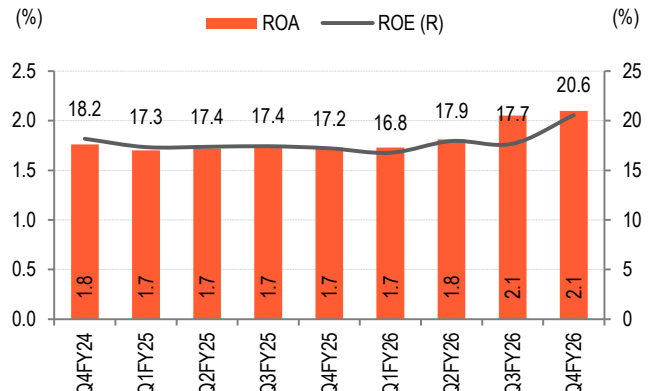
Source: Company, BOBCAPS Research

Fig 13 – Net profit came in better than our expectations...



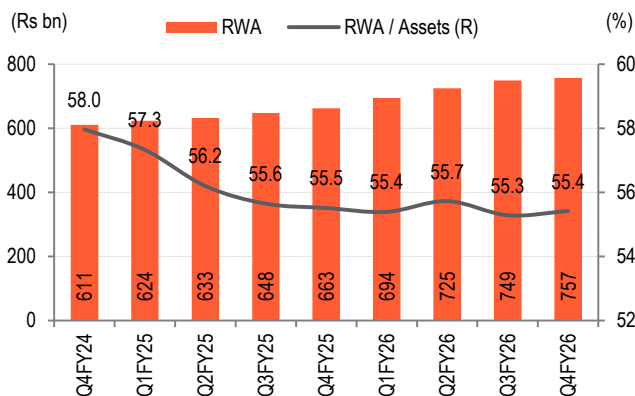
Source: Company, BOBCAPS Research

Fig 14 – ...resulting in superior return metrics



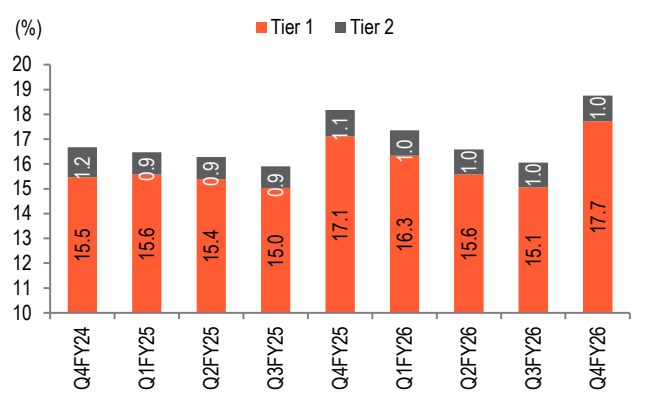
Source: Company, BOBCAPS Research

Fig 15 – RWA increases to Rs 0.76tn as of Q4FY26



Source: Company, BOBCAPS Research

Fig 16 – Adequate capital ratios



Source: Company, BOBCAPS Research

Earnings Call Highlights

- Management guided for **credit growth to be at 1–2% above the industry growth**, while maintaining a calibrated approach amid global uncertainties.
- NIMs are expected at **3.75–3.80%** for FY27, with a moderation likely due to higher retail TD rates and competitive pressure on lending yields.
- The bank targets **RoA of 1.7–1.8%**, supported by healthy growth, controlled credit costs, and operating efficiency.
- Asset quality guidance remains comfortable with **GNPA below 1.5%, NNPA below 1%, slippages below 1%, and credit cost under 1%**.
- Management expects the **cost-to-income ratio to stay less than 50%**, reflecting a continued focus on operational efficiency.
- Capital position remains strong, with management indicating **no requirement for external capital raising in FY27**.
- The bank plans on maintaining **RAM-to-corporate mix of around 80:20**, with a flexibility of ~5%, depending on the market conditions.
- Management plans **FY27 growth strategy as relationship-led and calibrated**, prioritising long-term customer retention over margin maximisation, particularly in **MSME and commercial banking**.
- The bank consciously exited select **lower-yielding corporate/commercial relationships** that did not meet internal profitability thresholds.
- Liability strategy is evolving towards a technology-led, transaction-focused franchise, with an increasing focus on merchant acquisition, institutional CASA, and LCR-driven balance sheet management vs only CD ratio optimisation.
- The bank plans to open **50 new branches**, largely front-loaded in **H1FY27**, to accelerate business sourcing and improve franchise penetration.
- Multiple product launches are planned in H1FY27, including premium credit cards, loan against mutual funds, and a dedicated NRI channel.
- The bank created **prudential provisions of Rs 1.6bn** for potentially vulnerable sectors such as **textiles, ceramics, fertilisers, chemicals, quartz, and granite** to proactively absorb any stress arising from geopolitical or macroeconomic disruptions.
- Management remains **comfortable with a higher gold loan exposure**, given the strong collateral buffers, conservative LTVs, and robust monitoring mechanisms; while maintaining an **internal portfolio cap of ~35%** to manage the concentration risk.

Valuation Methodology

KVB's adequate capital position (Tier I of 17.7% as of Mar'26), higher credit growth vs system levels (~17% YoY) as well as a pristine asset quality — all resulted in a consistent outperformance vs peers in terms of return profile. We expect the bank to deliver RoA/ RoE of 1.9%/17.6% by FY29E. Hence, we maintain BUY and roll over the valuation to 1.8x Mar'28E ABV (from 1.6x) with revised TP of Rs 362 (Rs 306 earlier) vs currently trading at 1Y forward P/ABV of ~1.8x.

Fig 17 – Actual vs Estimates

(Rs mn)	Q4FY26A	Q4FY26E	Change (%)
Loans	9,81,906	9,82,492	(0.1)
Deposits	11,56,657	11,56,660	(0.0)
Assets	13,66,031	13,85,761	(1.4)
NII	13,588	12,630	7.6
PPOP	12,468	10,250	21.6
Provisions	2,577	950	171.1
PAT	7,250	6,603	9.8

Source: Company, BOBCAPS Research

Fig 18 – Key operational assumptions

(%)	FY26A	FY27E	FY28E	FY29E
Advances Growth	16.9	16.0	17.0	17.5
Net Interest Income Growth	15.9	8.6	17.1	18.3
PPoP Growth	26.9	5.0	15.8	17.1
PAT Growth	29.3	7.2	16.3	18.1
NIM	4.0	3.7	3.8	3.9
GNPA	0.8	0.7	0.6	0.6
CAR	18.8	19.0	19.3	19.4

Source: Company, BOBCAPS Research

Fig 19 – Revised estimates

Estimates Key Parameters (Rs mn)	New		Old		Change (%)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Loan	11,39,011	13,32,643	11,59,767	13,45,329	(1.8)	(0.9)
Deposits	13,30,156	15,33,670	13,73,536	15,86,434	(3.2)	(3.3)
Assets	15,63,374	17,97,311	16,12,130	18,45,392	(3.0)	(2.6)
NII	53,621	62,777	56,895	65,469	(5.8)	(4.1)
PPOP	42,779	49,524	44,168	50,220	(3.1)	(1.4)
Provision	6,893	7,786	6,991	7,515	(1.4)	3.6
PAT	26,914	31,304	27,883	32,028	(3.5)	(2.3)
ABV (Rs)	169	198	169	198	0.1	0.1

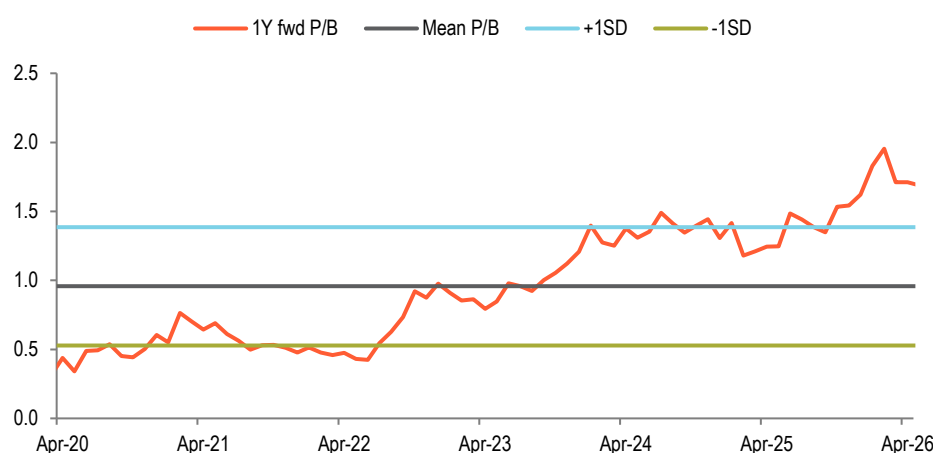
Source: Company, BOBCAPS Research

Fig 20 – Key valuation assumptions

Gordon growth model	Assumptions
Cost of equity (%)	13.1
Blended ROE (%)	16.6
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	15.0
Long-term growth (%)	4.1
Long term dividend payout ratio (%)	75.0
Justified P/BV Multiple (x)	1.8

Source: Company, BOBCAPS Research

Fig 21 – PB band chart



Source: Company, BOBCAPS Research

Key Risks

- Regional concentration and low visibility beyond South India make the bank vulnerable to any adverse changes in the local economic and political environment.
- **High share of jewel loans:** Jewel loans account for ~29.9% of gross loans, as of Mar'26. Any sharp correction in gold prices may lead to delinquency issues. However, it remains cushioned by comfortable LTV currently. Also, any regulatory changes pertaining to gold lending could impact the growth prospect of this segment.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	42,599	49,386	53,621	62,777	74,235
NilI growth (%)	11.6	15.9	8.6	17.1	18.3
Non-interest income	18,296	20,843	22,263	24,197	27,215
Total income	60,895	70,229	75,884	86,974	1,01,450
Operating expenses	28,771	29,479	33,105	37,450	43,445
PPOP	32,123	40,750	42,779	49,524	58,005
PPOP growth (%)	13.5	26.9	5.0	15.8	17.1
Provisions	6,216	7,549	6,893	7,786	8,695
PBT	25,907	33,200	35,886	41,738	49,309
Tax	6,491	8,097	8,971	10,435	12,327
Reported net profit	19,416	25,103	26,914	31,304	36,982
Adjustments	0	0	0	0	0
Adjusted net profit	19,416	25,103	26,914	31,304	36,982

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Equity capital	1,932	1,933	1,933	1,933	1,933
Reserves & surplus	1,17,363	1,39,145	1,63,368	1,91,542	2,24,826
Net worth	1,19,295	1,41,079	1,65,302	1,93,475	2,26,759
Deposits	10,20,780	11,56,657	13,30,156	15,33,670	17,71,389
Borrowings	12,170	26,226	28,848	30,002	32,102
Other liab. & provisions	41,429	42,069	39,068	40,164	60,312
Total liab. & equities	11,93,674	13,66,031	15,63,374	17,97,311	20,90,562
Cash & bank balance	78,067	53,026	68,402	75,891	82,626
Investments	2,38,313	2,90,199	3,13,454	3,43,414	3,92,274
Advances	8,40,045	9,81,906	11,39,011	13,32,643	15,65,855
Fixed & Other assets	37,249	40,900	42,507	45,362	49,805
Total assets	11,93,674	13,66,031	15,63,374	17,97,311	20,90,562
Deposit growth (%)	14.5	13.3	15.0	15.3	15.5
Advances growth (%)	14.0	16.9	16.0	17.0	17.5

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
EPS	20.1	26.0	27.8	32.4	38.3
Dividend per share	2.2	2.6	2.8	3.2	3.8
Book value per share	123.5	145.9	171.0	200.2	234.6

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
P/E	15.6	12.1	11.3	9.7	8.2
P/BV	2.5	2.1	1.8	1.6	1.3
Dividend yield (%)	0.7	0.8	0.9	1.0	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Net interest income	3.8	3.9	3.7	3.7	3.8
Non-interest income	1.6	1.6	1.5	1.4	1.4
Operating expenses	2.6	2.3	2.3	2.2	2.2
Pre-provisioning profit	2.9	3.2	2.9	2.9	3.0
Provisions	0.6	0.6	0.5	0.5	0.4
PBT	2.3	2.6	2.5	2.5	2.5
Tax	0.6	0.6	0.6	0.6	0.6
ROA	1.7	2.0	1.8	1.9	1.9
Leverage (x)	10.2	9.8	9.6	9.4	9.3
ROE	17.7	19.3	17.6	17.5	17.6

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Net interest income	11.6	15.9	8.6	17.1	18.3
Pre-provisioning profit	13.5	26.9	5.0	15.8	17.1
EPS	20.8	29.2	7.2	16.3	18.1
Profitability & Return ratios (%)					
Net interest margin	4.1	4.0	3.7	3.8	3.9
Fees / Avg. assets	21.5	22.3	22.8	23.4	23.5
Cost-Income	47.2	42.0	43.6	43.1	42.8
ROE	17.7	19.3	17.6	17.5	17.6
ROA	1.7	2.0	1.8	1.9	1.9
Asset quality (%)					
GNPA	0.8	0.8	0.7	0.6	0.6
NNPA	0.2	0.2	0.2	0.1	0.1
Slippage ratio	0.7	1.0	0.8	0.8	0.7
Credit cost	0.8	0.8	0.7	0.6	0.6
Provision coverage	74.0	74.8	75.9	76.4	76.9
Ratios (%)					
Credit-Deposit	82.3	84.9	85.6	86.9	88.4
Investment-Deposit	23.3	25.1	23.6	22.4	22.1
CAR	18.2	18.8	19.0	19.3	19.4
Tier-1	17.1	17.7	18.1	18.6	18.7

Source: Company, BOBCAPS Research

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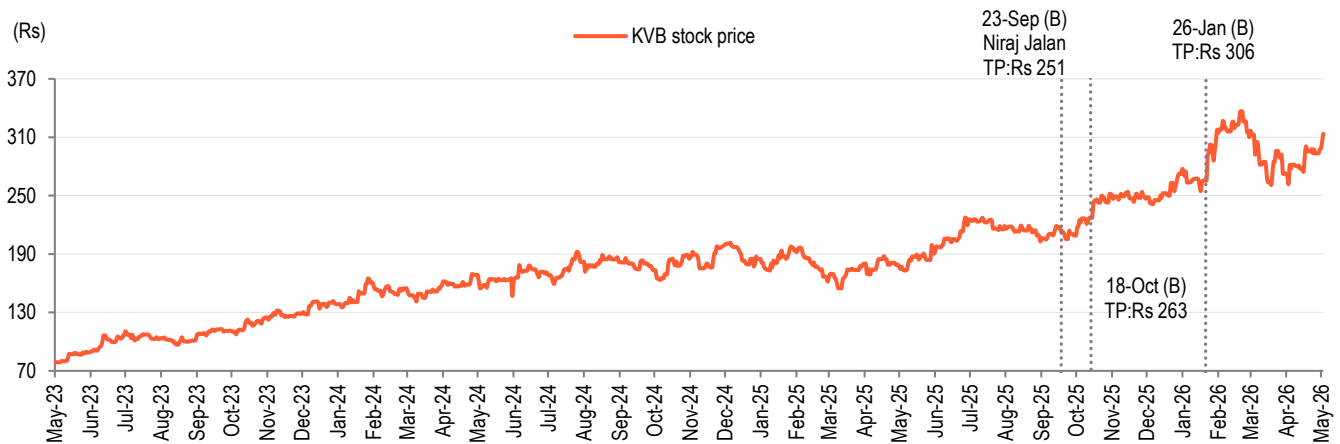
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- BUY** – Expected return >+15%
- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KARUR VYSYA BANK (KVB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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