RESEARCH

[INITIATION] KARUR VYSYA BANK | TARGET: Rs 251 | +18% | BUY

Outperforming peers with robust AQ and return ratios

SUMMARY

[INITIATION] KARUR VYSYA BANK

- AQ metrics remain pristine with low stress pipeline and nominal exposure at impact (EAI), due to high U.S. tariffs imposition
- KVB's return ratios to stay better vs peers, supported by higher than system loan growth, recovery from TWO accounts and low credit costs
- Initiate coverage on KVB with a BUY and TP of Rs 251 (1.5x Jun'27E ABV)

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TP: Rs 251 | ⮝ 18%

KARUR VYSYA BANK | Banking | 23 September 2025

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AQ metrics remain pristine with low stress pipeline and nominal EAI: KVB's GNPA improved to 0.66% (Q1FY26) from a high of 7.8% (FY21) and was better than peers. Previously, AQ was adversely impacted, mainly due to weak GNPA ratio in the corporate segment (17.1% in FY21), impacted by consortium-based lending. However, the bank's focus on a) sole banking arrangements b) strategy to reduce corporate exposure (14% as of Jun'25 from 37% as of Mar'15) c) lending to better credit profile corporates (BB and below exposures fall to 31% in Q1FY26 vs 55% in FY21) d) low share of unsecured (2.1% of net loans in FY25), resulted in the lowest slippages among peers (<90bps in FY23-25). Further, KVB's stressed assets as % of CET I improved to 8.9% (Q1FY26) vs high of 50.3% (FY21), indicating receding AQ stress. KVB's EAI related to the imposition of U.S. tariffs was low at 1.2% of gross loans (Jun'25). Of which, borrower companies with U.S. export >60% of annual turnover was nominal at 0.56% of gross loans. We expect bank's AQ to fare better vs peers, given the low-stress pipeline and nominal EAI related to US exports.

Return ratios to stay better vs peers: KVB's return ratios remain best among peers with RoA/RoE of 1.7%/17.7% in FY25. We expect the bank's NIMs to face pressure in FY26 amid rate cut cycle, which is likely to be partially offset by recovery from TWO accounts (RTWO) (Rs 7.3bn or ~23% of PPoP in FY25). We expect RTWO to persist and account for 0.3-0.4% of RoA in the next couple of years, given KVB's high share of TWO balance (Rs 45.6bn as of Mar'25) and relatively low recovery rate (~15% of opening TWO in FY25) vs peers. Also, credit cost (0.8% in FY25) is likely to remain benign due to its low stress pipeline. Hence, KVB's return profile is expected to outperform peers in the medium term.

Initiate with a BUY and TP of Rs 251: KVB's adequate capital position (CET I of 16.3% as of Jun'25), higher than system credit growth, pristine AQ resulted in the bank consistently outperforming peers in terms of return profile. We expect the bank to deliver healthy return ratios with RoA/ RoE of 1.7%/ 16.2% by FY28E. Initiate coverage with a BUY and TP of Rs 251 (1.5x Jun'27E ABV) vs currently trading at 1.3x Jun'27E ABV.

Ticker/Price	KVB IN/Rs 213
Market cap	US$ 2.3bn
Free float	98%
3M ADV	US$ 5.3mn
52wk high/low	Rs 230/Rs 154
Promoter/FPI/DII	2%/15%/39%

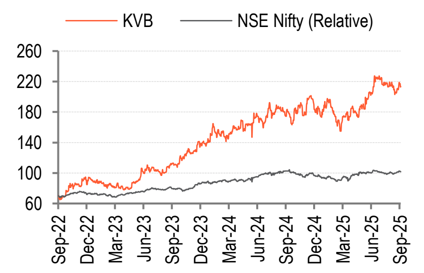
Source: NSE | Price as of 23 Sep 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NII (Rs mn)	42,599	45,328	52,207
NII growth (%)	11.6	6.4	15.2
Adj. net profit (Rs mn)	19,416	20,507	23,769
EPS (Rs)	20.1	21.2	24.6
Consensus EPS (Rs)	20.1	21.1	24.3
P/E (x)	10.6	10.1	8.7
P/BV (x)	1.7	1.5	1.3
ROA (%)	1.7	1.6	1.6
ROE (%)	17.7	16.0	16.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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