

September 20, 2024

INITIATING COVERAGE | Sector: Banks

Karur Vysya Bank

One of the few mid and smallcap banks worth owning

We initiate coverage on Karur Vysya Bank (KVB) with BUY rating on account of the following key reasons: (1) KVB has a healthy sustainable margin profile, being underpinned by a strong liability franchise, typified by industry-low SA card rates (2) KVB has effected a growth turnaround through digital under-writing (3) Credit cost outlook seems reasonably comforting and asset quality volatility is a thing of the past. We initiate coverage on KVB with BUY rating and a price target of Rs 260. This report also contains a detailed comparison of 11 mid and smallcap private sector banks.

KVB has a healthy sustainable margin profile, being underpinned by a strong liability franchise, typified by industry-low SA card rates

For KVB, the SA rate for balances upto Rs 5 lac (1 lac = 0.1mn) is 2.25% and for balances between Rs 5-10 lacs is 2.5%. These represent the very lowest SA card rates for balances just below Rs 0.5mn and Rs 1mn, respectively, in our comparison universe. We think that, for a bank like KVB, which does not have a premium SA rate strategy, most of the SA deposits would be concentrated below Rs 1 mn, which, in a sense, is the secret sauce for KVB's relatively low cost of deposits. We note that headline CASA ratio and share of retail deposits are only one dimension of the liability puzzle and being able to attract deposits at low card rates is also a very important indicator of franchise strength, which KVB evidently possesses. As a result, KVB's cost of deposits is 5.5% as of 1QFY25, which is the third lowest in our comparison universe for mid and smallcap banks. As a result, KVB has a healthy margin profile, which is sustainable since it is borne out of liability strength rather than a high yield portfolio.

KVB has effected a growth turnaround through digital under-writing

The adoption of digital under-writing by KVB has had the dual impact of improving risk management as well aiding lending throughput. As on today, most of the KVB loan book is executed via digital under-writing. The digital transformation journey, overseen by consulting firm BCG, began in earnest after FY20 and every segment other than corporate loans, i.e. 82% of total loan book, is now under digital under-writing process. The digital process essentially entails scorecard-based under-writing which does away with the subjective influence of the branch manager. Thus, it allows the bank to focus on and onboard quality proposals. For the new book onboarded via digital under-writing post 2020, stress levels are low at ~50 bps. Furthermore, loan growth had never gone beyond 9.5% over FY15-22 but has improved to 15.5/16.7% over FY23/24.

Credit cost outlook seems reasonably comforting and asset quality volatility is a thing of the past

There is nothing worrying on the horizon for KVB in terms of incipient stress as reflected in SMA figures. SMA1 and SMA2, taken together, have declined from 90 bps of advances to 43 bps over the past 12 months. The bank has no longer been willing to take on project lending risk as it did in the past, which is reflected in the share of corporate loans declining from 36.5% in FY15 to 18.7% as of FY24. Apart from pivoting away corporate lending in general, KVB has also decided to stay away from consortium lending, while focusing on sole-banking arrangements. The share of BB and below corporate loans in total loan book was as much as 12.9% as of March 2021 but this has declined to 5.1% as of March 2024. KVB has upfronted provisions and has a provision coverage ratio of 94.9% as of June 2024, which is the very highest in our comparison universe.

We initiate coverage on KVB with BUY rating and a price target of Rs 260

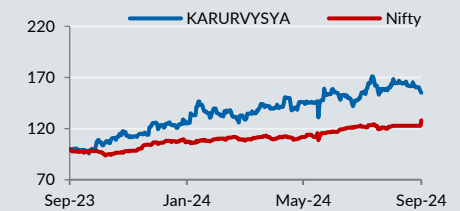
We value KVB at 1.5x FY26E P/BV for an FY25E/26E/27E RoE profile of 16.4/16.8/16.9%. We place KVB at no. 6 in our pecking order of 15 banks. It is our second most preferred private sector mid and smallcap bank pick behind FED. This report also contains a detailed comparison of 11 mid and smallcap private sector banks.

Recommendation	: BUY
CMP	: Rs 210
Target Price	: Rs 260
Potential Return	: +24%

Stock data (as on September 20, 2024)

Nifty	25,819
52 Week h/l (Rs)	233 / 128
Market cap (Rs/USD mn)	170123 / 2037
Outstanding Shares (mn)	805
6m Avg t/o (Rs mn):	482
Div yield (%):	1.1
Bloomberg code:	KVB IN
NSE code:	KARURVYSYA

Stock performance



	1M	3M	1Y
Absolute return	-4.5%	-0.8%	57.6%

Shareholding pattern (As of Jun'24 end)

Promoter	2.2%
FII+DII	50.8%
Others	47.1%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
NII	42,859	49,790	57,153
PPOP	30,831	36,722	43,000
Net Profit	17,808	21,142	24,947
Growth (%)	11.0	18.7	18.0
EPS (Rs)	22.1	26.3	31.0
BVPS (Rs)	145	169	198
P/E (x)	9.5	8.0	6.8
P/BV (x)	1.5	1.2	1.1
ROE (%)	16.4	16.8	16.9
ROA (%)	1.6	1.6	1.7
Tier-1 (%)	15.2	15.1	14.8

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N.B. Comparative charts compare the FY21, FY22, FY23, FY24 and 1QFY25 metrics for our comparison universe of 11 Mid and Smallcap Private Sector banks

VALUATION TABLES

Exhibit 1: Valuation Table – Coverage Banks (Listed in the order of investment preference)

COMPANY	Rating	CMP	TP	Upside	EPS (Rs)			P/E (x)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bank of Baroda	BUY	236	340	44	34.4	35.9	42.3	6.3	6.0	5.1
Indian Bank	BUY	510	700	37	59.9	72.3	84.7	8.5	7.0	6.0
State Bank of India	BUY	782	1030	32	68.4	74.0	88.2	7.3	6.7	5.6
Federal Bank	BUY	185	240	30	15.3	18.0	22.1	11.2	9.5	7.8
Axis Bank	BUY	1245	1575	27	80.5	87.4	105.2	13.5	12.4	10.3
Karur Vysya Bank	BUY	210	260	24	20.0	22.1	26.3	10.5	9.5	8.0
ICICI Bank	BUY	1338	1650	23	58.2	63.8	70.0	19.0	17.4	15.8
City Union Bank	BUY	168	205	22	13.7	13.7	15.5	12.2	12.3	10.9
CSB Bank	BUY	324	390	20	32.7	33.9	40.1	9.9	9.6	8.1
Kotak M. Bank	ADD	1905	2225	17	69.3	68.9	81.4	17.4	17.5	14.8
Indusind Bank	ADD	1480	1725	17	115.0	127.1	149.0	12.9	11.6	9.9
RBL Bank	ADD	213	248	16	19.3	24.7	30.2	11.0	8.6	7.1
HDFC Bank	ADD	1741	2025	16	80.0	89.1	110.5	19.1	17.1	13.8
DCB Bank	ADD	120	138	15	17.1	20.2	24.2	7.0	5.9	4.9
IDFC First Bank	ADD	73	84	15	4.2	5.2	7.2	17.4	14.0	10.1

COMPANY	BVPS (Rs)			P/ BV (x)			ROE (%)			ROA (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Bank of Baroda	217	246	281	1.0	0.9	0.8	16.9	15.8	16.0	1.2	1.2	1.2
Indian Bank	433	491	559	1.2	1.0	0.9	15.2	15.6	16.1	1.1	1.2	1.2
State Bank of India	423	499	574	1.2	1.0	0.9	17.3	16.4	16.4	1.0	1.1	1.1
Federal Bank	119	136	157	1.4	1.3	1.1	14.7	14.1	15.0	1.3	1.3	1.4
Axis Bank	489	607	711	2.2	1.8	1.5	18.0	16.2	16.0	1.8	1.8	1.9
Karur Vysya Bank	125	145	169	1.7	1.5	1.2	17.2	16.4	16.8	1.6	1.6	1.6
ICICI Bank	339	393	453	3.3	2.8	2.4	18.6	17.4	16.5	2.4	2.3	2.2
City Union Bank	113	126	141	1.5	1.3	1.2	12.8	11.4	11.6	1.5	1.4	1.4
CSB Bank	219	253	293	1.5	1.3	1.1	16.2	14.4	14.7	1.7	1.5	1.5
Kotak M. Bank	487	555	635	2.5	2.2	1.9	15.3	13.2	13.7	2.5	2.1	2.1
Indusind Bank	807	917	1,050	1.8	1.6	1.4	15.2	14.7	15.2	1.8	1.8	1.7
RBL Bank	245	266	293	0.9	0.8	0.7	8.2	9.7	11.1	0.9	1.0	1.1
HDFC Bank	580	651	740	2.6	2.3	2.1	15.6	14.5	15.9	1.9	1.7	1.9
DCB Bank	162	180	202	0.7	0.7	0.6	11.1	11.8	12.6	0.9	0.9	0.9
IDFC First Bank	45	50	56	1.6	1.5	1.3	10.2	10.9	13.6	1.1	1.1	1.3

Source: Companies, YES Sec – Research; Valuations are the implied valuations of standalone entity net of subsidiaries

Exhibit 2: Valuation Table – Mid and Smallcap banks (The 7 coverage banks are in order of investment preference)

COMPANY	Rating	CMP	TP	Upside	EPS (Rs)			P/E (x)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E
Federal Bank	BUY	185	240	30	15.3	18.0	22.1	11.2	9.5	7.8
Karur Vysya Bank	BUY	210	260	24	20.0	22.1	26.3	10.5	9.5	8.0
City Union Bank	BUY	168	205	22	13.7	13.7	15.5	12.2	12.3	10.9
CSB Bank	BUY	324	390	20	32.7	33.9	40.1	9.9	9.6	8.1
RBL Bank	ADD	213	248	16	19.3	24.7	30.2	11.0	8.6	7.1
DCB Bank	ADD	120	138	15	17.1	20.2	24.2	7.0	5.9	4.9
IDFC First Bank	ADD	73	84	15	4.2	5.2	7.2	17.4	14.0	10.1
J&K Bank	NA	105	NA	NA	16.8	15.1	17.0	6.3	7.0	6.2
Karnataka Bank	NA	233	NA	NA	39.8	35.7	35.3	5.9	6.5	6.6
South Indian Bank	NA	25	NA	NA	5.1	4.1	4.9	4.8	6.0	5.0
TMB	NA	482	NA	NA	67.7	NA	NA	7.1	NA	NA

COMPANY	BVPS (Rs)			P/ BV (x)			ROE (%)			ROA (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Federal Bank	119	136	157	1.4	1.3	1.1	14.7	14.1	15.0	1.3	1.3	1.4
Karur Vysya Bank	125	145	169	1.7	1.5	1.2	17.2	16.4	16.8	1.6	1.6	1.6
City Union Bank	113	126	141	1.5	1.3	1.2	12.8	11.4	11.6	1.5	1.4	1.4
CSB Bank	219	253	293	1.5	1.3	1.1	16.2	14.4	14.7	1.7	1.5	1.5
RBL Bank	245	266	293	0.9	0.8	0.7	8.2	9.7	11.1	0.9	1.0	1.1
DCB Bank	162	180	202	0.7	0.7	0.6	11.1	11.8	12.6	0.9	0.9	0.9
IDFC First Bank	45	50	56	1.6	1.5	1.3	10.2	10.9	13.6	1.1	1.1	1.3
J&K Bank	111	125	140	1.0	0.8	0.8	18.0	12.8	12.9	1.2	1.0	1.0
Karnataka Bank	287	317	325	0.8	0.7	0.7	13.7	11.4	11.4	1.2	1.1	1.0
South Indian Bank	33	37	41	0.7	0.7	0.6	12.1	11.8	12.6	0.9	0.9	1.0
TMB	500	NA	NA	1.0	NA	NA	14.4	NA	NA	1.8	NA	NA

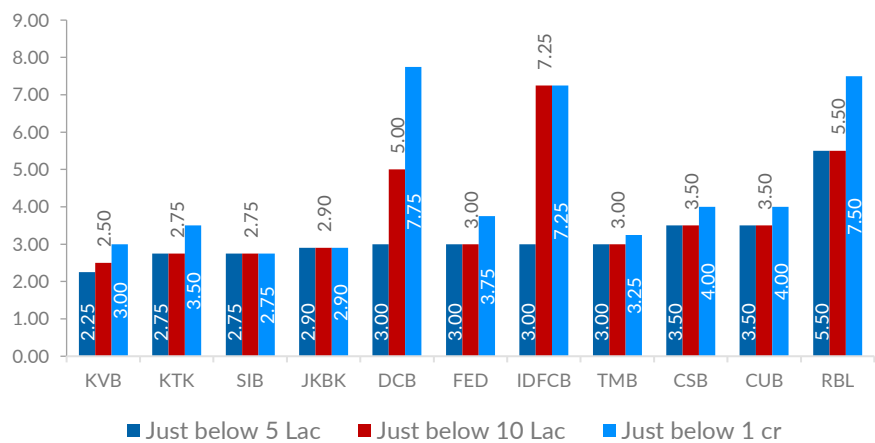
Source: Companies, YES Sec – Research; N.B. FED valuation is the implied valuations of standalone entity net of subsidiaries; Non-coverage banks are in alphabetical order. Source for Non-coverage companies is Bloomberg.

KVB has healthy sustainable margin profile, being underpinned by a strong liability franchise, typified by industry-low SA card rates

We note that the key differentiating factor for KVB is its SA card rates at key thresholds, which are the lowest in our comparison universe

For KVB, the SA rate for balances upto Rs 5 lac (1 lac = 0.1mn) is 2.25% and for balances between Rs 5-10 lacs is 2.5%. These represent the very lowest SA card rates for balances just below Rs 0.5mn and Rs 1mn, respectively, in our comparison universe. We think that, for a bank like KVB, which does not have a premium SA rate strategy, most of the SA deposits would be concentrated below Rs 1 mn, which, in a sense, is the secret sauce for KVB’s relatively low cost of deposits. We note that CASA ratio and share of retail deposits are only one dimension of the liability puzzle and being able to attract deposits at low card rates is also a very important indicator of franchise strength, which KVB evidently possesses.

Exhibit 3: Bank-wise Saving Deposit Rates – %

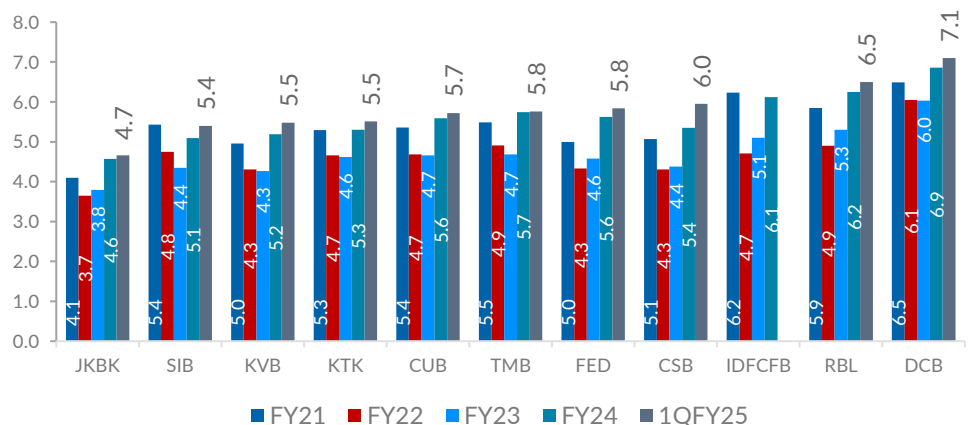


Source: Companies, YES Sec – Research, Sorted on Just below 5 Lac. 1 Lac is equal to 0.1mn

Low SA rates are the key reason for KVB’s low cost of deposits, which in turn leads to sustainably healthy net interest margin

The cost of deposits was 5.5% in 1QFY25 which is the third lowest in our comparison universe and indicative of a healthy liability profile. KVB has a healthy margin profile which is sustainable since it is borne out of liability strength rather than a high yield portfolio, which would make the business model cyclical in nature.

Exhibit 4: Cost of Deposits- FY21 - FY24, 1QFY25 - %



Source: Companies, YES Sec – Research, Sorted on 1QFY25

Exhibit 5: Detailed slab-wise Savings Account Interest Rates offered by KVB and key peers – Recent card rates

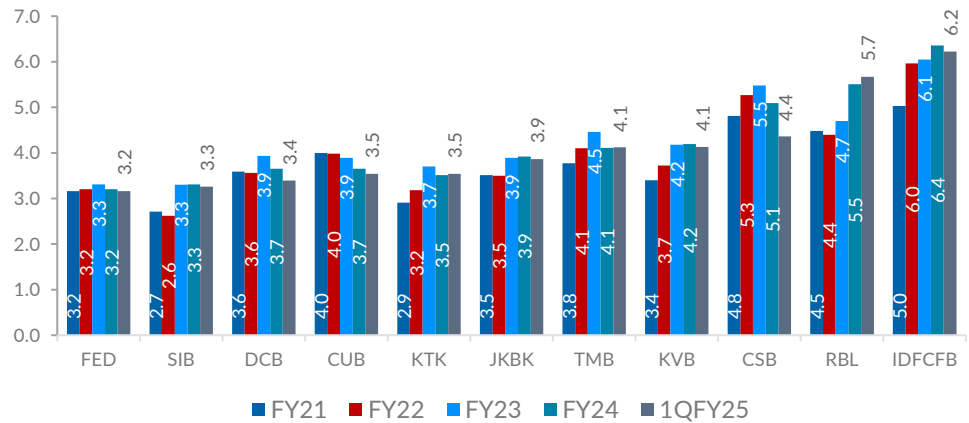
Karur Vyasa Bank		CSB Bank		RBL Bank		DCB Bank	
INR	% p.a.	INR	% p.a.	INR	% p.a.	INR	% p.a.
<5 Lac	2.25%	<= 1 Lac	2.10%	<= 1 Lac	3.75%	<= 1 Lac	1.75%
>=5 Lac <10 Lac	2.50%	>1 Lac <=25 Lac	2.75%	>1 Lac <=10 Lac	5.50%	>1 Lac <5 Lac	3.00%
>=10 Lac <1 Cr	3.00%	>25 Lac <=50 Lac	3.50%	>10 Lac <=25 Lac	6.00%	>=5 Lac <10 Lac	5.00%
>=1 Cr <100 Cr	3.25%	>50 Lac <=1Cr	4.00%	>25 Lac <=2 Cr	7.50%	>=10 Lac <25 Lac	7.65%
>=100 Cr <150 Cr	6.80%	>1 Cr <=2Cr	4.25%	>2 Cr <=3 Cr	7.50%	>=25 lac <1 Cr	7.75%
>=150 Cr	6.80%	>2 Cr <=5Cr	4.50%	>3 Cr <=7.5 Cr	6.50%	>=1 Cr <3 Cr	8.00%
		>5 Cr <=25Cr	5.00%	>7.5 Cr <=25 Cr	6.25%	>=3 Cr <10 Cr	7.25%
		>25 Cr <=50Cr	5.50%	>25 Cr <=50 Cr	6.25%	>=10 Cr <25 Cr	7.00%
		>50 Cr <=110Cr	6.00%	>50 Cr <=75 Cr	5.25%	>=25 Cr <300 Cr	8.00%
		>110 Cr <=200Cr	7.75%	>75 Cr <=100 Cr	7.75%		
		>200 Cr	7.85%	>100 Cr <=125 Cr	7.75%		
Jammu Kashmir Bank		Tamilnad Mercantile Bank		Karnataka Bank		City Union Bank	
INR	% p.a.	INR	% p.a.	INR	% p.a.	INR	% p.a.
Any Amount	2.90%	<= 10 Lac	3.00%	<= 1 Lac	2.75%	< 1 Lac	3.00%
		>10 Lac	3.25%	>1 Lac <=10 Lac	2.75%	>=1 Lac <10 Lac	3.50%
				>10 Lac <=50 Lac	2.75%	>=10 Lac <5 Cr	4.00%
				>50 Lac <=1Cr	3.50%	>= 50 Cr	5.00%
				>1 Cr	4.50%		
IDFC First Bank		Federal Bank		South Indian Bank			
INR	% p.a.	INR	% p.a.	INR	% p.a.		
<= 5 Lac	3.00%	<=1 Lac	3.00%	<= 2 Lac	2.50%		
> 5 Lac <= 50Cr	7.25%	>= 1 Lac <50 Lac	3.00%	>2 Lac <5 Cr	2.75%		
>50 Cr <= 100 Cr	5.00%	>=50 Lac <2 Cr	3.75%	>=5 Cr <25Cr	4.50%		
>100 Cr <= 200 Cr	4.50%	>=2 Cr < 5 Cr	4.00%	>=25 Cr	6.00%		
> 200 Cr	3.50%	>= 5 Cr <50 Cr	5.50%				
		>= 50 Cr <150 Cr	7.10%				
		>=150 Cr	5.75%				

Source: Companies, Yes Sec-Research; 1 lac = 0,1mn, 1 cr = 10m

KVB has the fourth best net interest margin in our 11-bank comparison universe of mid and smallcap banks

KVB's net interest margin in 1QFY25 stood at 4.1%, which is the fourth highest in our comparison universe. It may be noted that IDFCB and RBL have achieved better margin but through high share of risky segments. CSB has done it through high share of gold loans.

Exhibit 6: NIM - FY21 - FY24, 1QFY25 - %

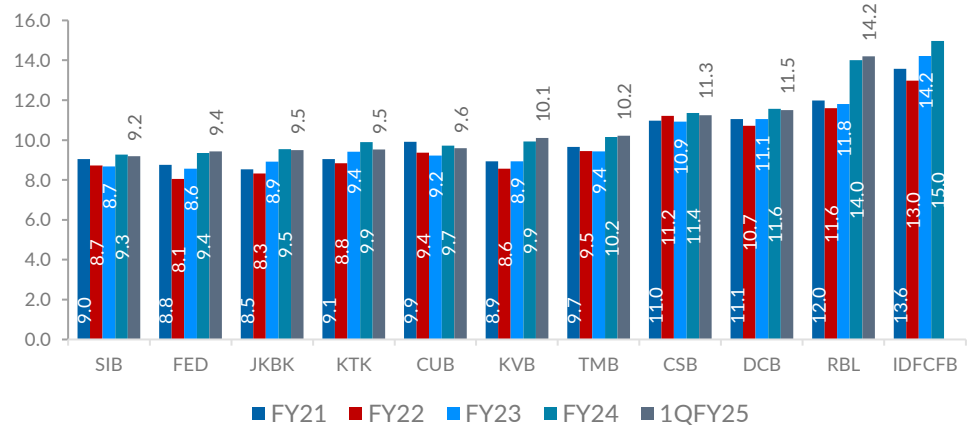


Source: Companies, YES Sec - Research, Sorted on 1QFY25

The healthy margin level has been achieved without dependence on any high yield portfolio

KVB's yield on advances stood at 10.1% in 1QFY25, which is right in the middle of the yield league table.

Exhibit 7: Yield on Advances - FY21 - FY24, 1QFY25 - %



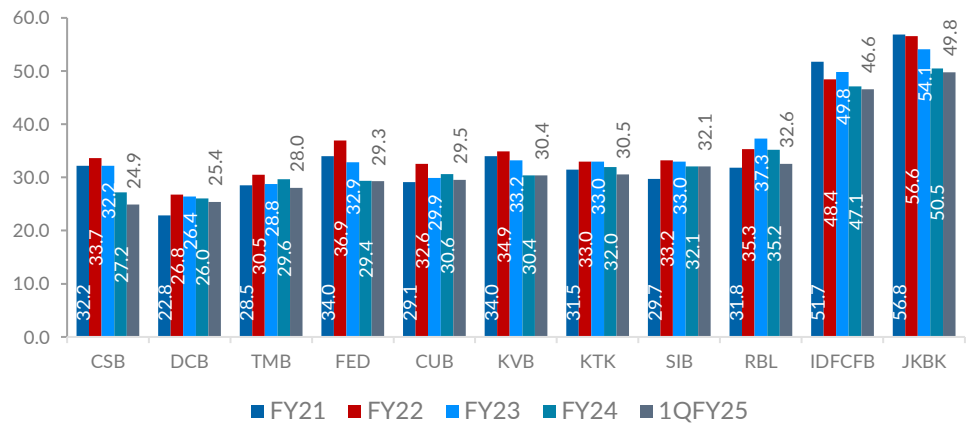
Source: Companies, YES Sec - Research, Sorted on 1QFY25

KVB's cost of deposits advantage is not necessarily coming from a high share of CASA or retail deposits but via lower SA card rates

The CASA ratio for KVB is the 6th best among 11 banks in our comparison universe

The CASA ratio for KVB stands at 30.4%, which is a middling number and not the most important reason behind healthy cost of deposits.

Exhibit 8: CASA Ratio - FY21 - FY24, 1QFY25 - %

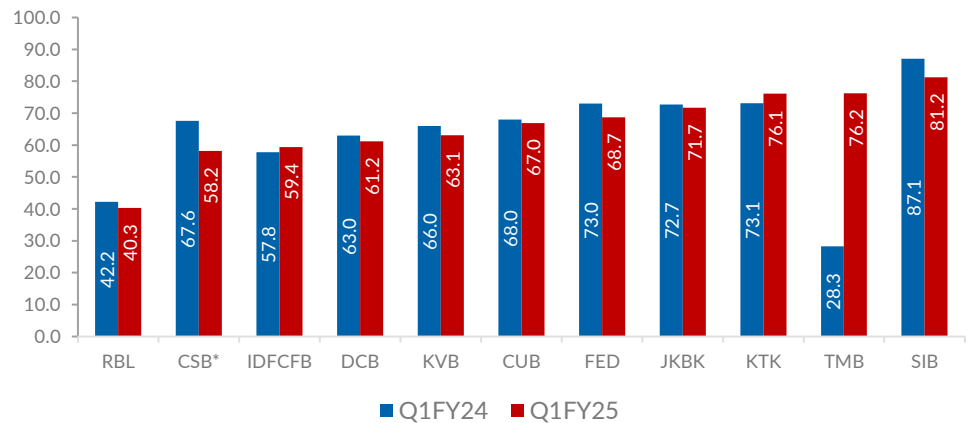


Source: Companies, YES Sec – Research, Sorted on 1QFY25

Share of retail deposits as per LCR definition is also not an advantage for the bank

Share of LCR retail deposits stood at 63.1% as of June 2024, which places KVB in 7th position among 11 banks in our comparison universe.

Exhibit 9: Share of LCR retail deposits in total deposits - 1QFY24, 1QFY25 - %

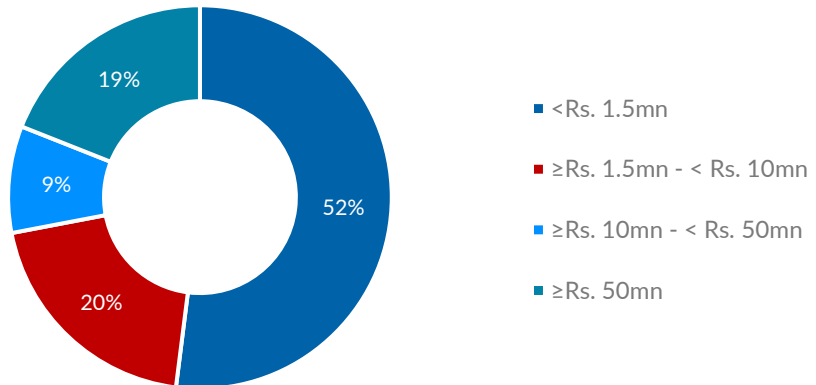


Source: Companies, YES Sec – Research, Sorted on 1QFY25

A breakup of term deposits also demonstrates that the share of high-value deposits is somewhat on the higher side

Share of term deposits with ticket size greater than Rs 50mn is 19% in total term deposits book. The share of deposits ranging between Rs 10-50mn is 9%, implying the share of deposits above Rs 10mn is 28%.

Exhibit 10: Term Deposits* Break-up – KVB - Jun'24 - %

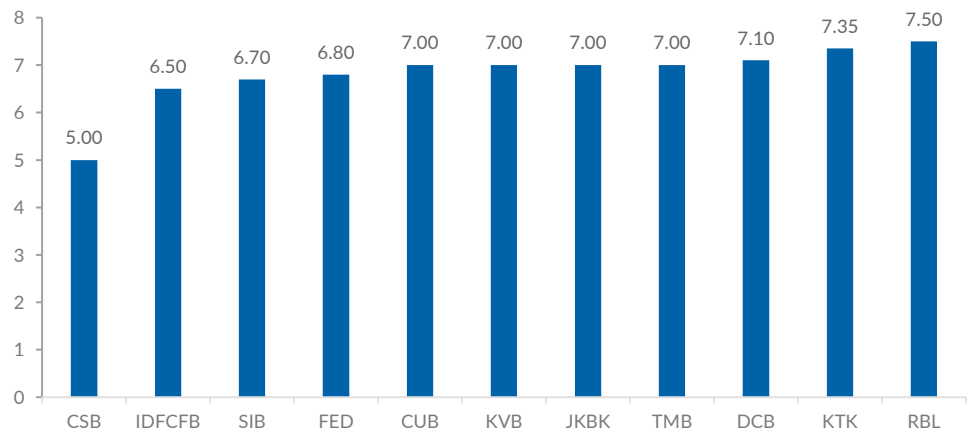


Source: Companies, YES Sec – Research, * Term Deposit does not include Term Deposit by Banks, FCNR and Certificate of Deposit

The card rate of the 1-year term deposit of KVB is 7%, which is mid-range and also not quite the differentiating factor

4 mid and smallcap banks share a 1-year term deposit card rate of 7%, with 3 banks higher and 4 banks at lower rate levels.

Exhibit 11: Bank-wise 365 days Term Deposit Rates – %



Source: Companies, YES Sec – Research

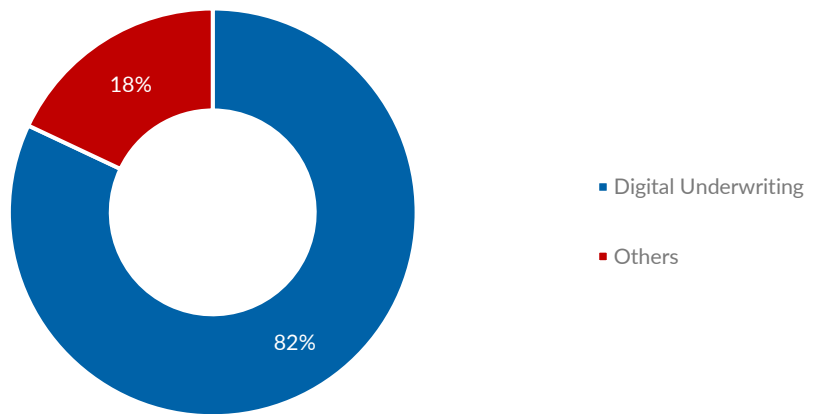
KVB has effected a growth turnaround through digital under-writing

The adoption of digital under-writing has had the dual impact of improving risk management as well aiding lending throughput

As on today, most of the KVB loan book is executed via digital under-writing

The digital transformation journey, overseen by consulting firm BCG, began in earnest after FY20 and every segment other than corporate loans is under digital under-writing process.

Exhibit 12: Share of Digital Underwriting in total loan book- %



Source: Company, YES Sec – Research

Digital under-writing does away with subjectivity and allows KVB to focus on quality proposals

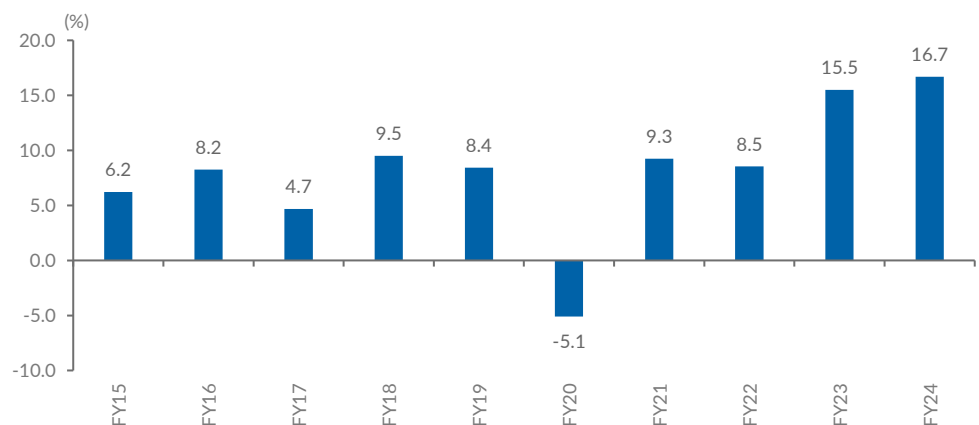
Digital under-writing essentially entails scorecard-based under-writing which does away with the subjective influence of the branch manager. Thus, it allows the bank to focus on and onboard quality proposals.

Digital under-writing uses various digital input, which has helped create a high-quality book with low stress levels

Digital under-writing is carried out based on digital input such as GST data and income tax returns. For spread analysis, KVB has a tie-up with Perfios. For the new book onboarded via digital under-writing post 2020, stress levels are low at ~50 bps..

Owing to digital under-writing, loan growth for KVB has improved materially

Exhibit 13: Advances Growth YoY – FY15-FY24 - %



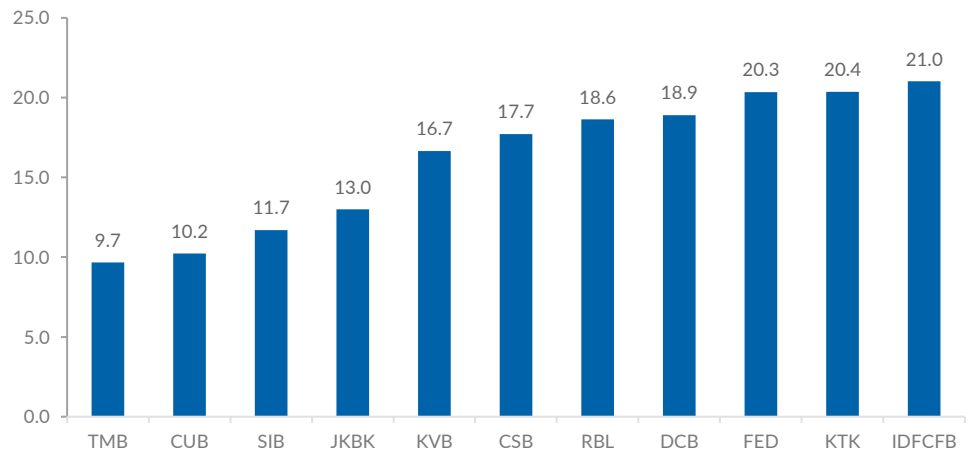
Source: Company, YES Sec – Research

Some other mid and smallcap banks have also been able to grow well recently but KVB's growth pattern has been more consistent

As of June 2024, 6 other mid and smallcap banks have been able to grow faster YoY than KVB

KVB has grown 16.7% YoY as of June 2024, which places it at 7th among our comparison universe of mid and smallcap banks.

Exhibit 14: Recent loan Book Growth – 1QFY24 to 1QFY25 - %

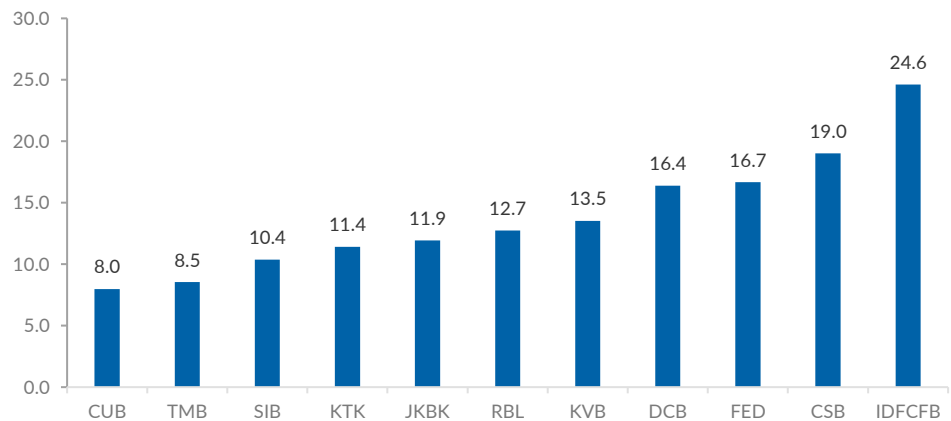


Source: Companies, YES Sec – Research

However, in terms of 3-year CAGR, KVB's position is better and stands 5th in our comparison universe of 11 mid and smallcap banks

KVB had a slow FY21 at 8.5% YoY but has since had 2 years of consistently healthy growth of 15.5% and 16.7%, respectively. It seems that KVB has turned a corner on a consistent basis.

Exhibit 15: Loan Growth – FY21-24 CAGR - %



Source: Companies, YES Sec – Research

KVB is guiding for a reasonable growth outcome in FY25, which will earmark it as a consistent bank in terms of growth

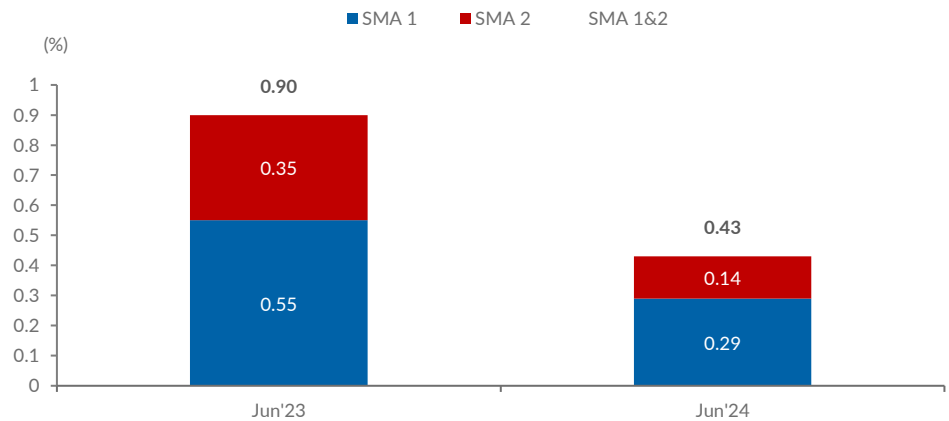
KVB is guiding for 14% loan growth in FY25, which is a sort of minimum they are looking at. It may be noted that, for FY24, they had also guided for 14% growth but had achieved 16% plus.

Asset quality volatility is a thing of the past and credit cost outlook seems reasonably comforting

There is nothing worrying on the horizon in terms of incipient stress as reflected in SMA figures

SMA1 and SMA2, taken together, have declined from 90 bps of advances to 43 bps over the past 12 months. Thus, immediate underlying stress for KVB has declined to particularly low levels.

Exhibit 16: SMA 1 and 2 as % of advances – June 2024 - %



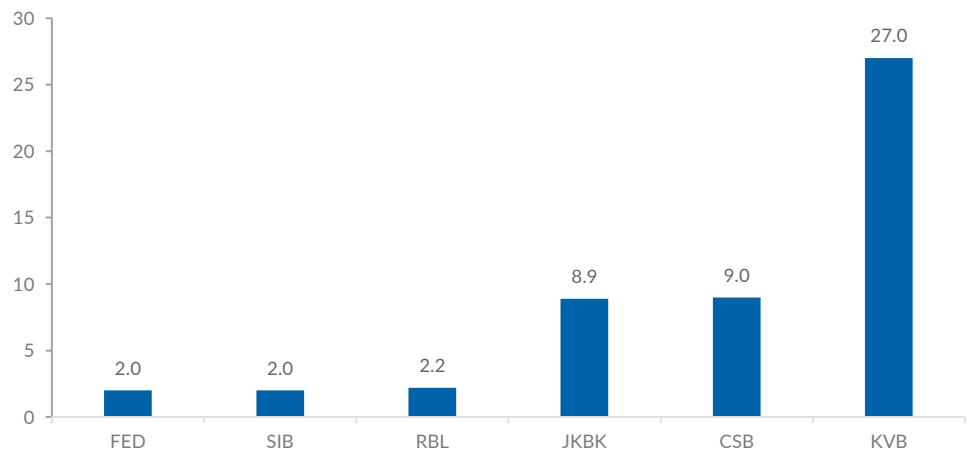
Source: Company, YES Sec – Research

The share of sub-investment grade loans in corporate loan book seems particularly high but is still manageable

The share of BB and below in corporate loan book is by far the highest for KVB at 28%

It may be noted that the credit rating is arrived at by an internal methodology that is said to follow the approach adopted at Crisil.

Exhibit 17: Share of BB and below in corporate loan book – Mar'24 - %

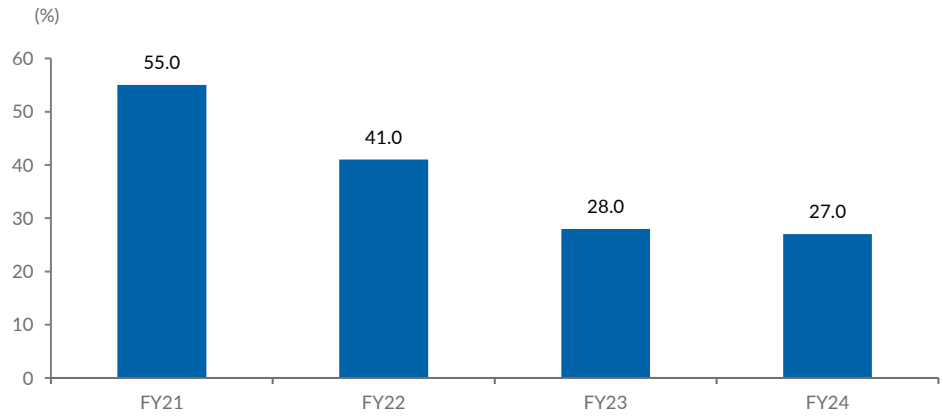


Source: Companies, YES Sec – Research

The share of sub-investment grade loans in corporate book has declined materially over a period of time

The share of BB and below in corporate loans was as much as 55% as of March 2021 and this has declined to 27% as of March 2024.

Exhibit 18: Share of BB and below in corporate loan book – FY21-24 - %

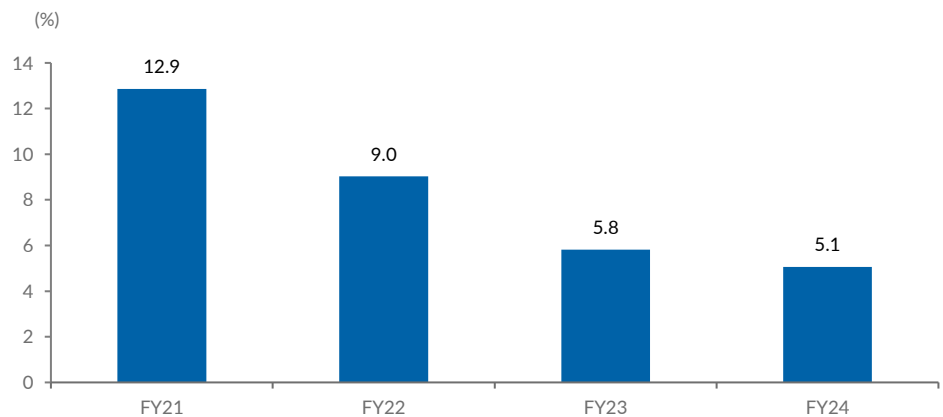


Source: Company, YES Sec – Research

Since the share of corporate loans in total loan book has itself declined, the share of sub-investment grade corporate loan book in total loans is now far lower

The share of BB and below corporate loans in total loan book was as much as 12.9% as of March 2021 and this has declined to 5.1% as of March 2024.

Exhibit 19: Share of BB and below corporate loans in total loan book – FY21-24 - %

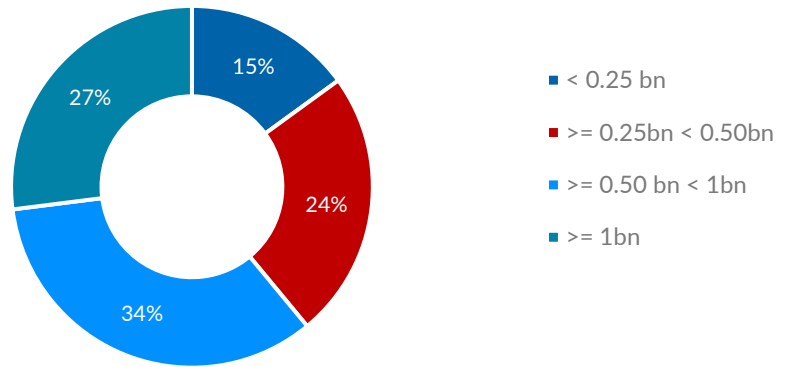


Source: Company, YES Sec – Research

Most of the corporate loans book comprises loans that are having a ticket size of less than Rs 1bn, indicating reasonable granularity

As much as 73% of the corporate loan book consists of loans that have a ticket size of less than Rs 1bn. Rs 1bn has long been regarded as a sort of size threshold beyond which wholesale accounts reduce granularity and are potentially unwieldy to handle, especially from the point of view of a small regional bank. The average ticket size of the corporate loan book for KVB stands at Rs 0.37bn, which is indicative of reasonable granularity.

Exhibit 20: Corporate Loan Book Mix by ticket size – Dec'23 - %



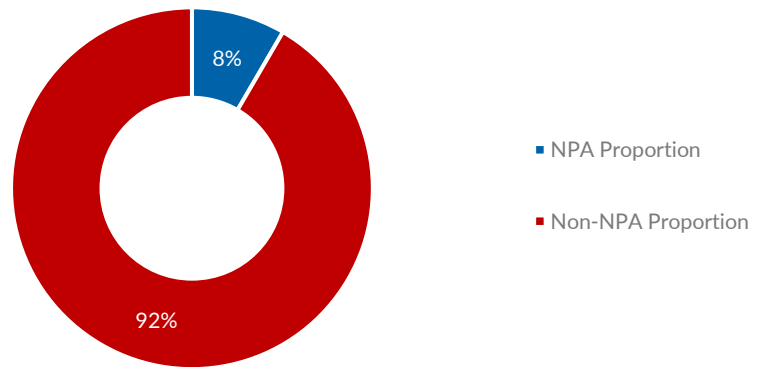
Source: Company, YES Sec – Research

While the ECLGS book does carry higher stress than the rest of the book, it is not particularly worrying in the overall context

As much as 8% of the outstanding ECLGS book finds itself in the NPA category

It is important to examine the ECLGS situation at KVB since MSME loans are the largest segment for the bank.

Exhibit 21: ECLGS Book NPA and Non-NPA Proportion – March 2024 - %

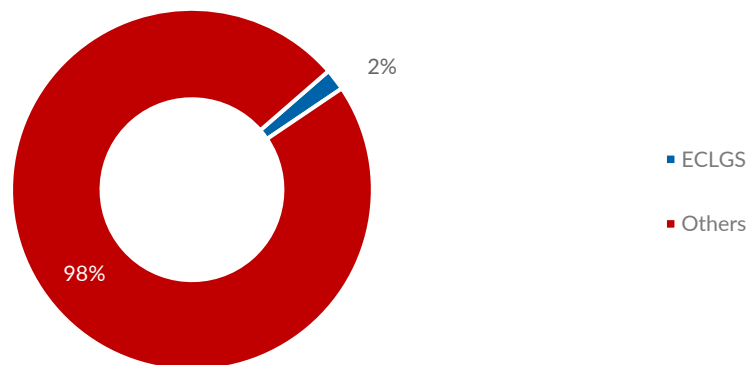


Source: Company, YES Sec – Research

However, the outstanding ECLGS book itself is a small part of the overall loan book

The ECLGS book is just 2% of the overall loan book and does not really move the needle in terms of credit cost outlook.

Exhibit 22: Share of ECLGS Book in Total Advances – Dec'23 - %



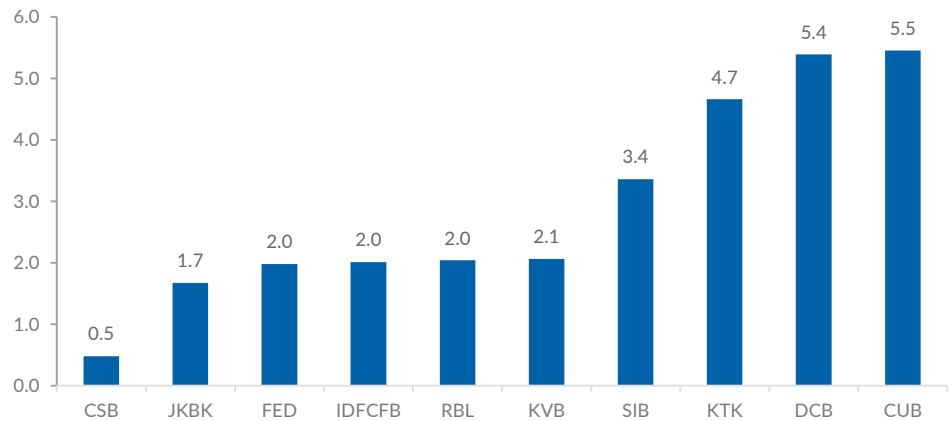
Source: Company, YES Sec – Research

KVB does not have any major issues arising from restructuring whether in the past or present

Even at the peak of the restructuring cycle, KVB’s restructured book stood at a relatively controlled level

KVB’s restructured book as June 2021 stood at 2.1% of advances. It did not find itself in a group of mid and smallcap banks with relatively elevated restructured book.

Exhibit 23: Restructured Standard Advances to Gross Advances – June’21 - %

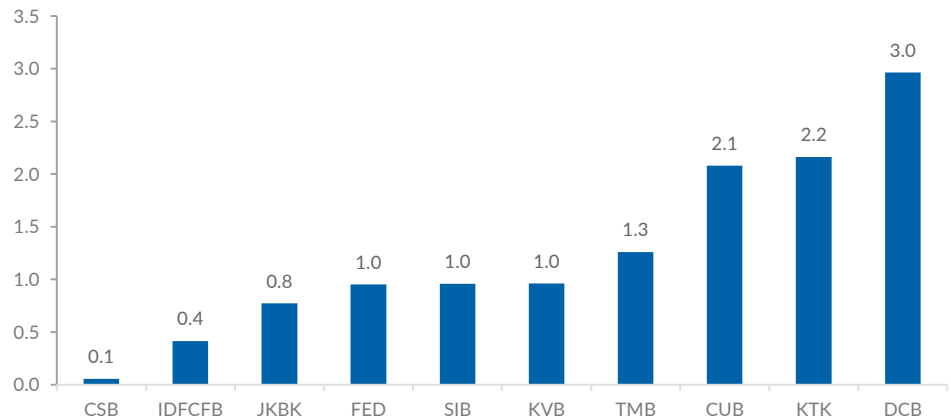


Source: Companies, YES Sec – Research

KVB’s restructured book has declined materially to even lower levels over a period of time

KVB’s restructured book as March 2024 stood at 1.0% of advances. It may be noted that the restructured book is more than 40% provided for, which is well in excess of what is normally provided for by banks. The restructured book does not portend any significant credit cost risk going forward.

Exhibit 24: Restructured Advances as % of Gross Advances - FY24 - %



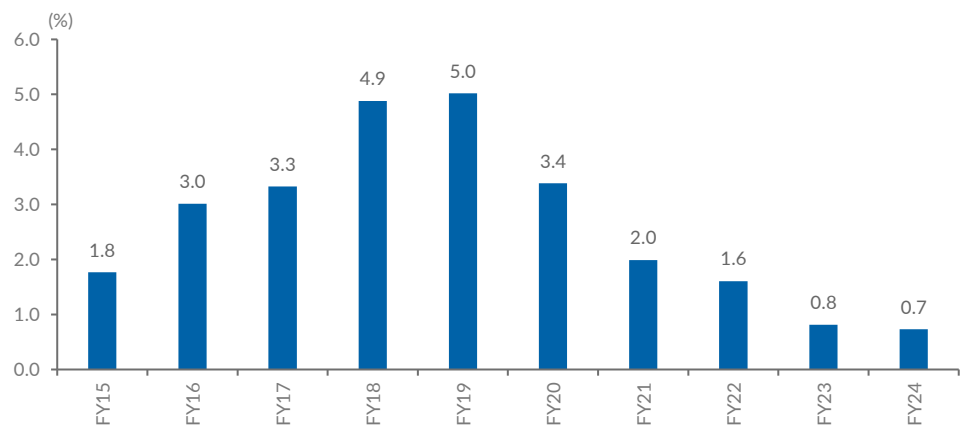
Source: Companies, YES Sec – Research

There was a time when KVB's asset quality was volatile but that is now a thing of the past

Earlier, KVB had suffered a debilitating NPL cycle brought about by inadequately risk-managed corporate lending

Over FY17-20, KVB suffered a corporate NPL cycle after having got into large consortiums in their corporate lending business. Banks which had indiscriminately entered corporate lending consortiums were known to have suffered the brunt of the systemic corporate NPL cycle as it was indicative of a high-risk approach to project term lending, the area within which corporate stress had primarily been experienced.

Exhibit 25: Annualised Gross Slippage Ratio - KVB- FY15-FY24 - %

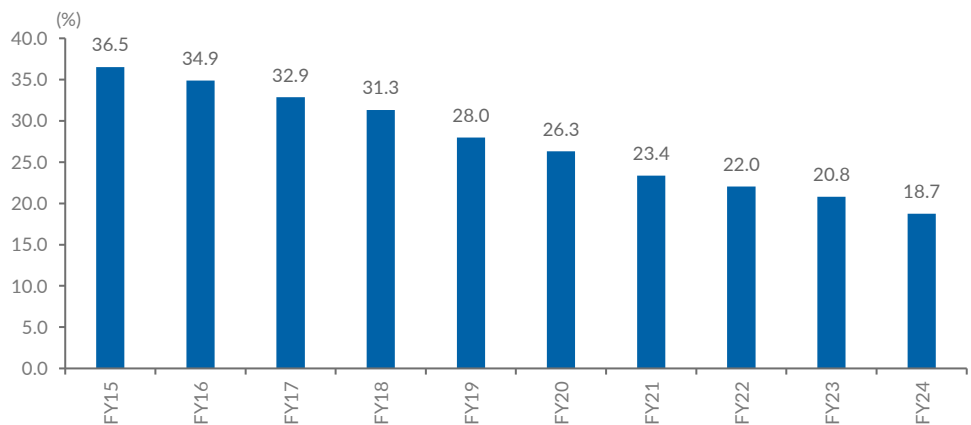


Source: Company, YES Sec - Research

KVB has pulled back from corporate lending and has been focused on other segments, including commercial loans

The share of corporate loans has steadily declined over a period of time, indicating the bank is no longer willing to take similar project lending risk as it did in the past. Apart from slowing down corporate lending, KVB has also decided to stay away from consortium lending, while focusing on sole-banking arrangements. In essence, KVB has gone back to its traditional roots of being a banker for the trading community.

Exhibit 26: Share of Corporate Advances in Total Advances - KVB - FY15-FY24 - %



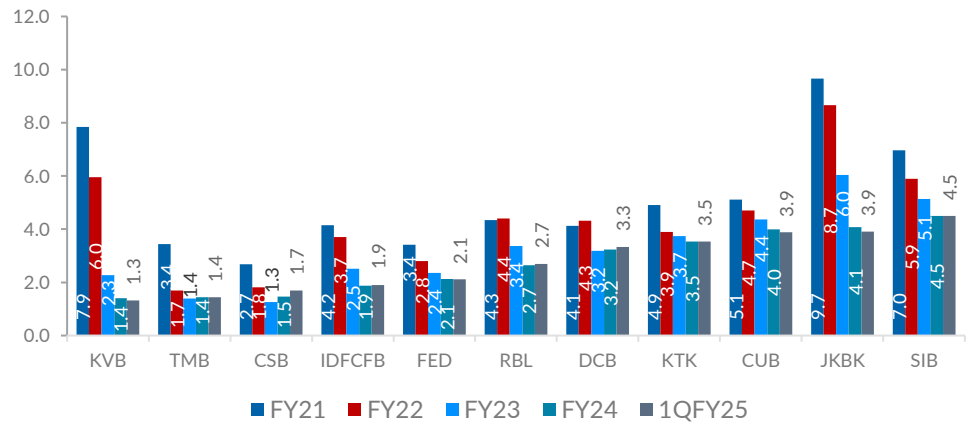
Source: Company, YES Sec - Research

Key asset quality outcomes for KVB have been sound as reflected in the various key ratios

At the moment, KVB has the lowest gross NPA ratio in our coverage universe of 11 mid and smallcap banks

KVB has a gross NPA ratio of 1.3% as of June 2024, which is the very lowest in our comparison universe.

Exhibit 27: Gross NPA Ratio – FY21 - FY24, 1QFY25 - %

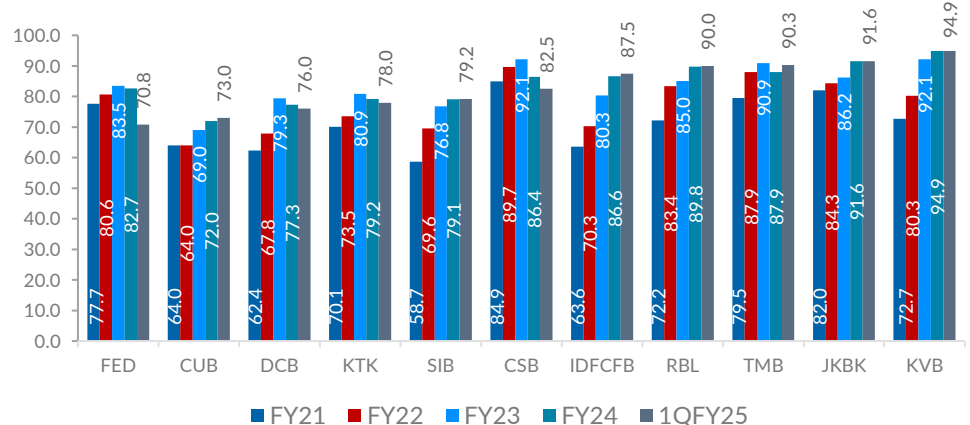


Source: Companies, YES Sec – Research, Sorted on 1QFY25

KVB has the highest provision coverage ratio in our coverage universe of 11 mid and smallcap banks

KVB has a provision coverage ratio of 94.9% as of June 2024, which is the very highest in our comparison universe.

Exhibit 28: Provision Coverage Ratio – FY21 - FY24, 1QFY25 - %

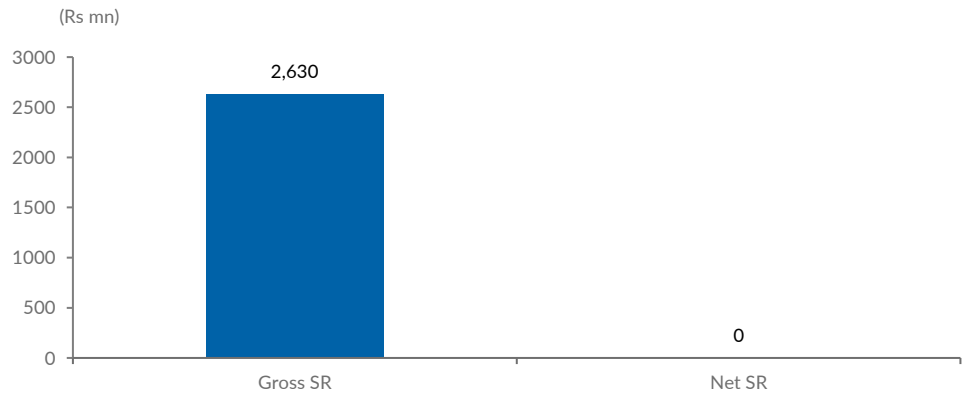


Source: Companies, YES Sec – Research, Sorted on 1QFY25

The security receipts book is fully provided for and does not pose any credit cost risk for KVB

The gross security receipts book worth Rs 2.6bn has been fully provided i.e. the net security receipts book is nil.

Exhibit 29: Security Receipts Book – June 2024 – Rs mn

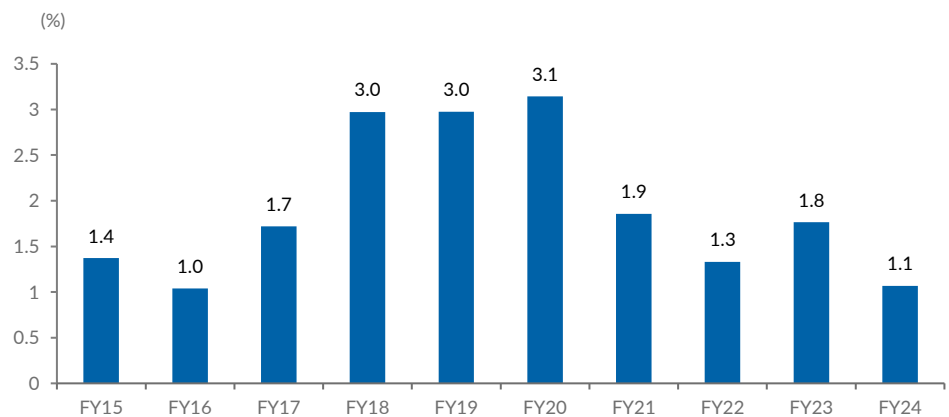


Source: Company, YES Sec – Research

KVB credit cost outlook is reasonably sound especially due to upfronting of provisions already carried out

Prudential excess provisions have been made by KVB both in FY23 and FY24, which augurs well

Exhibit 30: Credit Cost – FY15-FY24 - %



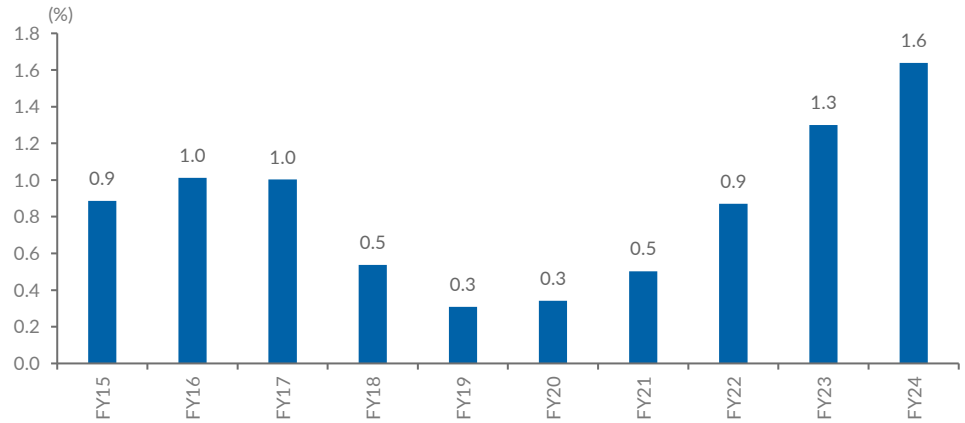
Source: Company, YES Sec – Research

The reported all-inclusive credit cost in FY23 and FY24 amounted to 1.8% and 1.1%, respectively but these contained upfronted / excess provisions. We note that the guidance for credit cost for FY25 amounts to 75 bps (NPA provisions only) and the intention is to keep gross slippage ratio below 1%, which we find largely believable.

The asset quality and growth turnaround has led to far healthier return ratios for KVB

KVB's RoA has improved steadily from 0.3% in FY20 to 1.6% in FY24 and stands to improve further

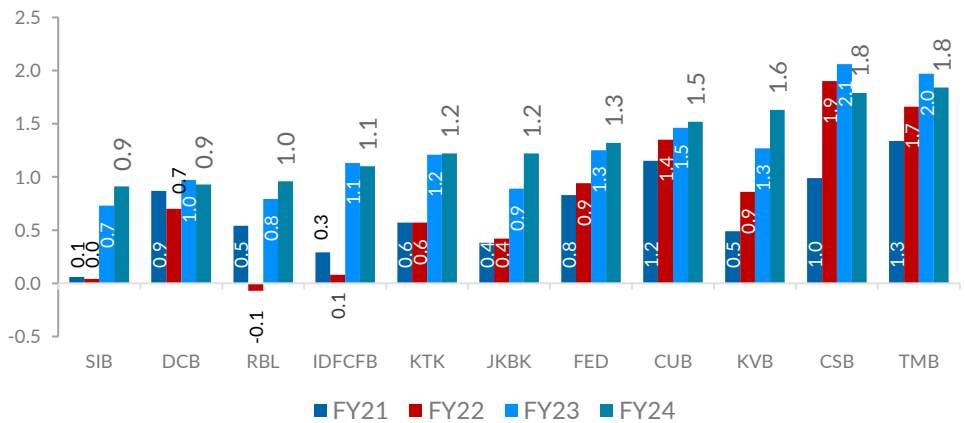
Exhibit 31: Return on Assets - FY15-FY24 - %



Source: Company, YES Sec - Research

KVB has the third best RoA in our mid and smallcap comparison universe

Exhibit 32: Return on Assets - FY21 - FY24 - %



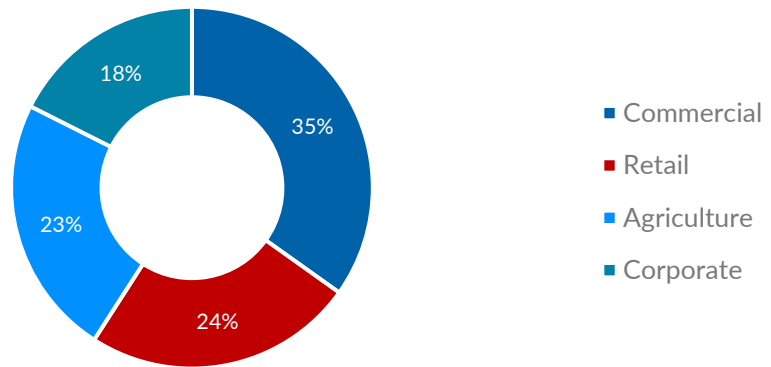
Source: Companies, YES Sec - Research, Sorted on FY24

An examination of KVB’s current loan mix reveals a broadly sustainable business model

KVB still has a broadly diversified loan book but with Commercial loans occupying the largest proportion of loan book

More than a third of total loan book comprises commercial loans, which are essentially MSME loans

Exhibit 33: Total Loan Book Mix – June 2024 - %

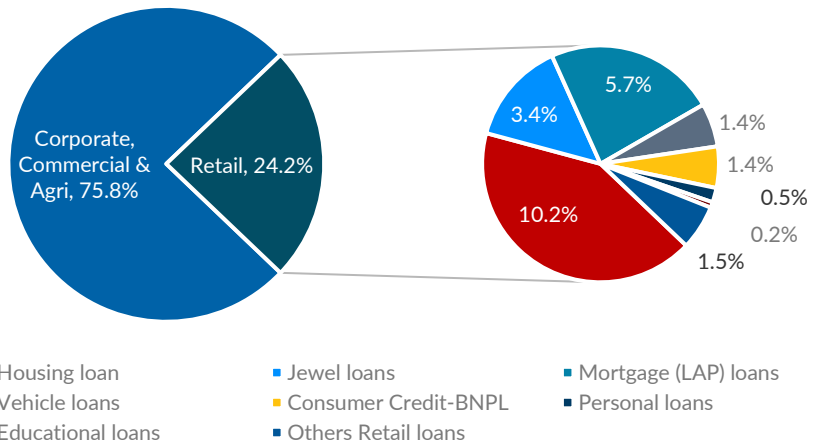


Source: Company, YES Sec – Research

KVB has a broadly diversified loan book but with Commercial loans occupying the largest proportion of total loan book at 35% share. Retail, Agri and Corporate loans occupy 24%, 23% and 18% of total loan book.

The retail loan book is somewhat diversified with most of this book comprising home loans and LAP

Exhibit 34: Retail Segment share in total advances – June 2024 - %



Source: Company, YES Sec – Research

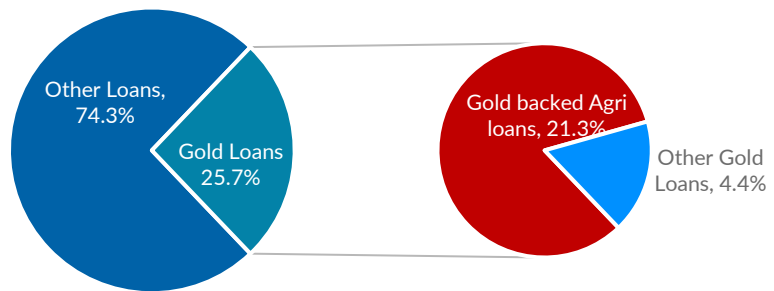
Within retail business, housing loans, mortgage (LAP) loans, jewel loans, vehicle loans and BNPL loans occupy 10.2%, 5.7%, 3.4%, 1.4% and 1.4%, respectively, of total loan book. Thus, roughly, two-third of the retail book comprises home loans and LAP. However, to provide broader context, this is 15.9% of overall loan book.

Healthy share of gold loans and conservative approach to gold loan business are positives from an asset quality perspective

Gold loans lying in both the retail and agri segments taken together comprise about a fourth of the overall loan book

All gold loans taken together form 25.7% of total loan book. Of this, the lion's share or 21.3% of total loan book is agri gold loan whereas the remaining 4.4% is retail gold loan.

Exhibit 35: Gold Loan Book share in total advances – 1QFY25 - %



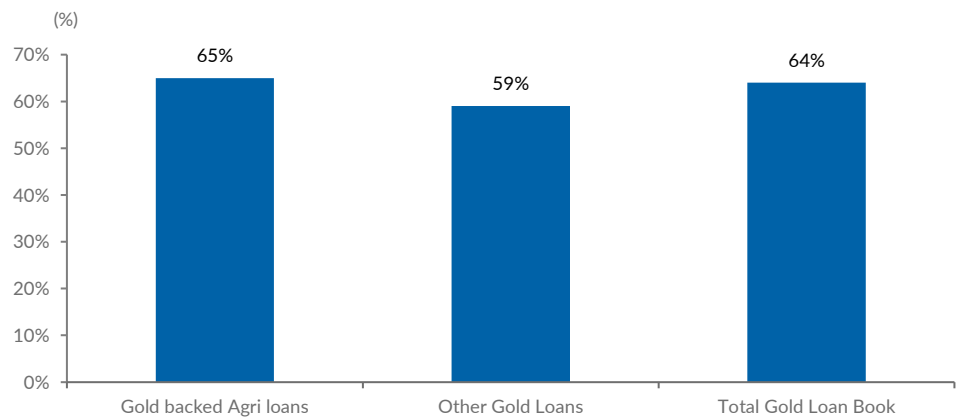
Source: Company, YES Sec – Research

Gold loans, due to their low LGD, lend a natural resilience to KVB's loan book from an asset quality standpoint.

KVB conducts gold loan business at a conservative LTV, which minimizes asset quality risk from gold price movement, ceteris paribus

As of June 2024, the LTV of agri gold loan is 65% and that for retail gold loan is 59%. It may be noted that the limit prescribed by the RBI for agri gold loan is 90% and for retail gold loan is 75%.

Exhibit 36: Gold Loan LTV – 1QFY25 - %



Source: Company, YES Sec – Research

KVB possesses digital lending partnerships on the asset side, which are risk-managed

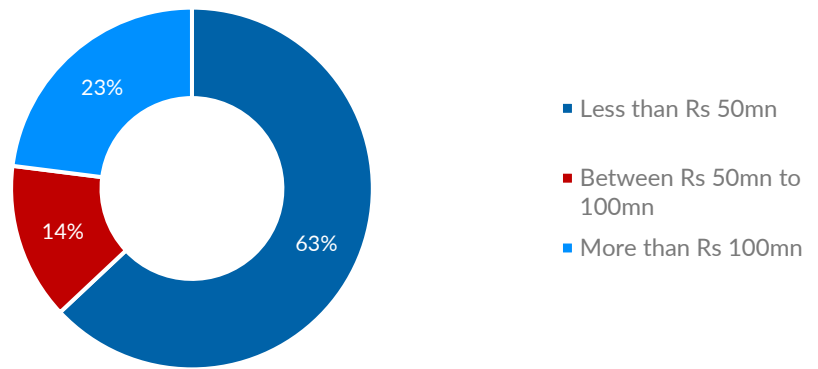
KVB's key digital lending partnership is for BNPL with Amazon, which has a 5% FLDG arrangement. KVB also has a partnership with Cholamandalam for CE loans.

The commercial loan book is a granular MSME loan book but seems to be well risk-managed

Most of the commercial loan book is comprising loans with a ticket size lower than Rs 50mn

63% of the commercial loan book is having a ticket size lesser than Rs 50mn and 14% is having a ticket size ranging between Rs 50-100mn.

Exhibit 37: Commercial loan book mix by ticket size - June' 24 - %

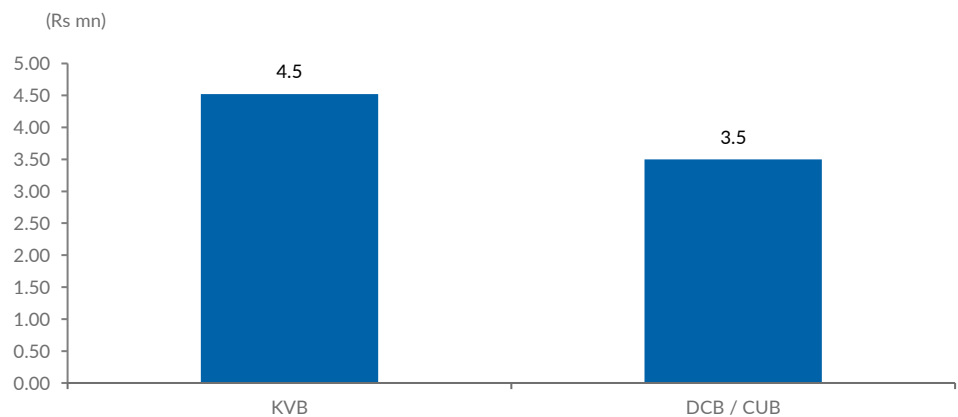


Source: Company, YES Sec - Research

The average ticket size of KVB's commercial loan book is comparable to that of CUB/DCB but has not faced similar asset quality challenges

The average ticket size of KVB's commercial loan book is Rs 4.5mn compared with Rs 3.5mn for CUB/DCB.

Exhibit 38: Average Ticket Size of Commercial / MSME Loans - Rs mn

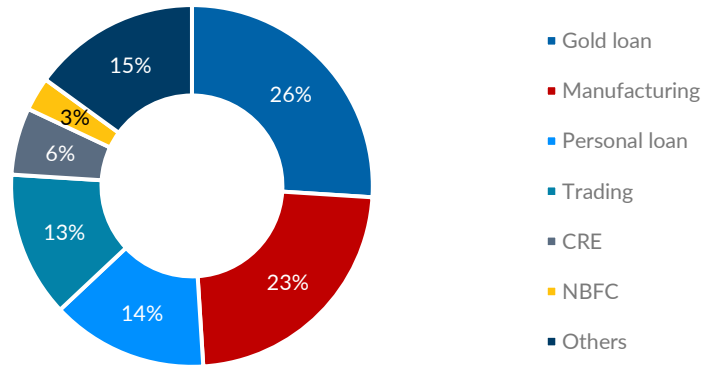


Source: Company, YES Sec - Research

In terms of sectoral exposures, after gold loans, manufacturing and trading are the two larger broad exposures

While gold loans comprise 26% of total loan book, manufacturing comprises 23%, personal loans (consumer retail) is 14% and trading 13%.

Exhibit 39: Loan book sectoral mix – June 2024 - %

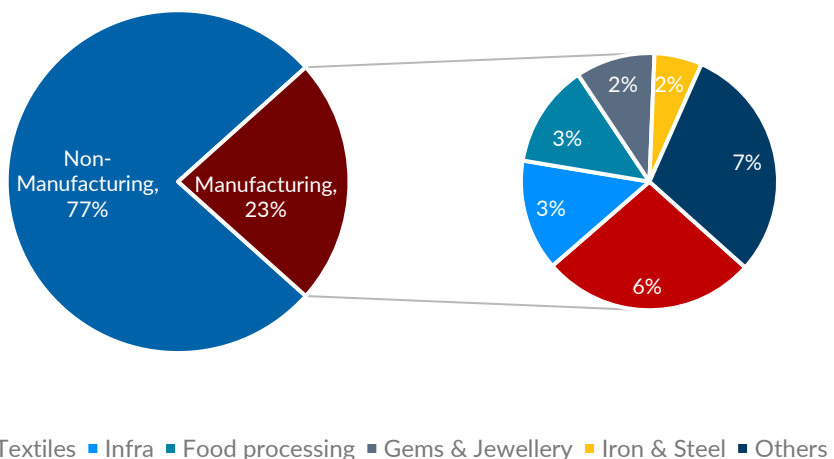


Source: Company, YES Sec – Research

The manufacturing sector exposure is itself reasonably diversified into various sub-sectors including textiles and infrastructure

Textiles and infrastructure comprise 6% and 3%, respectively of total loan book. Other manufacturing sub-sectors include food processing and gems & jewellery, which contribute 3% and 2% respectively to overall loan book.

Exhibit 40: Manufacturing sector segment's share in total advances – June 2024 - %



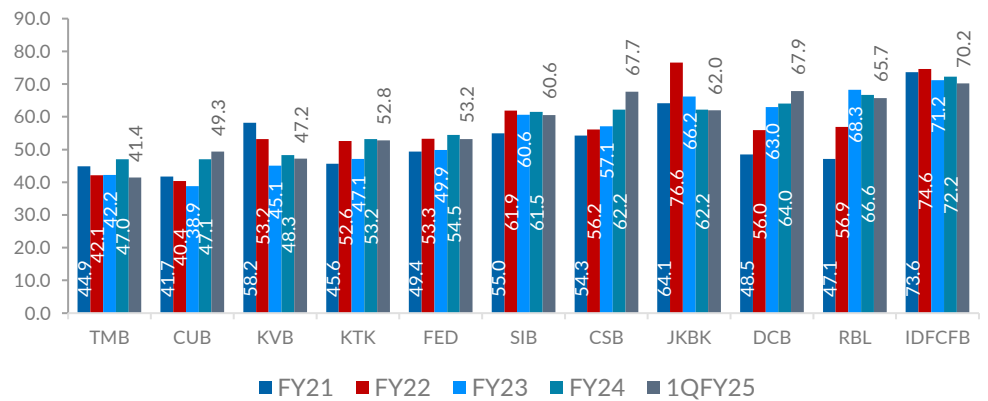
Source: Company, YES Sec – Research

KVB is not an opex leader but opex outcomes are broadly under control

Owing to healthy income, the cost to income ratio for KVB is the third lowest in our comparison universe

The cost to income ratio for KVB stood at 48.3% in FY24, which is the third lowest in our comparison universe. It is on the lower side due to healthy income levels.

Exhibit 41: Cost to Income Ratio - FY21 - FY24, 1QFY25 - %

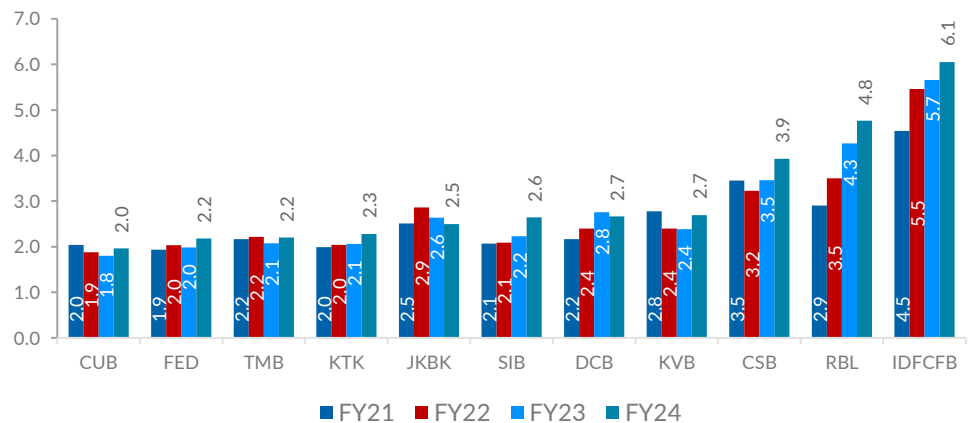


Source: Companies, YES Sec - Research, Sorted on FY24

From a cost to average assets perspective, KVB has the fourth highest ratio in FY24 but was sixth highest in FY23

The cost to average assets for KVB in FY24 happens to be 2.7%, which has increased from 2.4% in FY23, rising materially on YoY basis.

Exhibit 42: Cost to Average Assets - FY21 - FY24 - %



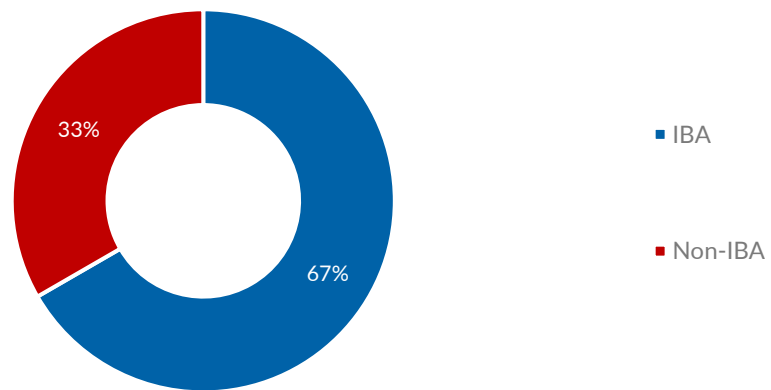
Source: Companies, YES Sec - Research, Sorted on FY24

Cost to average assets has risen materially in FY24 due to one-off related to employee expenses

It may be noted that about two-thirds of KVB's employee base of about 9000 is IBA-linked

IBA-linked employees are given wage hikes as per negotiations that the IBA carries out with the banks.

Exhibit 43: Employees' Break-up by IBA and Non-IBA - %

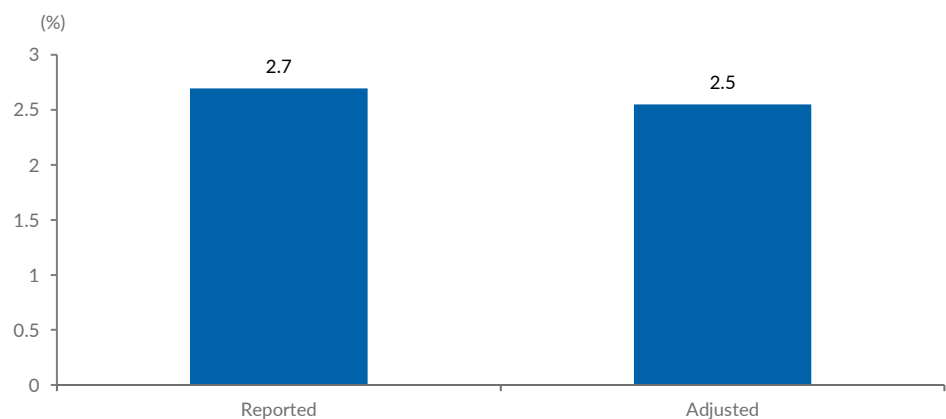


Source: Company, YES Sec – Research

The one-off in employee expenses was on account of provisions made due to wage hike and on pension obligations

The total one-off in employee expenses amounted to Rs 1.45bn in FY24 and, adjusted for the same, the cost to assets for FY24 would have amounted to 2.5% instead of the reported 2.7%.

Exhibit 44: Cost to Average Assets – Reported and Adjusted – FY24 - %

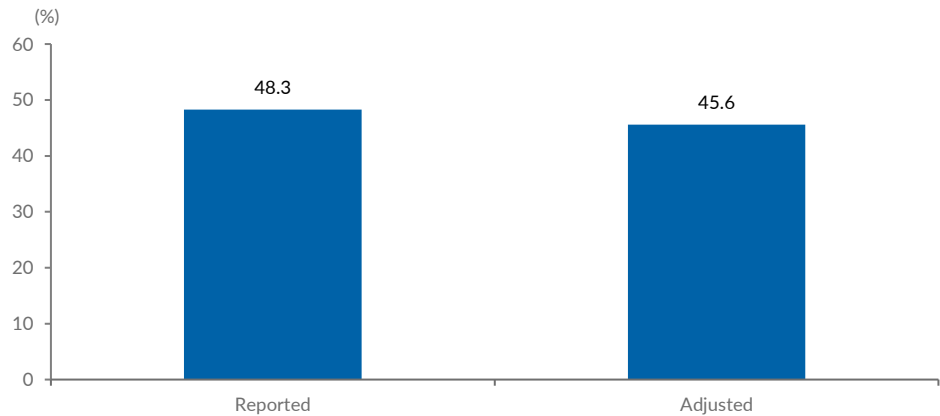


Source: Company, YES Sec – Research

The wage hike was eventually frozen at 17% whereas the discount rate used for pension obligation was reduced by 30 bps

KVB had provided for wage hike at the rate of 15% as of March 2023. Eventually, the wage hike was negotiated to be 17% and this was factored in as of December 2023. Furthermore, due interest rate changes in the economy, the actuarial discount rate used to arrive at pension obligation valuation was decreased by 30 bps, leading to pension-related provisioning.

Exhibit 45: Cost to Income Ratio – Reported and Adjusted – FY24 - %



Source: Company, YES Sec – Research

KVB has a well-thought out branch expansion strategy that would augment distribution but without causing opex to balloon

In FY25, KVB plans to add 100 branches in total but, of these, 80 would be 'light' branches. The light branches would entail a minimal employee count per branch of about 2-3 employees. These branches would mainly focus on liability accretion and would, additionally, provide referrals for asset sourcing.

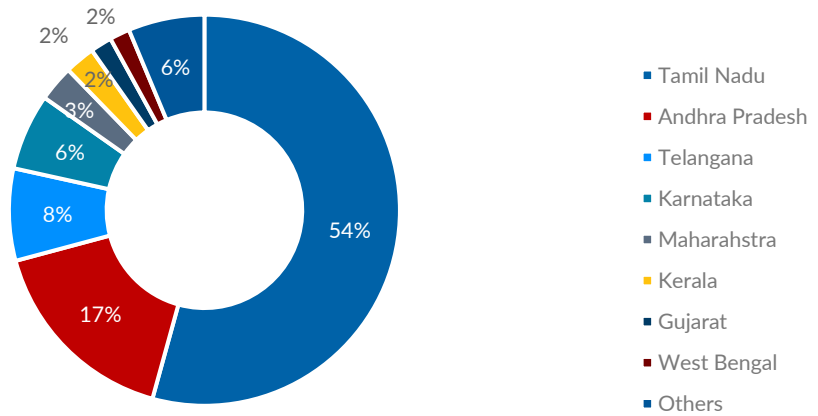
An examination of KVB's distribution network reveals that KVB still has a somewhat concentrated geographical reach

As much as 85% of KVB's branches are located in the southern states of Tamil Nadu, Andhra, Telangana and Karnataka

More than half of KVB's branches are located in the key southern state of Tamil Nadu

Tamil Nadu has been a state where a number of regional banks have focused on. Apart from KVB, banks like City Union Bank (CUB), Tamilnad Mercantile Bank (TMB), the erstwhile Lakshmi Vilas Bank (LVB, absorbed by DBS) and even the Indian Overseas Bank (IOB, the PSU bank) have been known to have had a focus on Tamil Nadu. The focus of these banks on Tamil Nadu is indicative of the business activity and healthy consumption pattern of the state and its reasonable credit culture as well.

Exhibit 46: State-wise branch distribution – June 2024 - %

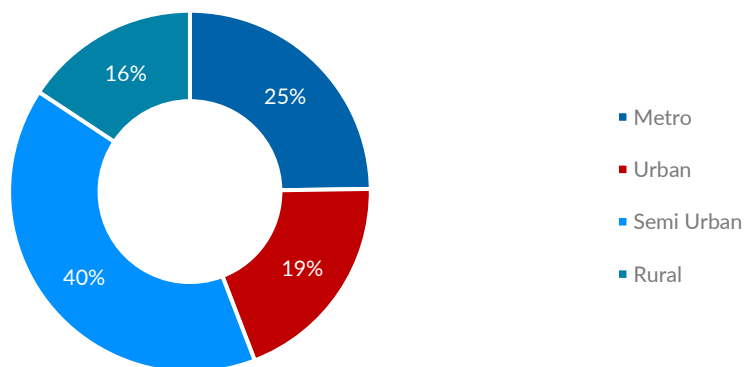


Source: Company, YES Sec – Research

As much as 56% of KVB's branches are located in Semi-urban and Rural (SURU) locations

40% of KVB's branches are in Semi-Urban locations and another 16% are in Rural locations. This gives us some incremental sense of the character of the bank.

Exhibit 47: Region-wise branch distribution – June 2024 - %



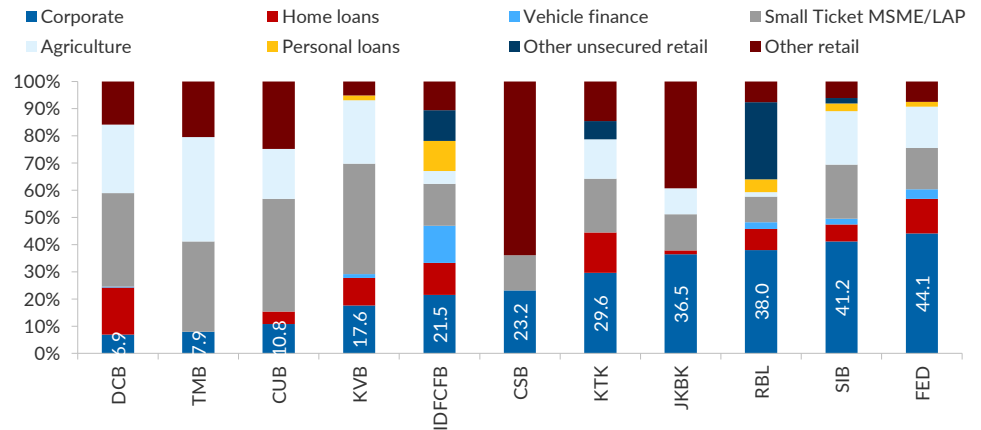
Source: Company, YES Sec – Research

ADDITIONAL COMPARATIVE ANALYSIS

The following charts consist of important comparative analyses that we have not used earlier in the report.

Additional Net Interest Margin aspects

Exhibit 48: Loan book breakup – June 2024 - %



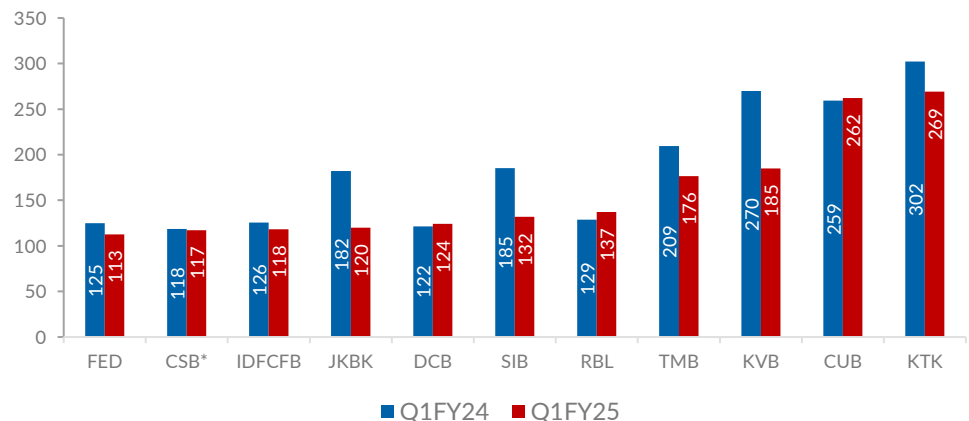
Source: Companies, YES Sec – Research, Sorted on share of Corporate loans

Exhibit 49: Loan Book Breakup – Comparative table - 1QFY25 - %

Segments	FED	RBL	DCB	CUB	CSB	KTK	SIB	KVB	IDFCFB	TMB	JKBK
Corporate	44.1	38.0	6.9	10.8	23.2	29.6	41.2	17.6	21.5	7.9	36.5
Home loans	12.8	7.7	17.3	4.6	0.0	14.9	6.3	10.2	11.8	0.0	1.4
Vehicle finance	3.5	2.5	0.4	0.0	0.0	0.0	2.1	1.4	13.6	0.0	0.0
Small Ticket MSME/LAP	15.2	9.4	34.3	41.4	13.0	19.7	20.0	40.5	15.4	33.3	13.3
Agriculture	15.2	1.7	25.2	18.4	0.0	14.5	19.6	23.3	4.8	38.4	9.6
Personal loans	1.7	4.6	0.0	0.0	0.0	0.0	2.8	1.9	11.0	0.0	0.0
Other unsecured retail	0.0	28.4	0.0	0.0	0.0	6.7	2.1	0.0	11.3	0.0	0.0
Other retail	7.5	7.6	15.9	24.8	63.9	14.6	6.0	5.1	10.6	20.4	39.3
Total loan book	100	100	100	100	100	100	100	100	100	100	100

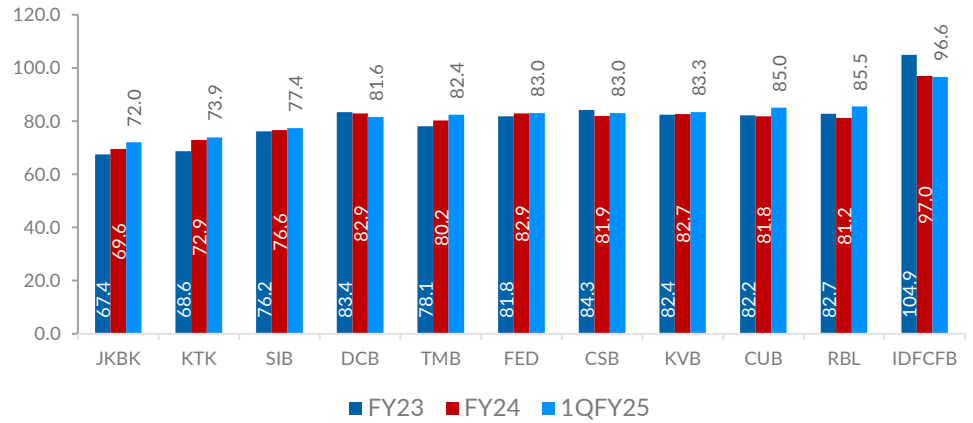
Source: Companies, YES Sec – Research

Exhibit 50: Liquidity Coverage Ratio (LCR)- 1QFY24, 1QFY25 - %



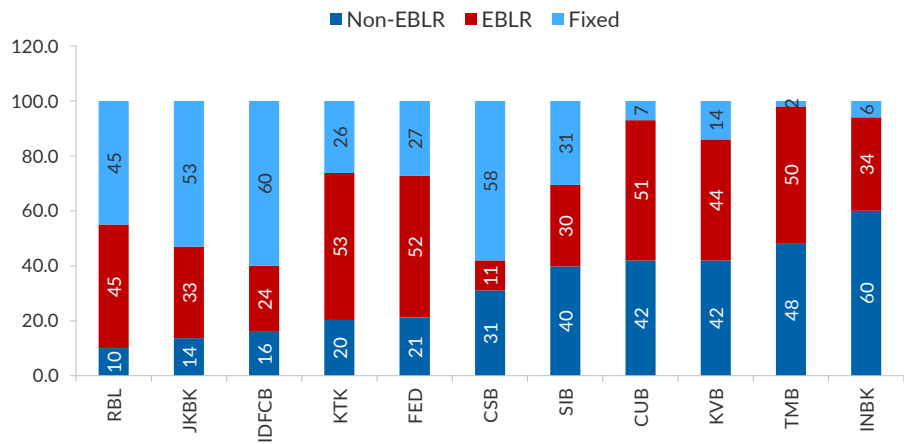
Source: Companies, YES Sec – Research, Sorted on 1QFY25; *For CSB, the red bar represents 4QFY24

Exhibit 51: Credit to Deposit Ratio (CDR / LDR) – FY23, FY24, 1QFY25 - %



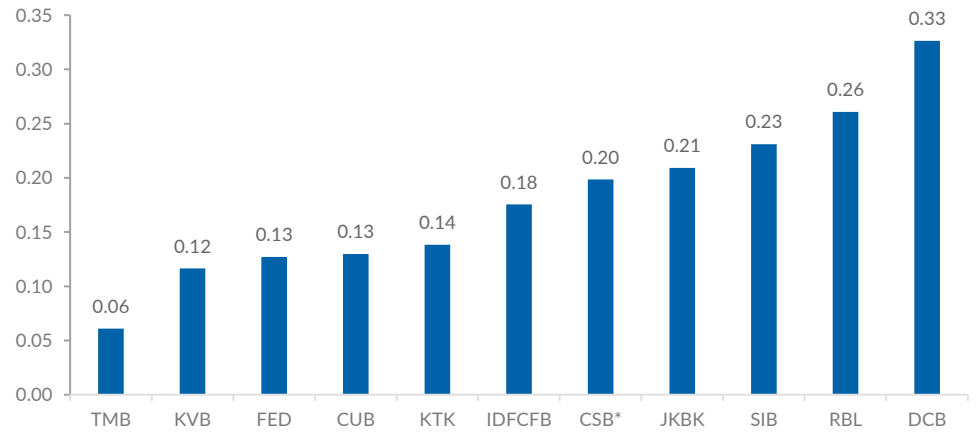
Source: Companies, YES Sec – Research, Sorted on 1QFY25

Exhibit 52: Loan book mix by rate category – %



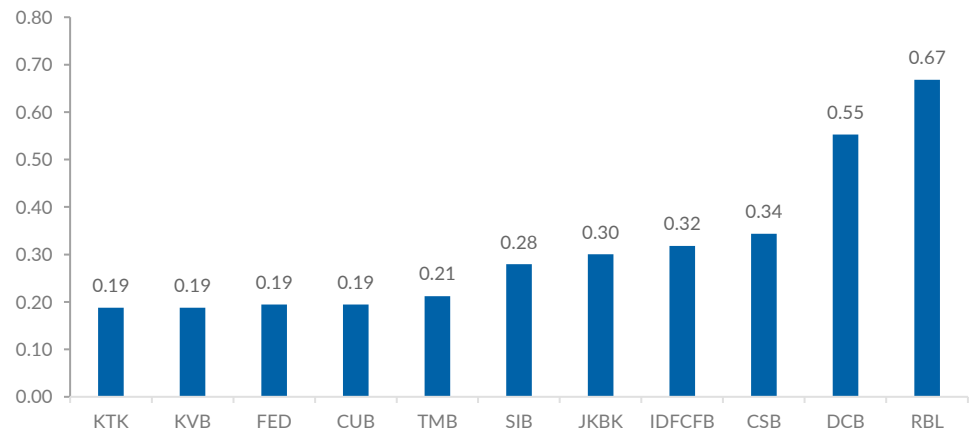
Source: Companies, YES Sec – Research, Sorted on non-EBLR

Exhibit 53: Retail Deposits (as per LCR) per Debit Card –1QFY25 – Rs. mn



Source: Companies, YES Sec – Research, Sorted on 1QFY25, *Data as of March'2024

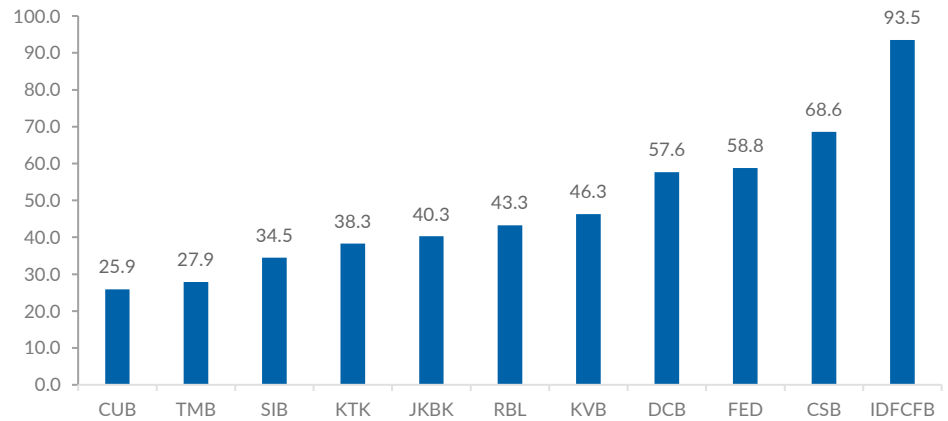
Exhibit 54: Total Deposits per Debit Card –1QFY25 – Rs. mn



Source: Companies, YES Sec – Research, Sorted on 1QFY25

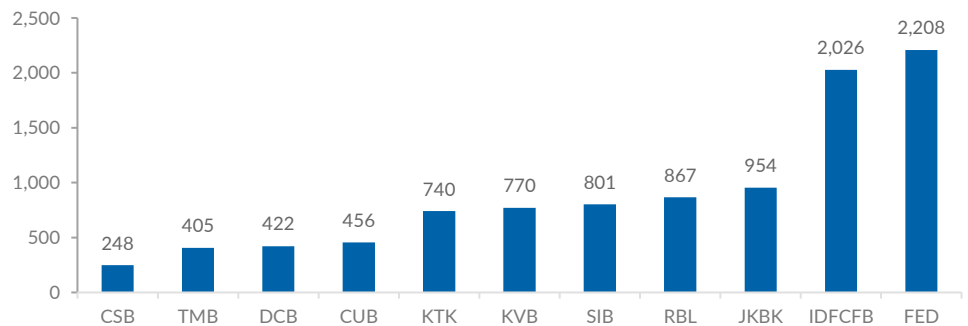
Additional Loan Growth aspects

Exhibit 55: Loan Growth - FY21-24 - Absolute Change - %



Source: Companies, YES Sec - Research

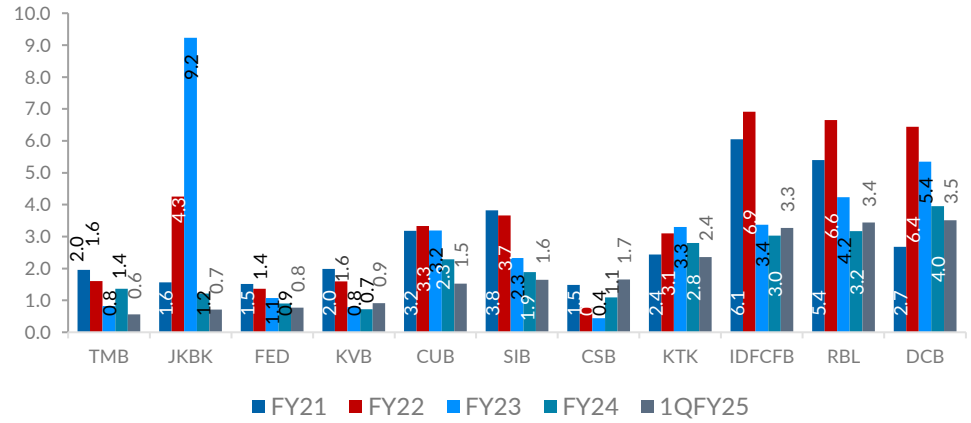
Exhibit 56: Loan Book Size - 1QFY25 - Rs bn



Source: Companies, YES Sec - Research

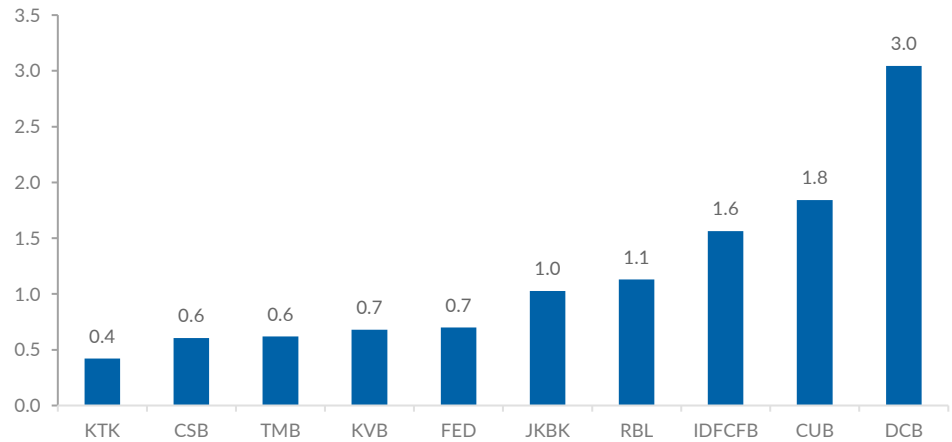
Additional Asset Quality metrics

Exhibit 57: Gross Slippages Ratio - FY21 - FY24, 1QFY25 - %



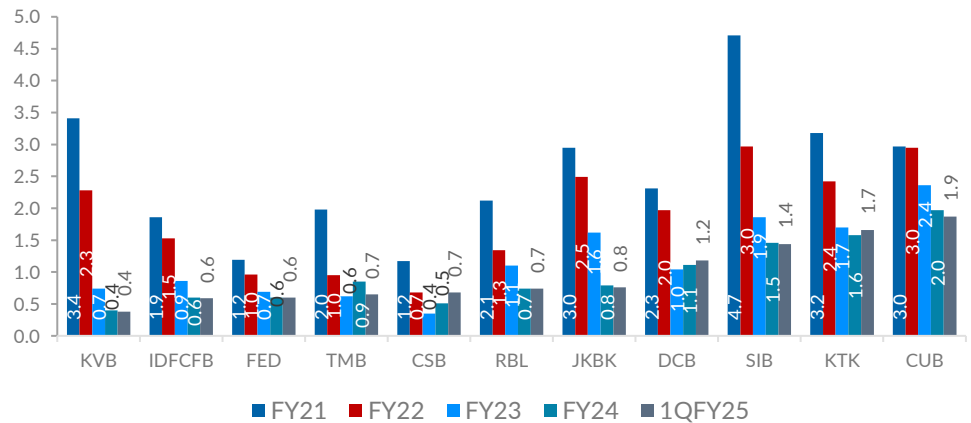
Source: Companies, YES Sec - Research, Sorted on 1QFY25

Exhibit 58: Recoveries and Upgrades to Average Advances - FY24 - %



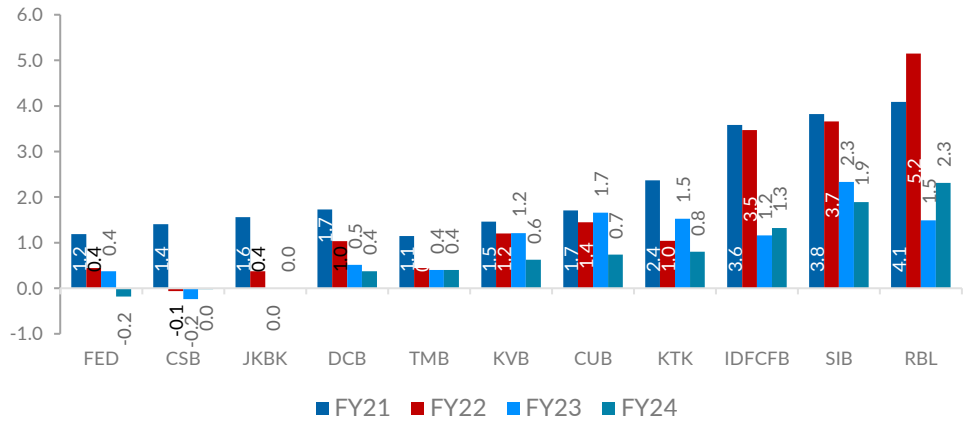
Source: Companies, YES Sec - Research

Exhibit 59: Net NPA Ratio - FY21 - FY24, 1QFY25 - %



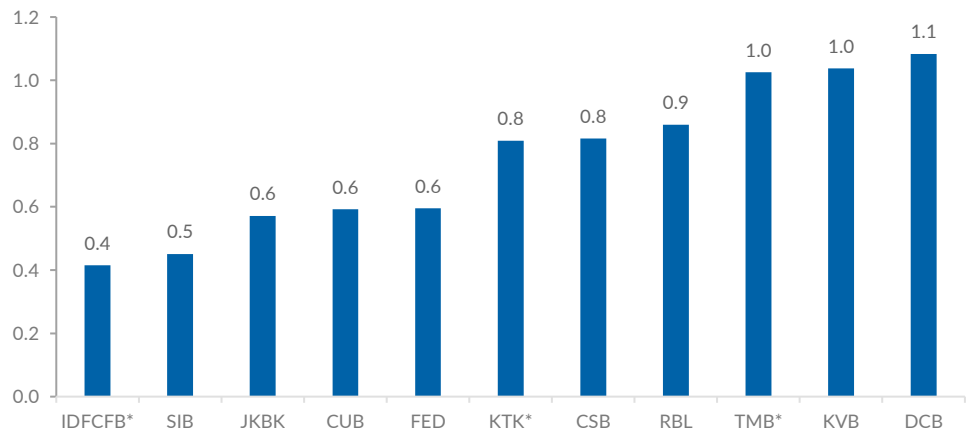
Source: Companies, YES Sec - Research, Sorted on 1QFY25

Exhibit 60: Credit Cost – FY21 - FY24 - %



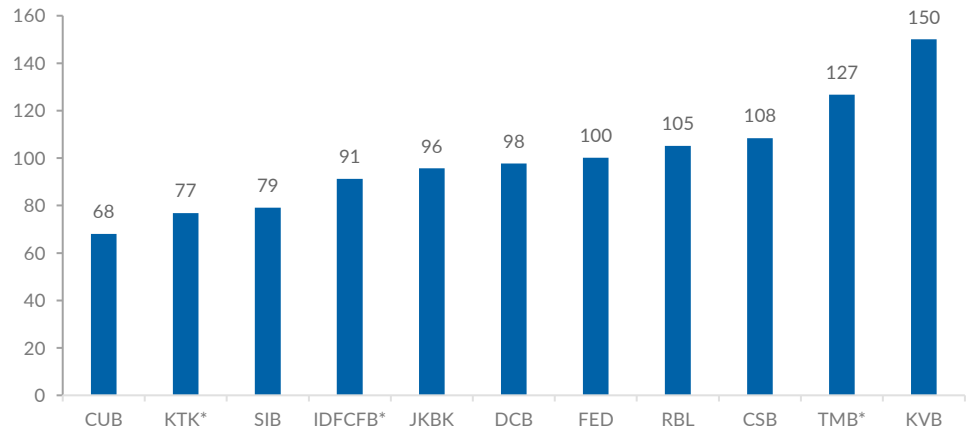
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 61: Non-specific Provisions to Gross Advances – 1QFY25 - %



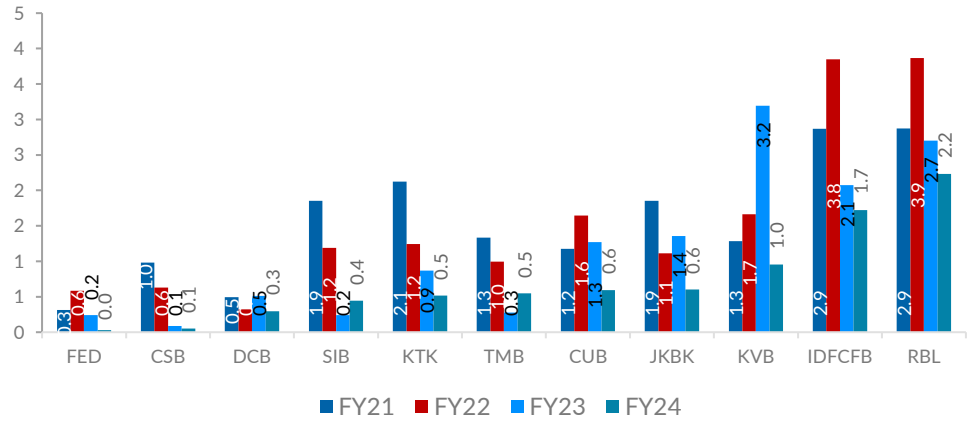
Source: Companies, YES Sec – Research, *Non-specific provisions as of March'24

Exhibit 62: Total Provisions to Gross NPA – 1QFY25 - %



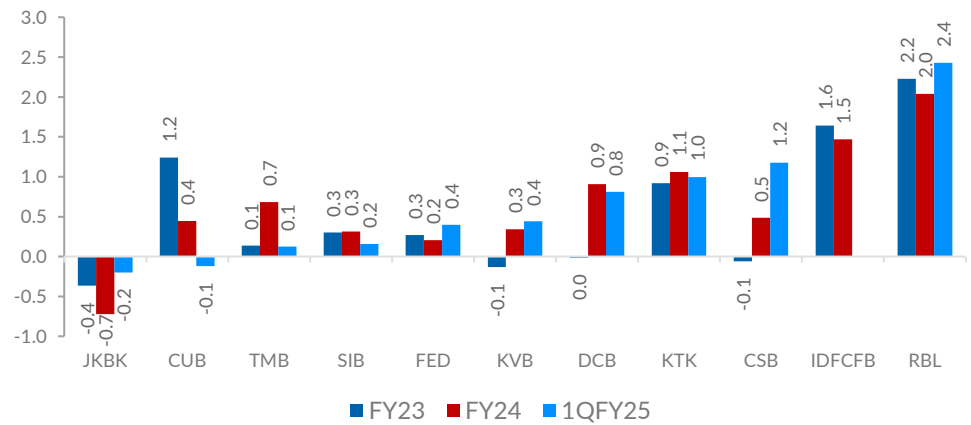
Source: Companies, YES Sec – Research, *Non-specific provisions as of March'24

Exhibit 63: Write-offs to Average Assets - FY21 - FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

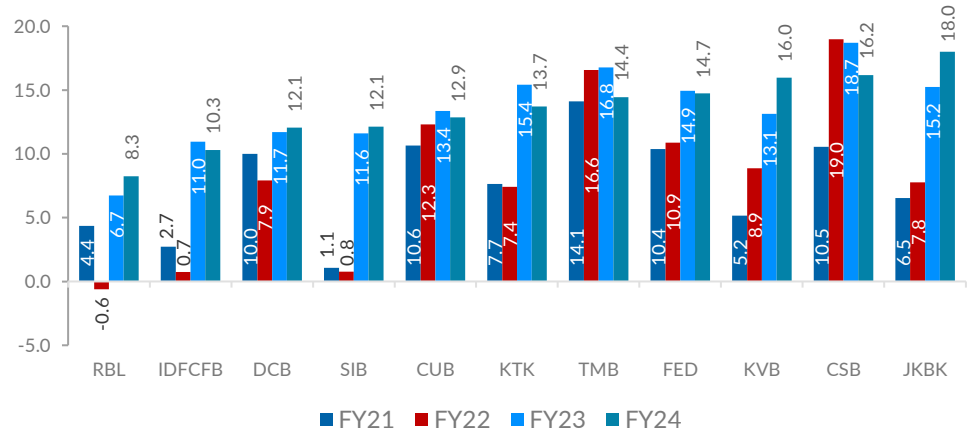
Exhibit 64: Net Slippage Ratio - FY23, FY24, 1QFY25 - %



Source: Companies, YES Sec - Research, Sorted on 1QFY25

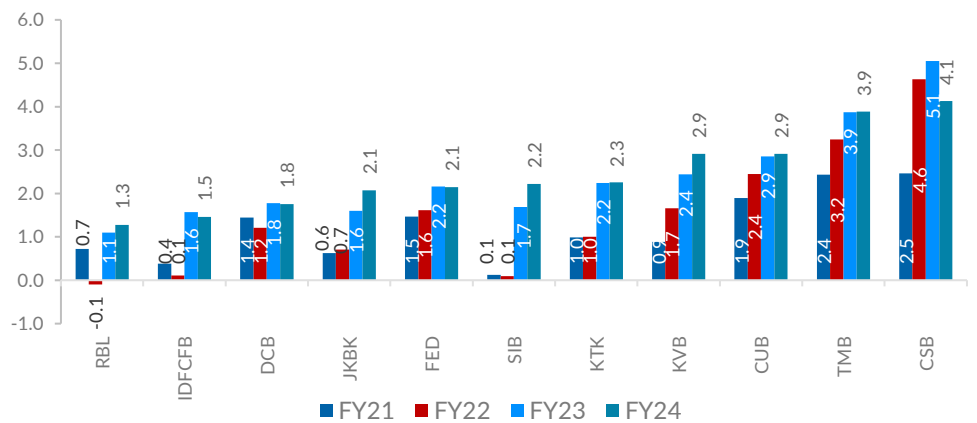
Additional Return Ratios - Actuals

Exhibit 65: Return on Equity - FY21 - FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

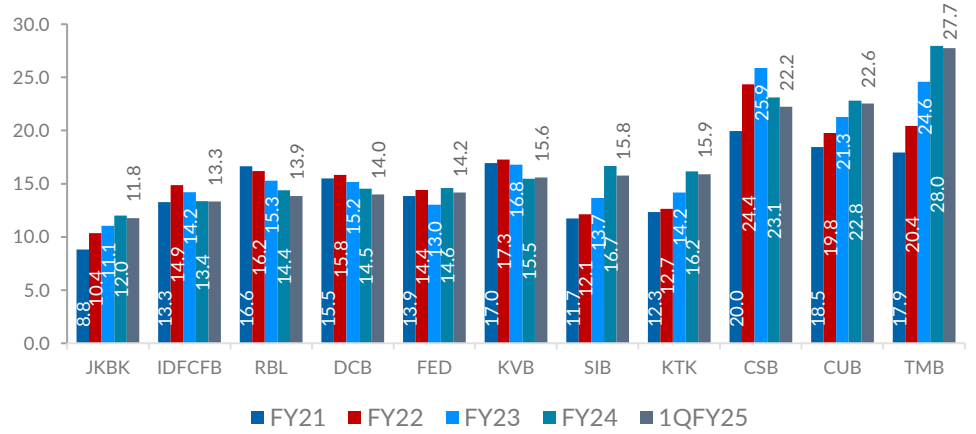
Exhibit 66: Return on Risk Weighted Assets - FY21 - FY24 - %



Source: Companies, YES Sec - Research, Sorted on FY24

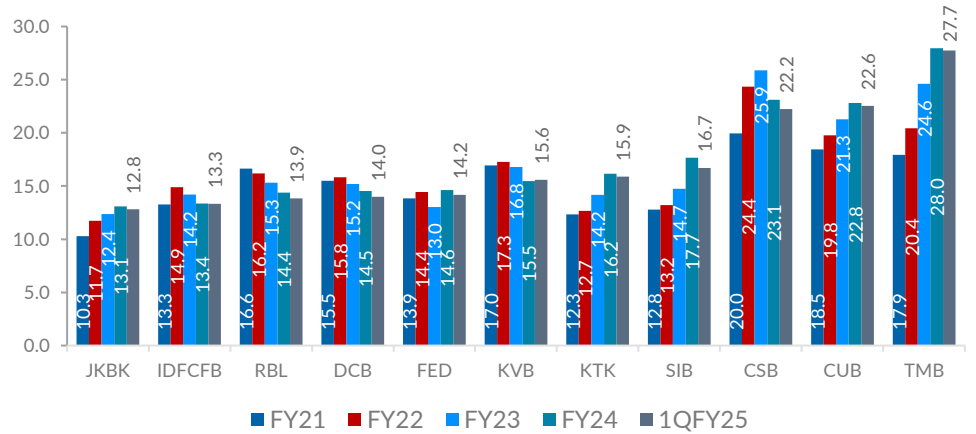
Capital Adequacy Ratios

Exhibit 67: CET 1 Capital Ratio – FY21 - FY24, 1QFY25 - %



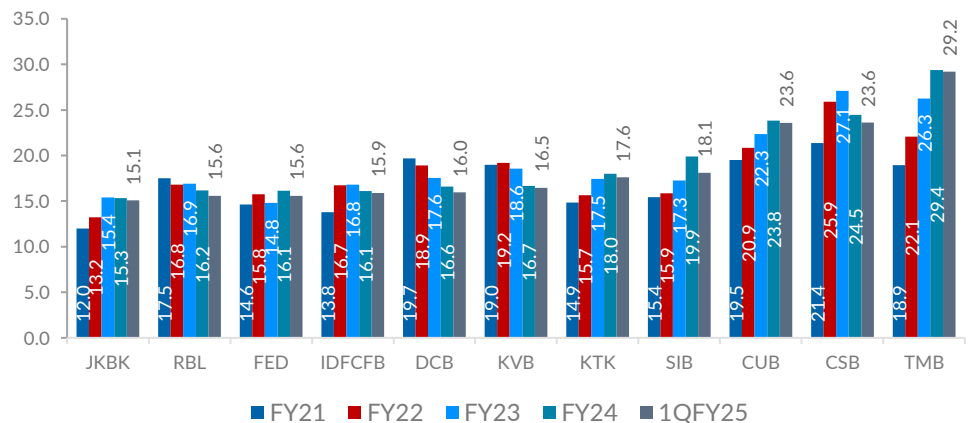
Source: Companies, YES Sec – Research, Sorted on 1QFY25

Exhibit 68: Tier I Capital Ratio – FY21 - FY24, 1QFY25 - %



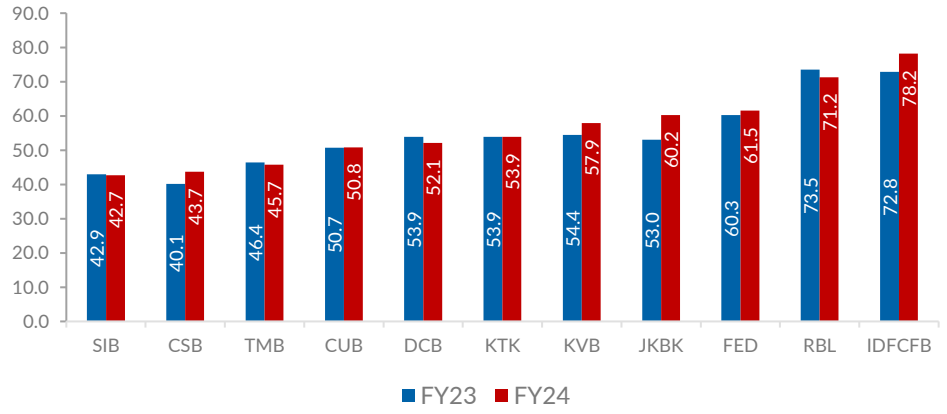
Source: Companies, YES Sec – Research, Sorted on 1QFY25

Exhibit 69: Capital Adequacy Ratio – FY21 - FY24, 1QFY25 - %



Source: Companies, YES Sec – Research, Sorted on 1QFY25

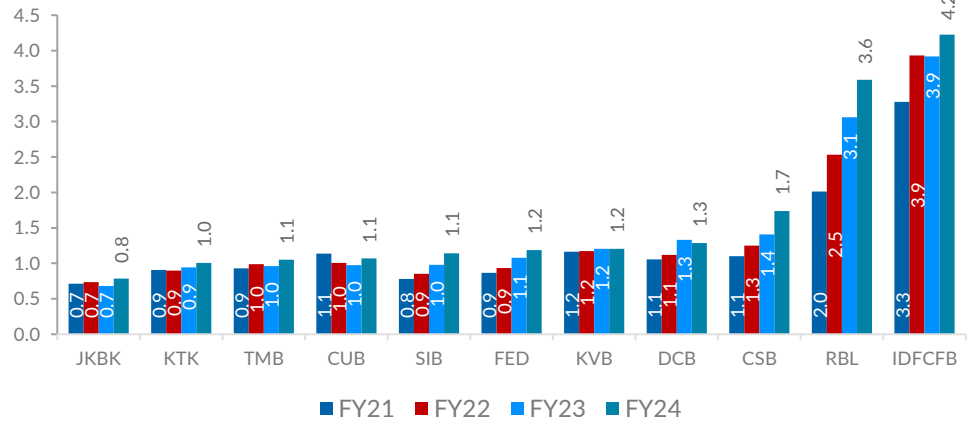
Exhibit 70: RWA to Total Assets – FY23, FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

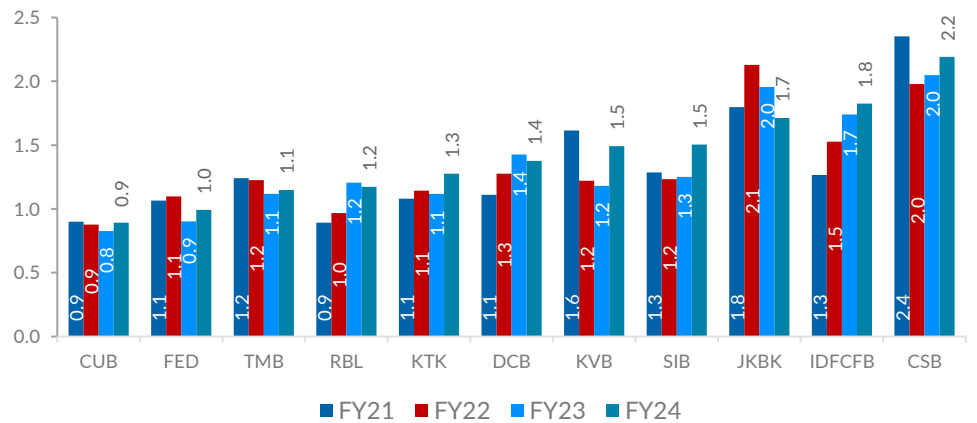
Additional Operating Expense metrics

Exhibit 71: Other Opex to Average Assets – FY21 - FY24 - %



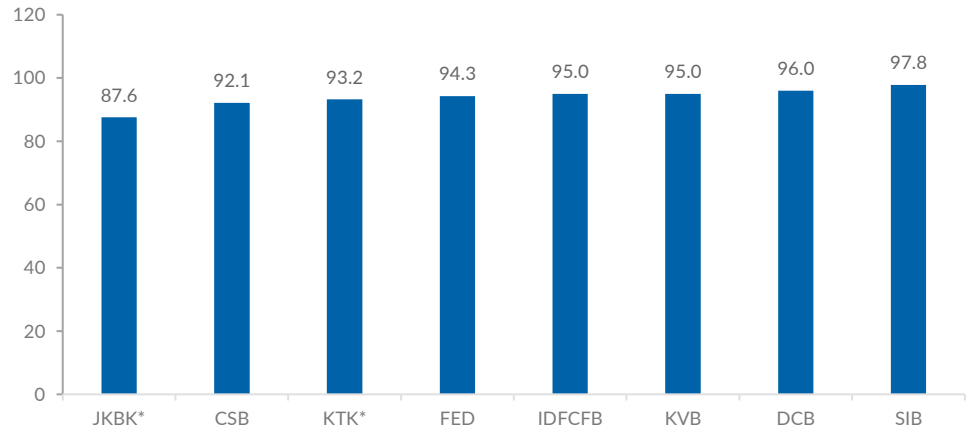
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 72: Employee Expense to Average Assets – FY21 - FY24 - %



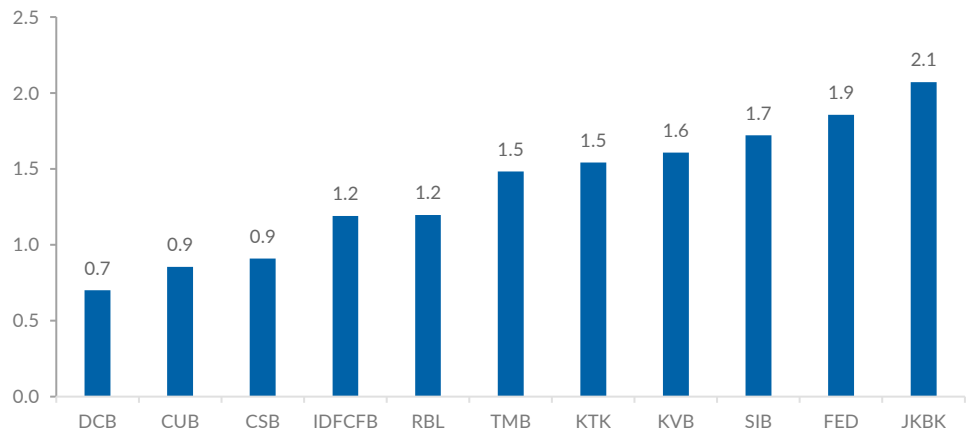
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 73: Share of Digital Transactions – 1QFY25 - %



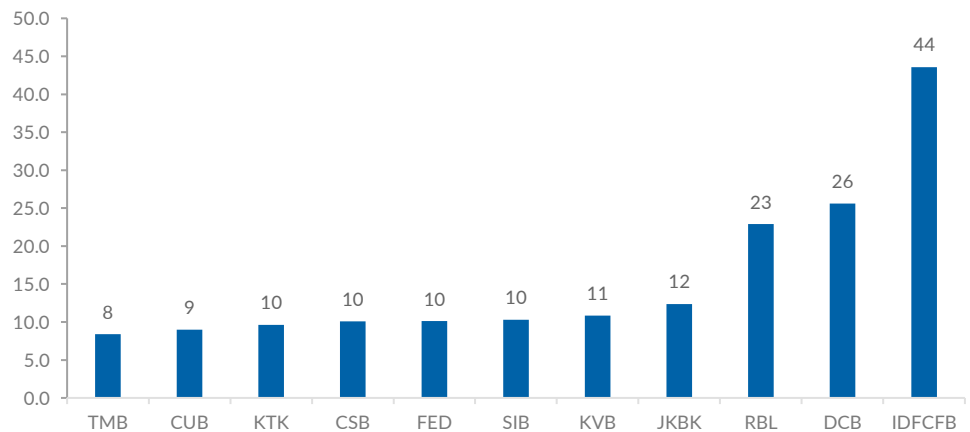
Source: Companies, YES Sec – Research, *For FY24

Exhibit 74: Cost per Employee – FY24 – Rs. mn



Source: Companies, YES Sec – Research

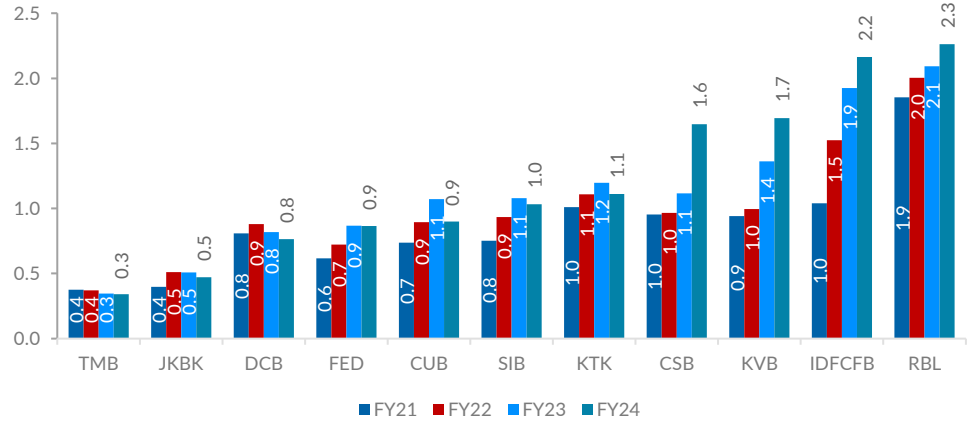
Exhibit 75: Employee per Branch – FY24 – Nos.



Source: Companies, YES Sec – Research

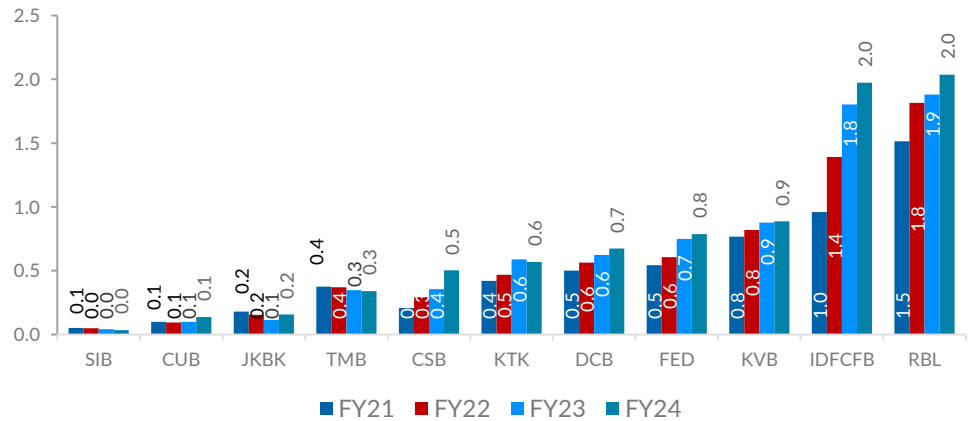
Fee Income aspects

Exhibit 76: Core Fee Income to Average Assets – FY21 - FY24 - %



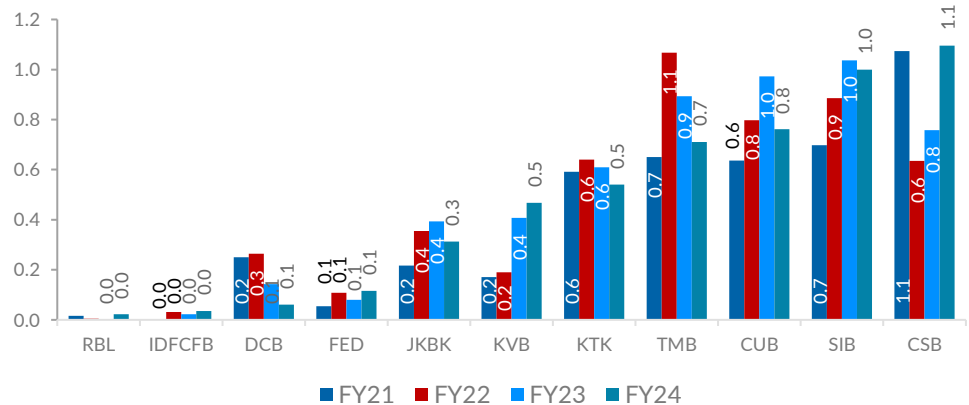
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 77: Commission, Exchange and Brok. to Avg. Assets – FY21 - FY24 - %



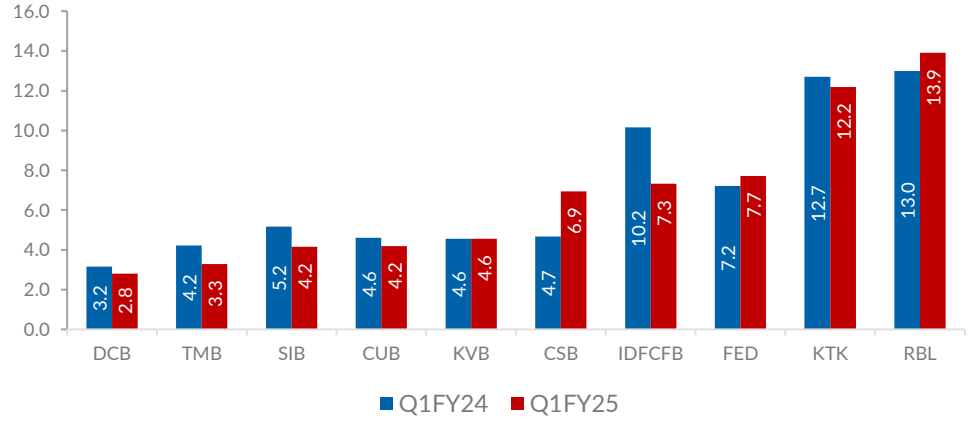
Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 78: Miscellaneous income to Avg. Assets – FY21 - FY24 - %



Source: Companies, YES Sec – Research, Sorted on FY24

Exhibit 79: Share of Non-funded credit in total credit - as per Basel 3 disclosure - 1QFY24, 1QFY25 - %



Source: Companies, YES Sec - Research, Sorted on 1QFY25

Risk factors

- KVB has a geographical presence in south India, particularly in Tamil Nadu, which represents a failure to diversify distribution reach adequately. This could lead to a growth slowdown if regional market share peaks out.
- KVB still has a somewhat high proportion of BB and below corporate loan book and if the benign corporate credit cycle gives away to systemic stress, it could lead to material migration of sub-investment grade accounts to default state.

MANAGEMENT TEAM

MR. B RAMESH BABU, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. B Ramesh Babu is a Strategic planner with comprehensive managerial acumen, offering varied experience in Banking and excelled in every assignment creating high performance organization through various successful HR initiatives and Relationship Management. He has deeper Analytical skills, Managing Crisis effectively, Strong abilities for goal setting, executing result oriented strategic initiatives even under high stress scenarios and tight timelines. He is a Post Graduate in Commerce from Andhra University, Waltair and a Certified Associate of the Indian Institute of Bankers. Prior to joining the Bank as MD & CEO, he was Ex-Deputy Managing Director & Chief Operating Officer in State Bank of India and has experience of developing and overseeing the Retail Business and Banking Operations for more than 21,000 retail branches and 1,20,000 other touch points of the Bank (ATMs/ Customer Service Points) successfully. He has extensive experience in redressing pain-points in Customer Service related areas and furthering Financial Inclusion by actively leveraging the services of Business Correspondents in SBI.

MR. RAMSHANKAR R, CHIEF FINANCIAL OFFICER

Mr. Ramshankar R has over 25 years of varied experience in Finance, Accounts and Banking. He started his career in Finance & Accounts with India Motor Parts and Accessories Limited (TVS Group Company) in 1997. He moved to banking in 2002. He joined as a Credit Analyst in ING Vysya Bank, New Delhi and later moved to ICICI Bank, New Delhi as Relationship Manager, Wholesale banking where he managed SME, Mid Markets and large corporate relationships. He moved to HDFC Bank, Corporate Banking, Chennai in 2007, after managing large corporate relationships, he assumed the role of Territory Head Business Banking, Chennai. 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. His experience in handling credit relationships of SME, Mid and large corporate has given him thorough experience in financial analysis and interpretation of the financial statements of Banks, NBFCs etc. Mr. Ramshankar is a Fellow Member of Institute of Chartered Accountants of India (ICAI). He holds DISA, Information Systems Audit – conducted by ICAI, Certificate in GST conducted by ICAI and IIBF's certificate in Resolution of Stressed Assets with special emphasis on Insolvency & Bankruptcy Code for Bankers.

MR. S T GOPAL, HEAD-RETAIL LIABILITIES

MR. CHANDRASEKARAN MS, CGM AND COO

MR. K V S M SUDHAKAR, CGM & CHIEF COMPLIANCE OFFICER

MR. V SRINIVASAN, HEAD-CREDIT MONITORING, LEGAL & RECOVERY

MR. S SEKAR, CHIEF INFORMATION OFFICER

MR. K MAHENDRAN, HEAD-PRECIOUS METAL DIVISION

MR. SHEKAR RAMARAJAN, CORPORATE AND INSTITUTIONAL GROUP

MR. IMMANUEL GNANARAJ DANIEL, CHIEF HR OFFICER

MR. L MURALI, HEAD- INTERNAL AUDIT

MR. RAMANJANEYA KUMAR, HEAD- COMMERCIAL BANKING

MR. JATLA SIVARAMAKRISHNA, CHIEF RISK OFFICER

MR. NITIN RANGASWAMI, HEAD- RETAIL ASSETS

MR. SRINIVASARAO MADDIRALA, COMPANY SECRETARY

BOARD OF DIRECTORS

DR. MEENA HEMCHANDRA, NON-EXECUTIVE INDEPENDENT (PART-TIME) CHAIRPERSON

Dr Meena Hemchandra is a career central banker with over 35 years of experience in various departments of Reserve Bank of India. She was 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. Her earlier experience includes treasury management, having headed the Department of External Investment and Operations (a department that manages the country's forex reserves) between 2005 and 2011. She also has expertise in foreign exchange regulations having worked in the Foreign Exchange Department at various points in her career. She has in-depth understanding of corporate governance and corporate balance sheets having worked in departments relating to large corporate finance, supervision over banks and from her long board tenures. Her Board experience of over nine years includes Reserve Bank of India nominee directorship on the Boards of Union Bank of India, Canara Bank and ECGC. She also held directorial positions with Suryoday Small Finance Bank Limited and CFM ARC Pvt. Ltd post retirement. Presently she is an independent director on the Board of Clearing Corporation of India Limited. Dr Meena Hemchandra holds Bachelor of Arts (Economics) from Calcutta University; Master of Arts (Economics) from Madurai Kamaraj University; PhD in Economics from Gokhale Institute of Politics and Economics, Pune (Thesis-'An Early Warning Framework for Financial Stress'). Her executive education includes EDP on Advanced Risk Management from Wharton (USA), CFA (Chartered Financial Analyst) (India), CAIIB, Diploma in C++ Programming from CMC, and 1-year PG programme (online) in Data Science and Business Analytics (University of Texas-Austin/Great Lakes Institute-Delhi).

MR. B RAMESH BABU, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. B Ramesh Babu is a Strategic planner with comprehensive managerial acumen, offering varied experience in Banking and excelled in every assignment creating high performance organization through various successful HR initiatives and Relationship Management. He has deeper Analytical skills, Managing Crisis effectively, Strong abilities for goal setting, executing result oriented strategic initiatives even under high stress scenarios and tight timelines. He is a Post Graduate in Commerce from Andhra University, Waltair and a Certified Associate of the Indian Institute of Bankers. He has expertise in "International Factoring" with hands on experience in handling Payment and settlement systems and passed with Distinction "Diploma in International Factoring" conducted by Factors Chain International, Netherlands. Prior to joining the Bank as MD & CEO, he was Ex-Deputy Managing Director & Chief Operating Officer in State Bank of India and has experience of developing and overseeing the Retail Business and Banking Operations for more than 21,000 retail branches and 1,20,000 other touch points of the Bank (ATMs/ Customer Service Points) successfully. He has extensive experience in redressing pain-points in Customer Service related areas and furthering Financial Inclusion by actively leveraging the services of Business Correspondents in SBI.

MR. K G MOHAN, NON-EXECUTIVE INDEPENDENT DIRECTOR

Mr. KG Mohan is a senior Information Technology professional with hands on experience in business management and transformation exercise, strategic deployment and cyber security framework using technology in various business processes to organizations. He mixes sharp business sense and experienced leadership skills with international operating experience in strategic IT Business value delivery. He is an IIT Madras alumni with a PGDIE from NITIE. He held varied global IT leadership positions at FMCG giant Unilever for 27 years and subsequently at Healthcare leader Johnson & Johnson for 4 years. Currently, he is the Managing Partner of ASIMA Consulting LLP providing consulting inputs in the strategic deployment of technology to various organizations. He is also a Partner with Social Venture Partner Philanthropy Foundation and works for enhancing livelihood for the under privileged.

DR. HARSHAVARDHAN R, NON-EXECUTIVE INDEPENDENT DIRECTOR

Dr. Harshavardhan Raghunath is an Independent business advisor. He was Senior Advisor to leading international management consulting firm Bain & Company and led its financial services practice in India. He joined Bain in 2010 after spending over 14 years with other international consulting firms including the Boston Consulting Group and Arthur Andersen. He has also worked in the Banking industry for about 2 years as an analyst and trader. He has worked primarily in the financial services - Banking - retail and corporate, private banking and wealth management, insurance, asset management, etc., - where he has advised top management of companies in India, North America, Europe, South East Asia and Greater China, on issues of strategy, operations, organisation, risk management, etc. He has hands on experience in management consultancy and his key works include the areas of corporate finance, valuations, Banking/financial services operations viz; process reengineering, cost rationalisation, Business management and payment & settlement systems, etc., private equity and strategic investors, strategic due diligence, etc. He is also Board member of National Commodity Clearing Limited which is responsible for clearing and settlement services of all trades executed on the exchange and provide transparent risk management platform for the collective benefit of the agri-ecosystem. He has a Bachelor degree in Mechanical Engineering from VNIT Nagpur followed by an MBA from IIM Kolkata, and an MS in Quantitative Finance and PhD in Business Economics & Strategy from the Smith School of Business at the University of Maryland USA.

MR. MURALI RAMASWAMI, NON-EXECUTIVE INDEPENDENT DIRECTOR

Mr. Murali Ramaswami is a seasoned banker having wide experience for more than 30 years. He started his career in 1984 and he was involved in various facets of Banking sector essentially in Credit, Treasury, International Operations, Cash Management, Integration Management, Digital Banking and Information Technology Initiatives. He started his career in banking domain with Vijaya Bank, during the span of 30 years in Vijaya Bank, he rose to the position of Executive Director. In his career at Vijaya Bank, he held important positions in Credit, Operations and also as CFO of the bank. He has also worked as an Executive Director in Bank of Baroda during the year 2019-2020. He served as a nominee director in M/s India Infra Debt Ltd and M/s BOB Capital Markets Ltd during his tenure in Bank of Baroda. Mr. Murali Ramaswami is well versed with all areas of Banking Sector. He is advisor to M/s Chartered Finance Management Private Limited. Mr Murali Ramaswami is a B.Com graduate from Madras University, AICWA from the Institute of Cost & Works Accountants of India, DBF from the Institute of Chartered Financial Analysts of India, CAIIB from the Indian Institute of Bankers, MBA from University of Madras - Specialized in Corporate Finance, Foreign Trade & Market research.

MR. CHINNASAMY GANESAN, NON-EXECUTIVE INDEPENDENT DIRECTOR

Mr. Chinnasamy Ganesan is a Chartered Accountant having more than 34 years of experience in the area of audit. He handled Indian and multi-national clients in automotive, auto ancillary, IT/ ITES, BPOs, KPOs, telecom, industrial markets, consumer markets, pharma/ healthcare, transport/ logistics, shipping management, BSRE, oil and gas, plantation, banking, financial services and insurance sector. He was the lead partner for many Indian and multi-national companies and carried out audits, advisory on international financial reporting, taxation, due diligence and other assurance services. Mr. Chinnasamy Ganesan has more than 25 years of extensive knowledge and experience in carrying out bank audit and in training bank officials in financial reporting. He specialises in Financial Reporting (including Ind AS, IFRS and US GAAP), Company law matters, audit and taxation and was conferred Honorary Doctorate ("honoris causa") in International Financial Reporting Standards for his extensive contribution to Ind AS and IFRS by a renowned foreign university.

MR. R RAMKUMAR, NON-EXECUTIVE NON-INDEPENDENT DIRECTOR

Mr. R Ramkumar hails from the promoter's family. He has Completed Bachelor of Arts in Corporate Secretaryship (B.C.S.,) from Loyola College, Chennai and Masters in Business Administration (M.B.A.,) in Human Resources. He has rich experience in the business of textiles and export of home textiles. He has widely travelled overseas for his export business and also has a business interest in certain finance firms.

MR. R VIDHYA SHANKAR, NON-EXECUTIVE INDEPENDENT DIRECTOR

Mr. R Vidhya Shankar holds a Bachelor of Commerce and Bachelor of Law degree from Bharathiyar University, Coimbatore. He is a Gold Medalist and holds the record for a very rare first class in Law at Bharathiyar University. He is the senior partner of M/s Ramani & Shankar, one of the oldest Law Firms in Western Tamil Nadu and much sought after lawyer in western Tamil Nadu for corporate litigations, transactions and opinions. He specialises in Corporate Law, including in corporate transactions, corporate restructuring, schemes and arrangements, corporate litigations, domestic and international arbitrations, capital market, FEMA compliances, cross-border transactions and general corporate advisory services. He has more than 100 reported decisions in the field of corporate law to his credit and he is regular speaker at the seminars and workshops of Bar Association, Chambers of Commerce and professional Institutes. Currently he serves as Director in Anugraha Valve Casting Ltd. Further, he is also a Governing Council member of the Chamber of Commerce, Coimbatore, and Executive Committee Member of the Planters Association of Tamil Nadu.,

MR. J NATARAJAN, EXECUTIVE DIRECTOR

Mr. J Natarajan joined in Karur Vysya Bank as a Trainee in the year 1982. Through his dedicated result oriented hard work, he moved up different levels and became General Manager of the Bank in the year 2010, Chief General Manager of the Bank in the year 2017 and President of the Bank in the year 2019 reporting to MD&CEO of the Bank. Further, he was appointed as an Executive Director of the Bank in the year 2024. Besides Branch Banking experience of 18 years, where he headed two very large branches and a very large division covering Western and Northern States, he has extensive work experience in Treasury, Finance and Merchant Banking. During his tenure as head of Data Centre in the year 2004, Bank has implemented core banking solution across the Bank in a record time. He headed Digital Transformation team and instrumental in creating Digital Lending System in the year 2018, wherein, Bank has migrated to end to end digital Loan origination using algorithm based underwriting engine and by connecting fintech partners in real time using API technology. During his tenure as President, to mitigate Operation Risk, Bank has created Centralised Operation Centre at Coimbatore by moving back office works from branches and Centralised Expenses Management Centre at Chennai to have effective cost control.

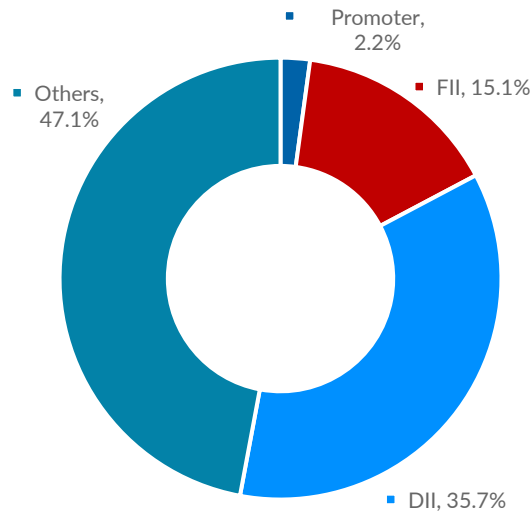
TOP SHAREHOLDERS AND SHAREHOLDING PATTERN

Exhibit 80: Top 15 Shareholders (as on 17th September 2024)

Sr. No.	Shareholder	(%)
1	HDFC Asset Management Co Ltd	5.89
2	Jhunjhunwala Rakesh	4.50
3	Nippon Life India Asset Management	4.15
4	HSBC Mutual Fund	4.05
5	SBI Funds Management Ltd	4.01
6	Ntasian Discovery Master Fund	2.63
7	Franklin Resources Inc	2.63
8	Axis Asset Management Co Ltd	2.10
9	Emirate of Abu Dhabi United Arab E	1.98
10	Vanguard Group Inc/The	1.66
11	Dimensional Fund Advisors LP	1.51
12	UTI Asset Management Co Ltd	1.46
13	Dhawan Ashish	1.30
14	Agrawal Mukul	1.25
15	Tata Asset Management Pvt Ltd	1.21

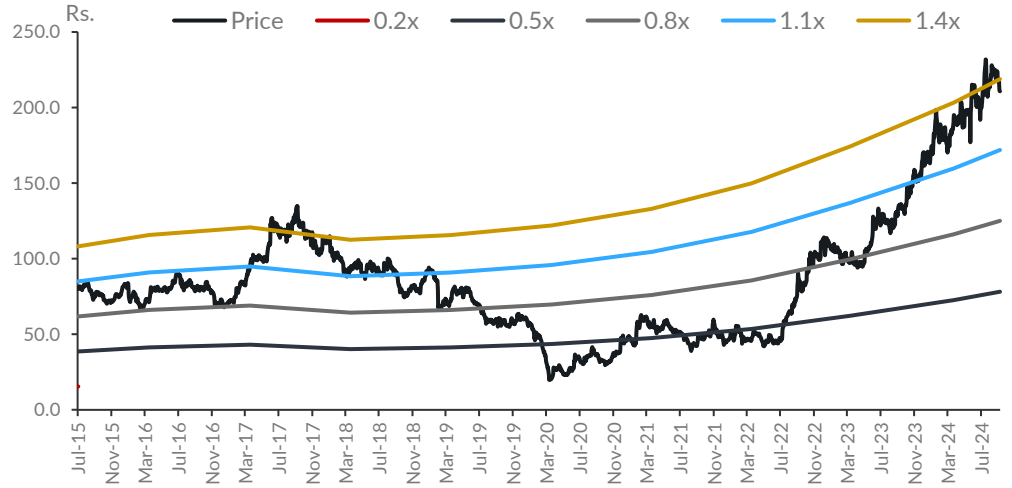
Source: Bloomberg, YES Sec – Research

Exhibit 81: Shareholding Pattern (as of June 2024)



Source: NSE, YES Sec – Research

Exhibit 82: 1-year rolling P/BV band



Source: Company, YES Sec - Research

Exhibit 83: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research

ANNUAL FINANCIALS

Exhibit 84: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Total cash & equivalents	46,951	56,586	64,809	74,043	85,150
Investments	188,083	223,435	254,810	293,032	336,987
Advances	631,341	736,675	847,176	974,252	1,120,390
Fixed assets	4,350	4,329	4,762	5,238	5,762
Other assets	31,068	34,827	41,793	50,152	60,182
Total assets	901,794	1,055,852	1,213,350	1,396,717	1,608,470
Net worth	85,841	100,401	116,520	135,892	159,069
Deposits	766,376	891,127	1,023,729	1,176,220	1,351,586
Borrowings	14,320	24,784	30,309	36,662	43,969
Other liabilities	35,258	39,540	42,793	47,942	53,846
Total liabilities incl. Equity	901,794	1,055,852	1,213,350	1,396,717	1,608,470

Source: Company, YES Sec – Research

Exhibit 85: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	65,165	82,039	95,131	110,231	126,758
Interest expense	(31,677)	(43,947)	(52,272)	(60,441)	(69,605)
Net interest income	33,488	38,092	42,859	49,790	57,153
Non-interest income	11,589	16,587	16,036	18,414	21,176
Total income	45,077	54,679	58,894	68,204	78,329
Operating expenses	(20,320)	(26,388)	(28,063)	(31,482)	(35,329)
PPoP	24,758	28,291	30,831	36,722	43,000
Provisions	(10,389)	(7,290)	(7,087)	(8,533)	(9,737)
Profit before tax	14,369	21,002	23,744	28,189	33,263
Taxes	(3,308)	(4,954)	(5,936)	(7,047)	(8,316)
Net profit	11,061	16,048	17,808	21,142	24,947

Source: Company, YES Sec – Research

Exhibit 86: Du Pont Analysis (RoA tree)

Y/e 31 Mar (%)	FY23	FY24	FY25E	FY26E	FY27E
Interest income	7.7	8.4	8.4	8.4	8.4
Interest expense	-3.7	-4.5	-4.6	-4.6	-4.6
Net interest income	3.9	3.9	3.8	3.8	3.8
Non-interest income	1.4	1.7	1.4	1.4	1.4
Total income	5.3	5.6	5.2	5.2	5.2
Operating expenses	-2.4	-2.7	-2.5	-2.4	-2.4
PPoP	2.9	2.9	2.7	2.8	2.9
Provisions	-1.2	-0.7	-0.6	-0.7	-0.6
Profit before tax	1.7	2.1	2.1	2.2	2.2
Taxes	-0.4	-0.5	-0.5	-0.5	-0.6
Net profit	1.3	1.6	1.6	1.6	1.7

Source: Company, YES Sec – Research

Exhibit 87: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Net interest income	23.3	13.7	12.5	16.2	14.8
PPoP	51.9	14.3	9.0	19.1	17.1
Net profit	64.3	45.1	11.0	18.7	18.0
Loans	15.5	16.7	15.0	15.0	15.0
Deposits	11.9	16.3	14.9	14.9	14.9
Profitability Ratios (%)					
Net interest margin	4.2	4.2	4.1	4.1	4.1
Return on Average Equity	13.7	17.2	16.4	16.8	16.9
Return on Average Assets	1.3	1.6	1.6	1.6	1.7
Per share figures (Rs)					
EPS	13.8	20.0	22.1	26.3	31.0
BVPS	107	125	145	169	198
ABVPS	101	121	142	167	196
Valuation multiples					
P/E	15.2	10.5	9.5	8.0	6.8
P/BV	2.0	1.7	1.5	1.2	1.1
P/ABV	2.1	1.7	1.5	1.3	1.1
NIM internals (%)					
Yield on loans	9.0	10.0	10.0	10.1	10.1
Cost of deposits	4.2	5.1	5.2	5.2	5.2
Loan-deposit ratio	82.4	82.7	82.8	82.8	82.9
CASA ratio	33.2	30.4	29.5	29.5	29.5
Opex control (%)					
Cost/Income ratio	45.1	48.3	47.6	46.2	45.1
Cost to average assets	2.4	2.7	2.5	2.4	2.4
Capital adequacy (%)					
Tier 1 capital ratio	16.8	15.5	15.2	15.1	14.8
Asset quality (%)					
Slippage ratio	0.8	0.7	0.9	1.0	1.1
Gross NPL ratio	2.3	1.4	1.4	1.5	1.6
Credit cost	1.2	0.6	0.8	0.8	0.8
Net NPL ratio	0.8	0.4	0.3	0.2	0.2

Source: Company, YES Sec – Research

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