

The Karur Vysya Bank Limited

November 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Short-term fixed deposit	12,000.00	CARE A1+	Assigned
Fixed deposit	-	CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to fixed deposits ratings of The Karur Vysya Bank Limited (KVB) factors in its long track record of operations, with diversified advances profile, comfortable capitalisation levels, stable resource profile, improved asset quality and healthy profitability levels.

The bank's advances grew by 16% year-on-year, reaching ₹74,423 crore as of March 31, 2024, compared to ₹64,168 crore on March 31, 2023. In the last two years, the bank's asset quality has significantly improved, with Gross non-performing assets (GNPA) and Net NPA (NNPA) reducing to 1.40% and 0.40% respectively as of March 31, 2024, from 2.27% and 0.74% on March 31, 2023, due to lower slippages and better recoveries.

CARE Ratings Limited (CARE Ratings) takes note of the bank's stable resource profile with retail term deposits/total term deposits at 80% as on March 31, 2024, against 85% as on March 31, 2023, and current account savings account (CASA) of 30% as on March 31, 2024, against 33% as on March 31, 2023.

However, ratings strengths are partially offset by moderate scale and regional concentration of advances. As on March 31, 2024, KVB operates across a network of 838 branches, and has strong presence in South India with Tamil Nadu comprising 45% of the portfolio.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Factors that could individually or collectively, lead to positive rating action/upgrade:

- Significant increase in scale of operations along with geographical diversification of advances while maintaining stable asset quality and profitability.

Negative factors – Factors that could individually or collectively, lead to negative rating action/downgrade:

- Decline in capital adequacy ratio (CAR) with cushion over the minimum regulatory requirement falling below 3.5%.
- Decline in asset quality with NNPA ratio above 3.0% on a sustained basis.
- Decline in profitability with return on total assets (ROTA) below 1% on a sustained basis.
- Decline in the ratio of retail term deposits to total term deposits on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of the steady growth in advances with comfortable capitalisation levels while maintaining stable profitability levels.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers

Key strengths

Long operational track record

Established in 1916 in the town of Karur, Tamil Nadu, KVB is one of the old private sector banks. The bank has a proven track record of over 100 years with strong presence in south India, particularly in Tamil Nadu. As on September 30, 2024, KVB had network of 841 branches and 2,208 ATMs. The Board consists of ten directors, including seven independent directors.

Comfortable capitalisation levels

The bank's capital adequacy has remained comfortable above 15% in the last five years, supported by internal accruals. The bank's capital adequacy ratio (CAR) and Tier-1 CAR stood at 16.67% and 15.46% as on March 31, 2024, against 18.56% and 16.79% as on March 31, 2023. Moderation in capitalisation is factoring in the growth of 16% in advances, however, bank's capital remains adequately above regulatory requirements. As on September 30, 2024, CAR and Tier-I CAR stood at 16.28% and 15.39%. CARE Ratings Limited expects CAR levels to remain adequate for growth in the medium term.

Diversified advances profile

The bank has achieved significant progress in diversifying its loan portfolio with focus towards commercial, retail and agri. Gross advances grew by 16% (y-o-y) supported by 21% growth in commercial segment, followed by retail, agri with growth of 18% and 17% respectively and relatively slow growth of 5% in corporate segment. Share of corporate segment has reduced gradually over the years and stood at 19% as on March 31, 2024, while commercial segment contributes 34% of advances book, followed by retail and agriculture segments, which contribute ~24% and 23% respectively as on March 31, 2024. As on September 30, 2024, commercial segment comprised 36% followed by retail and agri at 25% and 23% respectively, while corporate segment continues to decline to 16% of advances portfolio.

CARE Ratings expects momentum in growth to continue with predominant focus on commercial and retail segments.

Healthy profitability levels

The bank has shown consistent improvement in profitability in the last five years ending March 31, 2024, and positive momentum continues in H1FY25. In FY24, net interest margin (NIM) (Net Interest Income as a % of average total assets) remained stable at 3.9% (PY: 3.9%). Non-interest income (as a percentage of average total assets) improved to 1.69% in FY24 from 1.36% in FY23. Operating Expenses (as a percentage of average total assets) increased to 2.7% in FY24 from 2.4% in FY23. Pre-provisioning operating profit (PPOP) improved to ₹ 2,829 crore in FY24 as from ₹2,476 crore in FY23. With improved asset quality, credit cost improved to 0.7% in FY24 from 1.2% in FY23. The bank reported profit after tax (PAT) of ₹1,605 crore in FY24 from ₹1,106 crore in FY23. ROTA improved to 1.6% in FY24 from 1.3% in FY23.

In H1FY25, the bank's NIM remained stable at 3.8% (PY: 3.8% in H1FY24). Non-interest income (as a percentage of average total assets) improved to 1.6% in H1FY25 from 1.4% in H1FY24. Operating expenses (as a percentage of average total assets) remained stable at 2.5% (PY: 2.5% in H1FY24). PPOP improved to ₹1,562 crore in H1FY25 from ₹1,286 crore in H1FY24. With stable asset quality levels, credit cost remained at 0.6% (PY: 0.6% in H1FY24). Thus, the company reported PAT of ₹932 crore in H1FY25 against PAT of ₹737 crore in H1FY24.

Improved asset quality parameters

Asset quality has witnessed sustained improvement over the years aided by lower slippages and write-offs. GNPA and NNPA improved and stood at 1.40% and 0.40% respectively as on March 31, 2024, against 2.27% and 0.74% as on March 31, 2023. The bank's slippages improved to 0.8% in FY24 (PY: 0.9%) Asset quality continues to improve in H1FY25, GNPA and NPA stood at 1.10% and 0.28% respectively as on September 30, 2024. Provisioning coverage ratio (PCR) stood stable at 94.8% as on March 31, 2024 (92.1% as on March 31, 2023).

Outstanding standard restructured advances declined from ₹976 crore as on March 31, 2023 (1.5% of gross advances) to ₹715 crore as on March 31, 2024 (0.9% of gross advances) and further to ₹631 crore as on September 30, 2024 (0.8% of gross advances). The bank's gross stressed assets ((GNPA + Standard Restructured advances + Security Receipts) as a percentage of gross advances) improved from 4.51% as on March 31, 2023, to 2.87% as on March 31, 2024, and further to 2.21% as on September 30, 2024. CARE Ratings expects the bank's asset quality to remain stable in the medium term.

Stable Resource Profile

The bank's resource profile mainly consists of deposits comprising 93% of total liabilities as on March 31, 2024. Reliance on external borrowings is limited to borrowings from RBI, and other financial institutions.

Total deposits grew by 16% in FY24 and stood at ₹89,113 crore as on March 31, 2024, against ₹76,638 crore as on March 31, 2023. In H1FY25, deposits grew by 8% and stood at ₹95,839 crore as on September 30, 2024. The bank has a granular deposit profile with retail term deposits comprising 80% of total term deposits as on March 31, 2024 (76% of total term deposits as on September 30, 2024). The proportion of low-cost CASA deposits moderated to 30.39% as on March 31, 2024, against 33.21% as on March 31, 2023 (29.46% as on September 30, 2024). However, CARE Ratings notes that CASA in absolute numbers has remained stable, and term deposits (including Certificate of Deposits) grew by 21%. The bank's CD ratio stood at 83% as on March 31, 2024, against 82% as on March 31, 2023 (83% as on September 30, 2024).

Key weaknesses

Moderate scale and regional concentration of operations

KVB is one of the medium sized banks in India with deposits of ₹89,113 crore and advances of ₹74,423 crore as on March 31, 2024. The bank's total business crossed ₹1.6 lakh crore as on March 31, 2024, and stood at ₹1.7 lakh crore as on September 30, 2024. The bank's operations are mainly concentrated in south India, especially Tamil Nadu. As on March 31, 2024, Tamil Nadu accounted for 45% of the total advances, whereas south India accounted for 78% of the advances. The bank has its presence in 22 states across 838 branches as on March 31, 2024. CARE Ratings expects advances to remain concentrated in the medium term.

Liquidity: Adequate

As per the bank's structural liquidity statement as on September 30, 2024, the bank has no negative cumulative mismatches up to one year. KVB's liquidity coverage ratio remained comfortable at 128% as on September 30, 2024, against minimum regulatory requirement of 100%. In addition, the bank consistently maintains excess statutory liquidity ratio (SLR) investments, which provide a cushion to its liquidity profile. KVB had excess SLR investments of ₹3,343 crore as on September 30, 2024, aggregating 3.48%. The bank has access to systemic liquidity by way of RBI's LAF and MSF schemes.

Environment, social, and governance (ESG) risks

Given that KVB is engaged in the lending business, it may be exposed to environmental risks indirectly through its portfolio of assets. With financial inclusion being the prime agenda, the banking sector has a social impact on the economy. KVB remains steadfast in its commitment to environmental and social stewardship. The bank integrated ESG considerations in its operational and policy framework. KVB's environmental initiatives have been enhanced by strategic investments that reduce carbon footprint and promote green energy and finance. The bank has introduced 'KVB Green Deposits' thereby showing commitment to eco-friendly financial products. The bank has also incorporated a section dedicated to ESG considerations into the credit policy, which is periodically updated to reflect the latest RBI regulations, and has instituted an ESG due diligence framework, ensuring that ESG factors are thoroughly evaluated in the credit sanctioning process. The bank is further setting quantifiable targets and expanding the application of ESG principles across all business practices. The bank is continuously refining strategies to ensure that business decisions are in line with sustainable practices. The bank has implemented robust mechanisms for tracking and reporting key environmental data, such as carbon emissions and energy consumption, to foster accountability and continuous improvement.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Bank](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Banks	Private Sector Bank

Established in 1916 in the town of Karur, Tamil Nadu, KVB has strong presence in south India, particularly Tamil Nadu. As on September 30, 2024, the bank has network of 841 branches, 2,208 ATMs spread across the country.

The bank's total business stood at ₹1,62,780 crore as on March 31, 2024, with deposits of ₹89,113 crore and net advances of ₹73,667 crore. (₹1,75,457 crore as on September 30, 2024, with deposits of ₹95,839 crore and net advances of ₹79,619 crore).

Brief Financials (₹ crore)	March 31, 2023(A)	March 31, 2024(A)	September 30, 2024(UA)
Total operating income	7,675	9,863	5,529
PAT	1,106	1,605	932
Total assets	90,179	1,05,585	1,12,573
Net NPA (%)	0.74	0.40	0.28
ROTA (%)	1.30	1.64	1.71

A: Audited UA: Unaudited. Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Short Term Fixed Deposit	-	-	-	-	12000.00	CARE A1+
Fixed Deposit	-	-	-	-	-	CARE AA; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fixed Deposit	ST	12000.00	CARE A1+				
2	Fixed Deposit	LT	0.00	CARE AA; Stable				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple

Annexure-5: Lender detailsTo view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact Us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Sanjay Agarwal Senior Director CARE Ratings Limited Phone: +91-22-6754 3500 E-mail: sanjay.agarwal@careedge.in
Relationship Contact Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-44- 2850 1001 E-mail: pradeep.kumar@careedge.in	Vineet Jain Senior Director CARE Ratings Limited Phone: +91-44-6754 3456 E-mail: vineet.jain@careedge.in Ravi Shankar R Associate Director CARE Ratings Limited Phone: +91-44-2850 1016 E-mail: ravi.s@careedge.in

About us:

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Disclaimer:

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