**June 20, 2025**

# The Karur Vysya Bank Limited: Ratings reaffirmed and amount enhanced for certificates of deposit programme

## Summary of rating action

| Instrument* | Previous rated amount (Rs. crore) | Current rated amount (Rs. crore) | Rating action |
|---|---|---|---|
| **Certificates of deposit** | 5,000.00 | 10,000.00 | [ICRA]A1+; reaffirmed/assigned for enhanced amount |
| **Issuer Rating** | - | - | [ICRA]AA (Stable); reaffirmed |
| **Total** | **5,000.00** | **10,000.00** | |

**Instrument details are provided in Annexure I*

## Rationale

The rating continues to factor in the comfortable buffer maintained by The Karur Vysya Bank Limited (KVB) for its Tier I capital ratio as on March 31, 2025 which is largely supported by the advances mix, with the high share of gold loans attracting nil risk weights, and the improved and healthy rate of internal accruals in recent years. KVB's return on average total assets (RoA) increased to 1.73% in FY2025 from 1.64% in FY2024 (<1.0% between FY2020 and FY2022). The enhanced earnings profile was supported by the improvement in the bank's asset quality profile in recent years, characterised by a lower fresh non-performing advances (NPA) generation rate as well as healthy recoveries thereby resulting in a decline in credit costs. The headline asset quality metrices have also remained steady with gross NPAs (GNPAs) and net NPA (NNPA) ratios at 0.76% and 0.20%, respectively, as on March 31, 2025, compared to 1.40% and 0.40%, respectively, as on March 31, 2024 and much lower than levels of 8.7% and 3.9%, respectively, as on March 31, 2020.

KVB's current account and savings account (CASA) ratio stood at 27.3% as on March 31, 2025, continuing to be lower than the private sector banks' (PVB) average. The deposit base remains granular with limited dependence on wholesale deposits. Nonetheless, the asset quality continues to be a near-term monitorable as various macro-economic shocks, geopolitical concerns and persisting stress in the retail sector may lead to asset quality deterioration. Moreover, since the regional concentration of KVB's operations remains high, its assets and liabilities are exposed to local socio-economic and political risks.

The Stable outlook on the long-term rating reflects ICRA's expectation that the bank will be able to maintain a steady credit profile with healthy earnings, stable asset quality and comfortable capital cushions with the same expected to remain above the negative triggers.

## Key rating drivers and their description

### Credit strengths

**Comfortable capitalisation** – KVB's capitalisation profile remains comfortable with the reported core equity Tier I (CET I) and capital-to-risk weighted assets ratio (CRAR) at 17.12% and 18.17%, respectively, as on March 31, 2025 (15.46% and 16.67%, respectively, as on March 31, 2024). Further, the improvement in the bank's profitability in the last few years, with a return on equity (RoE) of 16.27% in FY2025 and 15.98% in FY2024, enhances its capitalisation profile. The relatively low risk-weighted density of the asset base is driven by the significant share of gold loans (~28% of net advances including agriculture gold loans), which attract nil risk weight. ICRA expects KVB to maintain comfortable cushions above the regulatory Tier I requirements of 9.5% and the negative triggers.

**Healthy earnings profile** – KVB's net interest margin (NIM) moderated to 3.78% (annualised) of average total assets in FY2025 from 3.89% in FY2024 because of the increase in the cost of funds amid challenges in deposit raising. Given the downward interest rate movement following the policy rate cuts, the NIM is likely to moderate further in FY2026 and is likely to result in moderation in overall earning profile of the bank compared to RoA of 1.73% in FY2025 (1.64% in FY2024). Notwithstanding the expected moderation in earnings, the RoA is expected to remain healthy and above ICRA's negative trigger of 1% in the near-to-medium term, provided there are no sudden asset quality shocks.

**Improved asset quality and solvency profile** – The improvement in KVB's headline asset quality in recent years has been sustained with the GNPA and NNPA at 0.76% and 0.20%, respectively, as on March 31, 2025 (1.40% and 0.40%, respectively, as on March 31, 2024) in contrast to the high levels of 8.68% and 3.92%, respectively, on March 31, 2020. This was driven by the moderation in the annualised fresh gross NPA generation rate to 0.66% in FY2025 (0.80% in FY2024) from the relatively higher level of ~4% in FY2020. Besides this, overall recoveries and upgrades remained healthy in FY2025. Further, the bank has increased the provision cover on its legacy stressed assets and reduced the NNPAs to 0.20% as on March 31, 2025 from 3.92% March 31, 2020. The solvency[1] level improved to 1.8% as on March 31, 2025 from 3.2% as on March 31, 2024 and the weaker level of 35.8% as on March 31, 2020. With the internal capital generation rate and capitalisation levels projected to remain healthy, ICRA expects the solvency to stay at a comfortable level in the near term.

**Established retail franchise resulting in granular asset and liability base** – KVB has an operational track record of more than 108 years and has established a retail franchise in southern India. Its branch network stood at 888 as on March 31, 2025, with more than 80% in the southern states of Tamil Nadu, Andhra Pradesh, Telangana, Kerala and Karnataka. Over the years, the bank has built a granular asset profile with the share of the top 20 exposures at 3.81% of total exposures as on March 31, 2025 (4.24% of as on March 31, 2024) and 35% of the Tier I capital as on March 31, 2025 (down from 42% as on March 31, 2024). Further, the deposit base remains granular with limited dependence on wholesale deposits, which is reflected in the high share (~78% of total term deposits as on March 31, 2025) of term deposits of less than Rs. 5 crore. KVB's credit-to-deposit ratio stood at 82% compared to ~89% for PVBs as on March 31, 2025.

The bank's CASA ratio stood at 27.3% as on March 31, 2025, remaining below the PVB average. However, due to limited dependence on external borrowings, KVB's cost of average interest-bearing funds stood at 5.59% in Q4 FY2025, quite close to the PVB average of 5.55%.

## Credit challenges

**Asset quality remains monitorable** – The bank's overall stressed book, comprising special mention account[2]-1 (SMA-1), SMA-2 and the standard restructured book, declined to Rs. 791 crore (0.9% of standard advances) as on March 31, 2025 from Rs. 996 crore (1.4%) as on March 31, 2024. While the stressed book has moderated and remains comparatively lower than the much higher levels in the past, its performance will remain monitorable in the near term from an asset quality perspective. Moreover, macro-economic factors, geopolitical concerns and the stress in the retail sector could impact borrowers' cash flows and debt servicing capacity. Against this backdrop, KVB's ability to contain slippages and maintain high recovery rates will remain key for sustaining healthy asset quality in the near-to-medium term. Furthermore, with high share of gold loans in overall loan book, the performance of this segment will remain exposed to regulatory changes as well as any sharp correction in gold loan prices.

**Moderate scale and geographically concentrated operations** – KVB had a modest market share of 0.46% in net advances and 0.45% in deposits as on March 31, 2025. Its operations remain geographically concentrated with more than 80% of its total branches (888) located in South India and ~55% in Tamil Nadu as on March 31, 2025 (54% as on March 31, 2024). These states also contributed ~76% to the bank's total advances exposure as on March 31, 2025. Moreover, as the liability profile is largely

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*[1] Solvency ratio = (NNPA + Net non-performing investments + Net security receipts)/CET I capital*

*[2] SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress, resulting in the borrower defaulting on the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days. The SMA-level data is for the entire bank, including exposures below Rs. 5 crore*

granular in nature, its geographical distribution would be similar. Such concentration exposes the bank's assets to local socio-economic and political risks. ICRA expects KVB's operations to remain regionally concentrated with the same unlikely to improve in the near-to-medium term.

## Environmental and social risks

While banks like KVB do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for banks. However, such risk is not material for KVB as it benefits from adequate portfolio diversification. Further, the lending is typically short to medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure. KVB has not faced material lapses over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. KVB has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

## Liquidity position: Strong

KVB's liquidity profile remains strong, supported by excess statutory liquidity ratio (SLR) holdings of 3.91% of net demand and time liabilities (NDTL) as on March 21, 2025. These holdings also aid the positive cumulative gaps across all the near-term maturity buckets as per the structural liquidity statement as on March 31, 2025. The bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at 126% and 143%, respectively, for the quarter ended March 31, 2025, remaining comfortably above the regulatory ask of 100%. Moreover, access to call money markets and the Reserve Bank of India's (RBI) repo and marginal standing facility (MSF) in case of liquidity-related exigencies strengthen KVB's liquidity profile.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the bank continues to maintain healthy asset quality and profitability while increasing the geographical diversification of its assets and liabilities.

**Negative factors** – ICRA could downgrade the ratings if there is a deterioration in the solvency profile with the same remaining weaker than 20% or if the cushion over the regulatory Tier I capital adequacy falls below 3% on a sustained basis. Further, the inability to internally generate growth capital (RoA below 1.0%) on a sustained basis or a deterioration in the liability franchise will be a negative trigger.

## Analytical approach

| Analytical approach | Comments |
|---|---|
| **Applicable rating methodologies** | Banks and Financial Institutions |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

Incorporated in 1916 by the local trader community, The Karur Vysya Bank (KVB) is one of the oldest private sector banks in the country. Based in South India, it was formed to provide financial support to traders and agriculturists in and around Karur, Tamil Nadu. As on March 31, 2025, it had a network of 888 branches with South India constituting more than 80% of the total branches. The bank's net advances stood at Rs. 84,005 crore as on March 31, 2025, with a presence in the corporate, commercial, retail and agriculture segments.

In FY2018, the bank embarked on a business model transformation to centralise its credit functions. In FY2020, it took a strategic initiative, KVB Neo, to enable business growth by leveraging technology and partnering with fintech companies. KVB reported a net profit of Rs. 1,942 crore in FY2025 on an asset base of Rs. 1,19,367 crore compared to Rs. 1,605 crore and Rs. 1,05,585 crore, respectively, in FY2024.

### Key financial indicators

| The Karur Vysya Bank | FY2024 | FY2025 |
|---|---|---|
| **Total operating income^** | 5,166 | 6,089 |
| **Profit after tax** | 1,605 | 1,942 |
| **Total assets (Rs. lakh crore)** | 1.06 | 1.19 |
| | | |
| **Return on average total assets** | 1.64% | 1.73% |
| **CET I** | 15.46% | 17.12% |
| **CRAR** | 16.67% | 18.17% |
| | | |
| **Gross NPAs** | 1.40% | 0.76% |
| **Net NPAs** | 0.40% | 0.20% |

*Source: Bank, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore unless mentioned otherwise*
*^Includes net interest income and non-interest income less trading gains, operating income for FY2025 includes trading gain/(loss) if any*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument | Current rating (FY2026) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type | Rated amount (Rs. crore) | | FY2025 | | FY2024 | | FY2023 | |
| | | | Jun 20, 2025 | Date | Rating | Date | Rating | Date | Rating |
| **Certificates of deposit** | Short term | 10,000.00 | [ICRA]A1+ | Jul 17, 2024 | [ICRA]A1+ | Nov 27, 2023 | [ICRA]A1+ | Nov 30, 2022 | [ICRA]A1+ |
| | | | | Nov 29, 2024 | [ICRA]A1+ | - | - | - | - |
| | | | | Dec 11, 2024 | [ICRA]A1+ | | | | |
| **Issuer Rating** | Long term | - | [ICRA]AA (Stable) | - | - | - | - | - | - |
| | | | | - | - | - | - | - | - |
| | | | | Dec 11, 2024 | [ICRA]AA (Stable) | - | - | - | - |
| **Basel III Tier II bonds** | Long term | - | - | Jul 17, 2024 | [ICRA]AA- (Stable); withdrawn | Nov 27, 2023 | [ICRA]AA- (Stable) | Nov 30, 2022 | [ICRA]A+ (Stable) |
| | | | | - | - | - | - | - | - |
| | | | | - | - | - | - | - | - |

*Source: Bank and ICRA Research*

## Complexity level of the rated instrument

| Instrument | Complexity indicator |
|---|---|
| **Certificates of deposit** | Very Simple |
| **Issuer Rating** | Not Applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click here

## Annexure I: Instrument details

| ISIN | Instrument name | Date of issuance | Coupon rate | Maturity date | Amount rated (Rs. crore) | Current rating and outlook |
|---|---|---|---|---|---|---|
| **INE036D16IC7** | **Certificates of deposit** | Jan 09, 2025 | 7.88% | Jan 09, 2026 | 550.00 | [ICRA]A1+ |
| **INE036D16IH6** | **Certificates of deposit** | Mar 19, 2025 | 7.77% | Jun 18, 2025 | 750.00 | [ICRA]A1+ |
| **INE036D16II4** | **Certificates of deposit** | Mar 19, 2025 | 7.85% | Mar 12, 2026 | 300.00 | [ICRA]A1+ |
| **INE036D16IJ2** | **Certificates of deposit** | Mar 25, 2025 | 7.70% | Jun 24, 2025 | 500.00 | [ICRA]A1+ |
| **INE036D16IK0** | **Certificates of deposit** | Apr 17, 2025 | 6.65% | Jul 17, 2025 | 475.00 | [ICRA]A1+ |
| **INE036D16IM6** | **Certificates of deposit** | May 23, 2025 | 6.66% | Aug 22, 2025 | 500.00 | [ICRA]A1+ |
| **INE036D16IL8** | **Certificates of deposit** | May 28, 2025 | 6.50% | Aug 26, 2025 | 500.00 | [ICRA]A1+ |
| **INE036D16IN4** | **Certificates of deposit** | Jun 10, 2025 | 6.20% | Sep 09, 2025 | 500.00 | [ICRA]A1+ |
| **INE036D16IO2** | **Certificates of deposit** | Jun 12, 2025 | 6.05% | Sep 11, 2025 | 900.00 | [ICRA]A1+ |
| **NA** | **Certificates of deposit** | NA | NA | NA | 5,025.00 | [ICRA]A1+ |
| **NA** | **Issuer Rating** | NA | NA | NA | - | [ICRA]AA (Stable) |

*Source: Bank, ICRA Research; Certificates of deposit (CDs) outstanding as on June 13, 2025*

## Annexure II: List of entities considered for consolidated analysis

Not applicable

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## ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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