

KOTAK MAHINDRA BANK LIMITED

...faster COF re-pricing led to NIMs compression

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Result and Price Analysis

Kotak Mahindra Bank (KMB) reported stable 2QFY24 results with the key pointers being: a) Strong NII (up 24% YoY and 1% QoQ) and steady provisions, b) GNPA/NNPA ratio stable at 1.72%/0.37%, c) restructured pool inched down to ₹5.3bn (15bps of advances) v/s ₹6.1bn in the previous quarter, d) credit off-take strong with growth of 18.5% YoY and 6% sequentially, e) covid provision held at ₹3.2bn as of 2QFY24, provision write-back worth ₹160mn, f) the total contingent provisioning (covid + Standard + Specific) stood 0.55% of net advances, h) Total PCR (including covid, general and specific provision) stood ~110% of GNPL amount, g) Headline NIM inched down 42bps QoQ to 5.15%. Moreover, increased Opex (C/I at 46.5%) led to sequentially lower ROA of ~2.48%. However, we see a weakness in fixed rate saving account growth. It has relatively weak liability franchises (v/s peers: HDFCB and ICICIB) that will be tested in FY24E as deposit competition is intensifying. Nevertheless, asset quality provides comfort for lower credit cost. Hence, the peak ROA (~3% in 4QFY23) likely to settle at the historical range of 2.2% - 2.4%. We recommend BUY factoring a best in class ROA of more than 2.5%.

Gazing the core

NPA ratio stable; covid provision write-back continues: The 2QFY24 witnessed a steady asset quality performance as GNPA/NNPA/PCR/SMA2 stood at 1.72%/0.37%/79%/0.04% against 1.77%/0.4%/78%/0.05% in the previous quarter. The GNPA/NNPA ratio increased sequentially on the back of seasonally higher slippages (₹13bn v/s ₹12bn in 1QFY24) and flat reductions (₹11.4bn v/s ₹10.6bn in 1QFY24). The absolute GNPA (₹60.8bn) increased sequentially by 3%. The SMA2 book stable at ₹1.6bn (4bps of loans). The management reiterated about the books' quality and see no visible area of stress. The total restructuring amount (covid + MSME) moderated to ₹5.3bn (0.15%) against ₹6.1bn (0.19%) in 1QFY24, out of which covid related restructuring is ~₹2bn and rest is MSME restructuring. The provisioning expenses stood at 3.7bn stable against the previous quarter. Nevertheless, the bank has utilized covid provision worth ₹160mn in this quarter. Covid provision continued to be held at ₹3.2bn and total provisions (excluding PCR) stood 0.55% of net loans.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	153,396	168,179	215,519	223,402	261,668
Operating Profit	122,147	120,509	148,480	157,318	182,592
Reported Profits	69,648	85,727	109,393	114,491	133,304
Net Worth	632,270	719,565	829,600	944,091	1,077,394
Loan & Advances	2,236,886	2,712,536	3,198,612	3,774,362	4,491,491
Int. Bearing Liabilities	3,042,507	3,381,512	3,870,123	4,442,852	5,152,923

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.3	4.3	4.9	4.4	4.5
C/I	41.3	48.0	48.1	48.1	48.0
Gross NPA	3.3	2.3	1.8	1.6	1.4
PCR	63.6	73.2	79.3	76.6	73.1
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2

Rating	BUY
Current Market Price (₹)	1,741
12M Price Target (₹)	2,124
Potential upside (%)	22

Stock Data

Sector:	Banking
FV (₹):	5
Market Cap Full (₹ bn):	3,452
Market Cap Free Float (₹ bn):	2,555
52-Week High / Low (₹):	2,064 / 1,644
BSE Code / NSE Symbol	500247 / KOTAKBANK
Bloomberg:	KMB IN

Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	25.93	25.94	25.95	25.95
FPIs	40.97	39.88	37.76	39.24
MFs	9.63	9.45	10.99	9.83
Insurance	8.58	8.43	8.60	8.56
Others	14.89	16.30	16.70	16.42

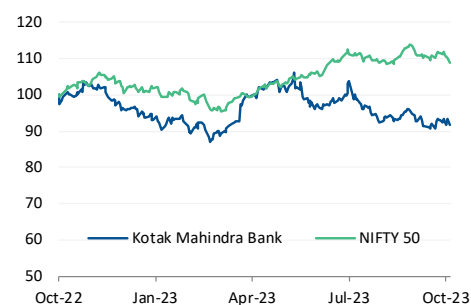
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
Kotak Bank	-0.9%	-11.6%	-8.1%	-8.2%
Nifty 50	-2.0%	-2.3%	9.4%	8.7%

* To date / current date : October 23, 2023

Kotak Bank vs Nifty 50



Strong Business Growth: The management believes the current environment as Goldilocks era with robust credit growth potential and lower defaults. Thus the bank's net advances (~₹3.5tn) grew by 18.5% YoY and 6% sequentially. Home loan & LAP (28% of book) will continue to be focus area and grew 4.2% sequentially. SME (6.9% of book) has grown by 9.8% QoQ. The bank's deposit stood at ~₹4tn grew by 23.3% YOY and 3.8% sequentially; CASA ratio moderated sequentially and stood at 48.3%. CRAR stood at 20% with Tier 1 of 19%.

Lower Treasury Income led to PPOP de-growth: As expected NIMs compression of 42bps and NII growth of 23.5% YoY and 1% QoQ. There were one-offs to the tune of ~15bps on account of impact of CRR, liquidity buffers which bank provided for in 2QFY24 and short term inflows which had to be invested in short term assets. Management guided majority of repricing on cost of deposits has already taken place. Moreover, the other income witnessed de-growth of 13.7% QoQ led by treasury income of ₹2.9bn. Fixed and Floating rate loans have proportion of 30% and 70% respectively. Out of EBLR loans, 57% is repo linked and 13% is MCLR linked. The management believes that the bank should be able to maintain NIM at 5% and more for FY24 even with policy rate cuts, if any. The C/I ratio increased 200bps and stands at 46.5%. Despite healthy NII growth, the other income de-growth and higher Opex led to PPOP de-growth of 6.9% sequentially. Moreover, moderate provision expenses has resulted in 24% YoY jump and 7.6% sequential de-growth in PAT. The bank ROA/ROE stood at 2.48%/14.3%.

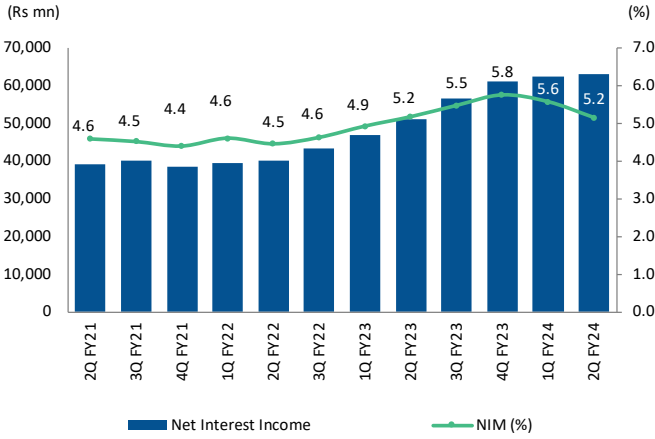
CEO Overhang comes to an end: Bank has received approval for new MD & CEO Mr. Ashok Vaswani. Tenure of current MD & CEO ends on 1st November 2023, Bank would apply for extension of tenure from smooth transitioning of leadership. Mr. Vaswani is expected to join on 1st January 2024.

Outlook & Valuations

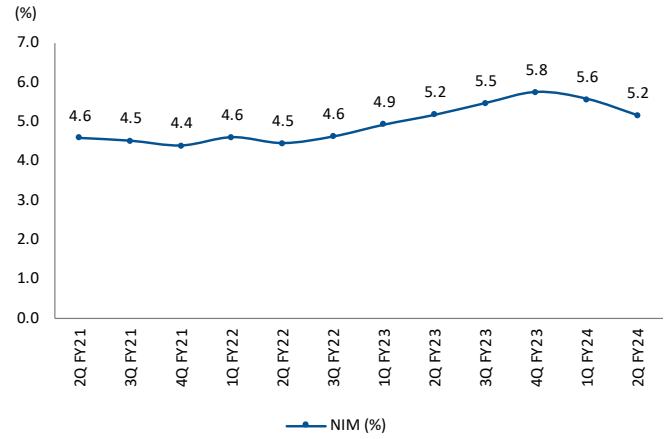
We expect KMB's loan book to grow at CAGR of ~18% over FY23-25E. At CMP of ₹1,741, the stock is available at 3.2(x) standalone FY25E Adj. BVPS of ₹539. Valuing the standalone entity with 3.8x FY25E BVPS and subsidiaries valuation at ₹74; we arrive at a target price of ₹2,124. We recommend BUY with a potential upside of ~22%.

Quarterly story in charts

NII Trend



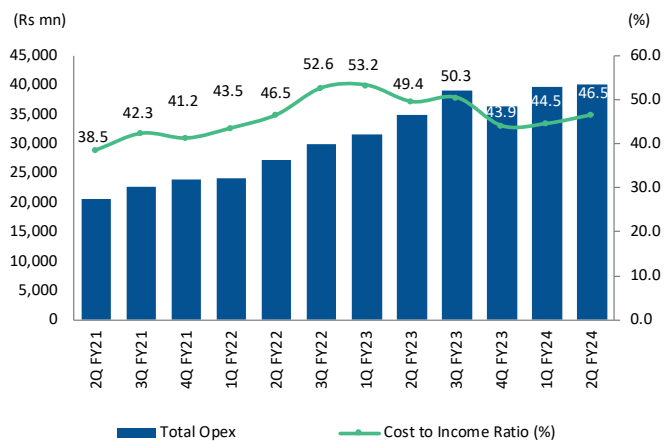
NIMs Trend



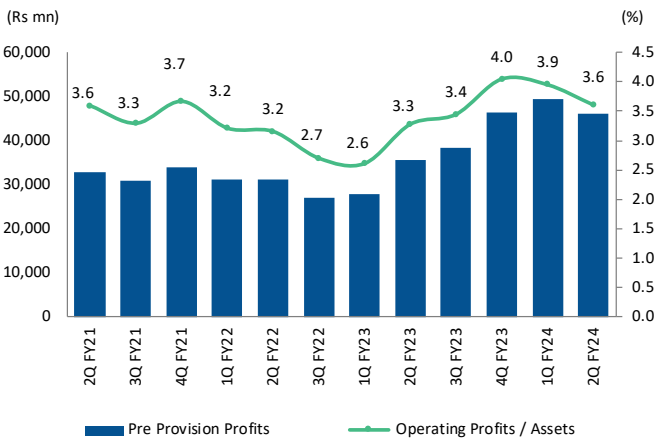
Other Income Trend



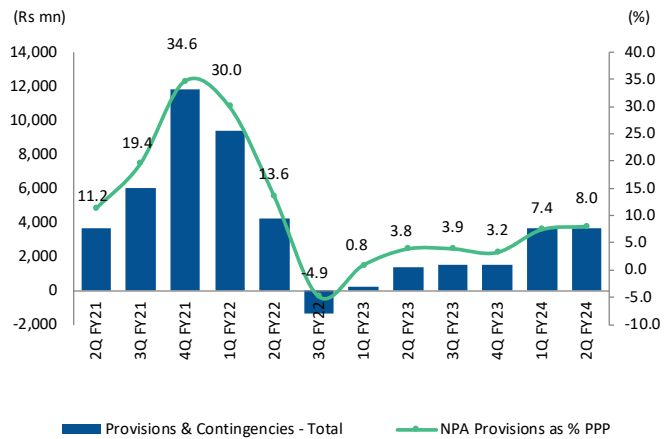
Total Opex Trend



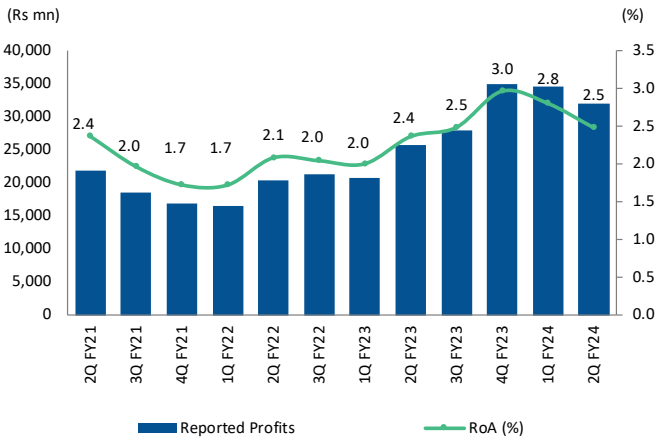
Pre Provision Profit Trend



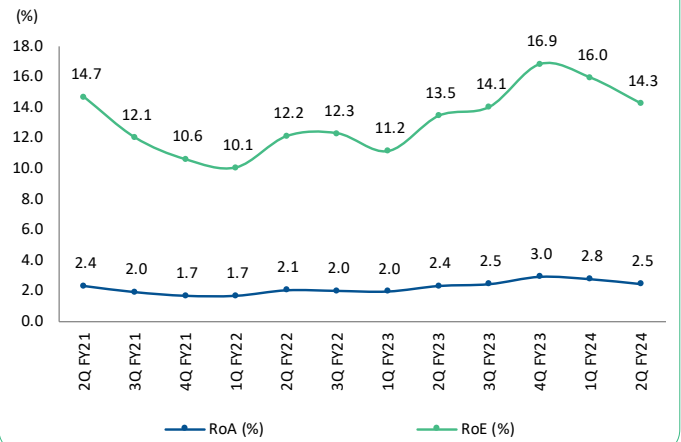
Provision Expenses Trend



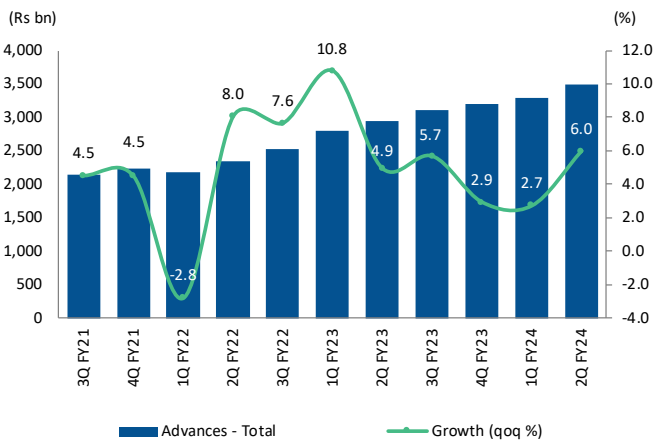
Reported Profit Trend



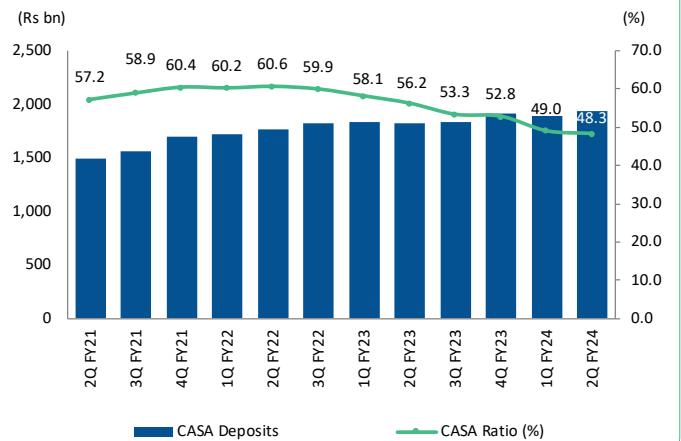
Return Ratio Trend



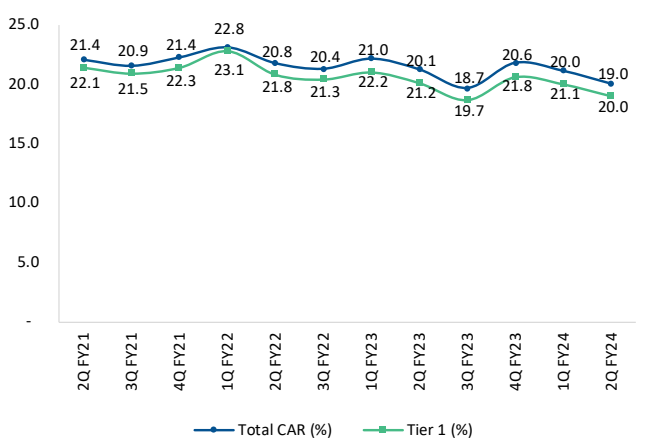
Loan Book Trend



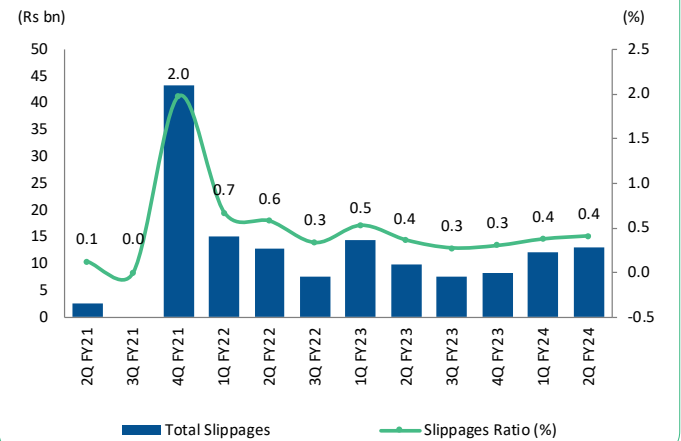
CASA Deposit Trend



CRAR and Tier 1 trend



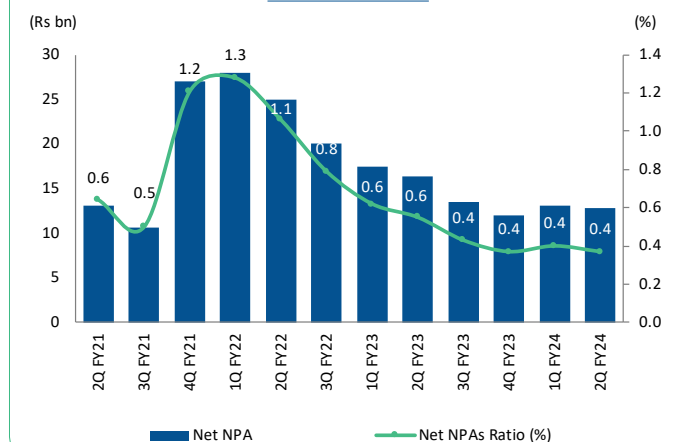
Slippages



Gross NPA trend



Net NPA Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	2Q FY24	2Q FY23	% yoy / bps	1Q FY24	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	111,928	80,928	38.3	105,000	6.6	342,509	270,388	26.7
Interest Expenses	48,962	29,934	63.6	42,663	14.8	126,989	102,209	24.2
Net Interest Income	62,966	50,994	23.5	62,337	1.0	215,519	168,179	28.1
NII to Net Operative Income	73.1	72.3	83	69.9	321	75.3	72.6	269
NIM (%)	5.15	5.2	(2)	5.6	(42)	4.9	4.3	56
Other Income - Total	23,145	19,542	18.4	26,833	(13.7)	70,831	63,544	11.5
Other Inc to Net Oper. Income (%)	26.9	27.7	(83)	30.1	(321)	24.7	27.4	(269)
Net Operating Revenue	86,112	70,536	22.1	89,170	(3.4)	286,350	231,723	23.6
Employee Expenses	16,346	14,147	15.5	16,470	(0.8)	55,198	46,134	19.6
Other Opex	23,665	20,714	14.2	23,204	2.0	82,672	65,080	27.0
Total Opex	40,011	34,861	14.8	39,674	0.8	137,870	111,214	24.0
Cost to Income Ratio (%)	46.5	49.4	(296)	44.5	197	48.1	48.0	15
Pre Provision Profits	46,101	35,675	29.2	49,496	(6.9)	148,480	120,509	23.2
Provisions & Contingencies - Total	3,666	1,370	167.6	3,643	0.6	4,570	6,896	(33.7)
NPA Provisions as % PPP	8.0	3.8	411	7.4	59	3.1	5.7	(264)
Profit Before Tax	42,436	34,305	23.7	45,853	(7.5)	143,910	113,613	26.7
Tax	10,526	8,498	23.9	11,330	(7.1)	34,517	27,886	23.8
Effective Tax Rate (%)	24.8	24.8	3	24.7	10	24.0	24.5	(56)
Reported Profits	31,910	25,807	23.6	34,523	(7.6)	109,393	85,727	27.6
RoA (%)	2.5	2.4	12	2.8	(32)	2.4	2.1	27
RoE (%)	14.3	13.5	79	16.0	(169)	14.1	12.7	144

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	QoQ % / bps	YoY % / bps
Net Worth	741,520	765,759	794,360	829,600	865,110	894,564	3.4	16.8
RoE (%)	11.2	13.5	14.1	16.9	16.0	14.3	(169)	79
Tier 1 (%)	21.0	20.1	18.7	20.6	20.0	19.0	(100)	(110)
Total CAR (%)	22.2	21.2	19.7	21.8	21.1	20.0	(109)	(121)
Advances - Total	2,801,710	2,940,232	3,107,340	3,198,612	3,285,820	3,482,841	6.0	18.5
Investments	891,830	988,624	1,122,190	1,214,037	1,238,730	1,286,460	3.9	30.1
Total Assets	4,247,680	4,419,951	4,647,840	4,898,625	5,129,910	5,329,631	3.9	20.6
RoA (%)	2.00	2.36	2.48	2.96	2.80	2.48	(32)	12
Deposits	3,164,830	3,252,032	3,446,660	3,630,961	3,862,540	4,009,629	3.8	23.3
CASA Deposits	1,838,910	1,826,100	1,835,790	1,918,150	1,892,890	1,934,790	2.2	6.0
CASA Ratio (%)	58.1	56.2	53.3	52.8	49.0	48.3	(70)	(790)
Interest Bearing Liabilities - Total	3,323,730	3,443,633	3,666,940	3,870,123	4,071,320	4,239,773	4.1	23.1

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	QoQ % / bps	YoY % / bps
Deposits	3,164,830	3,252,032	3,446,660	3,630,961	3,862,540	4,009,629	3.8	23.3
CASA Deposits	1,838,910	1,826,100	1,835,790	1,918,150	1,892,890	1,934,790	2.2	6.0
Saving Deposit	1,268,290	1,224,480	1,199,780	1,217,850	1,245,670	1,246,550	0.1	1.8
Current Deposit	570,620	601,620	636,010	700,300	647,220	688,240	6.3	14.4
Term Deposits	1,325,920	1,425,932	1,610,870	1,712,811	1,969,650	2,074,839	5.3	45.5
Borrowings	153,900	186,601	215,280	234,163	203,780	225,144	10.5	20.7
Interest Bearing Liabilities - Total	3,323,730	3,443,633	3,666,940	3,870,123	4,071,320	4,239,773	4.1	23.1

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	14,350	9,830	7,480	8,230	12,050	13,140	9.0	33.7
Slippages Ratio (%)	0.53	0.36	0.28	0.30	0.38	0.41	3	5
Gross NPA	63,786	62,102	59,946	57,683	59,092	60,872	3.0	(2.0)
Gross NPAs Ratio (%)	2.24	2.08	1.90	1.78	1.77	1.72	(5)	(36)
PCR - Calculated (%)	72.6	73.7	77.6	79.3	78.0	79.1	109	531
Net NPA	17,493	16,304	13,448	11,933	13,018	12,748	(2.1)	(21.8)
Net NPAs Ratio (%)	0.62	0.55	0.43	0.37	0.40	0.37	(3)	(18)
Standard Restructured	10,760	9,940	7,650	7,180	6,140	5,260	(14.3)	(47.1)
Std. Rest. Adv. as % of Advances	0.4	0.3	0.25	0.22	0.19	0.15	(4)	(19)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income	268,403	270,388	342,509	397,681	462,972
Interest Expenses	115,006	102,209	126,989	174,279	201,304
Net Interest Income	153,396	168,179	215,519	223,402	261,668
<i>NIM (%)</i>	4.28	4.29	4.85	4.40	4.48
Other Income - Total	54,592	63,544	70,831	79,509	89,215
Net Operating Revenue	207,988	231,723	286,350	302,910	350,883
Employee Exp.	37,654	46,134	55,198	59,614	68,556
Other Opex	48,187	65,080	82,672	85,978	99,735
Total Opex	85,841	111,214	137,870	145,593	168,291
<i>C/I Ratio (%)</i>	41.27	47.99	48.15	48.06	47.96
Pre Provision Profits	122,147	120,509	148,480	157,318	182,592
<i>PPP Growth (yoy %)</i>	21.9	(1.3)	23.2	6.0	16.1
Provisions & Contingencies - Total	29,117	6,896	4,570	6,701	7,227
<i>Credit Cost (As % of Op. AUM)</i>	1.14	0.50	0.27	0.25	0.25
Profit Before Tax	93,030	113,613	143,910	150,617	175,365
Tax	23,382	27,886	34,517	36,126	42,061
<i>Effective Tax Rate (%)</i>	25.1	24.5	24.0	24.0	24.0
Reported Profits	69,648	85,727	109,393	114,491	133,304
<i>PAT Growth (yoy %)</i>	17.1	23.1	27.6	4.7	16.4

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	9,909	9,923	9,933	9,933	9,933
Reserves (ex Revel. Reserve)	622,361	709,641	819,667	934,158	1,067,462
Net Worth - Ex Revaluation	632,270	719,565	829,600	944,091	1,077,394
Deposits	2,801,000	3,116,841	3,630,961	4,168,296	4,834,487
Borrowings	236,506	259,671	234,163	274,556	318,436
Interest Bearing Liabilities (₹ mn)	3,042,507	3,381,512	3,870,123	4,442,852	5,152,923
Other Lia. & Prov.	160,088	192,894	198,299	206,034	226,373
Total Liabilities	3,834,886	4,294,284	4,898,625	5,593,580	6,457,294
Assets					
Cash & Cash Equivalent	396,265	429,239	325,423	330,792	343,462
Investments	1,050,992	1,005,802	1,214,037	1,314,739	1,430,263
Loan & Advances (₹ mn)	2,236,886	2,712,536	3,198,612	3,774,362	4,491,491
<i>Growth (yoy %)</i>	<i>1.8</i>	<i>21.3</i>	<i>17.9</i>	<i>18.0</i>	<i>19.0</i>
Fixed Assets	15,353	16,437	19,203	20,316	23,370
Other Assets	135,390	130,269	141,349	153,371	168,708
Total Assets	3,834,886	4,294,284	4,898,625	5,593,580	6,457,294

Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	5	5	5	5	5
Adjusted Share O/S (mn)	1,982	1,985	1,987	1,987	1,987
Earnings Per Share (₹)	35.1	43.2	55.1	57.6	67.1
EPS (% YoY)	13.0	22.9	27.5	4.7	16.4
P/E (x)	49.5	40.3	31.6	30.2	25.9
Book Value (₹)	319.0	362.6	417.6	475.2	542.3
BVPS (% YoY)	25.8	13.6	15.2	13.8	14.1
P/BV (x)	5.5	4.8	4.2	3.7	3.2
Adj. BV (₹)	312.2	358.2	414.6	472.2	539.3
Adj. BV (% YoY)	25.1	14.7	15.8	13.9	14.2
P/ABV (x)	5.6	4.9	4.2	3.7	3.2

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	8.4	7.8	9.1	9.1	9.1
Yield on Funds	7.5	6.9	7.7	7.8	7.9
Cost of Funds (CoF)	3.8	3.2	3.5	4.2	4.2
Interest Spread	3.7	3.7	4.2	3.6	3.7
NIM's	4.3	4.3	4.9	4.4	4.5
Interest Income / Assets	7.2	6.7	7.5	7.6	7.7
Interest Exp. / Assets	3.1	2.5	2.8	3.3	3.3
NII / Assets	4.1	4.1	4.7	4.3	4.3
Fee Income / Assets	0.9	1.1	1.1	1.1	1.0
Other Non Core Income / Assets	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Other Income / Assets	1.5	1.6	1.5	1.5	1.5
Net Operating Income / Assets	5.6	5.7	6.2	5.8	5.8
Operating Ratios					
NII to Net Operative Income	73.8	72.6	75.3	73.8	74.6
Other Income to Net Operative Income	26.2	27.4	24.7	26.2	25.4
Empl. Cost/Oper. Exps.	43.9	41.5	40.0	40.9	40.7
Other Op. Exps./Oper. Exps.	56.1	58.5	60.0	59.1	59.3
C/I Ratio (%)	41.3	48.0	48.1	48.1	48.0
Provisions as % PPP	14.0	3.0	1.6	2.2	2.1
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.3	0.3
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Employee Exp. / Assets	1.0	1.1	1.2	1.1	1.1
Other Opex/ Assets	1.3	1.6	1.8	1.6	1.7
Total Opex / Assets	2.3	2.7	3.0	2.8	2.8
Operating Profits / Assets	3.3	3.0	3.2	3.0	3.0
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.3	3.0	3.2	3.0	3.0
Provisions / Assets	0.8	0.2	0.1	0.1	0.1
Profit Before Tax / Assets	2.5	2.8	3.1	2.9	2.9
Tax Expenses / Assets	0.6	0.7	0.8	0.7	0.7
RoA	1.9	2.1	2.4	2.2	2.2
Leverage (x)	6.1	6.0	5.9	5.9	6.0
RoE	12.5	12.7	14.1	12.9	13.2
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	79.9	87.0	88.1	90.5	92.9
Incremental C/D Ratio	22.8	150.6	94.5	107.1	107.6
Investment Deposit Ratio	37.5	32.3	33.4	31.5	29.6
Dom. SLR Investment / Deposits	30.5	24.0	24.9	22.5	20.2
CASA Ratio	60.5	60.7	52.9	52.9	52.9

Exhibit 10: Credit Quality

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio (%)	2.5	1.9	1.5	1.3	1.3
Gross NPA	74,255	64,697	57,683	59,634	61,540
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.6	1.4
PCR (%)	63.6	73.2	79.3	76.6	73.1
Net NPA	27,052	17,367	11,933	13,927	16,569
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4
Total Impaired Loans	74,255	64,697	57,683	59,634	61,540
Impaired Loan as % of Loan / AUM	3.1	2.2	1.7	1.5	1.3
Total Risk Reserves	47,203	47,330	45,750	45,707	44,972
Total Risk As % of Loan Book	2.0	1.6	1.3	1.1	0.9

Exhibit 11: Key Assumptions & Forecasts

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances (₹ mn)	2,236,886	2,712,536	3,198,612	3,774,362	4,491,491
Growth (yoy %)		21.3	17.9	18.0	19.0
Interest Bearing Liabilities (₹ mn)	3,042,507	3,381,512	3,870,123	4,442,852	5,152,923
Growth (yoy %)		11.1	14.4	14.8	16.0
Yield on Funds	7.5	6.9	7.7	7.8	7.9
Cost of Funds (CoF)	3.8	3.2	3.5	4.2	4.2
Interest Spread	3.7	3.7	4.2	3.6	3.7
NIM's	4.3	4.3	4.9	4.4	4.5
Other Income Growth	1.6	16.4	11.5	12.3	12.2
C/I Ratio (%)	41.3	48.0	48.1	48.1	48.0
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Return Ratios					
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.3	0.3
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.6	1.4
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4

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