

**Stable overall growth; deposits continue to rise**

Q2FY24 Result Update | Sector: Bank | October 23, 2023

**BUY**

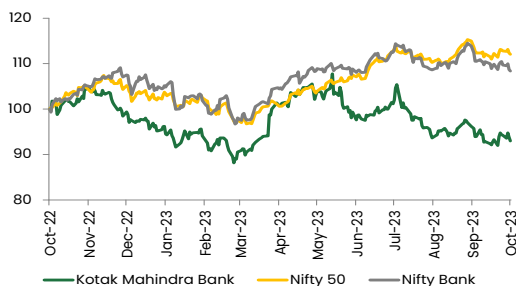
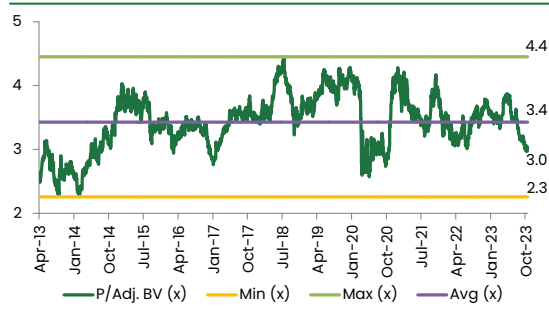
<b>CMP (Rs)</b>	1,770
<b>Target Price (Rs)</b>	2,070
<b>Potential Upside</b>	16.9%
<b>Sensex</b>	65,398
<b>Nifty</b>	19,543

**Key Stock data**

<b>BSE Code</b>	KOTAKBANK
<b>NSE Code</b>	KOTAKBANK
<b>Bloomberg</b>	KMB:IN
<b>Shares o/s, Cr (FV 5)</b>	198.7
<b>Market Cap (Rs Cr)</b>	351,697
<b>3M Avg Volume</b>	3,886,286
<b>52 week H/L</b>	2,063/1,644

**Shareholding Pattern**

(%)	Mar-23	Jun-23	Sep-23
Promoter	26.0	25.9	25.9
FII	39.4	41.5	41.0
DII	21.3	19.6	20.0
Public	13.3	12.9	13.1

**1 Year relative price performance**

**1 year forward P/Adj. BV (x)**

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**Steady growth in top-line:** Kotak Mahindra Bank net interest income for Q2FY24 remained steady at 1% QoQ/23.5% YoY to Rs 6,296.6 Cr. Net Interest Margin (NIM) saw a decline of 35bps QoQ but marginally increased on YoY basis by 5bps to 5.2%. The 35bps QoQ decline in NIM was partially due to one-offs and the bank expects NIM to remain steady going forward. Amongst revenue segments, retail banking segment posted strong revenue growth of 12.2% QoQ/45.7% YoY to Rs 6,668.5 Cr while on profit front it grew by 18.9% QoQ/132.9% YoY to Rs 1,353.5 Cr.

**Decline in PAT led by increased costs:** PAT during the quarter declined by 7.6% QoQ, however, increased by 23.6% YoY to Rs 3,191 Cr. The decline in PAT was mainly due to increased interest cost by 14.8% QoQ/63.6% YoY along with slow paced growth in interest earned.

**Healthy loan growth:** Advances increased by 5% QoQ/17.6% YoY to Rs 3.8 Lakhs Cr and remained broad-based with growth across segments such as retail, corporate and SMEs. Amongst retail, CV growth remained strong at 8.8% QoQ/26.2% YoY along with growth in unsecured loan segments credit card, personal loans which saw traction. The increase in unsecured loans also supported NIMs as the margin tends to be higher in these segments.

**ActivMoney sweep deposits driving growth:** The bank's deposits growth has been one of the best in the industry with growth of 3.8% QoQ/23.3% YoY at Rs 4 Lakhs Cr. The growth was mainly led by term deposits as CASA growth remained muted. ActiveMoney saw a strong growth of 28.1% QoQ/60.7% YoY at Rs 37,136 Cr. It has been one of the primary reasons for the growth in the deposits, however, it has also cannibalized the savings account deposit at some level. The bank expects the ActivMoney deposit shall continue to drive deposit forward. Due to increase in term deposit, CASA ratio declined sharply by 75bps QoQ/790bps YoY to 48.3%.

**Asset quality continue to remain healthy –** GNPA/NNPA declined during the quarter by 5bps/3bps on QoQ basis and 36bps/18bps on YoY basis at 1.7%/0.4%. The decline in GNPA/NNPA is positive as the bank is seeing increase in the unsecured lending which tends to be riskier as compared to secured lending. Provision coverage ratio stood at 79.1% increasing by 106bps QoQ/536bps YoY. The bank expects credit costs to continue to remain subdued.

**Appointment of CEO:** The bank announced that the RBI approved appointment of Mr. Ashok Vaswani as the MD & CEO of the bank. The CEO is externally appointed rather than the internal appointment. It is a positive update for the bank as it will reduce the uncertainty regarding the top management of the bank. Mr. Vaswani brings in experience from consumer banking and specializes in leveraging technology for the company. This shall benefit the bank in the long run as the bank aims to achieve technological advancement to provide superior customer services.

**Valuation:** We remain positive on the Kotak Mahindra Bank as it continues to see healthy loan growth, industry best deposits growth and improving asset quality. It continues to see growth in customers as it increased by 5.3% QoQ/25.1% YoY at 4.6 Cr. The bank's subsidiaries continue to add significant value and are well placed for growth. We estimate NII/PPOP/PAT to grow at a CAGR of 26.7%/31.2%/30.8% over FY23-25E. We maintain Buy on the bank with a target price of Rs 2,070 valuing the standalone bank at 2.7x of its FY25E Adj. BV.

**Financial Summary – standalone**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest Earned	27,039	34,251	42,639	52,179
Interest Expended	10,221	12,699	14,857	17,604
<b>Net interest income</b>	<b>16,818</b>	<b>21,552</b>	<b>27,782</b>	<b>34,575</b>
Total Income	23,172	28,635	36,744	45,922
Operating Expenses	11,121	13,787	16,804	20,369
<b>Operating Profit before Prov.&amp; Cont.</b>	<b>12,051</b>	<b>14,848</b>	<b>19,940</b>	<b>25,553</b>
<b>Profit After Tax</b>	<b>8,573</b>	<b>10,939</b>	<b>14,596</b>	<b>18,726</b>
<b>Adj. book value per share (Rs)</b>	<b>330.0</b>	<b>388.6</b>	<b>462.9</b>	<b>553.4</b>
RoA (%)	2.1	2.4	2.6	2.9
<b>P/Adj. BV (x)</b>	<b>5.4</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>

Source : RBL Research

**Con-call highlights:** 1) NIM was impacted by one-offs and ICRR by 14bps-15bps along with lower liquidity in the market. Yields on advances remained steady on QoQ basis and CoD were higher by 20bps, thus, interest spread declined by ~20bps. The bank does not expect much pressure on NIM going forward. 2) Asset re-pricing is almost done and average liability tenor is ~10-11 months. Therefore, in quarters time all deposits shall be re-priced. 3) Operating expenses could start easing after 6 months unless the bank plans any tech upgrades. 4) The bank is traditionally strong on LAP portfolio and given the rising interest rates, customers are part paying or foreclosing their home loans. 5) Liquidity coverage ratio stood at 120% as on Q2FY24. 6) The recent acquisition Sonata microfinance book is valued at Rs 25 Bn, though a high yielding book. 7) Mid corporate segment is growing at 10% QoQ and SME segment is seeing irrational competition. 8) The bank continues to gain market share across unsecured products. It continues to invest in card franchise, which is seeing increase in market share and increase in card spends.

#### Income Statement - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net interest income	6,296.6	5,099.4	23.5	6,233.7	1.0
<b>Net interest margin (%)</b>	<b>5.2</b>	<b>5.2</b>	<b>5bps</b>	<b>5.6</b>	<b>-35bps</b>
Other income	2,314.5	1,954.2	18.4	2,683.3	(13.7)
Total income	13,507.4	10,047.0	34.4	13,183.3	2.5
Operating expenses	4,001.1	3,486.1	14.8	3,967.4	0.8
<b>Pre-operating profit before provisions</b>	<b>4,610.1</b>	<b>3,567.5</b>	<b>29.2</b>	<b>4,949.6</b>	<b>(6.9)</b>
Provisions and contingencies	366.6	137.0	167.6	364.3	0.6
<b>Profit before tax</b>	<b>4,243.6</b>	<b>3,430.5</b>	<b>23.7</b>	<b>4,585.3</b>	<b>(7.5)</b>
Tax	1,052.6	849.8	23.9	1,133.0	(7.1)
<b>Profit after tax</b>	<b>3,191.0</b>	<b>2,580.7</b>	<b>23.6</b>	<b>3,452.3</b>	<b>(7.6)</b>
Gross advances	380,412.0	323,419.0	17.6	362,204.0	5.0
Deposits	400,963.0	325,203.0	23.3	386,254.0	3.8
<b>Book value per share (Rs)</b>	<b>605.0</b>	<b>519.0</b>	<b>16.6</b>	<b>584.0</b>	<b>3.6</b>

Source : RBL Research

#### Business segments - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
<b>Revenue from operations</b>					
Corporate/wholesale banking	5,625.2	4,459.5	26.1	5,675.8	(0.9)
<b>Retail banking</b>	<b>6,668.5</b>	<b>4,577.4</b>	<b>45.7</b>	<b>5,941.4</b>	<b>12.2</b>
Treasury and BMU	2,448.8	1,729.5	41.6	2,549.4	(3.9)
Inter segment revenue	1,235.1	719.3	71.7	983.4	25.6
<b>Profit before tax</b>					
Corporate/wholesale banking	1,862.4	1,773.9	5.0	1,928.5	(3.4)
<b>Retail banking</b>	<b>1,353.5</b>	<b>581.2</b>	<b>132.9</b>	<b>1,138.2</b>	<b>18.9</b>
Treasury and BMU	1,027.6	1,075.4	(4.4)	1,518.6	(32.3)

Source : RBL Research

Net interest income increased by 1% QoQ as NIM declined by 35bps QoQ

Pre provision operating profit increased by 29.2% YoY but declined by 6.9% YoY

PAT grew by 23.6% YoY, however, declined by 7.6% QoQ

Revenue from retail banking was strong at 12.2% QoQ/45.7% YoY

Profit from Treasury and BMU declined by 32.3% QoQ/4.4% YoY

Advances growth remained broad based driven by across segments

Term deposits being the main driver of deposits growth

Growth in ATMs and Customers remained healthy

Asset quality improved as GNPA/NNPA declined by 36bps/18bps YoY

Provision coverage ratio improved by 106bps QoQ/536bps YoY

RoA improved by 5bps QoQ/7bps YoY

Cost of savings account increased by 9bps QoQ/25bps YoY

#### Business parameters - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Retail advances	243,094	200,412	21.3	229,023	6.1
SMEs	24,569	21,175	16.0	23,312	5.4
Corporate	81,844	69,531	17.7	77,569	5.5
Others	30,905	32,301	(4.3)	32,300	(4.3)
<b>Gross advances</b>	<b>380,412</b>	<b>323,419</b>	<b>17.6</b>	<b>362,204</b>	<b>5.0</b>
Current account deposits	68,824	60,162	14.4	64,722	6.3
Savings account deposits	124,655	122,448	1.8	124,567	0.1
CASA deposits	193,479	182,610	6.0	189,289	2.2
<b>Term Deposits</b>	<b>207,484</b>	<b>142,593</b>	<b>45.5</b>	<b>196,965</b>	<b>5.3</b>
<b>Total deposits</b>	<b>400,963</b>	<b>325,203</b>	<b>23.3</b>	<b>386,254</b>	<b>3.8</b>
<b>CASA (%)</b>	<b>48.3</b>	<b>56.2</b>	<b>-790bps</b>	<b>49.0</b>	<b>-75bps</b>
No of ATMs	3,170.0	2,802.0	13.1	3,047.0	4.0
Customers (in Mn)	45.8	36.6	25.1	43.5	5.3
No of Branches	1,850.0	1,710.0	8.2	1,788.0	3.5

Source : RBL Research

#### Asset quality

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
GNPA	6,087.2	6,210.0	(2.0)	5,909.2	3.0
NNPA	1,274.8	1,630.0	(21.8)	1,301.8	(2.1)
<b>GNPA (%)</b>	<b>1.7</b>	<b>2.1</b>	<b>-36bps</b>	<b>1.8</b>	<b>-5bps</b>
<b>NNPA (%)</b>	<b>0.4</b>	<b>0.6</b>	<b>-18bps</b>	<b>0.4</b>	<b>-3bps</b>
Provision coverage ratio (%)	79.1	73.7	536bps	78.0	106bps

Source : RBL Research

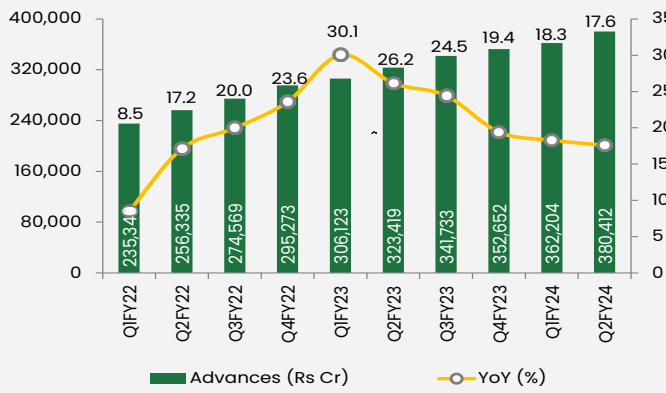
#### Ratios (%)

Particulars	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
Cost Income Ratio	46.5	49.4	-296bps	44.5	197bps
<b>Operating Costs to Assets</b>	<b>3.8</b>	<b>3.3</b>	<b>52bps</b>	<b>3.5</b>	<b>34bps</b>
CAR	22.9	23.9	-100bps	23.3	-40bps
CET	21.9	23	-110bps	22.3	-40bps
<b>RoA</b>	<b>2.7</b>	<b>2.6</b>	<b>7bps</b>	<b>2.6</b>	<b>5bps</b>
RoE	15.0	14.1	90bps	14.6	37bps
<b>NIMs</b>	<b>5.2</b>	<b>5.2</b>	<b>5bps</b>	<b>5.6</b>	<b>-35bps</b>
Cost of Savings Account	4.1	3.8	25bps	3.96	9bps

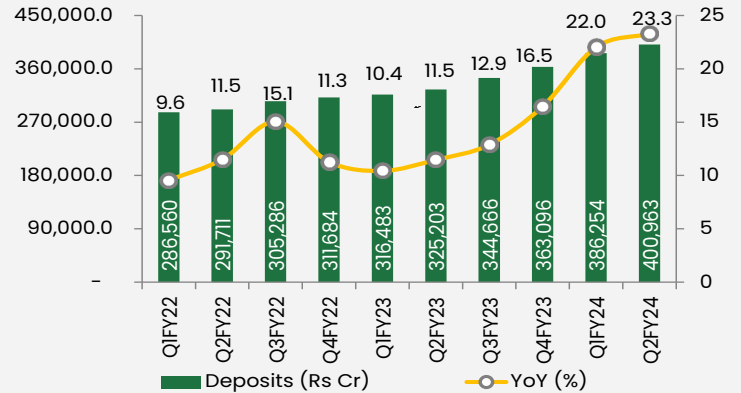
Source : RBL Research

Story in charts

Advances growth remained strong with 17.6% YoY in Q2FY24

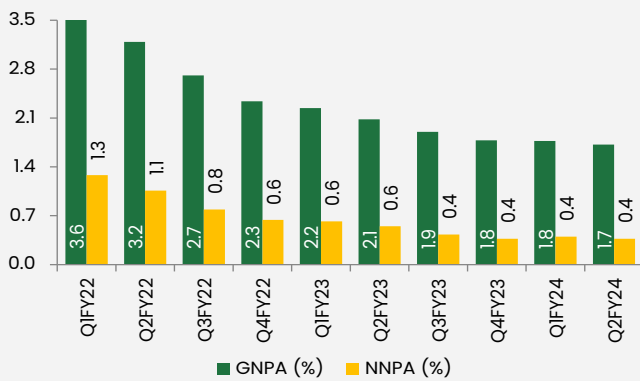


Deposits growth was led by term deposits

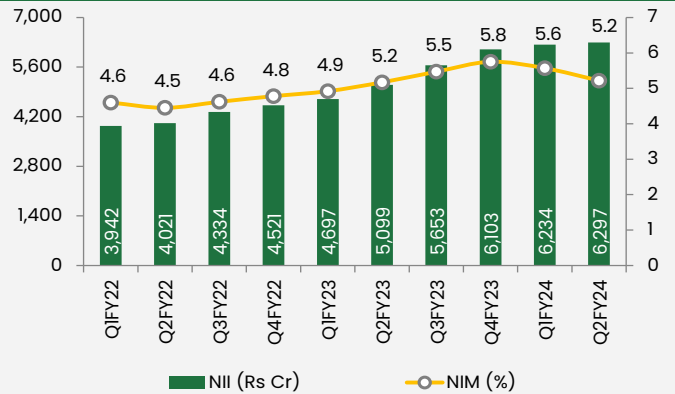


Source : RBL Research

Asset quality improved as GNPA/NNPA declined to 1.7%/0.4%

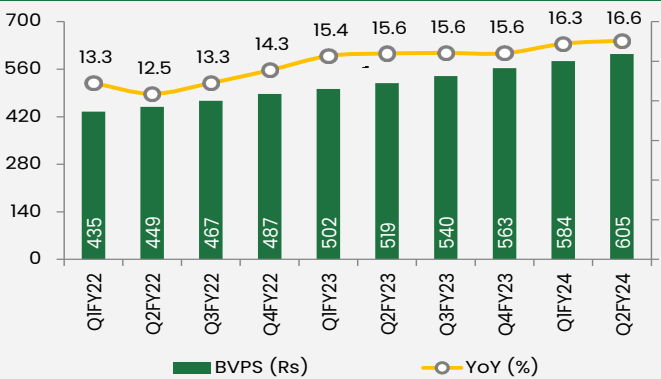


Net interest income grew by 23.5% YoY in Q2FY24

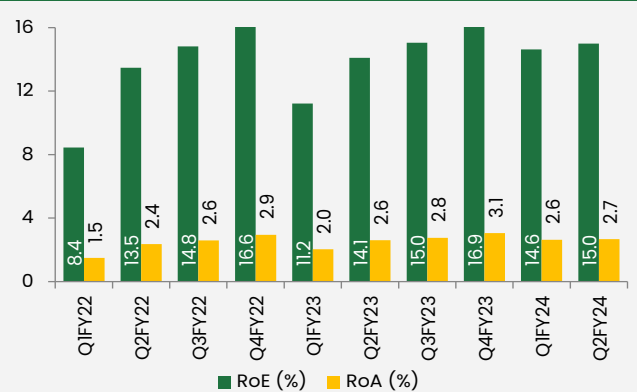


Source : RBL Research

BVPS continues its growth momentum

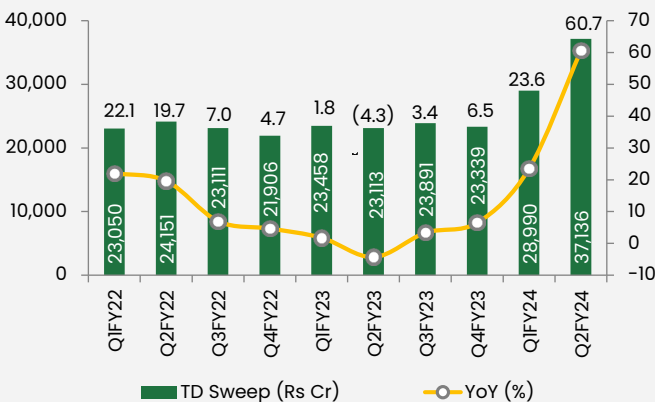


Consolidated RoE/RoA stood at 15%/2.7% in Q2FY24

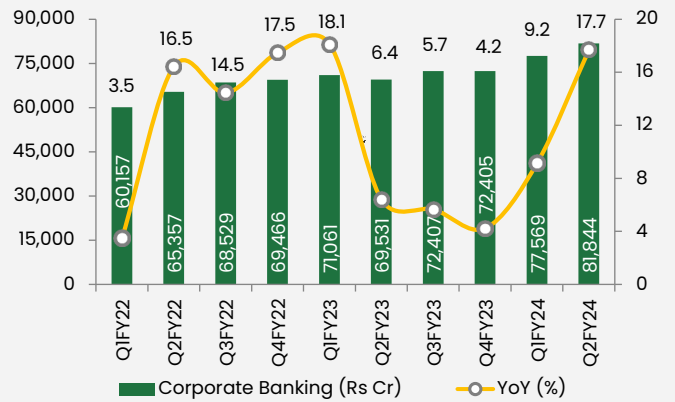


Source : RBL Research

TD sweep saw an uptick with growth of 60.7% YoY



Corporate banking being on the drivers of advances growth



Source : RBL Research

## Income Statement – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest Earned	27,039	34,251	42,639	52,179
Interest Expended	10,221	12,699	14,857	17,604
<b>Net interest income</b>	<b>16,818</b>	<b>21,552</b>	<b>27,782</b>	<b>34,575</b>
Other Income	6,354	7,083	8,961	11,347
<b>Total Income</b>	<b>23,172</b>	<b>28,635</b>	<b>36,744</b>	<b>45,922</b>
Operating Expenses	11,121	13,787	16,804	20,369
<b>Operating Profit before Prov.&amp; Cont.</b>	<b>12,051</b>	<b>14,848</b>	<b>19,940</b>	<b>25,553</b>
Provisions and Contingencies	690	457	658	817
Profit Before Tax	11,361	14,391	19,282	24,736
Tax	2,789	3,452	4,685	6,011
<b>Profit After Tax</b>	<b>8,573</b>	<b>10,939</b>	<b>14,596</b>	<b>18,726</b>
EPS (Rs)	43.0	54.9	73.4	94.2

Source : RBL Research

## Asset Quality – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
GNPA	6,470.0	5,768.3	5,759.8	6,183.8
NNPA	1,737.0	1,193.3	1,152.0	1,132.3
<b>GNPA (%)</b>	<b>2.3</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>
<b>NNPA (%)</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>
PCR (%)	73.2	79.3	80.0	81.7
Credit cost (%)	0.5	0.2	0.2	0.2
<b>Slippage Ratio (%)</b>	<b>1.6</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>

Source : RBL Research

## Asset and Liability ratios (%)

Particulars	FY22	FY23	FY24E	FY25E
Loans/Deposit Ratio	87.0	88.1	88.4	89.2
<b>CASA Ratio</b>	<b>60.7</b>	<b>52.8</b>	<b>49.2</b>	<b>46.3</b>
Cost/Assets	2.6	2.8	3.0	3.1
<b>Cost/Total Income</b>	<b>48.0</b>	<b>48.1</b>	<b>45.7</b>	<b>44.4</b>
Investment/Deposit Ratio	32.3	33.4	33.7	33.5

Source : RBL Research

## Return and Valuation

Particulars	FY22	FY23	FY24E	FY25E
<b>RoA (%)</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>
<b>RoE (%)</b>	<b>12.7</b>	<b>14.1</b>	<b>14.9</b>	<b>16.1</b>
P/E (x)	41.1	32.2	24.1	18.8
P/B (x)	4.9	4.2	3.6	3.0
<b>P/Adj. BV (x)</b>	<b>5.4</b>	<b>4.6</b>	<b>3.8</b>	<b>3.2</b>

Source : RBL Research

## Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>Capital &amp; Reserves and Surplus</b>	<b>72,456</b>	<b>83,460</b>	<b>97,750</b>	<b>116,150</b>
Current Account Deposits	64,662	70,030	77,905	87,437
Savings Account Deposits	124,472	121,785	129,120	138,323
Term Deposits	122,550	171,281	213,380	262,194
<b>Deposits</b>	<b>311,684</b>	<b>363,096</b>	<b>420,405</b>	<b>487,954</b>
Borrowings	25,967	23,416	21,777	22,430
Other Liabilities and Provisions	19,321	19,890	21,657	21,674
<b>Total Liabilities and Shareholders Equity</b>	<b>429,428</b>	<b>489,862</b>	<b>561,589</b>	<b>648,208</b>
Cash and Cash Equivalents	42,924	32,542	30,497	28,941
Investments	100,580	121,404	141,649	163,668
<b>Advances</b>	<b>271,254</b>	<b>319,861</b>	<b>371,601</b>	<b>435,482</b>
Fixed & Other Assets	14,670	16,055	17,842	20,117
<b>Total assets</b>	<b>429,428</b>	<b>489,862</b>	<b>561,589</b>	<b>648,208</b>
<b>Book Value per Share (Rs)</b>	<b>362.6</b>	<b>417.6</b>	<b>491.9</b>	<b>584.5</b>
<b>Adj. book value per share (Rs)</b>	<b>330.0</b>	<b>388.6</b>	<b>462.9</b>	<b>553.4</b>

Source : RBL Research

## Efficiency Ratios (%) – standalone

Particulars	FY22	FY23	FY24E	FY25E
Interest expended/Interest earned	37.8	37.1	34.8	33.7
Interest income/Total funds	6.3	7.0	8.1	8.6
<b>Interest expended/Total funds</b>	<b>2.4</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>
<b>NII/Interest income</b>	<b>62.2</b>	<b>62.9</b>	<b>65.2</b>	<b>66.3</b>
Cost Income Ratio	47.2	48.2	45.7	44.4
Operating Costs to Assets	2.5	2.8	3.2	3.4
Fee Income/Total Income	23.4	23.7	23.8	24.1
<b>Employee Cost/Total Expenses</b>	<b>41.2</b>	<b>40.0</b>	<b>40.4</b>	<b>40.0</b>

Source : RBL Research

## Ratios (%) – standalone

Particulars	FY22	FY23	FY24E	FY25E
<b>Yield on Advances</b>	<b>10.0</b>	<b>10.7</b>	<b>10.8</b>	<b>10.8</b>
Yield on Investments	6.7	4.7	4.6	4.8
<b>Cost of Liabilities</b>	<b>3.0</b>	<b>3.3</b>	<b>3.5</b>	<b>3.6</b>
<b>Net Interest Income</b>	<b>4.1</b>	<b>4.6</b>	<b>5.3</b>	<b>5.7</b>
Interest Spread	6.9	7.4	7.3	7.2

Source : RBL Research

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		Yes	No
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		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
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