

July 21, 2024

RESULT REPORT Q1 FY25 | Sector: Banks

Kotak Mahindra Bank

Normalisation of business model to take time

Our view – SA traction and digital ban 2 key issues to grapple with

Net Interest Margin - NIM declined sequentially, impacted by challenges in CASA and slowdown in unsecured lending: NIM was at 5.02%, down -26bps QoQ and -55bps YoY. Management seemed to concede that the margin 2 quarters back, which was 5.22%, was not sustainable and now the bank is 20 bps below that. However, deposits have largely repriced, and rates have also stabilized.

Asset Quality - There was a slight sequential rise in slippages, with the management flagging emerging stress in certain segments: Gross NPA additions amounted to Rs 13.58bn for 1QFY25, translating to an annualized slippage ratio of 1.40% for the quarter. Gross NPA additions had amounted to Rs 13.05bn during 4QFY24. Stress has emerged in unsecured retail, especially in credit card dues of low-ticket size and where the customer has gotten over-leveraged. There is stress in the microfinance business in select geographies.

Balance sheet growth - Period-end deposit growth outcomes were worse than average deposit growth outcomes. Corporate loans drove loan growth: The deposits were at Rs 4,474bn, down by -0.3% QoQ but up 15.8% YoY. However, the average deposits were up 21% YoY and 7% QoQ. The advances for the bank stood at Rs 3,941bn, up by 3.7% QoQ and 18.3% YoY. During the quarter, the corporate banking business contributed significantly to loan growth. Unsecured retail was slow due to the ban on credit card addition, lack of digital personal loan journey and slower microfinance lending.

Regulatory Update – The RBI is yet to lift the embargo on digital business but KMB is working in the background to rectify this: As per management, the bank has made substantial progress with regard to rectifying the situation after the RBI order. Various tech initiatives have been undertaken and the bank has put together a plan in this regard. The extra cost emerging due to rectifying the IT embargo is in line with initial guidance.

We maintain a relatively cautious ADD on KMB with an unchanged price target of Rs 2075: We value the standalone bank at 2.2x FY26 P/BV for an FY25E/26E RoE profile of 13.2%/13.7%. We assign a value of Rs 699 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See “Our View” above for elaboration and insight)

- **Opex control:** Total opex grew 2.1%/13.9% QoQ/YoY, staff cost grew 2.4%/13.6% QoQ/YoY and Other expense grew 1.8%/14.1% QoQ/YoY
- **Fee income:** Fee income de-grew/grew -9.2%/22.6% QoQ/YoY, driven lower sequentially by Distribution Income

Exhibit 1: Result table - Standalone

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Interest Income	127,461	123,071	3.6	105,000	21.4
Interest Expense	(59,038)	(53,977)	9.4	(42,663)	38.4
Net Interest Income	68,424	69,094	(1.0)	62,337	9.8
Fee Income	22,400	24,670	(9.2)	18,270	22.6
Non-fee Income	6,890	5,113	34.8	8,563	(19.5)
Total Non-Interest Income	29,290	29,783	(1.7)	26,833	9.2
Total Income	97,714	98,876	(1.2)	89,170	9.6
Employee Expense	(18,705)	(18,264)	2.4	(16,470)	13.6
Non-employee Opex	(26,468)	(25,997)	1.8	(23,204)	14.1
Total Operating expenses	(45,173)	(44,261)	2.1	(39,674)	13.9
PPoP	52,541	54,616	(3.8)	49,496	6.2
Provisions	(5,785)	(2,637)	119.3	(3,643)	58.8
PBT	46,756	51,978	(10.0)	45,853	2.0
Tax	(19,457)	(10,645)	82.8	(11,330)	71.7
Exceptional Items	35,199	-	NA	-	NA
PAT	62,498	41,333	51.2	34,523	81.0

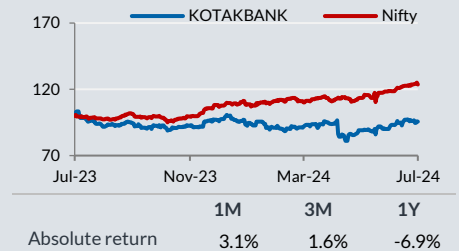
Source: Company, YES Sec-Research

Recommendation	: ADD
Current Price	: Rs 1,827
Target Price	: Rs 2,075
Potential Return	: +14%

Stock data (as on July 19, 2024)

Nifty	24,531
52 Week h/l (Rs)	1988 / 1544
Market cap (Rs/USD mn)	3589153 / 42869
Outstanding Shares (mn)	2,988
6m Avg t/o (Rs mn):	10,322
Div yield (%):	0.1
Bloomberg code:	KMB IN
NSE code:	KOTAKBANK

Stock performance



Shareholding pattern (As of Mar' 24)

Promoter	25.9%
FII+DII	61.0%
Others	13.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2075	2075

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
NII	259,932	302,328	349,893
PPOP	195,875	208,937	246,232
Net Profit	137,816	136,950	161,762
Growth (%)	26.0	-0.6	18.1
EPS (Rs)	69.3	68.9	81.4
BVPS (Rs)	487	555	635
P/E (x)	16.3	16.4	13.9
P/BV (x)	2.3	2.0	1.8
ROE (%)	15.3	13.2	13.7
ROA (%)	2.5	2.1	2.1
Tier-1 (%)	19.3	19.1	18.8

Δ in earnings estimates

Rs.	FY24	FY25E	FY26E
EPS (New)	NA	68.9	81.4
EPS (Old)	NA	68.9	81.4
% change	NA	0.0%	0.0%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Sale of Kotak General Insurance

- A stake in Kotak General Insurance (KGI) was sold for a consideration of Rs 55.6bn to Zurich Insurance.
- KGI was a 100% subsidiary whose divestment took place on 18th June 2024, which was a combination of stake sale and issuance of fresh capital from KGI.
- Post the transaction, the stake of Kotak Mahindra Bank in KGI stands reduced to 30%.
- **Profit impact**
 - The bank has received a total consideration of Rs 40.96bn for the part sale of KGI shares, resulting in a post-tax profit of Rs 27.3bn in the standalone business.
 - There was also a Rs 2.84bn reversal of KGI losses.
 - Hence, there was a total profit impact of Rs 30.13bn at the consolidated level.

Implementation of RBI directions on investment portfolio

- Applicable investments have been marked to market, which were earlier valued at cost.
- This has led to a post-tax profit of Rs 34.14bn but this is an entry in the reserve and adds to networth but does not impact the P&L.

Regarding RBI order (digital ban)

- The bank has made substantial progress with regard to rectifying the situation after the RBI order.
- Various tech initiatives have been undertaken and the bank has put together a plan in this regard.
- **Impact on business**
 - As expected, the 811 and credit card businesses have been affected.
 - **Credit cards**
 - ENR levels on the credit cards have been maintained.
 - The market share in credit card spends has actually inched up in May compared with March.

Loan growth

- The advances for the bank stood at Rs 3,941bn, up by 3.7% QoQ and 18.3% YoY.
- During the quarter, the corporate banking business contributed significantly to loan growth.
- Unsecured retail was slow due to the ban on credit card addition, lack of digital personal loan journey and slower microfinance lending.
- Once the embargo is lifted, the bank would resume its journey of moving unsecured retail loan share to mid-teens of overall book.
- **Segmental growth outcomes**
 - The consumer book has grown 20% YoY and 3% QoQ.
 - The commercial book has grown 20% YoY and 1% QoQ.
 - The SME and corporate banking book grew 20% YoY and 4% QoQ.

(Con call takeaways continue on the next page)

Deposits growth

- The deposits were at Rs 4,474bn, down by -0.3% QoQ but up 15.8% YoY.
- The average deposits were up 21% YoY and 7% QoQ.
- Average term deposits were up 38% YoY.
- While Activmoney was flat QoQ, the bank will continue to focus on it and will relaunch it this quarter and a new advertisement will be seen soon.

Return ratios

- The consolidated RoE and RoA are 13.12% and 2.30%, excluding the impact of the KGI transaction.
- It may be noted that there were one off worth Rs 4.26bn in 4Q that are absent in 1Q.
- The RoA at the standalone bank level amounted to 2.38%.

Capital adequacy

- The total capital ratio amounted to 22.4% at the standalone bank level.
- The CET1 ratio stood at 21.3%, which includes the impact of the KGI transaction and the investment portfolio impact.
- Management admitted that it has excess capital but regarded it as a good thing as it can take advantage of opportunities.

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 13.58bn for 1QFY25, translating to an annualized slippage ratio of 1.40% for the quarter. (Gross NPA additions had amounted to Rs 13.05bn during 4QFY24.)
 - **Emergence of stress**
 - Stress has emerged in unsecured retail, especially in credit card dues of low ticket size.
 - There is also stress in unsecured loans where the customer has got over-leveraged.
 - There is stress in the microfinance business in select geographies.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 5.86bn for 1QFY25, implying net NPA addition of Rs 7.72bn for the quarter.
- **Provisions**
 - Provisions were Rs 5.79bn, up by 119.3% QoQ and 58.8% YoY, translating to calculated annualised credit cost of 60bps.
 - Reported credit cost amounted to 55 bps (presumably based only on specific credit cost).
- **Restructured book**
 - Standard fund-based restructured book outstanding under one time restructuring for MSME is around Rs. 1.79bn and under Covid resolution framework is around Rs. 1.38bn. The total fund-based standard restructured book stood at 0.08% of gross advances

(Con call takeaways continue on the next page)

- **NPA ratios**

- GNPA ratio stands at 1.39%, flat QoQ but down -38bps YoY while NNPA ratio stands at 0.35%, up 1bps QoQ but down -5bps YoY.

Operating expenses

- **Total opex**

- Opex, at Rs. 45.17bn, is up 2.1% QoQ and 13.9% YoY.
- Consequently, cost/income ratio came in at 46.2%, up by 147bps QoQ and 174bps YoY.
- The extra cost emerging due to rectifying the IT embargo is in line with initial guidance.

- **Staff opex**

- The staff opex is up by 2.4% QoQ and 13.6% YoY

- **Non-staff opex**

- Other opex in up by 1.8% QoQ and 14.1% YoY.
- **Branch expansion**
 - The branch expansion target had been upped to 150-200 branches per year.
 - The bank does not intend to be a primarily branch-based bank but branches are important.
 - The intention is to reach a branch count of 3000-3500 in 4-5 years.

Net interest margin

- **NIM for the quarter**

- NIM was at 5.02%, down -26bps QoQ and -55bps YoY.
- NIM was impacted by challenges in CASA and slowdown in unsecured lending.

- **Comment on margin level**

- The margin 2 quarters back, which was 5.22%, was not sustainable and now the bank is 20 bps below that.

- **Deposit repricing**

- Deposits have largely repriced and rates have also stabilized.
- The profit on the KGI transaction should help liquidity to some extent.

Exhibit 2: Key quarterly balance sheet / business data - Standalone

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy	Q1 FY25*	chg qoq*	chg yoy*
Advances	3,899,570	3,760,750	3.7	3,285,820	18.7	100.0	0bps	0bps
Home Loans & LAP	1,108,500	1,067,260	3.9	951,470	16.5	28.4	5bps	-53bps
Consumer Bank WC (Secured)	375,910	359,970	4.4	308,460	21.9	9.6	7bps	25bps
PL, BL and Consumer Durables	203,170	200,490	1.3	166,920	21.7	5.2	-12bps	13bps
Credit Cards	146,440	145,050	1.0	113,600	28.9	3.8	-10bps	30bps
CV/CE	379,410	368,330	3.0	285,260	33.0	9.7	-6bps	105bps
Agriculture Division	273,240	278,500	(1.9)	265,130	3.1	7.0	-40bps	-106bps
Tractor Finance	158,000	158,020	(0.0)	139,160	13.5	4.1	-15bps	-18bps
Retail Micro Finance	103,680	99,830	3.9	69,630	48.9	2.7	0bps	54bps
Corporate Banking	935,810	873,100	7.2	775,690	20.6	24.0	78bps	39bps
SME	281,860	272,470	3.4	223,720	26.0	7.2	-2bps	42bps
Others	93,550	94,270	(0.8)	71,270	31.3	2.4	-11bps	23bps
IBPC & BRDS	(160,000)	(156,540)	2.2	(84,490)	89.4	(4.1)	6bps	-153bps
Deposits	4,474,180	4,489,538	(0.3)	3,862,540	15.8	100.0	0bps	0bps
CA	701,440	752,080	(6.7)	647,220	8.4	15.7	-107bps	-108bps
SA	1,240,780	1,290,960	(3.9)	1,245,670	(0.4)	27.7	-102bps	-452bps
Term	2,531,960	2,446,498	3.5	1,969,650	28.5	56.6	210bps	560bps
Investments	1,625,780	1,554,038	4.6	1,238,730	31.2	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	29.4	29.2	18bps	27.4	205bps	NA	NA	NA
Borrowings	294,020	283,681	3.6	203,780	44.3	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	6.2	5.9	22bps	5.0	115bps	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios - Standalone

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
Net interest margin	5.02	5.28	-26bps	5.57	-55bps
Cost of SA	4.12	4.13	-1bps	3.96	16bps
CASA	43.4	45.5	-210bps	49.0	-560bps
Loan to Deposit Ratio	87.2	83.8	339bps	85.1	209bps
Non-int. income / Total Income	30.0	30.1	-15bps	30.1	-12bps
Fee Income to Avg. Total Assets	1.5	1.7	-23bps	1.5	3bps
Cost to Income	46.2	44.8	147bps	44.5	174bps
Opex to Avg. Total Assets	3.0	3.1	-9bps	3.2	-17bps
Annualised Slippage Ratio^	1.4	1.4	0bps	1.5	-6bps
PCR excl. TWO	75.0	75.9	-90bps	78.0	-300bps
Gross NPA	1.4	1.4	0bps	1.8	-38bps
Net NPA	0.4	0.3	1bps	0.4	-5bps
ROA	4.2	3.0	124bps	2.8	140bps
ROE	13.9	17.5	-363bps	14.6	-71bps
Capital adequacy ratio	22.4	20.6	185bps	21.1	128bps
Common Equity Tier 1 ratio	21.3	19.2	210bps	20.0	130bps
Capital adequacy ratio*	22.8	21.8	100bps	22.4	40bps
Common Equity Tier 1 ratio*	21.9	20.7	120bps	21.5	40bps

Source: Company, YES Sec – Research, * Consolidated figures (Rest are standalone), ^ Annualised Gross NPA addition ratio

Exhibit 4: Subsidiaries PAT

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Kotak Mahindra Bank	35,200	41,330	(14.8)	34,520	2.0
Kotak Mahindra Prime	2,320	2,230	4.0	2,180	6.4
Kotak Life Insurance	1,740	1,090	59.6	1,930	(9.8)
Kotak Securities	4,000	3,780	5.8	2,190	82.6
Kotak Mahindra Capital	810	970	(16.5)	550	47.3
Kotak Mahindra AMC	1,750	1,500	16.7	1,060	65.1
Kotak Investments	1,380	1,290	7.0	1,020	35.3

Source: Company, YES Sec – Research

Exhibit 5: Quarterly Actuals Vs Estimates - Standalone

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	68,424	71,818	(4.7)
Pre-Prov. Operating Profit	52,541	56,124	(6.4)
Profit After Tax	62,498	38,834	60.9

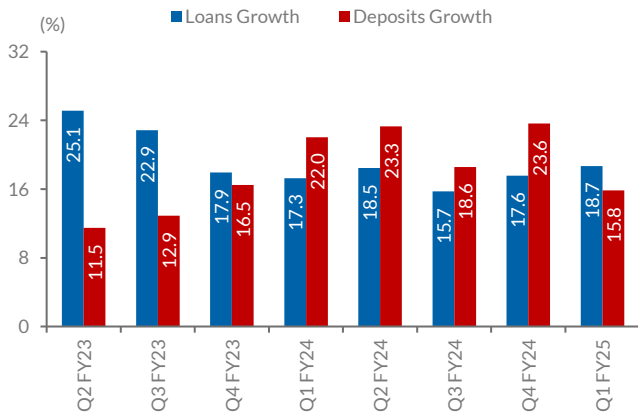
Source: Company, YES Sec – Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Fee Income (A)	22,400	24,670	(9.2)	18,270	22.6
Distribution and syndication	3,090	6,410	(51.8)	1,930	60.1
General banking fees	17,850	17,150	4.1	15,160	17.7
Others	1,460	1,110	31.5	1,180	23.7
Other Income (B)	6,890	5,120	34.6	8,560	(19.5)
Total Non-Interest Income (A+B)	29,290	29,790	(1.7)	26,830	9.2

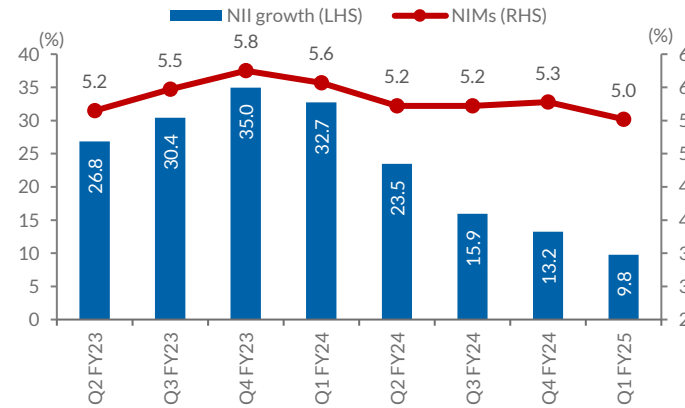
Source: Company, YES Sec – Research

Exhibit 7: Loans and Deposits growth (YoY %)



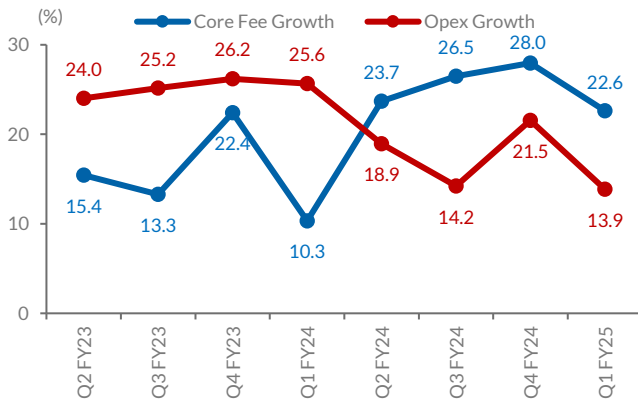
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM (%)



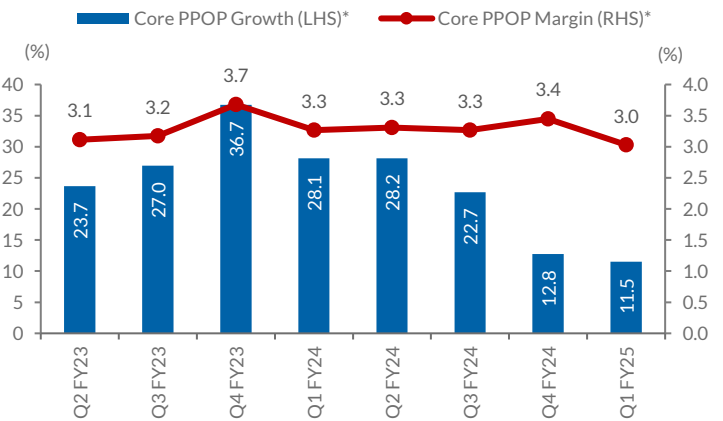
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



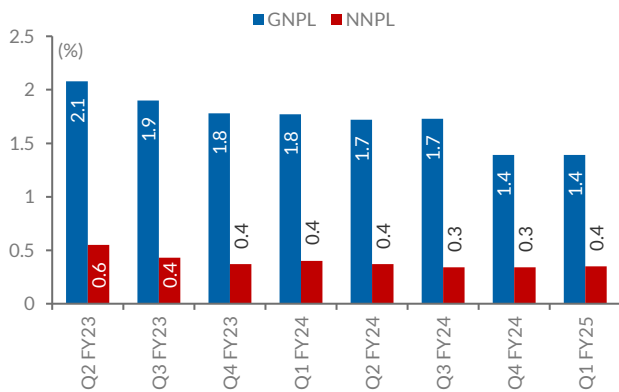
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



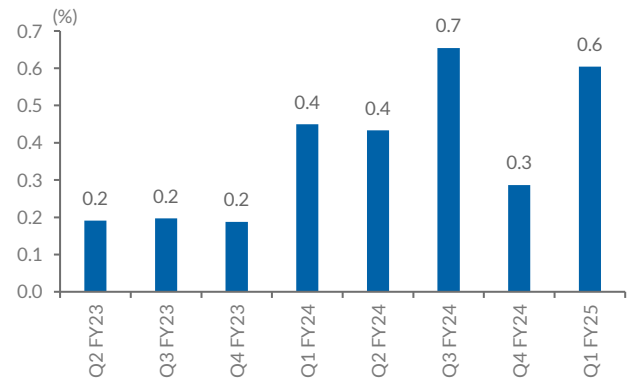
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 12: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Total cash & equivalents	429,239	325,423	527,884	697,996	809,675
Investments	1,005,802	1,214,037	1,554,038	1,797,496	2,078,899
Advances	2,712,536	3,198,612	3,760,753	4,362,473	5,060,469
Fixed assets	16,437	19,203	21,553	25,864	31,036
Other assets	130,269	141,349	139,343	167,212	200,654
Total assets	4,294,284	4,898,625	6,003,570	7,051,040	8,180,733
Net worth	724,878	835,202	967,188	1,102,647	1,262,918
Deposits	3,116,841	3,630,961	4,489,537	5,241,688	6,114,183
Borrowings	259,671	234,163	283,681	313,767	348,667
Other liabilities	192,894	198,299	263,164	392,938	454,966
Total liabilities incl. Equity	4,294,284	4,898,625	6,003,570	7,051,040	8,180,733

Source: Company, YES Sec – Research, Standalone figures

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	270,388	342,509	457,989	547,505	637,177
Interest expense	(102,209)	(126,989)	(198,057)	(245,177)	(287,285)
Net interest income	168,179	215,519	259,932	302,328	349,893
Non-interest income	63,544	70,831	102,731	104,337	120,945
Total income	231,723	286,350	362,663	406,665	470,837
Operating expenses	(111,214)	(137,870)	(166,788)	(197,729)	(224,605)
PPoP	120,509	148,480	195,875	208,937	246,232
Provisions	(6,896)	(4,570)	(15,737)	(26,336)	(30,550)
Profit before tax	113,613	143,910	180,137	182,600	215,682
Taxes	(27,886)	(34,517)	(42,321)	(45,650)	(53,921)
Net profit	85,727	109,393	137,816	136,950	161,762

Source: Company, YES Sec – Research, Standalone figures

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest income	6.7	7.5	8.4	8.4	8.4
Interest expense	-2.5	-2.8	-3.6	-3.8	-3.8
Net interest income	4.1	4.7	4.8	4.6	4.6
Non-interest income	1.6	1.5	1.9	1.6	1.6
Total income	5.7	6.2	6.7	6.2	6.2
Operating expenses	-2.7	-3.0	-3.1	-3.0	-2.9
PPoP	3.0	3.2	3.6	3.2	3.2
Provisions	-0.2	-0.1	-0.3	-0.4	-0.4
Profit before tax	2.8	3.1	3.3	2.8	2.8
Taxes	-0.7	-0.8	-0.8	-0.7	-0.7
Net profit	2.1	2.4	2.5	2.1	2.1

Source: Company, YES Sec – Research, Standalone figures

Exhibit 18: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Kotak Life Insurance	457,260	EV	152,420	3.0	100%	457,260	230.0
Kotak Prime	236,435	BV	118,217	2.0	100%	236,435	118.9
Kotak Securities	210,492	BV	84,197	2.5	100%	210,492	105.9
Kotak Capital	43,000	PAT	2,150	20	100%	43,000	21.6
Kotak AMC	418,507	AAUM	4,185,067	10%	100%	418,507	210.5
Kotak General	79,430	GWP	15,984	5.0	30%	23,829	12.0
Value of Subsidiaries						1,389,523	699

Source: Company, YES Sec – Research

Exhibit 19: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Net Interest Income	NA	302,328	349,893	NA	302,322	349,879	NA	0.0	0.0
Pre-Prov. Operating Profit	NA	208,937	246,232	NA	208,947	246,238	NA	(0.0)	(0.0)
Profit after tax	NA	136,950	161,762	NA	136,958	161,766	NA	(0.0)	(0.0)

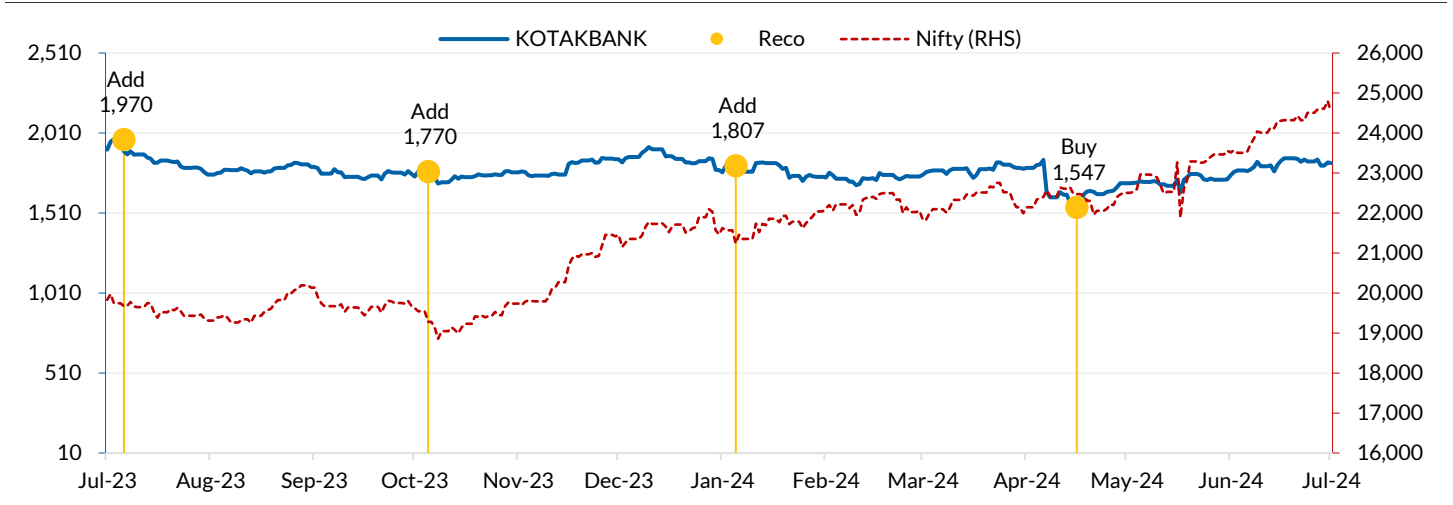
Source: Company, YES Sec – Research, Standalone figures

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	9.6	28.1	20.6	16.3	15.7
PPoP	-1.3	23.2	31.9	6.7	17.9
Net profit	23.1	27.6	26.0	-0.6	18.1
Loans	21.3	17.9	17.6	16.0	16.0
Deposits	11.3	16.5	23.6	16.8	16.6
Profitability Ratios (%)					
Net interest margin	4.6	5.3	5.3	5.2	5.1
Return on Average Equity	12.6	14.0	15.3	13.2	13.7
Return on Average Assets	2.1	2.4	2.5	2.1	2.1
Per share figures (Rs)					
EPS	43.2	55.1	69.3	68.9	81.4
BVPS	365	420	487	555	635
ABVPS	356	414	480	540	613
Valuation multiples					
P/E	26	20	16	16	14
P/BV	3.1	2.7	2.3	2.0	1.8
P/ABV	3.2	2.7	2.3	2.1	1.8
NIM internals (%)					
Yield on loans	7.8	9.1	10.2	10.3	10.3
Cost of deposits	3.1	3.5	4.5	4.7	4.7
Loan-deposit ratio	87.0	88.1	83.8	83.2	82.8
CASA ratio	60.7	52.8	45.5	43.0	43.0
Opex control (%)					
Cost/Income ratio	48.0	48.1	46.0	48.6	47.7
Cost to average assets	2.7	3.0	3.1	3.0	2.9
Capital adequacy (%)					
Tier 1 capital ratio	21.7	20.8	19.3	19.1	18.8
Asset quality (%)					
Gross slippage ratio	1.7	1.3	1.4	1.4	1.4
Gross NPL ratio	2.4	1.8	1.4	1.8	2.0
Credit cost	0.4	0.2	0.4	0.6	0.6
Net NPL ratio	0.7	0.4	0.3	0.7	0.9

Source: Company, YES Sec – Research, Standalone figures; Valuations are the implied value of standalone entity net of subsidiaries

Recommendation Tracker



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