

KOTAK MAHINDRA BANK LIMITED

NIMs stable; higher opex dragged profitability

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Result and Price Analysis

Kotak Mahindra Bank (KMB) reported stable 3QFY24 results with the key pointers being: a) Strong NII (up 16% YoY and 4% QoQ) and sequentially higher provisions, b) GNPA/NNPA ratio stable at 1.73%/0.34%, c) restructured pool inched down to ₹4.6bn (13bps of advances) v/s ₹5.3bn in the previous quarter, d) credit off-take modest with growth of 15.7% YoY and 3.2% sequentially, e) covid provision held at ₹3bn as of 3QFY24, provision for AIF investments worth ₹1.9bn, f) the total contingent provisioning (covid + Standard + Specific) stood 0.52% of net advances, h) Total PCR (including covid, general and specific provision) stood ~110% of GNPL amount, g) Headline NIM stable QoQ at 5.22%. Moreover, increased Opex (C/I at 48.4%) led to sequentially lower ROA of ~2.2%. 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 FY25E 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 around 2.5%.

Gazing the core

NPA ratio stable: The 3QFY24 witnessed a steady asset quality performance as GNPA/NNPA/PCR/SMA2 stood at 1.73%/0.34%/79%/0.06% against 1.72%/0.37%/79%/0.04% in the previous quarter. The GNPA/NNPA ratio stable sequentially on the back of seasonally lower slippages (₹11.8bn v/s ₹13.1bn in 2QFY24) and flat reductions (₹8.3bn v/s ₹9.4bn in 2QFY24). The absolute GNPA (₹63bn) increased sequentially by 3.5%. The SMA2 book stable at ₹2.1bn (6bps of loans). The total restructuring amount (covid + MSME) moderated to ₹4.6bn (0.13%) against ₹5.3bn (0.15%) in 2QFY24 out of which covid related restructuring is ~₹1.9bn and rest is MSME restructuring. The provisioning expenses stood at 5.8bn higher from the previous quarter. The bank has made ₹1.9bn of provision towards AIF investment (no ever greening spoken by management). Covid provision continued to be held at ₹3.2bn and total provisions (excluding PCR) stood 0.52% of net loans.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	153,396	168,179	215,519	256,626	306,038
Operating Profit	122,147	120,509	148,480	180,152	224,762
Reported Profits	69,648	85,727	109,393	120,806	152,442
Net Worth	632,270	719,565	829,600	950,411	1,102,853
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	4,590,116	5,522,361

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.3	4.3	4.9	5.0	5.0
C/I Ratio	41.3	48.0	48.1	47.9	46.2
Gross NPA Ratio	3.3	2.3	1.8	1.7	1.6
PCR (%)	63.6	73.2	79.3	78.4	76.2
Adj. RoA Ratio	1.9	2.1	2.4	2.3	2.4
Adj. RoE Ratio	12.5	12.7	14.1	13.6	14.8

Rating	BUY
Current Market Price (₹)	1,710
12M Price Target (₹)	1,950
Potential upside (%)	14

Stock Data

Sector:	Banking
FV (₹):	5
Market Cap Full (₹ bn):	3,408
Market Cap Free Float (₹ bn):	2,522
52-Week High / Low (₹):	2,064 / 1,644
BSE Code / NSE Symbol	500247 / KOTAKBANK
Bloomberg:	KMB IN

Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	25.91	25.93	25.94	25.95
FPIs	39.74	40.97	39.88	37.76
MFs	10.91	9.63	9.45	10.99
Insurance	8.61	8.58	8.43	8.60
Others	14.83	14.89	16.30	16.70

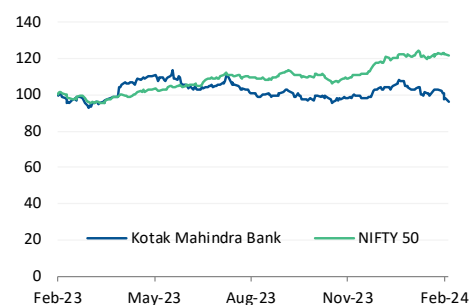
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
Kotak Bank	-6.7%	-2.5%	-4.6%	-3.6%
Nifty 50	-1.3%	10.7%	11.3%	21.6%

* To date / current date : February 12, 2024

Kotak Bank vs Nifty 50



Steady business growth: Thus the bank's net advances (~₹3.6tn) grew by 17.3% YoY and 5.3% sequentially. Home loan & LAP (27.4% of book) will continue to be focus area and grew 3.2% sequentially. SME (6.9% of book) has grown by 5.1% QoQ. The bank's deposit stood at ~₹4.9tn grew by 18.6% YOY and 1.9% sequentially; CASA ratio moderated sequentially and stood at 47.7%. CRAR stood at 19% with Tier 1 of 17.9%.

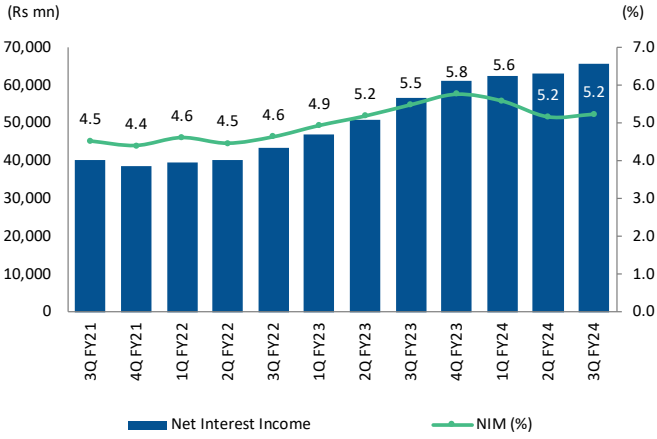
Stable NIMs; higher opex dragged profitability: NIMs expansion of 7bps and NII growth of 15.9% YoY and 4.1% QoQ. . Moreover, the other income witnessed de-growth of 0.8% QoQ led by treasury MTM loss of ₹1.6bn (large part on OIS book). Fixed and Floating rate loans have proportion of 30% and 70% respectively. 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 FY25 even with policy rate cuts, if any. Employee cost tended to be a little higher this quarter because of higher retirement cost. Other operating expenses were significantly higher owing to spend on promotion and marketing. The C/I ratio increased 190bps sequentially and stands at 48.4%. Despite healthy NII growth, the other income de-growth and higher Opex led to PPOP de-growth of 1% sequentially. Moreover, sequentially higher provision expenses has resulted in 7.6% YoY jump and 5.8% sequential de-growth in PAT. The bank ROA/ROE stood at 2.2%/13%.

Outlook & Valuations

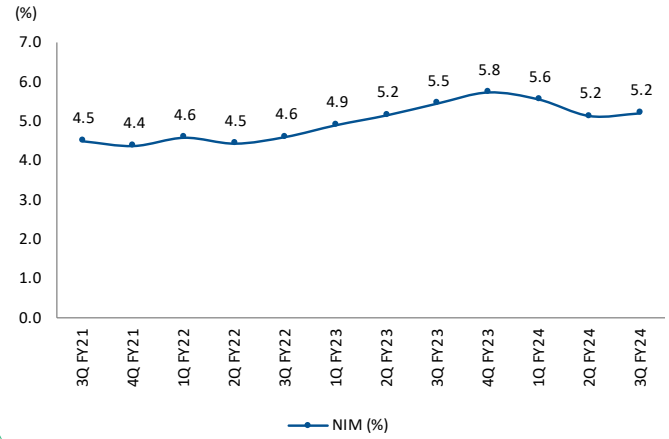
We expect KMB's loan book to grow at CAGR of ~18% over FY23-25E. At CMP of ₹1710, the stock is available at 3.1(x) standalone FY25E Adj. BVPS of ₹552. Valuing the standalone entity with 3.4x FY25E BVPS and subsidiaries valuation at ₹74; we arrive at a target price of ₹1950. We recommend BUY with a potential upside of ~14%.

Quarterly story in charts

NII Trend



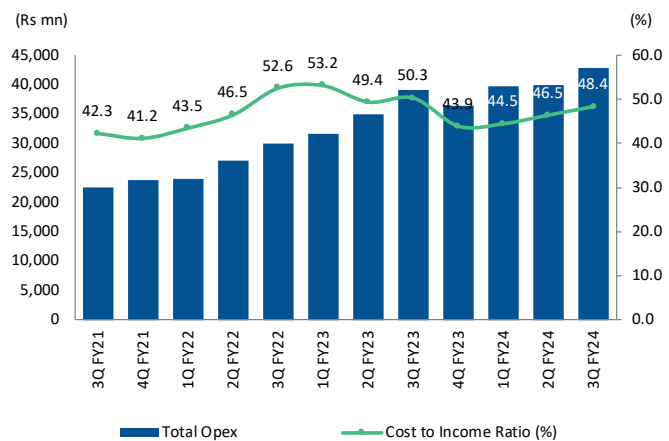
NIMs Trend



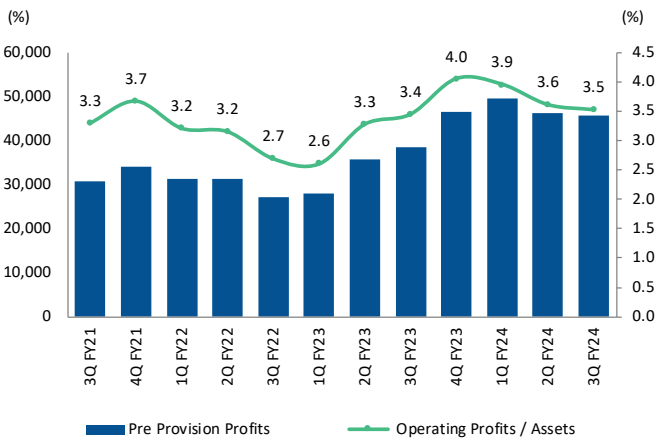
Other Income Trend



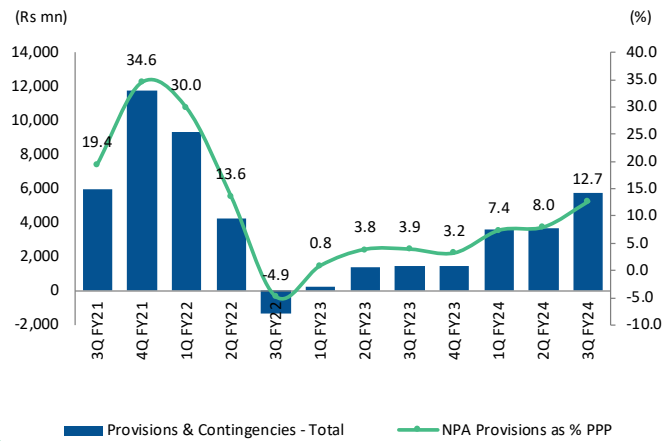
Total Opex Trend



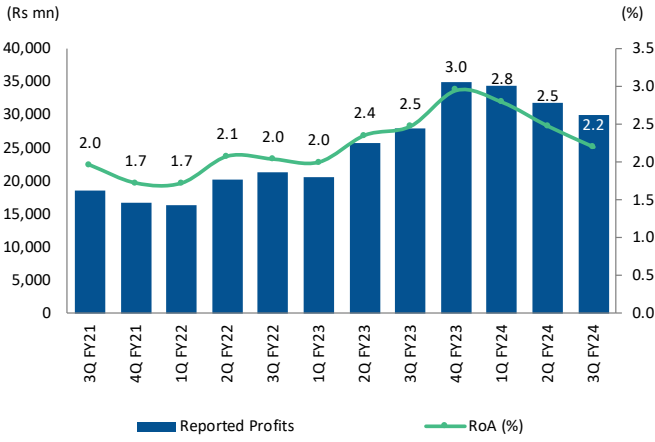
Pre Provision Profit Trend



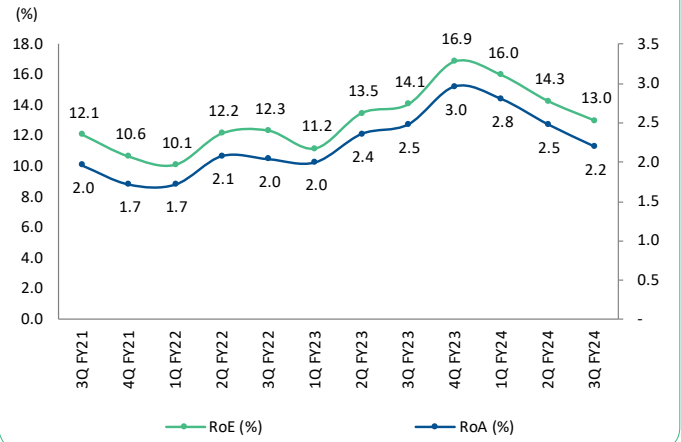
Provision Expenses Trend



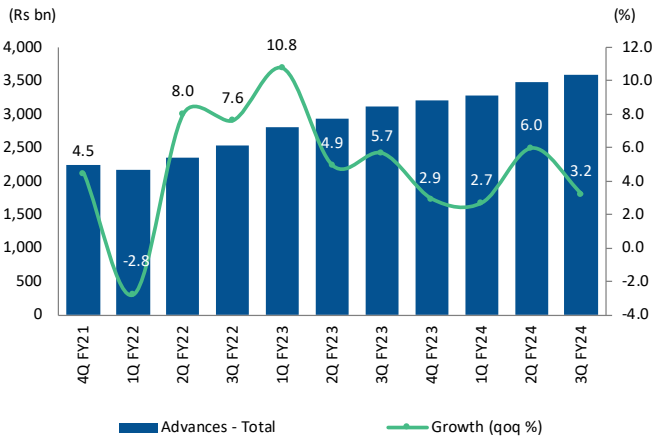
Reported Profit Trend



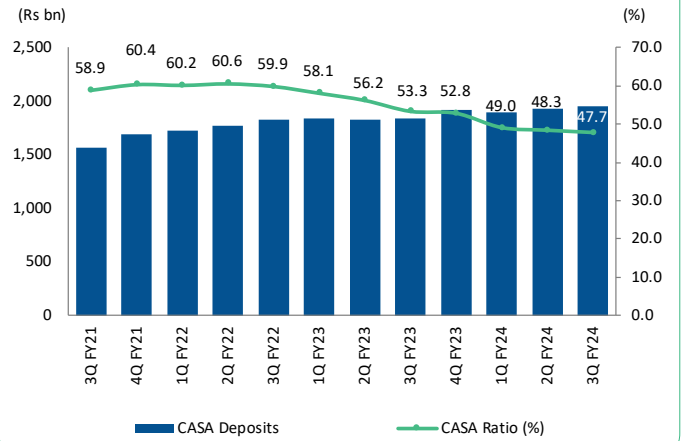
Return Ratio Trend



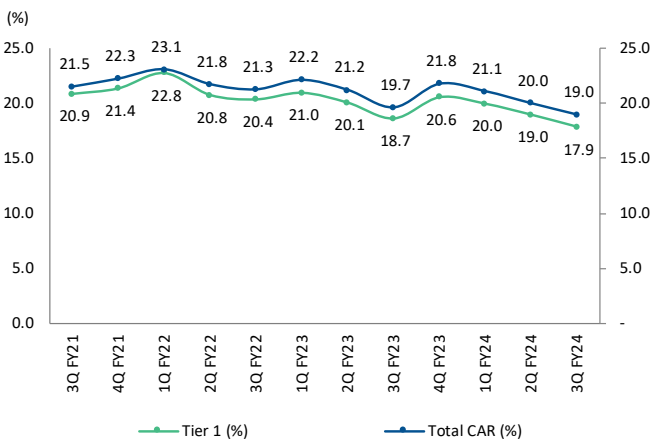
Loan Book Trend



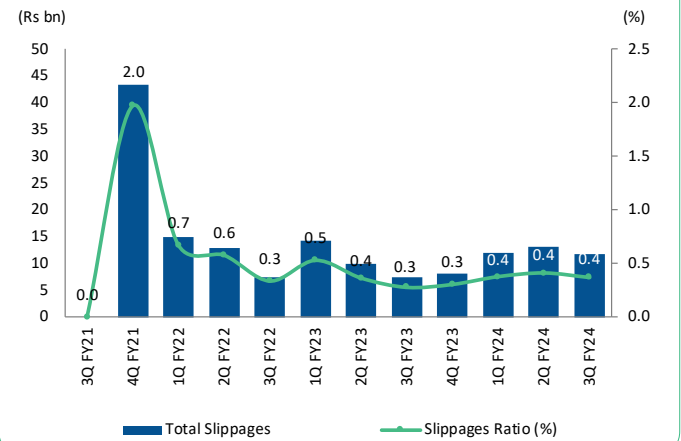
CASA Deposit Trend



CRAR and Tier 1 trend



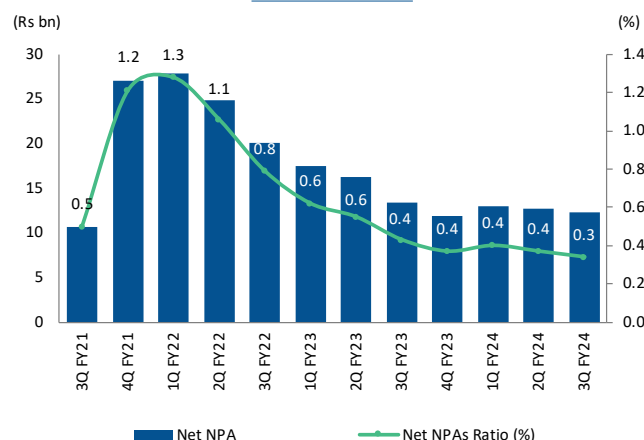
Slippages



Gross NPA trend



Net NPA Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	3Q FY24	3Q FY23	% yoy / bps	2Q FY24	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	117,990	89,986	31.1	111,928	5.4	342,509	270,388	26.7
Interest Expenses	52,455	33,457	56.8	48,962	7.1	126,989	102,209	24.2
Net Interest Income	65,535	56,529	15.9	62,966	4.1	215,519	168,179	28.1
NII to Net Operative Income	74.0	72.9	113	73.1	92	75.3	72.6	269
NIM (%)	5.22	5.5	(25)	5.2	7	4.9	4.3	56
Other Income - Total	22,970	21,000	9.4	23,145	(0.8)	70,831	63,544	11.5
Other Inc to Net Oper. Income (%)	26.0	27.1	(113)	26.9	(92)	24.7	27.4	(269)
Net Operating Revenue	88,505	77,529	14.2	86,112	2.8	286,350	231,723	23.6
Employee Expenses	17,483	14,778	18.3	16,346	7.0	55,198	46,134	19.6
Other Opex	25,360	24,253	4.6	23,665	7.2	82,672	65,080	27.0
Total Opex	42,843	39,031	9.8	40,011	7.1	137,870	111,214	24.0
Cost to Income Ratio (%)	48.4	50.3	(194)	46.5	194	48.1	48.0	15
Pre Provision Profits	45,662	38,498	18.6	46,101	(1.0)	148,480	120,509	23.2
Provisions & Contingencies - Total	5,791	1,488	289.1	3,666	58.0	4,570	6,896	(33.7)
NPA Provisions as % PPP	12.7	3.9	882	8.0	473	3.1	5.7	(264)
Profit Before Tax	39,871	37,010	7.7	42,436	(6.0)	143,910	113,613	26.7
Tax	9,821	9,091	8.0	10,526	(6.7)	34,517	27,886	23.8
Effective Tax Rate (%)	24.6	24.6	7	24.8	(17)	24.0	24.5	(56)
Reported Profits	30,050	27,919	7.6	31,910	(5.8)	109,393	85,727	27.6
RoA (%)	2.2	2.5	(28)	2.5	(28)	2.4	2.1	27
RoE (%)	13.0	14.1	(106)	14.3	(127)	14.1	12.7	144

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Net Worth	765,759	794,360	829,600	865,110	894,564	924,940	3.4	16.4
RoE (%)	13.5	14.1	16.9	16.0	14.3	13.0	(127)	(106)
Tier 1 (%)	20.1	18.7	20.6	20.0	19.0	17.9	(110)	(76)
Total CAR (%)	21.2	19.7	21.8	21.1	20.0	19.0	(103)	(66)
Advances - Total	2,940,232	3,107,340	3,198,612	3,285,820	3,482,841	3,595,880	3.2	15.7
Investments	988,624	1,122,190	1,214,037	1,238,730	1,286,460	1,457,510	13.3	29.9
Total Assets	4,419,951	4,647,840	4,898,625	5,129,910	5,329,631	5,479,490	2.8	17.9
RoA (%)	2.36	2.48	2.96	2.80	2.48	2.20	(28)	(28)
Deposits	3,252,032	3,446,660	3,630,961	3,862,540	4,009,629	4,086,360	1.9	18.6
CASA Deposits	1,826,100	1,835,790	1,918,150	1,892,890	1,934,790	1,950,490	0.8	6.2
CASA Ratio (%)	56.2	53.3	52.8	49.0	48.3	47.7	(60)	(560)
Interest Bearing Liabilities - Total	3,443,633	3,666,940	3,870,123	4,071,320	4,239,773	4,349,760	2.6	18.6

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	3,443,633	3,666,940	3,870,123	4,071,320	4,239,773	4,349,760	2.6	18.6
Deposits	3,252,032	3,446,660	3,630,961	3,862,540	4,009,629	4,086,360	1.9	18.6
CASA Deposits	1,826,100	1,835,790	1,918,150	1,892,890	1,934,790	1,950,490	0.8	6.2
Saving Deposit	1,224,480	1,199,780	1,217,850	1,245,670	1,246,550	1,262,610	1.3	5.2
Current Deposit	601,620	636,010	700,300	647,220	688,240	687,880	(0.1)	8.2
Term Deposits	1,425,932	1,610,870	1,712,811	1,969,650	2,074,839	2,135,870	2.9	32.6
Borrowings	186,601	215,280	234,163	203,780	225,144	258,400	14.8	20.0

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	9,830	7,480	8,230	12,050	13,140	11,770	(10.4)	57.4
Slippages Ratio (%)	0.36	0.28	0.30	0.38	0.41	0.37	(4)	9
Gross NPA	62,102	59,946	57,683	59,092	60,872	63,017	3.5	5.1
Gross NPAs Ratio (%)	2.08	1.90	1.78	1.77	1.72	1.73	1	(17)
PCR - Calculated (%)	73.7	77.6	79.3	78.0	79.1	80.6	150	299
Net NPA	16,304	13,448	11,933	13,018	12,748	12,253	(3.9)	(8.9)
Net NPAs Ratio (%)	0.55	0.43	0.37	0.40	0.37	0.34	(3)	(9)
Standard Restructured	9,940	7,650	7,180	6,140	5,260	4,590	(12.7)	(40.0)
Std. Rest. Adv. as % of Advances	0.3	0.2	0.22	0.19	0.15	0.13	(2)	(12)

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	453,605	541,575
Interest Expenses	115,006	102,209	126,989	196,979	235,537
Net Interest Income	153,396	168,179	215,519	256,626	306,038
<i>NIM (%)</i>	4.28	4.29	4.85	4.97	4.98
Other Income - Total	54,592	63,544	70,831	88,918	111,935
Net Operating Revenue	207,988	231,723	286,350	345,543	417,973
Employee Exp.	37,654	46,134	55,198	67,839	80,050
Other Opex	48,187	65,080	82,672	97,552	113,161
Total Opex	85,841	111,214	137,870	165,391	193,211
<i>C/I Ratio (%)</i>	41.27	47.99	48.15	47.86	46.23
Pre Provision Profits	122,147	120,509	148,480	180,152	224,762
<i>PPP Growth (yoy %)</i>	21.9	(1.3)	23.2	21.3	24.8
Provisions & Contingencies - Total	29,117	6,896	4,570	21,227	24,220
<i>Credit Cost (As % of Op. AUM)</i>	1.14	0.50	0.27	0.70	0.70
Profit Before Tax	93,030	113,613	143,910	158,925	200,542
Tax	23,382	27,886	34,517	38,118	48,100
<i>Effective Tax Rate (%)</i>	25.1	24.5	24.0	24.0	24.0
Reported Profits	69,648	85,727	109,393	120,806	152,442
<i>PAT Growth (yoy %)</i>	17.1	23.1	27.6	10.4	26.2

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	9,909	9,923	9,933	9,938	9,938
Reserves (ex Revel. Reserve)	622,361	709,641	819,667	940,473	1,092,915
Net Worth - Ex Revaluation	632,270	719,565	829,600	950,411	1,102,853
Deposits	2,801,000	3,116,841	3,630,961	4,222,907	5,080,572
Borrowings	236,506	259,671	234,163	367,209	441,789
Interest Bearing Liabilities (₹ mn)	3,042,507	3,381,512	3,870,123	4,590,116	5,522,361
Other Lia. & Prov.	160,088	192,894	198,299	228,114	272,514
Total Liabilities	3,834,886	4,294,284	4,898,625	5,769,245	6,898,331
Assets					
Cash & Cash Equivalent	396,265	429,239	325,423	316,710	349,551
Investments	1,050,992	1,005,802	1,214,037	1,504,135	1,863,980
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	20,667	24,600
Other Assets	135,390	130,269	141,349	153,371	168,708
Total Assets	3,834,886	4,294,284	4,898,625	5,769,245	6,898,331

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	1,988	1,988
Earnings Per Share (₹)	35.1	43.2	55.1	60.8	76.7
EPS (% YoY)	13.0	22.9	27.5	10.4	26.2
P/E (x)	48.6	39.6	31.0	28.1	22.3
Book Value (₹)	319.0	362.6	417.6	478.2	554.9
BVPS (% YoY)	25.8	13.6	15.2	14.5	16.0
P/BV (x)	5.4	4.7	4.1	3.6	3.1
Adj. BV (₹)	312.2	358.2	414.6	475.1	551.8
Adj. BV (% YoY)	25.1	14.7	15.8	14.6	16.1
P/ABV (x)	5.5	4.8	4.1	3.6	3.1

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	8.4	7.8	9.1	10.2	10.2
Yield on Funds	7.5	6.9	7.7	8.8	8.8
Cost of Funds (CoF)	3.8	3.2	3.5	4.7	4.7
Interest Spread	3.7	3.7	4.2	4.1	4.1
NIM's	4.3	4.3	4.9	5.0	5.0
Interest Income / Assets	7.2	6.7	7.5	8.5	8.6
Interest Exp. / Assets	3.1	2.5	2.8	3.7	3.7
NII / Assets	4.1	4.1	4.7	4.8	4.8
Fee Income / Assets	0.9	1.1	1.1	1.2	1.4
Other Non Core Income / Assets	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Other Income / Assets	1.5	1.6	1.5	1.7	1.8
Net Operating Income / Assets	5.6	5.7	6.2	6.5	6.6
Operating Ratios					
NII to Net Operative Income	73.8	72.6	75.3	74.3	73.2
Other Income to Net Operative Income	26.2	27.4	24.7	25.7	26.8
Empl. Cost/Oper. Exps.	43.9	41.5	40.0	41.0	41.4
Other Op. Exps./Oper. Exps.	56.1	58.5	60.0	59.0	58.6
C/I Ratio (%)	41.3	48.0	48.1	47.9	46.2
Provisions as % PPP	14.0	3.0	1.6	6.1	5.8
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.7	0.7
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Employee Exp. / Assets	1.0	1.1	1.2	1.3	1.3
Other Opex/ Assets	1.3	1.6	1.8	1.8	1.8
Total Opex / Assets	2.3	2.7	3.0	3.1	3.1
Operating Profits / Assets	3.3	3.0	3.2	3.4	3.5
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.3	3.0	3.2	3.4	3.5
Provisions / Assets	0.8	0.2	0.1	0.4	0.4
Profit Before Tax / Assets	2.5	2.8	3.1	3.0	3.2
Tax Expenses / Assets	0.6	0.7	0.8	0.7	0.8
RoA	1.9	2.1	2.4	2.3	2.4
Leverage (x)	6.1	6.0	5.9	6.1	6.3
RoE	12.5	12.7	14.1	13.6	14.8
Adj. RoA	1.9	2.1	2.4	2.3	2.4
Adj. RoE	12.5	12.7	14.1	13.6	14.8

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	79.9	87.0	88.1	89.4	88.4
Incremental C/D Ratio	22.8	150.6	94.5	97.3	83.6
Investment Deposit Ratio	37.5	32.3	33.4	35.6	36.7
Dom. SLR Investment / Deposits	30.5	24.0	24.9	26.7	27.8
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	1.5	1.5
Gross NPA	74,255	64,697	57,683	64,432	72,000
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.7	1.6
PCR (%)	63.6	73.2	79.3	78.4	76.2
Net NPA	27,052	17,367	11,933	13,927	17,129
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4
Total Impaired Loans	74,255	64,697	57,683	64,432	72,000
Impaired Loan as % of Loan / AUM	3.1	2.2	1.7	1.6	1.5
Total Risk Reserves	47,203	47,330	45,750	50,505	54,871
Total Risk As % of Loan Book	2.0	1.6	1.3	1.2	1.1

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	4,590,116	5,522,361
Growth (yoy %)		11.1	14.4	18.6	20.3
Yield on Funds	7.5	6.9	7.7	8.8	8.8
Cost of Funds (CoF)	3.8	3.2	3.5	4.7	4.7
Interest Spread	3.7	3.7	4.2	4.1	4.1
NIM's	4.3	4.3	4.9	5.0	5.0
Other Income Growth	1.6	16.4	11.5	25.5	25.9
C/I Ratio (%)	41.3	48.0	48.1	47.9	46.2
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Return Ratios					
Adj. RoA	1.9	2.1	2.4	2.3	2.4
Adj. RoE	12.5	12.7	14.1	13.6	14.8
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.7	0.7
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.7	1.6
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4

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