Axis Annual Analysis 2025

AAA

Kotak Mahindra Bank Ltd.

AXIS SECURITIES

Potentially Faster NIM Recovery and Growth Pick-up to Aid Re-rating!

Summary

FY25 was a tough year for Kotak Mahindra Bank (KMB) with the regulatory restrictions on digital on-boarding of customers through the 811 channel and issuing new credit cards, hampering credit growth and weighing on margins for most of the year. Despite these challenges, KMB utilised the embargo period to define its go-to-market strategy alongside digitising and automating the customer journey to ensure the easing of banking, while overhauling its tech infrastructure and capabilities. The bank's focus remained on growing the secured assets while maintaining asset quality. In FY25, despite these challenges coupled with headwinds in the unsecured segments, KMB delivered credit/deposit growth of 13.5/11% YoY. Asset quality challenges were visible in the unsecured segments, while secured segments continued to behave well. Asset quality remained steady in FY25.

Key Highlights

- **Financial Performance:** As the bank re-worked its growth strategy amidst the embargo and persisting asset quality pain in the unsecured segments, KMB pivoted towards pursuing growth in the secured segments. The bank continued to balance between Savings Accounts, ActivMoney, and Retail TDs to drive deposit growth, while aiming at containing CoF. In FY25, KMB delivered Credit/Deposit growth of 13.5/11% YoY, while maintaining LDR at 85.5% vs 83.8% in FY24. NIM pressures were visible owing to (i) slower growth in the higher-yielding unsecured segments, (ii) increasing CoF and (iii) challenges on CASA deposits. Resultantly, NIMs contracted by 36 bps YoY in FY25, consequently keeping NII growth muted at 9% YoY. Non-interest income grew by 11% YoY, driven by healthy fee income growth (+13% YoY, in line with advances growth). Opex growth was controlled and grew by ~13% YoY, largely in line with business growth despite the investments towards tech overhaul. However, due to a softer top-line growth, the C-I Ratio appeared higher at 47.2% vs 46% in FY24. PPOP grew by 7% YoY. KMB realised a one-time gain from the stake sale in Kotak General Insurance (KGI) of Rs 35.2 Bn, aiding earnings growth for the bank. Credit costs remained elevated in the unsecured portfolio, driven by pressures in the MFI, Personal Loans, and Credit Card portfolio, while they remained under control in the secured/corporate portfolio. Thus, credit costs stood at 0.7% vs 0.5% YoY, partially weighing on earnings. PAT grew by 19% YoY, enabling KMB to deliver RoA/RoE of 2.1/12.6%.
- **Asset Quality:** In FY25, as stress in the unsecured segments surfaced, slippages during the year inched up, with the slippage ratio at 1.6% vs 1.4% in FY24. However, the bank ramped up and strengthened its collection efforts, enabling it to maintain steady asset quality metrics. GNPA/NNPA stood at 1.42/0.31% vs 1.39/0.34% in FY24.
- **Operational Review:** Risk-weighted Assets (RWA) stood at Rs 5,196 Bn (+14% YoY) and constituted ~75% of Total assets vs. 76% in FY24. The bank continues to remain well-capitalised with CRAR/Tier I capital of 22.1/21.1%.

Key Competitive Strengths: (a) Strong brand name; (b) Diversified portfolio with gradual shift towards unsecured products, though capped at 15% of portfolio; (c) Strong deposit franchise with a healthy CASA Franchise; (d) Strong capital adequacy; (e) Strengthened digital proposition.

Growth Drivers: (a) Outperformance on NIMs in a declining interest rate cycle; (b) Improving growth trajectory with pick-up in unsecured segments; (c) Strong earnings growth potential; (d) Healthy asset quality with steady credit costs to support healthy earnings growth.

Outlook & Valuation

We expect KMB to deliver healthy Advances/NII/Earnings growth of 17/17/12*% (*incl one-time gain from stake sale in KGI in FY25) CAGR over FY25-28E. We believe KMB remains well-positioned to maintain margins in a rate-cut environment, supported by accelerating growth in the higher-yielding unsecured segment, coupled with rate-cut actions on deposits. This should help the bank limit the impact of the rate cuts on NIMs. Asset quality challenges seem to be waning away with fresh stress accretion trending downwards in the unsecured portfolios (ex-MFI) and secured asset quality holding up well. Thus, credit costs are expected to taper from H2FY26 onwards. The bank could continue to incur opex towards new product roll-out, branding campaigns and tech enhancement, keeping opex ratios in a tight range. **We expect KMB to deliver steady RoA/RoE of 2.1-2.2%/13-14% over FY26-28E. We recommend a BUY on the stock with a revised target price of Rs 2,525/share, implying an upside of 17% from the CMP**. **We value the core book at 2.5x FY27E ABV (vs its current valuation of 2.3x FY27E ABV) and assign a value of Rs 644/share to subsidiaries.**

Key Financials (Standalone)

(Rs Bn)	FY25	FY26E	FY27E	FY28E
NII	283	321	385	454
PPOP	210	242	293	349
Net Profit	165	158	193	231
EPS (Rs.)	82.7	79.6	97.1	116.1
ABV	582.9	659.7	753.3	865.3
P/ABV	3.8	3.4	2.9	2.6
NNPA (%)	0.3	0.3	0.3	0.3
ROA (%)	2.1	2.1	2.2	2.2

Source: Company, Axis Securities Research

(CMP as of 21st July, 2025)

CMP (Rs)	2,165
Upside /Downside (%)	17%
High/Low (Rs)	2,302/1,679
Market cap (Cr)	4,30,417
Avg. daily vol. (6m) Shrs.	42,11,496
No. of shares (Cr)	198.8

Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	25.9	25.9	25.9
FIIs	33.4	32.5	32.7
MFs / UTI	16.7	17.4	17.3
Others	24.0	24.2	24.1

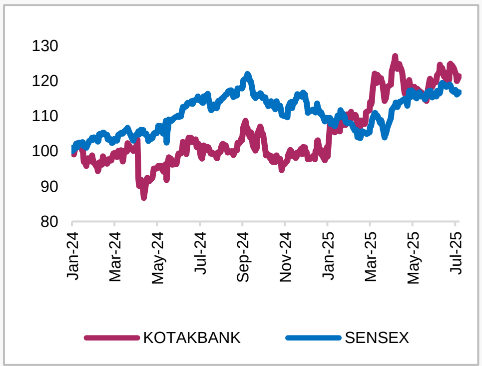
Financial & Valuations

Y/E Mar (Rs. Cr)	FY26E	FY27E	FY28E
NII	321	385	454
PPOP	242	293	349
Net Profit	158	193	231
EPS (Rs.)	79.6	97.1	116.1
ABV	659.7	753.3	865.3
P/ABV	3.4	2.9	2.5
NNPA (%)	0.3	0.3	0.3
RoA (%)	2.1	2.2	2.2

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	0.0	+1.5
PPOP	+0.5	+0.4
PAT	+0.6	+0.5

Relative Performance



Source: AceEquity, Axis Securities Research

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FY25 Story in Charts

Exhibit 1: Healthy credit and deposit growth despite embargo while maintaining steady LDR…

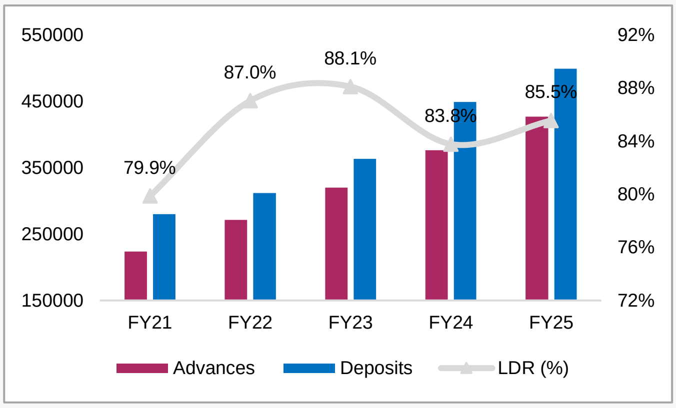
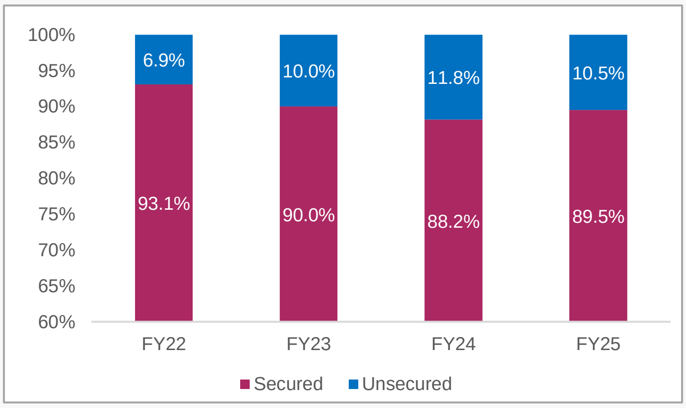
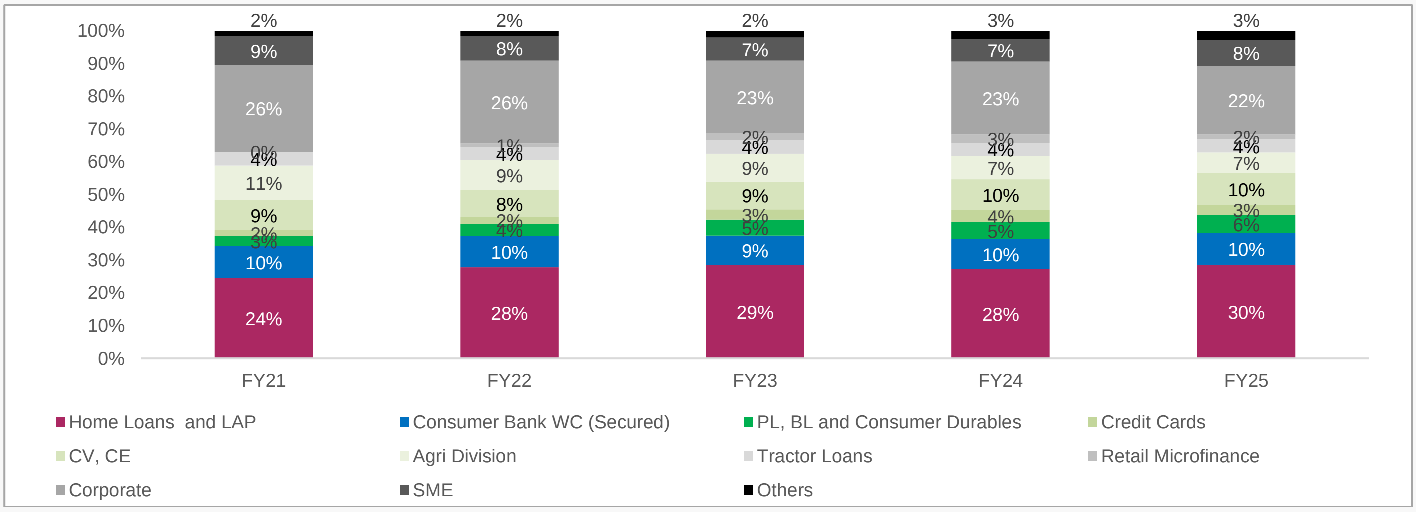


Exhibit 2: …Credit growth driven by secured segments, amidst regulatory restrictions



Source: Company, Axis Securities Research

Exhibit 3: Advances mix shifts slightly towards secured products



Source: Company, Axis Securities Research

Exhibit 4: Increasing CoF and faster growth in lower-yielding segments weighed on margins…

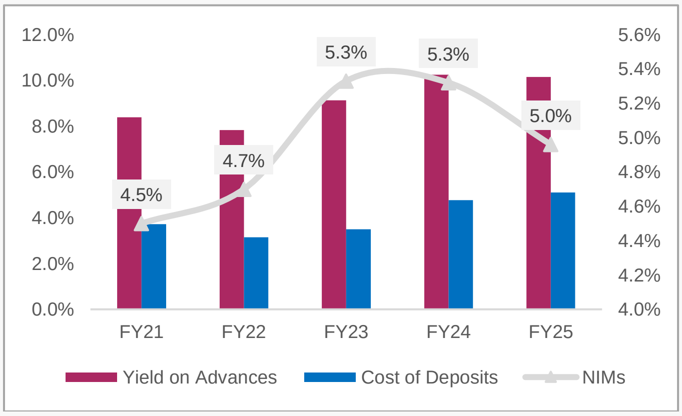
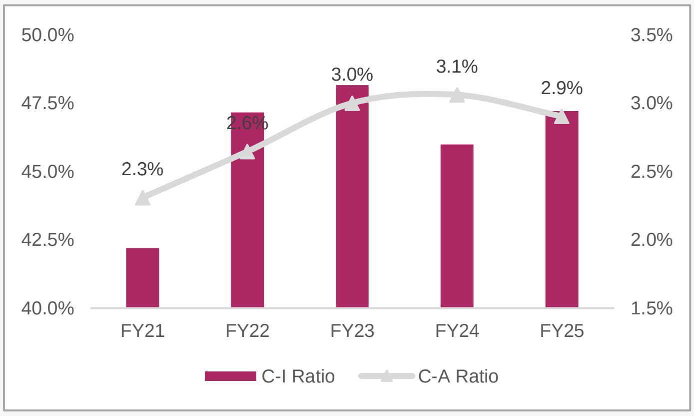


Exhibit 5: …Opex growth controlled, muted top-line growth kept Opex ratios higher



Source: Company, Axis Securities Research

Exhibit 6: Despite marginally higher slippages, Asset quality remained steady…

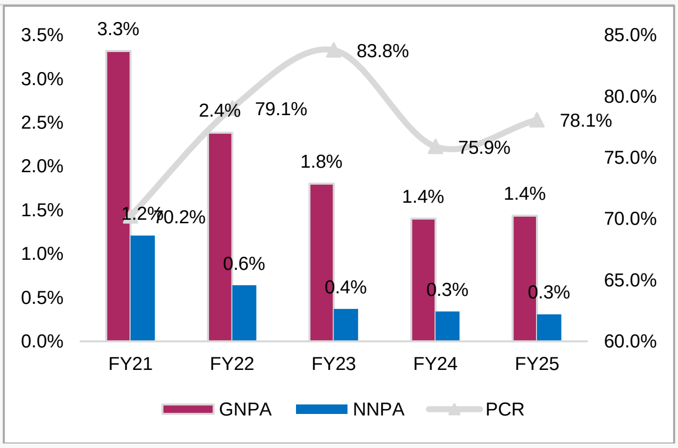
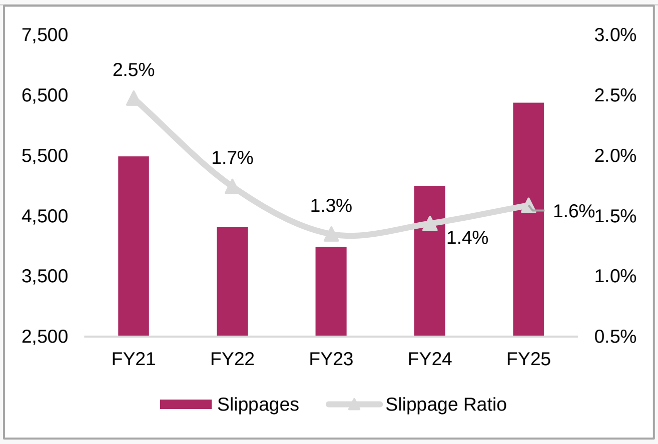


Exhibit 7: …Slippages inched up owing to unsecured portfolio stress

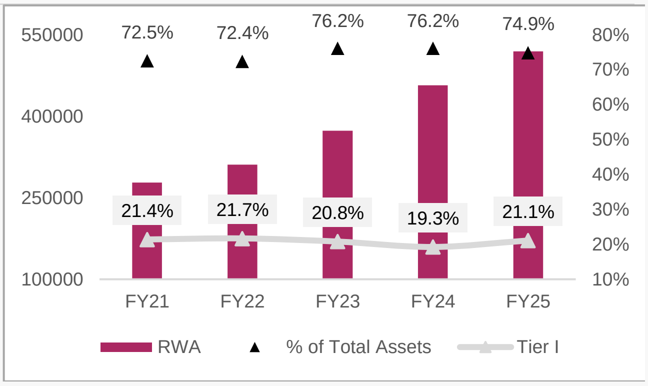


Source: Company, Axis Securities Research

Exhibit 8: RoA delivery of 2%+ despite multiple headwinds (% of total assets)…

	FY21	FY22	FY23	FY24	FY25
NIM	4.1%	4.1%	4.7%	4.8%	4.4%
Fee income	0.9%	1.0%	1.2%	1.3%	1.2%
Opex	2.3%	2.6%	3.0%	3.1%	2.9%
Credit Costs	0.7%	0.2%	0.1%	0.3%	0.5%
RoA	1.9%	2.1%	2.3%	2.5%	2.1%
RoE	12.4%	12.5%	13.8%	15.0%	12.6%

Exhibit 9: …KMB remains well capitalised to steer medium-term growth



Source: Company, Axis Securities Research

Key Operating Highlights

a) **Navigating the Embargo**: In Apr'24, the RBI barred KMB from onboarding new customers digitally and issuing new credit cards, owing to problems in the credit card focused on:

   a. Protecting the existing customer base and deepening relationships with customers.
   b. Accelerating the execution of the technology strategy to achieve resilience and appropriate capacity.
   c. Meet regulatory data cybersecurity standards.

   While these restrictions will have had a direct bearing on the growth in the retail segment, the customer onboarding in the corporate, commercial, and private banking segments is not entirely digital, and the impact would have been meaningful. While credit card growth faced headwinds, the bank tried to recoup the lost opportunity through assisted physical journeys through branches and to existing customers. However, issues with the platform caused delays in statement generation and communication. ***As a corrective action, KMB redefined its go-to-market strategy with two apps, the new Kotak Mobile Banking App and the new 811 App, targeting affluent and core customers, respectively***. The embargo was lifted in Feb'25, post which the bank resumed customer onboarding digitally and issuance of credit cards, though in a risk-calibrated approach.

b) **Credit Growth Driven by Secured Products**: KMB delivered a healthy advances growth of ~13.5% YoY, primarily driven by the secured segment. The de-growth in the unsecured segments was owing to the embargo on digital on-boarding and credit card issuance, along with a cautious lending approach amidst macro challenges, especially in the MFI portfolio (2% mix in portfolio). Resultantly, the share of unsecured products reduced to 10.5% vs 11.8% in FY24.

   KMB re-worked its growth strategy amidst the embargo and persisting asset quality pain in the unsecured segments, KMB pivoted towards pursuing growth in the secured segments

   During the year, credit growth was mainly driven by retail and SME segments – Home Loans/LAP (+19% YoY), SME book (+31% YoY), Consumer Durable Loans (+24% YoY). The bank continued to maintain its leadership position in the tractor financing (+13% YoY). KMB's strong disbursements in the CV/CE segment facilitated market share gain during the year, enabling the portfolio to grow at a robust pace of 17% YoY. The bank continues to strategically expand its asset base to small and medium enterprises in the Agri Value Chain and Gold Loans segments. The bank continued its granular growth strategy with the SME and mid-market segments. The bank reported a strong 26% YoY growth in New-to-bank (NTB) customers in the SME business.

   Growth in the ***corporate segment*** (+6% YoY) was moderate, owing to the bank's focus on short-term and working capital lending to optimise returns and manage interest rate risk more effectively, in a reducing interest rate scenario. During FY25, the bank continued to strengthen its Trade and Supply Chain offerings through digital offerings, driving increased share of customer flows and higher liability and fee incomes.

c) **Deposits Growth Healthy; Focus on ActivMoney**: The bank's deposits grew by 11% YoY in FY25, driven by a strong 18% YoY growth in ActivMoney Deposits. KMB has a granular deposit base, with CASA and Retail TDs forming 78% of total deposits. CASA ratio declined to 43% vs 45.5% in FY25. The growth in CASA deposits was impacted by a higher interest rate environment and resultant alternative opportunities available to depositors to deploy funds at a higher return. During the year, the bank focused on acquiring better-quality customers with higher saving potential through the 811 App. During the year, the bank also strengthened its branch network by adding 200 branches with a

   Challenges on Deposit mobilization persisted throughout FY25 with competitive intensity high. Deposit growth led by TDs, CASA Ratio decline in-line with industry trends focus on garnering granular deposits. The bank will continue to augment its distribution network across 3 modes – branch, digital and voice, which will enable deeper, omnichannel engagement with customers, resulting in higher growth in the retail deposit base, in particular CASA and ActivMoney deposits. The deposit concentration (Top-20 depositors) has also declined to 8.7% in FY25 vs 9.2% in FY24.

d) **Strengthening the 811 Proposition**: The Kotak811 App offers a wide suite of products, including Savings Accounts, Term Deposits, Debit cards, Credit cards, Loans, Investments and Protection plans. During the year, KMB integrated advanced technologies and data analytics to enhance customer experience and accelerate growth. Post the lifting of restrictions, KMB started the acquisition of better quality, high-savings potential customers with the revamped Kotak811 App. This digital push was further complemented by the field staff who were encouraged to co-create multiple products at the time of the onboarding, particularly aimed at increasing the wallet share of the customers and product penetration. The app continues to remain the bank's growth engine in digital SA acquisition and cross-selling of retail products.

e) **NIM pressures surface driven by multiple headwinds**: The margin decline of 36 bps during FY25 was sharp and an outcome of multiple factors, such as a) challenges in garnering CASA deposits, b) an increase in the CoF, in line with the RBI actions, c) transition of the loan product mix towards lower-yielding corporate and secured assets owing to the embargo. Despite these headwinds, the bank was able to defend its margins at ~5% for the year. The bank had been proactively taking steps to arrest the quantum of NIM contraction as the embargo gets lifted and, in a rate cut scenario. KMB's focus remained on a) Increasing the proportion of granular deposits with a focus on CASA mobilisation, and b) Accelerating growth in the unsecured segments comprising personal loans and credit cards post the removal of the embargo.

Margins took a hit owing to (a) slower growth in higher yielding unsecured segments, (b) lower CASA mix and (c) increased CoF

f) **Opex Growth In-line with Business Growth**: KMB's Opex growth was broadly in line with business growth at ~12% YoY despite its accelerated investments towards strengthening its tech platform to comply with the regulatory requirements. However, owing to a muted top-line growth, the C-I Ratio inched up to 47.2% from 46% in FY24. C-A Ratio, on the other hand, improved YoY to 2.9% vs 3.1% in FY24, aided by healthy balance sheet growth. Additionally, the bank added 200 branches during the year vs 168 branches in FY24, as the bank shifted towards physical customer sourcing in light of the regulatory restrictions imposed by the RBI.

g) **Asset Quality Stress Manageable**: KMB witnessed stress in the consumer retail loan portfolio, particularly in the credit cards and microfinance, primarily due to customer overleveraging. Resultantly, it witnessed elevated slippages in these segments and as a corrective action, the bank deployed specialised collection teams to manage this stress alongside tightening credit filters for newer acquisitions. Resultantly, the slippages in the credit cards segment have plateaued, while slippages in the personal loans segment have seen a declining trend by the end of FY25. However, the stress in the MFI sector continues to remain elevated. With stringent credit filters and tighter underwriting norms in place, the credit quality of the new acquisitions in the unsecured portfolios had been holding up well over the year. On the contrary, the asset quality trends in corporate and other

Asset Quality broadly stable despite higher slippages given pressures on asset quality in the unsecured segments – MFI, Credit Cards and Personal Loans secured businesses continue to remain benign, with credit costs under control. Slippages in FY25 inched up owing to the stress in the unsecured segments, with the slippage ratio at 1.6% vs 1.4% in FY24. However, GNPA/NNPA remained largely steady at 1.42/0.31% vs 1.39/0.345 in FY24. Credit costs increased significantly to 73 bps in FY25 vs 45 bps in FY24.

h) **Strong Capital Adequacy**: The bank remains adequately capitalised with CRAR/Tier I capital of 22.1/21.1% which allows the bank to maintain a strong base to have long-term stability, planned business growth, and provide cushioning in times of risk. The Risk-weight Assets (RWA) grew by 14% YoY and stood at ~75% of total assets vs 76% in FY24.

Key Subsidiary Performance

A. Kotak Life Insurance (KLI)

Kotak Life Insurance (KLI) is one of the fastest-growing insurance companies in India, covering over 50+ Mn lives nationwide. KLI offers a wide range of life insurance solutions under individual and group platforms through a multi-channel distribution network. In FY25, the company launched 4 new products and made modifications to 64 existing products to meet the regulatory requirements and suit the constantly evolving needs of customers. During the year, KLI also introduced a new unit-linked fund – Kotak Manufacturing Fund, offered with Kotak T.U.L.I.P, with an objective to generate long-term capital growth from an actively managed portfolio of equity and equity-related securities, broadly of companies engaged in the manufacturing theme.

Exhibit 10: Kotak Life Insurance Operational & Financial Performance Highlights

Particulars (Rs Bn)	FY24	FY25	Change	Comments
Gross written premium (GWP)	177.1	183.8	3.8	Modest growth delivered.
New Business Premium	86.6	82.1	-5.1	Slower than industry growth of ~10.5%, resulting in market share loss.
Value of New Business	10.5	9.6	-8.9	
VNB Margin (%)	28.5	25.0	-350 bps	Owing to a product mix change.
Annualised Premium equivalent (APE)	37.0	38.4	3.8	
Embedded Value (EV)	152.4	176.1	15.5	
Distribution Mix				
Banca Channel Mix (%)	50.2	48.5	-170 bps	
Agency and Other Channel Mix (%)	49.8	51.5	+170 bps	The company continued to add new partners and expand its distribution network, focusing on digital initiatives to enhance productivity and customer experience.
Product Mix (%)				
Participating Products	29.8	31.9	+210 bps	
Non-Participating Products	33.3	27.0	-630 bps	
ULIP	27.7	28.2	+50 bps	
Annuity Products (Non-Par)	9.5	12.9	+340 bps	
Persistency Ratios (%)				
13th Month	86.6	86.3	-30 bps	
37th Month	66.3	68.9	+260 bps	
61st Month	54.2	60.4	+620 bps	

Source: Company, Axis Securities

AXIS SECURITIES

B. Kotak Mahindra Asset Management Company Limited (Kotak AMC)

Kotak AMC serves investor requirements across both active and passive funds on a continuing basis, focusing on the local and offshore markets across debt, equity, and commodities segments for retail and institutional investors. Kotak AMC offers schemes that cater to investors with varying risk-return profiles.

Exhibit 11: Kotak AMC Financial and Operational Performance Highlights

Particulars (Rs Bn)	FY24	FY25	Change	Comments
Financial & Operational Performance				
QAAUM (Rs Bn)	3,840	4,872	26.9	Strong AUM growth, marginally higher than the industry growth of 25%.
Market Share (%)	7.1	7.2	+13 bps	Better than industry growth resulted in a market share gain.
Equity QAAUM	2,380	3,074	29.1	
Equity AUM (%)	62.0	63.1	+112 bps	Strong Equity AUM growth drives improvement in mix.
Revenue from Operations	9.3	13.0	39.8	
Profit After Tax	5.3	9.8	86.1	

Source: Company; Axis Securities Research

C. Kotak Mahindra Prime Limited (Kotak Prime)

Kotak Prime is primarily engaged in vehicle financing; financing of retail customers of passenger cars and two-wheeler, Multi-Utility Vehicles (MUVs), and term funding to car dealers. The company finances new and used cars under retail loans, hire purchase, and lease contracts. Kotak Prime is also engaged in providing loans against property and other lending. The company is focusing on capitalising its distribution strength with original equipment manufacturers, dealers, channel partners and customers, enabling it to maintain its market share.

Exhibit 12: Kotak Prime Financial and Operational Performance Highlights

Particulars (Rs Bn)	FY24	FY25	Change	Comments
Financial & Operational Performance				
Retail Disbursements	193.9	198.3	2.3	
AUM	344.8	401.2	16.4	Despite muted disbursement growth, AUM growth was healthy Largely led by the non-vehicle portfolio on a lower base.
-- O/w Vehicle Finance	297.8	334.2	12.2	
NII	18.7	21.3	13.9	Margin compression resulted in slower NII growth.
PPOP	13.7	17.0	24.1	Healthy fee income growth supports operating profitability.
PAT	8.9	10.2	14.6	Elevated provision dented earnings
NNPA (%)	0.8	1.0	+20 bps	
CRAR (%)	25.2	23.7	-150 bps	Remains well capitalised
RoA (%)	2.5	2.4	-10 bps	

Source: Company; Axis Securities Research

D. Kotak Securities Limited

Kotak Securities Limited (KSL) offers full-fledged investment services to retail and institutional investors across asset classes, including equity, debt, mutual funds, commodities and currencies - through a single-login platform. The company's pan-India presence, technology-first approach, and simplified investment solutions make KSL a preferred choice for millions of investors across India.

Exhibit 13: Kotak Securities Financial and Operational Performance Highlights

Particulars (Rs Bn)	FY24	FY25	Change	Comments
Financial & Operational Performance				
Total Income	39.2	51.2	30.7	Healthy performance across segments; maintained its leadership position in both the cash equities and derivatives segments. Healthy performance by Kotak Institutional Equities.
PAT	13.1	16.4	24.9	
Market Share				
-- Cash Segment (%)	10.2	9.4	-86 bps	
-- Derivatives Segment (%)	12.6	12.9	+23 bps	

Source: Company; Axis Securities Research

KMB SOTP

	Valuation basis	Value per share
Kotak Mahindra Bank	**2.5x FY27E ABV**	**1,883**
Subsidiaries		
Kotak Mahindra Prime	1.6x FY27E ABV	98
Kotak Mahindra Investments	1.8x FY27E BV	48
Kotak Securities	18x FY27E P/E	226
Kotak Mahindra AMC	25x FY27E EPS	167
Kotak Life	2x FY27E EV	234
KMCC - Investment Banking Business	12x FY27E P/E	32
Total Sub Value		**805**
Less: Holdco Discount @20%		161
Total Subs. Value (post discount)		**644**
Total Value		**2,525**
CMP		2,165
Upside (%)		***17%***

Key Growth Drivers

Potentially Faster Recovery in NIMs vs. Peers

KMB's margins should find support from the healthy growth resumption in the unsecured product portfolio. Additionally, the bank has taken a rate cut on its SA deposits (paid higher traditionally) to align it with its peers. The bank has seen some reduction in SA rates as it exits FY25 and expects the downward trend to continue. Moreover, KMB has also rationalised its TD rates. The bank has also tweaked its rates in the Sweep TD product, and the management expects the repricing on Sweep TDs to be faster, thereby further aiding CoF. We believe the bank has multiple levers to minimise the impact of rate cuts on margins. However, we cannot rule out near-term pressure on margins, though marginal until the growth in the unsecured segments picks up meaningfully. **We factor in NIMs of 4.8-5% over FY26-28E.**

Growth Momentum to Improve

With the embargo on the digital sourcing lifted, KMB will look to resume growth in the unsecured segment, though in a calibrated manner. The management intends to gradually scale up the share of the unsecured portfolio to 15% from ~10.5% in FY25. The bank has resumed issuance of new credit cards and plans to roll out new cards and initiatives to drive healthy growth in the portfolio. However, the microfinance segment continues to grapple with elevated slippages, and the bank will grow the business cautiously. Amongst the other businesses, KMB has indicated that it remains comfortable growing the used tractor and used CV business. Focus will remain on granular corporate and SME business. **The bank has maintained its guidance of growing the book at 1.5-2x of nominal GDP growth, both organically and inorganically. We expect KMB to deliver a steady ~17% CAGR growth over FY25-28E, with growth momentum resuming in the unsecured segments, though gradually**.

Ensuring Stable Asset Quality Metrics

KMB intends to pursue sustainable and efficient growth through the right quality assets at risk-adjusted pricing. The bank's strategy for risk optimisation on unsecured credit involves continuous enhancements in high-quality model-based risk frameworks, while going from strength to strength in traditional areas. KMB will continue to focus on strengthening and building appropriate guardrails to ensure strong asset quality.

At present, the asset quality in the secured segment continues to remain strong, with credit costs under control. The silver lining in the unsecured portfolio is that the slippages in the personal loan portfolio have been on a downward trend, while those in the credit card portfolio have plateaued. However, stress in the MFI portfolio continues to persist and is expected to stabilise over H1FY26. The pace of fresh stress accretion appears to be tapering and should enable the bank to see a similar trend in credit costs. **Additionally, the credit quality of the new acquisition in the unsecured segment has been holding up well.** However, the portfolio that has become delinquent will require additional provisioning over the next couple of quarters. Thus, credit costs could remain marginally higher over H1FY26 before trending downwards. We expect credit costs to remain range-bound between 70 bps (+/-5 bps), thereby supporting earnings growth of 12% CAGR.

Strengthening Deposit Franchise

KMB continues to balance between SA Accounts, Activ Money and Retail TDs to drive deposit growth, while aiming at containing CoF. KMB's efforts towards the affluent customer segment have resulted in the bank seeing a better average accretion in customer acquisition over the last couple of quarters. KMB will continue to roll out new propositions for the affluent customer to drive healthy SA Deposit growth. We expect deposit growth to align with credit growth and grow at ~16% CAGR over FY25-28E, with the bank maintaining a steady LDR over the same period.

Key Growth Drivers:

(a) Potentially Faster NIM Recovery
(b) Strong growth resumption with growth in unsecured segments picking-up
(c) Tightening of Guardrails to ensure stable Asset Quality metrics
(d) Adequately capitalized to steer medium term growth
(e) Focus on strengthening the deposit franchise with emphasis on CASA and ActivMoney

Risks & Mitigation

a) Significant Slowdown in Credit Growth Momentum

With the restrictions on the digital sourcing and credit card sourcing lifted, KMB will look to accelerate growth in the unsecured segment, thereby improving its mix in the overall portfolio to 15% over the medium term. Similarly, demand visibility in the secured segment continues to remain healthy. However, any meaningful derailment in credit growth momentum owing to unfavourable macros remains a key risk to our estimates and the bank's profitability.

Mitigation: KMB is expected to remain cautious in its growth approach in the unsecured segments and will gradually scale them up with a focus on profitable growth, rather than irrational growth. Moreover, strengthening its digital capabilities and redefining the go-to-market strategy through its branch network should enable KMB to deliver sustainable growth. We expect KMB to deliver a strong 17% CAGR growth over FY25-28E.

b) Asset Quality Challenges in Certain Segments

Challenges on asset quality in the unsecured segment, primarily owing to customer over-leveraging, led by accelerated growth in the unsecured segment by lenders, remain a key risk to earnings capability. Persisting stress in these segments will continue to keep credit costs elevated, denting earnings for the bank.

Mitigation: The bank has consciously curtailed its growth momentum in segments where it is observing stress, also primarily owing to the embargo. Similarly, focus will remain on pursuing calibrated growth wherein the risk-reward ratio is favourable, to maximise RoA/RoE. Moreover, the bank had shifted its focus to secured segments, where asset quality metrics continue to hold up well.

c) Slower Growth in Deposits

The systemic deposit growth has been keeping pace with systemic credit growth. However, competitive intensity amongst banks continues to remain higher, especially in the low-cost CASA deposits. This has also weighed on CoF/CoD for banks, including KMB. Slower deposit growth would also weigh on the LDR of the bank.

Mitigation: KMB continues to balance between Savings Accounts, Activ Money and Retail TDs to drive deposit growth, while aiming at containing CoF. Focus remains on the affluent and youth to build a granular deposit franchise across physical and digital channels. We believe KMB's deposit growth would mirror its credit growth, deliver a steady deposit growth of ~16% CAGR over FY25-28E, while maintaining a steady LDR ranging between 85-86% over the medium term.

d) Group Risk

Risk arising from interconnectedness and exposures within a banking group with its subsidiaries, including risks associated with inter-group transactions, funding and contagion effects between entities within the Group.

Mitigation: The Bank has a Group Risk Management Committee (GRMC) that oversees group-related risk management activities. Its comprehensive group risk management framework includes a robust governance structure, comprehensive risk policies, a clearly defined risk appetite for the Group, and regular monitoring and reporting of risks.

Key Risks:

a) Significant slowdown in credit growth

b) Asset quality stress persisting denting earnings

c) Slower deposit growth derailing the pace of credit growth

Operational Performance & Financial Statement Analysis

Profitability Analysis

(Rs Bn)

Particulars	FY24	FY25	Change (%)	Comments
Net Interest Income	260	283	9.0	Slower NII growth was owing to sharp NIM contraction with muted growth in higher yielding segments and faster growth in secured lower yielding segments.
Non-Interest Income	103	114	11.4	Largely driven by fee income.
PPOP	196	210	7.2	Opex growth is broadly in line with business growth; however, slower top-line growth resulted in muted PPOP growth.
Provisions	16	29	87.0	Elevated stress in unsecured segments resulted in higher credit costs.
PAT	138	165	19.4	One-time gain from KGI stake sale aided earnings growth despite elevated provisions.
EPS	69.3	82.7	19.3	Same as above.

Source: Company, Axis Securities Research

Spread Analysis

(%)

Particulars	FY24	FY25	Change	Comments
Blended Yields (calculated)	8.7	8.4	-25 bps	Slower growth in higher-yielding segments weighed on yields.
Cost of Deposits (reported)	4.5	4.7	+20 bps	Upward Repricing of deposits resulted in pressure on CoD.
Cost of Funds (reported)	4.6	4.8	+21 bps	Same as above.
Spreads (reported)	4.1	3.6	-46 bps	Pressure on yields and higher CoF weighed on the spread.
NIMs (reported)	5.0	5.3	-36 bps	Same as above.

Source: Company, Axis Securities Research

Asset Quality Analysis

(Rs Bn)

Particulars	FY24	FY25	Change	Comments
GNPA	52.8	61.3	16.3	Inch-up in slippages due to unsecured segment stress; however, write-offs and healthy recoveries enabled the bank to maintain steady GNPA.
GNPA (%)	1.4	1.4	+3 bps	Same as above.
Slippage	50.0	63.8	27.5	Stress in the unsecured segment weighed on asset quality.
Slippage Ratio (%)	1.6	1.4	+15 bps	Same as above.
NNPA	13.4	12.7	5.7	Higher PCR resulted in lower NNPA.
NNPA (%)	0.3	0.3	-3 bps	Same as above.
Credit Costs (%)	0.5	0.7	+28 bps	Owing to elevated stress in MFI, Credit Cards and Personal Loans.
Provision Coverage Ratio %	75.9	78.1	+219 bps	

Source: Company, Axis Securities Research

Efficiency Ratios **(%)**

Particulars	FY24	FY25	Change	Comments
Cost-Income Ratio	46.0	47.2	+121 bps	Opex growth was in line with business growth; however, muted top-line growth led to an uptick in the C-I Ratio.
Cost-Assets Ratio	3.1	2.9	-16 bps	Opex growth was slower than balance sheet growth.
ROA	2.5	2.1	-38 bps	Multiple headwinds with pressure on NIMs, modest non-interest income growth and higher credit costs weighed on earnings and, resultantly RoA.
ROE	15.0	12.6	-232 bps	
Tier I	19.3	21.1	+185 bps	Remains healthy to fuel medium term growth.
CRAR	20.6	22.1	+155 bps	
RWA (Rs Bn)	4,572	5,197	13.6	In line with advances growth, mainly owing to growth in secured segments.
RWA to Total Assets (%)	76.2	74.9	-124 bps	Same as above.

Source: Company, Axis Securities Research

Asset and Liability Analysis **(Rs Bn)**

Particulars	FY24	FY25	Change	Comments
Advances	3,761	4,269	13.5	Mainly led by secured segments, with embargo impacting growth in unsecured segments and new customer onboarding.
Deposits	4,490	4,991	11.2	In line with industry growth, Deposit growth is mainly led by TDs, with the CASA ratio declining sharply.
C/D Ratio (%)	83.8	85.5	-178 bps	Slower deposit growth vs credit growth.
CASA Deposits	2,043	2,144	4.9	Trend similar to seen amongst peers.
CASA Ratio (%)	45.5	43.0	-254 bps	Slower growth in CASA deposits vs TDs.
Total Assets	6,004	6,936	15.5	Healthy balance sheet growth.

Source: Company, Axis Securities Research

Contingent Liability Analysis **(Rs Bn)**

Particulars	FY24	FY25	Change	Comments
Contingent Liabilities				
(a) Claims against the Bank not acknowledged as debts	4.9	5.5	12.1	Not Significant
(b) Guarantees given on behalf of constituents – In India	8,741	5,019	-42.6	Usual Business activity
(c) Guarantees on behalf of Constituents - India	388	319	-17.7	Usual Business activity
Total Contingent Liabilities	**11,074**	**7,167**	**-35.3**	
Contingent Liabilities/Total Assets (%)	***160%***	***119%***		

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss **(Rs Bn)**

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	**283**	**321**	**385**	**454**
Other Income	114	139	158	183
Total Income	398	460	543	637
Total Operating Exp	188	218	250	288
PPOP	**210**	**242**	**293**	**349**
Provisions & Contingencies	29	35	40	46
Exceptional items	35	0	0	0
PBT	**216**	**208**	**253**	**303**
Provision for Tax	51	49	60	72
PAT	**165**	**158**	**193**	**231**

Source: Company, Axis Securities Research

Balance Sheet **(Rs Bn)**

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Equity Share Capital	10	10	10	10
Reserves & Surplus	1,162	1,315	1,503	1,728
Net Worth	1,172	1,326	1,514	1,740
Deposits	4,991	5,760	6,723	7,830
Borrowings	484	547	681	845
Other Liabilities	289	332	388	453
Total Liabilities	**6,936**	**7,964**	**9,307**	**10,867**
APPLICATION OF FUNDS				
Cash & Bank Balance	658	757	882	1,028
Investments	1,819	2,013	2,350	2,737
Advances	4,269	4,968	5,810	6,794
Fixed & Other Assets	190	226	265	309
Total Assets	**6,936**	**7,964**	**9,307**	**10,867**

Source: Company, Axis Securities Research

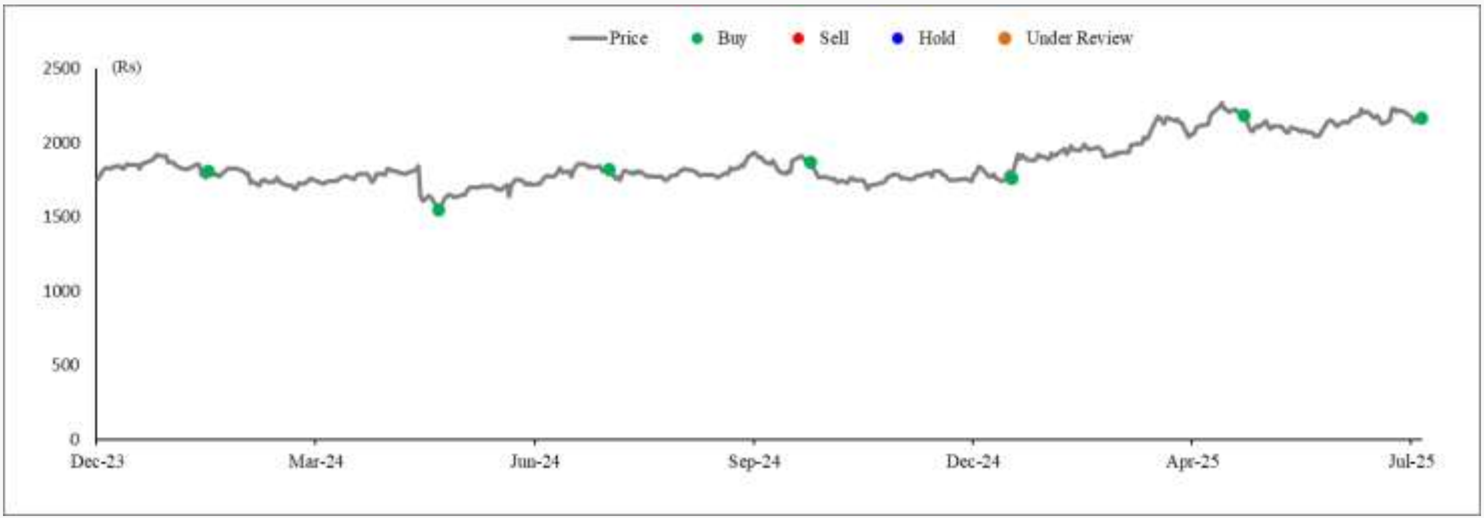
Ratio Analysis

(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	82.7	79.6	97.1	116.1
Earnings Growth (%)	*19%*	*-4%*	*22%*	*20%*
BVPS	589.7	666.8	761.6	874.9
Adj. BVPS	582.9	659.7	753.3	865.3
ROAA (%)	2.1	2.1	2.2	2.2
ROAE (%)	12.6	12.4	13.4	13.9
P/E (x)	26.2	27.2	22.3	18.6
P/ABV (x)	3.7	3.3	2.9	2.5
Dividend Yield (%)	0.1	0.1	0.1	0.2
PROFITABILITY				
NIM (%)	5.0	4.8	5.0	5.0
Cost-Income Ratio (%)	47.2	47.3	46.1	45.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	13.5	16.4	17.0	16.9
Deposit Growth (%)	11.2	15.4	16.7	16.5
C/D Ratio (%)	85.5	86.2	86.4	86.8
Equity/Assets (%)	16.9	16.6	16.3	16.0
Equity/Loans (%)	27.5	26.7	26.1	25.6
CAR (%)	22.1	21.8	20.3	19.5
Tier 1 CAR (%)	21.1	20.9	19.4	18.6
ASSET QUALITY				
Gross NPLs (%)	1.4	1.4	1.4	1.4
Net NPLs (%)	0.3	0.3	0.3	0.3
Coverage Ratio (%)	78.1	80.0	80.0	80.0
Credit costs (%)	0.7	0.8	0.7	0.7
ROAA TREE				
Net Interest Income	4.4	4.3	4.5	4.5
Non-Interest Income	1.8	1.9	1.8	1.8
Operating Cost	2.9	2.9	2.9	2.9
Provisions	0.5	0.5	0.5	0.5
Tax	0.7	0.7	0.7	0.8
ROAA	2.1	2.1	2.2	2.2
Leverage (x)	6.0	6.0	6.1	6.2
ROAE	12.6	12.4	13.4	13.9

Source: Company, Axis Securities Research

Kotak Mahindra Bank Price Chart and Recommendation History



Date	Reco	TP	Research
23-Jan-24	BUY	2,140	Result Update
06-May-24	BUY	1,755	Result Update
22-Jul-24	BUY	2,040	Result Update
21-Oct-24	BUY	2,150	Result Update
20-Jan-25	BUY	2,140	Result Update
05-May-25	BUY	2,460	Result Update
22-Jul-25	BUY	2,525	AAA

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
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NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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