

Management rejig to hopefully arrest top management attrition

BFSI - Banks ▶ Company Update ▶ February 19, 2024

TARGET PRICE (Rs): 1,950

Kotak Mahindra Bank (KMB) has undertaken a major top-management rejig (w.e.f 01-Mar-24), mainly elevating KVS Manian as JMD (replacing ex-JMD Dipak Gupta) and Shanti Ekambaram as DMD (possibly a notch below the JMD), subject to RBI approval. Notably, there was news-flow suggesting that Mr Manian could be one of the candidates for the MD & CEO post (due to be vacated in Sep-24) at Federal Bank, but KMB's move should potentially eliminate any such risk. Separately, retiring group CFO Jaimin Bhatt will be replaced by Deepak Gheewala (COO), while Milind Nagnur will now hold the dual position of CTO & COO. Paul Parambi (CRO - KMB) has been elevated as Group CRO. We believe such a rejig by KMB should possibly alleviate any immediate risk of top management attrition, but the new MD will still have the task of curbing attrition at the operational level, manage the ensuing asset quality risk, and hopefully review Bank's strategic stance on business/branch expansion, investment portfolio rejig given higher share of AFS, sub-optimal dividend/capital consumption policy, stake reduction in subs, etc. We retain ADD and Rs1,950 TP, implying 2.5x Dec-25E core Bank ABV+Rs480 subs value.

Kotak Mahindra Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	85,727	109,393	128,665	142,001	155,187
Loan growth (%)	21.3	17.9	16.1	16.0	17.9
NII growth (%)	9.6	28.1	19.2	12.0	14.6
NIM (%)	4.3	4.9	5.1	4.9	4.8
PPOP growth (%)	2.5	23.2	26.6	13.1	15.4
Adj. EPS (Rs)	43.2	55.1	64.8	71.4	78.1
Adj. EPS growth (%)	20.9	27.5	17.5	10.3	9.3
Adj. BV (INR)	341.3	397.5	458.1	524.4	596.3
Adj. BVPS growth (%)	15.3	16.1	15.0	14.0	13.3
RoA (%)	2.1	2.4	2.4	2.3	2.2
RoE (%)	12.7	14.1	14.4	13.8	13.2
P/E (x)	28.9	22.7	19.3	17.5	16.0
P/ABV (x)	3.7	3.1	2.7	2.4	2.1

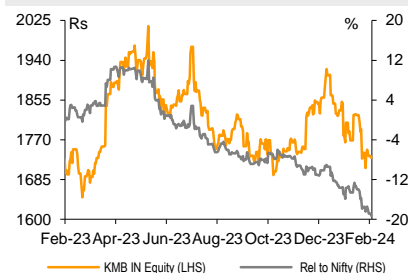
Source: Company, Emkay Research

Target Price – 12M	Dec-24
Change in TP (%)	NA
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	12.6
CMP (19-Feb-24) (Rs)	1,731.4

Stock Data	Ticker
52-week High (Rs)	2,064
52-week Low (Rs)	1,644
Shares outstanding (mn)	1,987.9
Market-cap (Rs bn)	3,442
Market-cap (USD mn)	41,460
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	8,012.3
ADTV-3M (USD mn)	96.5
Free float (%)	74.0
Nifty-50	22,122
INR/USD	83.0
Shareholding, Dec-23	
Promoters (%)	25.9
FPIs/MFs (%)	38.1/23.1

Price Performance			
(%)	1M	3M	12M
Absolute	(1.9)	(1.9)	(1.6)
Rel. to Nifty	(4.1)	(12.5)	(20.2)

1-Year share price trend (Rs)



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Kotak Mahindra Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	270,388	342,509	457,521	507,602	568,476
Interest Expense	102,209	126,989	200,582	219,830	238,689
Net interest income	168,179	215,519	256,939	287,772	329,788
NII growth (%)	9.6	28.1	19.2	12.0	14.6
Other income	59,859	70,830	97,238	116,247	137,370
Total Income	228,038	286,350	354,177	404,019	467,158
Operating expenses	107,530	137,870	166,254	191,455	221,850
PPOP	120,509	148,480	187,923	212,565	245,308
PPOP growth (%)	2.5	23.2	26.6	13.1	15.4
Core PPOP	114,896	120,518	156,037	185,656	208,484
Provisions & contingencies	6,896	4,570	17,054	22,977	38,115
PBT	113,613	143,910	170,869	189,587	207,192
Extraordinary items	0	0	0	0	0
Tax expense	27,886	34,517	42,205	47,586	52,005
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	85,727	109,393	128,665	142,001	155,187
PAT growth (%)	23.1	27.6	17.6	10.4	9.3
Adjusted PAT	85,727	109,393	128,665	142,001	155,187
Diluted EPS (Rs)	43.0	55.1	64.7	71.4	78.1
Diluted EPS growth (%)	22.4	28.0	17.5	10.3	9.3
DPS (Rs)	1.1	1.5	2.0	2.5	3.0
Dividend payout (%)	2.6	2.5	2.7	3.1	3.5
Effective tax rate (%)	24.5	24.0	24.7	25.1	25.1
Net interest margins (%)	4.3	4.9	5.1	4.9	4.8
Cost-income ratio (%)	47.2	48.1	46.9	47.4	47.5
Shares outstanding (mn)	1,984.7	1,986.6	1,987.6	1,987.6	1,987.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	64,697.4	57,683.2	64,043.4	78,777.4	100,413.4
Net NPLs	17,367.1	11,933.0	12,808.7	19,694.3	28,115.7
GNPA ratio (%)	2.3	1.8	1.7	1.8	1.9
NNPA ratio (%)	0.6	0.4	0.3	0.5	0.6
Provision coverage (%)	73.2	79.3	80.0	75.0	72.0
Gross slippages	17,971.3	18,582.1	19,952.4	33,949.7	54,883.0
Gross slippage ratio (%)	1.3	1.1	1.0	1.5	2.4
LLP ratio (%)	0.3	0.2	0.4	0.6	0.8
NNPA to networth (%)	2.4	1.4	1.3	1.8	2.2
Capital adequacy					
Total CAR (%)	23.7	21.8	21.3	21.1	20.3
Tier-1 (%)	21.7	20.6	20.3	20.1	19.5
CET-1 (%)	21.5	19.0	18.9	19.0	18.5
RWA-to-Total Assets (%)	77.7	76.0	78.0	78.0	78.0
Miscellaneous					
Total income growth (%)	3.7	25.2	34.2	12.5	13.1
Opex growth (%)	25.3	28.2	20.6	15.2	15.9
Core PPOP growth (%)	4.9	29.5	19.0	12.3	15.6
PPOP margin (%)	36.5	35.9	33.9	34.1	34.8
PAT/PPOP (%)	71.1	73.7	68.5	66.8	63.3
LLP-to-Core PPOP (%)	6.0	3.8	10.9	12.4	18.3
Yield on advances (%)	7.9	9.2	10.4	10.0	9.6
Cost of funds (%)	3.2	3.5	4.8	4.4	4.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,923	9,933	9,938	9,938	9,938
Reserves & surplus	709,955	820,270	949,958	1,086,953	1,236,114
Net worth	719,878	830,203	959,896	1,096,891	1,246,052
Deposits	3,116,841	3,630,961	4,296,509	5,016,282	5,961,004
Borrowings	259,671	234,163	274,124	302,436	333,480
Interest bearing liab.	3,376,512	3,865,123	4,570,633	5,318,718	6,294,484
Other liabilities & prov.	197,894	203,299	104,227	132,751	188,566
Total liabilities & equity	4,294,284	4,898,625	5,634,756	6,548,361	7,729,103
Net advances	2,712,536	3,198,612	3,712,225	4,306,531	5,079,127
Investments	1,005,802	1,214,037	1,436,533	1,673,593	1,988,894
Cash, other balances	429,239	325,423	310,803	372,310	440,614
Interest earning assets	3,683,959	4,147,578	4,738,072	5,459,561	6,352,434
Fixed assets	16,437	19,203	19,700	22,274	25,216
Other assets	130,269	141,349	155,495	173,653	195,253
Total assets	4,294,284	4,898,625	5,634,756	6,548,361	7,729,103
BVPS (Rs)	363.0	418.1	480.6	549.4	624.4
Adj. BVPS (INR)	341.3	397.5	458.1	524.4	596.3
Gross advances	2,759,866	3,244,362	3,763,460	4,365,614	5,151,424
Credit to deposit (%)	87.0	88.1	86.4	85.9	85.2
CASA ratio (%)	60.7	52.8	47.8	47.2	48.5
Cost of deposits (%)	3.1	3.5	4.7	4.4	4.1
Loans-to-Assets (%)	63.2	65.3	65.9	65.8	65.7
Net advances growth (%)	21.3	17.9	16.1	16.0	17.9
Deposit growth (%)	11.3	16.5	18.3	16.8	18.8
Book value growth (%)	11.8	15.2	14.9	14.3	13.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	28.9	22.7	19.3	17.5	16.0
P/B (x)	3.6	3.1	2.7	2.4	2.1
P/ABV (x)	3.7	3.1	2.7	2.4	2.1
P/PPOP (x)	28.5	23.2	18.3	16.2	14.0
Dividend yield (%)	0.1	0.1	0.1	0.1	0.2
DuPont-RoE split (%)					
NII/avg assets	4.1	4.7	4.9	4.7	4.6
Other income	1.5	1.5	1.8	1.9	1.9
Fee income	1.3	1.6	1.7	1.7	1.8
Opex	2.6	3.0	3.2	3.1	3.1
PPOP	3.0	3.2	3.6	3.5	3.4
Core PPOP	3.1	3.0	3.4	3.5	3.4
Provisions	0.2	0.1	0.3	0.4	0.5
Tax expense	0.7	0.8	0.8	0.8	0.7
RoA (%)	2.1	2.4	2.4	2.3	2.2
Leverage ratio (x)	6.0	5.9	5.9	6.0	6.1
RoE (%)	12.7	14.1	14.4	13.9	13.3
Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	56,529	61,026	62,337	62,966	65,535
NIM (%)	5.5	5.8	5.6	5.2	5.2
PPOP	38,498	46,474	49,496	46,101	45,662
PAT	27,919	34,956	34,523	31,910	30,050
EPS (Rs)	14.06	17.60	17.38	16.06	15.13

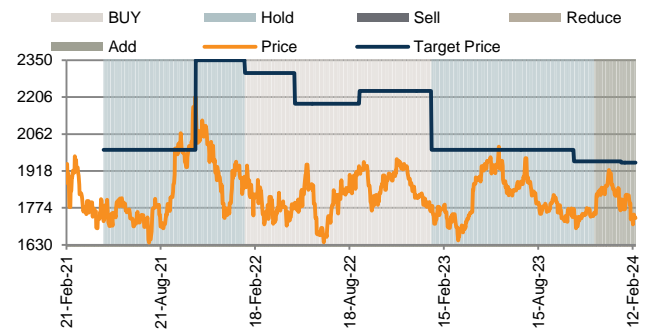
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Jan-24	1,807	1,950	Add	Anand Dama
30-Nov-23	1,755	1,955	Add	Anand Dama
22-Oct-23	1,770	1,955	Hold	Anand Dama
23-Jul-23	1,969	2,000	Hold	Anand Dama
30-Apr-23	1,936	2,000	Hold	Anand Dama
09-Mar-23	1,715	2,000	Hold	Anand Dama
22-Jan-23	1,761	2,000	Hold	Anand Dama
24-Oct-22	1,894	2,230	Buy	Anand Dama
06-Sep-22	1,914	2,230	Buy	Anand Dama
23-Jul-22	1,825	2,180	Buy	Anand Dama
26-May-22	1,906	2,180	Buy	Anand Dama
05-May-22	1,795	2,180	Buy	Anand Dama
29-Jan-22	1,896	2,300	Buy	Anand Dama
27-Oct-21	2,185	2,350	Hold	Anand Dama
27-Jul-21	1,695	2,000	Hold	Anand Dama
03-May-21	1,722	2,000	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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