

ADD Kotak Mahindra Bank**Growth slips, but margins steady; all eyes on the new management**

BFSI - Banks ▶ Result Update ▶ January 21, 2024

TARGET PRICE (Rs) : 1,950

After a sharp drop in Q2, the bank sustained its NIM at 5.2% in Q3, but reported a miss in earnings (5%) with PAT at Rs30bn, mainly due to MTM hit on bonds and higher AIF provisions (Rs1.9bn). Credit growth moderated to 16% YoY/3.3% QoQ, mainly due to a slowdown in corporate/commercial banking. However, retail growth remained healthy, including unsecured loans (share @11.6% of loans), which coupled with better loan yields/LDR led to stable NIMs. The bank cleaned up its low-value card portfolio, leading to slower CIF growth, but it does not see any immediate asset-quality stress. The bank has announced the acquisition of Sonata (NBFC-MFI) and has reduced its stake in Kotak Gen Insurance to 49% via a mix of capital infusion/share sale to Zurich Insurance. The new MD and CEO, Ashok Vaswani, has joined the bank, who we believe will have a tall task managing senior-management attrition/business dislocation (if any) and hopefully review the bank's strategic stance on business/branch expansion, investment portfolio rejig given a higher share of AFS, sub-optimal dividend/capital consumption policy, stake reduction in subs and so on. We retain ADD with a TP of Rs1,950/share, implying 2.5x Dec-25E core Bank ABV and subs value at Rs480/share.

Kotak Mahindra Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	85,727	1,09,393	1,28,665	1,42,001	1,55,187
Loan growth (%)	20.8	17.6	16.0	16.0	18.0
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 (%)	15.5	16.4	15.2	14.5	13.7
RoA (%)	2.1	2.4	2.4	2.3	2.2
RoE (%)	12.7	14.1	14.4	13.9	13.3
P/E (x)	30.7	24.1	20.5	18.6	17.0
P/ABV (x)	3.9	3.3	2.9	2.5	2.2

Source: Company, Emkay Research

Growth dips, but not margins

Credit growth moderated to 16% YoY/3.3% QoQ on account of slower growth in the corporate/commercial banking business. However, retail growth remained strong, including unsecured loans, whose share now stands high at 11% of loans. The bank has cleaned up its low-value card portfolio, leading to slower CIF growth. The bank has recently acquired UP-based MFI Sonata Finance (as its business correspondent subsidiary) to bolster its MFI book (AUM: Rs19bn), which should help lead to better margins. Deposit growth also moderated to 19% YoY/1.9% QoQ, leading to higher LDR at 88%, which along with increased loan yields due to higher growth in unsecured loans led to near stable NIM at 5.2% after a sharp drop in Q2.

NPAs hold up; healthy specific PCR but running low on contingent buffer

Slippages moderated QoQ to Rs11.8bn/1.5% of loans, but lower write-offs led to a 5% QoQ increase in absolute NPAs and, thus, broke the GNPA ratio decline trend. The restructured pool also declined further to 0.1% of loans – the lowest among large peers. The bank continues to pull down its contingent buffer, which now stands at Rs3.2bn/0.1% of loans – one of the lowest among large banks. We believe the bank needs to shore up the contingent buffer, given the rising risk in unsecured loans and it's otherwise unseasoned card/PL/CD portfolio.

Retain ADD, but will be watchful of the new management's strategy

We expect KMB's RoA/RoE to normalize to 2.1%/13% from the highs of 2.4%/14.5% in FY23 due to margins/LLP normalization. We believe the new MD and CEO, Ashok Vaswani, will have a tall task of managing senior-management attrition/business dislocation (if any) and hopefully review the bank's strategic stance on business/branch expansion, investment portfolio rejig given the higher share of AFS, sub-optimal dividend/capital consumption policy, stake reduction in subs and so on. We retain ADD with a TP of Rs1,950/share, implying 2.5x Dec-25E core bank ABV and subsidiary value at Rs480/share. Downside risks: Managing growth/asset quality amid rising risk in unsecured loans, deposit mobilization amid sub-optimal branch base, and senior management attrition.

Target Price – 12M	Dec-24
Change in TP (%)	(0.3)
Current Reco.	ADD
Previous Reco.	HOLD
Upside/(Downside) (%)	10.5
CMP (19-Jan-24) (Rs)	1,764.3

Stock Data	Ticker
52-week High (Rs)	2,064
52-week Low (Rs)	1,644
Shares outstanding (mn)	1,987.7
Market-cap (Rs bn)	3,507
Market-cap (USD mn)	42,216
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	4
ADTV-3M (Rs mn)	7,118.7
ADTV-3M (USD mn)	85.7
Free float (%)	74.0
Nifty-50	21,622
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	25.9
FPIs/MFs (%)	38.1/23.1

Price Performance

(%)	1M	3M	12M
Absolute	(4.5)	1.5	(0.2)
Rel. to Nifty	(5.2)	(7.9)	(16.4)

1-Year share price trend (Rs)**Anand Dama**

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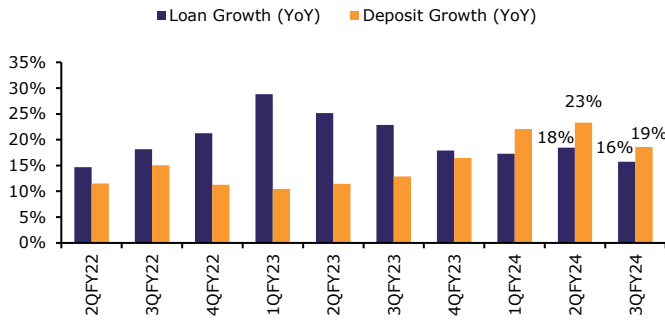
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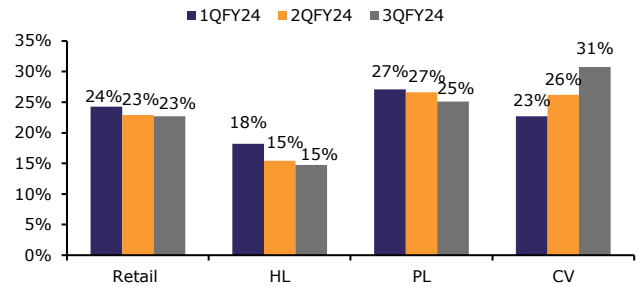
Story in Charts

Exhibit 1: Moderation seen in deposit/credit growth trends



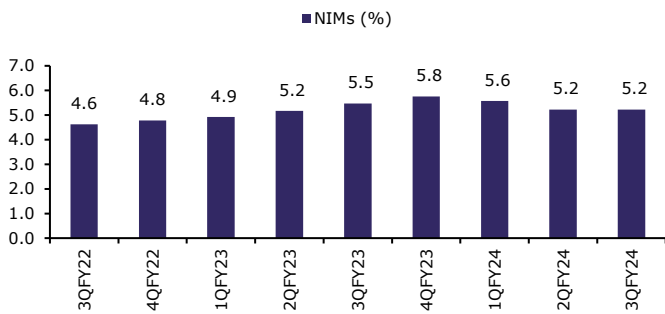
Source: Company, Emkay Research

Exhibit 2: CV continued to gain traction while other segments witnessed slight moderation



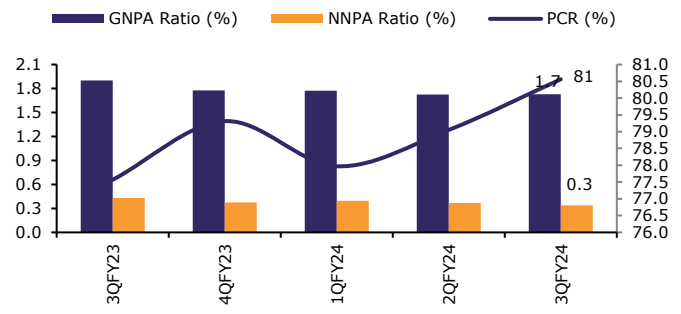
Source: Company, Emkay Research

Exhibit 3: NIMs remained stable QoQ owing to better yields amid rising CoFs



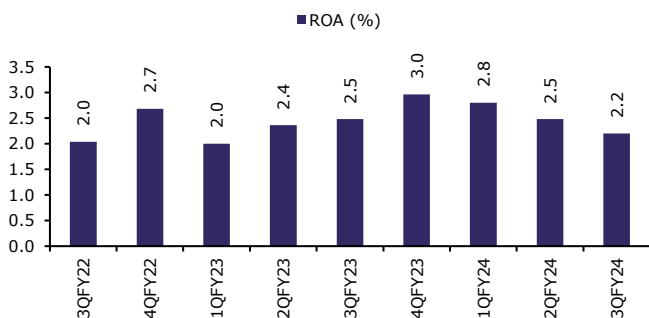
Source: Company, Emkay Research

Exhibit 4: Reduced slippages along with moderated write-offs broke the GNPA ratio decline trend



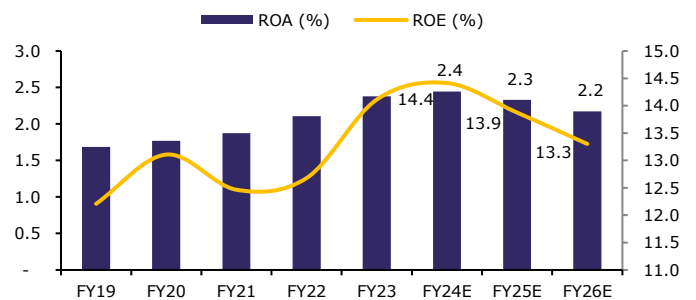
Source: Company, Emkay Research

Exhibit 5: Margin moderation/higher provisions caused a decline in RoA



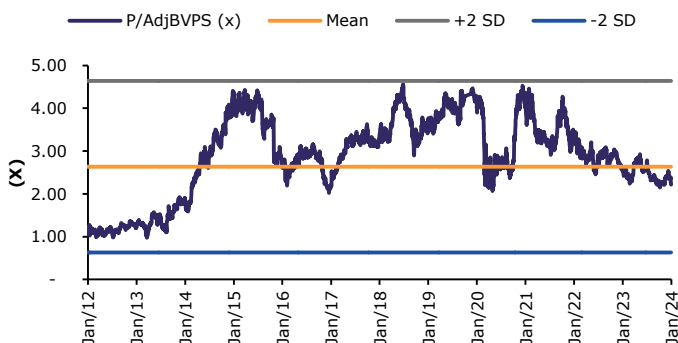
Source: Company, Emkay Research

Exhibit 6: RoA/RoE expected to normalize hereon due to moderation in margins/LLP



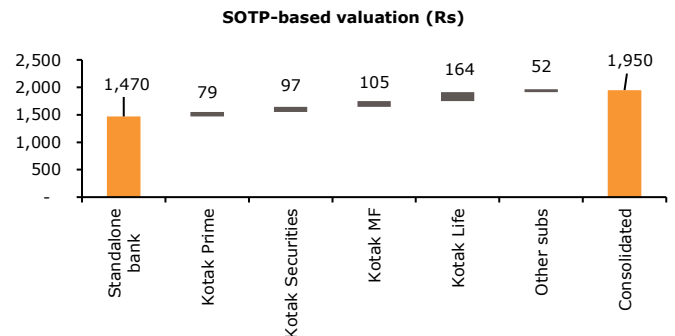
Source: Company, Emkay Research

Exhibit 7: The stock trades at 2.5x its one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 8: SOTP-based valuation



Source: Emkay Research

Exhibit 9: Actuals vs Estimates (Q3FY24)

Rs mn	Actuals	Estimates		Variation (%)		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	88,505	89,070	77,236	-1%	15%	Despite in-line NII, lower other income led to a shortfall
PPOP	45,662	45,872	44,678	0%	2%	Lower net income led to an overall miss in PPOP despite better optimization of opex
PAT	30,050	31,532	32,195	-5%	-7%	Higher LLP led to a miss in PAT

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

Rs mn	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	89,986	98,209	1,05,000	1,11,928	1,17,990	31.1	5.4	3,42,509	4,57,521	33.6
Interest Exp.	33,457	37,184	42,663	48,962	52,455	56.8	7.1	1,26,989	2,00,582	58.0
Net Interest Income	56,529	61,026	62,337	62,966	65,535	15.9	4.1	2,15,519	2,56,939	19.2
Global NIMs (reported)	5.47	5.75	5.57	5.22	5.22	-25bps	0bps	4.87	5.05	18bps
Non-interest Income	19,483	21,863	26,833	23,145	22,970	17.9	-0.8	70,830	97,238	37.3
Operating Expenses	37,514	36,415	39,674	40,011	42,843	14.2	7.1	1,37,870	1,66,254	20.6
Pre-Provisioning Profit	38,498	46,474	49,496	46,101	45,662	18.6	-1.0	1,48,480	1,87,923	26.6
Provision and Contingencies	1,488	1,476	3,643	3,666	5,791	289.1	58.0	4,570	17,054	273.2
PBT	37,010	44,998	45,853	42,436	39,871	7.7	-6.0	1,43,910	1,70,869	18.7
Income Tax Expense (Gain)	9,091	10,042	11,330	10,526	9,821	8.0	-6.7	34,517	42,205	22.3
Net Profit/(Loss)	27,919	34,956	34,523	31,910	30,050	7.6	-5.8	1,09,393	1,28,665	17.6
Gross NPA (%)	1.90	1.78	1.77	1.72	1.73	-17bps	0bps	1.78	1.70	-8bps
Net NPA (%)	0.43	0.37	0.40	0.37	0.34	-9bps	-3bps	0.37	0.35	-3bps
Deposits (Rs bn)	3,447	3,631	3,863	4,010	4,086	18.6	1.9	3,631	4,297	18.3
Net Advances (Rs bn)	3,107	3,199	3,286	3,483	3,596	15.7	3.2	3,199	3,712	16.1

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Net income	3,56,041	3,54,177	-0.5%	4,12,760	4,04,019	-2.1%	4,75,757	4,67,158	-1.8%
PPOP	1,87,445	1,87,923	0.3%	2,15,679	2,12,565	-1.4%	2,46,482	2,45,308	-0.5%
PAT	1,29,450	1,28,665	-0.6%	1,40,759	1,42,001	0.9%	1,53,132	1,55,187	1.3%
EPS (Rs)	65.1	64.8	-0.6%	70.8	71.4	0.9%	77.0	78.1	1.3%
BV (Rs)	480.8	480.4	-0.1%	549.2	549.4	0.0%	623.2	624.4	0.2%

Source: Emkay Research

Exhibit 12: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	17.6	16.0	16.0	18.0
Deposit Growth (%)	16.5	18.3	16.8	18.8
NIM (%)	4.9	5.1	4.9	4.8
GNPA (%)	1.8	1.7	1.8	1.9
Credit Cost (%)	0.2	0.4	0.6	0.8
Yield on Advances (%)	9.2	10.4	10.0	9.6
Cost of Deposits (%)	3.5	4.7	4.4	4.1

Source: Emkay Research

Exhibit 13: Key Ratios and Trends

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans (Rs bn)	2,529	2,713	2,802	2,940	3,107	3,199	3,286	3,483	3,596
YoY growth (%)	18.1	21.3	28.8	25.1	22.9	17.9	17.3	18.5	15.7
QoQ growth (%)	7.6	7.2	3.3	4.9	5.7	2.9	2.7	6.0	3.2
Composition (%)									
- Corporate	26.9	25.6	25.4	22.3	23.3	22.6	23.6	23.5	23.4
- Retail & Agri	64.1	66.2	67.1	68.3	68.3	70.4	70.7	70.4	71.5
Liability Profile & Margins									
CASA (%)	59.9	60.7	58.1	56.2	53.3	52.8	49.0	48.3	47.7
CA (%)	18.7	20.7	18.0	18.5	18.5	19.3	16.8	17.2	16.8
SA (%)	41.2	39.9	40.1	37.7	34.8	33.5	32.3	31.1	30.9
NIM (%)	4.6	4.8	4.9	5.2	5.5	5.8	5.6	5.2	5.2
Branches	1,647	1,700	1,702	1,710	1,752	1,780	1,788	1,850	1,869
Asset Quality (Rs mn)									
Gross NPA (Opening Balance)	76,579	69,828	64,697	63,786	62,102	59,946	57,683	59,092	60,870
GNPA	69,828	64,697	63,786	62,102	59,946	57,683	59,092	60,870	63,020
GNPA (%)	2.7	2.3	2.2	2.1	1.9	1.8	1.8	1.7	1.7
NPA	20,035	17,367	17,493	16,304	13,448	11,933	13,018	12,750	12,250
NNPA (%)	0.8	0.6	0.6	0.6	0.4	0.4	0.4	0.4	0.3
PCR (%)	70.8	72.6	72.3	73.3	77.2	79.0	77.7	78.8	80.3
Slippages (Rs mn)	7,500	7,360	14,350	9,830	7,480	8,230	12,050	13,140	11,770
Slippages (% Annualized)	1.2%	1.1%	2.0%	1.3%	1.0%	1.0%	1.5%	1.5%	1.3%
Capital Adequacy (%)									
CAR	23.3	23.7	22.8	22.6	21.7	21.8	22.0	21.7	21.2
Tier I	22.4	21.7	21.6	21.5	20.7	20.6	20.9	20.6	20.1
ROE Decomposition (%)									
NII	4.2	4.3	4.4	4.7	5.0	5.1	5.0	4.8	4.9
Other Income (Ex Treasury)	1.8	1.8	2.0	1.8	1.5	1.6	1.9	1.7	1.8
Treasury	-0.5	-0.2	-0.8	0.0	0.3	0.2	0.2	0.1	-0.1
Opex	2.9	2.7	3.0	3.2	3.3	3.1	3.2	3.1	3.2
PPOP	2.6	3.2	2.6	3.3	3.4	3.9	3.9	3.5	3.4
Provisioning Cost	-0.1	-0.3	0.0	0.1	0.1	0.1	0.3	0.3	0.4
PBT	2.7	3.4	2.6	3.2	3.3	3.8	3.7	3.2	3.0
ROA	2.1	2.6	1.9	2.4	2.5	2.9	2.8	2.4	2.2
ROE	12.2	15.3	11.1	13.4	14.0	16.7	15.9	14.2	12.9

Source: Company, Emkay Research

Kotak Mahindra Bank : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,70,388	3,42,509	4,57,521	5,07,602	5,68,476
Interest Expense	1,02,209	1,26,989	2,00,582	2,19,830	2,38,689
Net interest income	1,68,179	2,15,519	2,56,939	2,87,772	3,29,788
NII growth (%)	9.6	28.1	19.2	12.0	14.6
Other income	59,859	70,830	97,238	1,16,247	1,37,370
Total Income	2,28,038	2,86,350	3,54,177	4,04,019	4,67,158
Operating expenses	1,07,530	1,37,870	1,66,254	1,91,455	2,21,850
PPOP	1,20,509	1,48,480	1,87,923	2,12,565	2,45,308
PPOP growth (%)	2.5	23.2	26.6	13.1	15.4
Core PPOP	1,14,896	1,20,518	1,56,037	1,85,656	2,08,484
Provisions & contingencies	6,896	4,570	17,054	22,977	38,115
PBT	1,13,613	1,43,910	1,70,869	1,89,587	2,07,192
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	1,09,393	1,28,665	1,42,001	1,55,187
PAT growth (%)	23.1	27.6	17.6	10.4	9.3
Adjusted PAT	85,727	1,09,393	1,28,665	1,42,001	1,55,187
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	1,00,413.4
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	7,09,955	8,20,270	9,49,958	10,86,953	12,36,114
Net worth	7,19,878	8,30,203	9,59,896	10,96,891	12,46,052
Deposits	31,16,841	36,30,961	42,96,509	50,16,282	59,61,004
Borrowings	2,59,671	2,34,163	2,74,124	3,02,436	3,33,480
Interest bearing liab.	33,76,512	38,65,123	45,70,633	53,18,718	62,94,484
Other liabilities & prov.	1,97,894	2,03,299	1,04,227	1,32,751	1,88,566
Total liabilities & equity	42,94,284	48,98,625	56,34,756	65,48,361	77,29,103
Net advances	27,12,536	31,98,612	37,12,225	43,06,531	50,79,127
Investments	10,05,802	12,14,037	14,36,533	16,73,593	19,88,894
Cash, other balances	4,29,239	3,25,423	3,10,803	3,72,310	4,40,614
Interest earning assets	36,83,959	41,47,578	47,38,072	54,59,561	63,52,434
Fixed assets	16,437	19,203	19,700	22,274	25,216
Other assets	1,30,269	1,41,349	1,55,495	1,73,653	1,95,253
Total assets	42,94,284	48,98,625	56,34,756	65,48,361	77,29,103
BVPS (Rs)	347.9	402.0	462.9	531.8	606.9
Adj. BVPS (INR)	356.2	413.4	475.6	542.0	613.9
Gross advances	27,59,866	32,44,362	37,63,460	43,65,614	51,51,424
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)	30.7	24.1	20.5	18.6	17.0
P/B (x)	3.8	3.3	2.9	2.5	2.2
P/ABV (x)	3.9	3.3	2.9	2.5	2.2
P/PPOP (x)	29.7	24.2	19.1	16.9	14.6
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

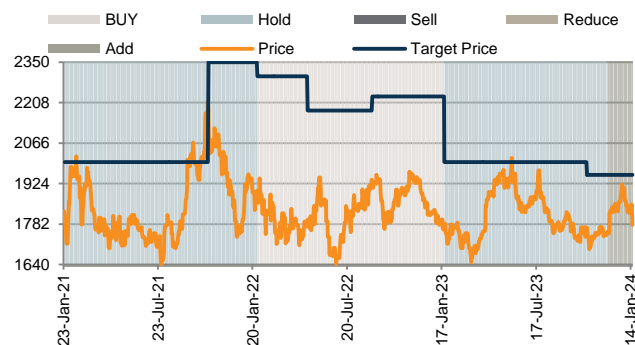
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	1,755	1,955	Add	Anand Dama
22-Oct-23	1,770	1,955	Hold	Anand Dama
23-Jul-23	1,970	2,000	Hold	Anand Dama
30-Apr-23	1,938	2,000	Hold	Anand Dama
09-Mar-23	1,717	2,000	Hold	Anand Dama
22-Jan-23	1,763	2,000	Hold	Anand Dama
24-Oct-22	1,896	2,230	Buy	Anand Dama
06-Sep-22	1,916	2,230	Buy	Anand Dama
23-Jul-22	1,827	2,180	Buy	Anand Dama
26-May-22	1,909	2,180	Buy	Anand Dama
05-May-22	1,798	2,180	Buy	Anand Dama
29-Jan-22	1,898	2,300	Buy	Anand Dama
27-Oct-21	2,188	2,350	Hold	Anand Dama
27-Jul-21	1,698	2,000	Hold	Anand Dama
03-May-21	1,725	2,000	Hold	Anand Dama
25-Jan-21	1,794	2,000	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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ADD	5-15% upside
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