



Kotak Mahindra Bank

NIMs surprise, focus more on direction

Core better than estimated; change of guard to usher in new vistas

Kotak Mahindra Bank's (KMB IN) Q3 PAT at INR 30bn was marginally below our estimates. While NII was better than estimated (NIMs flat QoQ at 5.22% versus our expectations of drop, better than peers), higher opex (up 7% QoQ) and higher provisions restricted PAT. Earnings aside, we believe near-term discussions are more likely to be centered around the new CEO's strategy, possibilities of management change and other softer aspects than on critical earnings aspects (of core delivery, liability movement etc.). While overall earnings are steady, improvement triggers seem limited. Rich valuations, amidst uncertainty, leave little room for maneuvering.

NIM better-than-expected, growth-profitability balance, the key

NIMs surprised positively, flat QoQ at 5.22% versus our expectations of a drop. This was largely led by shift in earning assets to advances, thus benefiting overall yields. We, however, believe that headwinds are likely given continued deposit pressure and limited yield benefits. The low-cost franchise is being cannibalized (momentum in *Active Money*), with related bearing on cost. Meanwhile, loan growth was steady at 4% QoQ, which aided NII (up 4% QoQ). We believe growth sustainability is crucial, given current rate dynamics and KMB's low-risk threshold. NIM may be strained, and credit cost below normalized levels. Outlook may be more demanding hereon for KMB (base already high).

Asset quality, a non-issue; no major red flags visible

KMB has sustained steady asset quality, with GNPL at ~1.73% and NNPL at 0.34%. Slippages were at INR 11.8bn, of which INR 2.9bn was upgraded in Q3FY24. The credit cost was higher as KMB provided INR 1.9bn on AIF. Restructured loans of 13bps and SMA-2 of INR 2.1bn have led to an overall stress pool of sub-2.0%. KMB does not see any red flags, but normalizing trends on credit cost are visible.

Valuations: Reiterate Accumulate; TP revised to INR 2,004

The change of guard at KMB has been a long-standing overhang. Hereon, the focus will be more on softer aspects than earnings delivery. Historically, such transitions have been choppy for others and thus, we expect near-term uncertainty for KMB (with certain price risks). KMB is likely at peak earnings and this transition may add to uncertainty, thus keeping re-rating in check. We introduce FY26E estimates and roll over to September 2025E, leading to raised SoTP-TP of INR 2,004 (from INR 1,924). Maintain **Accumulate**.

Rating: Accumulate

Target Price: INR 2,004

Upside: 11%

CMP: INR 1,807 (as on 20 January 2024)

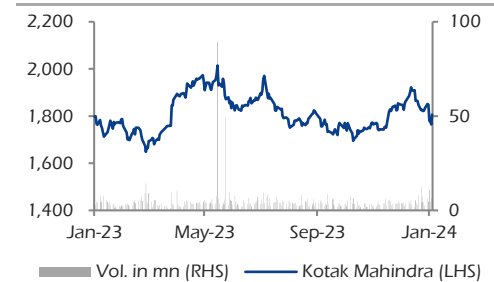
Key data

| | |
|-------------------------------|----------------|
| Bloomberg /Reuters Code | KMB IN/KTKM.BO |
| Current /Dil. Shares O/S (mn) | 1987/1866 |
| Mkt Cap (INRbn/USD mn) | 3,591/43,218 |
| Daily Vol. (3M NSE Avg.) | 3,718,857 |
| Face Value (INR) | 5 |

1 USD = INR 83.1

Note: *as on 20 January 2024; Source: Bloomberg

Price & Volume



Source: Bloomberg

| Shareholding (%) | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|-------------------------|--------|--------|--------|--------|
| Promoter | 26.0 | 26.0 | 25.9 | 25.9 |
| Institutional Investors | 61.0 | 60.8 | 61.2 | 61.2 |
| Other Investors | 4.3 | 4.5 | 4.7 | 4.3 |
| General Public | 8.8 | 8.8 | 8.3 | 8.6 |

Source: BSE

| Price performance (%) | 3M | 6M | 12M |
|-----------------------|------|-------|------|
| Nifty | 10.4 | 9.3 | 19.7 |
| Kotak Mahindra Bank | 2.1 | (7.7) | 2.5 |

Source: Bloomberg

| YE March (INR mn) | Q3FY24 | Q2FY24 | QoQ (%) | Q3FY23 | YoY (%) | Q3FY24E | Variance (%) |
|-------------------|--------|--------|---------|--------|---------|---------|--------------|
| Operating profit | 45,662 | 46,101 | (1.0) | 38,498 | 18.6 | 45,466 | 0.4 |
| PBT | 39,871 | 42,436 | (6.0) | 37,010 | 7.7 | 41,548 | (4.0) |
| Net profit | 30,050 | 31,910 | (5.8) | 27,919 | 7.6 | 31,090 | (3.3) |

Key financials

| YE March | PPoP (INR bn) | YoY (%) | NP (INR bn) | YoY (%) | EPS (INR) | YoY (%) | P/PPoP (x) | ROAE (%) | ROAA (%) | P/E (x) | P/ABV (x) |
|----------|---------------|---------|-------------|---------|-----------|---------|------------|----------|----------|---------|-----------|
| FY23 | 148 | 23.2 | 109 | 27.6 | 55 | 27.5 | 23.6 | 14.0 | 2.5 | 23.3 | 3.1 |
| FY24E | 180 | 20.9 | 121 | 10.2 | 61 | 10.2 | 19.5 | 13.5 | 2.4 | 21.1 | 2.7 |
| FY25E | 200 | 34.9 | 130 | 18.4 | 65 | 18.4 | 17.5 | 12.8 | 2.2 | 19.7 | 2.4 |
| FY26E | 228 | 26.8 | 145 | 20.7 | 73 | 20.7 | 15.4 | 12.7 | 2.2 | 17.5 | 2.1 |

Note: Pricing as on 20 January 2024; Source: Company, Elara Securities Estimate

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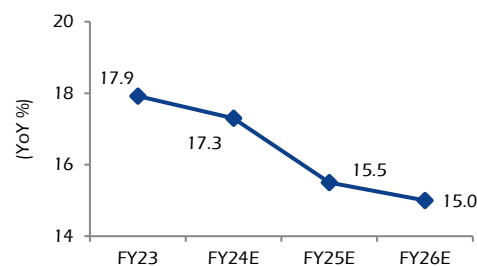
Elara Securities (India) Private Limited

Financials (YE March)

| Income statement (INR mn) | FY23 | FY24E | FY25E | FY26E |
|--|------------------|------------------|------------------|------------------|
| Net interest income | 215,519 | 251,177 | 283,952 | 319,776 |
| YoY growth (%) | 28.1 | 16.5 | 13.0 | 12.6 |
| Fee income | 70,767 | 82,034 | 93,146 | 105,768 |
| Trading profits | -7,482 | 4,000 | 4,000 | 5,000 |
| Non-interest income | 70,831 | 94,961 | 107,089 | 121,848 |
| Net operating revenue | 286,350 | 346,138 | 391,041 | 441,624 |
| YoY growth (%) | 23.57 | 20.88 | 12.97 | 12.94 |
| Operating expenses | 137,870 | 166,599 | 190,787 | 213,922 |
| YoY growth (%) | 23.97 | 20.84 | 14.52 | 12.13 |
| Pre-provisioning operating profit | 148,480 | 179,539 | 200,255 | 227,702 |
| YoY growth (%) | 23.21 | 20.92 | 11.54 | 13.71 |
| Provisions for bad debts | 5,077 | 18,435 | 27,026 | 33,287 |
| Other provisions | -296 | - | - | - |
| Profit before tax | 143,910 | 161,104 | 173,229 | 194,415 |
| Tax | 34,517 | 40,598 | 43,654 | 48,993 |
| Profit after tax | 109,393 | 120,506 | 129,575 | 145,422 |
| YoY growth (%) | 27.61 | 10.16 | 7.53 | 12.23 |
| Balance sheet (INR mn) | FY23 | FY24E | FY25E | FY26E |
| Customer loans | 3,198,612 | 3,751,972 | 4,333,528 | 4,983,557 |
| YoY growth (%) | 17.9 | 17.3 | 15.5 | 15.0 |
| Investments | 1,214,037 | 1,382,527 | 1,584,844 | 1,804,753 |
| Cash & bank balances | 325,423 | 308,099 | 355,178 | 407,401 |
| Fixed assets | 19,203 | 17,969 | 16,326 | 14,273 |
| Other assets | 143,475 | 177,073 | 204,725 | 235,320 |
| Total Assets | 4,900,750 | 5,637,640 | 6,494,600 | 7,445,303 |
| Net worth | 835,203 | 951,890 | 1,077,127 | 1,218,210 |
| Deposits | 3,630,961 | 4,193,759 | 4,822,823 | 5,522,133 |
| YoY growth (%) | 16.49 | 15.50 | 15.00 | 14.50 |
| Borrowings | 234,163 | 327,625 | 404,617 | 486,527 |
| Other liabilities | 200,425 | 164,366 | 190,033 | 218,433 |
| Total Liabilities | 4,900,750 | 5,637,640 | 6,494,600 | 7,445,303 |
| Key operating ratios | FY23 | FY24E | FY25E | FY25E |
| Lending yield | 9.1 | 9.4 | 9.3 | 9.1 |
| Cost of Funds | 3.3 | 3.8 | 3.7 | 3.7 |
| Spreads | 4.4 | 4.4 | 4.3 | 4.2 |
| Net interest margin | 4.9 | 4.9 | 4.8 | 4.7 |
| CASA Ratio | 52.8 | 47.8 | 47.8 | 47.9 |
| Non-interest income/operating income | 24.7 | 27.4 | 27.4 | 27.6 |
| Cost/income | 48.1 | 48.1 | 48.8 | 48.4 |
| Operating expense/avg assets | 3.0 | 3.2 | 3.1 | 3.1 |
| Credit costs / avg loans | 0.2 | 0.5 | 0.7 | 0.7 |
| Effective tax rate | 24.0 | 25.2 | 25.2 | 25.2 |
| Loan deposit ratio | 88.1 | 89.5 | 89.9 | 90.2 |
| ROA decomposition (%) | FY23 | FY24E | FY25E | FY26E |
| NII /Assets | 4.9 | 4.9 | 4.8 | 4.7 |
| Fees/Assets | 1.8 | 1.8 | 1.8 | 1.7 |
| Invst. profits/Assets | (0.2) | 0.1 | 0.1 | 0.1 |
| Net revenues/Assets | 6.4 | 6.8 | 6.7 | 6.6 |
| Opex./Assets | (3.1) | (3.3) | (3.3) | (3.2) |
| Provisions/Assets | (0.1) | (0.4) | (0.5) | (0.5) |
| Taxes/Assets | (0.8) | (0.8) | (0.7) | (0.7) |
| Total costs/Assets | (4.0) | (4.4) | (4.5) | (4.4) |
| ROA | 2.5 | 2.4 | 2.2 | 2.2 |
| Equity/Assets | 17.6 | 17.6 | 17.3 | 17.0 |
| ROAE | 14.0 | 13.5 | 12.8 | 12.7 |
| Key financial ratios (%) | FY23 | FY24E | FY25E | FY26E |
| Tier I Capital adequacy | 20.9 | 20.2 | 19.4 | 19.1 |
| Gross NPL | 1.8 | 1.6 | 1.6 | 1.7 |
| Net NPL | 0.4 | 0.4 | 0.4 | 0.5 |
| Slippage ratio | 1.4 | 1.5 | 1.6 | 1.7 |
| Assets / equity (x) | 5.9 | 5.9 | 6.0 | 6.1 |
| Per share data | | | | |
| EPS (INR) | 55.1 | 60.7 | 65.2 | 73.2 |
| YoY growth (%) | 27.5 | 10.2 | 7.5 | 12.2 |
| BVPS (INR) | 420 | 479 | 542 | 613 |
| adj- BVPS (INR) | 416 | 474 | 535 | 604 |
| Dividend yields | 0.2 | 0.3 | 0.3 | 0.3 |
| Valuation (x) | | | | |
| P/BV | 3.1 | 2.7 | 2.4 | 2.1 |
| P/ABV | 3.1 | 2.7 | 2.4 | 2.1 |
| P/E | 23.3 | 21.1 | 19.7 | 17.5 |

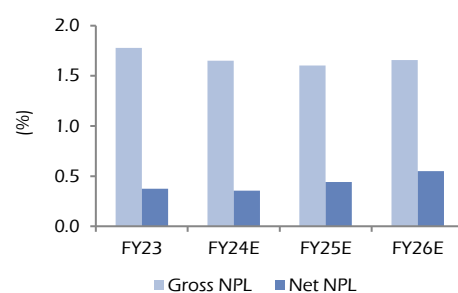
Note: Pricing as on 20 January 2024; Source: Company, Elara Securities Estimate

Loan growth (%)



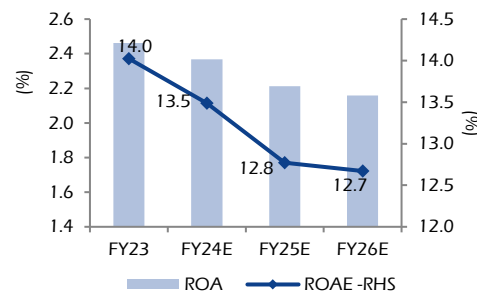
Source: Company, Elara Securities Estimate

Gross & net NPL



Source: Company, Elara Securities Estimate

Return ratios (%)



Source: Company, Elara Securities Estimate

Loan growth momentum sustained; focus on target areas

Loan growth was strong at 18.9% YoY and 4.3% QoQ, with continued focus on target areas such as unsecured retail loans. The share of unsecured retail loans (including Retail MFI) rose to 11.6% from 11% in Q2FY24, which KMB expects to rise to mid-teens despite RBI circular on higher risk weights as the bank has adequate capital buffers.

Corporate book saw steady growth at 2.9% QoQ, led by offtake from conglomerates and MNCs. Mid-corporate would be another focus area and has ramped up with double-digit growth QoQ. Majority book in this segment is working capital intensive.

Commercial banking

CV book grew 30.7% YoY/8.7% QoQ. Although industry saw muted growth, KMB's disbursements in this book grew 35% YoY, leading to market share gains. The contributors to higher disbursements were used CV and penetration in small CV segment. Construction equipment (CE) continued to see steady-state growth, with consistent demand from infra-related activities, leading to disbursement growth at 38% YoY (higher than industry) and market share gain in this segment.

Tractor finance saw a muted Q3 due to delayed harvesting and irregular monsoons. KMB marginally increased market share as used tractor business saw growth. The aim would be to continue this as its focus segment and deepen geographical presence.

Retail growth was stable across segments, with housing loan and loan against property growth at 15.4% YoY and 3% QoQ. LAP continues to be an area of strength for KMB. Growth in mortgage business continued with its pace despite pricing pressures.

Unsecured portfolio registered strong growth as personal loans grew 32.8% YoY and 8.1% QoQ and credit cards 51.6% YoY and 10.2% QoQ. KMB continues to steadily gain market share in credit cards (spends, cards in force) – 85-90% of the cards are offered to ETB. Overall risk metrics for unsecured portfolio are holding up well and excess leverage build-up is visible in cards.

Growth in the SME book was stable at 17.6% YoY and 5.1% QoQ even as pricing challenges persist. Consumer secured working capital growth came in at 20% YoY. Although the bank may continue to grow this segment, utilization may be lower. But KMB expects utilization to improve in Q4 and disbursements to pick pace.

Low-cost deposits continue to see cannibalization

Deposit growth was steady at 18.6% YoY/1.9% QoQ, led by term deposits, which grew 32.6% YoY/2.9% QoQ. However, CA saw a muted quarter.

Also, with the momentum of *Activmoney*, a shift from SA to *Activmoney* was seen, resulting in CASA ratio drop of 52bps QoQ to 47.7%. CASA + Retail TD ratio stood at 81% versus 80% QoQ.

Competition in raising deposits continues, but per KMB, growth may be funded from other sources such as borrowings.

LDR stood at 88% in Q3 but KMB bank draws comfort from higher CET I (20.1%). Also, LCR stood 119.5%.

Margin maintained, trajectory, key hereon

Q3 NIM was steady at 5.22% as deposit repricing was offset by absence of one-off items and change in asset mix.

The cost of SA rose 9bps QoQ, while the overall cost of funds rose ~17bps QoQ (calculated). KMB raised rates in Q3, but expects the overall pace to moderate.

Even though 57-58% of the book is repo-linked, margins may be protected by change in asset mix to advances. Also, KMB may not change advance mix to unsecured to protect margins,

Asset quality holding up well

Slippages declined to ~1.5% of lagged loans, and overall slippages of INR 11bn, ~INR 3bn was upgraded in Q3. Total stress pool (GNPL plus restructured book plus SMA book) was steady at 1.9%.

Credit cost for Q3 (including standard provisions, excluding reversal of Covid and restructuring) was 40bps versus 47bps in Q1FY24. In Q3, KMB made additional provisions towards AIF exposures (INR 1.7bn) and MTM on treasury book.

KMB reversed INR 260mn of Covid provisions in Q3, and outstanding provision was INR 2.95bn.

Other highlights

Opex rose 14.2% YoY and 2% QoQ, led by retiral, promotional and marketing expenses. Opex/assets, which has now reached ~3%, may trend downwards.

Fees remained subdued in Q3, as there were challenges in deal closure and forex spreads have reduced.

Exhibit 1: P&L highlights : NII growth better than expected, higher provisions restricts earnings

| (INR mn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------|---------|---------|---------|--------|--------|--------|--------|--------|---------|
| NII | 43,343 | 45,214 | 46,970 | 50,994 | 56,529 | 61,026 | 62,337 | 62,966 | 65,535 |
| Other income | 13,637 | 17,041 | 12,438 | 19,542 | 19,483 | 21,863 | 26,833 | 23,145 | 22,970 |
| Net revenue | 56,980 | 62,255 | 59,408 | 70,536 | 76,012 | 82,888 | 89,170 | 86,112 | 88,505 |
| Opex | 29,970 | 28,856 | 31,575 | 34,861 | 37,514 | 36,415 | 39,674 | 40,011 | 42,843 |
| PPoP | 27,010 | 33,399 | 27,833 | 35,675 | 38,498 | 46,474 | 49,496 | 46,101 | 45,662 |
| Investment gains | | (3,020) | (8,570) | (630) | (510) | (10) | 2,400 | 1,500 | (1,680) |
| Core PPoP | 27,010 | 36,419 | 36,403 | 36,305 | 39,008 | 46,484 | 47,096 | 44,601 | 47,342 |
| Provisions | (1,317) | (3,062) | 236 | 1,370 | 1,488 | 1,476 | 3,643 | 3,666 | 5,791 |
| PAT | 21,314 | 27,674 | 20,712 | 25,807 | 27,919 | 34,956 | 34,523 | 31,910 | 30,050 |
| YoY (%) | | | | | | | | | |
| NII | 11.8 | 17.7 | 19.2 | 26.8 | 30.4 | 35.0 | 32.7 | 23.5 | 15.9 |
| Other income | 6.1 | 13.3 | (8.0) | 7.8 | 42.9 | 28.3 | 115.7 | 18.4 | 17.9 |
| Net revenue | 10.4 | 16.4 | 12.2 | 20.9 | 33.4 | 33.1 | 50.1 | 22.1 | 16.4 |
| Opex | 32.7 | 21.0 | 31.4 | 28.5 | 25.2 | 26.2 | 25.6 | 14.8 | 14.2 |
| PPoP | (7.0) | 12.7 | (3.7) | 14.3 | 42.5 | 39.1 | 77.8 | 29.2 | 18.6 |
| Provisions | NM | NM | (96.6) | (67.7) | NM | NM | NM | NM | NM |
| PAT | 15.0 | 64.5 | 26.1 | 27.0 | 31.0 | 26.3 | 66.7 | 23.6 | 7.6 |
| QoQ (%) | | | | | | | | | |
| NII | 7.8 | 4.3 | 3.9 | 8.6 | 10.9 | 8.0 | 2.1 | 1.0 | 4.1 |
| Other income | (24.8) | 25.0 | (27.0) | 57.1 | (0.3) | 12.2 | 22.7 | (13.7) | (0.8) |
| Net revenue | (2.3) | 9.3 | (4.6) | 18.7 | 7.8 | 9.0 | 7.6 | (3.4) | 2.8 |
| Opex | 10.5 | (3.7) | 9.4 | 10.4 | 7.6 | (2.9) | 8.9 | 0.8 | 7.1 |
| PPoP | (13.4) | 23.7 | (16.7) | 28.2 | 7.9 | 20.7 | 6.5 | (6.9) | (1.0) |
| Provisions | NM | NM | NM | 480.8 | 8.6 | (0.8) | 146.9 | 0.6 | 58.0 |
| PAT | 4.9 | 29.8 | (25.2) | 24.6 | 8.2 | 25.2 | (1.2) | (7.6) | (5.8) |

Source: Company, Elara Securities Research

Exhibit 2: Loans growth at 18.9% YoY / 4.3% QoQ

| (INR bn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Loan book | 2,529 | 2,713 | 2,802 | 2,940 | 3,132 | 3,199 | 3,286 | 3,570 | 3,725 |
| -YoY (%) | 18.1 | 21.3 | 28.8 | 25.1 | 23.8 | 17.9 | 17.3 | 21.4 | 18.9 |
| -QoQ (%) | 7.6 | 7.2 | 3.3 | 4.9 | 6.5 | 2.1 | 2.7 | 8.7 | 4.3 |

Source: Company, Elara Securities Research

Exhibit 3: Loan growth led by personal loans, credit cards and CV/CE

| Particulars | (INR bn) | | | | | | | | YoY (%) | | | | | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 |
| CV & CE | 225 | 232 | 246 | 258 | 278 | 285 | 310 | 338 | 10.4 | 20.2 | 26.2 | 26.6 | 23.5 | 22.7 | 26.2 | 30.7 |
| Mortgage loans | 761 | 810 | 858 | 891 | 927 | 951 | 991 | 1,022 | 39.0 | 45.6 | 39.6 | 29.4 | 21.9 | 17.5 | 15.4 | 14.7 |
| Business banking / SME | 204 | 192 | 212 | 219 | 222 | 233 | 246 | 258 | 22.6 | 17.1 | 16.3 | 15.5 | 8.4 | 21.4 | 16.0 | 17.6 |
| Corporate banking | 667 | 686 | 674 | 744 | 667 | 691 | 818 | 842 | 6.8 | 14.0 | 3.9 | 9.3 | 0.1 | 0.8 | 21.4 | 13.2 |
| Agriculture division | 283 | 283 | 294 | 315 | 338 | 335 | 350 | 360 | 19.0 | 28.8 | 27.6 | 25.9 | 19.5 | 18.5 | 18.9 | 14.5 |
| Tractor finance | 108 | 110 | 120 | 130 | 139 | 139 | 144 | 152 | 14.4 | 18.7 | 24.8 | 28.2 | 29.2 | 26.3 | 19.7 | 16.7 |
| Consumer bank WC (secured) | 264 | 258 | 274 | 281 | 303 | 299 | 331 | 338 | 21.1 | 22.5 | 18.7 | 16.8 | 14.7 | 16.0 | 20.8 | 20.1 |
| PL, BL and consumer durables | 101 | 117 | 132 | 145 | 158 | 167 | 179 | 193 | 43.4 | 78.5 | 81.8 | 70.0 | 56.6 | 42.5 | 35.3 | 32.8 |
| Credit cards | 56 | 68 | 79 | 92 | 101 | 114 | 126 | 139 | 40.4 | 77.2 | 81.1 | 85.1 | 81.1 | 66.6 | 59.4 | 51.6 |
| Others | 45 | 46 | 50 | 56 | 66 | 71 | 75 | 83 | 28.1 | 41.0 | 44.7 | 43.8 | 47.7 | 55.0 | 50.1 | 48.1 |
| Total | 2,713 | 2,802 | 2,940 | 3,132 | 3,199 | 3,286 | 3,570 | 3,725 | 21.3 | 28.8 | 25.1 | 23.8 | 17.9 | 17.3 | 21.4 | 18.9 |

Source: Company, Elara Securities Research

Exhibit 4: Unsecured book continues to maintain strong traction, with share improving to 11.6%

| Loan mix (%) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| CV & CE | 8.1 | 8.3 | 8.3 | 8.4 | 8.2 | 8.7 | 8.7 | 8.7 | 9.1 |
| Mortgage loans | 27.2 | 28.0 | 28.9 | 29.2 | 28.5 | 29.0 | 29.0 | 27.8 | 27.4 |
| Business banking / SME | 7.5 | 7.5 | 6.9 | 7.2 | 7.0 | 6.9 | 7.1 | 6.9 | 6.9 |
| Corporate banking | 26.9 | 24.6 | 24.5 | 22.9 | 23.8 | 20.9 | 21.0 | 22.9 | 22.6 |
| Agriculture division | 9.9 | 10.4 | 10.1 | 10.0 | 10.0 | 10.6 | 10.2 | 9.8 | 9.7 |
| Tractor finance | 4.0 | 4.0 | 3.9 | 4.1 | 4.1 | 4.3 | 4.2 | 4.0 | 4.1 |
| Consumer bank WC (secured) | 9.5 | 9.7 | 9.2 | 9.3 | 9.0 | 9.5 | 9.1 | 9.3 | 9.1 |
| PL, BL and consumer durables | 3.4 | 3.7 | 4.2 | 4.5 | 4.6 | 4.9 | 5.1 | 5.0 | 5.2 |
| Credit cards | 2.0 | 2.1 | 2.4 | 2.7 | 2.9 | 3.2 | 3.5 | 3.5 | 3.7 |
| Others | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 2.1 | 2.2 | 2.1 | 2.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Company, Elara Securities Research

Exhibit 5: CA deposits saw muted growth sequentially, with overall casa ratio declining by 50bps to 47.7%

| (INR bn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Deposits | 3,053 | 3,117 | 3,165 | 3,252 | 3,447 | 3,631 | 3,863 | 4,010 | 4,086 |
| -YoY (%) | 15.1 | 11.3 | 10.4 | 11.5 | 12.9 | 16.5 | 22.0 | 23.3 | 18.6 |
| -QoQ (%) | 4.7 | 2.1 | 1.5 | 2.8 | 6.0 | 5.3 | 6.4 | 3.8 | 1.9 |
| CA | 571 | 647 | 571 | 602 | 636 | 700 | 647 | 688 | 688 |
| -YoY (%) | 29.8 | 24.1 | 8.8 | 12.9 | 11.4 | 8.3 | 13.4 | 14.4 | 8.2 |
| -QoQ (%) | 7.2 | 13.2 | (11.8) | 5.4 | 5.7 | 10.1 | (7.6) | 6.3 | (0.1) |
| SA | 1,258 | 1,245 | 1,268 | 1,224 | 1,200 | 1,218 | 1,246 | 1,247 | 1,263 |
| -YoY (%) | 12.1 | 6.2 | 5.7 | (0.8) | (4.6) | (2.2) | (1.8) | 1.8 | 5.2 |
| -QoQ (%) | 1.9 | (1.1) | 1.9 | (3.5) | (2.0) | 1.5 | 2.3 | 0.1 | 1.3 |
| CASA (%) | 59.9 | 60.7 | 58.1 | 56.2 | 53.3 | 52.8 | 49.0 | 48.3 | 47.7 |

Source: Company, Elara Securities Research

Exhibit 6: NIM steady sequentially at 5.22%

| (%) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Lending yields – Calculated | 8.14 | 7.97 | 8.21 | 8.91 | 9.45 | 9.87 | 10.24 | 10.25 | 10.41 |
| Cost of Funds – Calculated | 3.12 | 3.04 | 3.16 | 3.54 | 3.77 | 3.95 | 4.30 | 4.72 | 4.89 |
| NIM – Calculated | 4.19 | 4.27 | 4.40 | 4.71 | 4.99 | 5.11 | 4.97 | 4.82 | 4.85 |
| NIM – Reported | 4.45 | 4.78 | 4.92 | 5.17 | 5.47 | 5.75 | 5.57 | 5.22 | 5.22 |
| Yields on investments – Calculated | 6.19 | 6.17 | 6.08 | 6.32 | 6.24 | 6.45 | 6.55 | 6.81 | 6.64 |

Source: Company, Elara Securities Research

Exhibit 7: Slippage ratio declined to 1.5%, PCR up 150bps to 80.6%

| (INR mn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Opening GNPA | 76,580 | 69,828 | 64,697 | 63,786 | 62,102 | 59,946 | 57,683 | 59,092 | 60,870 |
| Slippage | 7,500 | 7,360 | 14,350 | 9,830 | 7,480 | 8,230 | 12,050 | 13,140 | 11,770 |
| Reductions | 10,860 | 8,970 | 12,950 | 9,450 | 8,740 | 7,870 | 6,920 | 9,420 | 8,300 |
| Write-offs | 3,392 | 3,521 | 2,312 | 2,063 | 897 | 2,623 | 3,721 | 1,942 | 1,323 |
| Closing GNPA | 69,828 | 64,697 | 63,786 | 62,102 | 59,946 | 57,683 | 59,092 | 60,870 | 63,017 |
| GNPL (%) | 2.7 | 2.3 | 2.2 | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 |
| NNPL (%) | 0.8 | 0.6 | 0.6 | 0.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| PCR (%) | 71.3 | 73.2 | 72.6 | 73.7 | 77.6 | 79.3 | 78.0 | 79.1 | 80.6 |
| Slippage as percentage of gross lagged loans | 1.4 | 1.3 | 2.6 | 1.6 | 1.2 | 1.2 | 1.7 | 1.8 | 1.5 |

Source: Company, Elara Securities Research

Exhibit 8: Outstanding stress stable QoQ at 1.91% of loans

| (INR mn) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross NPL | 69,828 | 64,697 | 63,786 | 62,102 | 59,946 | 57,683 | 59,092 | 60,870 | 63,017 |
| Restructuring book | 13,640 | 12,050 | 10,760 | 9,940 | 7,650 | 7,180 | 6,140 | 5,260 | 4,590 |
| SMA 2 | 2,980 | 1,860 | 1,590 | 1,190 | 1,910 | 2,040 | 2,030 | 1,550 | 2,100 |
| Total stress loans | 86,448 | 78,607 | 76,136 | 73,232 | 69,506 | 66,903 | 67,262 | 67,680 | 69,707 |
| Gross loans | 2,576,679 | 2,764,846 | 2,847,576 | 2,985,688 | 3,155,037 | 3,240,629 | 3,338,554 | 3,538,953 | 3,642,584 |
| Gross stress (% of loans) | 3.36 | 2.84 | 2.67 | 2.45 | 2.20 | 2.06 | 2.01 | 1.91 | 1.91 |
| Non-NPL stress (%) | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Gross NPL / gross stress loans (%) | 81 | 82 | 84 | 85 | 86 | 86 | 88 | 90 | 90 |

Source: Company, Elara Securities Research

Exhibit 9: Well-capitalized with CET 1 at 20.1%

| (%) | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| CET1 | 20.4 | 21.7 | 21.6 | 21.5 | 18.6 | 20.6 | 20.9 | 20.6 | 20.1 |
| Additional Tier I+ Tier II | 0.9 | 1.0 | 0.6 | 1.1 | 1.1 | 1.2 | 1.1 | 0.9 | 1.1 |
| CRAR | 21.3 | 22.7 | 22.2 | 22.6 | 19.7 | 21.8 | 22.0 | 21.5 | 21.2 |

Source: Company, Elara Securities Research

Q3 Conference Call – Highlights

Management commentary by new CEO

- India is relatively protected and resilient, with strong economic growth and business optimism, and seems better than other markets. The digital stack built in India has transformed it and may continue to be a very strong change agent. Thus, KMB is aptly placed – well-capitalized, strong product suite. Key monitorable is the trajectory of scale-up.

Business momentum

- Loan growth has been steady and more towards focused areas. The mix change is towards unsecured retail, which now forms 11.6% of loans (versus 11% of loans in Q2 and 9.3% of loans a year ago). KMB expects this to rise to mid-teens.

Corporate book – Steady growth

- Large corporate growth is coming from conglomerates and MNCs, but pricing pressure in this segment is higher. Growth in infra-related segments (renewables, roads, hospitality etc.) is better. The credit substitute book saw sharp growth. KMB maintained its stance to toggle between loans and credit substitute, based on environmental needs.
- KMB had earlier formed a separate vertical for the mid corporate segment, which is yielding desired results and seeing good growth. The mid corporate segment is working capital-intensive and KMB may continue to focus on it.
- SME segment is seeing signs of irrational pricing, but KMB has seen steady growth, driven by NTB segment and better roll-out. Focus on growth may remain in this segment.
- Overall, pricing is competitive and spreads tight, but KMB is disciplined in its approach. Fee income has also been lower. DCM has seen healthy pipeline but there is delay in deal closing.
- Overall asset quality trends are benign and KMB is focused on growth in this segment.

Commercial banking: Strong growth to continue

- CV has seen steady growth for KMB, better than the industry which continued to lag Q2 – Freight availability and return load have been steady and so has operator profitability. KMB expects this to improve. Within various segment in CV, PCV (bus) is going strong.
- For KMB, CV disbursement has been strong at 30% and it continues to gain market share.

- Commercial Equipment has seen steady and consistent growth. Asset utilization has improved. KMB continued to grow higher than industry (disbursement growth of 38% YoY) and may continue with market share gains. Collection efficiency is holding up well.

- Tractor has been softer and used segment growth has been better. Collection efficiency was hit in some states – Maharashtra and South India, which saw variation in monsoons.

- Microfinance continues to grow strong. CE is holding up well, but in some states like Maharashtra and southern India that saw variation in monsoon.

- Agri portfolio saw slower growth and demand was weak. KMB continues to focus on new customer addition and anticipates it to improve.

Consumer Bank : Growth in unsecured to continue to rise

- KMB gained market share in quite a few product lines – unsecured product is moving at faster clip (demand continues to be vibrant – customer acquisition is gaining momentum). Good growth was seen in LAP and HL (together). Collection efficiency is holding up well. Despite RBI directive, KMB sees no signs of stress and maintained the stance to sustain growth.

- Credit card growth was strong. KMB is consistently gaining market share in spend and card base. There are signs on leverage build-up on the consumer side but overall outlook is under control.

- Business banking – focus continues: KMB will continue to grow in this segment. That said, working capital limit utilization has been subdued in some sectors.

- KMB is at 88% LDR, which may be optically higher but it has higher CET @ 21%, and LCR is at 126% (at group level). While deposit growth is a challenge, there are other avenues to fund asset growth, which KMB may continue to evaluate.

- Q3 NIMs were flat QoQ at 5.22%, helped by change in mix of earnings assets in favor of advances. This was also supported by the non-recurring drag, which was seen in Q2.

- KMB introduced *Active Money*, which saw higher growth of 13% QoQ (non-annualized), with total quantum at INR 418bn. KMB may continue to innovate new products.

- Overall cost of term deposits is somewhere in between 6.5% and 6.7%.
- Operating cost was higher on: a) higher retiral cost and some stock related and b) higher other opex, given marketing spends in the festive season.

Asset quality

- Q3 slippages were INR 11.77bn (versus INR 13.14bn in Q2), of which INR 2.9bn were upgraded in Q3.
- Q3 saw two hits: a) INR 1.9bn on AIF and b) MTM hit of INR 1.68bn (large part of the hit is in OIS). While in Q3 it saw a hit, over the life of the security, the spread will be protected.
- Credit cost for Q3 (with std. provision, excluding reversal of COVID and restructuring) was down to 40bps versus 47bps in Q2.
- KMB used INR 260mn of Covid provisions and INR 2.95bn still remains.

Other highlights

- Life insurance profitability was hit on account of change in commission rates.
- In November, KMB announced stake sale in general insurance.
- AFS+HFT (book as percentage of investment book) was 81%, with modified duration of AFS +HFT at 1.1 years.
- Post the RBI raising the risk-weight, KMB has increased rates on personal loans (by 20-30bps) and also on NBFC segments.
- LCR (group) – 127% and LCR (bank) – 119.5% (flat QoQ).

Exhibit 10: Q3FY24 results

| (INR mn) | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) |
|--------------------------|---------|--------|---------|---------|---------|
| Interest income | 117,990 | 89,986 | 31.1 | 111,928 | 5.4 |
| Interest expenses | 52,455 | 33,457 | 56.8 | 48,962 | 7.1 |
| Net interest income | 65,535 | 56,529 | 15.9 | 62,966 | 4.1 |
| Other income | 22,970 | 19,483 | 17.9 | 23,145 | (0.8) |
| Operating expenses | 42,843 | 37,514 | 14.2 | 40,011 | 7.1 |
| Staff expense | 17,483 | 14,778 | 18.3 | 16,346 | 7.0 |
| Other opex | 25,360 | 22,736 | 11.5 | 23,665 | 7.2 |
| Pre prov op profit (PPP) | 45,662 | 38,498 | 18.6 | 46,101 | (1.0) |
| Provisions | 5,791 | 1,488 | 289.1 | 3,666 | 58.0 |
| Profit before tax | 39,871 | 37,010 | 7.7 | 42,436 | (6.0) |
| Provision for tax | 9,821 | 9,091 | 8.0 | 10,526 | (6.7) |
| Profit after tax | 30,050 | 27,919 | 7.6 | 31,910 | (5.8) |
| EPS (INR) | 15.12 | 14.1 | 7.5 | 16.1 | (5.8) |
| Ratios (%) | | | | | |
| NII / GII | 55.5 | 62.8 | | 56.3 | |
| Cost - income | 48.4 | 49.4 | | 46.5 | |
| Provisions / PPOP | 12.7 | 3.9 | | 8.0 | |
| Tax rate | 24.6 | 24.6 | | 24.8 | |
| Balance sheet | | | | | |
| Advances (INR bn) | 3,596 | 3,107 | 15.7 | 3,483 | 3.2 |
| Deposits (INR bn) | 4,086 | 3,447 | 18.6 | 4,010 | 1.9 |
| CD ratio (%) | 88.0 | 90.2 | | 86.9 | |
| Asset quality | | | | | |
| Gross NPA | 63,017 | 59,946 | 5.1 | 60,870 | 3.5 |
| Gross NPAs (%) | 1.7 | 1.9 | | 1.7 | |
| Net NPA | 12,253 | 13,448 | (8.9) | 12,750 | (3.9) |
| Net NPA(%) | 0.3 | 0.4 | | 0.4 | |
| Provision coverage (%) | 80.6 | 77.6 | | 79.1 | |

Source: Company, Elara Securities Research

Exhibit 11: Valuation assumptions

| | (INR) |
|-----------------------------|--------------|
| Bank – September 2024E BVPS | 559 |
| Multiple (x) | 2.7 |
| FV/share | 1,480 |
| Subsidiary value | 524 |
| Target price | 2,004 |
| Current market price | 1,806 |
| Upside (%) | 10.9 |

Note: Pricing as on 20 January 2024; Source: Elara Securities Estimate

Exhibit 12: Change in estimates

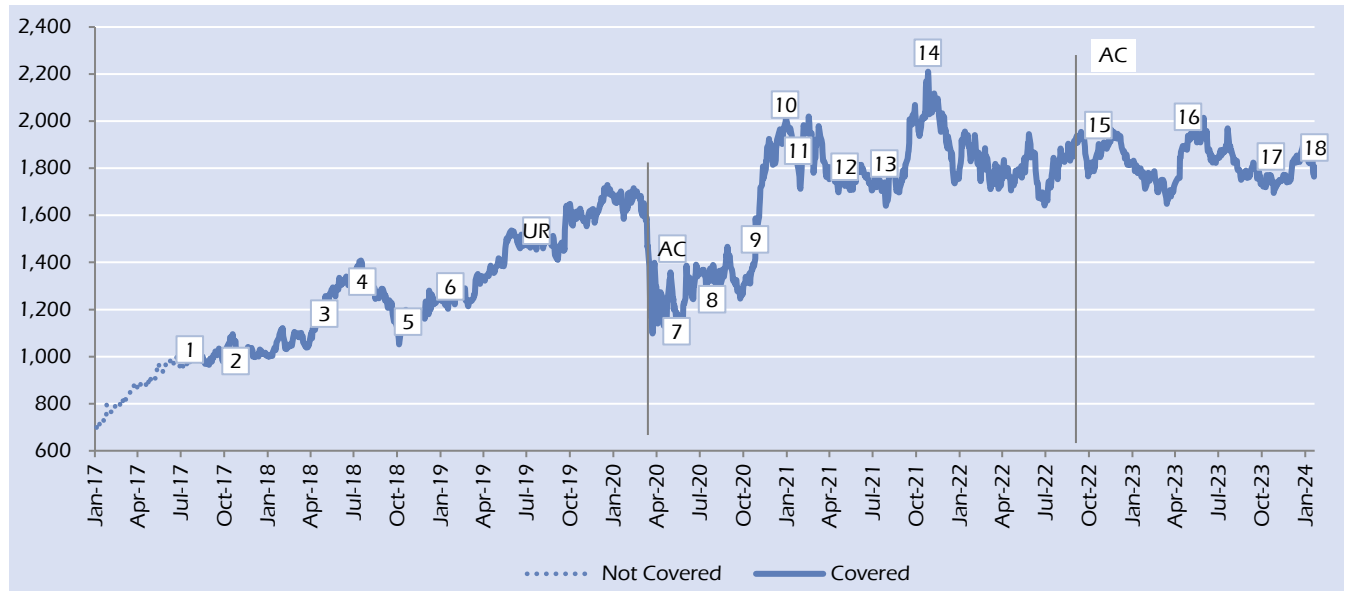
| (INR mn) | Revised | | Old | | % Change | | New |
|---------------------------|---------|--------------|---------|--------------|----------|----------|---------|
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E | |
| Net interest income | 251,177 | 283,952 | 244,123 | 272,288 | 2.9 | 4.3 | 319,776 |
| Operating profit | 179,539 | 200,255 | 177,986 | 199,468 | 0.9 | 0.4 | 227,702 |
| Net profit | 120,506 | 129,575 | 119,344 | 128,997 | 1.0 | 0.4 | 145,422 |
| Target price (INR) | | 2,004 | | 1,924 | | 4 | |

Source: Elara Securities Estimate

Abbreviations

| Abbreviation | Explanation |
|--------------|---|
| ABV | Adjusted book value per share |
| BVPS | Book value per share |
| CA | Current Accounts |
| CASA Ratio | Current and savings account ratio |
| CV | Commercial Vehicles |
| EBLR | External benchmark lending rate |
| ECLGs | Emergency Credit Line Guarantee Scheme |
| EPS | Earnings per share |
| CE | Commercial Equipment |
| GNPL | Gross non-performing loans |
| PL | Personal loans |
| BL | Business loans |
| MCLR | Marginal Cost of Funds based Lending Rate |
| MTM | Mark to market |
| NII | Net interest income |
| NIM | Net interest margin |
| NNPL | Net non-performing loans |
| PCR | Provision Coverage Ratio |
| PPoP | Pre-provision operating profit |
| RoA | Return on Assets |
| RoE | Return on Equity |
| MFI | Micro-finance |
| SME | Small and medium-sized enterprises |
| SR | Security Receipts |
| TD | Term Deposits |
| WC | Working Capital |

Coverage History



Analyst change: UR - Under Review

| Date | Rating | Target Price | Closing Price |
|----------------|------------|--------------|---------------|
| 11 25-Jan-2021 | Reduce | INR 1,865 | INR 1,794 |
| 12 3-May-2021 | Reduce | INR 1,800 | INR 1,724 |
| 13 26-Jul-2021 | Accumulate | INR 1,850 | INR 1,741 |
| 14 26-Oct-2021 | Accumulate | INR 2,345 | INR 2,211 |
| 15 21-Oct-2022 | Accumulate | INR 2,010 | INR 1,903 |
| 16 28-Apr-2023 | Accumulate | INR 2,103 | INR 1,938 |
| 17 20-Oct-2023 | Accumulate | INR 1,924 | INR 1,770 |
| 18 20-Jan-2024 | Accumulate | INR 2,004 | INR 1,807 |

Guide to Research Rating

| | |
|-------------------|-----------------------------|
| BUY | Absolute Return >+20% |
| ACCUMULATE | Absolute Return +5% to +20% |
| REDUCE | Absolute Return -5% to +5% |
| SELL | Absolute Return < -5% |

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