

Margins slip, NPAs rise

BFSI - Banks ▶ Result Update ▶ October 20, 2024

TARGET PRICE (Rs): 1,700

Kotak Mahindra Bank (KMB) continued to report margin contraction (11bps QoQ to 4.9%) due to lower loan asset yields which was due to slower growth in unsecured loans (including full impact of credit card suspension). This, coupled with higher LLP and lower other income led to a 4% miss on PAT at Rs33bn/2.2% RoA. Gross credit growth was healthy at 18% YoY, but sell-off via IBPC for BS management led to lower net credit growth at 15% YoY. Stress in unsecured loans including MFI and Cards has inched-up leading to higher NPAs QoQ to 1.5%; the bank expects some relief by 4Q. Bank continues to draw down specific PCR which reduced to 71% from 75% in Q1, despite peers holding higher specific PCR as well as contingent buffers. Factoring in slower growth and rising NPAs, we cut our earnings estimates by 1-5% over FY25-27E, while we retain our REDUCE rating with TP at Rs1,700 rolling forward on 1.7x Sep-26E Standalone ABV and subs/inv value at Rs550/sh. The bank continues to work with external auditors and the RBI to release embargo on new credit card business and general banking customer acquisition through digital channels.

Kotak Mahindra Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	109,393	137,817	168,057	155,463	171,916
Loan growth (%)	17.6	17.2	15.5	16.0	17.0
NII growth (%)	28.1	20.6	10.3	13.3	13.0
NIM (%)	4.9	4.9	4.6	4.5	4.4
PPOP growth (%)	23.2	31.9	8.3	16.1	14.4
Adj. EPS (Rs)	55.1	69.3	70.8	78.2	86.5
Adj. EPS growth (%)	27.5	25.9	2.1	10.4	10.6
Adj. BV (Rs)	397.5	462.1	562.2	634.4	714.2
Adj. BVPS growth (%)	16.4	16.3	21.7	12.8	12.6
RoA (%)	2.4	2.5	2.2	2.1	2.0
RoE (%)	14.1	15.3	13.1	12.4	12.2
P/E (x)	23.9	19.0	18.6	16.9	15.3
P/ABV (x)	3.3	2.9	2.3	2.1	1.8

Source: Company, Emkay Research

Slower growth in unsecured loans lead to further margin contraction

Gross credit growth was healthy at 18% YoY/3% QoQ, but higher sell-off via IBPCs led to net credit growth at 15% YoY/2% QoQ. KMB has accelerated mortgage business growth, but unsecured loans growth including MFI, PL, and Card business took a hit owing to the bank's cautious stance because of rising NPAs and new Credit Card business suspension by the RBI. This, coupled with higher interest reversal and lower IPO float led to an 11bps QoQ contraction in NIM to 4.9%. To protect its NIM – the bank has recently cut SA rate by 50bps and acquired the high-yielding PL book (Rs41bn) from Standard Chartered Bank. However, given higher share of book linked to repo rate (60%), we believe the bank could be exposed to higher margin risk once the rate-cut cycle begins.

Asset quality deteriorates further as unsecured loan stress inches up

Slippages inch-up further to Rs 18.7bn/2.2% of loans, due to rising stress in unsecured loans (30-40% being from Cards and meaningful jump in MFI as well) led to a 10bps rise in GNPA at 1.5%. Bank remains hopeful of some relief in stress by 4Q. However, we believe that seasoning of the bank's unsecured loan portfolio including Cards and PL could keep NPAs elevated. Specific PCR continues to slip from 75% to 71% to support profitability, whereas the bank does not carry contingent provision buffer, unlike large peers. Thus, we build-in higher LLP around 0.6-0.9% of loans.

Retain REDUCE with a TP of Rs1,700

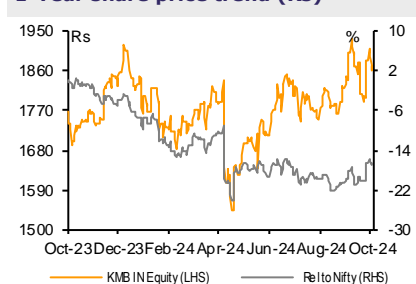
Factoring in slower growth and rising NPAs, we cut our earnings by 1-5% over FY25-27E, while we retain our REDUCE rating with TP of Rs1,700 rolling forward on 1.7x Sep-26E Standalone ABV and subs/inv value at Rs550/sh. Bank continues to work with external auditors and the RBI to release embargo on new credit card business and general banking customer acquisition through digital channels. On the recent RBI draft guidelines related to alignment of businesses of banks and their non-bank subsidiaries, the management indicates that it will seek clarification from the RBI in relation to its NBFC subsidiaries.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(9.1)
CMP (18-Oct-24) (Rs)	1,871.1

Stock Data	Ticker
52-week High (Rs)	1,953
52-week Low (Rs)	1,544
Shares outstanding (mn)	1,988.1
Market-cap (Rs bn)	3,720
Market-cap (USD mn)	44,246
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	5
ADTV-3M (Rs mn)	8,917.0
ADTV-3M (USD mn)	106.1
Free float (%)	74.0
Nifty-50	24,854
INR/USD	84.1
Shareholding, Jun-24	
Promoters (%)	25.9
FPIs/MFs (%)	31.5/27.7

Price Performance

(%)	1M	3M	12M
Absolute	1.7	2.4	6.7
Rel. to Nifty	3.8	2.2	(15.5)

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

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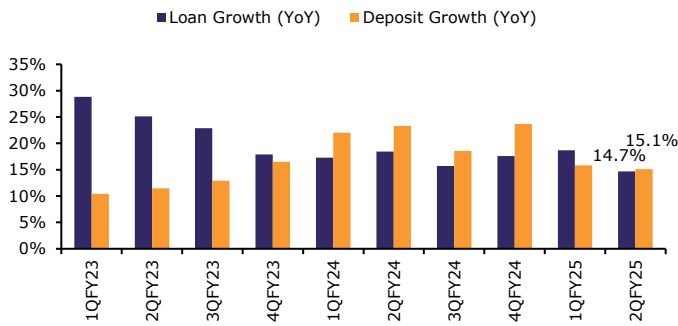
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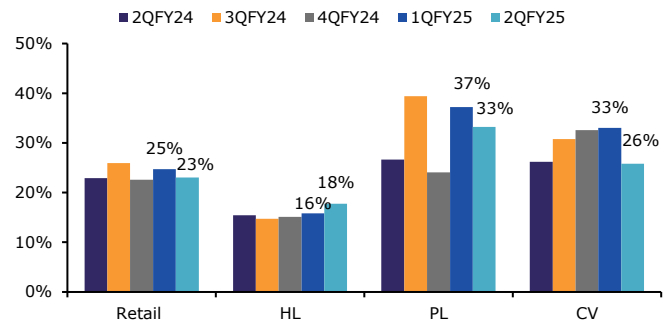
Story in Charts

Exhibit 1: Credit growth slips as a part of its balance sheet management and slowdown in unsecured loans



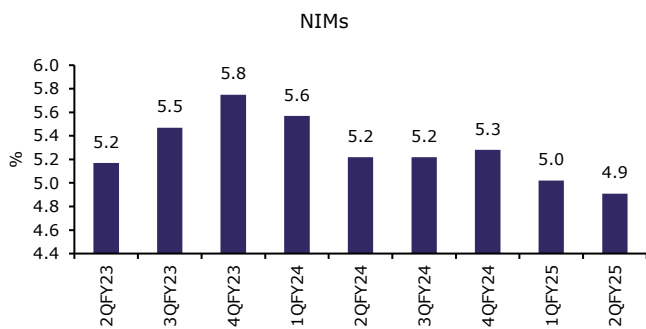
Source: Company, Emkay Research

Exhibit 2: With slowdown in unsecured book, the bank book mix tilts toward the secured book



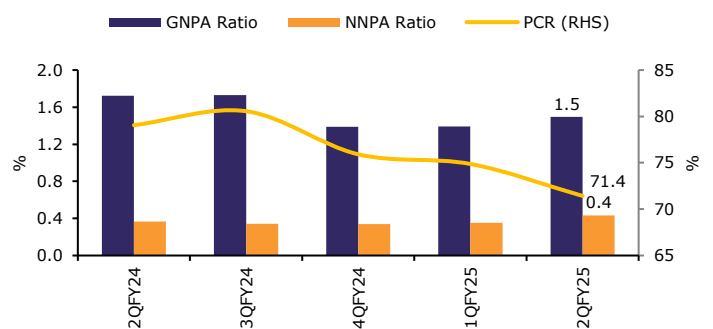
Source: Company, Emkay Research

Exhibit 3: Lower asset yields caused further contraction in NIM



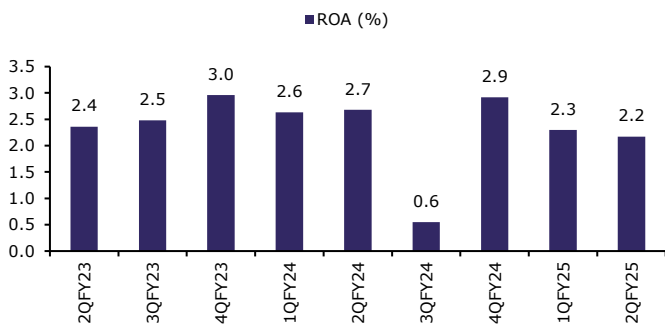
Source: Company, Emkay Research

Exhibit 4: Slippages inch-up, whereas PCR continues to fall



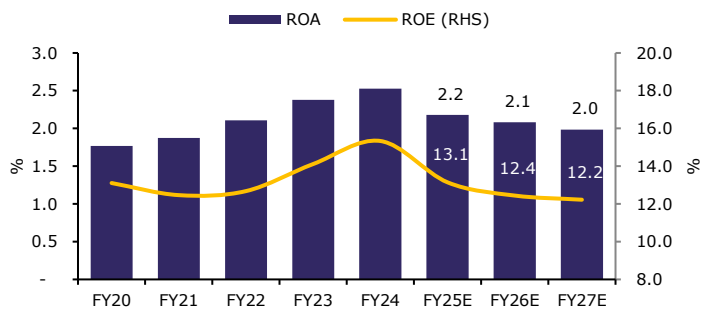
Source: Company, Emkay Research

Exhibit 5: RoA moderates in 2Q due to lower margins, other income, and higher LLP



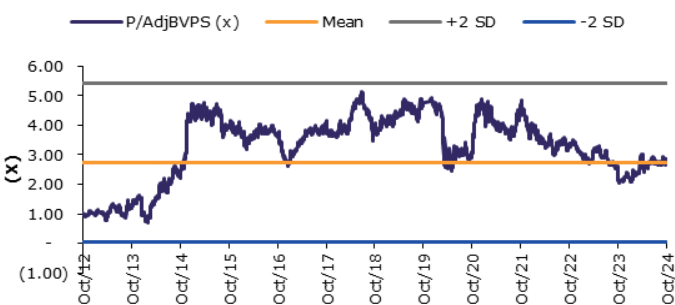
Source: Company, Emkay Research

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



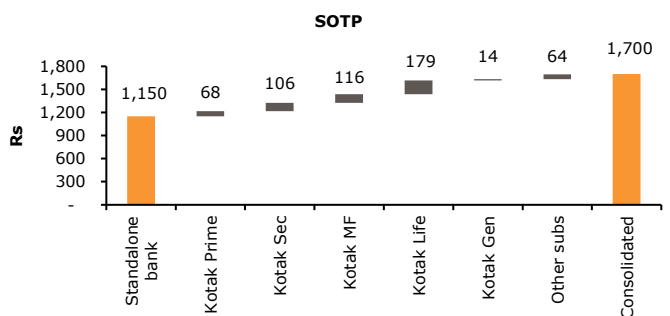
Source: Company, Emkay Research

Exhibit 7: The stock trades at 2.8x its one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 8: SOTP-based valuation



Source: Emkay Research

Exhibit 9: Actuals vs Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	97,038	100,629	98,236	-4%	-1%	Margin contraction led to a miss
PPOP	50,993	54,289	51,232	-6%	0%	Lower net income led to a PPOP miss
PAT	33,437	36,592	34,238	-9%	-2%	PPOP miss along with higher LLP led to PAT miss

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	111,928	117,990	123,071	127,461	132,163	18.1	3.7	457,989	541,283	18.2
Interest Exp.	48,962	52,455	53,977	59,038	61,967	26.6	5.0	198,056	254,478	28.5
Net Interest Income	62,966	65,535	69,094	68,424	70,196	11.5	2.6	259,933	286,805	10.3
Global NIMs (reported)	5.22	5.22	5.28	5.02	4.91	-31bps	-11bps	4.92	4.57	-35bps
Non-interest Income	23,145	22,970	29,783	29,290	26,842	16.0	-8.4	102,731	115,731	12.7
Operating Expenses	40,011	42,843	44,261	45,173	46,046	15.1	1.9	166,789	190,325	14.1
Pre-Provisioning Profit	46,101	45,662	54,616	52,541	50,993	10.6	-2.9	195,875	212,211	8.3
Provision and Contingencies	3,666	5,791	2,637	5,785	6,604	80.2	14.2	15,737	24,535	55.9
PBT	42,436	39,871	51,978	46,756	44,389	4.6	-5.1	180,138	187,676	4.2
Income Tax Expense (Gain)	10,526	9,821	10,645	11,560	10,951	4.0	-5.3	42,321	46,919	10.9
Net Profit/(Loss)	31,910	30,050	41,333	35,196	33,437	4.8	-5.0	137,817	168,057	21.9
Gross NPA (%)	1.72	1.73	1.39	1.39	1.49	-23bps	10bps	1.39	1.50	11bps
Net NPA (%)	0.37	0.34	0.34	0.35	0.43	7bps	8bps	0.34	0.43	9bps
Deposits (Rs bn)	4,010	4,086	4,490	4,474	4,615	15.1	3.1	4,490	5,203	15.9
Net Advances (Rs bn)	3,483	3,596	3,761	3,900	3,995	14.7	2.5	3,761	4,342	15.5

Source: Company, Emkay Research; Note: Q1FY25 figures are excluding stake sale gain in KGI

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	415,677	402,536	-3.2%	469,338	464,460	-1.0%	536,501	533,617	-0.5%
PPOP	222,227	212,211	-4.5%	245,875	246,321	0.2%	281,214	281,699	0.2%
PAT	176,538	168,057	-4.8%	157,929	155,463	-1.6%	173,546	171,916	-0.9%
EPS (Rs)	74.6	70.8	-5.1%	79.4	78.2	-1.6%	87.3	86.5	-0.9%
BV (Rs)	588.1	590.8	0.5%	664.5	666.0	0.2%	748.3	748.9	0.1%

Source: Emkay Research

Exhibit 12: Key assumptions

(%)	FY24	FY25E	FY26E	FY27E
Loan Growth	17.2	15.5	16.0	17.0
Deposit Growth	23.6	15.9	16.6	17.4
NIM	4.9	4.6	4.5	4.4
GNPA	1.4	1.5	1.6	1.7
Credit Cost	0.4	0.6	0.8	0.9
Yield on Advances	10.3	10.3	10.1	9.8
Cost of Deposits	4.5	5.0	4.8	4.7

Source: Emkay Research

Exhibit 13: Key Ratios and Trend

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs bn)	2,940	3,107	3,199	3,286	3,483	3,596	3,761	3,900	3,995
YoY growth (%)	25.1	22.9	17.9	17.3	18.5	15.7	17.6	18.7	14.7
QoQ growth (%)	4.9	5.7	2.9	2.7	6.0	3.2	4.6	3.7	2.5
Composition (%)									
- Corporate	22.3	23.3	22.6	23.6	23.5	23.4	23.2	24.0	23.2
- Retail & Agri	68.3	68.3	71.9	70.7	70.4	73.0	73.7	72.9	73.6
Liability Profile & Margins									
CASA (%)	56.2	53.3	52.8	49.0	48.3	47.7	45.5	43.4	43.6
CA (%)	18.5	18.5	19.3	16.8	17.2	16.8	16.8	15.7	15.5
SA (%)	37.7	34.8	33.5	32.3	31.1	30.9	28.8	27.7	28.2
NIM (%)	5.2	5.5	5.8	5.6	5.2	5.2	5.3	5.0	4.9
Branches	1,710	1,752	1,780	1,788	1,850	1,869	1,948	1,965	2,013
Asset Quality (Rs mn)									
Gross NPA (Opening Balance)	63,786	62,102	59,946	57,683	59,092	60,870	63,020	52,748	54,772
GNPA	62,102	59,946	57,683	59,092	60,870	63,020	52,748	54,772	60,332
GNPA (%)	2.1	1.9	1.8	1.8	1.7	1.7	1.4	1.4	1.5
NPA	16,304	13,448	11,933	13,018	12,750	12,250	12,706	13,763	17,238
NNPA (%)	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.4
PCR (%)	73.3	77.2	79.0	77.7	78.8	80.3	75.7	74.6	71.1
Slippages (Rs mn)	9,830	7,480	8,230	12,050	13,140	11,770	13,050	13,580	18,750
Slippages (annualized)	1.3%	1.0%	1.0%	1.5%	1.5%	1.3%	1.4%	1.4%	1.9%
Capital Adequacy (%)									
CAR	22.6	21.7	21.8	22.0	21.7	21.2	20.5	22.4	22.6
Tier I	21.5	20.7	20.6	20.9	20.6	20.1	19.2	21.3	21.5
ROE Decomposition (%)									
NII	4.7	5.0	5.1	5.0	4.8	4.9	4.8	4.5	4.6
Other Income (ex-treasury)	1.8	1.5	1.6	1.9	1.7	1.8	2.0	1.9	1.7
Treasury	0.0	0.3	0.2	0.2	0.1	-0.1	0.1	0.1	0.1
Opex	3.2	3.3	3.1	3.2	3.1	3.2	3.1	3.0	3.0
PPOP	3.3	3.4	3.9	3.9	3.5	3.4	3.8	3.5	3.3
Provisioning Cost	0.1	0.1	0.1	0.3	0.3	0.4	0.2	0.4	0.4
PBT	3.2	3.3	3.8	3.7	3.2	3.0	3.6	3.1	2.9
ROA	2.4	2.5	2.9	2.8	2.4	2.2	2.9	2.3	2.2
ROE	13.4	14.0	16.7	15.9	14.2	12.9	17.1	13.2	12.1

Source: Emkay Research

Kotak Mahindra Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	342,509	457,989	541,283	609,743	689,409
Interest Expense	126,989	198,056	254,478	284,729	322,016
Net interest income	215,519	259,933	286,805	325,014	367,393
NII growth (%)	28.1	20.6	10.3	13.3	13.0
Other income	70,830	102,731	115,731	139,446	166,225
Total Income	286,350	362,664	402,536	464,460	533,617
Operating expenses	137,870	166,789	190,325	218,140	251,918
PPOP	148,480	195,875	212,211	246,321	281,699
PPOP growth (%)	23.2	31.9	8.3	16.1	14.4
Core PPOP	156,037	186,656	203,452	237,124	271,583
Provisions & contingencies	4,570	15,737	24,535	38,482	51,865
PBT	143,910	180,138	187,676	207,839	229,834
Extraordinary items	0	0	27,300	0	0
Tax expense	34,517	42,321	46,919	52,375	57,918
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	109,393	137,817	168,057	155,463	171,916
PAT growth (%)	27.6	26.0	21.9	(7.5)	10.6
Adjusted PAT	109,393	137,817	140,757	155,463	171,916
Diluted EPS (Rs)	55.1	69.3	84.5	78.2	86.5
Diluted EPS growth (%)	28.0	25.9	21.9	(7.5)	10.6
DPS (Rs)	1.5	2.0	2.5	3.0	3.5
Dividend payout (%)	2.7	2.9	3.5	3.8	4.0
Effective tax rate (%)	24.0	23.5	25.0	25.2	25.2
Net interest margins (%)	4.9	4.9	4.6	4.5	4.4
Cost-income ratio (%)	48.1	46.0	47.3	47.0	47.2
Shares outstanding (mn)	1,986.6	1,988.0	1,988.1	1,988.1	1,988.1

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	57,683.2	52,747.9	65,917.7	81,194.6	100,260.2
Net NPLs	11,933.0	12,705.7	18,456.9	23,546.4	29,075.4
GNPA ratio (%)	1.8	1.4	1.5	1.6	1.7
NNPA ratio (%)	0.4	0.3	0.4	0.5	0.5
Provision coverage (%)	79.3	75.9	72.0	71.0	71.0
Gross slippages	39,899.2	50,011.0	65,848.8	76,384.6	95,327.9
Gross slippage ratio (%)	1.2	1.3	1.5	1.5	1.6
LLP ratio (%)	0.2	0.4	0.6	0.8	0.9
NNPA to networth (%)	1.4	1.3	1.5	1.8	1.9
Capital adequacy					
Total CAR (%)	21.8	20.5	21.2	20.7	20.1
Tier-1 (%)	20.6	19.2	20.1	19.7	19.3
CET-1 (%)	19.0	18.5	19.5	19.2	18.8
RWA-to-Total Assets (%)	76.0	76.0	78.0	78.0	78.0
Miscellaneous					
Total income growth (%)	25.2	35.7	17.2	14.0	14.2
Opex growth (%)	28.2	21.0	14.1	14.6	15.5
Core PPOP growth (%)	29.5	19.6	9.0	16.6	14.5
PPOP margin (%)	35.9	34.9	32.3	32.9	32.9
PAT/PPOP (%)	73.7	70.4	66.3	63.1	61.0
LLP-to-Core PPOP (%)	2.9	8.4	12.1	16.2	19.1
Yield on advances (%)	9.2	10.3	10.3	10.1	9.8
Cost of funds (%)	3.5	4.6	4.9	4.8	4.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	9,933	9,940	9,941	9,941	9,941
Reserves & surplus	820,270	957,248	1,164,584	1,314,083	1,479,040
Net worth	830,203	967,188	1,174,524	1,324,023	1,488,981
Deposits	3,630,961	4,489,537	5,203,315	6,066,931	7,121,268
Borrowings	234,163	283,681	312,049	296,447	281,624
Interest bearing liab.	3,865,123	4,773,218	5,515,364	6,363,378	7,402,892
Other liabilities & prov.	203,298	263,164	228,387	330,656	409,072
Total liabilities & equity	4,898,624	6,003,570	6,918,275	8,018,057	9,300,946
Net advances	3,198,612	3,760,752	4,342,457	5,034,657	5,886,812
Investments	1,214,037	1,554,036	1,818,967	2,115,724	2,450,021
Cash, other balances	325,423	527,884	579,113	668,155	740,289
Interest earning assets	4,738,072	5,842,672	6,740,538	7,818,535	9,077,122
Fixed assets	19,203	22,553	18,430	20,839	23,592
Other assets	141,349	139,343	159,307	178,682	200,232
Total assets	4,898,624	6,003,570	6,918,275	8,018,057	9,300,946
BVPS (Rs)	402.0	466.9	569.2	643.3	725.1
Adj. BVPS (INR)	397.5	462.1	562.2	634.4	714.2
Gross advances	3,244,362	3,800,795	4,389,918	5,092,305	5,957,997
Credit to deposit (%)	88.1	83.8	83.5	83.0	82.7
CASA ratio (%)	52.8	45.5	41.2	38.5	37.1
Cost of deposits (%)	3.5	4.5	5.0	4.8	4.7
Loans-to-Assets (%)	65.3	62.6	62.8	62.8	63.3
Net advances growth (%)	17.9	17.6	15.5	15.9	16.9
Deposit growth (%)	16.5	23.6	15.9	16.6	17.4
Book value growth (%)	15.5	16.2	21.9	13.0	12.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	23.9	19.0	18.6	16.9	15.3
P/B (x)	3.3	2.8	2.3	2.1	1.8
P/ABV (x)	3.3	2.9	2.3	2.1	1.8
P/PPOP (x)	25.0	19.0	17.5	15.1	13.2
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
DuPont-RoE split (%)					
NII/avg assets	4.7	4.8	4.4	4.4	4.2
Other income	1.5	1.9	1.8	1.9	1.9
Fee income	1.6	1.6	1.6	1.6	1.7
Opex	3.0	3.1	2.9	2.9	2.9
PPOP	3.2	3.6	3.3	3.3	3.3
Core PPOP	3.4	3.4	3.1	3.2	3.1
Provisions	0.1	0.3	0.4	0.5	0.6
Tax expense	0.8	0.8	0.7	0.7	0.7
RoA (%)	2.4	2.5	2.2	2.1	2.0
Leverage ratio (x)	5.9	6.1	6.0	6.0	6.2
RoE (%)	14.1	15.3	13.1	12.4	12.2
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	62,966	65,535	69,094	68,424	70,196
NIM (%)	5.2	5.2	5.3	5.0	4.9
PPOP	46,101	45,662	54,616	52,541	50,993
PAT	31,910	30,050	41,333	35,196	33,437
EPS (Rs)	16.06	15.13	20.81	17.72	16.83

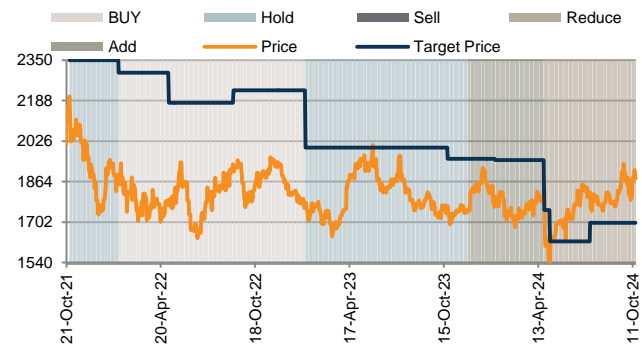
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Jul-24	1,822	1,700	Reduce	Anand Dama
05-May-24	1,545	1,625	Reduce	Anand Dama
24-Apr-24	1,841	1,750	Reduce	Anand Dama
19-Feb-24	1,730	1,950	Add	Anand Dama
21-Jan-24	1,805	1,950	Add	Anand Dama
30-Nov-23	1,754	1,955	Add	Anand Dama
22-Oct-23	1,768	1,955	Hold	Anand Dama
23-Jul-23	1,966	2,000	Hold	Anand Dama
30-Apr-23	1,934	2,000	Hold	Anand Dama
09-Mar-23	1,713	2,000	Hold	Anand Dama
22-Jan-23	1,760	2,000	Hold	Anand Dama
24-Oct-22	1,892	2,230	Buy	Anand Dama
06-Sep-22	1,912	2,230	Buy	Anand Dama
23-Jul-22	1,823	2,180	Buy	Anand Dama
26-May-22	1,904	2,180	Buy	Anand Dama
05-May-22	1,793	2,180	Buy	Anand Dama
29-Jan-22	1,894	2,300	Buy	Anand Dama
27-Oct-21	2,183	2,350	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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