Kotak Mahindra Bank Ltd.

BUY

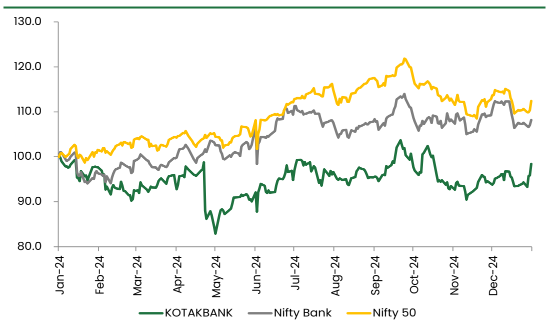
CMP (Rs)	**1,759**
Target Price (Rs)	**2,188**
Potential Upside	**24.4%**
Sensex	76,619
Nifty	23,203

Key Stock data	
BSE Code	KOTAKBANK
NSE Code	KOTAKBANK
Bloomberg	KMB:IN
Shares o/s, Cr (FV 5)	198.8
Market Cap (Rs Cr)	3,49,675
3M Avg Volume	39,63,382
52 week H/L	1,953/1,544

Shareholding Pattern

(%)	Jun-24	Sep-24	Dec-24
Promoter	25.9	25.9	25.9
FII	33.2	33.4	32.5
DII	27.7	27.9	28.8
Public	13.3	12.8	12.8

1 year relative price performance



1 year forward P/Adj. BV (x)

Research Analyst

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Stable Bank with Strong Financials

High Conviction Idea | Sector: Bank | JAN 20, 2025

Kotak Mahindra Bank is a prominent financial services group offering a wide range of services, including banking, retail broking, treasury and corporate banking, insurance, investment banking, and asset management. With 2,068 branches across India, it provides comprehensive financial solutions to individuals, businesses, and institutions, making it a key player in the country's financial sector.

Secured and corporate loans to drive loan growth: The asset portfolio is well diversified, with a shift towards safer, secured segments like corporate lending, as unsecured segments like credit cards and microfinance are facing some stress. With a pick-up in private and government-driven capex, the company sees strong growth potential in this corporate segment. Going forward, we expect corporate and banking segments to grow faster than retail, with a 17.1% CAGR from FY24 to FY27, while retail growth will comparatively slow pace of 13.7%. Overall, net advances are expected to grow at a healthy 15.5% CAGR from FY24 to FY27E.

Deposit growth will be fueled by innovative products and cyclical trends: The deposit crunch caused by cyclical factors seems to be easing, and Kotak's innovative products will help it benefit as the cycle normalizes. As a leader in CASA among peers, Kotak is expected to see strong deposit growth, with its CASA ratio reaching 47.6% by FY27 due to higher growth in current and savings deposits.

Industry leading asset quality: The bank's cautious lending strategy has helped maintain strong asset quality by customizing its approach for retail and wholesale loans. With an overall smaller unsecured loan portfolio and robust underwriting standards, it has kept its GNPA/NNPA ratios lower than peers. Despite potential increases in credit costs expected as they, its disciplined approach and healthy capital adequacy will keep its asset quality strong.

Further possibility for de-rating risk looks limited: Kotak Mahindra Bank's P/B ratio has declined from 4.41 in March 2019 to 2.65, due to challenges like the pandemic, leadership transition, and increased regulatory scrutiny. With a consistent 12-16% ROE, the bank is well-positioned for a valuation rebound unless another major crisis occurs.

Outlook and valuation: Kotak Mahindra Bank stands out for its strong credit growth and asset quality, driven by a risk-conscious approach. The bank's margins remain solid, and non-interest income continues to grow. Its subsidiary will play a key role in the bank's future growth. We are reinitiating coverage on Kotak Mahindra Bank with a **Buy** rating and a target price of **Rs 2,188**, based on our SOTP valuation, and valuing the standalone bank at 2.2x its FY27E adjusted book value.

Financial Summary - standalone

Particulars, Rs Cr	FY24	FY25E	FY26E	FY27E
Interest Earned	45,799	52,471	64,296	76,151
Interest Expended	19,806	24,231	27,365	29,760
Net Interest Income	25,993	28,240	36,932	46,391
Total Income	36,266	40,161	50,406	61,909
Operating Expenses	16,679	19,896	23,337	27,282
Operating Profit before Prov.& Cont.	19,587	20,265	27,069	34,627
Profit After Tax	13,781	15,857	17,213	23,067
Adj. book value per share (Rs)	459.6	527.9	590.9	711.1
RoA (%)	2.3	2.4	2.3	2.7
P/Adj. BV (x)	3.9	3.4	3.0	2.5

Source : RBL Research

Kotak Mahindra Bank is a leading financial institution offering a wide range of services, including banking, broking, asset management, and insurance. Renowned for its strong deposit franchise and healthy CASA ratio, it has consistently improved asset quality through prudent underwriting. With 2,013 branches across India, it ranks 4th by balance sheet size

Leading financial powerhouse with a strong franchise

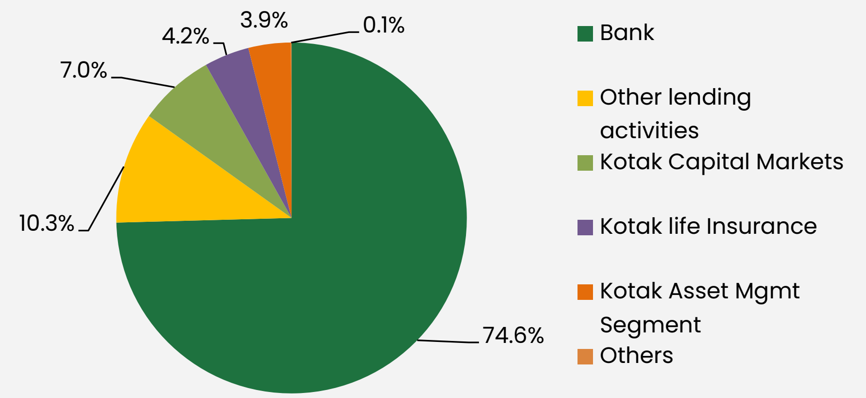
Kotak Mahindra Bank is a leading financial institution offering a wide range of financial services, including banking, broking, asset management, and insurance. Renowned for its innovative products like 811, ActivMoney, and TD Sweep, the bank has consistently delivered value to its customers. It boasts a strong liability franchise, evident in its robust deposit growth and a healthy CASA ratio. With a focus on risk-adjusted returns through strict underwriting practices, the bank has steadily improved its asset quality since inception. Operating on a pan-India scale, Kotak Mahindra Bank has a network of 2,068 branches and ranks 4th in terms of balance sheet size.

The bank has demonstrated consistent growth in its advances, achieving a 14.2% CAGR between FY18 and FY24, primarily driven by home loans and SME lending. Its loan book has expanded at a pace exceeding GDP growth over the past six years. Additionally, Kotak Mahindra Bank's net interest margin remains among the best in the industry, supported by its high share of low-cost liabilities. The bank is well-capitalized, with a Tier-1 ratio of 21.7% and a capital-to-risk-weighted-assets ratio (CRAR) of 22.8% as of December 2024.

The bank's subsidiaries have significantly contributed to its overall profitability, accounting for approximately 29.7% of the group's profit as of Q3FY25. These subsidiaries operate across various sectors, including asset management, broking, insurance, and vehicle finance through Kotak Mahindra Prime. Industry tailwinds have driven growth in Kotak Prime and Kotak Life, benefiting from increased vehicle financing and insurance premiums. Kotak Securities has achieved a 20.2% growth over the past five years, with a 9.3% market share in the cash segment and an overall market share of 11.6%. Kotak AMC, offering a diverse portfolio of equity, debt, ETFs, and index funds, is the 5th largest fund house in terms of QAAUM, holding a market share of 6.49%.

A diversified franchise where banking accounts for 74.6% of the total net worth, while the remaining 25.4% is attributed to other subsidiaries

Well diversified as well as capitalised franchise (Networth Distribution)



Source- Company, RBL Research

Strategic lending in secured and corporate segments to lead growth

Kotak Mahindra Bank has proactively identified rising risks in unsecured lending sectors, such as credit cards and microfinance. Following a warning from the RBI, which imposed restrictions on growth in these areas, the bank adjusted its strategy. By focusing on careful customer selection and reducing reliance on high-risk loans, Kotak has successfully limited unsecured advances to just 11% of its total loan portfolio. This prudent approach minimizes potential defaults and provides the bank with greater flexibility to manage any slippages.

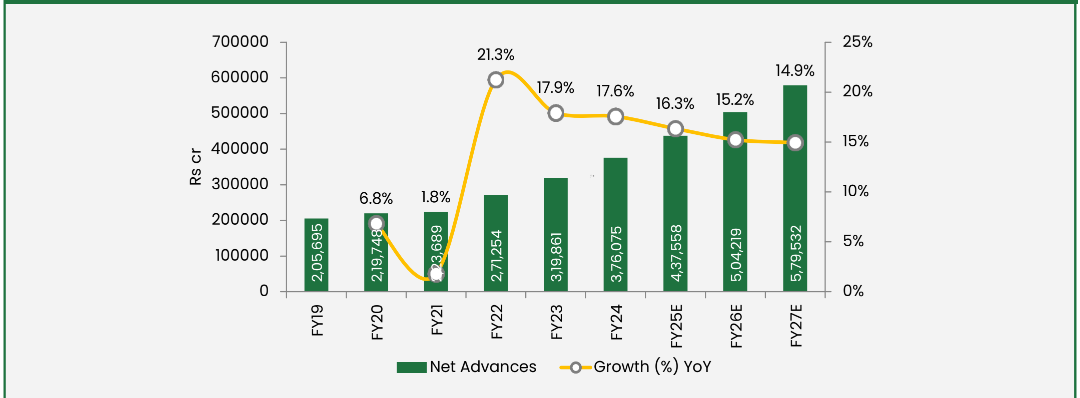
Looking ahead, Kotak is shifting its growth focus from unsecured segments to more stable areas like corporate banking and secured lending. Many large Indian corporations have successfully de-leveraged their balance sheets, reducing debt and improving financial health. This has led to better capacity utilization, creating an environment conducive to expansion and investment. The combination of improved corporate performance and strong profit margins sets the stage for increased private capital expenditure.

Additionally, the Indian government's emphasis on infrastructure development is expected to further stimulate private investment across various sectors. As a result, corporate lending is projected to grow at an impressive CAGR of 18% from FY24 to FY27, significantly higher than the 9.2% growth seen over the past five years. Secured segments like home loans and LAP are also poised for sustained growth due to strong housing demand. With a robust capital base and a strategic focus on these promising

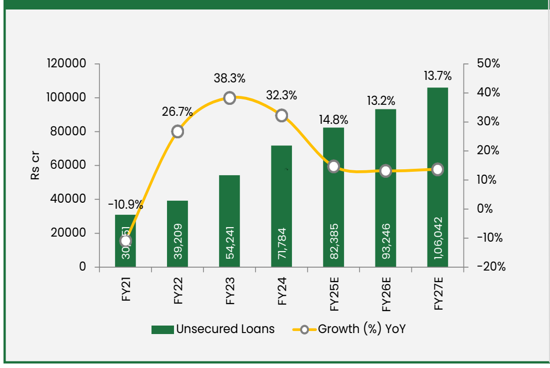
Overall advance to grow at 15% CAGR over FY24-27E, with corporate and banking business is expected to contribute most to this growth

areas, Kotak Mahindra Bank is well-positioned to capitalize on emerging opportunities while effectively managing risks.

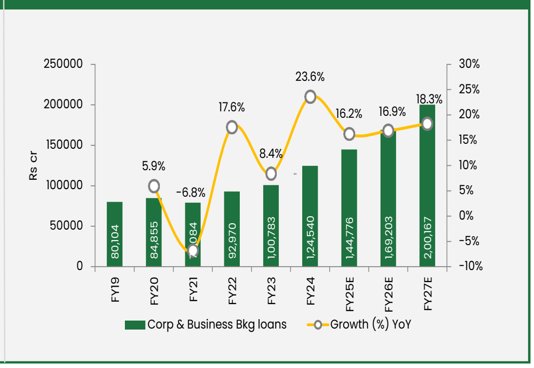
Advance's will continue to grow at healthy pace



Growth of unsecured loans to moderate



Corp and business banking to drive growth in coming years



Source- Company, RBL Research

Innovative product offering and cyclical tailwinds to drive deposit growth

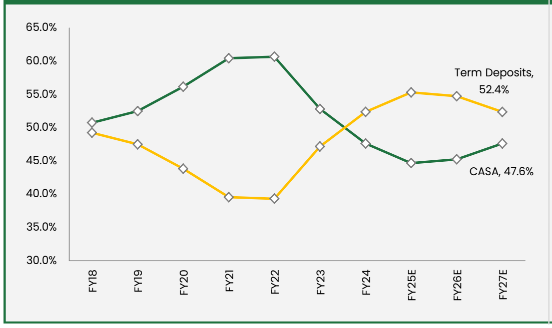
Consumer preferences between term deposits and CASA deposits in the banking sector tend to follow economic cycles. During periods of rising interest rates, often linked to strong economic growth and high credit demand, consumers favor term deposits for higher returns. Conversely, when economic growth slows and banks tighten lending, consumers prioritize safety and liquidity, leading to a preference for CASA deposits. For example, during the peak of COVID-19 in FY21, CASA deposits surged at many banks, including Kotak Bank, as consumers sought stability amid uncertainty.

Recently, rising interest rates have driven a significant increase in term deposits. However, this trend is expected to reverse by FY25 as economic conditions stabilize and concerns over market corrections or inflation drive consumers back to safer, more liquid options like CASA deposits. Additionally, the normalization of RBI's liquidity stance and measures such as a CRR reduction are expected to ease the deposit crunch faced by banks in recent quarters.

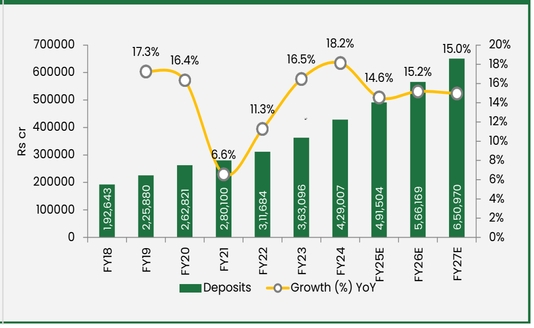
Kotak Bank's innovative deposit products, such as Activ Money, TD Sweep, and the Sankalp Savings Account, have helped it lead in deposit growth and CASA ratio among peers. Considering these factors, we expect Kotak Bank's deposits to grow at a 14.9% CAGR over FY24-27, with its CASA ratio improving from 42.3% (Q3FY25) to 47.6%.

The CASA ratio is expected to have reached its lowest point, and as the cycle normalizes, it is projected to rise to 47.6% by FY27, supporting deposit growth in the process

CASA expected to mean revert overtime



Deposit growth to see improvement



Source- Company, RBL Research

Asset quality to remain resilient

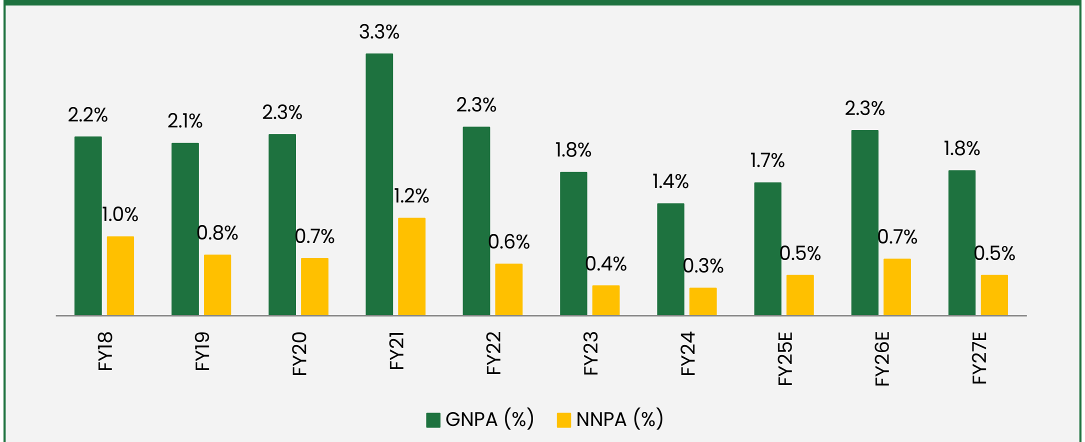
Although there may be short-term pressure on the unsecured portfolio, overall asset quality is expected to remain stable, aligning with long-term averages

The bank's risk-averse lending strategy has helped it maintain superior asset quality. It tailors its approach for retail and wholesale loans, given their different risk profiles. Retail loans, consisting of many small-value accounts, are monitored by borrower groups and products, while wholesale loans are managed individually with detailed evaluations. This disciplined approach enabled the bank to identify stress early in unsecured retail loans, such as credit cards and microfinance, helping it navigate current challenges better than peers.

While credit costs may normalize slightly from historic lows in the coming quarters, the bank's small unsecured loan portfolio and strong capital adequacy offer comfort. Historically, it has maintained lower GNPA/NNPA ratios than peers, standing at 1.5%/0.41% in Q3FY25 compared to 2.6%/0.6% in Q2FY21. Slippages remain low, and limits on industry exposure further reduce credit risk.

Looking ahead, the bank's asset quality is expected to stay strong, with GNPA/NNPA projected at 1.8%/0.6% and a provision coverage ratio of 70% by FY27E.

Asset Quality to remain resilient



Source- Company, RBL Research

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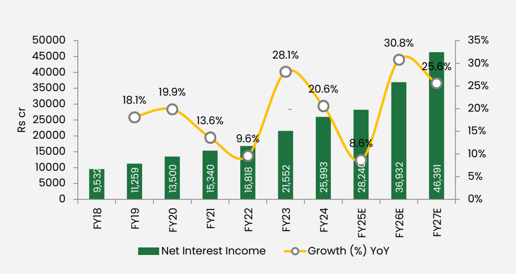
Growing profitability and highest margin amongst peers

The bank continues to deliver strong topline growth, driven by stable margins and a growing asset book. Its net interest income (NII) has grown at a robust 18.2% CAGR from FY18-24. As of Q3FY25, margins moderated to 4.93% due to rising funding costs. Alongside NII, the bank's other income, including fees and banking charges, has also grown steadily at 16.8% CAGR over the same period. The bank's net interest margin (NIM) remains higher than peers, supported by high-margin loans and balanced CD ratio.

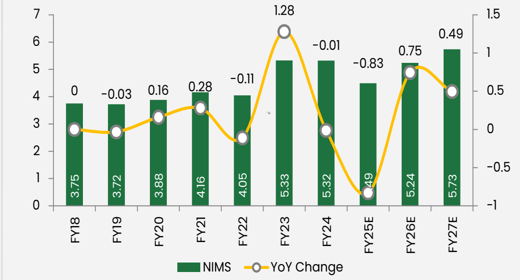
An improvement in operating efficiency, combined with the stabilization of funding costs, is expected to boost margins

Looking ahead, NIMs are expected to stabilize, as the impact of rising funding costs has largely passed. Minor corrections may occur in the coming quarters, but improved operational efficiency will support profitability. While a potential RBI rate cut could temporarily affect margins due to the lag in adjusting deposit and lending rates, but in long term we expect NIMs to remain strong at 5.7% by FY27E.

NII growth to improve with improvement in margins



NIMs to improve as cost of funds stabilize



Source- Company, RBL Research

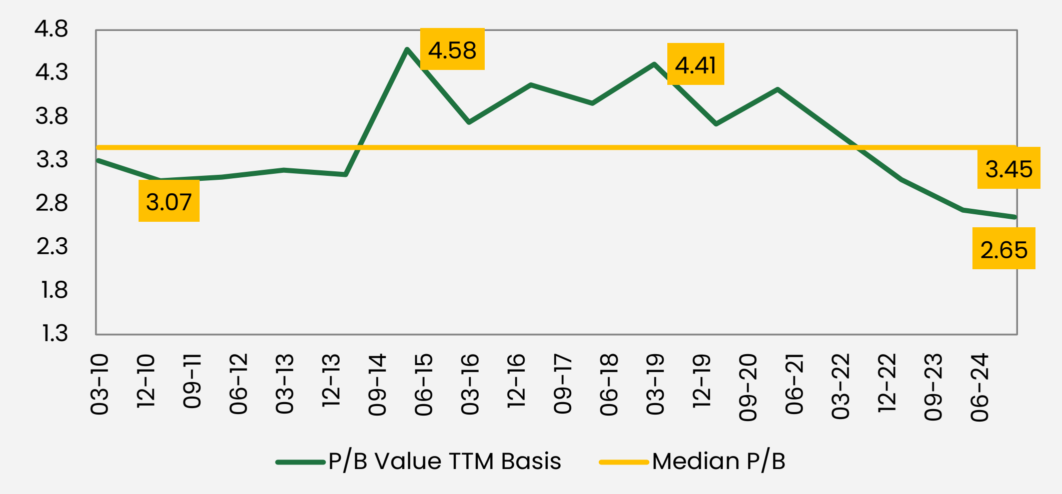
Kotak Mahindra Bank's P/B ratio declined from 4.41x in 2019 to 2.65x, driven by COVID-19 impacts, leadership changes, and regulatory scrutiny. However, with these challenges subsiding and a steady ROE of 12-16%, further de-rating of valuation multiples appears unlikely

Further derating from current levels looks limited

Kotak Mahindra Bank's valuation, measured by its price-to-book (P/B) ratio, has seen a notable decline since COVID-19, dropping from 4.41 times in March 2019 to 2.65 times currently, well below its long-term median levels. This drop reflects challenges such as the pandemic's impact, leadership changes, and increased regulatory scrutiny. The RBI raised risk weights on unsecured loans and temporarily restricted Kotak from onboarding new customers online due to operational inefficiencies. These factors have dampened the bank's valuation despite its strong underlying performance.

Nevertheless, the worst of these issues seems to be behind the bank. Management is actively addressing operational inefficiencies and engaging with regulators to resolve these challenges, making it likely that the embargo will be lifted soon. Kotak's long-standing ability to deliver a consistent 12-16% ROE demonstrates its resilience. Unless another major crisis arises, further de-rating appears unlikely, positioning the bank for a recovery in valuation multiples.

P/B Value TTM Basis trend overtime



Source : Company, RBL Research

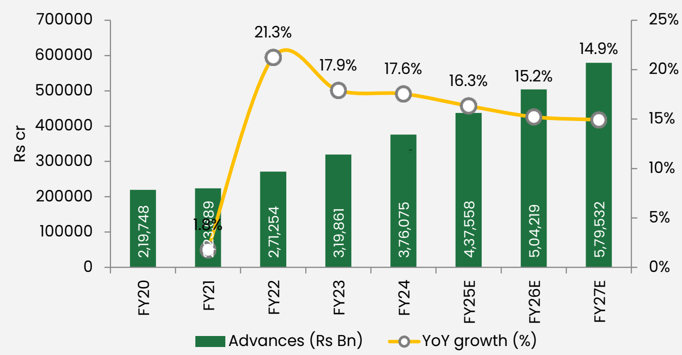
We maintain a positive outlook on Kotak Mahindra Bank, supported by its strong asset quality, innovative deposit mobilization, and stable profitability. With expectation of digital platform restrictions likely to be lifted soon and its subsidiaries driving growth, we re-initiate coverage with a "Buy" rating and a target price of ₹2,188

Outlook and valuation

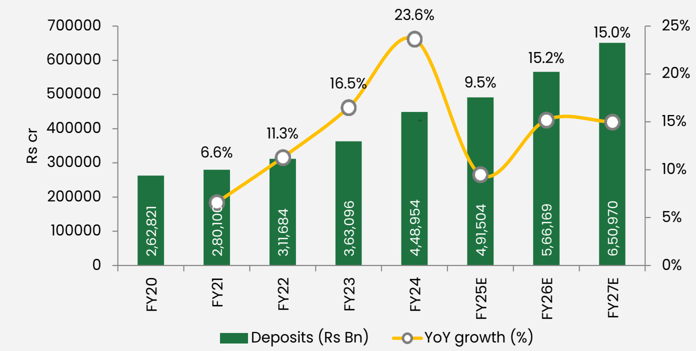
We maintain a positive outlook on the bank, driven by its historical growth and a risk-adjusted return perspective. The bank's asset quality has consistently remained strong since its inception, and it has effectively mobilized deposits through innovative products that foster growth. The stability of its margins and increasing profitability suggest that the bank is poised for sustainable success in the future. Additionally, the bank's subsidiary will play a vital role in the institution's expansion. We anticipate the lifting of restrictions on its digital platform, which is expected to enhance market sentiment, indicating that most of the recent de-rating is behind us. Therefore, we re-initiate coverage of the bank with a "Buy" rating and set a target price of ₹2,188 based on our Sum-of-the-Parts (SOTP) valuation, valuing the standalone bank at 2.2 times its estimated adjusted book value for FY27E.

Story in charts

Advance's will continue to grow at healthy pace

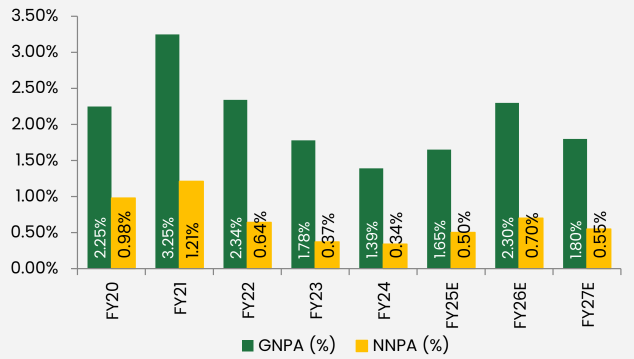


Deposit growth to be driven by CASA

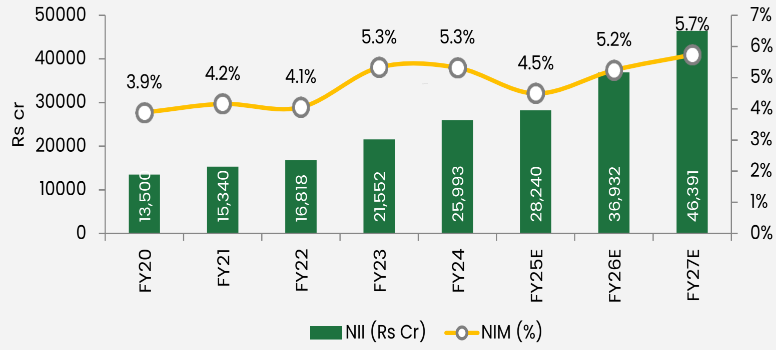


Source : RBL Research

GNPA/NNPA to remain resilient

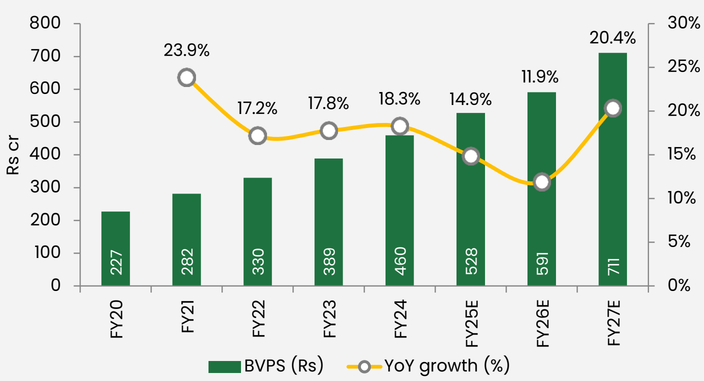


Stabilization in COF to aid margins

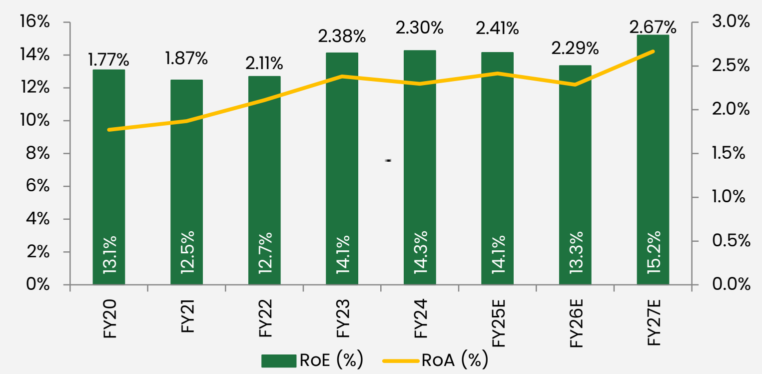


Source : RBL Research

BVPS is expected to grow at 15.6% CAGR over FY24-27E

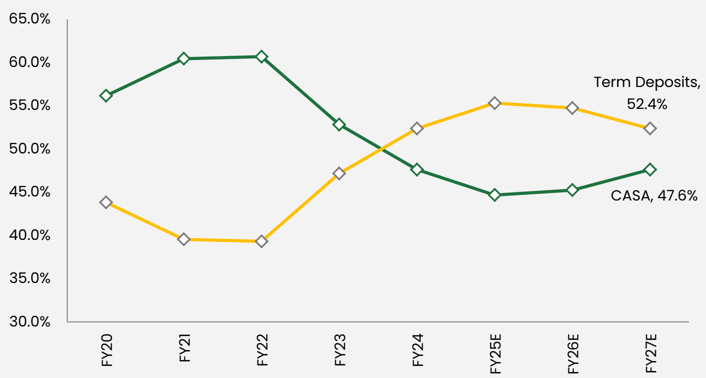


Stable profitability to support ROA & ROE

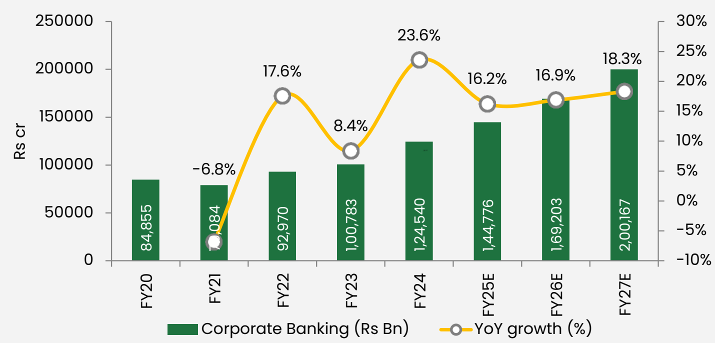


Source : RBL Research

CASA to see steady normalisation



Corporate advances to lead going ahead



Source : RBL Research

Income statement - standalone

Particulars, Rs Cr	FY24	FY25E	FY26E	FY27E
Interest Earned	**45,799**	**52,471**	**64,296**	**76,151**
Interest Expended	19,806	24,231	27,365	29,760
Net Interest Income	**25,993**	**28,240**	**36,932**	**46,391**
Other Income	10,273	11,921	13,475	15,519
Total Income	**36,266**	**40,161**	**50,406**	**61,909**
Operating Expenses	16,679	19,896	23,337	27,282
Operating Profit before Prov.& Cont.	**19,587**	**20,265**	**27,069**	**34,627**
Provisions and Contingencies	1,574	2,837	4,331	4,155
Profit Before Tax	18,014	20,947	22,738	30,472
Tax	4,232	5,090	5,525	7,405
Profit After Tax	**13,781**	**15,857**	**17,213**	**23,067**
EPS (Rs)	69.2	79.8	86.6	116.0

Source : RBL Research

Balance sheet - standalone

Particulars, Rs Cr	FY24	FY25E	FY26E	FY27E
Capital & Reserves and Surplus	**96,639**	**1,12,170**	**1,29,057**	**1,51,798**
Current Account Deposits	75,208	78,968	90,814	1,09,885
Savings Account Deposits	1,29,096	1,40,645	1,65,400	2,00,134
Term Deposits	2,44,650	2,71,891	3,09,955	3,40,951
Deposits	**4,48,954**	**4,91,504**	**5,66,169**	**6,50,970**
Borrowings	28,368	31,550	35,698	40,391
Other Liabilities and Provisions	26,396	21,674	21,791	21,993
Total Liabilities and Shareholders Equity	**6,00,357**	**6,56,898**	**7,52,715**	**8,65,152**
Cash and Cash Equivalents	52,788	23,201	29,636	49,516
Investments	1,55,404	1,78,715	2,00,160	2,16,173
Advances	**3,76,075**	**4,37,558**	**5,04,219**	**5,79,532**
Fixed & Other Assets	16,090	17,424	18,699	19,931
Total assets	**6,00,357**	**6,56,898**	**7,52,714**	**8,65,152**
Book Value per Share (Rs)	**486.1**	**564.3**	**649.2**	**763.6**
Adj. book value per share (Rs)	**459.6**	**527.9**	**590.9**	**711.1**

Source : RBL Research

Kotak Mahindra Bank sum of parts valuations, FY27E

Name	Value (Rs bn)	Value per share (Rs)	Rationale
Kotak Mahindra Bank	**3,113**	**1,566**	**2.2x FY27E Adj.BV**
Kotak Mahindra Prime	348	175	3x FY27E Net worth
Kotak Mahindra Investments	113	57	2.5x FY27E Net worth
Kotak Mahindra AMC	271	136	5% FY27E AUMs
Kotak Securities	229	115	14x FY27E EPS
Kotak Mahindra Life Insurance	532	267	2x FY27E EV
Kotak Mahindra Capital Company	54	27	2x FY27E Networth
Total value of subsidiaries	**1,547**	**778**	
Holding discount (20%)	309	156	
Value post discount	**1,238**	**623**	
Value of Kotak Mahindra Bank	**4,350**	**2,188**	
Current Market Price		1,759	
Upside (%)		**24%**	
Contribution of subs/associated to total PT		**28%**	

Source : RBL Research

Efficiency Ratio (%) - standalone

Particulars, Rs Cr	FY24	FY25E	FY26E	FY27E
Interest expended/Interest earned	43.2	46.2	42.6	39.1
Interest income/Total funds	8.4	8.3	9.1	9.4
Interest expended/Total funds	**3.6**	**3.9**	**3.9**	**3.7**
NII/Interest income	**56.8**	**53.8**	**57.4**	**60.9**
Cost income ratio	46.0	49.5	46.3	44.1
Operating costs to assets	3.1	3.2	3.3	3.4
Fee Income/Total Income	23.3	25.1	23.0	21.7
Employee Cost/Total Expenses	**41.1**	**40.9**	**41.1**	**41.5**

Source : RBL Research

Asset Quality - standalone

Particulars, Rs Cr	FY24	FY25E	FY26E	FY27E
GNPA	5,275	7,220	11,597	10,432
NNPA	1,271	2,188	3,530	3,187
GNPA (%)	**1.4**	**1.7**	**2.3**	**1.8**
NNPA (%)	**0.3**	**0.5**	**0.7**	**0.5**
PCR (%)	75.9	69.7	69.6	69.4
Credit cost (%)	0.4	0.6	0.8	0.7

Source : RBL Research

Key ratios - standalone

Particulars	FY24	FY25E	FY26E	FY27E
Yield on Advances	**10.8**	**10.2**	**10.4**	**10.8**
Yield on Investments	4.7	4.9	5.0	5.4
Cost of Liabilities	**4.4**	**4.9**	**4.9**	**4.6**
Net Interest Margin	**5.3**	**4.5**	**5.2**	**5.7**
Interest Spread	6.4	5.3	5.5	6.2

Source : RBL Research

Asset and Liability ratios (%)

Particulars	FY24	FY25E	FY26E	FY27E
Loans/Deposit Ratio	83.8	89.0	89.1	89.0
CASA ratio	**45.5**	**44.7**	**45.3**	**47.6**
Cost/Assets	2.8	3.0	3.1	3.2
Cost/Total Income	**46.0**	**49.5**	**46.3**	**44.1**
Investment/Deposit ratio	34.6	36.4	35.4	33.2

Source : RBL Research

Return and Valuation

Particulars	FY24	FY25E	FY26E	FY27E
RoA (%)	**2.3**	**2.4**	**2.3**	**2.7**
RoE (%)	**14.3**	**14.1**	**13.3**	**15.2**
P/E (x)	25.4	22.1	20.3	15.2
P/B (x)	3.7	3.2	2.8	2.4
P/Adj. BV (x)	**3.9**	**3.4**	**3.0**	**2.5**

Source : RBL Research

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