

Margins sustained on QoQ basis leading to healthy growth

Q3FY24 Result Update | Sector: Bank | January 23, 2024

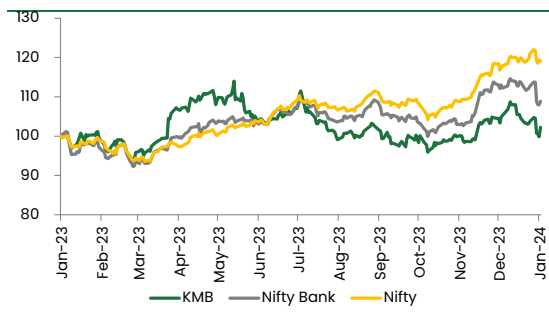
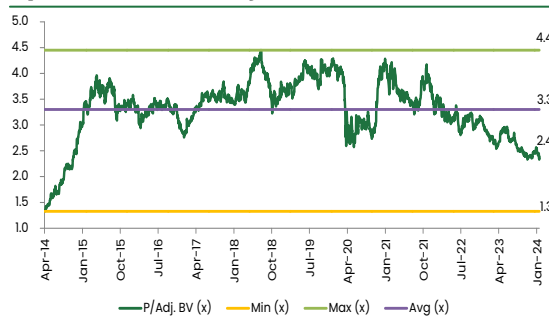
BUY

CMP (Rs)	1,807
Target Price (Rs)	2,126
Potential Upside	17.6%
Sensex	71,424
Nifty	21,572

Key Stock data	
BSE Code	KOTAKBANK
NSE Code	KOTAKBANK
Bloomberg	KMB:IN
Shares o/s, Cr (FV 5)	198.8
Market Cap (Rs Cr)	359,129
3M Avg Volume	3,876,250
52 week H/L	2,064/1,644

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	25.9	25.9	25.9
FII	41.5	41.0	39.7
DII	19.6	20.0	21.4
Public	12.9	13.1	13.0

1 year relative price performance

1 year forward P/Adj. BV (x)

Research Analyst
Akshay Tiwari

akshay.tiwari@religare.com

Top-line growth momentum continues: Kotak Mahindra Bank net interest income increased by 4.1% QoQ/15.9% YoY as the bank managed to sustain its net interest margin on a sequential basis at 5.2%. Interest earned increased by 5.4% QoQ/31.1% YoY while fees income also grew at a healthy rate of 5.8% QoQ/16.1% YoY. Interest expended grew by 7.1% QoQ/56.8% YoY as cost of deposits continued to increase during the quarter. Operating expenses remained elevated driven by increase in employee cost of 7% QoQ/18.3% YoY along with increase in provisions by 58% QoQ/289.1% YoY leading to decline in profit before tax on sequential basis by 6% QoQ.

Retail and corporate leading advances growth: Advances growth excluding IBPC remained strong at 4.3% QoQ/18.9% YoY. The growth in advances was mainly led by corporate banking (2.9% QoQ/16.4% YoY) and retail segment growth. The unsecured lending for the bank saw a sharp increase especially segment such as personal loans (8.1% QoQ/32.8% YoY) and credit card (10.2% QoQ/51.6% YoY). Commercial vehicles segment leading also saw an increase of 8.7% QoQ/30.7% YoY owing to healthy growth in commercial vehicles finance. Overall, unsecured segment increased by 9% QoQ/40% YoY. The management remains confident of its unsecured lending portfolio and credit quality remained intact.

Margins sustained on QoQ basis: Net interest margin during the quarter was 5.2% which declined by 25bps YoY, however, the bank managed to maintain its margin on QoQ basis mainly due to increase in unsecured loans with high yield assets. Going forward, the bank expects that the margin will remain at similar levels.

Term deposit led deposits growth: Deposits for the month of December increased by 1.9% QoQ/18.6% YoY mainly due to term deposits. TD Sweep products continues to see traction with a growth of 12.5% QoQ/74.9% YoY being the main driver of term deposit and over deposits. Owing to increase in term deposits in the overall mix, the CASA ratio declined by 52bps QoQ/553bps YoY.

Asset quality remains intact: Credit cost during the quarter was 40bps as against 47bps in Q2FY24. Also, GNPA/NNPA declined by 17bps/9bps YoY indicating that the asset quality remained intact. Slippages declined by 10.3% QoQ. The bank remains prudent in credit disbursements in unsecured products. During the quarter provisions and contingencies increased by 58%/289.1% YoY due to one-time provisions on RBI's regulation on provisions relating to AIFs.

Valuation and outlook: We remain positive on Kotak Mahindra Bank as the bank has seen healthy credit growth, while deposits growth also remain strong led by term deposits. The bank has managed to sustain its margins on QoQ basis and expects margins to improve going forward. The bank is able to drive customers into the bank as total customer count increased by 4.8% QoQ/23.1% YoY to 48 Mn. We expect NII/PPOP/PAT to grow at a CAGR of 21.6%/22.7%/20.1% over FY23-26E. We maintain **Buy** rating on Kotak Mahindra Bank while increasing our target price to **Rs 2,126** valuing the bank at 2.5x of its FY26E Adj. BV.

Financial Summary - standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest Earned	34,251	43,029	52,928	64,867
Interest Expended	12,699	16,016	20,684	26,148
Net Interest Income	21,552	27,013	32,244	38,720
Total Income	28,635	35,950	43,509	52,705
Operating Expenses	13,787	16,804	20,528	25,262
Operating Profit before Prov.& Cont.	14,848	19,146	22,981	27,443
Profit After Tax	10,939	13,218	15,831	18,968
Adj. book value per share (Rs)	388.6	455.3	530.5	619.9
RoA (%)	2.4	2.4	2.5	2.6
P/Adj. BV (x)	4.7	4.0	3.4	2.9

Source : RBL Research

Con-call highlights: 1) The bank sees intense pricing pressure in the corporate segment. The advance growth remains healthy in conglomerate and multinational corporates. 2) The bank is seeing demand for commercial vehicles financing and construction equipment. Tractor finance is seeing healthy industry growth along with healthy disbursement and collection efficiency. However, it sees some stress in low rain geographies. 3) Agri SME segment remained subdued due to low utilization, however, it is expected to pickup in the coming quarters. 4) Business banking segment saw a growth of 20% YoY, however, on QoQ basis it remained muted. It is expected to grow due to the formalization in the micro enterprises. 5) The bank is seeing signs of improvement in savings deposits. 6) The bank expects its credit to grow at 1.75 times the GDP. 7) With regards to RBI's guidance on NBFCs and unsecured lending, the bank has increased price and made adjustments in the NBFC portfolio. 8) Overall, the cost of deposit stands at ~6.5%-6.7%. 9) In unsecured lending, 85-90% of the cards are sourced to existing customers.

Financial Summary - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Net interest income	6,554	5,653	15.9	6,297	4.1
Net interest margin (%)	5.2	5.5	-25bps	5.2	0bps
Other income	2,297	2,100	9.4	2,315	(0.8)
Total income	14,096	11,099	27.0	13,507	4.4
Operating expenses	4,284	3,903	9.8	4,001	7.1
Pre-operating profit before provisions	4,566	3,850	18.6	4,610	(1.0)
Provisions and contingencies	579	149	289.1	367	58.0
Profit before tax	3,987	3,701	7.7	4,244	(6.0)
Tax	982	909	8.0	1,053	(6.7)
Profit after tax	3,005	2,792	7.6	3,191	(5.8)
Gross advances	400,759	341,733	17.3	380,412	5.3
Deposits	408,636	344,666	18.6	400,963	1.9
Book value per share (Rs)	627.0	540.0	16.1	605.0	3.6

Source : RBL Research

Net interest growth remained healthy as NIM was sustained at 5.2%

Provisions increased by 289.1% YoY due to one time provisioning in AIFs

Advances growth remained strong at 17.3% YoY

Business segments - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Revenue from operations					
Corporate/wholesale banking	5,763	4,707	22.4	5,625	2.5
Retail banking	7,258	5,307	36.8	6,668	8.8
Treasury and BMU	2,309	1,801	28.2	2,449	(5.7)
Inter segment revenue	1,234	717	72.1	1,235	(0.1)
Profit before tax					
Corporate/wholesale banking	1,831	1,815	0.9	1,862	(1.7)
Retail banking	1,443	902	60.0	1,354	6.6
Treasury and BMU	713	985	(27.6)	1,028	(30.6)

Source : RBL Research

Revenue from retail banking remained healthy at 36.8% YoY growth

Profit from retail banking increased by 60% YoY

Retail/corporate advances growth remained healthy at 20%/16.4% YoY

Term deposit driving total deposits growth at 32.6% YoY

Asset quality improved as GNPA (%)/NNPA (%) declined by 17bps/9bps YoY

Cost to income ratio declined on YoY basis by 194bps, however, increased by 194bps QoQ

Business parameters - standalone

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Retail advances	254,145	212,019	19.9	243,094	4.5
SMEs	25,816	23,154	11.5	24,569	5.1
Corporate	84,246	72,407	16.4	81,844	2.9
Others	36,552	34,153	7.0	30,905	18.3
Gross advances	400,759	341,733	17.3	380,412	5.3
Current account deposits	68,788	63,601	8.2	68,824	(0.1)
Savings account deposits	126,261	119,978	5.2	124,655	1.3
CASA deposits	195,049	183,579	6.2	193,479	0.8
Term deposits	213,587	161,087	32.6	207,484	2.9
Total Deposits	408,636	344,666	18.6	400,963	1.9
CASA	47.7	53.3	-553bps	48.3	-52bps
No of ATMs	3,239	2,814	15.1	3,170	2.2
Customers (in Mn)	48	39	23.1	46	4.8
No of Branches	1,869	1,752	6.7	1,850	1.0

Source : RBL Research

Asset quality

Particulars, Rs cr	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
GNPA	6,302	5,995	5.1	6,087	3.5
NNPA	1,225	1,345	(8.9)	1,275	(3.9)
GNPA (%)	1.7	1.9	-17bps	1.7	1bps
NNPA (%)	0.3	0.4	-9bps	0.4	-3bps
Provision coverage ratio (%)	80.6	77.6	300bps	79.1	154bps

Source : RBL Research

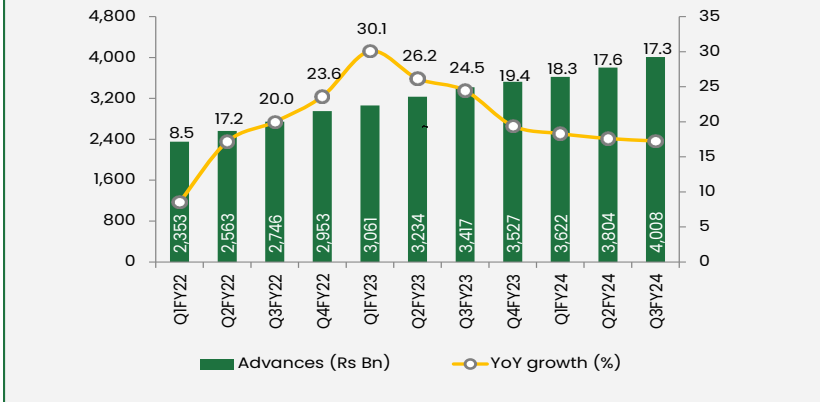
Ratios (%)

Particulars	Q3FY24	Q3FY23	YoY (bps)	Q2FY24	QoQ (bps)
Cost income ratio	48.4	50.3	(194.0)	46.5	194.0
Operating costs to assets	3.4	3.5	(15.0)	3.4	(3.0)
CAR	22.2	23.2	(100.0)	22.9	(70.0)
CET	21.2	22.3	(110.0)	21.9	(70.0)
RoA	2.5	2.8	(30.0)	2.7	(22.0)
RoE	13.8	15.0	(121.0)	15.0	(116.0)
NIM	5.2	5.5	(25.0)	5.2	-
Cost of SA	4.1	3.8	35.0	4.1	9.0

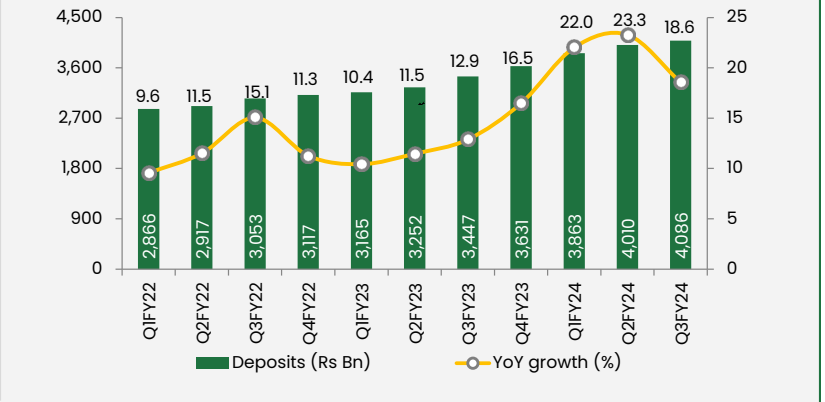
Source : RBL Research

Story in charts

Credit growth remained strong at 17.3% YoY

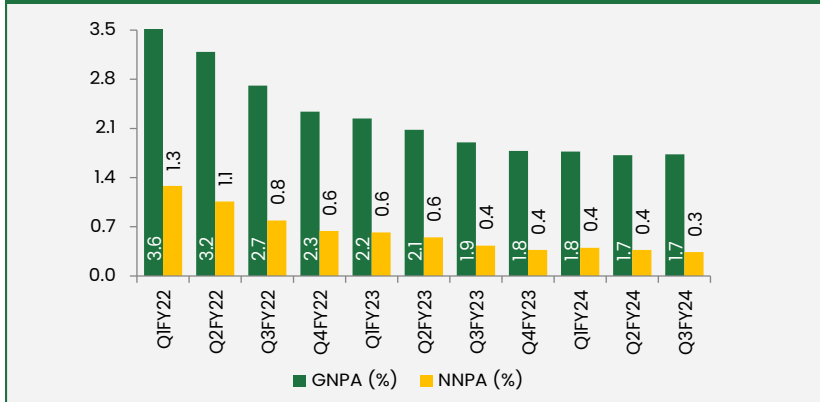


Deposits growth declined marginally by 18.6% YoY

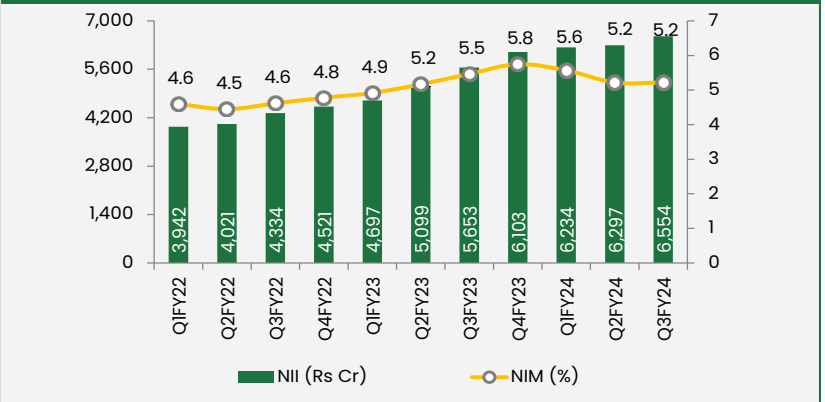


Source : RBL Research

Asset quality improved as GNPA/NNPA stood at 1.7%/0.3%

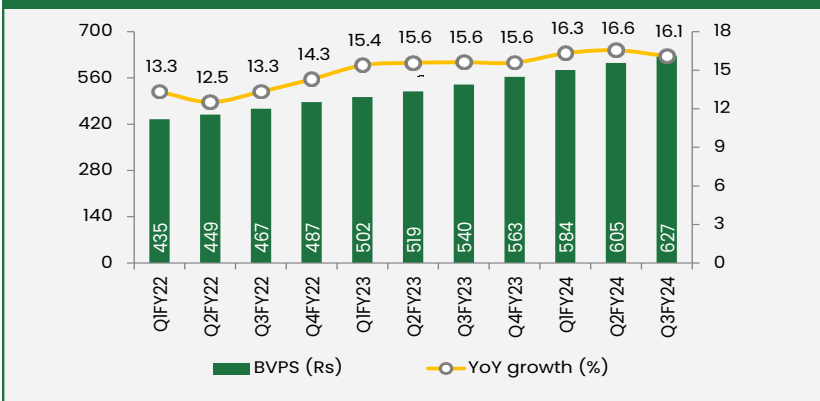


NII growth remained steady as NIM was sustained at 5.2%

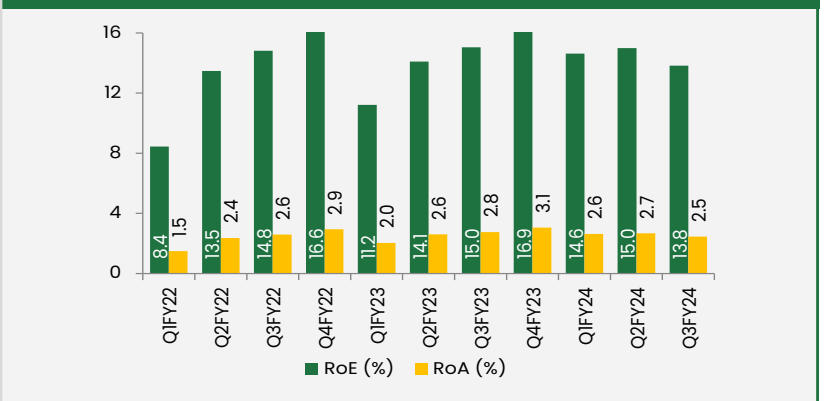


Source : RBL Research

BVPS growth remained strong at 16.1% YoY

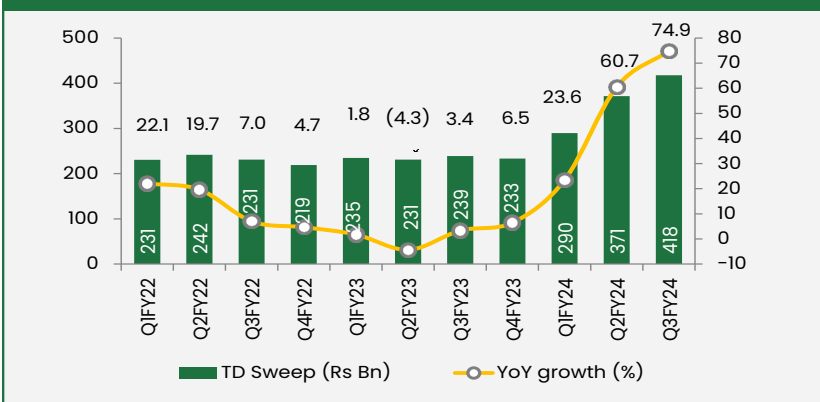


RoA (%) / RoE (%) declined marginally at 2.5% / 13.8%

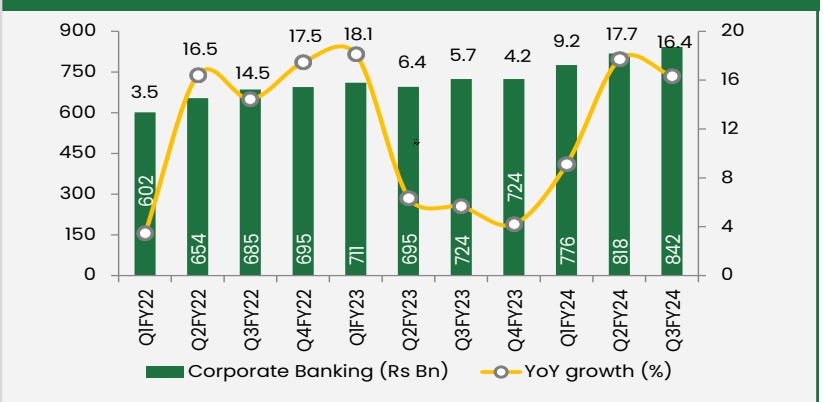


Source : RBL Research

TD Sweep continues to drive deposits growth



Corporate credit growth stood at 16.4% YoY



Source : RBL Research

Income statement – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Interest Earned	34,251	43,029	52,928	64,867
Interest Expended	12,699	16,016	20,684	26,148
Net Interest Income	21,552	27,013	32,244	38,720
Other Income	7,083	8,937	11,264	13,986
Total Income	28,635	35,950	43,509	52,705
Operating Expenses	13,787	16,804	20,528	25,262
Operating Profit before Prov.& Cont.	14,848	19,146	22,981	27,443
Provisions and Contingencies	457	1,685	2,067	2,387
Profit Before Tax	14,391	17,461	20,913	25,057
Tax	3,452	4,243	5,082	6,089
Profit After Tax	10,939	13,218	15,831	18,968
EPS (Rs)	54.9	66.5	79.7	95.4

Source : RBL Research

Efficiency Ratio (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Interest expended/ Interest earned	37.1	37.2	39.1	40.3
Interest income/Total funds	7.0	8.2	8.8	9.4
Interest expended/ Total funds	2.6	3.0	3.4	3.8
NII/Interest income	62.9	62.8	60.9	59.7
Cost income ratio	48.2	46.7	47.2	47.9
Operating costs to assets	2.8	3.2	3.4	3.6
Fee Income/Total Income	23.7	24.2	25.3	26.1
Employee Cost/Total Expenses	40.0	40.4	40.7	41.1

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Capital & Reserves and Surplus	83,460	96,372	111,877	130,519
Current Account Deposits	70,030	75,804	82,805	90,452
Savings Account Deposits	121,785	129,120	137,749	148,390
Term Deposits	171,281	213,380	262,194	322,176
Deposits	363,096	418,304	482,748	561,018
Borrowings	23,416	25,021	27,327	30,373
Other Liabilities and Provisions	19,890	21,657	21,674	21,791
Total Liabilities and Shareholders Equity	489,862	561,354	643,627	743,702
Cash and Cash Equivalents	32,542	21,849	17,477	15,675
Investments	121,404	141,649	163,668	189,111
Advances	319,861	380,014	442,365	516,616
Fixed & Other Assets	16,055	17,842	20,117	22,299
Total assets	489,862	561,354	643,627	743,702
Book Value per Share (Rs)	417.6	485.0	563.0	656.8
Adj. book value per share (Rs)	388.6	455.3	530.5	619.9

Source : RBL Research

Asset and Liability ratios (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Loans/Deposit Ratio	88.1	90.8	91.6	92.1
CASA ratio	52.8	49.0	45.7	42.6
Cost/Assets	2.8	3.0	3.2	3.4
Cost/Total Income	48.1	46.7	47.2	47.9
Investment/Deposit ratio	33.4	33.9	33.9	33.7

Source : RBL Research

Return and Valuation – standalone

Particulars	FY23	FY24E	FY25E	FY26E
RoA (%)	2.4	2.4	2.5	2.6
RoE (%)	14.1	13.7	14.2	14.5
P/E (x)	33.0	27.2	22.8	19.0
P/B (x)	4.3	3.7	3.2	2.8
P/Adj. BV (x)	4.7	4.0	3.4	2.9

Source : RBL Research

Asset Quality – standalone

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
GNPA	5,768	5,890	6,459	7,336
NNPA	1,193	1,178	1,283	1,343
GNPA (%)	1.8	1.6	1.5	1.4
NNPA (%)	0.4	0.3	0.3	0.3
PCR (%)	79.3	80.0	80.1	81.7
Credit cost (%)	0.2	0.4	0.5	0.5
Slippage Ratio (%)	1.2	1.1	1.0	1.0

Source : RBL Research

Ratios (%) – standalone

Particulars	FY23	FY24E	FY25E	FY26E
Yield on Advances	10.7	10.8	10.8	10.8
Yield on Investments	4.7	4.6	4.8	4.9
Cost of Liabilities	3.3	3.8	4.3	4.7
Net Interest Margin	4.6	5.1	5.4	5.6
Interest Spread	7.4	7.0	6.5	6.1

Source : RBL Research

Kotak Mahindra Bank sum of parts valuations, FY26E

Company	Stake (%)	Value per share (Rs)	Valuation Basis
Kotak Mahindra Bank	2,893	1,574	2.5x FY26E Adj.BV
Kotak Mahindra Prime	317	159	3x FY26E Net worth
Kotak Mahindra Investments	107	54	3x FY26E Net worth
Kotak Mahindra AMC	234	118	5% FY26E AUMs
Kotak Securities	210	106	18x FY26E EPS
Kotak Mahindra Life Insurance	450	226	2.5x FY26E EV
Kotak Mahindra Capital Company	53	26	3.0x FY26E Networkth
Total value of subsidiaries	1,371	690	
Holding discount (20%)	274	138	
Value post discount	1,097	552	
Value of Kotak Mahindra Bank	3,989	2,126	
Current Market Price		1,807	
Upside (%)		17%	
Contribution of subs/associated to total PT		26%	

Source : RBL Research

Research Team

Name	Email ID
Siddarth Bhamre	siddarth.bhamre@religare.com
Ajit Mishra	ajit.mishra@religare.com
Manoj Vayalar	manoj.vayalar@religare.com
Nirvi Ashar	nirvi.ashar@religare.com
Gaurav Arora	gaurav.arora3@religare.com
Akshay Tiwari	akshay.tiwari@religare.com
Abhijeet Banerjee	abhijeet.banerjee@religare.com
Gaurav Sharma	gauravsharma2@religare.com
Rohan Shah	rohan.shah@religare.com
Riddhika Mirajkar	riddhika.mirajkar@religare.com
Ashwani Harit	ashwani.harit@religare.com
James Kunnel	james.kunnel@religare.com

Before you use this research report, please ensure to go through the disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 and Research Disclaimer at the following link: <https://www.religareonline.com/disclaimer>

Specific analyst(s) specific disclosure(s) inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 is/are as under:

Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

Copyright in this document vests exclusively with RBL. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from RBL. We do not guarantee the integrity of any emails or attached files and are not responsible for any changes made to them by any other person.

Research Disclaimer: <https://www.religareonline.com/disclaimer>