

Valuation reflecting conservatism of management...

Kotak Mahindra Bank (KMB) reported a mixed set of numbers with moderation in advance growth and a steady operational performance. In the wake of Covid-19, the bank has provided for ₹ 650 crore, which took a toll on earnings. The overall performance of subsidiaries remained muted.

The bank has said that ~26% of borrowers (by value) have opted for moratorium up to April 30, 2020. In lieu of the Covid-19 emergency, the bank has provided ₹ 650 crore. Total provisioning for the quarter was at ₹ 1047 crore in Q4FY20 (~48 bps of advances) vs. ₹ 171 crore in Q4FY19. Surge in provisioning dented PAT by 10% YoY to ₹ 1266.6 crore.

On the asset quality front, slippages for the quarter slumped sequentially to ₹ 491 crore. GNPA may fall to ₹ 5027 crore on the back of healthy recoveries, write-offs. Accordingly, GNPA ratio fell ~21 bps QoQ to 2.25%. However, the bank has notified that if the benefit of moratorium was not factored in, then GNPA would have been higher by ₹ 660 crore to ₹ 5687 crore.

Credit witnessed muted growth at 6.8% YoY, 1.4% QoQ to ₹ 219748 crore, led by muted growth in agriculture & CV segment. Deposit growth was steady at 16.4% YoY to ₹ 262821 crore. Unlike other peers, CASA accretion remained healthy with 31.3% YoY growth in saving balance and 10.6% YoY growth in current balance, leading to ~367 bps YoY (+250 bps QoQ) increase in CASA ratio to 56.2%.

Net interest income (NII) came in at ₹ 3560 crore, up 16.8% YoY, on the back of improvement of 38 bps YoY in margins at 4.84% (+12 bps QoQ) and reduction in CoF by 77 bps YoY to 4.58%. On the back of steady operational performance, operating profit was up 19.4% YoY to ₹ 2725 crore.

Consolidated PAT was at ₹ 1905 crore, down 6.5% YoY, with non-banking business contributing ~33% to consolidated PAT. Kotak Life profitability was at ₹ 165 crore, up 19.5% YoY. Kotak AMC profitability was at ₹ 88 crore, up ~17.3% YoY, Kotak Prime PAT de-grew 1.8% YoY to ₹ 161 crore.

Post Covid resilience expected to be better than peers

Healthy asset allocation, gaining momentum in market share provide relief in tough times. KMB maintains cautious stance in lending to companies with high cost and high leverage. Risk of exposure towards MSME is curtailed by government efforts. KMB would consider further SME/MSME lending given government's 100% credit guarantee support. Also, tight cost control measures by it including salary cuts by top management would also fuel stability. Expect uptick in credit growth at 8.3% YoY to ₹ 237938 crore.

Valuation & Outlook

KMB has been one of the most consistent performers over the years, which was driven by best in class return ratios & margin profile. Given the government support, MSME advances would occupy significant space for incremental lending in the near term. Its long term focus continues on maintaining risk adjusted returns but given economic headwinds, we lower our growth estimate. We estimate RoA, RoE at 1.6%, 11.7%, respectively, for FY22E. Management strength and sustainability enable **BUY** rating with target price of ₹ 1600, valuing the bank at 3.8x FY22E.

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	9532	11302	13500	13153	14223	8%
PPP	7158	8391	10021	9880	10779	9%
PAT	4084	4893	5947	6008	6908	12%
ABV	188	214	250	307	340	
P/E	54.4	45.4	37.5	38.4	33.4	
P/ABV	6.1	5.4	4.6	3.8	3.4	
Consol P/E	35.7	28.8	23.6	19.5	19.5	
Consol P/BV	4.4	3.9	3.4	2.9	2.9	
RoA	1.7	1.7	1.8	1.5	1.5	
RoE	12.5	12.2	12.9	10.7	10.4	



Particulars

Particulars	Amount
Market Capitalisation	₹228685 crore
GNPA (Q4FY 20)	₹5027 crore
NNPA (Q4FY 20)	₹1558 crore
NIM (Q4FY 20)	4.7%
52 week H/L	1740/1000
Net worth	₹48006 crore
Face value	₹5
DII holding (%)	12.6
FII holding (%)	39.2

Key Highlights

- The bank has provided ₹ 650 crore as additional provisions for Covid-19. Outstanding provisions at ₹ 1047 crore.
- KMB to consider MSME lending given the 100% credit guarantee provided by the government
- Maintain **BUY** with a revised target price of ₹ 1600

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	3,559.7	3,411.5	3,047.9	16.8	3,429.5	3.8	Surge of 38 bps YoY in margins at 4.84% led to strong NII growth
NIM (%)	4.72	4.40	4.48	24 bps	4.69	3 bps	Margin improvement on account of improvement in CASA to 56.2%
Other Income	1,489.4	1,473.5	1,270.3	17.2	1,314.1	13.3	
Net Total Income	5,049.0	4,885.1	4,318.2	16.9	4,743.7	6.4	
Staff cost	969.6	1,018.8	856.7	13.2	1,091.5	-11.2	
Other Operating Expens:	1,354.2	1,296.7	1,179.2	14.8	1,291.4	4.9	
PPP	2,725.3	2,569.6	2,282.3	19.4	2,360.8	15.4	Steady operational performance aided PPP growth
Provision	1,047.5	549.4	171.3	NA	444.0	135.9	In lieu of Covid-19 emergency, the bank has provided ₹ 650 crore (~29 bps of advances)
PBT	1,677.8	2,020.2	2,111.0	-20.5	1,916.8	-12.5	
Tax Outgo	411.2	444.4	703.2	-41.5	348.2	18.1	
PAT	1,266.6	1,575.7	1,407.8	-10.0	1,568.6	-19.3	Higher provisioning dented earnings
Key Metrics							
GNPA	5,026.9	5,683.7	4,467.9	12.5	5,413.0	-7.1	Slippage came in at ₹491 crore. Excluding RBI moratorium, GNPA would be higher by ₹660 crore.
NNPA	1,557.9	2,002.0	1,544.4	0.9	1,925.0	-19.1	NNPA decreased 18 bps QoQ to 0.71%
Advances	2,19,748	2,19,748	2,05,695	6.8	2,16,774	1.4	Credit growth was muted at 6.7% YoY led by muted growth in Agriculture & CV segment
Deposits	2,62,821	2,62,821	2,25,880	16.4	2,39,354	9.8	CASA ratio improved 367 bps YoY to 56.2%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	12,972	13,153	1.4	14,388.8	14,222.8	-1.2
Pre Provision Profit	9,023.3	9,880.5	9.5	9,861.4	10,779.1	9.3
NIM (%)	3.9	4.0	17 bps	3.8	3.9	10 bps
PAT	5,536.1	6,007.5	8.5	5,977.1	6,908.1	15.6
ABV (₹)	270.0	306.7	13.6	299.3	339.7	13.5

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	21.2	6.8	8.3	15.5	10.5	15.5
Deposit growth (%)	16.4	17.2	12.7	17.4	15.2	17.4
NIM calculated (%)	4.1	4.4	4.0	3.9	3.9	3.8
Cost to income ratio (%)	47.2	46.9	49.1	50.2	53.1	54.8
GNPA (₹crore)	1,237.2	1,454.0	1,706.3	2,032.6	1,706.3	2,032.6
NNPA (₹crore)	609.1	659.4	508.5	423.8	508.5	423.8
Slippage ratio (%)	1.1	1.2	1.3	1.4	1.3	1.4
Credit cost (%)	0.47	1.01	0.76	0.5	0.6	0.7

Source: Company, ICICI Direct Research

Valuation & Outlook

KMB has been one of the most consistent performer over the years which was driven by best in class return ratios & margin profile. Given the government support, MSME advances to occupy significant space for incremental lending in the near term. Bank's long term focus continue on maintaining risk adjusted returns, however, given economic headwinds, we lower our growth estimate. Going ahead, focus on pedalling balance sheet growth, maintaining risk adjusted returns will benefit return ratios. Capital raising through ~6.5 crore, announced earlier and approved by board, will remain book accretive to the tune of ~10%, while will keep return ratios a tad lower in near term. We estimate RoA & RoE to be 1.6% and 11.7% for FY22E. We assign BUY rating with a revised target price of ₹ 1600 based on SOTP valuation.

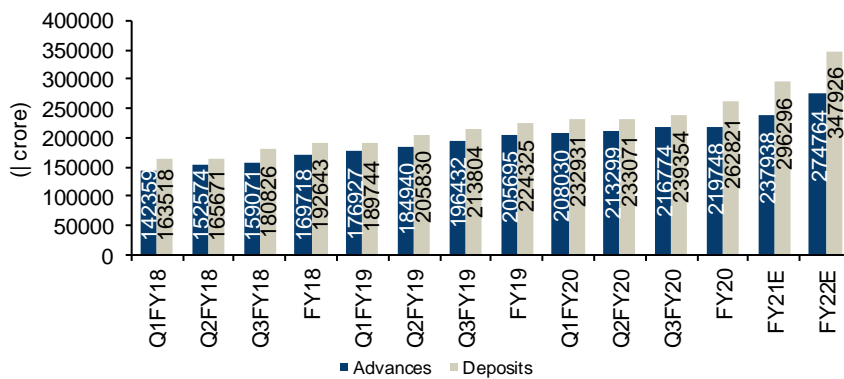
Exhibit 3: Valuation (₹) - Merged Entity

Company	Value / share
KMB (Merged entity)	1286
Kotak Life (assumed 100% stake)	85
Kotak Mahindra Prime	75
Kotak Mahindra Capital	20
Kotak Securities	60
Kotak AMC	75
	1600

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Business growth to gradually pickup in near term



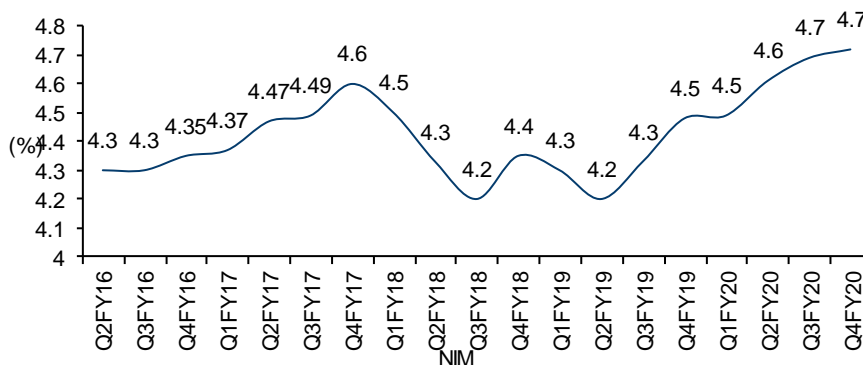
Source: Company, ICICI Direct Research

Exhibit 5: Loan book movement

₹ crore	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	vth yoy (%)	portion (%)	vth qoq (%)
CVs and construction eqmt.	16024	17048	17999	19706	19910	19688	18993	19253	-2	8.8	1.4
Personal Loans incl small busi	26210	29039	31085	33164	33719	34852	35636	34294	3	15.6	-3.8
Home loans	34005	36064	38305	40722	42243	44371	46031	46881	15	21.3	1.8
Corporate banking	75799	76647	80984	80104	81418	82374	83423	84855	6	38.6	1.7
Agricultural finance	21249	22425	23742	26991	25986	27068	27736	28757	7	13.1	3.7
Others	3640	3717	4317	5008	4754	4946	4955	5708	14	2.6	15.2
Total	176927	184940	196432	205695	208030	213299	216774	219748	7	100.0	1.4

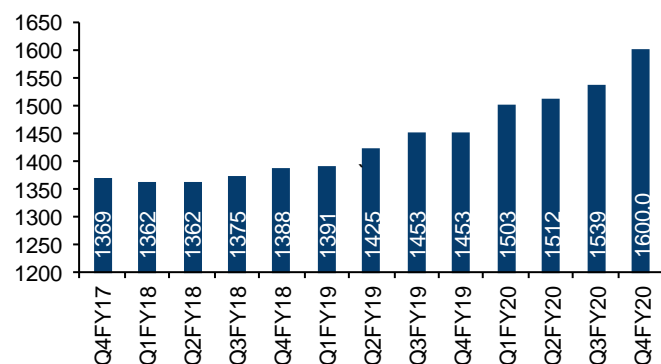
Source: Company, ICICI Direct Research

Exhibit 6: Margins trajectory remain strong in Q4FY20



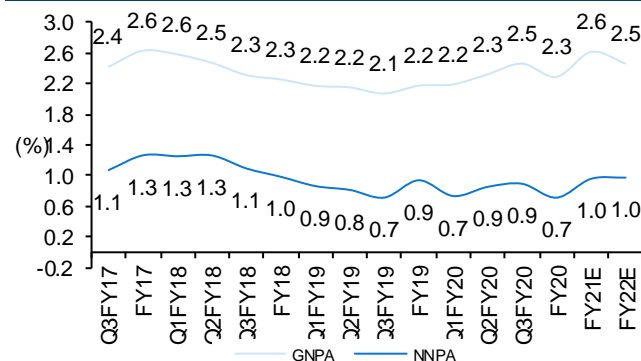
Source: Company, ICICI Direct Research

Exhibit 7: Branch addition continued in Q4FY20



Source: Company, ICICI Direct Research

Exhibit 8: Best in class asset quality to be maintained



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated performance over quarters

	11FY18	12FY18	13FY18	14FY18	11FY19	12FY19	13FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Kotak Bank	913	994	1053	1124	1025	1142	1291	1408	1360	1724	1569	1267
Kotak Securities	125	118	154	134	130	112	99	111	110	149	128	128
Kotak Mahindra Capital	5	-1	36	25	25	14	3	21	45	1	40	40
Kotak Prime	132	150	148	160	139	157	139	164	153	172	187	187
Kotak AMC & Trust	15	23	38	39	51	52	76	75	73	85	91	91
International Subsidiaries	17	28	32	38	33	47	37	32	29	34	26	26
Kotak Investment advisors/c	-1	-2	12	2	28	13	11	15	17	22	30	30
Kotak Mahindra Investments	45	55	50	95	48	45	40	73	63	67	64	64
Kotak Mahindra Life Insurance	103	100	97	114	117	127	125	138	134	144	166	166
Total (net off affiliates/minority)	1347	1441	1624	1789	1574	1747	1844	2038	1932	2407	2310	2008

Source: Company, ICICI Direct Research

Exhibit 10: Kotak Prime – Second highest profit contributor

	Q4FY20	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q2FY19	Q1FY19	Q4FY18
PBT	203	250	234	235	240	274	266	271	244
PAT	161	187	172	153	164	139	157	139	160
Loans	24864	25855	27298	27749	28268	27907	28544	27908	28018
-car loans	17480	17998	19041	19554	20271	20191	20740	20375	20104
CAR	24.3	22.6	21	20.1	19.4	18.9	18.2	17.7	17.7
ROA	2.3	2.6	2.3	2	2.2	1.8	2	1.8	2.1
Net NPA -cars	0.60%	0.61%	0.56%	0.54%	0.44%	0.43%	0.40%	0.39%	0.37%

Source: Company, ICICI Direct Research

Exhibit 11: Life insurance performance

Premium (₹ crore)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Renewal	894.0	946.0	1823.0	0.0	-550.0	-1005.0	-2225.0
Indvl Regular	308.0	386.0	723.0	840.0	1366.0	1564.0	2479.0
Group	448.0	399.0	617.0	709.0	659.0	852.0	769.0
Single	68.0	105.0	264.0	91.0	165.0	229.0	352.0
New Business Premium	824.0	890.0	1604.0	1640.0	2190.0	2645.0	3865.0
APE	762.8	795.5	1366.4	1558.1	2041.5	2438.9	3283.2
Solvency Ratio (%)	3.1	3.1	3.0	3.0	3.1	3.0	2.9
PAT	127.0	125.0	138.0	134.0	144.0	166.0	165.0

Source: Company, ICICI Direct Research

Exhibit 12: Du point analysis (Standalone)

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net interest income/ avg. total assets	4.3	4.4	4.0	4.0	4.0	3.9	4.0	3.4	3.2
Non-interest income/ avg. total assets	1.6	2.1	1.7	1.7	1.7	1.6	1.6	1.6	1.7
Non-operating profit/ avg. total assets	6.0	6.5	5.7	5.7	5.7	5.5	5.6	5.0	4.8
Operating expenses/ avg. total assets	3.0	3.4	2.8	2.8	2.7	2.6	2.6	2.5	2.4
Operating profit/ avg. total assets	3.0	3.1	2.9	2.9	3.0	2.9	3.0	2.5	2.4
Provisions/ avg. total assets	0.4	0.4	0.4	0.4	0.4	0.3	0.7	0.5	0.3
Return on avg. total assets	1.8	1.7	1.7	1.7	1.7	1.7	1.8	1.5	1.5
Leverage	7.9	7.4	7.9	7.9	7.4	7.2	7.3	6.9	6.8
Return on equity	13.8	12.7	13.2	13.2	12.5	12.2	12.9	10.7	10.4

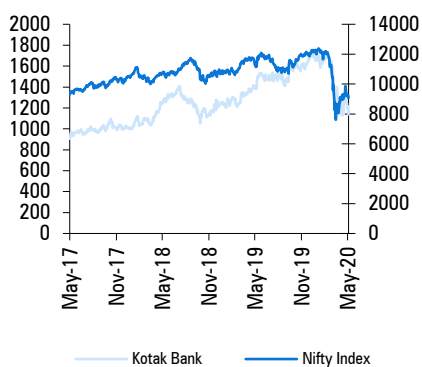
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	30.0	30.0	30.0	30.0	29.9
FII	40.3	40.5	40.2	39.8	39.2
DII	11.5	11.7	12.3	12.4	12.6
Others	18.2	17.8	17.6	17.9	18.3

Source: Company, ICICI Direct Research

Exhibit 14: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	23943.2	26929.6	28804.5	32215.0
Interest Expended	12641.6	13430.0	15651.9	17992.1
Net Interest Income	11301.6	13499.7	13152.6	14222.8
growth (%)	18.6	19.4	-2.6	8.1
Non Interest Income	4604.0	5372.1	6256.1	7410.4
Net Income	15905.6	18871.8	19408.6	21633.2
Operating expense	7514.8	8850.9	9528.2	10854.2
Gross profit	8390.8	10020.8	9880.5	10779.1
Provisions	962.4	2216.2	1816.7	1506.4
Taxes	2535.0	1857.5	2056.3	2364.5
Net Profit	4893.5	5947.2	6007.5	6908.1
growth (%)	19.8	21.5	1.0	15.0
EPS	25.6	31.1	30.4	34.9

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	190.9	191.3	197.8	197.8
EPS (₹)	25.6	31.1	30.4	34.9
BV (₹)	223.8	258.6	318.2	353.1
ABV (₹)	213.7	250.4	306.7	339.7
P/E	45.4	37.5	38.4	33.4
P/BV	5.5	4.7	3.8	3.4
P/ABV	5.4	4.6	3.8	3.4
Yields & Margins (%)				
Yield on avg earning assets	8.8	8.9	8.8	8.7
Avg. cost on funds	5.3	4.8	4.9	4.8
Net Interest Margins	4.1	4.4	4.0	3.9
Avg. Cost of Deposits	5.1	5.1	4.9	4.9
Yield on average advan	9.9	9.9	10.0	10.0
Quality and Efficiency (%)				
Cost / Total net income	47.2	46.9	49.1	50.2
Credit/Deposit ratio				
	91.7	83.6	80.3	79.0
GNPA				
	2.2	2.3	2.6	2.5
NNPA				
	0.9	0.7	1.0	1.0
ROE				
	12.2	12.9	10.7	10.4
ROA				
	1.7	1.8	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	1454.4	1456.5	1489.0	1489.0
ESOPS	2.1	2.1	2.1	2.1
Reserves and Surplus	41269.6	48006.6	61456.6	68364.7
Net worth	42726.0	49465.2	62947.7	69855.8
Deposits	224325.2	262821.0	296295.9	347926.0
Borrowings	32248.3	37993.3	44309.7	51690.2
Other Liabilities & Provis	11143.0	10419.7	11723.3	12976.5
Total	310442.5	360699.2	415276.6	482448.6
Applications of Funds				
Fixed Assets	1651.6	1623.1	2162.1	2479.4
Investments	71189.1	75052.3	88553.6	104730.9
Advances	205695	219748.0	237937.6	274764.5
Other Assets	7231.5	-909.4	63854.2	77467.8
Cash with RBI & call mc	24675.5	65185.2	22769.1	23006.0
Total	310442.5	360699.2	415276.6	482448.6

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios (%)

(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	17.2	16.2	15.1	16.2
Advances	21.2	6.8	8.3	15.5
Deposits	16.4	17.2	12.7	17.4
Total Income	19.9	13.2	8.5	13.0
Net interest income	18.6	19.4	-2.6	8.1
Operating expenses	16.9	17.8	7.7	13.9
Operating profit	17.2	19.4	-1.4	9.1
Net profit	19.8	21.5	1.0	15.0
Book value	14.0	15.8	27.3	11.0
EPS	19.6	21.3	-2.3	15.0

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Bank of Baroda (BANBAR)	44	65	Hold	22,756.3	-0.4	-1.9	-4.3	NA	NA	NA	0.6	0.5	0.5	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	174	250	Buy	1,66,310	16.8	24.2	33.7	10.4	7.2	5.1	1.0	0.9	0.8	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	48	50	Hold	2,810	-27.2	8.5	13.0	-1.8	5.7	3.7	0.4	0.3	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	404	500	Buy	1,10,439	5.8	17.4	27.9	70.0	23.2	14.5	1.6	1.6	1.4	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	131	171	Buy	8,711	8.7	10.1	11.4	15.1	13.0	11.4	2.1	1.8	1.6	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	70	92	Hold	2,524	13.0	13.5	15.0	5.4	5.2	4.7	0.7	0.7	0.6	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	43	47	Hold	8,355	7.7	7.9	12.5	5.6	5.5	3.5	0.7	0.6	0.6	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	940	1,100	Buy	4,99,198	47.9	57.1	69.6	19.6	16.5	13.5	3.1	2.8	2.5	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	463	400	Hold	27,461	63.7	54.9	66.7	7.3	8.4	6.9	1.0	0.9	0.8	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	13	12	Sell	671	-12.7	-0.1	-6.1	-1.0	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,200	1,600	Buy	2,28,664	31.1	30.4	34.9	38.6	39.5	34.4	4.8	3.9	3.5	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	255	300	Buy	30,740	18.1	18.8	19.9	14.1	13.5	12.8	2.8	2.6	2.2	3.9	2.9	2.5	22.1	18.8	17.4
IDFC First (IDFBAN)	21	25	Buy	10,221	-4.8	1.0	2.1	NA	21.9	10.2	0.7	0.7	0.7	-1.6	0.3	0.6	-15.0	3.0	6.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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