

## Gradual loan book pick-up on the cards...

Kotak Mahindra Bank reported a good set of numbers on the operating front with profitability getting a boost from healthy margins, controlled cost and lower provisions. Though loan book growth remained flat sequentially, the management has indicated there would be a strategic shift in focus from maintaining strong liability franchisee to developing an asset base coupled with customer acquisition and engagement as well.

On the asset quality front, performance was satisfactory with GNPA, NNPA ratio declining 15 bps, 23 bps QoQ to 2.55%, 0.64%, respectively. On a standstill asset qualification basis, asset quality remained stable with proforma GNPA at 2.70%.

Covid related outstanding provisions stood at ₹ 1279 crore. Total non-specific provisions towards advances (standard, Covid provisions) are now at 177% of bank's net NPA, which ensures low earnings volatility. Outstanding SMA2 is at ₹ 133 crore, forming 0.06% of net advances.

Credit growth was subdued at ₹ 204845 crore, down 4% YoY, mainly on account of de-growth in segments like corporate banking, CV/CE, SME. However, home loan, agriculture segments (including tractor finance) saw growth of 7.6% YoY, 7.4% YoY, respectively, with an improving demand scenario. The bank witnessed 12.2% YoY growth in deposits at ₹ 261563 crore, led by healthy 19.6% YoY rise in CASA deposit. The CASA ratio for the quarter, thus jumped to 57.1% from 53.6% YoY.

NII was at ₹ 3913 crore, up 16.8% YoY, on the back of 12 bps QoQ improvement in NIMs at 4.5%, down 9 bps YoY. Other income also posted respectable growth of 18.6% YoY. Cost to income ratio fell considerably by 32 bps QoQ, 67 bps YoY to 38.5%, due to controlled operating expenses (flat YoY) and a steady rise in income. The bank, during the quarter, made provisions worth ₹ 368 crore, which included ₹ 13 crore general provisions for Covid-19. Thus, PAT for the quarter increased 26.7% YoY to ₹ 2184 crore.

Consolidated PAT came in at ₹ 2946 crore, up 22.4% YoY, largely driven by bank's profit. Overall performance of subsidiaries remained healthy with Kotak Life insurance reporting profitability at ₹ 171 crore, up 18.8% YoY. Kotak Securities PAT was healthy at ₹ 199 crore, up 33.6% YoY. Kotak AMC profitability was at ₹ 84 crore, flat YoY. Kotak Prime, the non-banking arm, de-grew 22.7% YoY with earnings at ₹ 133 crore.

## Valuation & Outlook

KMB's long term focus continues on maintaining risk adjusted returns. With shift in focus, we expect growth to pick up gradually in certain segments before gathering higher pace in the medium term. Adequate provision provides comfort to deal with volatility in asset quality. With levers present for sustained growth in earnings and the bank being well placed on the capital front to drive business growth, making it an attractive franchisee. KMB has been a consistent performer over the years, driven by reasonable RoE, high RoA ratios & strong margin profile. Hence, premium valuations for management strength, sustainability. We maintain **BUY** rating with SOTP target price of ₹ 1634, valuing at 3.9x FY22E.



### Particulars

Particulars	Amount
Market Capitalisation	₹280232 crore
GNPA (Q2FY21)	₹5335 crore
NNPA (Q2FY21)	₹1303 crore
NIM (Q2FY21)	4.5%
52 week H/L	1740/1000
Net worth	₹59922 crore
Face value	₹5
DII holding (%)	14.9
FII holding (%)	42.2

### Key Highlights

- PAT boosted by healthy operating parameters like NIM, cost-to-income and credit cost
- Asset quality remains largely stable and outstanding Covid related provisions now stand at ₹ 1279 crore
- Maintain BUY with SOTP target price of ₹ 1634

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### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
NII	9532	11206	13500	14043	15457	11%
PPP	7158	8348	10021	10748	12122	13%
PAT	4084	4865	5947	6281	7875	17%
ABV	188	142	163	203	227	
P/E	66.0	84.6	69.3	67.1	53.5	
P/ABV	7.4	9.9	8.6	6.9	6.1	
Consol P/E	43.3	34.9	28.6	23.6	23.6	
Consol P/BV	5.3	4.7	4.1	3.5	3.5	
RoA	1.7	1.7	1.8	1.7	1.8	
RoE	12.5	12.1	12.9	11.2	11.8	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	3,913.2	3,836.1	3,349.6	16.8	3,723.9	5.1	Registered a respectable growth of 16.8% YoY on the back of sequential improvement in NIMs
NIM (%)	4.52	4.60	4.61	-9 bps	4.40	12 bps	Sequential increase owing to reduced cost of funds
Other Income	1,452.0	1,040.7	1,224.4	18.6	773.5	87.7	
Net Total Income	5,365.2	4,876.9	4,574.0	17.3	4,497.4	19.3	
Staff cost	990.1	965.6	915.0	8.2	910.9	8.7	
Other Operating Expens	1,077.7	1,229.0	1,150.4	-6.3	962.8	11.9	Cost control lead to flattish total opex on YoY basis
PPP	3,297.5	2,682.3	2,508.6	31.4	2,623.7	25.7	
Provision	368.6	731.6	407.9	NA	962.0	-61.7	Lower provisions on account of lesser slippages and lesser Covid related provisioning
PBT	2,928.9	1,950.7	2,100.6	39.4	1,661.7	76.3	
Tax Outgo	744.4	468.2	376.2	97.9	417.3	78.4	
PAT	2,184.5	1,482.5	1,724.5	26.7	1,244.5	75.5	Healthy YoY growth aided by margin expansion, cost control and lower provisions
Key Metrics							
GNPA	5,336.0	5,844.1	5,034.0	6.0	5,619.3	-5.0	Largely stable on standstill asset classification basis
NNPA	1,303.8	1,848.2	1,811.0	-28.0	1,777.1	-26.6	
Advances	204,845	209,033	213,299	-4.0	203,998	0.4	
Deposits	261,564	265,701	233,071	12.2	261,524	0.0	Growth driven by 19.6% rise in CASA deposits

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	13,435	14,043	4.5	14,047.8	15,457.2	10.0
Pre Provision Profit	9,550.7	10,748.1	12.5	9,964.4	12,122.4	21.7
NIM (%)	4.2	4.4	18 bps	4.0	4.4	38 bps
PAT	5,142.8	6,281.1	22.1	6,271.9	7,875.1	25.6
ABV (₹)	198.1	203.5	2.7	215.7	226.9	5.2

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier	
	FY19	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	21.2	6.8	4.2	15.1	3.4	15.1
Deposit growth (%)	17.3	16.4	8.1	17.4	7.9	17.4
NIM calculated (%)	4.1	4.5	4.4	4.4	4.2	4.0
Cost to income ratio (%)	47.4	46.9	43.8	43.5	48.4	50.3
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	1.01	0.6	1.2	0.6

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB (Merged entity)	1361
Kotak Life (assumed 100% stake)	85
Kotak Mahindra Prime	75
Kotak Mahindra Capital	25
Kotak Securities	69
Kotak AMC	49
<b>SOTP target (post discount)</b>	<b>1634</b>

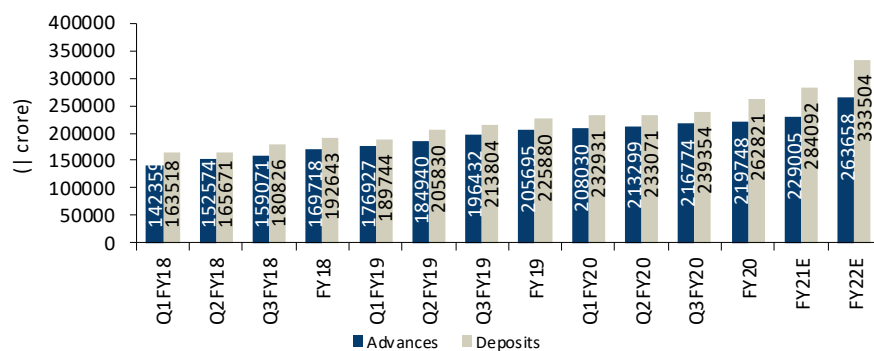
Source: Company, ICICI Direct Research

### Conference call highlights

- Focus on developing strong customer franchisee on the asset side for more customer acquisition and engagement
- Seeing demand in home loan and tractor segment nearing pre-Covid levels
- Overall collection efficiency for the bank was in mid 90's range and has improved as compared to previous quarter
- Collection in secured segment has witnessed improvement and is closer to pre-Covid levels. However, the unsecured segment has witnessed month-on-month improvement in September 2020. It is yet to reach pre-Covid level
- There is still room for savings deposit rate cut but the bank indicated that it would be done in a calibrated manner
- Subsidiaries including AMC, life insurance and securities are witnessing improving business traction
- Advances O/S in SMA/overdue where moratorium/ deferral was extended as per Covid regulatory package were at ₹ 9559 crore
- Covid related provisions were at 0.62% of net advances as on September 2020

## Story in Charts

Exhibit 4: Business growth to pickup gradually ahead



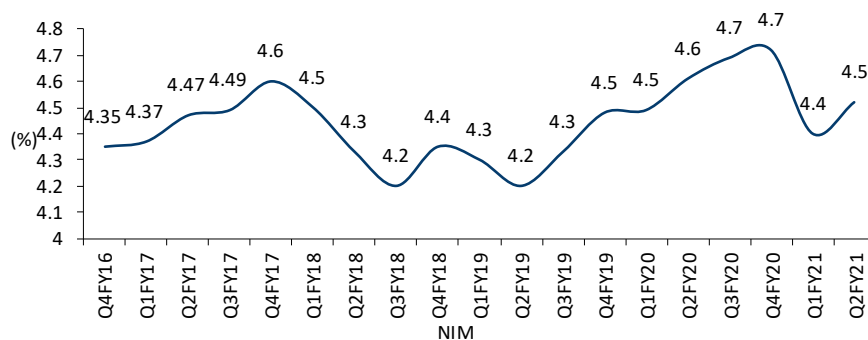
Source: Company, ICICI Direct Research

Exhibit 5: Loan book movement

₹ crore	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Growth yoy (%)	Proportion (%)	Growth qoq (%)
CVs and construction eqmt.	17048	17999	19706	19910	19688	18993	19253	18442	18363	-7	9.0	-0.4
Personal Loans incl small busin	29039	31085	33164	33719	34852	35636	34294	31671	32117	-8	15.7	1.4
Home loans	36064	38305	40722	42243	44371	46031	46881	47168	47732	8	23.3	1.2
Corporate banking	76647	80984	80104	81418	82374	83423	84855	76167	74237	-10	36.2	-2.5
Agricultural finance	22425	23742	26991	25986	27068	27736	28757	27051	29077	7	14.2	7.5
Others	3717	4317	5008	4754	4946	4955	5708	3499	3319	-33	1.6	-5.1
Total	184940	196432	205695	208030	213299	216774	219748	203998	204845	-4	100.0	0.4

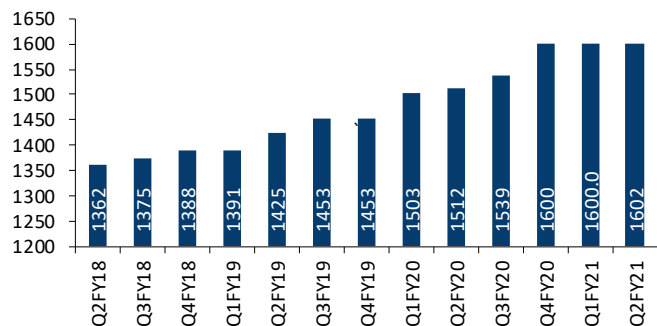
Source: Company, ICICI Direct Research

Exhibit 6: Margins trajectory improves in Q2FY21



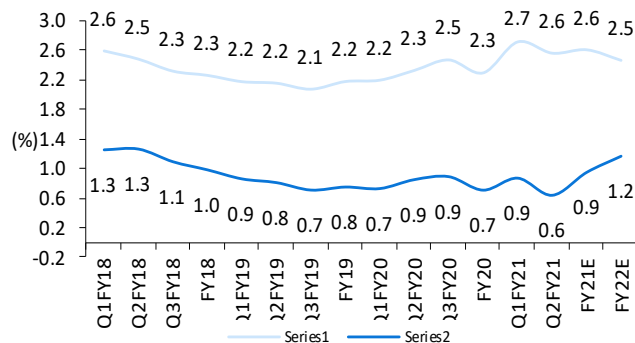
Source: Company, ICICI Direct Research

Exhibit 7: Branch addition muted in Q2FY21



Source: Company, ICICI Direct Research

Exhibit 8: Asset quality remained stable



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated performance over quarters

	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Kotak Bank	1124	1025	1142	1291	1408	1360	1724	1569	1267	1244	2184
Kotak Securities	134	130	112	99	111	110	149	128	163	169	199
Kotak Mahindra Capital	25	25	14	3	21	45	1	40	-7	6	14
Kotak Prime	160	139	157	139	164	153	172	187	161	68	133
Kotak AMC & Trust	39	51	52	76	75	73	85	91	88	71	84
International Subsidiaries	38	33	47	37	32	29	34	26	30	54	45
Kotak Investment advisors/ others	2	28	13	11	15	17	22	30	8	35	28
Kotak Mahindra Investments	95	48	45	40	73	63	67	64	77	43	74
Kotak Mahindra Life Insurance	114	117	127	125	138	134	144	166	165	161	171
Total (net off affiliates/minority minority etc)	1789	1574	1747	1844	2038	1932	2407	2310	1906	1853	2947
minority etc	58	-22	38	23	1	-52	9	9	-46	2	15

Source: Company, ICICI Direct Research

Exhibit 10: Kotak Prime – Muted loan growth leads to weak profitability

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
PBT	266	274	240	235	234	250	203	93	179
PAT	157	139	164	153	172	187	161	68	133
Loans	28544	27907	28268	27749	27298	25855	24864	22834	22710
-car loans in same	20740	20191	20271	19554	19041	17998	17480	16143	16128
CAR	18.2	18.9	19.4	20.1	21	22.6	24.3	26.2	26.6
ROA	2	1.8	2.2	2	2.3	2.6	2.3	1	2.2
NET NPA	0.40%	0.43%	0.44%	0.54%	0.56%	0.61%	0.60%	1.07%	1.30%

Source: Company, ICICI Direct Research

Exhibit 11: Life insurance performance

Premium (₹crore)	Sep-19	Jun-20	Sep-20
Total Premium	2190.0	1207.0	2401.0
Indv Regular	353.0	222.0	337
Group	659.0	283.0	582
Single	165.0	133.0	256
Individual Renewal	1013.0	569.0	1226
APE	1028.5	518.3	944.6
Solvency Ratio (%)	3.1	3.0	3.0
PAT	144.0	161.0	171.0

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	3.7	3.6
Non-interest income/ avg. total assets	1.6	2.1	1.7	1.7	1.7	1.6	1.6	1.3	1.4
Non-operating profit/ avg. total assets	6.0	6.5	5.7	5.7	5.7	5.5	5.6	5.0	5.0
Operating expenses/ avg. total assets	3.0	3.4	2.8	2.8	2.7	2.6	2.6	2.2	2.2
Operating profit/ avg. total assets	3.0	3.1	2.9	2.9	3.0	2.9	3.0	2.8	2.8
Provisions/ avg. total assets	0.4	0.4	0.4	0.4	0.4	0.3	0.7	0.6	0.4
Return on avg. total assets	1.8	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.8
Leverage	7.9	7.4	7.9	7.9	7.4	7.2	7.3	6.8	6.4
Return on equity	13.8	12.7	13.2	13.2	12.5	12.1	12.9	11.2	11.8

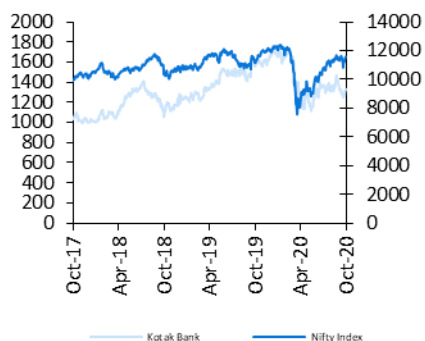
Source: Company, ICICI Direct Research

**Exhibit 13: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	30.0	30.0	29.9	26.1	26.1
FII	40.2	39.8	39.2	42.2	42.2
DII	12.3	12.4	12.6	15.3	14.9
Others	17.6	17.9	18.3	16.5	16.8

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	23890.1	26929.6	27908.1	30482.8
Interest Expended	12684.2	13429.9	13865.2	15025.6
Net Interest Income	11205.8	13499.7	14042.9	15457.2
growth (%)	17.6	20.5	4.0	10.1
Non Interest Income	4657.2	5372.1	5076.7	6005.8
Net Income	15863.0	18871.8	19119.5	21463.0
Operating expense	7514.8	8850.9	8371.4	9340.6
Gross profit	8348.2	10020.8	10748.1	12122.4
Provisions	962.4	2216.2	2317.2	1551.8
Taxes	2520.5	1857.5	2149.9	2695.5
Net Profit	4865.3	5947.2	6281.1	7875.1
growth (%)	19.1	22.2	5.6	25.4
EPS	16.7	20.4	21.1	26.4

Source: Company, ICICI Direct Research

**Exhibit 16: Key Ratios**

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Valuation</b>				
No. of Equity Shares	290.9	291.3	297.8	297.8
EPS (₹)	16.7	20.4	21.1	26.4
BV (₹)	147.5	168.3	210.8	237.2
ABV (₹)	142.2	162.9	203.5	226.9
P/E	84.6	69.3	67.1	53.5
P/BV	10.0	8.7	7.0	6.2
P/ABV	9.9	8.6	6.9	6.1
<b>Yields &amp; Margins (%)</b>				
Yield on avg earning assets	8.8	8.9	8.8	8.6
Avg. cost on funds	5.3	4.8	4.4	4.3
Net Interest Margins	4.1	4.5	4.4	4.4
Avg. Cost of Deposits	5.3	4.9	4.5	4.4
Yield on average advance	9.8	9.9	9.7	9.6
<b>Quality and Efficiency (%)</b>				
Cost / Total net income	47.4	46.9	43.8	43.5
Credit/Deposit ratio	91.1	83.6	80.6	79.1
GNPA	2.2	2.3	2.6	2.5
NNPA	0.8	0.7	0.9	1.2
ROE	12.1	12.9	11.2	11.8
ROA	1.7	1.8	1.7	1.8

Source: Company, ICICI Direct Research

**Exhibit 17: Balance sheet** ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>				
Capital (incl PCNPS)	1454.4	1456.5	1489.0	1489.0
ESOPS	2.2	2.2	2.2	2.2
Reserves and Surplus	41444.0	47558.8	61282.3	69157.4
Networth	42900.6	49017.5	62773.5	70648.6
Deposits	225880.4	262820.5	284091.9	333504.4
Borrowings	32248.3	37993.3	38528.4	42156.3
Other Liabilities & Provisi	11143.0	10419.7	11720.4	12999.3
Total	312172.2	360251.0	397114.2	459308.7
<b>Applications of Funds</b>				
Fixed Assets	1651.6	1623.1	2152.6	2469.2
Investments	71189.1	75051.5	88563.7	104568.9
Advances	205695	219748.2	229004.8	263658.3
Other Assets	8961.2	10535.8	23282.4	33527.8
Cash with RBI & call mo	24675.5	53292.3	54110.7	55084.4
Total	312172.2	360251.0	397114.2	459308.7

Source: Company, ICICI Direct Research

**Exhibit 18: Key ratios (%)**

(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	17.8	15.4	10.2	15.7
Advances	21.2	6.8	4.2	15.1
Deposits	17.3	16.4	8.1	17.4
Total Income	19.9	13.2	2.1	10.6
Net interest income	17.6	20.5	4.0	10.1
Operating expenses	16.9	17.8	-5.4	11.6
Operating profit	16.6	20.0	7.3	12.8
Net profit	19.1	22.2	5.6	25.4
Book value	14.5	14.3	28.1	12.5
EPS	-22.0	22.1	3.3	25.4

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)	43	52	Hold	19,729.0	1.2	1.8	5.8	36.2	NA	NA	0.5	0.5	0.4	0.0	0.1	0.2	0.8	1.2	3.6
State Bank of India (STABAN)	197	215	Hold	175,591	16.2	15.3	26.1	12.2	12.8	7.5	1.0	0.9	0.8	0.4	0.3	0.5	6.8	5.7	9.1
Indian Bank (INDIBA)	60	70	Hold	6,810	-27.2	8.5	13.0	-2.2	7.1	4.6	0.4	0.4	0.3	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	493	530	Buy	150,942	5.8	10.6	25.6	85.4	46.4	19.3	1.8	1.8	1.7	0.2	0.3	0.7	2.1	3.5	8.0
City Union Bank (CITUNI)	151	130	Hold	11,131	6.5	7.5	9.7	23.4	20.0	15.5	2.5	2.3	2.0	1.0	1.1	1.3	9.4	10.2	11.8
DCB Bank (DCB)	79	90	Hold	2,463	10.9	9.8	13.5	7.3	8.1	5.9	0.8	0.8	0.7	0.9	0.8	1.0	11.3	9.1	11.2
Federal Bank (FEDBAN)	54	60	Buy	10,795	7.7	7.0	9.0	7.0	7.7	6.0	0.8	0.8	0.7	0.9	0.7	0.8	11.1	9.3	10.9
HDFC Bank (HDFBAN)	1,213	1,450	Buy	667,599	47.9	52.3	63.3	25.3	23.2	19.2	4.0	3.5	3.2	1.9	1.8	1.9	16.4	15.7	17.0
Indusind Bank (INDBA)	616	580	Hold	46,621	63.7	33.7	52.2	9.7	18.3	11.8	1.3	1.2	1.1	1.5	0.8	1.1	13.5	6.8	9.4
Jammu & Kashmir Bank (JAMKAS)	15	18	Hold	1,052	-11.3	2.5	4.6	-1.3	NA	NA	0.2	0.2	0.2	-0.6	0.2	0.3	-8.9	2.5	4.5
Kotak Mahindra Bank (KOTMAH)	1,415	1,634	Buy	280,232	31.1	26.0	32.1	45.5	54.3	44.0	5.7	4.7	4.3	1.8	1.4	1.5	12.9	9.2	9.7
Bandhan Bank (BANBAN)	299	400	Hold	48,174	18.1	17.7	25.2	16.5	16.9	11.8	3.2	3.0	2.5	3.9	2.9	3.4	22.1	17.8	21.7
IDFC First (IDFBAN)	31	34	Buy	17,357	-4.6	0.7	2.1	NA	45.4	14.4	1.0	1.0	1.0	-1.3	0.2	0.7	-13.1	2.3	6.7

Source: Company, ICICI Direct Research



## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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