

## Stable performance continues, growth awaited...

**About the stock:** Kotak Mahindra Bank (KMB) is a powerful banking franchise, with promoter stake at 26% and strong promoter led management. It has a presence across financial services value chain.

- CASA forms 60.2% of total deposits aiding lower costs
- Strong RoA of 1.8% and RoE of 12-13% make it a good profitable bank

**Q1FY22 Results:** Managed well in Covid environment.

- Advances declined 2.5% QoQ to 2.17 lakh crore, deposits up 9.6% YoY
- NII grew 5.6% YoY, NIMs rose 21 bps QoQ to 4.6%. PAT at ₹ 1640 crore
- GNPA at 3.56% vs. 3.25% QoQ, with nominal rise in restructured book. Slippage for Q1FY22 was ₹ 1500 crore

**What should investors do?** KMB's share price has grown by ~2.3x over the past five years (from ~₹ 745 in March 2016 to ~₹ 1,740 now).

- We retain our BUY rating on the stock, expecting growth pick-up from Q3FY22 while strong promoter holding provides comfort

**Target Price and Valuation:** We value standalone bank at ~3.9x FY23E ABV and subsidiaries at ₹ 455 post holding company discount giving SOTP target of ₹ 2040

**Key triggers for future price performance:**

- KMB's long term focus continues on maintaining risk adjusted returns
- High provision buffer provides comfort regarding volatility in asset quality and, thus earnings
- Consistent performance over a period of time, healthy return ratios ~1.8% RoA & 12-13% RoE with strong management justify valuations
- Subsidiaries like AMC and securities continue strong performance, life insurance and Kotak Prime was impacted

**Alternate Stock Idea:** Apart from Kotak, in our coverage we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory.
- BUY with target price of ₹ 900



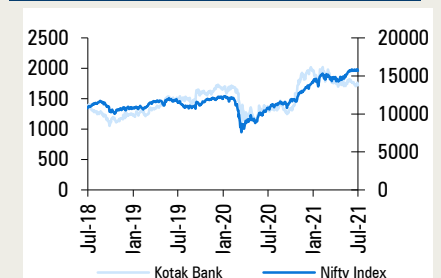
### Particulars

Particulars	Amount
Market Capitalisation	₹ 345065 crore
GNPA (Q1FY22)	₹ 7932 crore
NNPA (Q1FY22)	₹ 2792 crore
NIM (Q1FY22)	4.6%
52 week H/L	2049/1231
Net worth	₹ 63729 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	26.1	26.1	26.0	26.0	26.0
FII	42.2	42.2	45.1	44.2	42.8
DII	15.3	14.9	12.9	13.5	14.6
Others	16.5	16.8	16.0	16.2	16.6

### Price Chart



### Recent Event & Key risks

- Total loan provisions at 94% of GNPA. Strong capital adequacy to enable growth as it triggers
- **Key Risk:** Impact of third wave of pandemic could impact asset quality, growth must for stock performance

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Namolia  
vishal.namolia@icicisecurities.com

Sameer Sawant  
sameer.sawant@icicisecurities.com

### Key Financial Summary

₹ crore	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	11206	13500	15340	17%	16538	19776	14%
PPP	8348	10021	12215	20%	12487	15174	11%
PAT	4865	5947	6965	20%	7646	9854	19%
ABV	217	248	308		344	394	
P/E	67.6	55.5	49.1		44.7	34.7	
P/ABV	7.9	6.9	5.5		5.0	4.3	
Consol P/E	42.6	34.9	28.8		24.8	23.4	
Consol P/BV	5.7	5.0	4.3		3.8	3.5	
RoA	1.7	1.8	1.9		1.8	2.1	
RoE	12.1	12.9	12.4		11.3	12.9	

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Managed well in Covid environment

- KMB posted better-than-expected NII growing 5.8% YoY to ₹ 3941 crore, with net interest margins rising 21 bps QoQ to 4.6% from 4.39%
- Loan growth was up 6.6% YoY and declined 2.8% QoQ to ₹ 217465 crore. On a sequential basis, only home finance grew while corporate banking continued to drag with a decline of 5%
- Loss reported by life insurance subsidiary of ₹ 243 crore impacted consolidated PAT, which came in at ₹ 1806 crore; declining 2% YoY and 31% QoQ. Other subsidiaries profit was decent with Kotak Securities positing healthy 42% YoY growth in earnings at ₹ 236 crore. Kotak Prime was also impacted with low earnings at ₹ 79 crore vs. ₹ 184 crore QoQ

### Q1FY22 Earnings Conference Call highlights

- May was the most impactful period for the bank. Since then the business growth has been seeing uptick in June and better improvement in July
- Slippages for Q1FY22 was ₹ 1500 crore, Last year full year was ₹ 5500 crore, Slippages for Q4FY21 were ₹ 4400 crore. Additionally, very large proportion of ₹ 1500 crore was secured assets, unsecured assets were very small.
- Slippages mainly consisted of retail and commercial banking
- Kotak Life insurance saw a huge jump in claims, mortality claims were significantly higher than anticipated. Loss was at ₹ 243 crore in Kotak Life
- Total restructuring of Covid and MSME restructuring at ₹ 552 crore
- Strong Digital strategy categorised in three pillars - Acquisition, Engagement, Experience. Total 5 lakh customers acquired every month through Digital Strategy
- Commercial vehicle sales dipped compared to the previous quarter due to Covid lockdown, collection improved in June and further improved in July. Tractors finance improved as there was less impact in rural. Collection improved in June and further improved in July. SME was impacted. However, SME growth in recent months has been good. Corporate side is not improving and the numbers have been flat
- ECLGS disbursements at ₹ 11900 crore have not seen any significant stress in ECLGS. No significant new sanctions happened. In March, disbursements were ₹ 11400 crore. Incremental amount was ₹ 500 crore in Q1FY22

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Axis Bank (AXIBAN)	756	900	Buy	2318	25.2	47.7	58.7	30.0	15.9	12.9	2.7	2.3	1.9	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	154	200	Buy	114	8.4	10.0	12.0	18.4	15.3	12.8	2.3	2.0	1.7	1.2	1.3	1.4	11.2	11.9	12.6
DCB Bank (DCB)	103	110	Buy	32	10.8	12.3	15.6	9.5	8.4	6.6	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	87	100	Buy	174	8.0	9.5	12.0	11.0	9.2	7.2	1.2	1.1	1.0	0.8	0.9	1.0	10.4	11.8	13.4
HDFC Bank (HDFBAN)	1,434	1,800	Buy	7928	56.4	66.4	77.8	25.4	21.6	18.4	4.0	3.6	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	981	1,100	Buy	759	36.7	63.6	76.3	26.8	15.4	12.9	1.8	1.6	1.4	0.8	1.3	1.4	7.3	10.6	11.3
Kotak Bank (KOTMAH)	1,740	2,040	Buy	3451	35.1	43.2	51.4	49.5	40.3	33.9	5.6	5.0	4.3	1.8	1.9	2.0	12.4	12.0	13.1
CSB Bank (CSBBAN)	352	380	Buy	61	12.6	18.3	25.5	27.9	19.2	13.8	3.3	2.9	2.4	0.1	1.0	1.2	10.5	13.6	16.4
Bandhan (BANBAN)	298	330	Hold	480	14.7	24.7	31.4	20.2	12.0	9.5	3.4	2.7	2.1	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	51	65	Buy	318	0.8	1.6	2.9	64.3	32.4	17.8	1.8	1.4	1.3	0.3	0.6	0.9	2.7	4.6	7.1

Source: Company, ICICI Direct Research

We believe consistent performance even in turbulent times are the reason for Kotak Bank fetching premium valuations.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	3,941.7	3,810.9	3,723.9	5.8	3,842.8	2.6	KMB posted better than expected NII growing at 5.8% YoY to ₹ 3941 crore, with net interest margins rising 21 bps QoQ to 4.6% from 4.39%.
NIM (%)	4.60	4.60	4.40	20 bps	4.39	21 bps	
Other Income	1,583.0	1,559.6	773.5	104.6	1,949.5	-18.8	Fee income pickup helps non interest income
Net Total Income	5,524.7	5,370.5	4,497.4	22.8	5,792.3	-4.6	
Staff cost	1,082.3	1,051.5	910.9	18.8	868.9	24.6	
Other Operating Expenses	1,321.3	1,338.3	962.8	37.2	1,516.0	-12.8	
PPP	3,121.1	2,980.6	2,623.7	19.0	3,407.5	-8.4	
Provision	934.8	654.8	962.0	-2.8	1,179.4	-20.7	Elevated provisions due to higher loan loss provisions
PBT	2,186.3	2,325.8	1,661.7	31.6	2,228.1	-1.9	
Tax Outgo	544.4	581.5	417.3	30.5	545.7	-0.2	
PAT	1,641.9	1,744.4	1,244.5	31.9	1,682.4	-2.4	

Key Metrics

GNPA	7,931.8	7,796.8	5,619.3	41.2	7,425.5	6.8	GNPA jumped of 31 bps sequentially to 3.56% from 3.25%. The bank has implemented total restructuring of ₹552 crore, 0.25% of loans. SMA 2 outstanding rose to ₹ 430 crore from ₹110 crore. Kotak bank has provisions worth ₹ 1279 crore for Covid-19 related stress which is not utilised, while total provisions held stand at 94% of GNPA
NNPA	2,792.3	2,813.4	1,777.1	57.1	2,705.2	3.2	
Advances	217,465	218,278	203,998	6.6	223,689	-2.8	
Deposits	286,560	279,831	261,524	9.6	280,100	2.3	Driven by strong CASA

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	17,294.6	16,537.6	-4.4	19,940.0	19,775.9	-0.8
Pre Provision Profit	13,221.5	12,487.2	-5.6	15,409.7	15,173.9	-1.5
NIM (%)	4.7	4.5	-20 bps	4.7	4.7	-2 bps
PAT	8,552.7	7,646.4	-10.6	10,189.5	9,854.0	-3.3
ABV (₹)	350.4	344.0	-1.8	402.6	393.9	-2.2

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	6.8	1.8	13.5	15.1	1.8	14.2	15.1
Deposit growth (%)	16.4	6.6	20.0	14.9	6.6	20.0	14.9
NIM calculated (%)	4.5	4.7	4.5	4.7	4.7	4.7	4.7
Cost to income ratio (%)	46.9	41.3	44.0	42.3	41.3	42.6	41.9
Slippage ratio (%)	1.7	1.9	1.4	0.9	1.9	1.1	0.9
Credit cost (%)	1.01	1.30	0.88	0.67	1.3	0.7	0.6

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	1585
Kotak Life (assumed 100% stake)	174
Kotak Mahindra Prime	101
Kotak Mahindra Capital & others	67
Kotak Securities	132
Kotak AMC	93
Total	568
20% holding company discount	114
SOTP target (post discount)	2040

Source: Company, ICICI Direct Research

## Financial summary

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	23890.1	26929.6	26840.3	29690.9	35374.1
Interest Expended	12684.2	13429.9	11500.6	13153.3	15598.3
Net Interest Income	11205.8	13499.7	15339.7	16537.6	19775.9
growth (%)	17.6	20.5	13.6	7.8	19.6
Non Interest Income	4657.2	5372.1	5459.2	5745.6	6506.3
Net Income	15863.0	18871.8	20798.9	22283.2	26282.1
Operating expense	7514.8	8850.9	8584.1	9796.0	11108.3
Gross profit	8348.2	10020.8	12214.7	12487.2	15173.9
Provisions	962.4	2216.2	2911.7	2223.6	1947.0
Taxes	2520.5	1857.5	2338.2	2617.2	3372.8
Net Profit	4865.3	5947.2	6964.8	7646.4	9854.0
growth (%)	19.1	22.2	17.1	9.8	28.9
EPS	25.5	31.1	35.1	38.6	49.7

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	190.9	191.3	198.2	198.2	198.2
EPS (₹)	25.5	31.1	35.1	38.6	49.7
BV (₹)	224.7	256.2	321.6	360.0	409.7
ABV (₹)	216.7	248.1	308.4	344.0	393.9
P/E	67.6	55.5	49.1	44.7	34.7
P/BV	8.0	6.9	5.6	5.0	4.4
P/ABV	7.9	6.9	5.5	5.0	4.3
Yields & Margins (%)					
Yield on avg earning assets	8.8	8.9	8.3	8.1	8.4
Avg. cost on funds	5.3	4.8	3.7	3.9	4.0
Net Interest Margins	4.1	4.5	4.7	4.5	4.7
Avg. Cost of Deposits	5.3	4.9	3.8	3.9	4.1
Yield on average advances	9.8	9.9	8.4	8.9	9.6
Quality and Efficiency (%)					
Cost / Total net income	47.4	46.9	41.3	44.0	42.3
Credit/Deposit ratio	91.1	83.6	79.9	75.5	75.6
GNPA	2.2	2.3	3.3	3.3	2.9
NNPA	0.8	0.7	1.2	1.3	1.1
ROE	12.1	12.9	12.4	11.3	12.9
ROA	1.7	1.8	1.9	1.8	2.1

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital (incl PCNPS)	1454	1457	1491	1491	1491
ESOPS	2	2	2	2	2
Reserves and Surplus	41444	47559	62236	69852	79706
Networth	42901	49017	63729	71345	81199
Deposits	225880	262821	280100	336230	386445
Borrowings	32248	37993	23651	25117	26925
Other Liabilities & Provisions	11143	10420	16009	11760	13035
Total	312172	360251	383489	444452	507604
Applications of Funds					
Fixed Assets	1652	1623	1535	1790	2040
Investments	71189	75052	105099	123930	146824
Advances	205695	219748	223689	253875	292274
Cash with RBI & call money	24676	53292	54111	55084	56250
Total	312172	360251	383489	444452	507604

Source: Company, ICICI Direct Research

(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	17.8	15.4	6.5	15.9	14.2
Advances	21.2	6.8	1.8	13.5	15.1
Deposits	17.3	16.4	6.6	20.0	14.9
Total Income	19.9	13.2	0.0	9.7	18.2
Net interest income	17.6	20.5	13.6	7.8	19.6
Operating expenses	16.9	17.8	-3.0	14.1	13.4
Operating profit	16.6	20.0	21.9	2.2	21.5
Net profit	19.1	22.2	17.1	9.8	28.9
Book value	14.5	14.3	30.0	12.0	13.8
EPS	18.9	22.0	13.0	9.8	28.9

Source: Company, ICICI Direct Research

## Exhibit 1: Consolidated PAT performance over the quarters

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Kotak Bank	1360	1724	1596	1267	1244	2184	1854	1682	1642
Kotak Securities	110	149	128	163	169	199	184	241	236
Kotak Mahindra Capital	45	1	40	-7	6	14	38	25	42
Kotak Prime	153	172	187	161	68	133	149	184	79
Kotak AMC & Trust	73	85	91	88	71	84	91	100	107
International Subsidiaries	29	34	26	30	54	45	5	50	30
Kotak Investment advisors/ others	17	22	42	8	35	28	31	21	23
Kotak Mahindra Investments	63	67	64	77	43	74	68	73	71
Kotak Mahindra Life Insurance	134	144	166	165	161	171	167	193	-243
Total (net off affiliates/minority)	1932	2407	2349	1906	1853	2947	2602	2589	1806

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

## ANALYST CERTIFICATION

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