

CMP: ₹ 1800

Target: ₹ 2150 (19%)

Target Period: 12 months

May 5, 2022

BUY

## Healthy on all counts; growth outlook optimistic...

**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 the financial services value chain.

- CASA forms 61% of total deposits aiding lower costs
- Strong RoA of ~2% and RoE of 12-13% makes it a good profitable bank

**Q4FY22 Results:** Kotak Mahindra Bank reported a strong operating performance.

- Advances up 21.3% YoY to 2.7 lakh crore, deposits up 11.3% YoY
- NII growth at 17.7% YoY, NIMs expand 16 bps QoQ to 4.78%
- Credit cost reversal led PAT at ₹ 2767 crore, up 64.5% YoY
- GNPA declined 37 bps QoQ to 2.34%; restructured book at 44 bps

**What should investors do?** KMB's share price has grown by ~2.5x over the past five years (from ~₹ 700 in May 2017 to ₹ 1777 now).

- We remain positive on fundamentals expecting healthy business growth ahead and maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value standalone bank at ~3.6x FY24E ABV and subsidiaries at ~₹ 485 post holding company discount giving SOTP target of ₹ 2150.

### Key triggers for future price performance:

- Continued growth momentum with prudent selection remains positive
- Increase proportion of unsecured portfolio to help yields, though mobilisation of liabilities at a faster pace to safeguard margins need to be seen
- Anticipated healthy asset quality to reflect on overall performance
- Subsidiaries like Kotak Prime, life insurance, AMC continue to add value

**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 ₹ 970



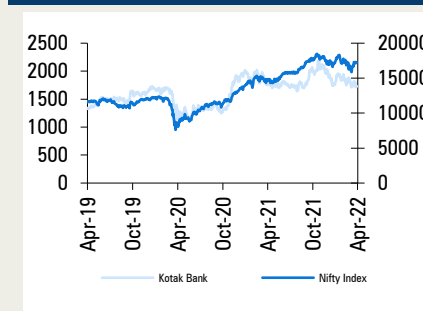
### Particulars

Particulars	Amount
Market Capitalisation	₹ 352604 crore
52 week H/L	2252/1627
Net worth	₹ 72488 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	26.0	26.0	26.0	26.0	25.98
FII	44.2	42.8	42.6	42.1	40.86
DII	13.5	14.6	13.5	15.5	16.6
Others	16.2	16.6	17.9	16.5	16.6

### Price Chart



### Recent Event & Key risks

GNPA declined 37 bps QoQ to 2.34%; Restructured book at 44 bps

**Key Risk:** i) Resurgence of pandemic could be a hurdle loan growth, ii) improvement in asset quality

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	13500	15340	16831	15%	20103	24230	20%
PPP	10021	11762	12107	13%	14649	17877	22%
PAT	5137	6965	7930	19%	9838	11447	20%
ABV	248	308	349		402	459	
P/E	67.0	51.2	45.0		36.3	31.2	
P/ABV	7.2	5.8	5.1		4.5	3.9	
RoA	1.5	1.9	1.9		2.1	2.1	
RoE	11.2	12.4	11.7		12.9	13.1	

## Key takeaways of recent quarter & conference call highlights

### Q4FY22 Results: Loan growth momentum continues

- KMB posted a strong set of numbers on most fronts with NII growth of 17.7% YoY and 4.3% QoQ to ₹ 4521 crore. Healthy NII growth was aided by 16 bps sequential expansion in NIMs to 4.78%. Other income was up 33.9% QoQ but down 6.3% YoY to ₹1826 crore. Fee income jumped 13% QoQ on the back of healthy loan growth
- Opex was kept under control and was flattish sequentially. As a result, C/I ratio declined 521 bps QoQ to 47.4%. Credit cost for the quarter was negative at ₹ 306 crore as the bank has utilised ₹ 453 crore Covid related provisions during the quarter. Thus, as a result of strong topline and lower credit cost, net profit jumped 64.5% YoY to ₹ 2767 crore
- Overall loan growth for the quarter was healthy at 21.3% YoY and 7.2% QoQ to ₹ 2.7 lakh crore. Key drivers of the same were home loans and personal & consumer durable loans that jumped 39% YoY and 43% YoY, respectively. Corporate loan growth was at 6% YoY while SME segment also showed good growth of 25% YoY. Deposits were up 11.3% YoY to ₹ 3.1 lakh crore, which, in turn, were led by 11.7% YoY uptick in CASA
- Asset quality performance was impressive as GNPA and NNPA declined 37 bps and 15 bps sequentially to 2.34% and 0.64%, respectively. Slippage for the quarter was at ₹ 736 crore vs. ₹ 750 crore QoQ. Restructured book declined 10 bps to 0.44% vs. 0.54% in the previous quarter. The bank has total provisions (including specific, standard, Covid-19 related etc) of ₹ 6710 crore at the end of Q4FY22

### Q4FY22 Earnings Conference Call highlights

- Fixed rate book at ~30% of advances - 15-18% of loans over one year and remaining 15% at less than one year
- Slippage ratio for full year at 1.08%
- Look to increased unsecured retail book, would help yields
- Have low duration in bond investment book, just over one year
- Reversals of employee provisions led to lower employee expense QoQ
- Additional ₹ 120 crore provisions on restructured book in Q4FY22
- A 27 bps credit cost for the quarter ex-Covid reversals
- Beginning to see green-shoots in corporate capex related demand
- Collection efficiency in commercial banking has normalised
- No plan to increase savings rate. LCR average ~130% for the quarter
- Operating tech cost ~7.5% + one-third of operating tech cost to be capex
- Increase in credit utilisation in SME segment. Revival in CV industry led by improved utilisation. Seeing good demand from agri and allied related loan segments, tractor lending segment have positive outlook

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)	
	₹	TP(₹)	Rating		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Axis Bank (AXIBAN)	707	970	Buy	2237	42.4	52.7	63.7	16.7	13.4	11.1	2.0	1.8	1.7	1.2	1.4	1.5	12.0	13.3
Federal Bank (FEDBAN)	94	120	Buy	201	8.8	10.6	13.1	10.7	8.9	7.2	1.2	1.1	1.0	0.9	1.0	1.1	10.9	11.9
IndusInd Bank (INDBA)	978	1,150	Buy	758	59.5	82.4	101.0	16.4	11.9	9.7	1.7	1.6	1.4	1.2	1.5	1.6	10.1	13.1
Kotak Bank (KOTMAH)	1,800	2,150	Buy	3550	43.2	49.6	57.8	41.7	36.3	31.2	5.2	4.5	3.9	2.1	2.1	2.1	12.6	12.9
CSB Bank (CSBBAN)	207	320	Buy	37	24.6	27.6	33.8	8.4	7.5	6.1	1.6	1.3	1.1	1.8	1.8	1.8	17.9	16.9
IDFC First (IDFBAN)	38	56	Buy	246	0.2	2.4	3.6	162.4	16.0	10.5	1.2	1.0	1.0	0.1	0.7	1.0	0.7	6.4

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	4,521.4	4,569.8	3,842.8	17.7	4,334.3	4.3	Driven by healthy loan and margin expansion
NIM (%)	4.78	4.65	4.39	39 bps	4.62	16 bps	Improved loan mix of high yielding products help margins
Other Income	1,826.3	1,704.6	1,949.5	-6.3	1,363.7	33.9	
Net Total Income	6,347.7	6,274.4	5,792.3	9.6	5,698.0	11.4	
Staff cost	1,122.8	1,229.8	868.9	29.2	1,199.8	-6.4	Reversal of retiral provision leads to lower employee cost
Other Operating Expenses	1,885.0	1,860.0	1,516.0	24.3	1,797.1	4.9	
PPP	3,339.9	3,184.5	3,407.5	-2.0	2,701.0	23.7	
Provision	-306.2	294.9	1,179.4	-126.0	-131.7	132.4	Utilized ₹543 crore Covid provisions
PBT	3,646.1	2,889.6	2,228.1	63.6	2,832.7	28.7	
Tax Outgo	878.7	708.0	545.7	61.0	701.4	25.3	
PAT	2,767.4	2,181.7	1,682.4	64.5	2,131.4	29.8	
<b>Key Metrics</b>							
GNPA	6,469.7	6,633.7	7,425.5	-12.9	6,982.8	-7.3	Healthy recoveries help asset quality
NNPA	1,736.7	1,824.3	2,705.2	-35.8	2,003.5	-13.3	
Advances	2,71,254	2,68,111	2,23,689	21.3	2,52,935	7.2	Home, consumer durable and personal loans drive loan growth
Deposits	3,11,684	3,17,192	2,80,100	11.3	3,05,286	2.1	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	19,694.2	20,103.4	2.1	23,443.3	24,229.5	3.4
Pre Provision Profit	14,212.9	14,649.2	3.1	17,088.3	17,876.8	4.6
NIM (%)	4.5	4.5	3 bps	4.5	4.5	-1 bps
PAT	9,284.9	9,838.1	6.0	10,961.0	11,447.0	4.4
ABV (₹)	396.5	401.6	1.3	452.9	458.8	1.3

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	1.8	20.3	20.9	20.8	17.3	17.5
Deposit growth (%)	6.6	13.8	19.1	18.5	15.0	15.0
NIM (Calc) %	4.7	4.4	4.5	4.5	4.5	4.5
C/l ratio %	42.2	47.1	45.8	44.4	46.5	45.4
Slippage ratio %	2.5	1.1	0.7	1.0	0.9	0.9
Credit cost %	1.10	0.25	0.44	0.63	0.6	0.6

Source: Company, ICICI Direct Research

**Exhibit 3: Valuation (₹)**

Company	Value / share
KMB	1666
Kotak Life (assumed 100% stake)	196
Kotak Mahindra Prime	111
Kotak Mahindra Capital & others	67
Kotak Securities	121
Kotak AMC	112
Total	606
20% holding company discount	121
<b>SOTP target (post discount)</b>	<b>2150</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	26929.6	26840.3	27038.8	33938.6	41134.5
Interest Expended	13429.9	11500.6	10220.9	13835.2	16905.0
Net Interest Income	13499.7	15339.6	16817.9	20103.4	24229.5
growth (%)	20.5	13.6	9.6	19.5	20.5
Non Interest Income	5372.1	5006.5	6354.4	6929.0	7918.6
Net Income	18871.8	20346.2	23172.3	27032.4	32148.2
Operating expense	8850.9	8584.1	11121.4	12383.2	14271.4
Gross profit	10020.8	11762.0	12050.9	14649.2	17876.8
Provisions	3026.8	2459.0	689.6	1443.7	2511.7
Taxes	1857.5	2338.1	2788.6	3367.4	3918.1
Net Profit	5136.5	6964.8	8572.7	9838.1	11447.0
growth (%)	8.2	35.6	13.9	14.8	16.4
EPS	26.9	35.1	43.0	49.6	57.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	191.3	198.2	198.4	198.2	198.2
EPS (₹)	26.9	35.1	43.2	49.6	57.8
BV (₹)	256.2	321.6	365.4	410.5	468.2
ABV (₹)	248.1	307.9	349.0	401.6	458.8
P/E	67.0	51.2	45.0	36.3	31.2
P/BV	7.3	5.8	5.2	4.5	3.9
P/ABV	7.2	5.8	5.1	4.5	3.9
Yields & Margins (%)					
Yield on avg earning assets	8.9	8.2	7.5	7.6	7.7
Avg. cost on funds	4.8	3.8	3.5	3.7	3.9
Net Interest Margins	4.5	4.7	4.4	4.5	4.5
Avg. Cost of Deposits	4.9	3.7	3.5	3.7	3.9
Yield on average advances	9.9	8.4	8.3	8.4	8.5
Quality and Efficiency (%)					
Cost / Total net income	46.9	42.2	47.1	45.8	44.4
Credit/Deposit ratio	83.6	79.9	84.4	88.3	90.0
GNPA	2.3	3.3	2.3	1.9	1.6
NNPA	0.7	1.2	0.6	0.5	0.5
ROE	11.2	12.4	12.6	12.9	13.1
ROA	1.5	1.9	2.1	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital (incl PCNPS)	1457	1491	1492	1491	1491
ESOPS	2	2	31	2	2
Reserves and Surplus	47559	62236	70964	79854	91301
Networth	49017	63729	72488	81347	92794
Deposits	262821	280100	311684	371298	440121
Borrowings	37993	23651	25967	27564	30110
Other Liabilities & Provision:	10420	16009	19289	18076	20045
Total	360251	383489	429428	498285	583070
Applications of Funds					
Fixed Assets	1623	1535	1644	2115	2401
Investments	75052	105099	100580	134600	159270
Advances	219748	223689	271254	327989	396177
Cash with RBI & call mone	53292	39627	55951	42468	44218
Total	360251	383489	429428	498285	583070

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets					
Total assets	15.4	6.5	12.6	15.4	17.0
Advances					
Advances	6.8	1.8	20.3	20.9	20.8
Deposits					
Deposits	16.4	6.6	13.8	19.1	18.5
Total Income					
Total Income	13.2	-1.4	7.7	19.2	20.0
Net interest income					
Net interest income	20.5	13.6	9.7	19.4	20.5
Operating expenses					
Operating expenses	17.8	-3.0	25.5	14.9	15.2
Operating profit					
Operating profit	20.0	17.4	2.9	21.0	22.0
Net profit					
Net profit	8.2	35.6	13.9	24.1	16.4
Book value					
Book value	14.3	30.0	12.2	13.8	14.1
EPS					
EPS	8.0	30.9	13.9	24.1	16.4

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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