

Sequential growth uptick encouraging...

Kotak Mahindra Bank reported a good set of numbers on the operating front with profitability aided by healthy margins and controlled cost. Sequential pick-up in loan book is a positive and was in line with the management's intent to pedal growth from here on.

The bank reported steady NII growth of 16.8% YoY on the back of a sequential improvement in NIM for Q3FY21. **NIM improved 6 bps on a sequential basis to 4.58% owing to lower cost of funds.** Other income was flattish YoY due to sluggish fee income growth of 3% YoY and lower treasury gain. C/I ratio declined ~790 bps YoY but was up ~380 bps QoQ to 42.3% as promotional, advertisement expenses increased with increasing business activity. The bank made provisions worth ₹ 599 crore, up 62% QoQ, including interest reversal in lieu of stressed assets. PAT, on the back of healthy operating performance, increased 16.1% YoY to ₹ 1853 crore.

Headline GNPA and NNPA ratio declined from 2.55% and 0.64% to 2.26% and 0.50% QoQ, respectively. However, **proforma based GNPA increased by 54 bps QoQ to 3.24%**, while NNPA jumped 50 bps to 1.24%. Restructured book was at 0.28% of advances, still below earlier estimates. Going into next quarter, the management expects marginal restructuring. SMA 2 outstanding increased from ₹ 133 crore to ₹ 654 crore. **Outstanding contingent provision was at ₹ 1279 crore (~0.6% of advances).**

Advances growth sequentially was up at 4.5% to ₹ 214103 crore. The pick-up in the business was encouraging. This traction is expected to continue, going ahead. Home loans were up 4.7% QoQ, CV loans by 1.8% QoQ, Corporate banking loans increased 5.8% QoQ while agri finance was up 5.95% QoQ. Disbursals under ECLGS scheme were ~₹ 9400 crore by Q3FY21. Deposit growth also remained healthy at 10.8% YoY to ₹ 265304 crore, led by 21.5% YoY rise in CASA. As a result, **CASA ratio improved to 58.9% vs. 53.7% YoY and 57.1% QoQ.**

Consolidated PAT was at ₹ 2602 crore; up 11% YoY, largely driven by the bank's profit. Overall performance of subsidiaries was decent with Kotak Securities positing healthy 43.8% YoY growth in earnings to ₹ 184 crore. Kotak AMC profitability was at ₹ 91 crore, flat YoY. Kotak Prime, the non-banking arm, saw de-growth of 20.3% YoY in earnings at ₹ 149 crore.

Valuation & Outlook

KMB's long term focus continues on maintaining risk adjusted returns. Pick up in loan book is a positive and in line with the management's indication to push for growth. Adequate provision provides comfort to deal with volatility in asset quality and, thus, earnings. The bank's focus on improving liability franchisee makes it attractive. Consistent performance over a period of time, healthy return ratios and capable management are reasons for premium valuations. We upgrade our rating on the stock from HOLD to **BUY** with a revised SOTP target price of ₹ 2040 (₹ 1950 earlier).



Particulars

Particulars	Amount
Market Capitalisation	₹ 353713 crore
GNPA (Q3FY21)	₹ 4928 crore
NNPA (Q3FY21)	₹ 1064 crore
NIM (Q3FY21)	4.6%
52 week H/L	2026/1000
Net worth	₹ 61914 crore
Face value	₹ 5
DII holding (%)	12.9
FII holding (%)	45.1

Key Highlights

- Sequential pick-up in loan book, up 4.5%. Contribution came in from all segments
- Restructuring now at 0.28% of loans and very little is expected in next quarter
- Upgrade from HOLD to BUY with revised SOTP target price of ₹ 2040

Risk to our call

- Further increase in proforma NPA could be a dampener
- If rise in SMA2 book continues, it could lead to higher stress formation

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
NII	9532	11206	13500	15387	16301	18917	12%
PPP	7158	8348	10021	11872	12701	15603	16%
PAT	4084	4865	5947	6988	8110	10024	19%
ABV	188	142	163	201	225	256	
P/E	83.8	107.3	87.9	76.5	65.9	53.3	
P/ABV	9.4	12.5	11.0	8.8	7.8	6.8	
Consol P/E	55.0	44.3	36.3	30.0	25.9	24.4	
Consol P/BV	6.8	6.0	5.2	4.5	4.0	3.7	
RoA	1.7	1.7	1.8	1.8	1.9	2.0	
RoE	12.5	12.1	12.9	12.4	12.0	13.1	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	4,006.8	3,964.9	3,429.5	16.8	3,913.2	2.4	Healthy growth on the back of sequential pick-up in loans and rise in margins
NIM (%)	4.58	4.60	4.66	-8 bps	4.52	6 bps	Up QoQ as a result of controlled cost of funds, increased CASA
Other Income	1,334.4	1,502.4	1,341.4	-0.5	1,452.0	-8.1	Flat due to YoY subdued fee and treasury
Net Total Income	5,341.2	5,467.3	4,771.0	12.0	5,365.2	-0.4	
Staff cost	959.3	938.2	1,091.5	-12.1	990.1	-3.1	
Other Operating Expenses	1,298.6	1,194.1	1,291.4	0.6	1,077.7	20.5	Increased on QoQ basis due to promotional, advertisement, etc
PPP	3,083.3	3,335.1	2,388.1	29.1	3,297.5	-6.5	
Provision	599.0	841.1	444.0	34.9	368.6	62.5	Remained elevated due to Covid related provisions
PBT	2,484.3	2,494.0	1,944.1	27.8	2,928.9	-15.2	
Tax Outgo	630.8	623.5	348.2	81.2	744.4	-15.3	
PAT	1,853.5	1,870.5	1,595.9	16.1	2,184.5	-15.1	Cost control and topline growth aid PAT
Key Metrics							
GNPA	4,928.0	5,496.0	5,413.0	-9.0	5,336.0	-7.6	Proforma GNPA increased from 2.7% to 3.2%
NNPA	1,064.0	1,329.9	1,925.0	-44.7	1,303.8	-18.4	
Advances	214,103	210,271	216,774	-1.2	204,845	4.5	Sequential pick-up contributed largely by home loan and corporate
Deposits	265,304	269,273	239,354	10.8	261,564	1.4	Driven by healthy CASA growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	14,043	15,387	9.6	15,457.2	16,300.9	5.5	18,917.1
Pre Provision Profit	10,748.1	11,871.8	10.5	12,122.4	12,700.8	4.8	15,603.5
NIM (%)	4.4	4.8	42 bps	4.4	4.6	24 bps	4.6
PAT	6,281.1	6,988.0	11.3	7,875.1	8,109.6	3.0	10,024.4
ABV (₹)	202.7	200.6	-1.1	226.2	224.9	-0.6	256.0

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current					Earlier	
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	21.2	6.8	4.2	15.1	15.1	4.2	15.1
Deposit growth (%)	17.3	16.4	11.3	14.9	14.9	8.1	17.4
NIM calculated (%)	4.1	4.5	4.8	4.6	4.6	4.4	4.4
Cost to income ratio (%)	47.4	46.9	41.4	42.4	39.4	43.8	43.5
Slippage ratio (%)	1.2	1.7	1.9	1.2	1.2	1.3	1.2
Credit cost (%)	0.47	1.01	1.09	0.69	0.71	1.0	0.6

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB (Merged entity)	1715
Kotak Life (assumed 100% stake)	112
Kotak Mahindra Prime	85
Kotak Mahindra Capital	25
Kotak Securities	81
Kotak AMC	55
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SOTP target (post discount)	2040

Source: Company, ICICI Direct Research

Conference call highlights

Business

- Sequential growth in loans to continue ahead
- Density of branches required would be less. Hence, a measured approach would be taken while adding more branches
- ECLGS disbursement was ₹ 9400 crore by Q3FY21 and has crossed ~₹ 9700 crore by January 2021
- The bank disbursed to ~50-60% of eligible accounts in ECLGS
- Demand for construction equipment has been good and disbursement in this segment is better than previous quarter

Asset quality

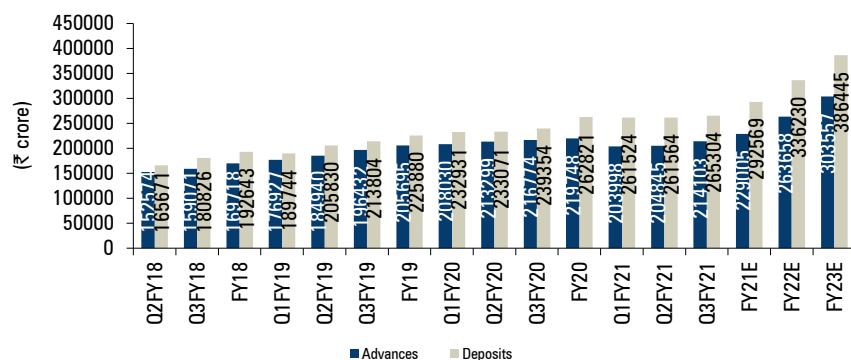
- Total ~40-45% of proforma NPA came in from unsecured retail book
- Collection has reached pre-Covid levels for secured book and is near pre-Covid level for unsecured book and improving month on month
- Full provisioning on interest reversal, including proforma NPA, has been provided through P&L
- Bus segment (10-15% of CV book) continues to remain under stress
- Write-off during the quarter were negligible
- GNPA in Kotak Prime was 2.46% while, on a proforma basis, it was over 4%

Others

- TD less than ₹ 1 crore would be ~₹ 70000 crore
- The management expects sustainable cost reduction and higher yield to support margins
- Unsecured loans are ~6% of loans
- Credit cost including interest reversal was ~120 bps and excluding that it was ~86 bps

Story in Charts

Exhibit 4: Sequential uptick in loan growth seen ahead



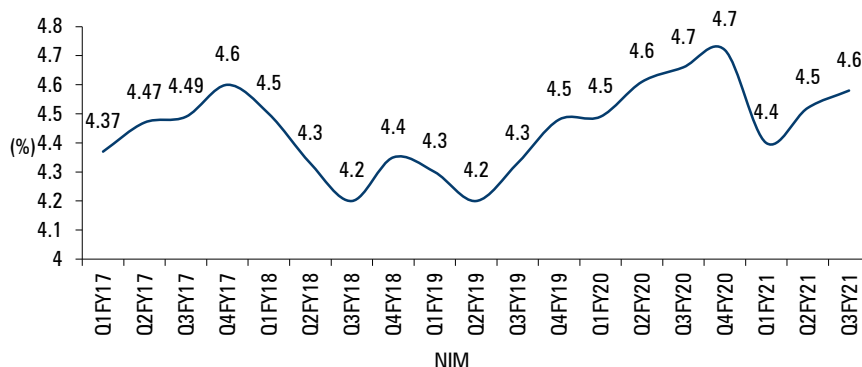
Source: Company, ICICI Direct Research

Exhibit 5: Loan book movement

₹ crore	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Growth yoy (%)	Proportion (%)	Growth qoq (%)
CVs and construction eqmt.	19910	19688	18993	19253	18442	18363	18685	-2	8.7	-1.6
Personal Loans incl small business	33719	34852	35636	34294	31671	32117	32633	-8	15.2	-8.4
Home loans	42243	44371	46031	46881	47168	47732	49977	9	23.3	8.6
Corporate banking	81418	82374	83423	84855	76167	74237	78577	-6	36.7	-5.8
Agricultural finance	25986	27068	27736	28757	27051	29077	30801	11	14.4	11.1
Others	4754	4946	4955	5708	3499	3319	3430	-31	1.6	-30.8
Total	208030	213299	216774	219748	203998	204845	214103	-1	100.0	-1.2

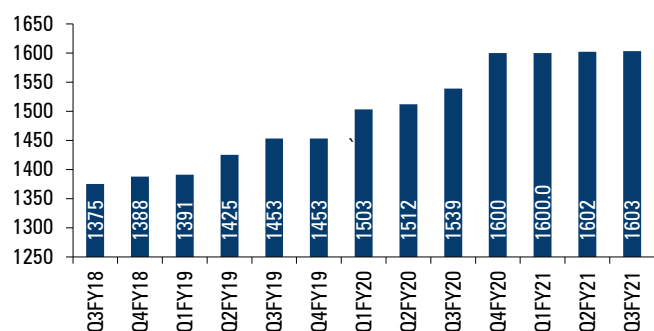
Source: Company, ICICI Direct Research

Exhibit 6: NIM continues upward trajectory



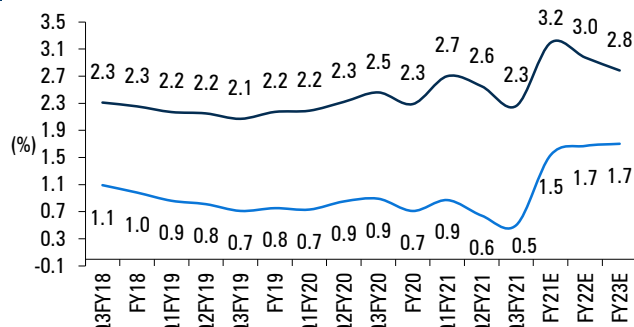
Source: Company, ICICI Direct Research

Exhibit 7: Branch addition remains muted



Source: Company, ICICI Direct Research

Exhibit 8: Asset quality trend



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated performance over quarters

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Kotak Bank	1025	1142	1291	1408	1360	1724	1596	1267	1244	2184	1854
Kotak Securities	130	112	99	111	110	149	128	163	169	199	184
Kotak Mahindra Capital	25	14	3	21	45	1	40	-7	6	14	38
Kotak Prime	139	157	139	164	153	172	187	161	68	133	149
Kotak AMC & Trust	51	52	76	75	73	85	91	88	71	84	91
International Subsidiaries	33	47	37	32	29	34	26	30	54	45	5
Kotak Investment advisors/ others	28	13	11	15	17	22	42	8	35	28	31
Kotak Mahindra Investments	48	45	40	73	63	67	64	77	43	74	68
Kotak Mahindra Life Insurance	117	127	125	138	134	144	166	165	161	171	167
Total (net off affiliates/minority)	1574	1747	1844	2038	1932	2407	2349	1906	1853	2947	2602

Source: Company, ICICI Direct Research

Exhibit 10: Kotak Prime key financials

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
PBT	266	274	240	235	234	250	203	93	179	201
PAT	157	139	164	153	172	187	161	68	133	149
Loans	28544	27907	28268	27749	27298	25855	24864	22834	22710	24864
-car loans in same	20740	20191	20271	19554	19041	17998	17480	16143	16128	17480
CAR	18.2	18.9	19.4	20.1	21	22.6	24.3	26.2	26.6	29.7
ROA	2	1.8	2.2	2	2.3	2.6	2.3	1	2.2	2.4
NET NPA	0.40%	0.43%	0.44%	0.54%	0.56%	0.61%	0.60%	1.07%	1.30%	0.90%

Source: Company, ICICI Direct Research

Exhibit 11: Life insurance performance

Premium (₹ crore)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Total Premium	1823.0	0.0	2190.0	-1005.0	-2225.0	1207.0	2401.0	2623.0
Indvl Regular	723.0	840.0	353.0	1564.0	2479.0	222.0	337	367
Group	617.0	709.0	659.0	852.0	769.0	283.0	582	608
Single	264.0	91.0	165.0	229.0	352.0	133.0	256	270
Individual Renewal	1604.0	1640.0	1013.0	2645.0	3865.0	569.0	1226	1378
APE	1366.4	1558.1	1028.5	2438.9	3283.2	518.3	944.6	1002.0
Solvency Ratio (%)	3.0	3.0	3.1	3.0	2.9	3.0	3.0	3.0
PAT	138.0	134.0	144.0	166.0	165.0	161.0	171	167

Source: Company, ICICI Direct Research

Exhibit 12: Du point analysis (Standalone)

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net interest income/ avg. total assets	4.0	4.0	3.9	4.0	4.0	3.8	3.8
Non-interest income/ avg. total assets	1.7	1.7	1.6	1.6	1.3	1.3	1.4
Non-operating profit/ avg. total assets	5.7	5.7	5.5	5.6	5.3	5.1	5.2
Operating expenses/ avg. total assets	2.8	2.7	2.6	2.6	2.2	2.2	2.0
Operating profit/ avg. total assets	2.9	3.0	2.9	3.0	3.1	2.9	3.1
Provisions/ avg. total assets	0.4	0.4	0.3	0.7	0.7	0.4	0.4
Return on avg. total assets	1.7	1.7	1.7	1.8	1.8	1.9	2.0
Leverage	7.9	7.4	7.2	7.3	6.8	6.5	6.5
Return on equity	13.2	12.5	12.1	12.9	12.4	12.0	13.1

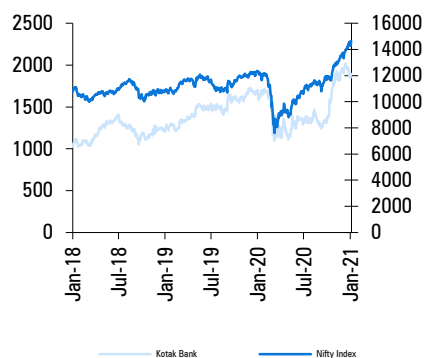
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	30.0	30.0	29.9	26.1	26.1	26.0
FII	40.2	39.8	39.2	42.2	42.2	45.1
DII	12.3	12.4	12.6	15.3	14.9	12.9
Others	17.6	17.9	18.3	16.5	16.8	16.0

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	FY23E
Interest Earned	23890.1	26929.6	28189.8	30482.8	35224.2
Interest Expended	12684.2	13429.9	12802.9	14181.9	16307.0
Net Interest Income	11205.8	13499.7	15386.9	16300.9	18917.1
growth (%)	17.6	20.5	14.0	5.9	16.0
Non Interest Income	4657.2	5372.1	4863.4	5740.6	6825.9
Net Income	15863.0	18871.8	20250.3	22041.4	25743.0
Operating expense	7514.8	8850.9	8378.5	9340.6	10139.6
Gross profit	8348.2	10020.8	11871.8	12700.8	15603.5
Provisions	962.4	2216.2	2492.0	1815.4	2147.8
Taxes	2520.5	1857.5	2391.9	2775.8	3431.2
Net Profit	4865.3	5947.2	6988.0	8109.6	10024.4
growth (%)	19.1	22.2	17.5	16.1	23.6
EPS	16.7	20.4	23.5	27.2	33.7

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Valuation					
No. of Equity Shares	290.9	291.3	297.8	297.8	297.8
EPS (₹)	16.7	20.4	23.5	27.2	33.7
BV (₹)	147.5	168.3	212.4	239.6	273.3
ABV (₹)	142.2	162.9	200.6	224.9	256.0
P/E	107.3	87.9	76.5	65.9	53.3
P/BV	12.6	11.0	8.9	8.0	7.0
P/ABV	12.5	11.0	8.8	7.8	6.8
Yields & Margins (%)					
Yield on avg earning assets	8.8	8.9	8.9	8.6	8.6
Avg. cost on funds	5.3	4.8	4.0	4.0	4.0
Net Interest Margins	4.1	4.5	4.8	4.6	4.6
Avg. Cost of Deposits	5.3	4.9	4.1	4.1	4.2
Yield on average advances	9.8	9.9	9.8	9.6	9.6
Quality and Efficiency (%)					
Cost/ Total net income	47.4	46.9	41.4	42.4	39.4
Credit/Deposit ratio	91.1	83.6	78.3	78.4	78.6
GNPA	2.2	2.3	3.2	3.0	2.8
NNPA	0.8	0.7	1.5	1.7	1.7
ROE	12.1	12.9	12.4	12.0	13.1
ROA	1.7	1.8	1.8	1.9	2.0

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Capital (incl PCNPS)	1454.4	1456.5	1489.0	1489.0	1489.0
ESOPS	2.2	2.2	2.2	2.2	2.2
Reserves and Surplus	41444.0	47558.8	61764.1	69873.7	79898.2
Networth	42900.6	49017.5	63255.3	71364.9	81389.4
Deposits	225880.4	262820.5	292568.8	336230.5	386444.8
Borrowings	32248.3	37993.3	38528.4	42156.3	46354.9
Other Liabilities & Provisions	11143.0	10419.7	11720.4	12999.3	14428.4
Total	312172.2	360251.0	406072.9	462751.1	528617.4
Applications of Funds					
Fixed Assets	1651.6	1623.1	2152.6	2469.2	2777.7
Investments	71189.1	75051.5	88563.7	104568.9	123781.5
Advances	205695	219748.2	229004.8	263658.3	303556.9
Cash with RBI & call money	24675.5	53292.3	54110.7	55084.4	56250.2
Total	312172.2	360251.0	406072.9	462751.1	528617.4

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					
(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E
Total assets	17.8	15.4	12.7	14.0	14.2
Advances	21.2	6.8	4.2	15.1	15.1
Deposits	17.3	16.4	11.3	14.9	14.9
Total Income	19.9	13.2	2.3	9.6	16.1
Net interest income	17.6	20.5	14.0	5.9	16.0
Operating expenses	16.9	17.8	-5.3	11.5	8.6
Operating profit	16.6	20.0	18.5	7.0	22.9
Net profit	19.1	22.2	17.5	16.1	23.6
Book value	14.5	14.3	29.0	12.8	14.0
EPS	-22.0	22.1	14.9	16.1	23.6

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector/Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
BoB (BANBAR)	76	70	Hold	307	1.2	4.3	7.1	64.3	17.7	10.7	0.7	0.6	0.6	0.1	0.2	0.3	0.9	2.7	4.4
SBI (STABAN)	298	290	Hold	2571	16.3	19.1	28.9	18.3	16	10.3	1.5	1.4	1.2	0.4	0.4	0.6	6.4	7.1	9.9
Indian Bank (INDIBA)	90	88	Hold	99	22.6	33.7	33.2	4.0	2.7	2.7	0.4	0.3	0.3	0.4	0.5	0.4	5.5	7.8	7.3
Axis Bank (AXIBAN)	680	710	Buy	2058	5.8	10.6	25.6	118	64.0	26.6	2.5	2.5	2.4	0.2	0.3	0.7	2.1	3.5	8.0
City Union (CITUNI)	174	130	Hold	136	8.4	10.0	10.0	20.7	17.4	17.4	3.0	2.6	2.2	1.0	1.2	1.3	9.4	11.2	11.9
DCB Bank (DCB)	116	130	Buy	36	10.9	11.0	14.0	10.7	10.5	8.3	1.2	1.2	1.0	0.9	0.9	1.1	11.3	10.4	11.8
Federal Bank (FEDBAN)	78	90	Buy	154	6.3	7.7	7.9	12.4	10.1	9.9	1.3	1.2	1.1	0.8	0.9	0.8	9.8	11.1	10.4
HDFC Bank (HDFBAN)	1,466	1,700	Buy	8076	47.9	55.9	65.6	30.6	26.2	22.3	4.8	4.2	3.6	1.9	1.9	1.9	16.4	16.7	17.1
IndusInd Bank (INDBA)	940	1,050	Hold	728	63.7	32.5	50.9	14.8	28.9	18.5	2.0	1.9	1.8	1.5	0.8	1.1	14.4	6.6	9.3
J&K (JAMKAS)	29	25	Hold	19	-16.0	7.5	10.4	-1.8	3.9	2.8	0.5	0.4	0.3	-1.1	0.5	0.6	-17.5	8.1	10.6
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3527	20.4	23.5	27.2	86.2	75.0	64.6	10.8	8.8	7.8	1.8	1.8	1.9	12.9	12.4	12.0
Bandhan (BANBAN)	341	370	Hold	549	18.1	14.7	24.7	18.8	23.2	13.8	3.7	3.9	3.1	3.9	2.3	3.2	22.1	15.0	21.9
IDFC First (IDFBAN)	50	45	Buy	254	-6.0	0.8	1.5	-8.4	63.7	33.0	1.7	1.7	1.6	-1.9	0.3	0.5	-18.7	2.7	4.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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