

Accumulate

On track despite some hiccups

- KMB reported in line NII growth of 8% YoY, impacted by high slippages and few one-offs (previous quarter's interest reversal, compound interest waiver of Rs1.1bn). Operating profits benefitted from higher treasury gains and better fee lines, growing by 25% YoY. Sequential loan growth of 4.5% YoY was driven by HL (10% QoQ) and SME (6-7%), CV/CE (9%), and agri loans (9%).
- **Pro-forma slippages at 4% for 4QFY21 and 2.5% for FY21 seemed higher than peers** (HDFCB/Axis/ICICI at 1.7%/3%/2.5% for FY21). KMB's higher CoF in previous cycle and associated asset side risks could be playing out in our view. **Pro forma PCR increased to 64% (from 61%), but remains below peers, which are at 70-75%.**
- However, banks restructured book at 0.2% remains below peers (0.3-0.5%). **The bank neither utilized nor made additional COVID related provision buffers**, which remain at Rs12.8bn, or 0.6% of advances. Sequentially stable GNPA ratio at 3.25% benefitted from both better recoveries/upgrades and higher write-offs.
- **ECLGS disbursements stood at Rs115bn or 5.1% of advances.** The portfolio is doing well as per management.
- The bank **continued to see healthy traction in low cost deposits** with CASA ratio inching higher to 60.4% from 58.9% in Q3FY21. Quarterly average CA/SA deposits grew at 17%/27% YoY.
- Subsidiaries reported steady performance, with strong profitability reported by its broking subsidiary.
- **Backed by its sub 4% CoF for FY21, we expect improved growth metrics to continue. However, we don't rule out risks of asset quality remaining somewhat behind other large private peers given the asset side risks taken earlier.** Margins should stabilize higher at 4.5% as rise in CD ratio (at 80% currently) offsets the impact of more competitive lending yields. The key drivers for RoA will be increased operating efficiencies and moderation in credit costs in our view.
- **Tweaking our forward estimates, we maintain our ACCUMULATE rating with an unrevised TP of Rs1,900 based on 3.7x FY23E ABV for the standalone bank and value of subsidiaries, implying a P/ABV of 4.9x.**

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net interest income	38,428	35,597	8.0	38,756	(0.8)
Other income	19,495	14,894	30.9	12,850	51.7
Total Net Income	57,923	50,490	14.7	51,606	12.2
Operating expenses	23,849	23,238	2.6	22,579	5.6
Pre-provision profits	34,075	27,253	25.0	29,027	17.4
Provisions	11,794	10,475	12.6	4,190	181.5
Tax expense	5,457	4,112	32.7	6,308	(13.5)
Reported Net Profit	16,824	12,666	32.8	18,529	(9.2)
			(bps)		(bps)
Advances Growth (%)	1.8	6.8	(500)	(1.2)	303
NIM (%)	4.4	4.7	(33)	4.5	(12)
RoA (%)	1.8	1.5	30	2.0	(17)
RoE (%)	12.0	11.1	90	13.4	(143)
Gross NPA (%)	3.3	2.3	100	2.3	99

CMP	Rs 1,725
Target / Upside	Rs 1,900 / 10%
NIFTY	14,634

Scrip Details

Equity / FV	Rs 9,909mn / Rs 5
Market Cap	Rs 3,419bn
	USD 46bn
52-week High/Low	Rs 2,049/ 1,110
Avg. Volume (no)	4,006,380
Bloom Code	KMB IN

Price Performance	1M	3M	12M
Absolute (%)	(4)	(10)	35
Rel to NIFTY (%)	(2)	(6)	(19)

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	26.1	26.1	26.0
MF/Banks/FIs	14.9	14.9	13.5
FIIIs	42.2	42.2	44.2
Public / Others	16.8	16.8	16.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	49.1	40.9	34.5
P/ABV	5.9	5.1	4.5
ROAA	1.9	2.1	2.1
ROAE	12.4	12.3	12.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	153,397	170,709	194,660
PPOP	122,155	128,213	148,614
PAT	69,657	83,620	99,162
Adj BV	292.2	335.1	384.9

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Risks to our View: Any tails risks from a large ECLGS portfolio, lagged impact of COVID related stress, inability to grow its book meaningfully.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	38,428	39,719	(3.3)	High treasury gains and fee income support operating profits
Operating Profit	34,075	30,382	12.2	
PAT	16,827	18,937	(11.1)	Elevated provisions hurt profitability

Source: Company, DART

Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Operating Revenue	2,29,903	2,63,262	2,25,811	2,57,648	(1.8)	(2.1)
Pre Provision Profits	1,32,204	1,57,094	1,28,213	1,48,614	(3.0)	(5.4)
PAT	86,807	1,05,158	83,620	99,162	(3.7)	(5.7)

Source: Company, DART

Exhibit 3: SOTP Valuation

Entity	Stake %	Per Share Value	Methodology
Standalone Bank (adjusted for investment in subsidiaries, A)	100	1,419	3.7x FY23E ABV
Kotak Mahindra Prime	100	92	2.5x Net Worth
Kotak Mahindra Life Insurance	100	231	3.5x EV
Kotak Securities	100	104	25x P/E
Kotak Mahindra Capital	100	10	20x P/E
Asset Management Business	100	107	9% of AUM
Kotak Mahindra Investments	100	12	1x Net Worth
Value of Subsidiaries (B)		555	
Holdco. Discount	15		
Value of the bank (A+B)		1,900	
Contribution of subs to total (%)		25	

Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4 FY21	Q4 FY20	% yoy / bps	Q3 FY21	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc.	64,489	68,047	(5.2)	66,593	(3.2)	2,68,403	2,69,296	(0.3)
Interest Expenses	26,061	32,450	(19.7)	27,837	(6.4)	1,15,006	1,28,888	(10.8)
Net Interest Income	38,428	35,597	8.0	38,756	(0.8)	1,53,397	1,40,408	9.3
NII to Net Operative Income	66.3	70.5	(416)	75.1	(876)	73.7	72.3	142
NIM (%)	4.39	4.72	(33)	4.5	(12)	4.5	4.6	(17)
Commission, exchange, and brokerage	13,780	12,700	8.5	11,210	22.9	43,330	47,180	(8.2)
Other Income - Total	5,710	2,190	160.7	1,640	248.2	11,270	6,410	75.8
Other Inc to Net Oper. Income (%)	19,495	14,894	30.9	12,850	51.7	54,600	53,721	1.6
Net Operating Revenue	33.7	29.5	416	24.9	876	26.3	27.7	(142)
Employee Expenses	57,923	50,490	14.7	51,606	12.2	2,07,997	1,94,129	7.1
Empl. Cost/Oper. Exps. (%)	8,689	9,696	(10.4)	9,593	(9.4)	37,291	38,776	(3.8)
Other Opex	15.0	19.2	(420)	18.6	(359)	17.9	20.0	(205)
Other Opex/ Assets (%)	15,160	13,542	11.9	12,986	16.7	48,550	49,733	(2.4)
Total Opex	0.4	0.4	0	0.3	6	1.3	1.5	(17)
Cost to Income Ratio (%)	23,849	23,238	2.6	22,579	5.6	85,841	88,509	(3.0)
Pre-Provision Profits	41.2	46.0	(485)	43.8	(258)	41.3	45.6	(432)
Provisions & Contingencies - Total	34,075	27,253	25.0	29,027	17.4	1,22,155	1,05,620	15.7
NPA Provisions as % PPP	11,794	10,475	12.6	4,190	181.5	29,117	22,162	31.4
Profit Before Tax	34.6	38.4	(382)	14.4	2,018	23.8	21.0	285
Current period tax	22,284	16,784	32.8	24,840	(10.3)	93,038	83,458	11.5
Tax	5,457	4,112	32.7	6,308	(13.5)	23,382	18,575	25.9
Effective Tax Rate (%)	5,457	4,112	32.7	6,308	(13.5)	23,382	18,575	25.9
Reported Profits	24.5	24.5	(1)	25.4	(90.4)	25.1	22.3	287
RoA (%)	16,827	12,672	32.8	18,532	(9.2)	69,657	64,883	7.4
Basic EPS (Rs)	1.7	1.9	(15)	2.0	(24.0)	1.9	2.0	(11)
Diluted EPS (Rs)	8.3	6.4	30.1	9.4	(11.4)	35.1	30.9	13.7

Source: DART, Company

Asset Quality (Rs mn)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	QoQ % / bps	YoY % / bps
Gross NPA Ratio (%)	2.46	2.25	2.70	2.55	2.26	3.25	99	100
PCR - Calculated (%)	64.4	69.0	68.4	75.6	78.4	63.6	(1,484)	(544)
Net NPA	19,251	15,579	17,771	13,038	10,640	27,052	154.2	73.6
Net NPAs Ratio (%)	0.89	0.71	0.87	0.64	0.50	1.21	71	50
Reported Profits	15,965	12,672	12,450	21,851	18,532	16,827	(9.2)	32.8
RoA (%)	2.00	1.87	1.36	2.36	1.96	1.72	(24)	(15)

Source: DART, Company

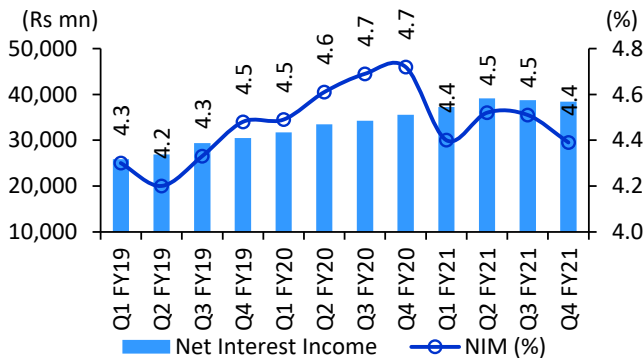
Customer Assets (Rs bn)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	% Share	% QoQ	% YoY
Home Loans and LAP	4,85,160	4,71,680	4,77,320	4,99,770	5,47,490	22.9	9.5	12.8
Consumer Bank WC	1,98,390	1,82,400	1,95,620	2,05,480	2,18,390	9.1	6.3	10.1
PL/BL/ Consumer Durables	97,540	90,880	81,770	75,280	70,240	2.9	(6.7)	(28.0)
Credit Cards	47,010	43,430	43,780	45,570	39,690	1.7	(12.9)	(15.6)
CV / CE	1,92,530	1,84,420	1,83,630	1,86,850	2,03,870	8.5	9.1	5.9
Agri	2,11,880	1,95,480	2,09,260	2,18,580	2,37,410	9.9	8.6	12.0
Tractor	75,690	75,030	81,510	89,430	94,180	3.9	5.3	24.4
Corporate Banking	6,45,640	5,81,190	5,61,190	5,98,750	5,91,260	24.8	(1.3)	(8.4)
SME	2,02,910	1,80,480	1,81,180	1,87,020	1,99,580	8.4	6.7	(1.6)
Others	40,730	34,990	33,190	34,300	34,780	1.5	1.4	(14.6)
Total Advances	21,97,480	20,39,980	20,48,450	21,41,030	22,36,890	93.6	4.5	1.8
Credit Substitutes	92,220	1,28,210	1,39,450	1,47,060	1,51,680	6.4	3.1	64.5
Total Customer Assets	22,89,700	21,68,190	21,87,900	22,88,090	23,88,570	100.0	4.4	4.3
Kotak Prime	2,48,640	2,28,340	2,27,100	2,10,330	2,18,040	100	3.7	(12.3)
- Cars	1,74,800	1,61,430	1,61,280	1,56,560	1,58,010	74	0.9	(9.6)
- Others	73,840	66,910	65,820	53,770	60,030	34	11.6	(18.7)

Source: DART, Company

Balance Sheet Analysis (Rs mn)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	QoQ % / bps	YoY % / bps
Net Worth	4,76,060	4,90,153	5,77,090	5,99,229	6,19,140	6,37,270	2.9	30.0
Tier 1 (%)	17.1	17.3	20.6	21.4	20.9	21.4	50	410
Total CAR (%)	18.2	17.9	21.2	22.1	21.5	22.3	76	440
Advances - Total	21,67,740	21,97,482	20,39,980	20,48,446	21,41,030	22,36,886	4.5	1.8
Investments	7,66,010	7,50,515	10,26,930	11,67,237	10,90,370	10,50,992	(3.6)	40.0
Total Assets	32,34,810	36,02,517	37,82,790	37,47,651	38,90,260	38,34,886	(1.4)	6.5
RoA (%)	2.00	1.87	1.36	2.36	1.96	1.72	(24)	(15)
Deposits	23,93,540	26,28,205	26,15,240	26,15,636	26,53,040	28,01,000	5.6	6.6
CASA Deposits	12,85,170	14,76,220	14,83,480	14,94,440	15,61,740	16,93,130	8.4	14.7
CASA Ratio (%)	53.7	56.2	56.7	57.1	58.9	60.4	150	423
Term Deposits	11,08,370	11,51,985	11,31,760	11,21,196	10,91,300	11,07,870	1.5	(3.8)

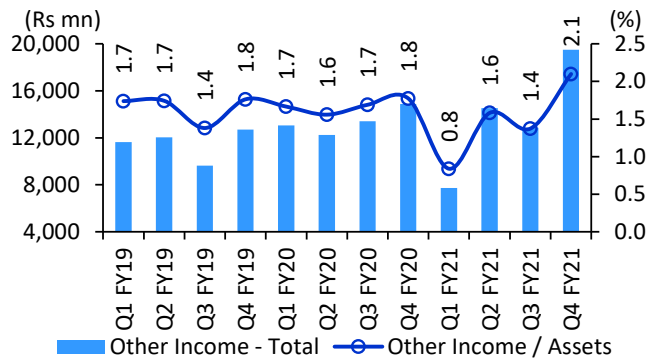
Source: DART, Company

Exhibit 4: NIM impacted by surplus liquidity and high interest reversals/compound waiver impact



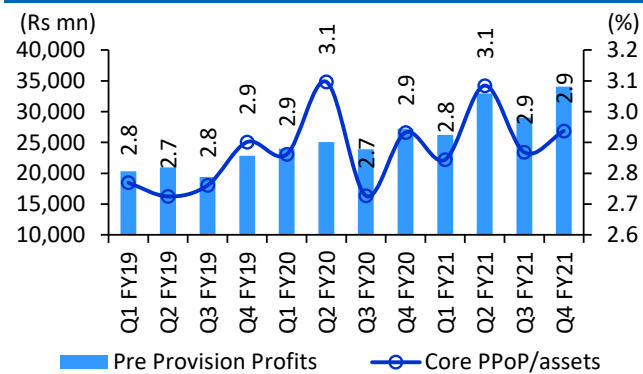
Source: Company, DART

Exhibit 5: Higher treasury gains and improved fee lines aid operating metrics



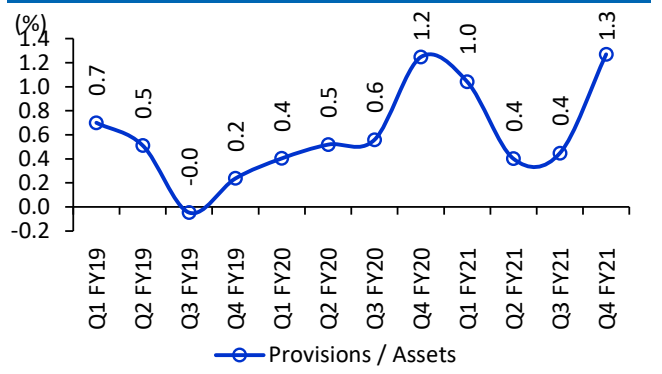
Source: Company, DART

Exhibit 6: Higher fee lines support core PPOP profile



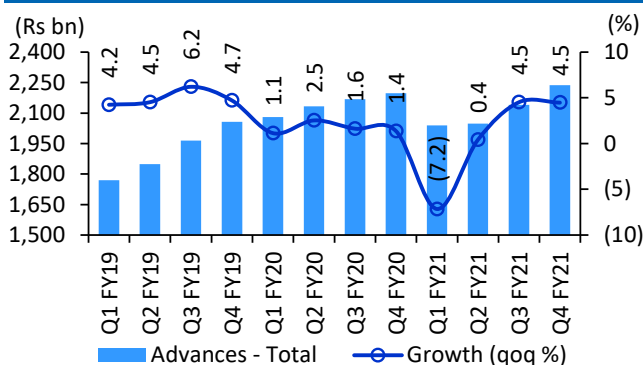
Source: Company, DART

Exhibit 7: Sharp rise in NPA and investment provisions (MTM/SR) hurt profits



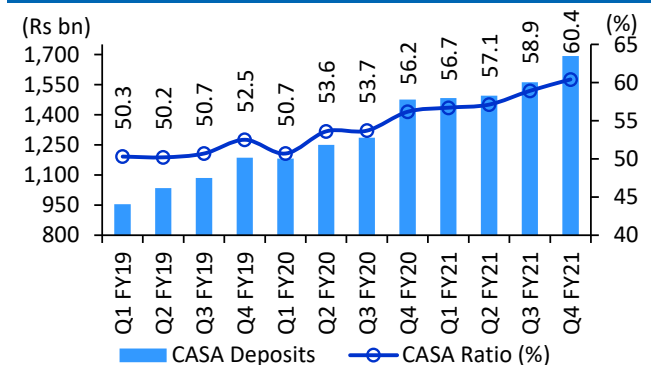
Source: Company, DART

Exhibit 8: Loan growth normalizing at higher levels, led by HL book



Source: Company, DART

Exhibit 9: CASA trends continue to remain impressive



Source: Company, DART

Conference Call Highlights

- Slippages at 4% for 4QFY21 and 2.5% for FY21 were higher than expectation/peers (HDFCB/Axis/ICICI at 1.7%/3%/2.5% for FY21)
- On change of guard post end of tenure by Dec-23- The promoters will continue to be long term shareholders and will comply with the RBI regulations.
- While current mix is more towards secured loans where focus will continue, significantly building technological capabilities and envisage growing opportunities in the unsecured piece as well.
- Higher NPA provisions was led by sharp rise in internal provisioning requirements for 180+ dpd for certain portfolios like CV, where earlier moratorium slippages of Dec quarter have now moved to. Rise in other prov was driven by provisions made towards SR book.
- Open to both organic and inorganic acquisitions. However, branch network has much less value today vs the customer franchise a potential target may offer. CA/high transaction markets key for branch strategy, SA acquisitions are mostly digital now (94% incremental SA sourced digitally).
- Corp lending- very competitive pricing. The bank has relationships, access and ability to source. However, does not find it accretive based on risk adjusted return.
- ECLGS book has done very well and stands at Rs115bn or 5.1% of advances. Many corporates had ability to raise capital, and therefore the segment has not seen much concerns either.

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	269,296	268,403	296,391	341,587
Interest expenses	128,888	115,006	125,682	146,927
Net interest income	140,408	153,397	170,709	194,660
Other incomes	53,721	54,600	55,102	62,988
Total expenses	88,509	85,841	97,599	109,034
- Employee cost	38,776	37,291	41,766	45,943
- Other	49,733	48,550	55,833	63,091
Pre provisioning profit	105,620	122,155	128,213	148,614
Provisions	22,162	29,117	16,466	16,097
Profit before taxes	83,458	93,038	111,746	132,517
Tax provision	18,575	23,382	28,127	33,355
Profit after tax	64,883	69,657	83,620	99,162
Adjusted profit	64,883	69,657	83,620	99,162

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	9,565	9,909	9,909	9,909
Reserves & Surplus	475,617	622,383	706,002	805,165
Minority Interest	0	0	0	0
Net worth	490,182	637,292	720,911	820,074
Borrowings	379,933	236,507	373,562	439,946
- Deposits	2,628,205	2,801,000	3,022,454	3,559,560
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	104,197	160,088	158,654	139,807
Total Liabilities	3,602,517	3,834,886	4,275,581	4,959,387
Application of Funds				
Cash and balances with RBI	532,923	396,265	371,135	391,249
Investments	750,515	1,050,992	1,116,564	1,233,460
Advances	2,197,482	2,236,886	2,594,788	3,113,746
Fixed assets	16,231	15,353	17,087	18,524
Other current assets, loans and advances	105,365	135,390	176,007	202,408
Total Assets	3,602,517	3,834,886	4,275,581	4,959,387

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	9.9	8.4	8.5	8.5
Yields on interest earning assets	8.3	7.5	7.6	7.7
Yield on investments	7.2	7.2	7.6	7.5
Costs of funds	4.6	3.8	3.9	4.0
Cost of deposits	5.3	4.9	3.9	4.0
NIMs	4.3	4.3	4.4	4.4
(B) Asset quality and capital ratios (%)				
GNPA	2.3	3.3	2.8	2.4
NNPA	0.7	1.2	1.0	0.8
PCR	69.0	63.7	65.0	65.0
Slippages	1.7	2.5	1.8	1.6
NNPA to NW	3.2	4.2	3.6	3.2
CASA	56.2	59.0	56.0	56.0
CAR	16.9	17.9	16.8	16.1
Tier 1	16.4	17.3	16.3	15.7
Credit - Deposit	83.6	79.9	85.9	87.5
(C) Dupont as a percentage of average assets				
Interest income	8.0	7.2	7.3	7.4
Interest expenses	3.8	3.1	3.1	3.2
Net interest income	4.2	4.1	4.2	4.2
Non interest Income	1.6	1.5	1.4	1.4
Total expenses	2.6	2.3	2.4	2.4
- cost to income	45.6	41.3	43.2	42.3
Provisions	0.7	0.8	0.4	0.3
Tax	0.6	0.6	0.7	0.7
RoA	1.9	1.9	2.1	2.1
Leverage	7.3	6.0	5.9	6.0
RoE	14.1	12.4	12.3	12.9
RoRwa	1.6	2.0	2.1	2.1
(D) Measures of Investments				
EPS - adjusted	33.9	35.1	42.2	50.0
BV	239.9	305.8	348.0	398.1
ABV	231.8	292.2	335.1	384.9
(E) Growth Ratios (%)				
Net interest income	24.7	9.3	11.3	14.0
PPoP	26.5	15.7	5.0	15.9
Adj PAT	33.4	7.4	20.0	18.6
Advances	6.8	1.8	16.0	20.0
Total borrowings	17.8	(37.8)	57.9	17.8
Total assets	15.4	6.5	11.5	16.0
(F) Valuation Ratios				
Market Cap (Rs. mn)	3,419,497	3,419,497	3,419,497	3,419,497
CMP (Rs.)	1725	1725	1725	1725
P/E (x)	50.9	49.1	40.9	34.5
P/BV (x)	7.2	5.6	5.0	4.3
P/ABV (x)	7.4	5.9	5.1	4.5

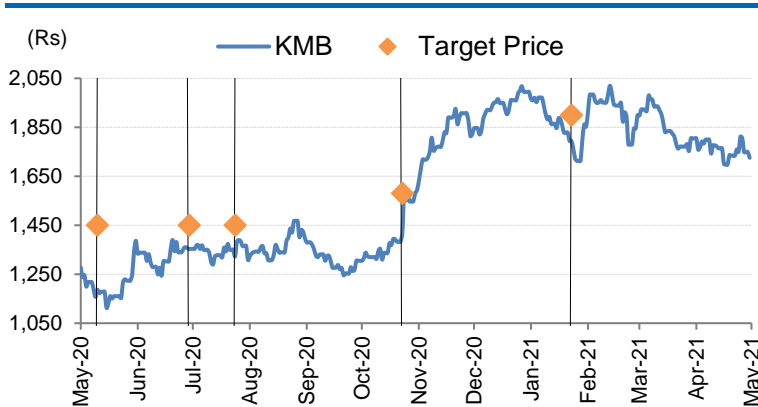
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	BUY	1,450	1,187
Jul-20	Accumulate	1,450	1,352
Jul-20	Accumulate	1,450	1,323
Oct-20	Accumulate	1,580	1,417
Jan-21	ACCUMULATE	1,900	1,794

*Price as on recommendation date

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