

CMP: ₹ 2210

Target: ₹ 2550 (15%)

Target Period: 12 months

October 27, 2021

BUY

Steady performance; pick-up in advances growth...

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 60.6% of total deposits aiding lower costs
- Strong RoA of 1.8% and RoE of 12-13% make it a good profitable bank

Q2FY22 Results: Steady performance; business growth picked up.

- Advances revived 14.7% YoY to 2.35 lakh crore, deposits up 11.5% YoY
- NII growth slower at 3.2% YoY, NIMs decline 5 bps YoY to 5.45%
- Steady operations & lower provision led PAT at ₹ 2032 crore, up 23.8% QoQ
- GNPA declined 37 bps QoQ to 3.19%; restructured book at 54 bps

What should investors do? KMB's share price has grown by ~3x over the past five years (from ~₹ 745 in March 2016 to ~₹ 2210 now).

- We stay positive on fundamentals expecting healthy business growth ahead. Thus, we maintain our BUY rating

Target Price and Valuation: We value standalone bank at ~4.5x FY24E ABV and subsidiaries at ₹ 523 post holding company discount giving SOTP target of ₹ 2550

Key triggers for future price performance:

- Long term focus on maintaining risk adjusted returns to drive return ratios
- Steady stressed assets coupled with provision buffer provides comfort
- Consistent performance over a period of time, healthy return ratios ~1.8-2% RoA & 12-13% RoE with strong management justify valuations
- Subsidiaries like Kotak Prime, life insurance, AMC & securities continue healthy performance

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

- HDFC Bank is a steady performer even during turbulent times and offers consistency along with strong operational matrix
- BUY with a target price of ₹ 2000



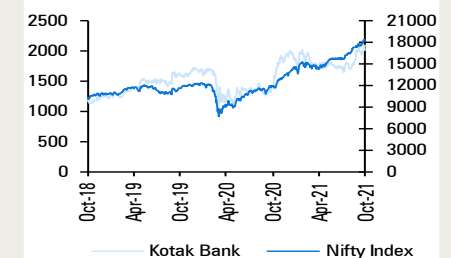
Particulars

Particulars	Amount
Market Capitalisation	₹ 438262 crore
NIM (Q2FY22)	4.5%
52 week H/L	2238/1341
Net worth	₹ 63729 crore
Face value	₹ 5

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	26.1	26.0	26.0	26.0	26.0
FII	42.2	45.1	44.2	42.8	42.6
DII	14.9	12.9	13.5	14.6	13.5
Others	16.8	16.0	16.2	16.6	17.9

Price Chart



Recent Event & Key risks

Advances pick up at 14.7% YoY. Provisions at 100% of GNPA

Key Risk: Moderation in business growth trajectory; caution on repayment in ECLGS book

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Key Financial Summary

₹ crore	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
NII	13500	15340	17%	16561	19805	23192	23%
PPP	10021	12215	20%	12421	14976	17600	20%
PAT	5137	6965	20%	7703	9697	11452	28%
ABV	248	308		344	393	453	
P/E	82.3	62.9		56.9	45.2	38.2	
P/ABV	8.9	7.1		6.4	5.6	4.9	
RoA	1.5	1.9		1.9	2.1	2.2	
RoE	11.2	12.4		11.4	12.7	13.2	

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Advances pick up; asset quality steady

- KMB posted Nil growth of 3.2% YoY to ₹ 4021 crore, slower compared to credit growth due to 5 bps YoY decline in margins to 4.45%
- Loan growth revived 14.7% YoY to ₹ 234965 crore. Home loans up 28% YoY, 9% YoY in corporate loan, 23.6% YoY in SME & 10.2% YoY in agri
- Non-interest income reported sharp jump of 26.5% YoY to ₹ 1812 crore, driven by fee income. Lower provision at ₹ 703 crore led PAT growth at 23.8% QoQ to ₹ 2032 crore
- Subsidiaries profit was decent with Kotak Securities positing healthy 22% YoY growth in earnings at ₹ 243 crore. Kotak Prime, the non-banking arm, reported healthy revival in profit at ₹ 240 crore, up 80% YoY and 203% QoQ

Q2FY22 Earnings Conference Call highlights

- Remain positive on revival of economy though feel the economy is at the end of the easy money cycle
- After being conservative in earlier quarters, the bank has pedalled growth in secured segment evident through pick up in home loan. Going ahead, unsecured credit and business banking are expected to remain in focus
- Customer acquisition remains the main focus area. Front end opex to customer acquisition to remain elevated
- Gross slippages for Q2FY22 were at ₹ 1293 crore, recovery & upgrades at ₹ 1350 crore. On a net basis, slippages were below ₹ 1000 crore.
- Strong digital strategy categorised in three pillars - Acquisition, engagement, experience
- Acquiring 10% stake in K Fintech and buying of Volkswagen book remains strategic move to drive customer acquisition and business growth
- Outstanding ECGLS loans are at ₹ 12300 crore. No material asset quality is evident in the book

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
BoB (BANBAR)	96	120	Buy	489	2.5	8.9	13.4	38.6	10.8	7.2	0.9	0.8	0.7	0.1	0.4	0.5	1.7	5.8	8.2
SBI (STABAN)	506	540	Buy	4488	22.9	30.5	35.8	22	16.6	14.1	2.1	1.9	1.7	0.5	0.6	0.6	8.4	10.2	10.8
Indian Bank (INDIBA)	187	180	Buy	174	26.6	32.9	46.7	7.0	5.7	4.0	0.9	0.9	0.8	0.6	0.6	0.8	9.9	10.4	13.5
Axis Bank (AXIBAN)	842	970	Buy	2583	21.5	41.0	52.7	39.2	20.6	16.0	2.7	2.5	2.1	0.7	1.2	1.4	7.1	11.7	13.4
City Union (CITUNI)	176	200	Buy	126	8.8	9.3	11.7	20.0	18.9	15.1	2.7	2.4	2.0	1.3	1.2	1.4	11.9	11.3	12.4
Federal Bank (FEDBAN)	104	120	Buy	218	8.0	8.8	11.3	13.1	11.8	9.2	1.4	1.4	1.2	0.8	0.9	1.0	10.4	10.9	12.7
HDFC Bank (HDFBAN)	1,656	2,000	Buy	9335	47.9	56.4	66.1	34.6	29.3	25.0	5.4	4.6	4.0	1.9	1.9	1.9	16.4	16.6	16.7
IndusInd Bank (INDBA)	1,177	1,150	Buy	936	36.7	69.1	76.1	32.1	17.0	15.5	2.2	2.1	2.0	0.8	1.4	1.4	7.3	12.1	12.8
Kotak Bank (KOTMAH)	2,210	2,550	Buy	4382	35.1	39.9	50.2	62.9	55.3	44.0	7.2	6.4	5.6	1.9	1.9	2.1	12.4	11.7	13.0
CSB Bank (CSBBAN)	307	380	Buy	53	12.6	19.7	24.7	24.4	15.6	12.4	2.9	2.5	2.1	0.1	1.0	1.4	10.5	14.6	15.8
Bandhan (BANBAN)	310	310	Hold	519	13.7	19.0	29.5	22.6	16.3	10.5	3.4	2.9	2.3	2.1	2.5	3.2	13.5	16.3	21.1
IDFC First (IDFBAN)	49	60	Buy	306	0.8	0.6	2.9	61.5	83.0	16.8	1.6	1.3	1.2	0.3	0.2	0.9	2.7	1.8	7.3

Source: Company, ICICI Direct Research

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

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	Comments
NII	4,020.6	4,014.3	3,897.5	3.2	3,941.7	2.0	Healthy pick up in advances offset by decline in NIM
NIM (%)	4.45	4.60	4.50	-5 bps	4.60	-15 bps	NIM decline attributable to slower off-take in high yielding book
Other Income	1,812.6	1,405.9	1,432.4	26.5	1,351.8	34.1	Fee income pickup helps non interest income
Net Total Income	5,833.2	5,420.2	5,329.9	9.4	5,293.4	10.2	
Staff cost	1,177.4	1,103.9	990.1	18.9	1,082.3	8.8	
Other Operating Expenses	1,535.6	1,374.2	1,077.7	42.5	1,321.3	16.2	
PPP	3,120.2	2,942.1	3,262.1	-4.4	2,889.8	8.0	
Provision	424.0	679.1	333.2	27.2	703.5	-39.7	
PBT	2,696.2	2,263.0	2,928.9	-7.9	2,186.3	23.3	
Tax Outgo	664.2	577.1	744.4	-10.8	544.4	22.0	
PAT	2,032.0	1,685.9	2,184.5	-7.0	1,641.9	23.8	Lower provision led to QoQ pick up in earnings
Key Metrics							
GNPA	7,658.0	7,773.1	5,336.0	43.5	7,931.8	-3.5	GNPA ratio declined 37 bps sequentially to 3.19%.
NNPA	2,491.4	2,720.6	1,303.8	91.1	2,792.3	-10.8	
Advances	2,34,965	2,26,354	2,04,845	14.7	2,17,465	8.0	Home loan, agrin & SME segment remain driver of growth
Deposits	2,91,711	2,95,157	2,61,564	11.5	2,86,560	1.8	CASA remained strong at 60.6%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	16,537.6	16,561.2	0.1	19,775.9	19,805.2	0.1	23,192.5
Pre Provision Profit	12,487.2	12,421.5	-0.5	15,173.9	14,975.6	-1.3	17,600.2
NIM (%)	4.5	4.4	-11 bps	4.7	4.5	-15 bps	4.6
PAT	7,646.4	7,702.7	0.7	9,854.0	9,696.9	-1.6	11,451.7
ABV (₹)	344.0	343.9	0.0	394.0	393.4	-0.1	453.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier		
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Credit growth (%)	1.8	15.0	15.1	15.1	1.8	13.5	15.1
Deposit growth (%)	6.6	15.0	15.0	15.0	6.6	15.0	15.0
NIM calculated (%)	4.7	4.4	4.5	4.6	4.7	4.7	4.8
Cost to income ratio (%)	41.3	45.5	44.4	43.8	41.3	40.3	38.8
Slippage ratio (%)	2.5	1.3	0.9	0.9	2.5	1.4	0.9
Credit cost (%)	1.30	0.81	0.66	0.65	1.3	0.9	0.7

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	2027
Kotak Life (assumed 100% stake)	209
Kotak Mahindra Prime	111
Kotak Mahindra Capital & others	67
Kotak Securities	152
Kotak AMC	115
Total	654
20% holding company discount	131
SOTP target (post discount)	2550

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Interest Earned	26929.6	26840.3	29603.7	35276.0	40806.8
Interest Expended	13429.9	11500.6	13042.5	15470.7	17614.4
Net Interest Income	13499.7	15339.6	16561.2	19805.2	23192.5
growth (%)	20.5	13.6	8.0	19.6	17.1
Non Interest Income	5372.1	5459.2	6243.2	7110.8	8129.3
Net Income	18871.8	20798.8	22804.4	26916.0	31321.8
Operating expense	8850.9	8584.1	10382.9	11940.4	13721.6
Gross profit	10020.8	12214.7	12421.5	14975.6	17600.2
Provisions	3026.8	2911.7	2082.3	1959.7	2228.8
Taxes	1857.5	2338.1	2636.5	3319.1	3919.7
Net Profit	5136.5	6964.8	7702.7	9696.9	11451.7
growth (%)	8.2	35.6	10.6	25.9	18.1
EPS	26.9	35.1	38.9	48.9	57.8

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Valuation					
No. of Equity Shares	191.3	198.2	198.2	198.2	198.2
EPS (₹)	26.9	35.1	38.9	48.9	57.8
BV (₹)	256.2	321.6	359.7	408.6	466.4
ABV (₹)	248.1	307.9	343.9	393.4	453.0
P/E	82.3	62.9	56.9	45.2	38.2
P/BV	8.9	7.2	6.4	5.6	4.9
P/ABV	8.9	7.1	6.4	5.6	4.9
Yields & Margins (%)					
Yield on avg earning assets	8.9	8.2	7.8	8.1	8.1
Avg. cost on funds	4.8	3.8	4.0	4.1	4.1
Net Interest Margins	4.5	4.7	4.4	4.5	4.6
Avg. Cost of Deposits	4.9	3.7	3.9	4.1	4.1
Yield on average advances	9.9	8.4	8.7	9.3	9.3
Quality and Efficiency (%)					
Cost / Total net income	46.9	41.3	45.5	44.4	43.8
Credit/Deposit ratio	83.6	79.9	79.9	80.0	80.1
GNPA	2.3	3.3	3.2	2.8	2.4
NNPA	0.7	1.2	1.2	1.0	0.8
ROE	11.2	12.4	11.4	12.7	13.2
ROA	1.5	1.9	1.9	2.1	2.2

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Capital (incl PCNPS)	1457	1491	1491	1491	1491
ESOPS	2	2	2	2	2
Reserves and Surplus	47559	62236	69789	79486	90938
Networth	49017	63729	71281	80978	92430
Deposits	262821	280100	321982	370160	425586
Borrowings	37993	23651	25423	27564	30110
Other Liabilities & Provision:	10420	16009	16312	18076	20045
Total	360251	383489	434999	496778	568171
Applications of Funds					
Fixed Assets	1623	1535	1822	2115	2401
Investments	75052	105099	123319	146070	173320
Advances	219748	223689	257156	296046	340818
Cash with RBI & call mone	53292	39627	40951	42468	44218
Total	360251	383489	434999	496778	568171

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios (%)

(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Total assets	15.4	6.5	13.4	14.2	14.4
Advances	6.8	1.8	15.0	15.1	15.1
Deposits	16.4	6.6	15.0	15.0	15.0
Total Income	13.2	0.0	11.0	18.2	15.5
Net interest income	20.5	13.6	8.0	19.6	17.1
Operating expenses	17.8	-3.0	21.0	15.0	14.9
Operating profit	20.0	21.9	1.7	20.6	17.5
Net profit	8.2	35.6	10.6	25.9	18.1
Book value	14.3	30.0	11.9	13.6	14.1
EPS	8.0	30.9	10.6	25.9	18.1

Source: Company, ICICI Direct Research

Exhibit 1: Consolidated PAT performance over the quarters

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Kotak Bank	1724	1596	1267	1244	2184	1854	1682	1642	2032
Kotak Securities	149	128	163	169	199	184	241	236	243
Kotak Mahindra Capital	1	40	-7	6	14	38	25	42	58
Kotak Prime	172	187	161	68	133	149	184	79	240
Kotak AMC & Trust	85	91	88	71	84	91	100	107	97
International Subsidiaries	34	26	30	54	45	5	50	30	27
Kotak Investment advisors/ others	22	42	8	35	28	31	21	28	29
Kotak Mahindra Investments	67	64	77	43	74	68	73	71	89
Kotak General Insurance					7			-5	-16
Kotak Mahindra Life Insurance	144	166	165	161	171	167	193	-243	155
Total (net off affiliates/minority)	2407	2349	1906	1853	2954	2602	2589	1806	2989

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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