

# Kotak Mahindra Bank Ltd.



# Kotak Mahindra Bank Ltd.

**Business growth improves with asset quality strengthening**

CMP <b>INR 2,182</b>	Target <b>INR 2,590</b>	Potential Upside <b>18.7%</b>	Market Cap (INR Cr) <b>INR 4,32,640</b>	Recommendation <b>BUY</b>	Sector <b>Banking</b>
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## Result Highlights of Q2FY22:

- Net Interest Income (NII) for Q2FY22 increased to INR 4,021 Cr, up 3%. Net Interest Margin (NIM) for Q2FY22 was at 4.45%.
- Operating profit for Q2FY22 was INR 3,120 Cr, from INR 3,297 Cr in Q2FY21. The Bank's PAT for Q2FY22 increased to INR 2,032 Cr, up 24% from INR 1,642 Cr for Q1FY22 (INR 2,184 Cr for Q2FY21).
- Advances increased by 15% to INR 234,965 Cr as on September 30, 2021 from INR 204,845 Cr as on September 30, 2020 (INR 217,465 Cr as on June 30, 2021).
- As on September 30, 2021, GNPA was 3.19% & NNPA was 1.06%. Credit cost on advances was 63 bps (annualized) for Q2FY22 (133 bps for Q1FY22). Capital adequacy ratio of the Bank as per Basel III as of September 30, 2021 was 21.8% and Tier I ratio was 20.8%.

## MARKET DATA

Shares outs (Cr)	198
Equity Cap (INR Cr)	67,376
Mkt Cap (INR Cr)	4,32,640
52 Wk H/L (INR)	2,253/1,347
Volume Avg (3m K)	4,017
Face Value (INR)	5
Bloomberg Code	KMB IN

## SHARE PRICE PERFORMANCE



## KEY FINANCIALS

Particulars (INR Crores)	FY20	FY21	FY22E	FY23E	FY24E
NII	1,34,997	1,53,397	1,67,701	2,04,773	2,35,662
PPOP	1,00,208	1,22,147	1,29,767	1,67,055	1,95,594
PAT	59,472	69,648	78,200	1,05,099	1,25,111
EPS	31.09	36.41	40.88	54.94	65.40
NIM	4.5%	4.5%	4.5%	4.5%	4.5%
Advances Growth	6.8%	1.8%	20.0%	18.0%	18.0%

Source: Company, KRChoksey Research

**Liability Franchise remains strong with strong traction in advances:** Advances grew 8.0% QoQ/ 14.7% YoY in Q2FY22 with business activity levels with the easing of the restrictions and strong festive demand. The home loan, credit card & SME segment saw a strong growth momentum during the quarter. Corporate loans saw a sequentially strong growth momentum in Q2FY22. Overall, KMB reported a growth of 11.5% YoY/1.8% QoQ on the deposit front, with CASA contributing 60.6% to the total deposit. We expect the liability franchise to strengthen further, improving its market share. The deposit growth will help the loan book to grow at 18.7% CAGR over FY21-24E with an increasing focus on customer acquisition as per the Bank's strategy. Improvement in the CASA ratio will further help reduce the cost of funds, stabilize the margins in the coming quarters.

**Higher opex impacts operating profits:** The Bank reported its NII at INR 4,012 Cr, up by 2.7% YoY in Q2FY22 with NIMs at 4.45%. NIMs fell 15bps QoQ/ 7 bps YoY despite strong traction in deposits and loans. PPOP was flattish sequentially while declining 5.4% YoY due to higher operating expenses. The C/I ratio stood at 46.5% in Q2FY22 vs. 43.5% in Q1FY22, with some costs coming back on track with recovery in business activities. Fee income grew ~34.2% YoY, with strong growth coming from the insurance business. With the cross-selling strategy in place, the fee income is likely to increase rapidly in the coming quarters. We anticipate that NIMs will remain stable in the future as the cost of funds falls and excess liquidity is reduced.

**Asset Quality improved:** The GNPA/NNPA was improved at 3.19%/1.06% in Q2FY22 from 3.56%/1.28% in Q1FY22, respectively. Improvements in collection efficiencies have helped to enhance the quality of the asset. Slippages were higher in the retail segment and commercial banking segment. PCR stood at 66.8% in Q2FY22. The COVID-related provisions as of September 30, 2021, stood at INR 1,279 Cr, with no utilization in H1FY22. We expect asset quality to remain stable in H2FY22E.

## MARKET INFO

SENSEX	61,143
NIFTY	18,211

## SHARE HOLDING PATTERN (%)

Particulars	Sept-21	Jun-21	Mar-21
Promoters	26.0	26.0	26.0
FIIIs	42.6	42.8	44.2
DIIIs	15.3	14.6	13.5
Others	16.1	16.6	16.3
Total	100	100	100

# 15.4%

NII CAGR between FY21 and FY24E

# 21.6%

PAT CAGR between FY21 and FY24E

## Kotak Mahindra Bank Ltd.

### Concall Highlights:

- The Indian recovery on the economic side, has been significantly faster than what was expected in May or June- 21.
- Since the last few quarters, KMB has become more proactive in the home lending market.
- The bank is working to expand its unsecured portfolio.
- The bank will continue to invest in technology to improve its customer acquisition and to upgrade its digital infrastructure on a regular basis. KMB continues building scalability, agility and resilience in its core tech infrastructure, including cloud for agility.
- KMB was cautious at the start of the pandemic; nevertheless, the bank's focus has shifted back to growth in both secured and unsecured businesses.
- KMB is looking at ways and means to further push its savings deposit engine. Overall, the asset and the liability side, the asset side engine is revving up for the bank. Its liability engine is on an extremely strong foundation, and the bank believes it will continue to grow.
- The collection efficiency on demand has improved during the quarter and is as good as normal times. Intercity passenger transportation as well as tours and travels are showing early signs of improvement, though the school bus segment continues to be impacted.
- The demand for construction equipment finance continues to be good, mainly driven by government and mining contracts. The end of the monsoon season should lead to improvement in the deployment of equipment and better cash flows for equipment owners.
- The demand for tractor finance has been good, helped by another year of good monsoons. A good harvest is expected to ensure robust cash flows in the rural agriculture markets. Collection efficiency during the quarter for tractor finance has been much better than the previous quarter.
- In the agri SME segment, demand for credit has been good, aided by good monsoon, stable agri commodity prices. Collection environment has improved. And collection efficiency on demand is back to normal times. Micro finance disbursements and collections have shown an improvement over the previous quarter. Collection efficiency on demand has shown marked improvement as compared to the previous quarter and is almost close to normal times.
- The transaction banking business has been driven by significant investments in the digital, there are several first in the industry products will be launched.
- There were negligible slippages and –both in the SME as well as in the corporate segment in Q2FY22. A good mix of fee as well as asset income has ensured to maintain a heavy after-tax return on equity on SME business.

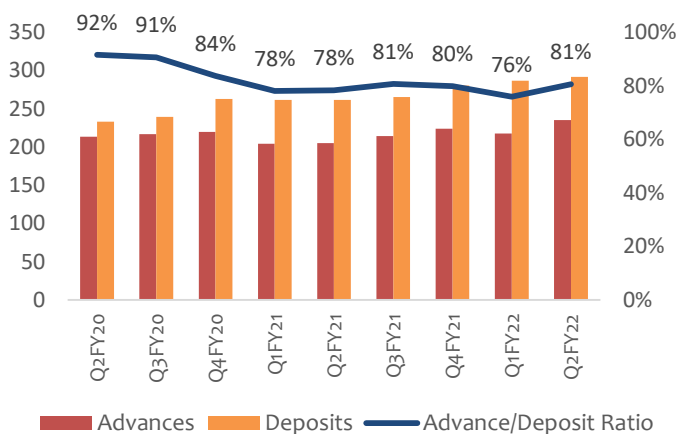
### Valuation and view

Q2FY22 performance was almost in line with our expectations. The operating performance was slightly lower considering an increase in the expenses. The bank continued to see strong performance from its liability side. It has maintained a strong liability franchise. We expect the liability franchise to remain robust, supported by improvement in the CASA ratio. We like the higher share of safer assets and strong deposit franchise of KMB. The asset quality for Q2FY22 saw a robust improvement. We expect the asset quality to improve further with the lowering of provisions on stressed books.

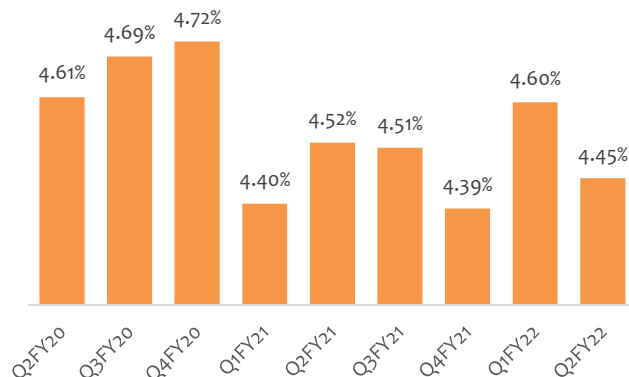
**We have factored CAGR 18.7% in advances and 21.6% in profits over FY21-24E, respectively, and an RoA of 2.3% by FY24E. Since our last recommendation, the stock price has rallied 28.3% to the CMP. We expect the premium valuation for KMB to continue with a strong growth outlook. We are now valuing the bank on FY24E basis using SOTP method, resulting in an upgrade in our target price to INR 2,590 per share (earlier INR 2,078). We have applied P/ABV multiple of 5.0x to its FY24E adj. BVPS of INR 467 to value the standalone business of the bank and we value its subsidiaries at INR 253 per share, yielding a target price of INR 2,590 per share, giving an upside of 18.7% over the CMP. We maintain our “BUY” recommendation on the shares of KMB.**

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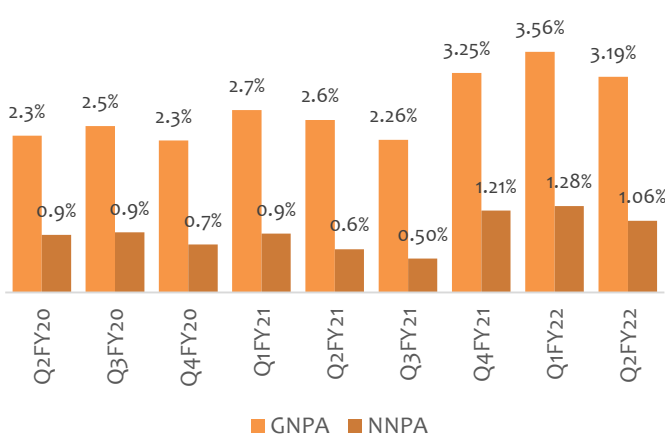
## CD Ratio improves with strong growth in advances



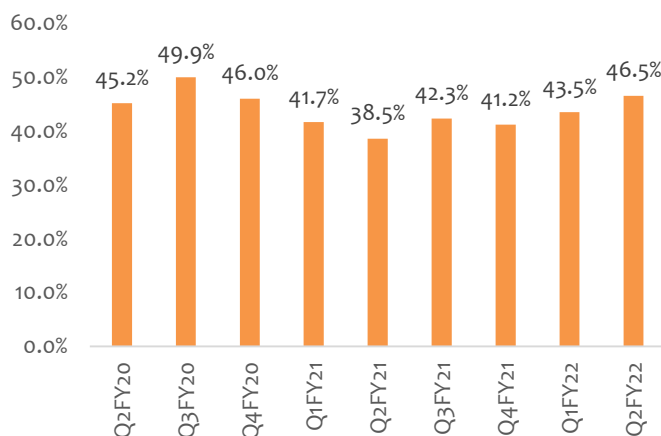
## NIM: Excess liquidity impacting margins



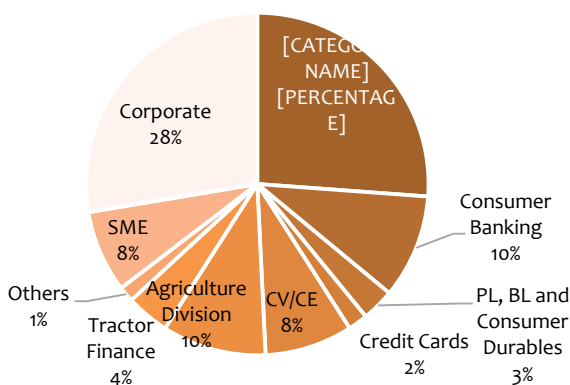
## Asset quality: Improves QoQ



## C/I : Opex for the quarter higher on QoQ basis

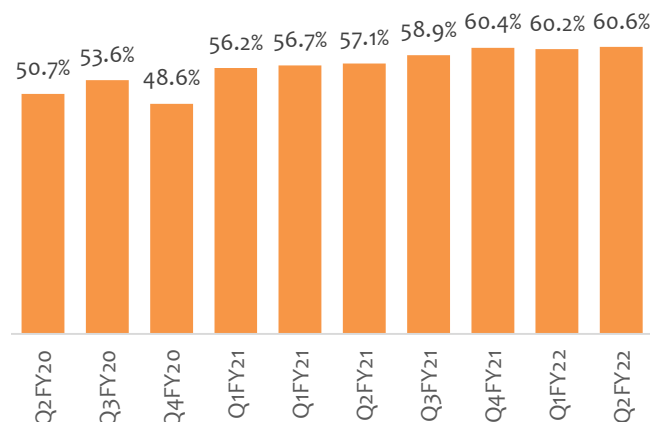


## AUM: Strong growth in Home loan and SME segment YoY



Source: Company, KRChoksey Research

## CASA: Increased focus



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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement (Standalone)

INR Crores	FY 20	FY 21E	FY 22E	FY 23E	FY24E
Interest Income	26,930	26,840	30,189	36,397	42,251
Interest Expense	13,430	11,501	13,419	15,920	18,684
<b>Net Interest Income</b>	13,500	15,340	16,770	20,477	23,566
Non interest income	5,372	5,459	6,824	8,325	10,157
Operating income	18,872	20,799	23,594	28,803	33,723
- Employee expense	3,878	3,729	3,927	4,069	4,215
- Other operating expense	4,973	4,855	6,690	8,028	9,948
Operating Expense	8,851	8,584	10,617	12,097	14,164
<b>PPOP</b>	10,021	12,215	12,977	16,705	19,559
Provisions	2,216	2,912	2,550	2,692	2,878
PBT	7,805	9,303	10,427	14,013	16,681
Tax Expense	1,857	2,338	2,607	3,503	4,170
<b>PAT</b>	5,947	6,965	7,820	10,510	12,511
Diluted EPS (INR)	31.09	36.41	40.88	54.94	65.40

Source: Company, KRChoksey Research

# Kotak Mahindra Bank Ltd.

## Exhibit 2: Balance Sheet (Standalone)

INR Crores	FY20	FY21E	FY22E	FY22E	FY24E
<b>Source of Funds</b>					
Capital	1,457	1,491	1,491	1,491	1,491
Reserves & Surplus/ Others	47,562	62,238	69,901	80,252	92,605
Networth	49,018	63,729	71,391	81,743	94,096
Borrowings	37,993	23,651	28,381	34,057	40,868
Deposits	2,62,821	2,80,100	3,19,314	3,72,001	4,37,101
Other liabilities & provisions	10,420	16,009	7,056	12,416	8,357
<b>Total Equity &amp; Liabilities</b>	<b>3,60,252</b>	<b>3,83,489</b>	<b>4,26,142</b>	<b>5,00,217</b>	<b>5,80,421</b>
<b>Uses of Funds</b>					
Cash & bank balances	9,505	12,494	5,000	12,500	15,000
Balance with other banks	43,787	27,133	18,985	22,118	25,988
Net investments	75,052	1,05,099	1,17,712	1,31,837	1,47,658
Loans & advances	2,19,748	2,23,689	2,68,426	3,16,743	3,73,757
Fixed assets	1,623	1,535	2,519	2,519	2,519
Other assets	10,537	13,539	13,500	14,500	15,500
<b>Total Assets</b>	<b>3,60,252</b>	<b>3,83,489</b>	<b>4,26,142</b>	<b>5,00,217</b>	<b>5,80,421</b>

Source: Company, KRChoksey Research

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## Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21E	FY22E	FY23E	FY24E
<b>Growth Rates</b>					
Advances (%)	6.8%	1.8%	20.0%	18.0%	18.0%
Deposits (%)	16.4%	6.6%	14.0%	16.5%	17.5%
Total assets (%)	15.4%	6.5%	11.1%	17.4%	16.0%
NII (%)	19.9%	13.6%	9.3%	22.1%	15.1%
Pre-provisioning profit (%)	20.0%	21.9%	6.2%	28.7%	17.1%
PAT (%)	22.2%	17.1%	12.3%	34.4%	19.0%
<b>B/S Ratios</b>					
Credit/Deposit (%)	83.6%	79.9%	84.1%	85.1%	85.5%
CASA (%)	56.2%	60.4%	61.0%	60.2%	58.9%
Advances/Total assets (%)	61.0%	58.3%	63.0%	63.3%	64.4%
Leverage - Total Assets to Equity	7.3	6.0	6.0	6.1	6.2
<b>Operating efficiency</b>					
Cost/income (%)	46.9%	41.3%	45.0%	42.0%	42.0%
Opex/total assets (%)	2.8%	2.4%	2.6%	2.5%	2.6%
Opex/total interest earning assets	3.0%	2.7%	2.9%	2.8%	2.8%
<b>Profitability</b>					
NIM (%)	4.5%	4.5%	4.5%	4.5%	4.5%
RoA (%)	1.8%	1.9%	1.9%	2.3%	2.3%
RoE (%)	12.9%	12.4%	11.6%	13.7%	14.2%
<b>Asset quality</b>					
Gross NPA (%)	2.2%	3.3%	3.3%	2.5%	2.5%
Net NPA (%)	0.7%	1.2%	1.2%	0.7%	0.7%
PCR (%)	69.0%	65.0%	65.0%	65.0%	65.0%
Credit cost (%)	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Per share data / Valuation</b>					
EPS (INR)	31.1	36.4	40.9	54.9	65.4
BVPS (INR)	256.2	321.6	360.5	412.8	475.2
ABVPS (INR)	248.1	307.9	352.7	405.0	467.4
P/E (x)	70.2	62.1	55.2	41.1	34.5
P/BV (x)	8.5	6.8	6.1	5.3	4.6
P/ABV (x)	8.8	7.1	6.2	5.4	4.7

Source: Company, KRChoksey Research



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Kotak Mahindra Bank				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-21	2,182	2,590	BUY	Buy	More than 15%
27-July-21	1,700	2,078	BUY	Accumulate	5% – 15%
07-May-21	1,811	2,050	ACCUMULATE	Hold	0 – 5%
17-Mar-21	1,922	2,050	HOLD	Reduce	-5% – 0
28-Oct-20	1,562	1,650	ACCUMULATE	Sell	Less than – 5%

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**KRCChoksey Shares and Securities Pvt. Ltd**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

**Corporate Office:**

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

## ANALYST

Parvati Rai, [head-research@krchoksey.com](mailto:head-research@krchoksey.com), +91-22-6696 5413

## KRCChoksey Research

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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