

# Kotak Mahindra Bank Ltd.



# Kotak Mahindra Bank Ltd.

**Strong business traction with across all the segments; Stable outlook**

CMP <b>INR 1,798</b>	Target <b>INR 2,340</b>	Potential Upside <b>30.2%</b>	Market Cap (INR Mn) <b>INR 35,03,920</b>	Recommendation <b>BUY</b>	Sector <b>Banking</b>
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## Result Highlights of Q4 FY22:

- Net Interest Income (NII) for Q4FY22 increased to INR 45,214 Mn, up 17.7% YoY. Net Interest Margin (NIM) for Q4FY22 was at 4.78%. Net Total Income for Q4FY22 was INR 63,477 Mn, up 9.6% YoY from INR 57,923 Mn in Q4FY21. Operating profit for Q4FY22 was INR 33,399 Mn, from INR 29,622 Mn in Q4FY21.
- The bank's PAT for Q4FY22 increased to INR 27,674 Mn, up 29.8% from INR 21,314 Mn for Q3FY22 (INR 16,824 Mn for Q4FY21).
- Advances increased by 21.3% to INR 27,12,536 Mn as on March 31, 2022, from INR 22,36,886 Mn as on March 31, 2021 (INR 25,29,350 Mn as on December 31, 2021). Overall, Deposits grew 11.3% YoY at INR 31,16,841 Mn as of March 31, 2022.
- As on March 31, 2022, GNPA was 2.34% & NNPA was 0.64%. Capital adequacy ratio of the Bank as per Basel III as of March 31, 2022, was 22.7% and Tier I ratio was 21.7%.

## MARKET DATA

Shares outs (Mn)	1,985
Equity Cap (INR Mn)	7,24,565
Mkt Cap (INR Mn)	35,03,920
52 Wk H/L (INR)	2,253/1,626
Volume Avg (3m K)	3,292
Face Value (INR)	5
Bloomberg Code	KMB IN

## KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
NII	1,34,997	1,53,397	1,68,135	1,96,057	2,33,393
PPOP	1,00,208	1,22,147	1,20,465	1,49,071	1,83,466
PAT	59,472	69,648	85,683	1,01,001	1,23,436
EPS	31.1	36.4	44.8	52.8	64.5
NIM	4.54%	4.8%	4.6%	4.6%	4.6%
Advances Growth	6.8%	1.8%	21.3%	18.0%	18.0%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	55,702
NIFTY	16,683

**Strong loan book growth supported by healthy traction in deposits:** The advances as on 31st March 2022 grew 7.2% QoQ/ 21.3% YoY, led by strong growth pick up across all the segments. The customer assets, including advances and credit substitutes, grew by 22% YoY (7% QoQ) at INR 29,24,810 Mn. The growth in advances was led by strong growth in home loans and credit card segments. Overall, KMB reported an 11.3% YoY/2.1% QoQ growth on the deposit front, with CASA's contribution stable at 60.7% of the total deposit. The average current account deposits grew 26% YoY at INR 4,97,760 Mn for FY22, while savings accounts grew 11% YoY. We expect the liability franchise to show stable and gradual improvement with gaining market share. The strong liability franchise of KMB will support the loan book to grow at 1% CAGR over FY21-24E with an increasing focus on customer acquisition as per the bank's strategy.

**Operating performance improves; C/I ratio improves sequentially:** The bank reported its NII at INR 45,214 Mn, up by 17.7% YoY in Q4FY22, with NIMs at 4.78%. NIMs improved 16 bps QoQ/ 39 bps YoY, led by strong business growth momentum. PPOP grew by 23.7% QoQ/ 12.7% YoY, respectively, owing to other income growth of 21.4% YoY and slightly lower operating expenses sequentially. The C/I ratio stood at 47.4% in Q4FY22 vs 52.6% in Q3FY22 (44.6% in Q4FY21). The YoY increase in expenses related to customer acquisition & digital spending. Fee income grew ~23% YoY, at INR 16,970 Mn. The fee income is likely to increase rapidly in the coming quarters, led by the cross-selling strategy of the bank. We expect NIMs to remain stable as the excess liquidity gets reduced and the business growth continues to remain robust.

**Asset quality improves with moderation of restructured book:** The GNPA/NNPA improved to 2.34%/0.64% in Q4FY22 from 2.71%/0.79% in Q3FY22. The slippages for the quarter stood at INR 7,360 Mn. In Q4FY22, KMB saw Covid-related write off at INR 4,530 Mn. PCR stood at 73.2% in Q4FY22. We expect asset quality to remain stable at 30 bps for FY23E/FY24E.

## SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	26.0	26.0	26.0
FIIs	42.1	42.1	42.6
DIIs	15.5	15.5	15.3
Others	16.5	16.5	16.1
Total	100	100	100

# 17.8%

NII CAGR between FY22 and FY24E

# 20.0%

PAT CAGR between FY22 and FY24E

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## Concall Highlights:

- KMB has seen a sharp drop in the slippage ratio in the new bad loans. For Q4, the slippage ratio on an annualized basis is down to 1.08%, which was INR 7,360 Mn of gross slippage in absolute numbers.
- COVID's restructuring portfolio stood at 15 bps, while the MSME restructuring portfolio was at 29-odd bps. It reflects the robust quality of the book post-pandemic.
- KMB remains optimistic about the SME segment and has seen substantial NPV new customer acquisitions and marginally higher utilization compared to the past.
- Within the corporate shipment segment, the CRE segment has grown faster at close to 23%, and the bank has moved its focus to the Residential segment from the Commercial segment and is doing quite well.
- The trade FOREX, current accounts and debt capital markets businesses, all these fee lines grew significantly faster than the asset growth.
- The current account growth was strong because of the bank's focus on transaction banking.
- The business model is best-in-class in terms of a high focus on risk management, ROE, and growth as a balance; the segmental focus adds to the balance in the portfolio.
- The commercial vehicle industry saw good growth in Q4FY22 compared to the previous quarter, the industry grew about 26% YoY during FY22.
- Demand for new vehicles is being driven by better capacity utilization and replacement demand. Diesel price increases are to some extent being compensated by increased trade demand and reasonable freight rates.
- Construction equipment demand continued to be good during the quarter, mainly driven by road mining and real estate. Manufacturer data points to better utilization of the existing equipment, and better utilization is leading to better cash flows in the hands of KMB's customers.
- Rural cash flows continue to be good, driven by better yields and prices. The utilization of tractors in farming was always reasonable, and with the increase in rural infrastructure spending, the utilization of tractors for commercial applications has also shown good improvement. The outlook for KMB's tractor financing business is quite positive, and the bank continues to maintain its leadership position.
- Mortgages segment continues to see strong demand for volumes in this quarter. The bank acquires quality customers and strengthens its market share across all customer segments.
- KMB rolled out attractive offers for its customers in marketing alliances across e-com and physical partners.
- It has signed the program agreement with Indian Oil for credit cards this quarter. Overall, credit card advances grew 40% YoY and 13% QoQ.
- The bank saw increased demand in consumption from segments like travel, weeding and home renovation. KMB has scaled up its customer acquisition in both the traditional and the data-led digital space.
- Overall, unsecured business saw YoY growth of 42% with strong quarterly growth of 16%.
- KMB invests in technology-led capability and focuses on resiliency and scalability, modernization and cloud-first applications.
- The bank's digital collection platform saw significant adoption and increased collections efficiency.
- It has invested significantly in the consumer asset business across digital, tech and digital, data and analysis, which has helped to grow its franchise and aggressive customer offers and propositions

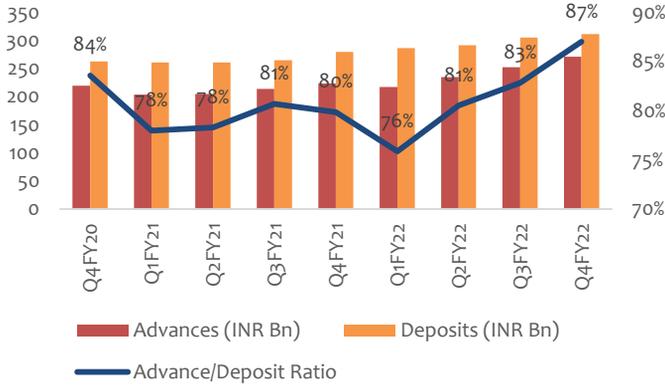
## Valuation and view

Q4FY22 performance was growth for KMB driven by robust loan book growth and write-back of provisions leading to a 64% YoY growth in earnings. The operating performance improved YoY and sequentially owing to strong growth in other income of 21.4% YoY while the sequential reduction in the operating expenses. The bank continued to see healthy growth on the loan book and deposit front. It has maintained its strong advance growth led by a healthy growth trajectory across almost all the segments. We expect deposits to improve significantly on the liability front, supported by a stable CASA ratio. The liability franchise is expected to aid growth in advances, capturing the industry opportunities. We like the higher share of safer assets and strong deposit franchise of KMB. The asset quality for Q4FY22 saw further improvement with the moderation of the restructured book. We expect the asset quality to improve gradually hereon with no additional requirement of provisions, moderation of slippages and holding sufficient cushioning for any uncertainties related to Covid.

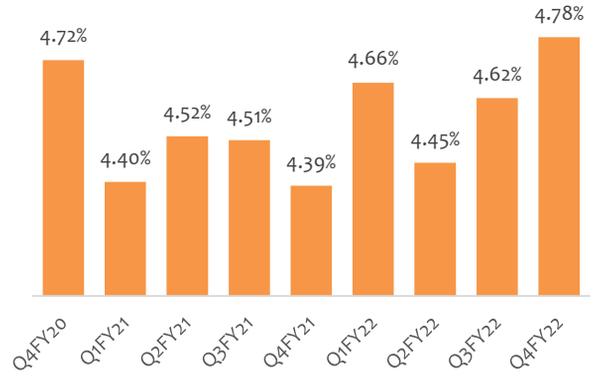
**We have factored CAGR of 18.0% in advances and 20.0% in profits over FY22-24E, respectively, and an RoA of 2.2% by FY24E. We have increased our opex assumption due to increased spending in customer acquisition and digital initiatives for FY23E/24E. Since our last recommendation, the stock price has corrected slightly by 3%. We expect the premium valuation for KMB to continue with a strong growth outlook and consistent performance from a business perspective. We revise our target price to INR 2,340 per share (earlier INR 2,690 per share), using SOTP valuation applying a P/B multiple of 4.5x (5.1x previously) to the FY24E adj. BVPS of INR 467.4 (standalone business) for the bank and INR 236 per share for subsidiaries, leading to an upside of 30.2% over the CMP. We maintain our recommendation at "BUY" on the shares of KMB.**

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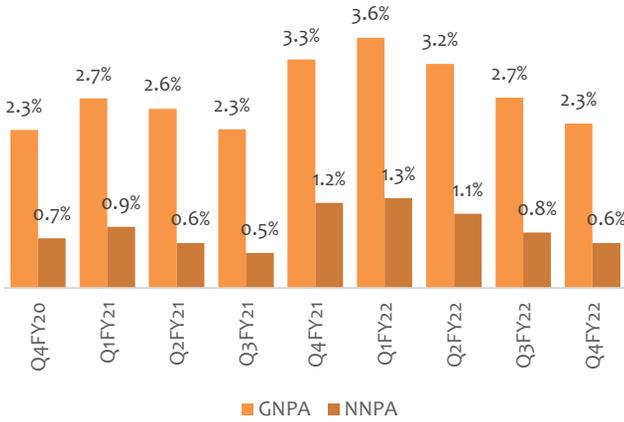
**CD Ratio: Moderates further as advances growth remain tepid**



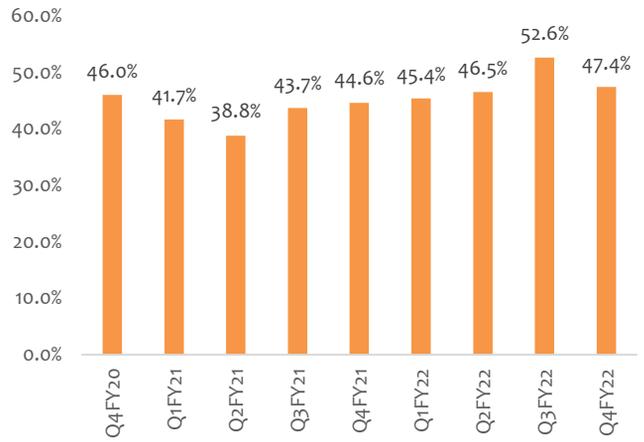
**NIM: Improved with strong business growth**



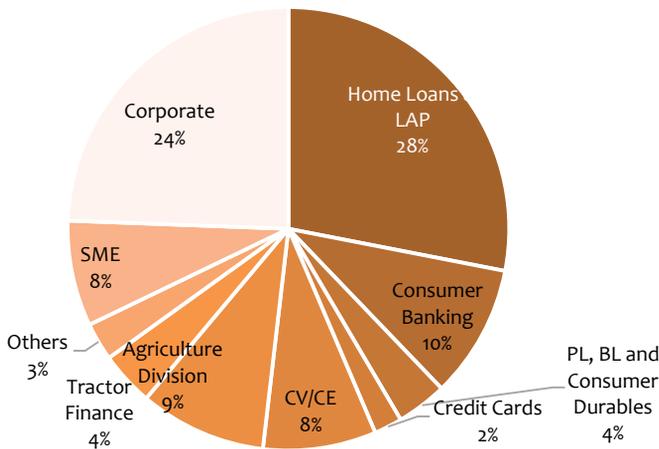
**Asset quality: Further sequential improvement**



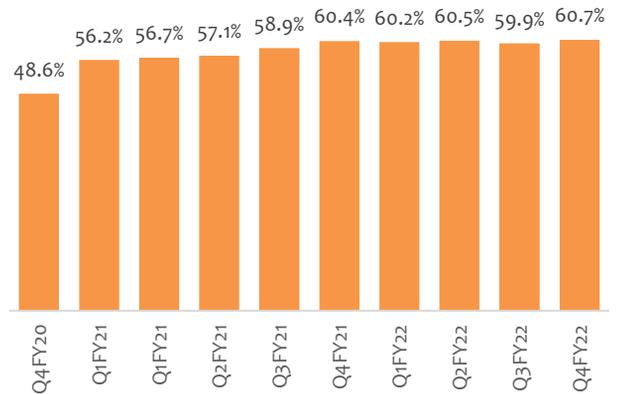
**C/I : Opex declines sequentially**



**AUM: Growth in agri and home loans**



**CASA: Stable trend**



Source: Company, KRChoksey Research

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## KEY FINANCIALS

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

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Interest Income	2,69,296	2,68,403	2,70,344	3,26,041	3,84,449
Interest Expense	1,34,300	1,15,006	1,02,209	1,29,984	1,51,056
<b>Net Interest Income</b>	<b>1,34,997</b>	<b>1,53,397</b>	<b>1,68,135</b>	<b>1,96,057</b>	<b>2,33,393</b>
Non interest income	53,721	54,592	63,544	74,981	88,478
Operating income	1,88,718	2,07,989	2,31,679	2,71,038	3,21,871
- Employee expense	38,776	37,291	45,824	50,406	55,446
- Other operating expense	49,733	48,550	65,390	71,561	82,958
Operating Expense	88,509	85,841	1,11,214	1,21,967	1,38,404
<b>PPOP</b>	<b>1,00,208</b>	<b>1,22,147</b>	<b>1,20,465</b>	<b>1,49,071</b>	<b>1,83,466</b>
Provisions	22,162	29,117	6,896	14,404	18,885
PBT	78,047	93,030	1,13,569	1,34,668	1,64,582
Tax Expense	18,575	23,382	27,886	33,667	41,145
<b>PAT</b>	<b>59,472</b>	<b>69,648</b>	<b>85,683</b>	<b>1,01,001</b>	<b>1,23,436</b>
Diluted EPS (INR)	31.1	36.4	44.8	52.8	64.5

Source: Company, KRChoksey Research

# Kotak Mahindra Bank Ltd.

## Exhibit 2: Balance Sheet (Standalone)

INR Mn	FY20	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>					
Capital	14,565	14,909	14,923	14,923	14,923
Reserves & Surplus/ Others	4,75,617	6,22,382	7,09,955	8,09,087	9,30,939
Networth	4,90,182	6,37,291	7,24,878	8,24,010	9,45,862
Borrowings	3,79,933	2,36,507	2,59,671	2,85,638	3,14,202
Deposits	26,28,205	28,01,000	31,16,841	36,31,120	42,66,566
Other liabilities & provisions	1,04,197	1,60,088	1,92,894	4,48,724	4,93,011
<b>Total Equity &amp; Liabilities</b>	<b>36,02,517</b>	<b>38,34,886</b>	<b>42,94,284</b>	<b>51,89,492</b>	<b>60,19,641</b>
<b>Uses of Funds</b>	<b>5,32,923</b>	<b>3,96,265</b>	<b>4,29,239</b>	<b>5,08,357</b>	<b>5,97,319</b>
Cash & bank balances	95,051	1,24,936	1,60,262	1,45,245	1,70,663
Balance with other banks	4,37,873	2,71,329	2,68,977	3,63,112	4,26,657
Net investments	7,50,515	10,50,992	10,05,802	13,18,374	14,76,579
Loans & advances	21,97,482	22,36,886	27,12,536	32,00,792	37,76,935
Fixed assets	16,231	15,353	16,437	25,186	25,186
Other assets	1,05,365	1,35,390	1,30,269	1,36,783	1,43,622
<b>Total Assets</b>	<b>36,02,517</b>	<b>38,34,886</b>	<b>42,94,284</b>	<b>51,89,492</b>	<b>60,19,641</b>

Source: Company, KRChoksey Research

# Kotak Mahindra Bank Ltd.

## Exhibit 3: Ratio Analysis

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
<b>Growth Rates</b>					
Advances (%)	6.8%	1.8%	21.3%	18.0%	18.0%
Deposits (%)	16.4%	6.6%	11.3%	16.5%	17.5%
Total assets (%)	15.4%	6.5%	12.0%	20.8%	16.0%
NII (%)	19.9%	13.6%	9.6%	16.6%	19.0%
Pre-provisioning profit (%)	20.0%	21.9%	-1.4%	23.7%	23.1%
PAT (%)	22.2%	17.1%	23.0%	17.9%	22.2%
<b>B/S Ratios</b>					
Credit/Deposit (%)	83.6%	79.9%	87.0%	88.1%	88.5%
CASA (%)	56.2%	60.4%	62.5%	61.7%	60.4%
Advances/Total assets (%)	61.0%	58.3%	63.2%	61.7%	62.7%
Leverage - Total Assets to Equity	7.3	6.0	5.9	6.3	6.4
<b>Operating efficiency</b>					
Cost/income (%)	46.9%	41.3%	48.0%	45.0%	43.0%
Opex/total assets (%)	2.8%	2.4%	2.8%	2.5%	2.5%
Opex/total interest earning assets	3.0%	2.7%	3.1%	2.9%	2.7%
<b>Profitability</b>					
NIM (%)	4.54%	4.75%	4.61%	4.59%	4.63%
RoA (%)	1.8%	1.9%	2.1%	2.1%	2.2%
RoE (%)	12.9%	12.4%	12.6%	13.0%	13.9%
<b>Asset quality</b>					
Gross NPA (%)	2.2%	3.3%	2.3%	2.1%	2.0%
Net NPA (%)	0.7%	1.2%	0.6%	0.6%	0.5%
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	44.8	52.8	64.5
BVPS (INR)	256.2	321.6	365.9	416.2	477.7
ABVPS (INR)	248.1	307.9	357.2	407.1	467.4
P/E (x)	59.9	51.1	41.5	35.2	28.8
P/BV (x)	7.3	5.6	4.9	4.3	3.8
P/ABV (x)	7.5	5.8	5.0	4.4	3.8

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
06-May-22	1,798	2,340	BUY	Buy	More than 15%
31-Jan-22	1,857	2,690	BUY	Accumulate	5% – 15%
27-Oct-21	2,182	2,690	BUY	Hold	0 – 5%
27-July-21	1,700	2,078	BUY	Reduce	-5% – 0
07-May-21	1,811	2,050	ACCUMULATE	Sell	Less than – 5%

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