

CMP: ₹ 1826 Target: ₹ 2200 (21%) Target Period: 12 months

BUY

July 24, 2022

Growth trajectory continue to be healthy...

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 ~58% of total deposits aiding lower costs
- Strong RoA of ~2% and RoE of 11-12% makes it a good profitable bank

Q1FY23 Results: Strong business growth; steady operational performance

- Advances up 28.8% YoY to 2.8 lakh crore, deposits up 10.4% YoY
- NII growth at 19.2% YoY, NIMs expand 14 bps QoQ to 4.92%
- Lower credit cost led PAT at ₹ 2071 crore, up 26.1% YoY
- GNPA declined 10 bps QoQ to 2.24%; Net slippages at 0.2% of advances

What should investors do? KMB's share price has grown by ~2x over the past five years. Pedalling growth along with diversified asset mix with focus on risk adjusted margin to aid earnings and keep asset quality steady.

- We maintain **BUY** rating on the stock

Target Price and Valuation: We value standalone bank at ~3.75x FY24E ABV and subsidiaries at ~₹ 488 post holding company discount giving SOTP target of ₹ 2200.

Key triggers for future price performance:

- Continued growth momentum with prudent selection remains positive
- Business growth, repricing of rates and increasing proportion of unsecured portfolio to aid yields; though mobilization of liabilities at competitive pricing remains a challenge to ensure margin trajectory
- Adequate provision buffer and lower credit cost to safeguard RoA
- Gradual increase in contribution of subsidiaries to add to consolidated valuation

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

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with target price of ₹ 970

Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	13500	15340	16922	15%	20117	23737	18%
PPP	10021	11762	12196	13%	14311	17020	18%
PAT	5137	6965	7989	19%	9620	10831	16%
ABV	248	308	349		401	455	
P/E	68.0	52.0	45.3		37.6	33.4	
P/ABV	7.3	5.9	5.2		4.5	4.0	
RoA	1.5	1.9	2.0		2.1	2.0	
RoE	11.2	12.4	11.8		12.6	12.5	

Source: Company, ICICI Direct Research



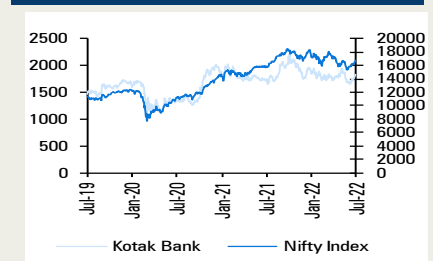
Particulars

Particulars	Amount
Market Capitalisation	₹ 362619 crore
52 week H/L	2252/1627
Net worth	₹ 74652 crore
Face value	₹ 5

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	26.0	26.0	26.0	25.98	25.97
FII	42.8	42.6	42.1	40.86	40.55
DII	14.6	13.5	15.5	16.6	17.29
Others	16.6	17.9	16.5	16.6	16.2

Price Chart



Recent Event & Key risks

NIM inched up further by 14 bps QoQ to 4.9%

Key Risk: i) increasing competitive intensity on deposit accretion, ii) elevated opex could impact return ratios

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Sameer Sawant
sameer.sawant@icicisecurities.com

Pravin Mule
Pravin.mule@icicisecurities.com

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Lower provision boost PAT; treasury places a spoil sport

- KMB posted a healthy growth in NII at 19.2% YoY and 3.9% QoQ to ₹ 4697 crore. Healthy NII growth was aided by 14 bps sequential expansion in NIMs to 4.92% and robust growth in advances. Other income was down 8% YoY and 31.9% QoQ to ₹ 1243 crore, mainly due to lower trading income. Fee income grew 41.7% YoY but declined 2.4% on QoQ basis.
- Opex increased by 50% YoY and 5.3% QoQ, as result C/I ratio increased 774 bps YoY and 577 bps QoQ to 53.15%. Credit cost was significantly lower than estimates at ₹ 23.6 crore, but due to weak other income, PAT reported a de-growth of 25.2% QoQ at ₹ 2071.2 crore (26.1% YoY growth).
- Overall loan growth for the quarter was healthy at 28.8% YoY and 3.3% QoQ to ₹ 2.8 lakh crore. Key drivers of the same were personal/ consumer durable and credit card that jumped 77% YoY each. Home loan and LAP grew 46% YoY. Corporate loan growth was at 11% YoY while SME segment also showed good growth of 25% YoY. Deposits were up 10.4% YoY to ₹ 3.16 lakh crore, where in CASA deposits grew 7% YoY. CASA ratio declined from 60.7% in Q4FY22 to 58.1% in Q1FY23 (60.2% in Q1FY22).
- Asset quality performance improved as GNPA and NNPA declined 10 bps and 2 bps sequentially to 2.24% and 0.62%, respectively. Net slippage for the quarter was at ₹ 654 crore vs. ₹ 736 crore QoQ. The bank has total provisions of ₹ 6532 crore at the end of Q1FY23 vs 6710 crore in Q4FY22.

Q1FY23 Earnings Conference Call highlights

- RBI's requirement of out of order accounts has been implemented by bank fully creating some inter-quarter volatility.
- Non-employee cost has increased due to advertisement, promotion, tech & communication cost and expect to increase further in coming 2-3 quarters.
- Unsecured retail which includes MFI was at ~7.5% in Jun'22 of standalone advances vs 5.6% in Jun'21. Management aim to increase share of unsecured book in mid-teens. Bank acquired portfolio during quarter in Agri space which is standard portfolio of ₹ 580 crore.
- Of total loans and advances, ~69% is on floating rate with EBLR (repo linked) is 50%. Fixed plus floating rate book with less than 1 year is ~80% of advances.
- Other income impacted due to MTM hit on investments; wherein HTM contributes ~39% of portfolio. So, bank took hit on 61% book which was classified in AFT and HFT.
- Bank took ₹ 65 crore write back in Q1FY23. Credit cost at ~4 bps (annualised); excluding write-back, provision came at ~16 bps of advances. Net slippages at ₹ 654 crore during the quarter. SMA 2 book continues to be low at ₹ 159 crore.
- Corporate and SME segment witnessed pricing pressure in Q1FY23 and the bank purposely decided to stay away from such transactions. Increase in credit substitute YoY is largely in the short term side. Management continue to see traction in this segment and look forward for 15-20% growth in corporate and 25% growth in SME segment.
- Commercial vehicle finance business has seen good growth during the quarter. Disbursement trend on YoY basis improved. Demand for finance was driven by replacement demand for vehicle, utilisation of PV has improved across all segments. Bank continue to grow and gain market share in commercial vehicle finance space.

- Bank continue to grow its retail MFI book with focus on semi urban and rural market. Personal loans growth was led by healthy demand and ~40% of retail loans are sourced digitally and internally.
- Growth in retail term deposits is mainly coming as interest rates are moving up and the trend is expected to continue in coming quarters.
- Credit card segment currently has revolver rate at ~30% which is in line with industry.
- In Q1FY23, Kotak Prime took a hit of ₹ 111 crore pre-tax on account of change in accounting policy which is related to brokerage cost

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	731	970	Buy	2245	21.5	42.4	39.7	55.9	34.0	17.2	18.4	13.1	2.4	2.1	1.9	1.8	7.1	12.0	10.1	13.5
HDFC Bank (HDFBAN)	1,393	1,650	Buy	7,737	56.4	66.7	77.1	93.7	24.7	20.9	18.1	14.9	3.9	3.3	2.9	2.6	16.6	16.7	16.6	17.9
IndusInd Bank (INDBA)	943	1,150	Buy	730	36.7	59.5	90.2	107.3	25.7	15.8	10.5	8.8	1.7	1.6	1.5	1.3	7.3	10.1	14.0	15.0
Kotak Bank (KOTMAH)	1,826	2,200	Buy	3,626	35.1	43.0	48.5	54.7	52.0	42.4	37.6	33.4	5.9	5.2	4.6	4.0	12.4	12.6	12.6	12.5
Bandhan (BANBAN)	286	365	Buy	461	-12.8	0.8	24.7	30.3	-22.3	366.3	11.6	9.4	4.5	2.9	2.3	1.9	-14.6	0.8	20.7	20.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	4,697.0	4,724.1	3,941.7	19.2	4,521.4	3.9	Driven by healthy loan growth and margin expansion
NIM (%)	4.92	4.80	4.60	32 bps	4.78	14 bps	Margins inched up led by higher traction in unsecured loans
Other Income	1,243.8	1,689.7	1,351.8	-8.0	1,826.3	-31.9	
Net Total Income	5,940.8	6,413.8	5,293.4	12.2	6,347.7	-6.4	
Staff cost	1,172.8	1,109.4	1,082.3	8.4	1,122.8	4.5	Advertisement, tech & communication cost gone up
Other Operating Expenses	1,984.7	1,982.0	1,321.3	50.2	1,885.0	5.3	
PPP	2,783.3	3,322.5	2,889.8	-3.7	3,339.9	-16.7	
Provision	23.6	219.2	703.5	-96.6	-306.2	-107.7	Covid provisions of ₹ 65 crore reversed
PBT	2,759.7	3,103.3	2,186.3	26.2	3,646.1	-24.3	
Tax Outgo	688.5	775.8	544.4	26.5	878.7	-21.6	
PAT	2,071.2	2,327.5	1,641.9	26.1	2,767.4	-25.2	
Key Metrics							
GNPA	6,378.6	6,028.1	7,931.8	-19.6	6,469.7	-1.4	Out of total slippages ₹ 781 crore got upgraded
NNPA	1,749.3	1,657.7	2,792.3	-37.4	1,736.7	0.7	
Advances	2,80,171	2,73,983	2,17,447	28.8	2,71,254	3.3	Driven by secured and unsecured retail segment
Deposits	3,16,483	3,20,947	2,86,560	10.4	3,11,684	1.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	20,103.4	20,116.5	0.1	24,229.5	23,737.4	-2.0
Pre Provision Profit	14,649.2	14,311.4	-2.3	17,876.8	17,019.8	-4.8
NIM (%)	4.5	4.6	13 bps	4.5	4.8	23 bps
PAT	9,838.1	9,620.2	-2.2	11,447.0	10,831.1	-5.4
ABV (₹)	401.6	401.0	-0.2	458.8	455.3	-0.8

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	1.8	20.3	22.1	21.6	20.9	20.8
Deposit growth (%)	6.6	13.8	17.6	18.9	19.1	18.5
NIM (Calc) %	4.7	4.5	4.6	4.8	4.5	4.5
C/I ratio %	42.2	46.9	47.1	46.2	45.8	44.4
Slippage ratio %	2.5	1.2	0.7	1.0	0.7	1.0
Credit cost %	1.10	0.25	0.42	0.62	0.44	0.63

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	1712
Kotak Life (assumed 100% stake)	200
Kotak Mahindra Prime	111
Kotak Mahindra Capital & others	67
Kotak Securities	121
Kotak AMC	112
Total	610
20% holding company discount	122
SOTP target (post discount)	2200

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	26929.6	26840.3	27038.8	33292.9	39480.3
Interest Expended	13429.9	11500.6	10220.9	13176.4	15742.9
Net Interest Income	13499.7	15339.6	16817.9	20116.5	23737.4
growth (%)	20.5	13.6	9.6	19.6	18.0
Non Interest Income	5372.1	5006.5	6354.4	6929.0	7918.6
Net Income	18871.8	20346.2	23172.3	27045.6	31656.0
Operating expense	8850.9	8584.1	11121.4	12734.2	14636.2
Gross profit	10020.8	11762.0	12050.9	14311.4	17019.8
Provisions	3026.8	2459.0	689.6	1398.3	2481.4
Taxes	1857.5	2338.1	2788.6	3292.8	3707.3
Net Profit	5136.5	6964.8	8572.7	9620.2	10831.1
growth (%)	8.2	35.6	23.1	12.2	12.6
EPS	26.9	35.1	43.0	48.5	54.7

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares	191.3	198.2	198.4	198.2	198.2
EPS (₹)	26.9	35.1	43.2	48.5	54.7
BV (₹)	256.2	321.6	365.4	409.7	464.3
ABV (₹)	248.1	307.9	349.3	401.0	455.3
P/E	68.0	52.0	45.3	37.6	33.4
P/BV	7.4	5.9	5.2	4.6	4.0
P/ABV	7.3	5.9	5.2	4.5	4.0
Yields & Margins (%)					
Yield on avg earning assets	8.9	8.2	7.5	7.7	7.9
Avg. cost on funds	4.8	3.8	3.5	3.5	3.6
Net Interest Margins	4.5	4.7	4.5	4.6	4.8
Avg. Cost of Deposits	4.9	3.7	3.5	3.6	3.7
Yield on average advances	9.9	8.4	8.3	8.4	8.6
Quality and Efficiency (%)					
Cost / Total net income	46.9	42.2	46.9	47.1	46.2
Credit/Deposit ratio	83.6	79.9	84.4	90.4	92.4
GNPA	2.3	3.3	2.3	1.9	1.6
NNPA	0.7	1.2	0.6	0.5	0.4
ROE	11.2	12.4	12.6	12.6	12.5
ROA	1.5	1.9	2.1	2.1	2.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital (incl PCNPS)	1457	1492	1492	1492	1492
ESOPS	2	2	31	2	2
Reserves and Surplus	47559	62236	70964	79695	90526
Networth	49017	63730	72488	81189	92020
Deposits	262821	280100	311684	366424	435629
Borrowings	37993	23651	25967	27564	30110
Other Liabilities & Provision:	10420	16009	19289	18076	20045
Total	360251	383490	429428	493252	577804
Applications of Funds					
Fixed Assets	1623	1535	1644	2115	2401
Investments	75052	105099	100580	103734	107349
Advances	219748	223689	271254	331256	402720
Cash with RBI & call mone	53292	39627	55951	42468	44218
Total	360251	383490	429428	493252	577804

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets					
Total assets	15.4	6.5	12.6	14.2	17.1
Advances	6.8	1.8	20.3	22.1	21.6
Deposits	16.4	6.6	13.8	17.6	18.9
Total Income	13.2	-1.4	8.0	17.0	17.8
Net interest income	20.5	13.6	10.3	18.9	18.0
Operating expenses	17.8	-3.0	25.5	18.2	14.9
Operating profit	20.0	17.4	3.7	17.3	18.9
Net profit	8.2	35.6	14.7	20.4	12.6
Book value	14.3	30.0	12.3	13.4	13.3
EPS	8.0	30.9	14.7	20.4	12.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Sameer Sawant, MBA, Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.