

## Healthy growth across businesses...

**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 ~56% of total deposits aiding lower costs
- Strong RoA of ~2% and RoE of 11-12% makes it a good profitable bank

**Q2FY23 Results:** Robust business growth and operational performance.

- Advances up 25.1% YoY to 2.94 lakh crore, deposits up 11.5% YoY
- NII growth at 26.8% YoY, NIMs expand 25 bps QoQ to 5.17%
- Credit cost at 26 bps. PAT grew 27% YoY, 25% QoQ at ₹ 2580 crore
- GNPA declined 16 bps QoQ to 2.08%; Net slippages at 0.2% of advances

**What should investors do?** KMB's share price has grown by 18% over the past three years. Pedalling growth along with diversified asset mix with focus on risk adjusted margins 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 ₹ 2250.

**Key triggers for future price performance:**

- Continued growth momentum across key areas to drive business growth
- Business growth, repricing of rates and shift to high yielding segments to aid margins; though deposit accretion at reasonable cost remains key
- Provision buffer coupled with steady asset quality to keep credit cost lower
- 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 ₹ 1000



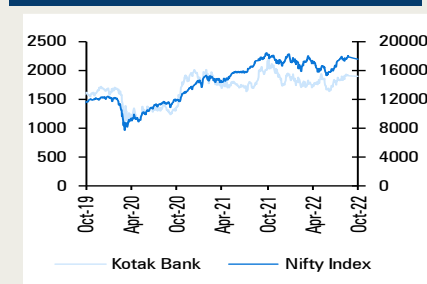
### Particulars

Particulars	Amount
Market Capitalisation	₹ 377866 crore
52 week H/L	2252/1630
Net worth	₹ 77076 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	26.0	26.0	25.98	25.97	25.96
FII	42.6	42.1	40.86	40.55	39.26
DII	13.5	15.5	16.6	17.29	18.6
Others	17.9	16.5	16.6	16.2	16.2

### Price Chart



### Recent Event & Key risks

- NIMs expanded 25 bps QoQ to 5.17%
- **Key Risk:** i) Deposit accretion at reasonable cost, ii) Elevated opex may impact earnings

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### Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	13500	15340	16818	14%	20148	23959	19%
PPP	10021	11762	12051	13%	14093	16809	18%
PAT	5137	6965	8573	22%	9670	11293	15%
ABV	248	308	357		407	463	
P/E	70.8	54.1	44.0		39.0	33.4	
P/ABV	7.6	6.1	5.3		4.7	4.1	
RoA	1.5	1.9	2.1		2.1	2.1	
RoE	11.2	12.4	12.6		12.5	12.9	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Healthy growth; NIM uptick; asset quality steady

- KMB posted strong NII growth at 26.8% YoY and 8.6% QoQ to ₹ 5099 crore, aided by 25 bps sequential expansion in NIMs to 5.17% and robust growth in advances. Other income grew ~8% YoY and jumped 57.1% QoQ to ₹ 1954 crore, as there was trading and MTM hit in Q1FY23. Fee income grew 24% YoY and 6.3% on QoQ basis at ₹ 1760 crore
- Opex increased 28.5% YoY and 10.4% QoQ. As a result, the C/I ratio increased 291 bps YoY but de-grew 373 bps QoQ to 49.4%. Credit cost inched up marginally on sequential basis to 26 bps. PAT reported a strong growth at 27% YoY and 25% QoQ to ₹ 2580.7 crore
- Advances growth was healthy at 25.1% YoY & 4.9% QoQ to ₹ 2.94 lakh crore, led by personal & consumer durable, credit card and home loans that increased 82%, 81% and 40% YoY respectively. Corporate loan growth was flat on YoY basis whereas SME segment grew 25% YoY. Deposits were up 11.5% YoY to ₹ 3.25 lakh crore, with robust accretion in term deposit. Thus, CASA ratio declined from 58.1% in Q1FY23 to 56.2% in Q2FY23
- Asset quality performance improved as GNPA and NNPA declined 16 bps and 7 bps sequentially to 2.08% and 0.55%, respectively. Net slippage for the quarter was at ₹ 653 crore (0.2% of loans), steady QoQ. Restructured advances were at 34 bps. The bank has total provisions of ₹ 6496 crore at the end of Q2FY23 vs ₹ 6532 crore in previous quarter

### Q2FY23 Earnings Conference Call highlights

- Growth in CVs, tractors, unsecured retail, SME and home loans drove overall credit growth. While July and August 2022 remained muted, CE segment witnessed revival from Sep 2022 onwards. Strong demand seen in cars (in range of ₹ 10-14 lakhs) which is aiding auto financing segment
- Unsecured plus MFI book at 8.5% of advances. Continues to target contribution in mid-teens as proportion of advances.
- The bank remains selective in the corporate segment given continued irrationality in pricing. Robust growth continued in SME segment with focus on new customer acquisition and capacity creation by customers
- Total 70% of the book is on floating rate and out of balance 30%, ~10% is fixed rate with one-year tenure
- The management believes there will be less MTM risk, going ahead. HTM is 35% of the total investment book
- With inching up of interest rates, some shift is seen from SA to liquid schemes, especially by ultra HNI customers. FPI Custody holding witnessed decline, though CA accretion still remain healthy
- Got approval for government agency business; the same is expected to drive granular CA and SA growth, going ahead. Retail TD less than 2 crore contributes ~60% of total TD

## 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)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	132	155	Buy	279	8.0	9.0	12.0	14.6	17	14.7	11.0	9.1	1.8	1.6	1.5	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,142	1,350	Buy	885	36.7	59.5	91.3	107.0	31	19.2	12.5	10.7	2.1	1.9	1.7	1.5	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,902	2,250	Buy	3,778	35.1	43.0	48.8	57.0	54.1	44.2	39.0	33.4	6.2	5.3	4.7	4.1	12.4	12.6	12.5	12.9
CSB Bank (CSBBAN)	233	275	Buy	40	12.6	26.4	27.1	29.3	18.5	8.8	8.6	8.0	2.2	1.7	1.4	1.2	10.5	19.0	16.3	15.1

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	5,099.4	4,846.7	4,020.6	26.8	4,697.0	8.6	Driven by healthy loan growth and margin expansion
NIM (%)	5.17	5.01	4.45	72 bps	4.92	25 bps	Rate transmission & focus on unsecured loans drive margins
Other Income	1,954.2	1,540.7	1,812.6	7.8	1,243.8	57.1	
Net Total Income	7,053.6	6,387.5	5,833.2	20.9	5,940.8	18.7	
Staff cost	1,414.7	1,289.3	1,177.4	20.2	1,172.8	20.6	
Other Operating Expenses	2,071.4	1,919.5	1,535.6	34.9	1,984.7	4.4	Opex continue to remain elevated
PPP	3,567.5	3,178.7	3,120.2	14.3	2,783.3	28.2	
Provision	137.0	28.8	424.0	-67.7	23.6	480.8	Covid provisions of ₹ 44 crore reversed
PBT	3,430.5	3,149.9	2,696.2	27.2	2,759.7	24.3	
Tax Outgo	849.8	787.5	664.2	28.0	688.5	23.4	
PAT	2,580.7	2,362.4	2,032.0	27.0	2,071.2	24.6	

**Key Metrics**

GNPA	6,210.2	6,202.9	7,658.0	-18.9	6,378.6	-2.6	Out of total slippages ₹ 330 crore got upgraded
NNPA	1,630.4	1,674.8	2,491.4	-34.6	1,749.3	-6.8	
Advances	2,94,023	2,97,231	2,34,965	25.1	2,80,171	4.9	Driven by secured and unsecured retail segment
Deposits	3,25,202	3,29,634	2,91,711	11.5	3,16,483	2.8	Accretion in TD remain buoyant

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	19,700.0	20,148.4	2.3	23,484.9	23,958.8	2.0
Pre Provision Profit	13,991.7	14,093.2	0.7	17,230.2	16,808.6	-2.4
NIM (%)	4.7	4.7	3 bps	4.9	4.8	-2 bps
PAT	10,054.7	9,670.0	-3.8	11,661.2	11,293.4	-3.2
ABV (₹)	411.2	407.4	-0.9	470.8	462.5	-1.8

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current				Earlier	
	FY21	FY22	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	1.8	21.3	23.1	21.3	23.1	21.3
Deposit growth (%)	6.6	11.3	15.0	20.9	15.0	18.9
NIM (Calc) %	4.7	4.5	4.7	4.8	4.7	4.9
C/I ratio %	42.2	48.0	48.2	47.3	49.0	47.2
Slippage ratio %	2.5	1.9	1.0	1.0	0.7	1.0
Credit cost %	1.10	0.25	0.33	0.41	0.15	0.39

Source: Company, ICICI Direct Research

**Exhibit 3: Valuation (₹)**

Company	Value / share
KMB	1762
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
<b>SOTP target (post discount)</b>	<b>2250</b>

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	32854.6	39265.8
Interest Expended	13429.9	11500.6	10220.9	12706.1	15307.0
Net Interest Income	13499.7	15339.6	16817.9	20148.4	23958.8
growth (%)	20.5	13.6	9.6	19.8	18.9
Non Interest Income	5372.1	5006.5	6354.4	7066.6	7917.0
Net Income	18871.8	20346.2	23172.3	27215.1	31875.8
Operating expense	8850.9	8584.1	11121.4	13121.9	15067.2
Gross profit	10020.8	11762.0	12050.9	14093.2	16808.6
Provisions	3026.8	2459.0	689.6	1113.3	1649.7
Taxes	1857.5	2338.1	2788.6	3309.9	3865.5
Net Profit	5136.5	6964.8	8572.7	9670.0	11293.4
growth (%)	8.2	35.6	23.1	12.8	16.8
EPS	26.9	35.1	43.0	48.8	57.0

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	48.8	57.0
BV (₹)	256.2	321.6	365.4	414.4	471.4
ABV (₹)	248.1	307.9	356.8	407.4	462.5
P/E	70.8	54.1	44.0	39.0	33.4
P/BV	7.7	6.2	5.3	4.7	4.1
P/ABV	7.6	6.1	5.3	4.7	4.1
Yields & Margins (%)					
Yield on avg earning assets	8.9	8.2	7.3	7.7	7.9
Avg. cost on funds	4.8	3.8	3.2	3.5	3.6
Net Interest Margins	4.5	4.7	4.5	4.7	4.8
Avg. Cost of Deposits	4.9	3.7	3.1	3.5	3.6
Yield on average advances	9.9	8.4	7.8	8.4	8.6
Quality and Efficiency (%)					
Cost / Total net income	46.9	42.2	48.0	48.2	47.3
Credit/Deposit ratio	83.6	79.9	87.0	93.2	93.4
GNPA	2.3	3.3	2.3	2.0	1.7
NNPA	0.7	1.2	0.6	0.4	0.4
ROE	11.2	12.4	12.6	12.5	12.9
ROA	1.5	1.9	2.1	2.1	2.1

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	31	31
Reserves and Surplus	47559	62236	70964	80634	91928
Networth	49017	63730	72488	82158	93451
Deposits	262821	280100	311684	358361	433316
Borrowings	37993	23651	25967	28144	30730
Other Liabilities & Provision:	10420	16009	19289	21051	23358
Total	360251	383490	429428	489714	580855
Applications of Funds					
Fixed Assets	1623	1535	1644	2023	2349
Investments	75052	105099	100580	101931	104091
Advances	219748	223689	271254	333846	404815
Cash with RBI & call mone	53292	39627	55951	44270	46066
Total	360251	383490	429428	489714	580855

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	12.0	14.0	18.6
Advances	6.8	1.8	21.3	23.1	21.3
Deposits	16.4	6.6	11.3	15.0	20.9
Total Income	13.2	-1.4	4.9	19.5	18.2
Net interest income	20.5	13.6	9.6	19.8	18.9
Operating expenses	17.8	-3.0	29.6	18.0	14.8
Operating profit	20.0	17.4	2.5	16.9	19.3
Net profit	8.2	35.6	23.1	12.8	16.8
Book value	14.3	30.0	13.7	13.3	13.8
EPS	8.0	30.9	23.1	12.8	16.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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