

Kotak Mahindra Bank

Refer to important disclosures at the end of this report

Strong earnings delivery, but imminent MD change to be key overhang

- Kotak Mahindra Bank (KMB) posted a 12% beat on PAT at Rs27.9bn, mainly owing to better margins and continuation of the contingent-provision drawdown, albeit partly offset by higher opex/staff expenses. Bank has indicated that it would continue investing in franchisee/technology/people and, thus, cost ratios would remain elevated.
- Credit-growth momentum was strong at 23% YoY/6% QoQ, but deposit growth is lagging, including CASA growth (ratio down 700bps YTD to 53%). Though NIM improved 30bps QoQ to a high of 5.5% on asset re-pricing in 3Q, it should decelerate hereon, as deposit growth as well as funding cost catches up, leading to some pressure on PPOP growth.
- Asset quality further improved, with 18bps contraction in GNPA ratio to 1.9%. Bank does not see any incremental asset-quality risk and continues to consume the contingent-provision buffer, unlike large peers who have retained/are re-building buffers. We raise our FY23 earnings estimates by 2%, but lower for FY24E/FY25E earnings by 3%/6% due to margin deceleration from the peak and higher opex.
- We expect RoA to normalize to 2% in FY25E from a high of 2.2% in FY23E, and RoE to settle at around 13%. Also, we believe that the impending MD change in Jan-24 will emerge as a key overhang on the stock in the near-to-medium term, as we move closer to the event. Thus, we trim our P/ABV for the standalone bank to 3x from 3.5x earlier, and revise our TP downwards to Rs2,000 (including subs value at Rs550 post 20% discount). We also lower our rating on the stock to HOLD from BUY.
- Sustained strong delivery on credit growth/NIMs, but SA decelerates:** Credit growth sustained momentum at 23% YoY/6% QoQ, mainly led by continued strong traction in the retail book (up 32% YoY/5% QoQ) and pick-up in the commercial/agri book. Within retail, mortgage, vehicle and unsecured loans remain key growth contributors. Bank stays focused on growing its unsecured book, in which it targets mid-teen growth (incl. MFI). On the deposits front, Bank's CASA growth was poor despite the aggressive rate hikes, particularly in the HNI customer segment. However, NIMs surprised positively with a 30bps uptick to 5.5%, which was mainly owing to asset re-pricing and faster growth. However, we believe margins should decelerate, as deposit growth/funding cost catches up.
- Asset quality improves, while Bank continues to draw-down contingent buffers:** Slippages moderated to Rs7.5bn/1.2% of loans, while healthy recoveries/w-offs led to a 18bps QoQ contraction in GNPA ratio to 1.9%. The cumulative restructured pool declined to Rs7.7bn/0.25% of loans (0.3% in Q2), which is the lowest among large peers. The bank continues to draw down its contingent buffer (Rs0.4bn), which now stands at Rs4.0bn/0.13% of loans. Bank remains confident about its asset quality and expects LLP to be contained in FY23E.
- Outlook and valuations:** We expect RoAs to normalize to 2% in FY25E from a high of 2.2% in FY23E, and RoEs to settle at around 13%. Also, we believe that the impending MD change in Jan-24 will emerge as a key overhang on the stock in the near-to-medium term, as we move closer to the event. Thus, we trim our P/ABV for the standalone bank to 3x from 3.5x earlier, and revise our TP downwards to Rs2,000/share (including subs value at Rs550 post the 20% discount). We also lower our rating on the stock to HOLD from BUY. **Key risks:** Difficulty in mobilizing low-cost deposits, Management attrition, and asset-quality risk in the unsecured loan book.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	203,463	231,723	286,212	337,926	394,847
Net profit	69,650	85,727	100,856	111,451	126,387
EPS (Rs)	35.8	43.2	50.8	56.1	63.6
ABV (Rs)	314.3	356.4	401.1	443.4	491.4
RoA (%)	1.9	2.1	2.2	2.1	2.0
RoE (%)	12.5	12.7	13.2	13.1	13.4
P/E (x)	33.9	28.1	23.9	21.6	19.1
P/ABV	4.1	3.6	3.1	2.8	2.5

Source: Company, Emkay Research

CMP	Target Price
Rs 1,761	Rs 2,000 (▼)
as of (January 21, 2023)	12 months
Rating	Upside
HOLD (▼)	13.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	2.3/(1.5)
Target Price change (%)	(14.2)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	50.8	56.1
Consensus	50.0	59.8
Mean Consensus TP (12M)	Rs 2,135	

Stock Details

Bloomberg Code	KMB IN
Face Value (Rs)	5
Shares outstanding (mn)	1,986
52 Week H/L	1,998 / 1,630
M Cap (Rs bn/USD bn)	3,498 / 43.12
Daily Avg Volume (nos.)	2,702,081
Daily Avg Turnover (USD mn)	62.3

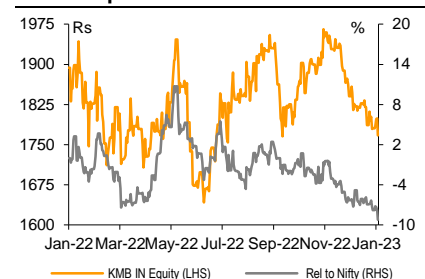
Shareholding Pattern Sep '22

Promoters	26.0%
FII	39.3%
DII	20.0%
Public and Others	14.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(5)	(4)	(7)
Rel. to Nifty	(3)	(8)	(12)	(8)

Relative price trend



Source: Bloomberg

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Heet Khimawat

heet.khimawat@emkayglobal.com
+91 22 6612 1275

Dixit Sankharva

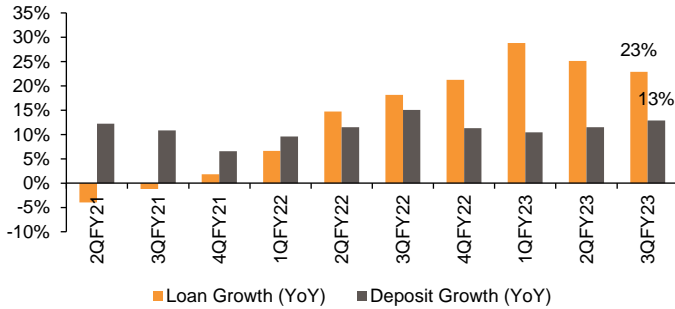
dixit.sankharva@emkayglobal.com
+91 22 6612 1281

Soumya Jain

soumya.jain@emkayglobal.com
+91 22 6612 1262

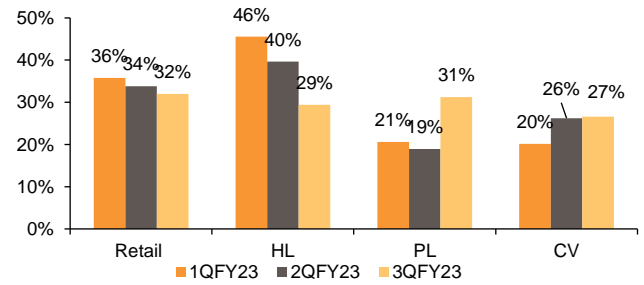
Story in charts

Exhibit 1: Credit growth sustained momentum, led by continued traction in retail and pick up in the commercial/agri book



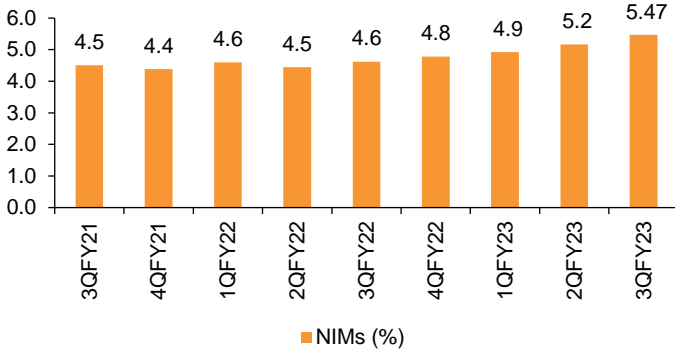
Source: Company, Emkay Research

Exhibit 2: Within Retail; PL and VL growth picked up pace, while mortgages growth slowed down a bit



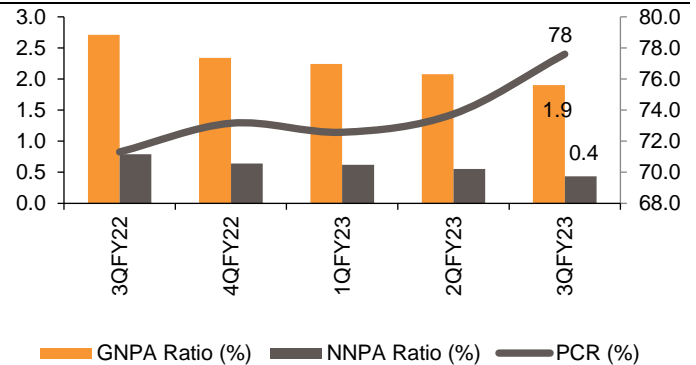
Source: Company, Emkay Research

Exhibit 3: NIMs were up 25bps QoQ due to asset re-pricing and faster growth



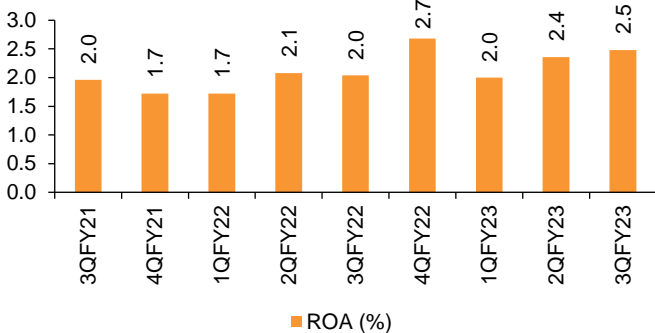
Source: Company, Emkay Research

Exhibit 4: Moderation in slippages, along with healthy recoveries/upgrades, led to 16bps QoQ reduction in GNPA



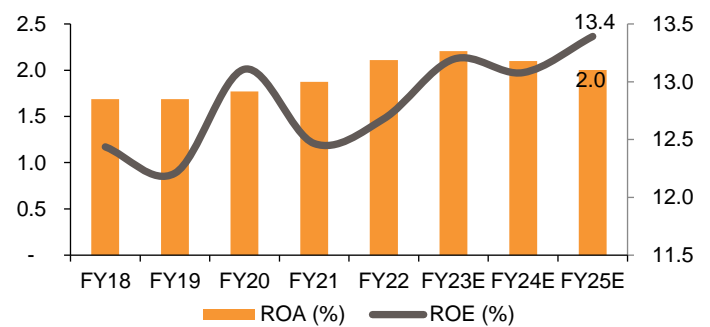
Source: Company, Emkay Research

Exhibit 5: ROA remains strong, led by healthy delivery on growth/margins and provision reversal



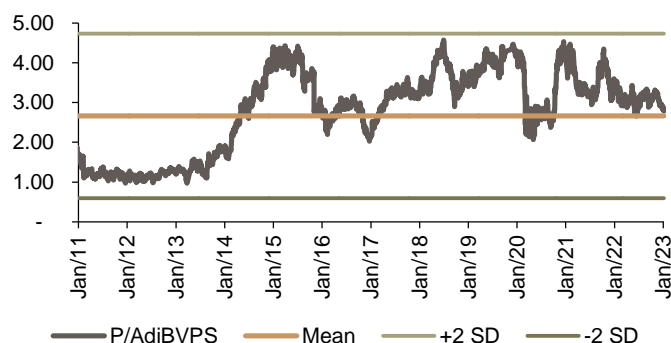
Source: Company, Emkay Research (Note: ROA are annualized)

Exhibit 6: ROAs to remain high, but higher capital levels and thus lower leverage to keep ROE in check



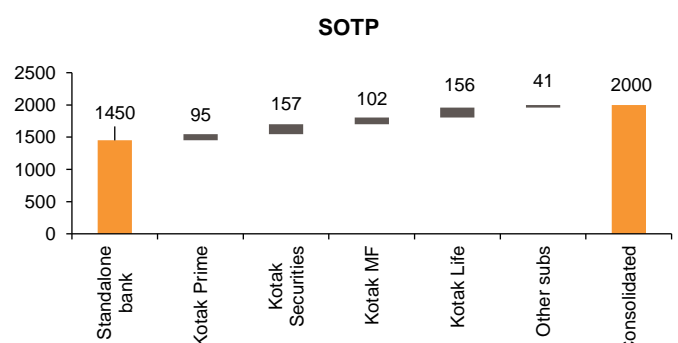
Source: Company, Emkay Research

Exhibit 7: The stock trades at 2.8x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 8: SOTP-based Valuation (Rs/share)



Source: Company, Emkay Research

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Exhibit 9: Actual vs. Estimates (Q3FY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	77,529	70,084	73,649	11%	5%	Better margins and higher other income led to a beat
PPOP	38,498	35,201	42,860	9%	-10%	Higher Net income partly offset by higher opex led to a beat
PAT	27,919	25,003	26,294	12%	6%	Higher PPOP, and contained LLP led to earnings beat

Source: Company Bloomberg, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	FY22A	FY23E	YoY (%)
Interest Earned	65,963	68,968	70,659	73,385	80,928	89,986	30.5	11.2	270,388	341,603	26.3
Interest Exp	25,757	25,625	25,445	26,415	29,934	33,457	30.6	11.8	102,209	129,255	26.5
Net Interest Income	40,206	43,343	45,214	46,970	50,994	56,529	30.4	10.9	168,179	212,348	26.3
Global NIMs (reported)	4.45	4.62	4.78	4.92	5.17	5.47	85bps	30bps	4.32	4.83	51bps
Non-interest Income	18,126	13,637	18,263	12,438	19,542	21,000	54.0	7.5	63,544	73,864	16.2
Operating Expenses	27,130	29,970	30,078	31,575	34,861	39,031	30.2	12.0	111,214	146,795	32.0
Pre Provisioning Profit	31,202	27,010	33,399	27,833	35,675	38,498	42.5	7.9	120,509	139,417	15.7
Provision & Contingencies	4,240	-1,317	-3,062	236	1,370	1,488	-213.0	8.6	6,896	4,762	-30.9
PBT	26,962	28,327	36,461	27,597	34,305	37,010	30.7	7.9	113,613	134,655	18.5
Income Tax Expense (Gain)	6,642	7,014	8,787	6,885	8,498	9,091	29.6	7.0	27,886	33,798	21.2
Net Profit/(Loss)	20,320	21,314	27,674	20,712	25,807	27,919	31.0	8.2	85,727	100,856	17.6
Gross NPA (%)	3.19	2.71	2.34	2.24	2.08	1.90	-81bps	-18bps	2.34	1.85	-49bps
Net NPA (%)	1.06	0.79	0.64	0.62	0.55	0.43	-36bps	-12bps	0.64	0.51	-13bps
Deposits (Rs bn)	2,917	3,053	3,117	3,165	3,252	3,447	12.9	6.0	3,117	3,614	16.0
Net Advances (Rs bn)	2,350	2,529	2,713	2,802	2,940	3,107	22.9	5.7	2,713	3,294	21.4

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced	Revised	Change
Net income	275,319	286,212	4.0%	335,435	337,926	0.7%	396,264	394,847	-0.4%
PPOP	137,197	139,417	1.6%	171,600	166,286	-3.1%	205,686	197,578	-3.9%
PAT	98,627	100,856	2.3%	113,183	111,451	-1.5%	132,777	126,387	-4.8%
EPS (Rs)	49.7	50.8	2.3%	57.0	56.1	-1.5%	66.9	63.6	-4.8%
BV (Rs)	406.2	407.3	0.3%	450.7	450.9	0.1%	502.6	499.6	-0.6%

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	20.8	21.0	20.0	20.0
Deposit Growth	11.3	16.0	19.6	19.2
NIM	4.3	4.8	4.7	4.6
GNPA	2.3	1.9	1.7	1.5
Credit Cost	0.3	0.2	0.5	0.7
Yield on Advances	7.9	9.0	9.3	9.3
Cost of Deposits	3.1	3.6	4.1	4.3

Source: Company, Emkay Research

Exhibit 13:

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Loans (Rs bn)	2,141	2,237	2,175	2,350	2,529	2,713	2,802	2,940	3,107
YoY growth (%)	-1.2	1.8	6.6	14.7	18.1	21.3	28.8	25.1	22.9
QoQ growth (%)	4.5	4.5	-2.8	8.0	7.6	7.2	3.3	4.9	5.7
Composition %									
- Corporate	36.7	26.8	27.7	27.8	26.9	24.6	23.8	22.3	22.5
- Retail & Agri	63.1	64.1	64.8	64.6	64.1	66.2	67.1	68.3	68.3
Liability Profile & Margins									
Deposits (Rs bn)	2,653	2,801	2,866	2,917	3,053	3,117	3,165	3,252	3,447
YoY growth (%)	10.8	6.6	9.6	11.5	15.1	11.3	10.4	11.5	12.9
QoQ growth (%)	1.4	5.6	2.3	1.8	4.7	2.1	1.5	2.8	6.0
CASA %	58.9	60.4	60.2	60.6	59.9	60.7	58.1	56.2	53.3
CA %	16.6	18.6	18.3	18.3	18.7	20.7	18.0	18.5	18.5
SA %	42.3	41.9	41.9	42.3	41.2	39.9	40.1	37.7	34.8
NIM %	4.5	4.4	4.6	4.5	4.6	4.8	4.9	5.2	5.5
Branches	1,603	1,604	1,612	1,622	1,647	1,700	1,702	1,710	1,752
Asset Quality (Rs mn)									
Gross NPA (Opening Balance)	53,360	49,280	74,255	79,318	76,579	69,828	64,697	63,786	62,102
GNPA	49,280	74,255	79,318	76,579	69,828	64,697	63,786	62,102	59,946
GNPA %	2.3	3.3	3.6	3.2	2.7	2.3	2.2	2.1	1.9
NPA	10,640	27,052	27,923	24,914	20,035	17,367	17,493	16,304	13,448
NNPA %	0.5	1.2	1.3	1.1	0.8	0.6	0.6	0.6	0.4
PCR %	77.9	62.8	64.0	66.8	70.8	72.6	72.3	73.3	77.2
Slippages (Rs mn)	19,000	24,400	15,000	12,930	7,500	7,360	14,350	9,830	7,480
Slippages % (annualised)	3.5%	4.4%	2.8%	2.2%	1.2%	1.1%	2.0%	1.3%	1.0%
Capital Adequacy (%)									
CAR	21.5	23.4	23.7	21.8	23.3	23.7	22.8	22.6	21.7
Tier I	20.8	22.6	22.8	20.8	22.4	21.7	21.6	21.5	20.7
ROE Decomposition (%)									
NII	4.2	4.0	4.1	4.0	4.2	4.3	4.4	4.7	5.0
Other Income (Ex Treasury)	1.4	1.6	1.4	1.8	1.8	1.7	2.0	1.8	1.9
Treasury	0.0	0.0	0.0	0.0	-0.5	0.0	-0.8	0.0	0.0
Opex	2.4	2.5	2.5	2.7	2.9	2.8	3.0	3.2	3.4
PPOP	3.2	3.1	3.0	3.1	2.6	3.2	2.6	3.3	3.4
Provisioning Cost	0.6	0.8	0.7	0.4	-0.1	-0.3	0.0	0.1	0.1
PBT	2.6	2.3	2.2	2.7	2.7	3.4	2.6	3.2	3.3
ROA	1.9	1.7	1.7	2.0	2.1	2.6	1.9	2.4	2.5
ROE	12.0	10.6	10.0	12.1	12.2	15.3	11.1	13.4	14.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	153,396	168,179	212,348	241,259	279,683
Other income	50,066	63,544	73,864	96,668	115,164
Fee income	33,841	45,548	56,935	68,322	82,669
Net income	203,463	231,723	286,212	337,926	394,847
Operating expenses	85,841	111,214	146,795	171,641	197,269
Pre provision profit	117,621	120,509	139,417	166,286	197,578
PPP excl treasury	114,896	120,518	148,417	163,586	193,258
Provisions	24,590	6,896	4,762	17,486	28,837
Profit before tax	93,031	113,613	134,655	148,800	168,741
Tax	23,381	27,886	33,798	37,349	42,354
Tax rate	25	25	25	25	25
Profit after tax	69,650	85,727	100,856	111,451	126,387

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	9,909	9,923	9,929	9,929	9,929
Reserves	622,382	709,955	798,896	885,526	982,127
Net worth	632,291	719,878	808,825	895,454	992,055
Deposits	2,801,002	3,116,841	3,614,093	4,323,545	5,153,058
Borrowings	231,946	256,611	243,781	292,537	336,417
Total liabilities	3,834,702	4,294,284	4,848,255	5,768,431	6,859,620
Cash and bank	124,936	160,262	163,467	166,737	183,410
Investments	1,050,992	1,005,802	992,427	1,160,102	1,350,810
Loans	2,236,702	2,712,536	3,294,257	3,960,635	4,757,893
Others	135,390	130,269	157,683	211,866	288,800
Total assets	3,834,702	4,294,284	4,848,255	5,768,431	6,859,620

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	4.3	4.3	4.8	4.7	4.6
Non-II/avg assets	1.3	1.6	1.6	1.8	1.8
Fee income/avg assets	0.9	1.1	1.2	1.3	1.3
Opex/avg assets	2.3	2.7	3.2	3.2	3.1
Provisions/avg assets	0.7	0.2	0.1	0.3	0.5
PBT/avg assets	2.5	2.8	2.9	2.8	2.7
Tax/avg assets	0.6	0.7	0.7	0.7	0.7
RoA	1.9	2.1	2.2	2.1	2.0
RoAE	12.5	12.7	13.2	13.1	13.4
GNPA (%)	3.3	2.3	1.9	1.7	1.5
NNPA (%)	1.2	0.6	0.5	0.5	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	35.8	43.2	50.8	56.1	63.6
BVPS	324.7	363.0	407.4	450.9	499.6
ABVPS	314.3	356.4	401.1	443.4	491.4
DPS	0.9	1.1	6.0	12.5	15.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	33.9	28.1	23.9	21.6	19.1
P/BV	4.0	3.5	3.1	2.8	2.5
P/ABV	4.1	3.6	3.1	2.8	2.5
P/PPOP	29.7	29.0	25.1	21.1	17.7
Dividend Yield (%)	0.1	0.1	0.3	0.7	0.9

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	13.6	9.6	26.3	13.6	15.9
PPOP	17.4	2.5	15.7	19.3	18.8
PAT	17.1	23.1	17.6	10.5	13.4
Loans	1.8	21.3	21.4	20.2	20.1

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII	43,343	45,214	46,970	50,994	56,529
NIM (%)	4.6	4.8	4.9	5.2	5.5
PPOP	27,010	33,399	27,833	35,675	38,498
PAT	21,314	27,674	20,712	25,807	27,919
EPS (Rs)	10.75	13.94	10.44	13.00	14.06

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	26.0	26.0	26.0	26.0	26.0
FII	42.6	42.1	40.9	40.6	39.3
DII	15.3	15.5	16.6	17.3	20.0
Public and Others	16.1	16.5	16.6	16.2	14.8

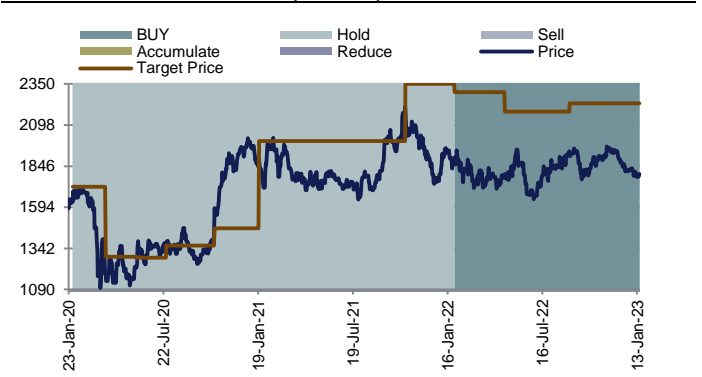
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
24-Oct-22	1,896	2,230	12m	Buy	Anand Dama
6-Sep-22	1,916	2,230	12m	Buy	Anand Dama
23-Jul-22	1,827	2,180	12m	Buy	Anand Dama
26-May-22	1,909	2,180	12m	Buy	Anand Dama
5-May-22	1,798	2,180	12m	Buy	Anand Dama
29-Jan-22	1,898	2,300	12m	Buy	Anand Dama
27-Oct-21	2,188	2,350	12m	Hold	Anand Dama
27-Jul-21	1,698	2,000	12m	Hold	Anand Dama
3-May-21	1,725	2,000	12m	Hold	Anand Dama
25-Jan-21	1,794	2,000	12m	Hold	Anand Dama
20-Jan-21	1,884	2,000	12m	Hold	Anand Dama
27-Oct-20	1,588	1,465	12m	Hold	Anand Dama
27-Jul-20	1,323	1,360	12m	Hold	Anand Dama
31-May-20	1,224	1,285	12m	Hold	Anand Dama
14-May-20	1,173	1,290	12m	Hold	Anand Dama
11-Apr-20	1,273	1,290	12m	Hold	Anand Dama
2-Apr-20	1,182	1,290	12m	Hold	Anand Dama
30-Jan-20	1,628	1,720	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 23 Jan 2023 13:53:15 (SGT)

Dissemination Date: 23 Jan 2023 13:54:15 (SGT)

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com