

# Retail Equity Research Kotak Mahindra Bank Ltd.

## Banking

BSE CODE: 500247

NSE CODE: KOTAKBANK

Bloomberg CODE: KMB:IN

SENSEX: 59,500

**BUY**

12 Months Investment period Rating as per Large cap  
CMP Rs. 1,726 TARGET Rs. 2,010 RETURN 17%  
(Closing: 30-01-23)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

## NIM improves, business expansion stays robust

Kotak Mahindra Bank ("KMB") is one of the leading banks in India, with over 1,700 branches and 2,800 ATMs.

- The bank's net interest income (NII) grew 8.9% QoQ (+26.3% YoY) to Rs. 7,207cr in Q3FY23, owing to sharp rise in interest on advances and income from investments. Net interest margin (NIM) also improved, widening 30bps QoQ (+85 bps YoY) to 5.47%, with the management projecting NIM to rise slightly further before moderating.
- Reported consolidated profit after tax rose 10.7% QoQ (+17.4% YoY) to Rs. 3,995cr.
- Strong loan growth, improved NIM, well-established infrastructure, expansion into new segments, and reduction in non-performing assets (NPAs) should continue to support the bank's performance over the long term. Hence, we reiterate our BUY rating on the stock, with a revised target price of Rs. 2,010 based on 2.8x FY25E book value per share (BVPS).

## Strong NIM with growing asset base

The bank's consolidated interest income rose 10.2% QoQ (+27.6% YoY) to Rs. 11,011cr in Q3FY23, mainly due to 11.3% QoQ growth (+39.6% YoY or Rs. 8,105cr) in interest on advances and 7.7% QoQ rise (+4.1% YoY or Rs. 2,511cr) in income on investments. Also, interest expense grew 12.7% QoQ (+30.3% YoY) to Rs. 3,804cr. As a result, NII reached Rs. 7,207cr, up 8.9% QoQ (+26.3% YoY). Standalone NIM expanded 30bps QoQ (+85 bps YoY) to 5.47% as well. The management expects NIM to rise slightly in the near term before moderating over the long run, based on trajectory in the repo rate and the bank's asset mix. Asset quality continued to improve QoQ and YoY, with gross NPA (GNPA) at Rs. 6,730cr (declined 3.4% QoQ and 15.8% YoY). GNPA/net NPA ratio was at 1.91%/0.48% (vs. 2.09%/0.60% in Q2FY23). Advances rose 5.7% QoQ (22.9% YoY) to Rs. 310,734cr, primarily owing to secured and unsecured advances. The bank has committed to increasing unsecured advances as a % of advances from 9.3% to the mid-teens. Provision coverage ratio stood at 77.6%, declined 390bps QoQ. CASA ratio stood at 53.3%, down 290bps QoQ.

## Broadening of business and increased investments to boost growth

KMB has committed to diversify its businesses to alternative asset management. The bank expects to have ~\$5 billion in assets, including 15% of the company's capital, in alternate asset pools in the next two quarters. It has also planned to add 150 branches in the next financial year (total branches are now 1,752). Further, KMB has continued to increase its digital investments to benefit from digital transformation. For instance, the bank's Unified Payments Interface (UPI) transaction volume increased 2.5x YoY during the latest quarter.

## Key quarter highlights

- Assets under management grew 4.9% YoY to Rs. 405,269cr in Q3FY23, with major contribution from domestic equity mutual funds (MFs; 40.0%) and domestic debt MFs (31.0%).
- Gross slippages in Q3FY23 were Rs. 748cr (0.2% of advances) vs. Rs. 983cr in Q2FY23. Recoveries and upgrades were Rs. 171cr in Q3FY23.

## Outlook and valuation

Improved asset quality, robust growth in advances, a well-established brand, and strong lending growth with reduction in NPA are expected to continue to drive the bank's performance. Hence, we reiterate our BUY rating on the stock, with a revised target price of Rs. 2,010 based on 2.8x FY25E BVPS.

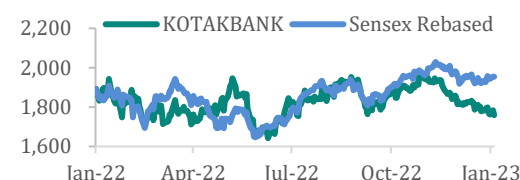
## Company Data

Market Cap (cr)	Rs. 349,531
Outstanding Shares (cr)	198.6
Free Float	74.0%
Dividend Yield	0%
52 week high	Rs. 1,997
52 week low	Rs. 1,630
6m average volume (lacs)	0.85
Beta	1.1
Face value	Rs. 5

Shareholding %	Q1FY23	Q2FY23	Q3FY23
Promoters	26.0	26.0	26.0
FIIIs	40.6	39.3	39.2
MFs/Insti	17.3	21.7	21.8
Public	9.2	12.9	12.9
Others	7.0	0.2	0.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-7.1%	-3.6%	-3.9
Absolute Sensex	1.9%	8.8%	6.1%
Relative Return*	-9.0%	-12.4%	-10.0%

\*Over- or underperformance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Net Interest Income	26,153	30,566	34,012
Growth (%)	17.9	16.9	11.3
NIM (%)	5.1	5.3	5.2
Pre-provision Profit	21,123	22,785	24,127
Net Profit	14,373	15,606	16,570
Growth (%)	18.9	8.6	6.2
Adj. EPS	72.2	78.4	83.2
Growth (%)	18.9	8.6	6.2
BVPS	559.2	636.3	718.1
P/E	24.4	22.4	21.1
P/B	3.1	2.8	2.5
P/ABV	3.1	2.8	2.5
ROE (%)	13.8	13.1	12.3
ROA (%)	2.5	2.4	2.3

## Quarterly Financials (Consolidated)

### Profit & Loss Account

Rs. Cr.	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %
Interest Income	11,011	8,626	27.6	9,994	10.2
Interest Expense	3,804	2,919	30.3	3,374	12.7
<b>Net Interest Income (NII)</b>	<b>7,207</b>	<b>5,707</b>	<b>26.3</b>	<b>6,620</b>	<b>8.9</b>
Non-Interest Income	7,470	5,543	34.8	7,519	(0.7)
<b>Total Net Income</b>	<b>14,677</b>	<b>11,250</b>	<b>30.5</b>	<b>14,139</b>	<b>3.8</b>
<b>Total Income</b>	<b>18,481</b>	<b>14,169</b>	<b>30.4</b>	<b>17,513</b>	<b>5.5</b>
Operating Expenses	9,306	6,965	33.6	9,255	0.6
<b>Total Expenditure</b>	<b>13,110</b>	<b>9,884</b>	<b>32.6</b>	<b>12,629</b>	<b>3.8</b>
<b>Pre-Provision profit</b>	<b>5,371</b>	<b>4,286</b>	<b>25.3</b>	<b>4,884</b>	<b>10.0</b>
Provisions	147	-125	(217.6)	137	7.8
<b>Profit Before Tax</b>	<b>5,224</b>	<b>4,411</b>	<b>18.4</b>	<b>4,747</b>	<b>10.0</b>
Tax	1,265	1,073	17.9	1,168	8.3
<b>Net Profit</b>	<b>3,995</b>	<b>3,403</b>	<b>17.4</b>	<b>3,608</b>	<b>10.7</b>
EPS - Diluted (Rs.)	20.1	17.2	17.3	18.2	10.7

### Change in Estimates

Old Estimates	Old estimates		New estimates			Change %	
Year / Rs. cr	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Net Interest Income (NII)	25,763	28,511	26,153	30,566	34,012	1.5	19.3
Net Interest Margin (%)	5.2	5.3	5.1	5.3	5.2	14bps	10bps
Pre-Provision Profit	21,806	22,739	21,123	22,785	24,127	(3.1)	6.1
Net Profit	14,912	15,665	14,373	15,606	16,570	(3.6)	5.8
EPS (Rs.)	74.9	78.7	72.2	78.4	83.2	(3.6)	5.8

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	32,820	33,740	43,494	51,191	59,062
Interest Expense	12,967	11,553	17,341	20,625	25,050
<b>Net Int. Income</b>	<b>19,853</b>	<b>22,187</b>	<b>26,153</b>	<b>30,566</b>	<b>34,012</b>
% Change	13.0	11.8	17.9	16.9	11.3
Non-Int. Income	23,477	25,141	26,901	28,784	30,799
<b>Net Income</b>	<b>43,330</b>	<b>47,328</b>	<b>53,054</b>	<b>59,350</b>	<b>64,811</b>
<b>Total Income</b>	<b>56,296</b>	<b>58,882</b>	<b>70,395</b>	<b>79,975</b>	<b>89,861</b>
Operating Exp.	27,309	30,610	31,932	36,565	40,684
<b>Total Exp.</b>	<b>40,276</b>	<b>42,163</b>	<b>49,272</b>	<b>57,190</b>	<b>65,734</b>
<b>Pre-Prov. Profit</b>	<b>16,021</b>	<b>16,719</b>	<b>21,123</b>	<b>22,785</b>	<b>24,127</b>
Provisions	2,852	771	1,310	1,329	1,332
<b>PBT</b>	<b>13,168</b>	<b>15,948</b>	<b>19,813</b>	<b>21,456</b>	<b>22,795</b>
Tax	3,265	4,016	5,597	6,008	6,383
Tax Rate (%)	24.8	25.2	28.3	28.0	28.0
<b>Net Profit</b>	<b>9,990</b>	<b>12,089</b>	<b>14,373</b>	<b>15,606</b>	<b>16,570</b>
% Change	16.3	21.0	18.9	8.6	6.2
No. of Shares (cr)	197.9	199.1	199.1	199.1	199.1
Adj. EPS (Rs.)	50.5	60.7	72.2	78.4	83.2
% Change	13.0	20.3	18.9	8.6	6.2
DPS (Rs.)	0.9	1.1	1.3	1.4	1.5

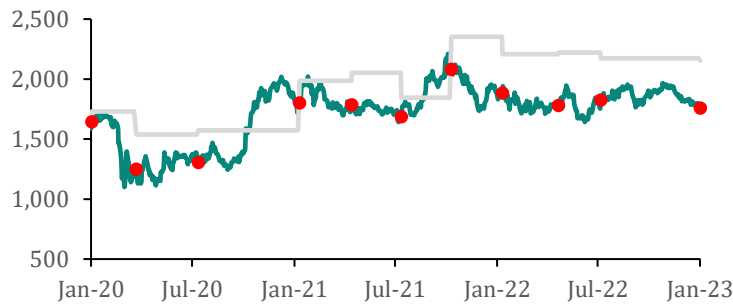
## BALANCE SHEET

Y.E March (Rs. cr)	FY21	FY22	FY23E	FY24E	FY25E
Cash & Balances	47,717	52,665	53,949	55,336	56,834
Investments	156,946	164,529	172,756	181,394	190,463
Advances	252,188	304,474	350,316	409,110	478,664
Fixed Assets	1,740	1,910	1,956	2,003	2,051
Other Assets	20,282	22,920	23,990	25,111	26,287
<b>Total Assets</b>	<b>478,873</b>	<b>546,498</b>	<b>602,966</b>	<b>672,953</b>	<b>754,299</b>
Capital	1,491	1,492	1,492	1,492	1,492
Reserves & Surplus	83,346	95,642	109,796	125,142	141,430
Deposits	278,871	310,087	344,796	405,481	476,845
Borrowings	47,739	55,148	60,663	66,729	73,402
Other Liabilities	67,426	84,129	86,218	74,109	61,129
<b>Total Liabilities</b>	<b>478,873</b>	<b>546,498</b>	<b>602,966</b>	<b>672,953</b>	<b>754,299</b>
<b>BVPS (Rs.)</b>	<b>428.8</b>	<b>488.1</b>	<b>559.2</b>	<b>636.3</b>	<b>718.1</b>
% Change	22.8	13.8	14.6	13.8	12.9

## RATIOS

Y.E March	FY21	FY22	FY23E	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	34.7	28.9	24.4	22.4	21.1
P/BV (x)	4.1	3.6	3.1	2.8	2.5
Div. Yield (%)	0.1	0.1	0.1	0.1	0.1
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	8.6	8.1	9.2	9.3	9.2
Cost of Deposits	4.0	3.3	4.5	4.7	4.9
Spread	4.6	4.8	4.7	4.6	4.3
NIM	5.0	4.9	5.1	5.3	5.2
ROE	13.1	13.3	13.8	13.1	12.3
ROA	2.2	2.4	2.5	2.4	2.3
<b>Capital Adequacy (%)</b>					
CAR	23.4	23.7	23.6	23.5	23.4
Tier I	22.6	22.8	23.0	22.9	22.9
Tier II	0.8	0.9	0.6	0.5	0.5
<b>Asset Quality (%)</b>					
GNPA	3.2	2.4	1.8	1.6	1.5
NNPA	1.2	0.7	0.4	0.4	0.3
<b>Operating Ratios (%)</b>					
Credit/ Deposit	90.4	98.2	101.6	100.9	100.4
Cost/ Income	63.0	64.7	60.2	61.6	62.8
CASA	60.4	60.7	52.0	51.5	51.0

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
03-May-19	HOLD	1,484
31-Oct-19	HOLD	1,682
24-Jan-20	HOLD	1,730
13-Apr-20	BUY	1,537
03-Aug-20	BUY	1,572
01-Feb-21	BUY	1,986
06-May-21	BUY	2,052
03-Aug-21	BUY	1,846
01-Nov-21	BUY	2,353
02-Feb-22	BUY	2,208
13-May-22	BUY	2,221
28-Jul-22	BUY	2,173
30-Jan-23	BUY	2,010

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

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