

KOTAK MAHINDRA BANK LIMITED | Banking

A stellar quarter; Margins peak

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Result and Price Analysis

Kotak Mahindra Bank (KMB) reported strong 4QFY23 results with the key pointers being: a) Strong NII (up 35% YoY and 8% QoQ) and seasonally stable provisions, b) GNPA/NNPA ratio moderation to 1.78%/0.37%, c) restructured pool inched down to ₹7.1bn (22bps of advances) v/s ₹7.7bn in the previous quarter, d) credit off-take strong with growth of 18% YoY and 3% sequentially, e) covid provision held at ₹4bn as of 3QFY23, provision write-back worth ₹380mn, f) the total contingent provisioning (Covid + Standard + Specific) stood 0.6% of net advances, h) Total PCR (including covid, general and specific provision) stood ~113% of GNPL amount, g) Headline NIM inched up 28bps QoQ to 5.75%. Moreover, lower Opex (C/I at 44% v/s 50% in 3QFY23) led to superior ROA of ~3%. However, we see a weakness in fixed rate saving account growth. It has a relatively weak liability franchise (v/s peers: HDFCB and ICICIB) that will be tested in FY24E as deposit competition is intensifying. We believe, 4QFY23 to be peak of earnings as there is no further room for EBLR re-pricing. The CDR bottleneck (~89%) shows the imminent pressure to grow deposits. Furthermore, the uncertainty over Uday Kotak's replacement will remain a short term overhang. Nevertheless, asset quality provides comfort for lower credit cost. Hence, the peak ROA (~3% in 4QFY23) likely to settle at the historical range of 2.2 % - 2.4%. We recommend BUY factoring a best in class ROA of more than 2%.

Gazing the core

NPA ratio improved further; covid provision write-back continues: The 4QFY23 witnessed a better asset quality performance as GNPA/NNPA/PCR/SMA2 stood at 1.78%/0.37%/79%/0.09% against 1.90%/0.43%/78%/0.06% in the previous quarter. The GNPA/NNPA ratio decreased sequentially on the back of higher reductions (₹10.5bn v/s ₹9.6bn in 3QFY23) and moderately slippages (₹8.2bn v/s ₹7.5bn in 3QFY23). The absolute GNPA (₹57.7bn) decreased sequentially by 3.8%. The SMA2 book stable at ₹2.8bn (9bps of loans).

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	1,53,396	1,68,179	2,15,519	2,23,402	2,61,668
Operating Profit	1,22,147	1,20,509	1,48,480	1,57,318	1,82,592
Reported Profits	69,648	85,727	1,09,393	1,14,491	1,33,304
Net Worth	6,32,270	7,19,565	8,29,600	9,44,091	10,77,394
Loan & Advances	22,36,886	27,12,536	31,98,612	37,74,362	44,91,491
Int. Bearing Liabilities	30,42,507	33,81,512	38,70,123	44,42,852	51,52,923

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.3	4.3	4.9	4.4	4.5
C/I	41.3	48.0	48.1	48.1	48.0
Gross NPA	3.3	2.3	1.8	1.6	1.4
PCR (%)	63.6	73.2	79.3	76.6	73.1
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2

Rating	BUY
Current Market Price (₹)	1,938
12 M Price Target (₹)	2,232
Potential upside (%)	15

Stock Data

FV (₹) :	5
Market Cap Full (₹ bn) :	3,840
Market Cap Free Float (₹ bn) :	2,849
52-Week High / Low (₹) :	1,998 / 1,631
1 Yr Avg. Dly Traded Volume (in lakh)	32
BSE Code / NSE Symbol	500247 / KOTAKBANK
Bloomberg :	KMB IN

Shareholding Pattern

(%)	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	25.95	25.95	25.96	25.97
FPIs	37.76	39.24	39.26	40.55
MFs	10.99	9.83	9.93	8.99
Insurance	8.60	8.56	8.43	8.06
Others	16.70	16.42	16.42	16.43

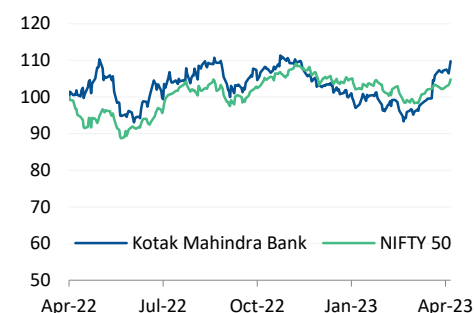
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
Kotak Bank	14.1%	13.1%	2.9%	9.8%
Nifty 50	6.6%	2.6%	1.6%	4.8%

* To date / current date : April 28, 2023

Kotak Bank vs Nifty 50



The management reiterated about the books' quality and see no visible area of stress. The total restructuring amount (covid + MSME) moderated to ₹7.2bn (0.22%) against ₹7.7bn (0.25%) in 3QFY23. Out of which covid related restructuring is ~₹2.7bn and rest is MSME restructuring. The provisioning expenses stood at 1.48bn slightly down against the previous quarter. Nevertheless, the bank has utilized covid provision worth ₹124mn in this quarter. covid provision continued to be held at ₹3.8bn and total provisions (excluding PCR) stood 0.6% of net loans.

Above par credit growth: The management believes the current environment as Goldilocks era with robust credit growth potential and lower defaults. Thus the bank's net advances (~₹3.2tn) grew by 18% YoY and 3% sequentially. Home loan & LAP (28.5% of book) will continue to be focus area and grew 4.1% sequentially. SME (7.4% of book) has grew by 4.4% QoQ. The bank's deposit stood at ~₹3.6tn grew by 16.5% YOY and 5.3% sequentially; CASA ratio moderated sequentially by 50bps and stood at 52.8%. CRAR stood at 21.8% with Tier 1 of 20.6%.

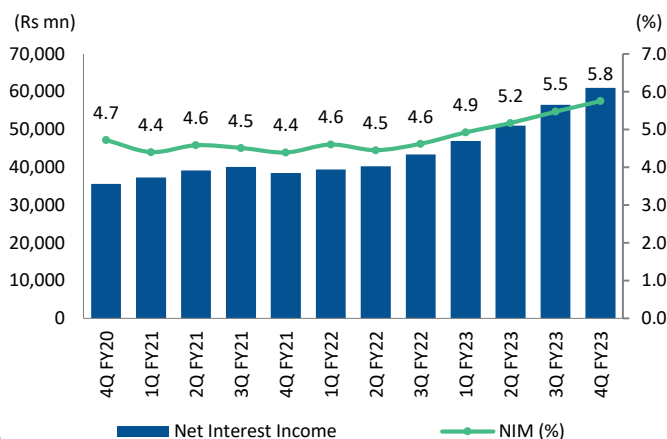
Peak margins, NIMs to reduce hereon: NIMs improvement of 28bps sequentially led to NII growth of 35% YoY and 8% QoQ. Moreover, the other income witnessed growth of 4.1% QoQ led by treasury income of ₹2.6bn. Fixed and Floating rate loans have proportion of 30% and 70% respectively. Out of EBLR loans, 57% is repo linked and 13% is MCLR linked. The management believes that the bank should be able to maintain NIM at 5% and more for FY24 even with policy rate cuts, if any. The C/I ratio down significantly to 43.9% v/s 50.3% in the previous quarter. Healthy NII growth and lower Opex led to PPOP growth of 21% sequentially. Moreover, a slightly lower provision has resulted in 26% YoY and 25% sequential jump in PAT. The bank ROA/ROE stood at 2.96%/16.9%.

Outlook & Valuations

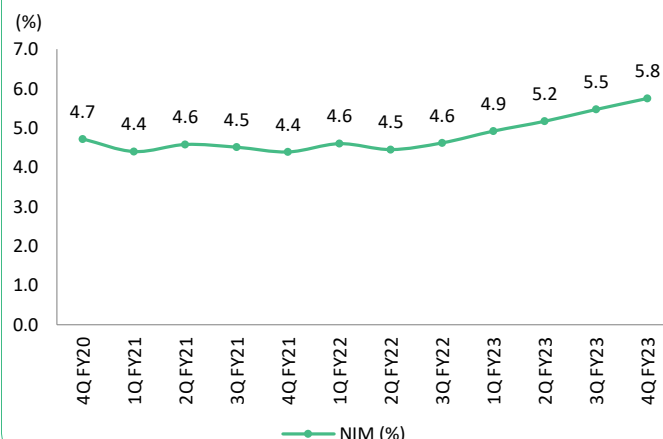
We expect KMB's loan book to grow at CAGR of ~18% over FY23-25E. At CMP of ₹1938, the stock is available at 3.7(x) standalone FY25E Adj. BVPS of ₹539. Valuing the standalone entity with 4.0x FY25E BVPS and subsidiaries valuation at ₹74; we arrive at a target price of ₹2,232. We recommend BUY with a potential upside of 15%.

Quarterly story in charts

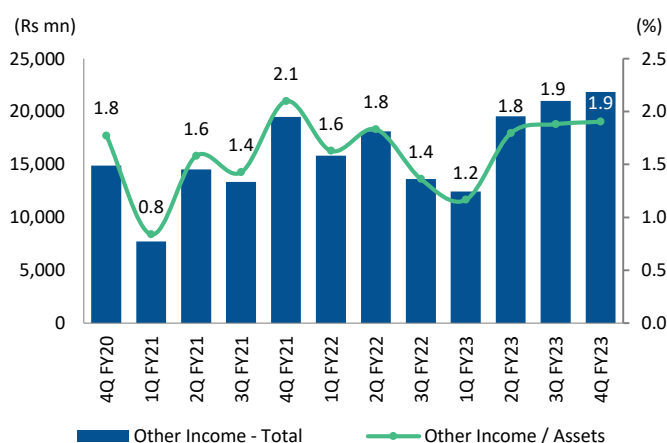
NII Trend



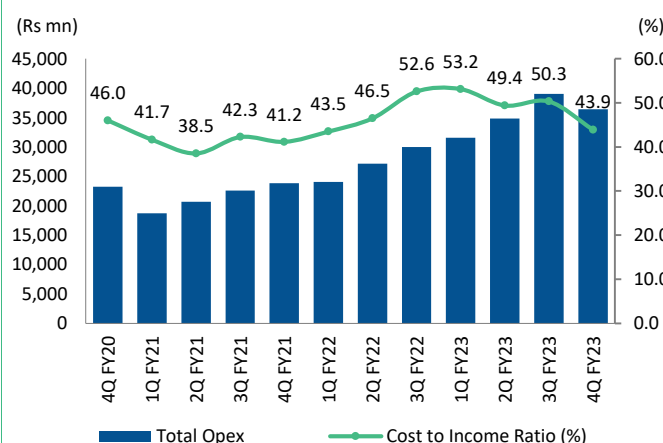
NIMs Trend



Other Income Trend



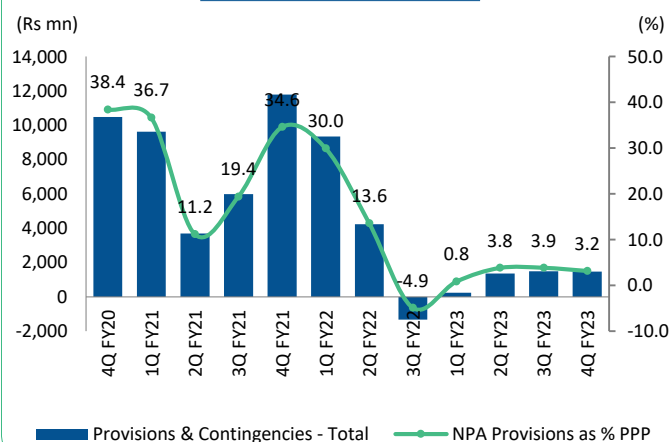
Total Opex Trend

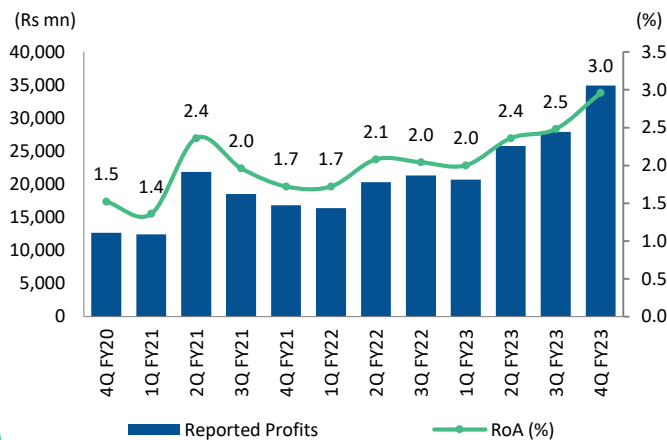
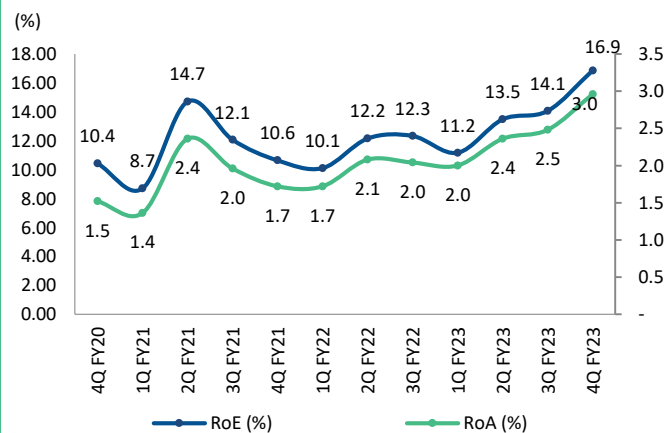
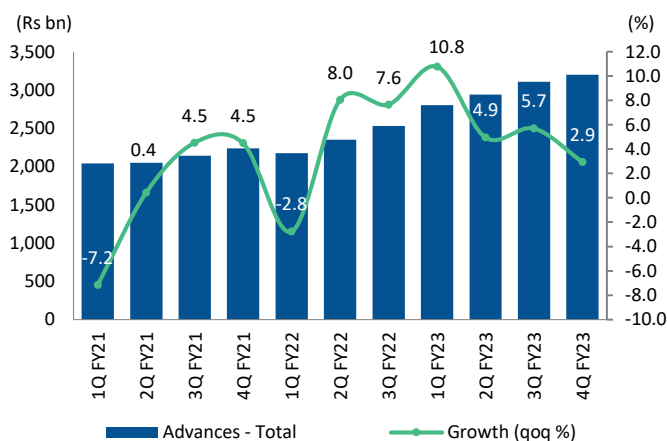
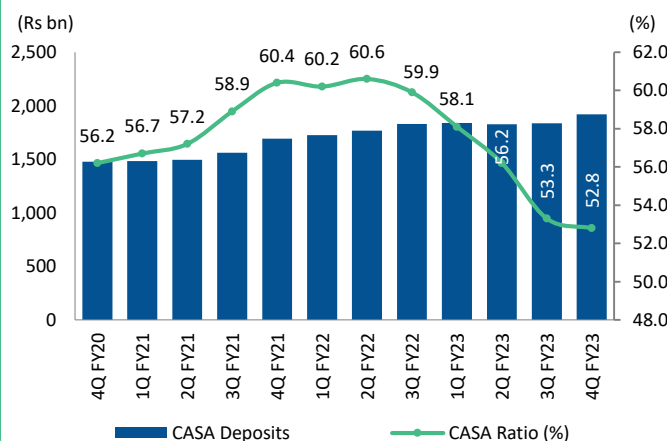
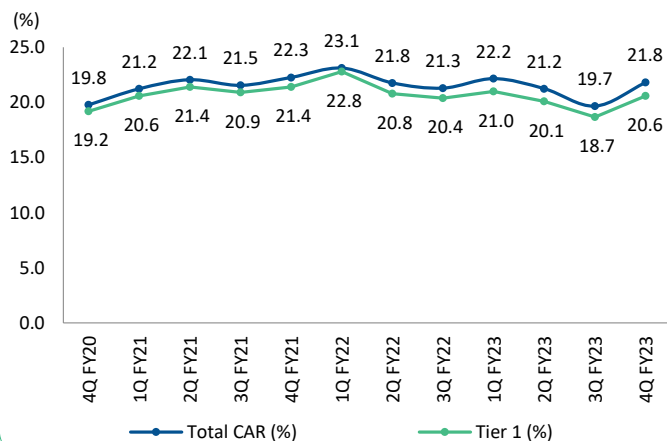
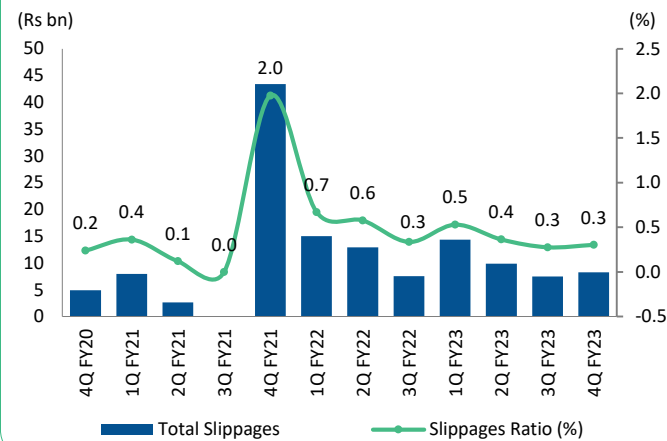


Pre Provision Profit Trend

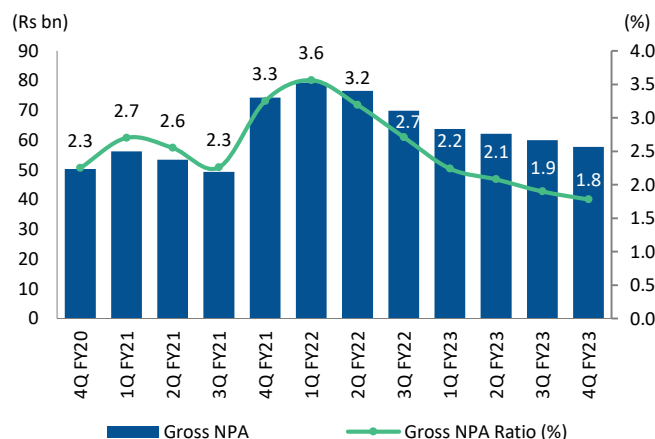


Provision Expenses Trend

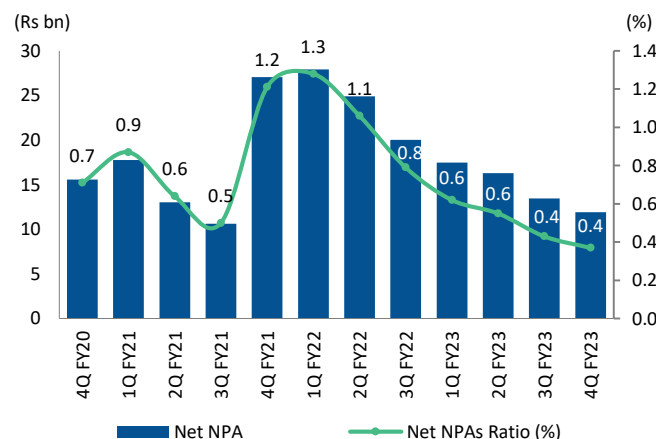


Reported Profit Trend**Return Ratio Trend****Loan Book Trend****CASA Deposit Trend****CRAR and Tier 1 trend****Slippages**

Gross NPA trend



Net NPA Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	4Q FY23	4Q FY22	% yoy / bps	3Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	98,209	70,659	39.0	89,986	9.1	3,42,509	2,70,388	26.7
Interest Expenses	37,184	25,445	46.1	33,457	11.1	1,26,989	1,02,209	24.2
Net Interest Income	61,026	45,214	35.0	56,529	8.0	2,15,519	1,68,179	28.1
NII to Net Operative Income	73.6	71.2	239	72.9	71	75.3	72.6	269
NIM (%)	5.75	4.8	97	5.5	28	4.9	4.3	56
Other Income - Total	21,863	18,263	19.7	21,000	4.1	70,831	63,544	11.5
Other Inc to Net Oper. Income (%)	26.4	28.8	(239)	27.1	(71)	24.7	27.4	(269)
Net Operating Revenue	82,888	63,477	30.6	77,529	6.9	2,86,350	2,31,723	23.6
Employee Expenses	14,545	11,228	29.5	14,778	(1.6)	55,198	46,134	19.6
Other Opex	21,870	18,850	16.0	24,253	(9.8)	82,672	65,080	27.0
Total Opex	36,415	30,078	21.1	39,031	(6.7)	1,37,870	1,11,214	24.0
Cost to Income Ratio (%)	43.9	47.4	(345)	50.3	(641)	48.1	48.0	15
Pre Provision Profits	46,474	33,399	39.1	38,498	20.7	1,48,480	1,20,509	23.2
Provisions & Contingencies - Total	1,476	(3,062)	(148.2)	1,488	(0.8)	4,570	6,896	(33.7)
NPA Provisions as % PPP	3.2	(9.2)	1,234	3.9	(69)	3.1	5.7	(264)
Profit Before Tax	44,998	36,461	23.4	37,010	21.6	1,43,910	1,13,613	26.7
Tax	10,042	8,787	14.3	9,091	10.5	34,517	27,886	23.8
Effective Tax Rate (%)	22.3	24.1	(178)	24.6	(225)	24.0	24.5	(56)
Reported Profits	34,956	27,674	26.3	27,919	25.2	1,09,393	85,727	27.6
RoA (%)	3.0	2.7	28	2.5	48	2.4	2.1	27
RoE (%)	16.9	15.4	147	14.1	280	14.1	12.7	144

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Net Worth	6,91,170	7,19,565	7,41,520	7,65,759	7,94,360	8,29,600	4.4	15.3
RoE (%)	12.3	15.4	11.2	13.5	14.1	16.9	280	147
Tier 1 (%)	20.4	21.7	21.0	20.1	18.7	20.6	194	(110)
Total CAR (%)	21.3	22.7	22.2	21.2	19.7	21.8	214	(89)
Advances - Total	25,29,350	27,12,536	28,01,710	29,40,232	31,07,340	31,98,612	2.9	17.9
Investments	10,58,440	10,05,802	8,91,830	9,88,624	11,22,190	12,14,037	8.2	20.7
Total Assets	41,81,470	42,94,284	42,47,680	44,19,951	46,47,840	48,98,625	5.4	14.1
RoA (%)	2.04	2.68	2.00	2.36	2.48	2.96	48	28
Deposits	30,52,860	31,16,841	31,64,830	32,52,032	34,46,660	36,30,961	5.3	16.5
CASA Deposits	18,29,180	18,91,340	18,38,910	18,26,100	18,35,790	19,18,150	4.5	1.4
CASA Ratio (%)	59.9	60.7	58.1	56.2	53.3	52.8	(50)	(790)
Interest Bearing Liabilities - Total	33,33,460	33,81,512	33,23,730	34,43,633	36,66,940	38,70,123	5.5	14.4

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	33,33,460	33,81,512	33,23,730	34,43,633	36,66,940	38,70,123	5.5	14.4
Deposits	30,52,860	31,16,841	31,64,830	32,52,032	34,46,660	36,30,961	5.3	16.5
CASA Deposits	18,29,180	18,91,340	18,38,910	18,26,100	18,35,790	19,18,150	4.5	1.4
Saving Deposit	12,58,210	12,44,720	12,68,290	12,24,480	11,99,780	12,17,850	1.5	(2.2)
Current Deposit	5,70,970	6,46,620	5,70,620	6,01,620	6,36,010	7,00,300	10.1	8.3
Term Deposits	12,23,680	12,25,501	13,25,920	14,25,932	16,10,870	17,12,811	6.3	39.8
Borrowings	2,75,600	2,59,671	1,53,900	1,86,601	2,15,280	2,34,163	8.8	(9.8)

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Total Slippages	7,500	7,360	14,350	9,830	7,480	8,230	10.0	11.8
Slippages Ratio (%)	0.34	0.33	0.53	0.36	0.28	0.30	3	(3)
Gross NPA	69,828	64,697	63,786	62,102	59,946	57,683	(3.8)	(10.8)
Gross NPAs Ratio (%)	2.71	2.34	2.24	2.08	1.90	1.78	(12)	(56)
PCR - Calculated (%)	71.3	73.2	72.6	73.7	77.6	79.3	175	616
Net NPA	20,035	17,367	17,493	16,304	13,448	11,933	(11.3)	(31.3)
Net NPAs Ratio (%)	0.79	0.64	0.62	0.55	0.43	0.37	(6)	(27)
Standard Restructured	13,640	12,050	10,760	9,940	7,650	7,180	(6.1)	(40.4)
Std. Rest. Adv. as % of Advances	0.5	0.4	0.38	0.34	0.25	0.22	(2)	(22)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income	2,68,403	2,70,388	3,42,509	3,97,681	4,62,972
Interest Expenses	1,15,006	1,02,209	1,26,989	1,74,279	2,01,304
Net Interest Income	1,53,396	1,68,179	2,15,519	2,23,402	2,61,668
<i>NIM (%)</i>	4.28	4.29	4.85	4.40	4.48
Other Income - Total	54,592	63,544	70,831	79,509	89,215
Net Operating Revenue	2,07,988	2,31,723	2,86,350	3,02,910	3,50,883
Employee Exp.	37,654	46,134	55,198	59,614	68,556
Other Opex	48,187	65,080	82,672	85,978	99,735
Total Opex	85,841	1,11,214	1,37,870	1,45,593	1,68,291
<i>C/I Ratio (%)</i>	41.27	47.99	48.15	48.06	47.96
Pre Provision Profits	1,22,147	1,20,509	1,48,480	1,57,318	1,82,592
<i>PPP Growth (yoy %)</i>	21.9	(1.3)	23.2	6.0	16.1
Provisions & Contingencies - Total	29,117	6,896	4,570	6,701	7,227
<i>Credit Cost (As % of Op. AUM)</i>	1.14	0.50	0.27	0.25	0.25
Profit Before Tax	93,030	1,13,613	1,43,910	1,50,617	1,75,365
Tax	23,382	27,886	34,517	36,126	42,061
<i>Effective Tax Rate (%)</i>	25.1	24.5	24.0	24.0	24.0
Reported Profits	69,648	85,727	1,09,393	1,14,491	1,33,304
<i>PAT Growth (yoy %)</i>	17.1	23.1	27.6	4.7	16.4

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	9,909	9,923	9,933	9,933	9,933
Reserves (ex Revel. Reserve)	6,22,361	7,09,641	8,19,667	9,34,158	10,67,462
Net Worth - Ex Revaluation	6,32,270	7,19,565	8,29,600	9,44,091	10,77,394
Deposits	28,01,000	31,16,841	36,30,961	41,68,296	48,34,487
Borrowings	2,36,506	2,59,671	2,34,163	2,74,556	3,18,436
Interest Bearing Liabilities (₹ mn)	30,42,507	33,81,512	38,70,123	44,42,852	51,52,923
Other Lia. & Prov.	1,60,088	1,92,894	1,98,299	2,06,034	2,26,373
Total Liabilities	38,34,886	42,94,284	48,98,625	55,93,580	64,57,294
Assets					
Cash & Cash Equivalent	3,96,265	4,29,239	3,25,423	3,30,792	3,43,462
Investments	10,50,992	10,05,802	12,14,037	13,14,739	14,30,263
Loan & Advances (₹ mn)	22,36,886	27,12,536	31,98,612	37,74,362	44,91,491
Growth (yoy %)	1.8	21.3	17.9	18.0	19.0
Fixed Assets	15,353	16,437	19,203	20,316	23,370
Other Assets	1,35,390	1,30,269	1,41,349	1,53,371	1,68,708
Total Assets	38,34,886	42,94,284	48,98,625	55,93,580	64,57,294

Source: Company, LKP Research

Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	5	5	5	5	5
Adjusted Share O/S (mn)	1,982	1,985	1,987	1,987	1,987
Earnings Per Share (₹)	35.1	43.2	55.1	57.6	67.1
EPS (% YoY)	13.0	22.9	27.5	4.7	16.4
P/E (x)	55.1	44.9	35.2	33.6	28.9
Book Value (₹)	319.0	362.6	417.6	475.2	542.3
BVPS (% YoY)	25.8	13.6	15.2	13.8	14.1
P/BV (x)	6.1	5.3	4.6	4.1	3.6
Adj. BV (₹)	312.2	358.2	414.6	472.2	539.3
Adj. BV (% YoY)	25.1	14.7	15.8	13.9	14.2
P/ABV (x)	6.2	5.4	4.7	4.1	3.6

Source: Company, LKP Research

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	8.4	7.8	9.1	9.1	9.1
Yield on Funds	7.5	6.9	7.7	7.8	7.9
Cost of Funds (CoF)	3.8	3.2	3.5	4.2	4.2
Interest Spread	3.7	3.7	4.2	3.6	3.7
NIM's	4.3	4.3	4.9	4.4	4.5
Interest Income / Assets	7.2	6.7	7.5	7.6	7.7
Interest Exp. / Assets	3.1	2.5	2.8	3.3	3.3
NII / Assets	4.1	4.1	4.7	4.3	4.3
Fee Income / Assets	0.9	1.1	1.1	1.1	1.0
Other Non Core Income / Assets	0.1	(0.2)	(0.2)	(0.2)	(0.2)
Other Income / Assets	1.5	1.6	1.5	1.5	1.5
Net Operating Income / Assets	5.6	5.7	6.2	5.8	5.8
Operating Ratios					
NII to Net Operative Income	73.8	72.6	75.3	73.8	74.6
Other Income to Net Operative Income	26.2	27.4	24.7	26.2	25.4
Empl. Cost/Oper. Exps.	43.9	41.5	40.0	40.9	40.7
Other Op. Exps./Oper. Exps.	56.1	58.5	60.0	59.1	59.3
C/I Ratio (%)	41.3	48.0	48.1	48.1	48.0
Provisions as % PPP	14.0	3.0	1.6	2.2	2.1
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.3	0.3
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Employee Exp. / Assets	1.0	1.1	1.2	1.1	1.1
Other Opex/ Assets	1.3	1.6	1.8	1.6	1.7
Total Opex / Assets	2.3	2.7	3.0	2.8	2.8
Operating Profits / Assets	3.3	3.0	3.2	3.0	3.0
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.3	3.0	3.2	3.0	3.0
Provisions / Assets	0.8	0.2	0.1	0.1	0.1
Profit Before Tax / Assets	2.5	2.8	3.1	2.9	2.9
Tax Expenses / Assets	0.6	0.7	0.8	0.7	0.7
RoA	1.9	2.1	2.4	2.2	2.2
Leverage (x)	6.1	6.0	5.9	5.9	6.0
RoE	12.5	12.7	14.1	12.9	13.2
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	79.9	87.0	88.1	90.5	92.9
Incremental C/D Ratio	22.8	150.6	94.5	107.1	107.6
Investment Deposit Ratio	37.5	32.3	33.4	31.5	29.6
Dom. SLR Investment / Deposits	30.5	24.0	24.9	22.5	20.2
CASA Ratio	60.5	60.7	52.9	52.9	52.9

Source: Company, LKP Research

Exhibit 10: Credit Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio (%)	2.5	1.9	1.5	1.3	1.3
Gross NPA	74,255	64,697	57,683	59,634	61,540
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.6	1.4
PCR (%)	63.6	73.2	79.3	76.6	73.1
Net NPA	27,052	17,367	11,933	13,927	16,569
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4
Total Impaired Loans	74,255	64,697	57,683	59,634	61,540
Impaired Loan as % of Loan / AUM	3.1	2.2	1.7	1.5	1.3
Total Risk Reserves	47,203	47,330	45,750	45,707	44,972
Total Risk As % of Loan Book	2.0	1.6	1.3	1.1	0.9

Source: Company, LKP Research

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances (₹ mn)	22,36,886	27,12,536	31,98,612	37,74,362	44,91,491
Growth (yoy %)		21.3	17.9	18.0	19.0
Interest Bearing Liabilities (₹ mn)	30,42,507	33,81,512	38,70,123	44,42,852	51,52,923
Growth (yoy %)		11.1	14.4	14.8	16.0
Yield on Funds	7.5	6.9	7.7	7.8	7.9
Cost of Funds (CoF)	3.8	3.2	3.5	4.2	4.2
Interest Spread	3.7	3.7	4.2	3.6	3.7
NIM's	4.3	4.3	4.9	4.4	4.5
Other Income Growth	1.6	16.4	11.5	12.3	12.2
C/I Ratio (%)	41.3	48.0	48.1	48.1	48.0
Effective Tax Rate (%)	25.1	24.5	24.0	24.0	24.0
Return Ratios					
Adj. RoA	1.9	2.1	2.4	2.2	2.2
Adj. RoE	12.5	12.7	14.1	12.9	13.2
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	1.1	0.5	0.3	0.3	0.3
Gross NPAs Ratio (%)	3.3	2.3	1.8	1.6	1.4
Net NPAs Ratio (%)	1.2	0.6	0.4	0.4	0.4

Source: Company, LKP Research

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