

HOLD Kotak Mahindra Bank

ASIAMONEY BROKERS POLL - 2023

Emkay Research

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Earnings beat, but margins retreat

BFSI - Banks ▶ Result Update ▶ July 23, 2023

TARGET PRICE (Rs): 2,000

Despite the sharp fall in NIM (by 18bps QoQ), Kotak Mahindra Bank (KMB) reported a beat on earnings, with PAT at Rs34.5bn (Emkay: Rs32bn) mainly due to higher 'other income' including treasury gains/dividend income. We believe the sharper NIM contraction was due to moderate retail growth, lower LDR and higher CoF. Bank partly attributes the strong deposit growth (22% YoY/6% QoQ) to its ActiveMoney deposit product (contributing 7-8% of deposits, with average cost of 5-5.25%). Going forward, Bank expects NIM to clock above 5% amid the rising CoF, coupled with healthy fees, thus supporting core-profitability.

We raise earnings by 2-4% for FY24-26E, building-in higher other income, but expect KMB's RoA/RoE to normalize to 2.1%/13% from the high of 2.4%/14% in FY23 due to margin/LLP normalization. We lower our P/ABV to 2.7x its Jun-25E ABV for the core bank, factoring for the ensuing Top-Management change; retain HOLD, with TP at Rs2,000/sh (incl subs value at Rs500/sh).

Kotak Mahindra Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	85,727	109,393	129,449	142,833	155,300
Loan growth (%)	21.3	17.9	17.3	18.1	19.9
NII growth (%)	9.6	28.1	18.7	13.6	13.9
NIM (%)	4.3	4.9	5.0	4.9	4.7
PPOP growth (%)	2.5	23.2	26.9	13.9	14.5
Adj. EPS (Rs)	35.8	43.2	55.1	65.2	71.9
Adj. EPS growth (%)	14.9	20.9	27.5	18.3	10.3
Adj. BV (INR)	356.4	416.1	478.0	545.0	618.2
Adj. BVPS growth (%)	15.3	16.8	14.9	14.0	13.4
RoA (%)	2.1	2.4	2.4	2.3	2.1
RoE (%)	12.7	14.1	14.4	13.9	13.2
P/E (x)	34.0	26.7	22.6	20.5	18.8
P/ABV (x)	4.3	3.7	3.2	2.8	2.4

Source: Company, Emkay Research

Moderate retail growth, higher deposit growth and CoF lead to sharp margin fall QoQ

Credit growth further moderated to 17% YoY/3% QoQ, mainly due to slow down in Retail growth, in turn caused by mortgages and vehicle loans. Corporate growth bounced back after a weak 4Q. On the other hand, deposit growth accelerated to 22% YoY/6% QoQ, leading to lower LDR at 85%, while CASA ratio slipped to 49% leading to 30bps QoQ increase in CoF, per our calculation. Bank partly attributes the strong deposit growth (22% YoY/6% QoQ) to its ActiveMoney deposit product (contributing 7-8% of deposits, with avg cost of 5-5.25%), though partly cannibalizing SA deposits. Thus, we believe combination of the slower retail growth, lower LDR and higher COF led to a sharp 18bps contraction in NIM to 5.6%. Going forward, KMB expects NIM of >5%, despite the increased CoF which should support core profitability.

Seasonally-higher slippages lead to near-flat NPA; Bank continues to run-down the contingent buffer

Slippages were higher than expected at Rs12bn.2bn/1.7% of loans, which could be more seasonal in nature leading to nearly-flat GNPA ratio at 1.77%. The restructured pool declined to Rs6.1bn/0.2% of loans, which is the lowest among large peers. The specific PCR during 1Q slipped a bit to 78%, while Bank continues to utilize the contingent provision buffers (Rs0.5bn in 1Q), which now stands at Rs 3.4bn/0.1% of loans from Rs3.9bn/0.12% of loans in Q4 — one of the lowest among large banks.

We retain HOLD

We revise our earnings estimates upwards by 2-4% for FY24E-26E, factoring-in higher other income, but expect KMB's RoA/RoE to normalize to 2.1%/13% from the high of 2.4%/14% in FY23 due to margins/LLP normalization. We lower our P/ABV to 2.7x the Jun-25E ABV, accounting for the ensuing Top-Management change; we retain HOLD with TP at Rs2,000/share (incl. subs. value at Rs500/share). **Key risks:** KMP attrition and asset-quality risk in the unseasoned, unsecured loan book.

Target Price – 12M	Jun-24
Change in TP (%)	-
Current Reco.	HOLD
Previous Reco.	BUY
Upside/(Downside) (%)	1.5
CMP (21-Jul-23) (Rs)	1,970.2

Stock Data	Ticker
52-week High (Rs)	2,064
52-week Low (Rs)	1,644
Shares outstanding (mn)	1,987.2
Market-cap (Rs bn)	3,915
Market-cap (USD mn)	47,770
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	12,050.6
ADTV-3M (USD mn)	147.0
Free float (%)	74.0
Nifty-50	19,745
INR/USD	82.0
Shareholding, Mar-23	
Promoters (%)	26.0
FPIs/MFs (%)	37.8/21.4

Price Performance

(%)	1M	3M	12M
Absolute	6.8	4.0	9.4
Rel. to Nifty	2.0	(7.1)	(8.0)

1-Year share price trend (Rs)



Anand Dama

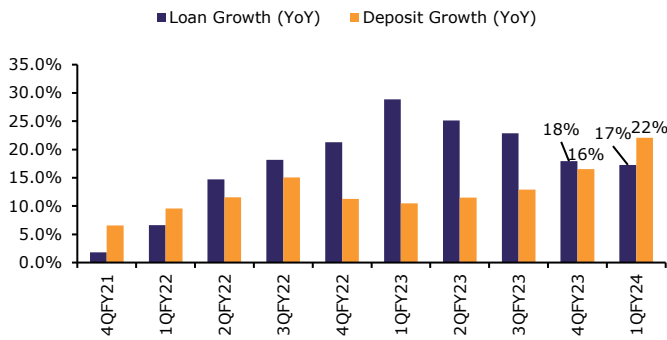
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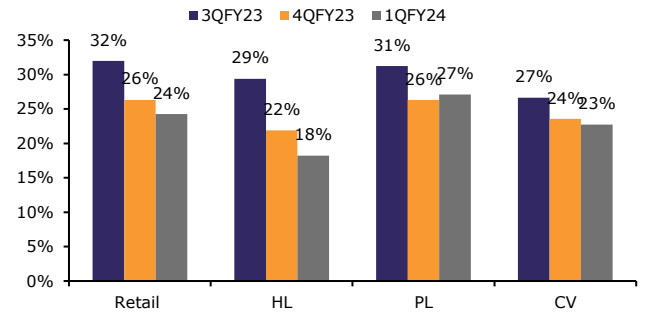
Story in Charts

Exhibit 1: Credit growth moderates due to slowdown in Retail book



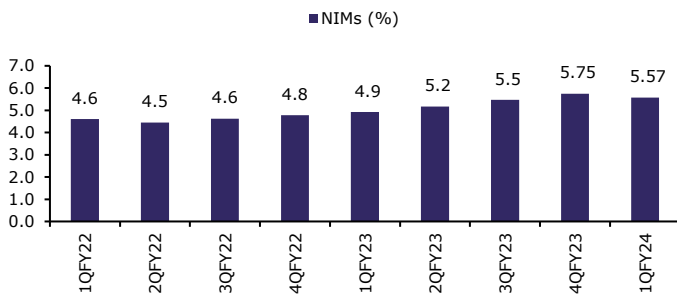
Source: Company, Emkay Research

Exhibit 2: Within Retail, barring PL, all segments witnessed some moderation



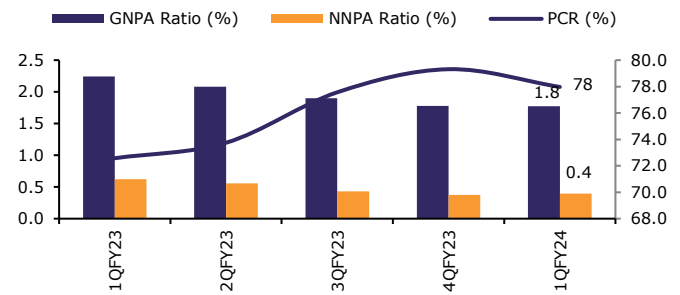
Source: Company, Emkay Research

Exhibit 3: Slower retail growth, lower LDR and higher CoF led to moderation in NIMs



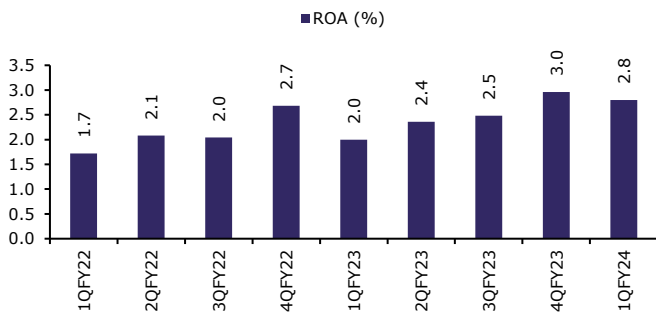
Source: Company, Emkay Research

Exhibit 4: Higher slippages due to seasonality led to flat GNPA ratio



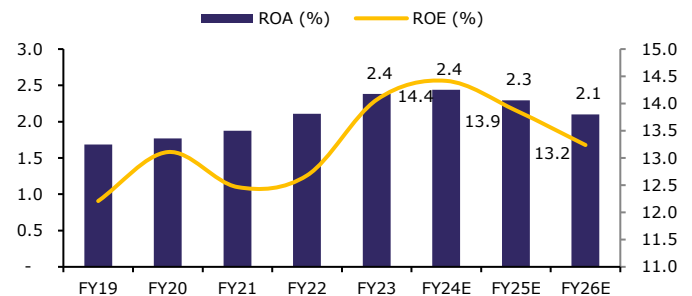
Source: Company, Emkay Research

Exhibit 5: Margin moderation and higher provisions led to marginal decline in RoA



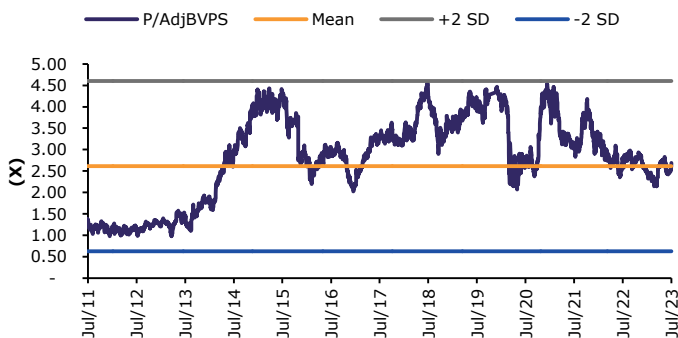
Source: Company, Emkay Research

Exhibit 6: We expect RoA/RoE to normalize due to margins/LLP moderation



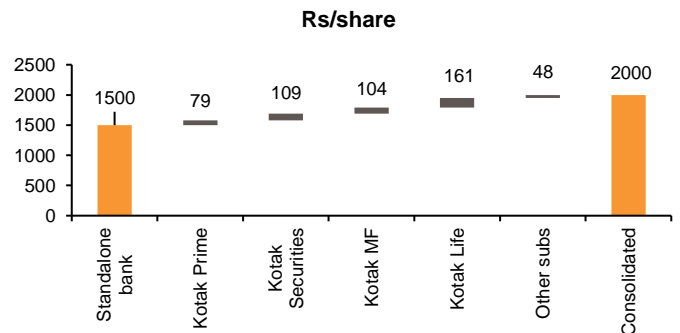
Source: Company, Emkay Research

Exhibit 7: The stock trades at 2.7x its one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 8: SOTP-based valuation



Source: Emkay Research

Exhibit 9: Actual vs Estimates (Q1FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	89,170	84,355	77,236	6%	15%	Higher other income partly offset by margin moderation led to a beat
PPOP	49,496	46,050	44,678	7%	11%	Higher Net income partly offset by higher opex led to a beat
PAT	34,523	32,118	32,195	7%	7%	Higher PPOP, partly offset by higher LLP led to an earnings beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	73,385	80,928	89,986	98,209	105,000	43.1	6.9	342,509	447,252	30.6
Interest Exp	26,415	29,934	33,457	37,184	42,663	61.5	14.7	126,989	191,465	50.8
Net Interest Income	46,970	50,994	56,529	61,026	62,337	32.7	2.1	215,519	255,788	18.7
Global NIMs (reported)	4.92	5.17	5.47	5.75	5.57	65bps	-18bps	4.87	5.00	13bps
Non-interest Income	12,438	19,542	19,483	21,863	26,833	115.7	22.7	70,831	100,104	41.3
Operating Expenses	31,575	34,861	37,514	36,415	39,674	25.6	8.9	137,870	167,420	21.4
Pre Provisioning Profit	27,833	35,675	38,498	46,474	49,496	77.8	6.5	148,480	188,472	26.9
Provision & Contingencies	236	1,370	1,488	1,476	3,643	1,444.3	146.9	4,570	15,643	242.3
PBT	27,597	34,305	37,010	44,998	45,853	66.2	1.9	143,910	172,829	20.1
Income Tax Expense (Gain)	6,885	8,498	9,091	10,042	11,330	64.6	12.8	34,517	43,380	25.7
Net Profit/(Loss)	20,712	25,807	27,919	34,956	34,523	66.7	-1.2	109,393	129,449	18.3
Gross NPA (%)	2.24	2.08	1.90	1.78	1.77	-47bps	0bps	1.78	1.57	-20bps
Net NPA (%)	0.62	0.55	0.43	0.37	0.40	-22bps	2bps	0.37	0.40	3bps
Deposits (Rs bn)	3,165	3,252	3,447	3,631	3,863	22.0	6.4	3,631	4,274	17.7
Net Advances (Rs bn)	2,802	2,940	3,107	3,199	3,286	17.3	2.7	3,199	3,751	17.3

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	350,257	355,892	1.6%	395,595	408,513	3.3%	453,033	469,492	3.6%
PPOP	184,265	188,472	2.3%	207,324	214,759	3.6%	239,039	245,794	2.8%
PAT	124,909	129,449	3.6%	138,401	142,833	3.2%	152,952	155,300	1.5%
EPS (Rs)	62.9	65.2	3.6%	69.7	71.9	3.2%	77.0	78.2	1.5%
BV (Rs)	481.3	483.6	0.5%	548.5	553.0	0.8%	622.5	628.2	0.9%

Source: Company, Emkay Research

Exhibit 12: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	17.6	17.0	18.0	20.0
Deposit Growth	16.5	17.7	17.7	20.2
NIM	4.9	5.0	4.9	4.7
GNPA	1.8	1.6	1.6	1.6
Credit Cost	0.2	0.4	0.6	0.8
Yield on Advances	9.2	10.3	10.0	9.6
Cost of Deposits	3.5	4.5	4.4	4.2

Source: Emkay Research

Exhibit 13: Key Ratios and trends

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Loans (Rs bn)	2,175	2,350	2,529	2,713	2,802	2,940	3,107	3,199	3,286
YoY growth (%)	6.6	14.7	18.1	21.3	28.8	25.1	22.9	17.9	17.3
QoQ growth (%)	-2.8	8.0	7.6	7.2	3.3	4.9	5.7	2.9	2.7
Composition (%)									
- Corporate	27.7	27.8	26.9	25.6	25.4	22.3	23.3	22.6	23.6
- Retail & Agri	64.8	64.6	64.1	66.2	67.1	68.3	68.3	70.4	70.7
Liability Profile & Margins									
Deposits (Rs bn)	2,866	2,917	3,053	3,117	3,165	3,252	3,447	3,631	3,863
YoY growth (%)	9.6	11.5	15.1	11.3	10.4	11.5	12.9	16.5	22.0
QoQ growth (%)	2.3	1.8	4.7	2.1	1.5	2.8	6.0	5.3	6.4
CASA (%)	60.2	60.6	59.9	60.7	58.1	56.2	53.3	52.8	49.0
CA (%)	18.3	18.3	18.7	20.7	18.0	18.5	18.5	19.3	16.8
SA (%)	41.9	42.3	41.2	39.9	40.1	37.7	34.8	33.5	32.3
NIM (%)	4.6	4.5	4.6	4.8	4.9	5.2	5.5	5.8	5.6
No. of branches	1,612	1,622	1,647	1,700	1,702	1,710	1,752	1,780	1,788
Asset Quality (Rs mn)									
Gross NPA (Opening Balance)	74,255	79,318	76,579	69,828	64,697	63,786	62,102	59,946	57,683
GNPA	79,318	76,579	69,828	64,697	63,786	62,102	59,946	57,683	59,092
GNPA (%)	3.6	3.2	2.7	2.3	2.2	2.1	1.9	1.8	1.8
NPA	27,923	24,914	20,035	17,367	17,493	16,304	13,448	11,933	13,018
NNPA (%)	1.3	1.1	0.8	0.6	0.6	0.6	0.4	0.4	0.4
PCR (%)	64.0	66.8	70.8	72.6	72.3	73.3	77.2	79.0	77.7
Slippages (Rs mn)	15,000	12,930	7,500	7,360	14,350	9,830	7,480	8,230	12,050
Slippages % (annualized)	2.8%	2.2%	1.2%	1.1%	2.0%	1.3%	1.0%	1.0%	1.5%
Capital Adequacy (%)									
CAR	23.7	21.8	23.3	23.7	22.8	22.6	21.7	21.8	22.0
Tier I	22.8	20.8	22.4	21.7	21.6	21.5	20.7	20.6	20.9
ROE Decomposition (%)									
NII	4.1	4.0	4.2	4.3	4.4	4.7	5.0	5.1	5.0
Other Income (Ex Treasury)	1.4	1.8	1.8	1.8	2.0	1.8	1.5	1.6	1.9
Treasury	0.0	0.0	-0.5	-0.2	-0.8	0.0	0.3	0.2	0.2
Opex	2.5	2.7	2.9	2.7	3.0	3.2	3.3	3.1	3.2
PPOP	3.0	3.1	2.6	3.2	2.6	3.3	3.4	3.9	3.9
Provisioning Cost	0.7	0.4	-0.1	-0.3	0.0	0.1	0.1	0.1	0.3
PBT	2.2	2.7	2.7	3.4	2.6	3.2	3.3	3.8	3.7
ROA	1.7	2.0	2.1	2.6	1.9	2.4	2.5	2.9	2.8
ROE	10.0	12.1	12.2	15.3	11.1	13.4	14.0	16.7	15.9

Source: Company, Emkay Research

Kotak Mahindra Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	270,388	342,509	447,252	509,793	577,739
Interest Expense	102,209	126,989	191,465	219,201	246,896
Net interest income	168,179	215,519	255,788	290,592	330,842
NII growth (%)	9.6	28.1	18.7	13.6	13.9
Other income	59,859	70,831	100,104	117,921	138,650
Total Income	228,038	286,350	355,892	408,513	469,492
Operating expenses	107,530	137,870	167,420	193,754	223,698
PPOP	120,509	148,480	188,472	214,759	245,794
PPOP growth (%)	2.5	23.2	26.9	13.9	14.5
Core PPOP	114,896	120,518	157,480	180,372	204,634
Provisions & contingencies	6,896	4,570	15,643	24,061	38,451
PBT	113,613	143,910	172,829	190,698	207,343
Extraordinary items	0	0	0	0	0
Tax expense	27,886	34,517	43,380	47,865	52,043
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	85,727	109,393	129,449	142,833	155,300
PAT growth (%)	23.1	27.6	18.3	10.3	8.7
Adjusted PAT	85,727	109,393	129,449	142,833	155,300
Diluted EPS (Rs)	43.0	55.1	65.1	71.9	78.1
Diluted EPS growth (%)	22.4	28.0	18.3	10.3	8.7
DPS (Rs)	1.1	1.5	2.0	2.5	3.0
Dividend payout (%)	2.6	2.5	2.7	3.1	3.5
Effective tax rate (%)	24.5	24.0	25.1	25.1	25.1
Net interest margins (%)	4.3	4.9	5.0	4.9	4.7
Cost-income ratio (%)	47.2	48.1	47.0	47.4	47.6
Shares outstanding (mn)	1,984.7	1,986.6	1,986.6	1,986.6	1,986.6

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	64,697.4	57,683.2	59,770.9	70,968.9	88,437.6
Net NPLs	17,367.1	11,933.0	14,942.7	21,290.7	26,531.3
GNPA ratio (%)	2.3	1.8	1.6	1.6	1.6
NNPA ratio (%)	0.6	0.4	0.4	0.5	0.5
Provision coverage (%)	73.2	79.3	75.0	70.0	70.0
Gross slippages	17,971.3	18,582.1	19,952.4	33,949.7	54,883.0
Gross slippage ratio (%)	1.3	1.1	1.0	1.5	2.4
LLP ratio (%)	0.3	0.2	0.4	0.6	0.8
NNPA to networth (%)	2.4	1.4	1.5	1.9	2.1
Capital adequacy					
Total CAR (%)	23.7	21.8	21.0	20.5	19.6
Tier-1 (%)	21.7	20.6	20.0	19.6	18.8
CET-1 (%)	21.5	19.1	18.8	18.6	17.9
RWA-to-Total Assets (%)	77.7	76.0	78.0	78.0	78.0
Miscellaneous					
Total income growth (%)	3.7	25.2	32.4	14.7	14.1
Opex growth (%)	25.3	28.2	21.4	15.7	15.5
Core PPOP growth (%)	4.9	30.7	14.5	13.5	14.7
PPOP margin (%)	36.5	35.9	34.4	34.2	34.3
PAT/PPOP (%)	71.1	73.7	68.7	66.5	63.2
LLP-to-Core PPOP (%)	6.0	3.8	9.9	13.3	18.8
Yield on advances (%)	7.9	9.2	10.3	10.0	9.6
Cost of funds (%)	3.2	3.5	4.5	4.4	4.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,923	9,933	9,933	9,933	9,933
Reserves & surplus	709,955	825,270	950,745	1,088,612	1,237,952
Net worth	719,878	835,203	960,678	1,098,544	1,247,885
Deposits	3,116,841	3,630,961	4,273,899	5,031,698	6,048,484
Borrowings	259,671	234,163	280,684	322,652	370,766
Interest bearing liab.	3,376,512	3,865,124	4,554,582	5,354,351	6,419,250
Other liabilities & prov.	197,894	198,298	208,641	288,151	368,761
Total liabilities & equity	4,294,284	4,898,624	5,723,901	6,741,046	8,035,896
Net advances	2,712,536	3,198,612	3,751,076	4,429,488	5,313,094
Investments	1,005,802	1,214,037	1,398,842	1,624,622	1,883,021
Cash, other balances	429,239	325,423	373,476	428,348	500,702
Interest earning assets	3,683,959	4,147,578	4,738,073	5,523,394	6,482,459
Fixed assets	16,437	19,203	19,700	22,274	25,215
Other assets	130,269	141,349	180,808	236,313	313,864
Total assets	4,294,284	4,898,624	5,723,901	6,741,046	8,035,896
BVPS (Rs)	363.0	420.6	483.6	553.0	628.2
Adj. BVPS (INR)	356.4	416.1	478.0	545.0	618.2
Gross advances	2,759,866	3,244,362	3,795,904	4,479,167	5,375,000
Credit to deposit (%)	87.0	88.1	87.8	88.0	87.8
CASA ratio (%)	60.7	52.8	47.9	45.6	45.2
Cost of deposits (%)	3.1	3.5	4.5	4.4	4.2
Loans-to-Assets (%)	63.2	65.3	65.5	65.7	66.1
Net advances growth (%)	21.3	17.9	17.3	18.1	19.9
Deposit growth (%)	11.3	16.5	17.7	17.7	20.2
Book value growth (%)	11.8	15.9	15.0	14.4	13.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	34.0	26.7	22.6	20.5	18.8
P/B (x)	4.2	3.6	3.1	2.7	2.4
P/ABV (x)	4.3	3.7	3.2	2.8	2.4
P/PPOP (x)	32.5	26.4	20.8	18.2	15.9
Dividend yield (%)	0.1	0.1	0.1	0.1	0.2
DuPont-RoE split (%)					
NII/avg assets	4.1	4.7	4.8	4.7	4.5
Other income	1.5	1.5	1.9	1.9	1.9
Fee income	1.0	1.2	1.3	1.3	1.3
Opex	2.6	3.0	3.2	3.1	3.0
PPOP	3.0	3.2	3.5	3.4	3.3
Core PPOP	3.1	3.0	3.4	3.4	3.3
Provisions	0.2	0.1	0.3	0.4	0.5
Tax expense	0.7	0.8	0.8	0.8	0.7
RoA (%)	2.1	2.4	2.4	2.3	2.1
Leverage ratio (x)	6.0	5.9	5.9	6.1	6.3
RoE (%)	12.7	14.1	14.4	13.9	13.2
Quarterly data					
Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	46,970	50,994	56,529	61,026	62,337
NIM (%)	4.9	5.2	5.5	5.8	5.6
PPOP	27,833	35,675	38,498	46,474	49,496
PAT	20,712	25,807	27,919	34,956	34,523
EPS (Rs)	10.44	13.00	14.06	17.60	17.38

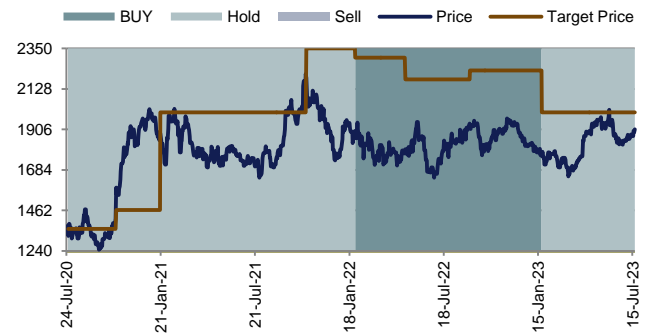
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
30-Apr-23	1,938	2,000	Hold	Anand Dama
09-Mar-23	1,717	2,000	Hold	Anand Dama
22-Jan-23	1,763	2,000	Hold	Anand Dama
24-Oct-22	1,896	2,230	Buy	Anand Dama
06-Sep-22	1,916	2,230	Buy	Anand Dama
23-Jul-22	1,827	2,180	Buy	Anand Dama
26-May-22	1,909	2,180	Buy	Anand Dama
05-May-22	1,798	2,180	Buy	Anand Dama
29-Jan-22	1,898	2,300	Buy	Anand Dama
27-Oct-21	2,188	2,350	Hold	Anand Dama
27-Jul-21	1,698	2,000	Hold	Anand Dama
03-May-21	1,725	2,000	Hold	Anand Dama
25-Jan-21	1,794	2,000	Hold	Anand Dama
20-Jan-21	1,884	2,000	Hold	Anand Dama
27-Oct-20	1,588	1,465	Hold	Anand Dama
27-Jul-20	1,323	1,360	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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