

Kotak Mahindra Bank Ltd.



Kotak Mahindra Bank Ltd. Higher non-interest income boost profitability; Margins expected to moderate further

CMP INR 1,873	Target INR 2,330	Potential Upside 24.2%	Market Cap (INR Mn) INR 37,22,148	Recommendation BUY	Sector Banking
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Result Highlights of Q1 FY24:

- Net Interest Income (NII) for Q1FY24 increased to INR 62,337 Mn, up 32.7% YoY (+2.1% QoQ). Net Interest Margin (NIM) for Q1FY24 was at 5.57% against 4.92% in Q1FY23, an improvement of 65 bps YoY (a decline of 18 bps QoQ).
- Pre-Provision Operating Profit for Q1FY24 was INR 49,496 Mn, a growth of 77.8% YoY/ 6.5% QoQ.
- The bank's PAT for Q1FY24 stood at INR 34,523 Mn, an increase of 66.7% YoY (-1.2% QoQ). The provisions for the quarter stood at INR 3,643 Mn with credit cost at 0.54% as against 0.24% in Q4FY23 on an annualized basis.
- Advances grew by 17.3% YoY/ 2.7% QoQ to INR 32,85,820 Mn as on June 30, 2023, up from INR 28,01,710 Mn as on June 30, 2022. The deposits grew 22.0% YoY/ 6.4% QoQ at INR 38,62,540 Mn as of as of June 30, 2023, with CASA ratio at 49.0%.
- Capital adequacy ratio of the Bank as per Basel III as of June 30, 2023, was 22.0% and Tier I ratio was 20.9%.

MARKET DATA

Shares outs (Mn)	1,987
Equity Cap (INR Mn)	8,70,110
Mkt Cap (INR Mn)	37,22,148
52 Wk H/L (INR)	2,064/1,644
Volume Avg (3m K)	5,874
Face Value (INR)	5
Bloomberg Code	KMB IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
NII	1,53,397	1,68,135	2,15,519	2,51,477	2,90,400
PPOP	1,22,147	1,20,465	1,48,480	1,78,331	2,09,932
PAT	69,648	85,683	1,09,393	1,25,292	1,45,906
EPS	36.4	44.8	54.9	63.1	73.4
NIM	4.8%	4.6%	5.1%	5.0%	5.0%
Advances Growth	1.8%	21.3%	17.9%	17.5%	17.0%

Source: Company, KRChoksey Research

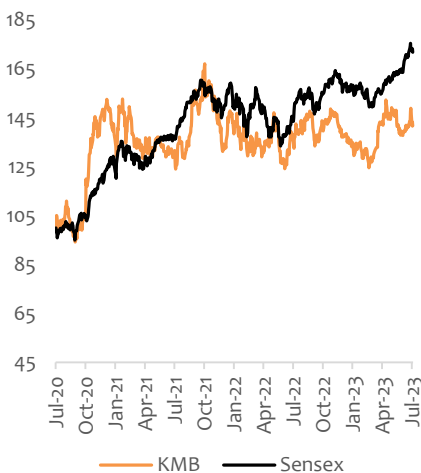
Robust deposit growth led by improved traction for the newly launched product; Credit growth remains healthy across all segments:

As of June 30, 2023, the advances grew 17.3% YoY/ 2.7% QoQ, led by healthy growth across all its segments. The customer assets, including advances and credit substitutes, reported a growth of 18.3% YoY (+2.7% QoQ) at INR 36,22,040 Mn. The home loan segment grew 17.5% YoY/ 2.6% QoQ, while Personal Loan & consumer durables grew 42.5% YoY/ 5.8% QoQ. KMB reported a surge in the contribution from the unsecured loan segment (including the retail microfinance) at 10.7% in Q1FY24 from 7.9% in Q1FY23. The unsecured loan portfolio is adequately priced for risk. The credit card segment continued to see strong growth of 66.6% YoY/ 12.6% QoQ. The market shares have been steadily growing both on spending and cards in force. The bank continues strengthening its co-brand product suite by partnering with Myntra in Q1FY24. The wholesale book grew 9.2% YoY/ 7.1% QoQ, led by both MNC & NBFC segments. In the MNC segment, KMB is seeing good traction in terms of new-to-bank customers, while in the NBFC segment, it is seeing good growth in credit off-take as the demand remained robust across all retail assets, including affordable housing, CV, passenger vehicles, SME and even unsecured segments. On the liability side, the deposits grew 22.0% YoY and 6.4% QoQ led by traction in ActivMoney (a new product), which reported a growth of 24.0% YoY. This has resulted in further moderation of the CASA ratio by 910 bps YoY/ 380 bps QoQ at 49.0%. The new product contributes around 7.0-8.0% of its total deposits. KMB believes this is in the customer's interest from a long-term perspective, giving the bank a greater flow of deposits; thus, KMB will sustain it over the medium term as a strategic intent to build a more robust, stable, and customer-engaged franchise.

NIMs report a significant fall; Earnings growth driven by higher treasury income:

The NII for Q1FY24 grew 32.7% YoY (+2.1% QoQ) with NIMs contraction of 18 bps QoQ to 5.57%. Going ahead, the NIMs will continue to moderate owing to the increased cost of funds. KMB reported a 66.7% growth in PAT, led by 115.7% YoY/ 22.7% QoQ growth in non-interest income. The core fee income was INR 19,280 Mn, a robust growth of 19.6% YoY, while the MTM gains stood at INR 240 Mn vs a loss of INR 8,570 Mn in Q1FY23. The cost-to-income ratio stood at 44.5% in Q1FY24 vs 43.9% in Q4FY23 (vs 53.2% in Q4FY22). The opex for the quarter was higher by 25.6% YoY/ 8.9% QoQ owing to higher spending on technology and promotions.

SHARE PRICE PERFORMANCE

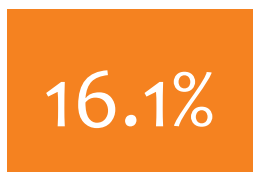


MARKET INFO

SENSEX	66,267
NIFTY	19,560

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Sep-22
Promoters	25.9	26.0	26.0
FIIIs	41.6	39.4	39.3
DIIIs	19.6	21.4	21.7
Others	12.9	13.3	13.1
Total	100.0	100.0	100.0



NII CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

ANALYST

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Recoveries bring stability to Asset quality, despite higher slippages: GNPA/NNPA, as of June 30, 2023, stood at 1.77%/0.40% against 1.78%/0.37% as of March 31, 2023, respectively. Credit cost on advances for Q1FY24 was 54 bps, which includes standard provisions and excludes reversal of COVID and restructuring, as against 24 bps in Q4FY23. KMB expects the credit cost to be 50 bps going ahead with the normalization of the credit environment and, at the same time, depending on the product mix, where the increased share of unsecured loans may lead to a slight increase in the credit costs. The COVID-related provision reversals for the quarter were INR 500 Mn. Thus, the bank holds Covid-19 provisions of INR 3,370 Mn as of June 30, 2023. Slippages for the quarter stood at INR 12,050 Mn (0.4% of the net advances), which increased from INR 8,230 Mn in Q4FY23. Out of these slippages, INR 2,880 Mn got upgraded during the quarter. The bank holds INR 65,160 Mn provisions as of June 30, 2023, which include COVID-related provisions and restructuring provisions amounting to INR 1,540 Mn. The provision coverage ratio stood at 78.0%. The recoveries and upgrades in Q1FY24 were healthy at INR 6,920 Mn. The bank's SMA-2 outstanding as of June 30, 2023, was INR 2,030 Mn against INR 1,590 Mn a year ago.

Concall Highlights:

- The other income, which is non-fees and services, clocked INR 8,560 Mn, was partly helped by a reversal of INR 2,400 Mn on MTM hits.
- KMB continues to have a large part of our book on AFS and HFT. As of June 30, 2023, this amounted to 74% of its overall book, with the modified duration (net of OIS) being 1.3 years.
- The employee costs look higher in Q1FY24 compared to both last year's first quarter as well as the previous quarter. In Q1FY23, the retiral cost had dropped sharply due to a change in interest rates, and Q4FY23 had a beneficial change on account of pension annuity rates. The bank does not have that benefit this quarter.
- The other operating expenses took a higher load on account of IT and promotional expenses this quarter.
- In quarter four last year, KMB had a favourable tax order which resulted in that quarter's tax rate being lower. This quarter is a more normalized tax rate.
- During the quarter, the bank saw reasonably strong demand for credit off-take in wholesale businesses, especially among the larger corporates.
- With MNC's increasing footprint in India, both in manufacturing and services sector, KMB sees a reasonable opportunity there.
- On the NBFC segment, KMB is seeing good growth in credit off-take as the demand remained robust across all retail assets including affordable housing, CV, passenger vehicles, SME and even unsecured segments.
- Effective 1st April this year, KMB has carved out a mid-corporate segment. It believes this segment has the potential to grow faster, and the bank has put in place a dedicated team to focus on new client acquisitions and expand its franchise amongst mid-sized corporates.
- On the liability side, it is seeing good traction on the non-custody current account balances. Custody flows have been a mixed bag. Global headwinds caused some amount of flight of capital both in the listed and unlisted spaces in the initial part of the quarter. But it saw some inflows back by the end of June in line with the change in market sentiments. This quarter, the domestic custody business has done better than the FPI custody business.
- On the commercial vehicle segment, at the industry level, the volumes witnessed a de-growth of 3% YoY and immediately on a QoQ basis even lower at 22%. This is on the back of a very strong Q4. However, KMB's disbursement in unit volume terms Q1FY24 has grown 21% YoY, leading to an improvement in market share. At an industry level, the freight demand and availability of return load continues to be stable.
- Construction equipment at an industry level showed a growth of 17% YoY in Q1 due to sustained growth in execution of infra projects and aggressive targets for road building and expressway under the Bharatmala and big-ticket infrastructure under PM Gati Shakti. This has given boost to growth in the CE segment.
- The tractor industry de-grew 2% YoY due to a higher base and higher inventory at the dealerships at the beginning of the year. While collection efficiency continues to be stable, the impact of monsoon, excess in some parts and deficient in others, will need to be watched closely to assess the impact it can have on both demand and collection.
- KMB continues to invest in its cards franchise, with overall credit card advances growing by 67% on a YoY basis. Its market share has been steadily increasing both on spending and cards in force. KMB continues to strengthen its co-brand product suite.
- KMB has gone live with a co-brand card with Myntra that would enhance its value proposition to its millennials and Gen Z customer segments. It also went live with UPI on a credit card, which enables its RuPay credit card customers to map their credit cards on UPI payment apps and use the scan and pay functionality.
- With a focus on enhancing its large premium banking franchise, the all-new Privy League proposition with best-in-class features and lifestyle benefits was introduced.
- KMB launched the 'Sankalp Saving Account' with exclusive features that cater to evolving needs of emerging India in semi-urban and rural markets. The revamped corporate salary product offering is showing encouraging results.

Valuation and view: In Q1FY24, KMB reported a severe moderation in the margins but was offset by higher growth in the non-interest income driving strong growth in profitability. The credit growth reported a broad growth except for the Agri segment. On the deposits front, the overall growth reported a pickup led by strong traction seen towards its newly launched product ActivMoney which is a high-yielding product from a customer standpoint. This traction has also led to further moderation in the CASA ratio. Thus, the new product growth and significant traction in term deposits have put saving account growth in a sweet spot. However, the bank has also been actively launching new products in saving accounts, catering to semi-urban and rural markets. The asset quality remains strong in Q1FY24 despite the increase in gross slippages led by healthy recoveries during the quarter. On the operational side, the bank expects further moderation of NIMs in the near term. The cost-to-income ratio remains elevated owing to increased spend on technology. However, the bank has few plans to bring it down in the coming quarters. On a consolidated basis, the subsidiaries continue adding reasonable value while maintaining their market share. We are watchful of the new MD and CEO announcement in the upcoming quarters. **We have factored CAGR of 17.2% in advances and 15.5% in profits over FY23-25E, respectively, and a RoA of 2.4% by FY25E. We expect the premium valuation for KMB to continue with a strong brand equity, positive outlook and consistent performance from a business perspective. We maintain our target price at INR 2,330 per share (unchanged), using SOTP valuation and applying a P/B multiple of 4.0x to the FY25E adj. BVPS of INR 548.5 for the standalone business and INR 137 per share for subsidiaries, leading to an upside of 24.2% over the CMP. We maintain our recommendation of "BUY" on the shares of KMB.**

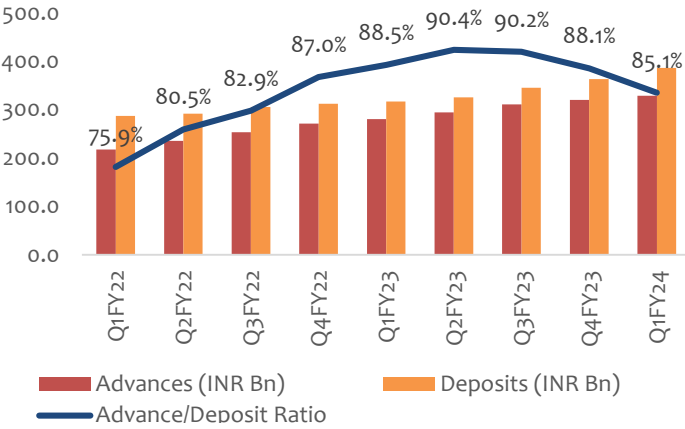
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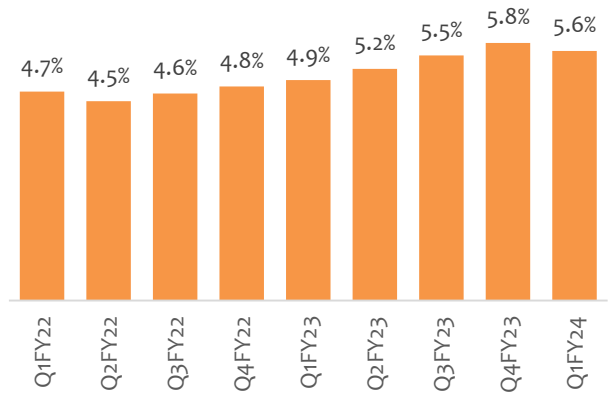
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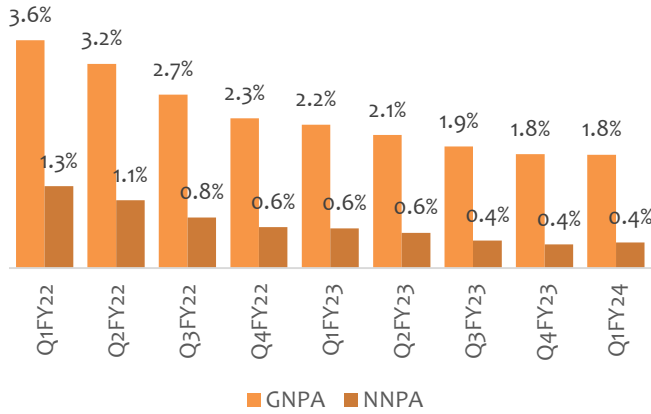
CD Ratio: Deposit growth outpace credit growth



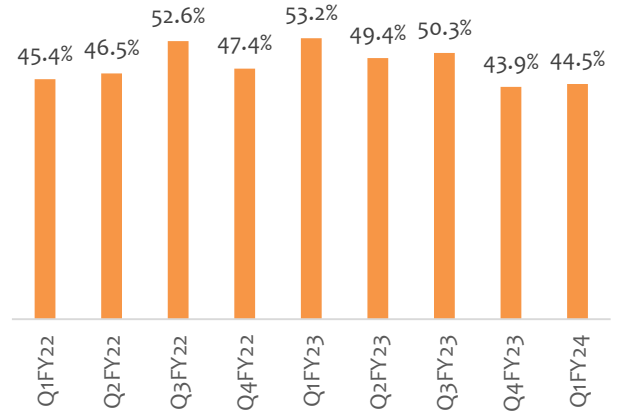
NIM: QoQ contraction led by higher CoF



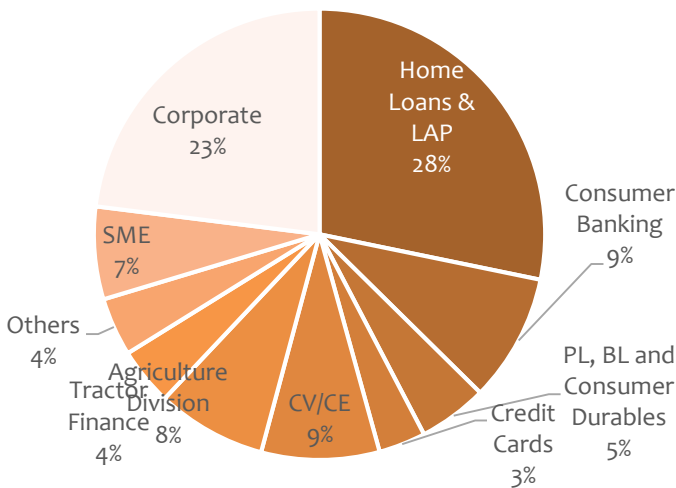
Asset quality: Stable QoQ



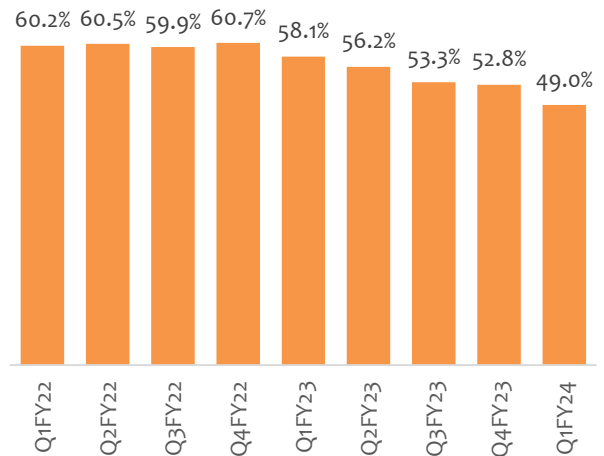
C/I : Sequentially higher opex



Loan break-up as of June 30, 2023



CASA Ratio: Declines further



Source: Company, KRChoksey Research

Kotak Mahindra Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Standalone)

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Interest Income	2,68,403	2,70,344	3,42,509	4,32,850	5,02,807
Interest Expense	1,15,006	1,02,209	1,26,989	1,81,373	2,12,407
Net Interest Income	1,53,397	1,68,135	2,15,519	2,51,477	2,90,400
Non-interest income	54,592	63,544	70,831	84,997	1,01,996
Operating income	2,07,989	2,31,679	2,86,350	3,36,474	3,92,396
- Employee expense	37,291	45,824	55,198	61,822	69,241
- Other operating expense	48,550	65,390	82,672	96,320	1,13,223
Operating Expense	85,841	1,11,214	1,37,870	1,58,143	1,82,464
PPOP	1,22,147	1,20,465	1,48,480	1,78,331	2,09,932
Provisions	29,117	6,896	4,570	11,275	15,391
PBT	93,030	1,13,569	1,43,910	1,67,056	1,94,541
Tax Expense	23,382	27,886	34,517	41,764	48,635
PAT	69,648	85,683	1,09,393	1,25,292	1,45,906
Diluted EPS (INR)	36.4	44.8	54.9	63.1	73.4

Source: Company, KRChoksey Research

Kotak Mahindra Bank Ltd.

Exhibit 2: Balance Sheet (Standalone)

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Source of Funds					
Capital	14,909	14,923	14,933	14,933	14,933
Reserves & Surplus/ Others	6,22,382	7,09,955	8,20,270	9,43,972	10,88,289
Networth	6,37,291	7,24,878	8,35,203	9,58,905	11,03,222
Borrowings	2,36,507	2,59,671	2,34,163	2,77,483	3,26,042
Deposits	28,01,000	31,16,841	36,30,961	42,30,069	49,70,331
Other liabilities & provisions	1,60,088	1,92,894	1,98,299	2,37,121	2,37,393
Total Equity & Liabilities	38,34,886	42,94,284	48,98,625	57,03,578	66,36,988
Uses of Funds					
Cash & bank balances	1,24,936	1,60,262	1,99,656	2,32,654	2,73,368
Balance with other banks	2,71,329	2,68,977	1,25,768	1,26,902	1,49,110
Net investments	10,50,992	10,05,802	12,14,037	14,17,073	16,40,209
Loans & advances	22,36,886	27,12,536	31,98,612	37,58,369	43,97,292
Fixed assets	15,353	16,437	19,203	20,163	21,172
Other assets	1,35,390	1,30,269	1,41,349	1,48,417	1,55,837
Total Assets	38,34,886	42,94,284	48,98,625	57,03,578	66,36,988

Source: Company, KRChoksey Research

Kotak Mahindra Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23	FY 24E	FY 25E
Growth Rates					
Advances (%)	1.8%	21.3%	17.9%	17.5%	17.0%
Deposits (%)	6.6%	11.3%	16.5%	16.5%	17.5%
Total assets (%)	6.5%	12.0%	14.1%	16.4%	16.4%
NII (%)	13.6%	9.6%	28.1%	16.7%	15.5%
Pre-provisioning profit (%)	21.9%	-1.4%	23.2%	20.1%	17.7%
PAT (%)	17.1%	23.0%	27.6%	14.5%	16.5%
B/S Ratios					
Credit/Deposit (%)	79.9%	87.0%	88.1%	88.8%	88.5%
CASA (%)	60.4%	62.5%	52.8%	48.0%	50.0%
Advances/Total assets (%)	58.3%	63.2%	65.3%	65.9%	66.3%
Leverage - Total Assets to Equity	6.0	5.9	5.9	6.0	6.0
Operating efficiency					
Cost/income (%)	41.3%	48.0%	48.1%	47.0%	46.5%
Opex/total assets (%)	2.4%	2.8%	2.9%	2.8%	2.8%
Opex/total interest earning assets	2.7%	3.1%	3.2%	3.2%	3.1%
Profitability					
NIM (%)	4.8%	4.6%	5.1%	5.0%	5.0%
RoA (%)	1.9%	2.1%	2.4%	2.4%	2.4%
RoE (%)	12.4%	12.6%	14.0%	14.0%	14.2%
Asset quality					
Gross NPA (%)	3.3%	2.3%	1.8%	1.8%	1.8%
Net NPA (%)	1.2%	0.6%	0.4%	0.3%	0.3%
PCR (%)	63.6%	73.2%	79.3%	81.7%	83.5%
Credit cost (%)	0.3%	0.3%	0.3%	0.3%	0.3%
Per share data / Valuation					
EPS (INR)	36.4	44.8	54.9	63.1	73.4
BVPS (INR)	321.6	365.9	420.1	482.4	555.0
ABVPS (INR)	307.9	357.2	414.1	476.1	548.5
P/E (x)	50.1	40.7	35.0	30.1	25.8
P/BV (x)	5.5	4.8	4.6	3.9	3.4
P/ABV (x)	5.7	4.9	4.7	4.0	3.5

Source: Company, KRChoksey Research

Kotak Mahindra Bank Ltd.

Kotak Mahindra Bank				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
28-Jul-23	1,873	2,330	BUY	Buy	More than 15%
03-May-23	1,928	2,330	BUY	Accumulate	5% – 15%
25-Jan-23	1,751	2,330	BUY	Hold	0 – 5%
27-Oct-22	1,869	2,260	BUY	Reduce	-5% – 0
26-Jul-22	1,796	2,260	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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