

# Kotak Mahindra Bank Ltd.



**Kotak Mahindra Bank Ltd.**
**Deposit growth accelerates; Leadership transition still a concern**

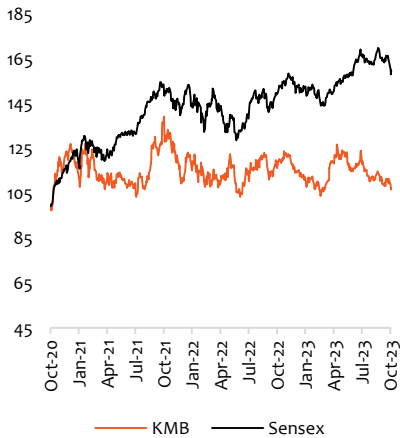
CMP INR 1,703	Target INR 2,075	Potential Upside 21.9%	Market Cap (INR Mn) 33,88,680	Recommendation BUY	Sector Banking
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**Result Highlights Q2FY24:**

- Net Interest Income (NII) for Q2FY24 increased to INR 62,966 Mn, up 23.5% YoY (+1.0% QoQ). Net Interest Margin (NIM) for Q2FY24 was 5.22% against 5.15% in Q2FY23, an improvement of 7 bps YoY (a decline of 35 bps QoQ).
- Pre-Provision Operating Profit (PPOP) for Q2FY24 was INR 46,101 Mn, a growth of 29.2% YoY (-6.9% QoQ).
- The Bank's PAT for Q2FY24 stood at INR 31,910 Mn, an increase of 23.6% YoY (-7.6% QoQ).
- Advances grew by 18.5% YoY/ 6.0% QoQ to INR 34,82,841 Mn as of September 30, 2023, up from INR 29,40,232 Mn as of September 30, 2022. Deposits grew 23.3% YoY/ 3.8% QoQ at INR 40,09,629 Mn as of September 30, 2023, with a CASA ratio of 48.3%.
- As of September 30, 2023, GNPA was 1.72% against 1.77% as of June 30, 2023, & NNPA was 0.37% against 0.40% as of June 30, 2023. The provision coverage ratio stood at 79.1%, an improvement of 531 bps YoY (+109 bps QoQ).
- The Bank's capital adequacy ratio, as per Basel III as of September 30, 2023, was 21.7%, and the Tier I ratio was 20.6%.

**MARKET DATA**

Shares outs (Mn)	1,987
Equity Cap (INR Mn)	8,99,564
Mkt Cap (INR Mn)	33,88,680
52 Wk H/L (INR)	2,064/1,644
Volume Avg (3m K)	3,885
Face Value (INR)	5
Bloomberg Code	KMB IN

**SHARE PRICE PERFORMANCE**

**MARKET INFO**

SENSEX	63,783
NIFTY	19,047

**SHARE HOLDING PATTERN (%)**

Particulars	Sep-23	Jun-23	Mar-23
Promoters	25.9	25.9	26.0
FIIIs	41.0	41.6	39.4
DIIIs	13.1	19.6	21.4
Others	12.9	12.9	13.3
Total	100.0	100.0	100.0

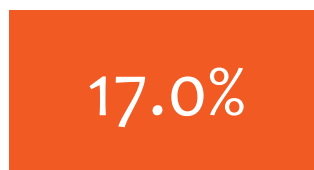
**KEY FINANCIALS**

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
NII	1,53,397	1,68,135	2,15,519	2,55,224	2,95,217
PPOP	1,22,147	1,20,465	1,48,480	1,88,839	2,22,756
PAT	69,648	85,683	1,09,393	1,30,872	1,50,437
EPS (INR / Share)	36.4	44.8	54.9	65.9	75.7
BVPS (INR / Share)	321.6	365.9	420.1	485.2	560.1
NIM (%)	4.8%	4.6%	5.1%	5.1%	5.0%
Advances Growth YoY (%)	1.8%	21.3%	17.9%	18.0%	17.5%

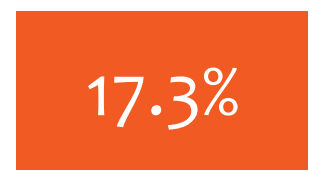
Source: Company, KRChoksey Research

**ActivMoney drives strong deposit growth; Broad based credit growth for the quarter:** As of September 30, 2023, the advances grew 18.5% YoY/ 6.0% QoQ, which remained broad-based. The customer assets, including advances and credit substitutes, reported a growth of 17.6% YoY (+5.0% QoQ) at INR 38,04,120 Mn. The home loan segment grew 15.4% YoY/ 4.2% QoQ, while Personal Loan & consumer durables grew 35.3% YoY/ 7.0% QoQ. The credit card segment continued to see strong growth of 59.4% YoY/ 10.9% QoQ. The market share continued to see a gradual pick-up in both spending and cards in force. The co-branding strategy is supporting the Bank's card business to strengthen further. KMB continued to see a surge in the share from the unsecured loan segment (including the retail microfinance) at 11.0% in Q2FY24 from 8.7% in Q2FY23 (vs 10.7% in Q1FY24). The unsecured loan portfolio continues to be adequately priced for the risk. The wholesale book grew 17.7% YoY/ 5.4% QoQ, led by reasonable demand for credit offtake from larger corporations and SMEs. On the liability side, the deposits grew 23.3% YoY and 3.8% QoQ, primarily led by healthy growth in term deposits. During the quarter, KMB was focused on scaling up its recently launched deposit offering ActivMoney by leveraging technology & analytical capabilities. The Bank deployed intuitive engagement campaigns that helped customers understand and subscribe to offerings, resulting in a substantial chunk in the mobilization of incremental deposits. This resulted in a fall in retail Savings Accounts (SA), where some of the balances moved from SA to ActivMoney, eventually further moderating the CASA ratio by 785 bps YoY/ 70 bps QoQ to 48.3%. The new product ActivMoney grew by 28.0% QoQ. KMB has taken several initiatives over the last two quarters to improve growth in retail & granular SA deposits, which is expected to reap better results going ahead.

**Earning growth declines QoQ owing to lower non-interest income; Margins see sharp moderation:** NIMs contracted by 35 bps QoQ to 5.22% as against 5.57% in Q1FY24. This was because of higher growth in ActiveMoney, which led to increased cost of funds and higher liquidity buffers. According to the management, there was a one-off impact of 14-15 bps on the NIMs during the quarter. KMB reported a 23.6% growth in PAT while declining by 7.6% QoQ due to lower non-interest income than Q1FY24. The core fee income was INR 20,260 Mn, a robust growth of 23.7% YoY, while the MTM gains stood at INR 1,500 Mn vs a gain of INR 2,400 Mn in Q1FY24. KMB has no dividend income during the quarter as against a dividend income of INR 3,090 Mn in Q1FY24. This resulted in a decline in the operating income by 3.4% QoQ. The cost-to-income ratio stood at 46.5% in Q2FY24 vs 44.5% in Q1FY24 (vs 49.4% in Q2FY23).



NII CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

## Kotak Mahindra Bank Ltd.

**Asset quality improves led by healthy recoveries and upgrades:** GNPA/NNPA, as of September 30, 2023, stood at 1.72%/0.37% against 1.77%/0.40% as of June 30, 2023, respectively. Credit cost on advances for Q2FY24 was 47 bps, which includes standard provisions and excludes reversal of COVID and restructuring, as against 54 bps in Q1FY24. The COVID-related provision reversals for the quarter were INR 160 Mn. Thus, the bank holds COVID-19 provisions of INR 3,210 Mn as of September 30, 2023. Slippages for the quarter stood at INR 13,140 Mn (0.4% of the net advances), which increased from INR 12,050 Mn in Q1FY24 (vs INR 9,830 Mn in Q2FY23). Out of these slippages, INR 3,000 Mn was upgraded during the quarter. The net slippages stood at ~INR 10,000 Mn for the quarter. The bank holds INR 67,210 Mn provisions as of September 30, 2023, which includes restructuring provisions amounting to INR 1,360 Mn. The provision coverage ratio stood at 79.1%. The recoveries and upgrades in Q2FY24 were healthy at INR 9,420 Mn. The Bank's SMA-2 outstanding continues to be low as of September 30, 2023, was INR 1,550 Mn.

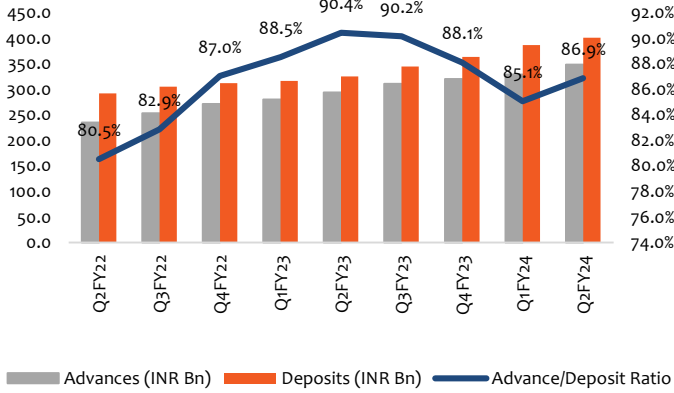
### Concall Highlights:

- The emerging global geopolitical trend warrants increasing caution. Increasing oil prices are being monitored closely. Its additive impact on domestic inflation trends needs to be watched out for. Liquidity will likely continue being tight, whether driven by policy or market pressures. Hence, as indicated by the RBI Governor, this will keep pressure on interest rates.
- The continuing inflation and elevated interest rates will ultimately create uncomfortable outcomes.
- KMB's credit substitute book witnessed some reduction as the Bank is focused more on loans with better spreads than low-yielding bonds. Given the current interest rate scenario, its focus on credit substitutes will remain relatively subdued.
- On the conglomerate side, KMB saw a shift of its book from bonds into advances, showing healthy growth in advances. The NBFC segment remained robust for the quarter. On the ample corporate and mid-corporate space, the Bank has set up a separate vertical for mid-corporate.
- On SME, while it remains the key focus area for KMB. The Bank is seeing some irrational competitive pressures in this segment, which is putting pressure on the risk-reward metrics of this business, leading to some moderation in the growth to protect the profitability and ROE of this segment. It continues to scale up manpower and expand its geographical footprint.
- The Bank continues to focus on identifying opportunities in the SME segment to leverage its structuring and advisory capabilities to identify better-yielding assets without a commensurate increase in risk. Overall, the corporate book continues to be healthy and has negligible credit costs.
- On the liability side, balances have been bolstered strongly by the custody flows in the offshore space. On the non-custody front, KMB is seeing lower growth rates than before. The Bank continues to focus on transaction banking business, garnering higher wallet shares in collections and payment.
- Technology remains a key focus area, and its investment in this space has ensured significant improvement in the stability of its systems through this quarter and with minimal downtime.
- The commercial vehicle industry saw a marginal uptick in volumes in Q2FY24, 7.0% YoY for the quarter, though H1FY24 was muted at 2.0% overall. Some of this growth in Q2 is also due to more extensive wholesale dispatches in preparation for the expected festival demand series. At an industry level, the freight demand, viability and availability of return load continue to be stable with the usual monsoon sporadic disruptions. The Bank expects this to improve as it enters the festival season.
- The construction equipment industry has seen a robust YoY growth of ~23.0% for H1FY24 in value terms, aided by a pick-up in the execution of infrastructure projects, earth moving equipment, road handling, and material handling equipment, all of which saw a growth. Due to the projects, KMB expects healthy road growth, semi-urban housing, airports, ports, and pick-up. KMB's disbursement in value terms grew 39.0% YoY in Q2FY24 and saw a gain in market share. KMB expects to maintain its growth momentum in this segment in H2FY24E.
- The wholesale tractor industry was down by 6.6 YoY in Q2FY24 and H1FY24 YoY, primarily on account of the delayed and uneven rainfall in a few states. There was a drop in September compared to last year because the Navratri was in October this year. The tractor disbursements in volume terms were up 9.0% YoY for the quarter. KMB continues to increase its market share marginally and remains the market leader in this space.
- The microcredit business continues its momentum growth and a healthy growth in disbursement of 65.0% YoY. KMB foresees healthy credit demand in the rural economy in this business.
- The Bank has received approval from RBI to acquire Sonata Finance, a Lucknow-based NBFC MFI. Sonata operates in 10 states with a network of 540 branches and close to 1 Mn customers as of September 30, 2023. KMB will work towards confirmation of this by Q4FY24E.
- KMB continues to invest in its cards franchise, with overall credit card advances growing by 59.0% on a YoY basis. Its market share has been steadily increasing on spending and cards in force. To deliver value to its card customers, KMB has been working on getting unique offers for them. It has also participated in the Big Billion Day by Flipkart, Myntra and ClearTrip.
- While the demand for new working capital secured loans has been substantial. However, improvement in the limited utilization is relatively slow.
- Fueled by market demand and partnerships, the unsecured business loan segment witnessed a volume growth. KMB's delinquencies on secured and unsecured books remained stable in this business banking sector.
- In Q2FY24, the Bank focused on scaling up the ActivMoney (launched in the month of May-23) proposition by leveraging technology and analytical capabilities. It deployed intuitive engagement campaigns through multiple touch points, which helped customers to understand and subscribe to offerings, which resulted in a substantial chunk in the mobilization of incremental deposits. However, this impacted its retail SA (savings account), where some balances moved from SA to ActivMoney.
- KMB has invested in initiatives like search engine optimization and focused performance marketing, which has resulted in healthy growth in acquisitions with this new acquisition channel.
- For Kotak Securities, NEO is the newest trading platform and is a complete ecosystem of mobile, web, API and trading terminals. Currently, 80.0% of the futures and options volume and 70.0% of traded orders are through NEO. Total orders on NEO have grown 608.0% YoY and 100.0% QoQ. Kotak Securities was one of the first few brokers to have launched the BSE F&O and has already taken a reasonably decent market share in the last 2.5 months since it launched the BSE F&O.
- In Q2FY24, Kotak multi-asset allocation, NFO collected over INR 36,500 Mn. Its total AUM across mutual funds, PMS, offshore, insurance and alternate assets grew 28.0% YoY to INR 4.98 Tn, led by offshore funds and alternate assets. Kotak Group continues to manage the largest India-dedicated offshore fund, Kotak Funds India Midcap Fund, with an AUM of more than USD 3.5 Bn.
- Kotak Group is building a comprehensive platform of alternative assets comprising six different asset classes by raising capital from global institutional investors and domestic institutional and private client investors. Kotak Life Insurance had a muted quarter. The profit of tax for the quarter was INR 2,470 Mn.

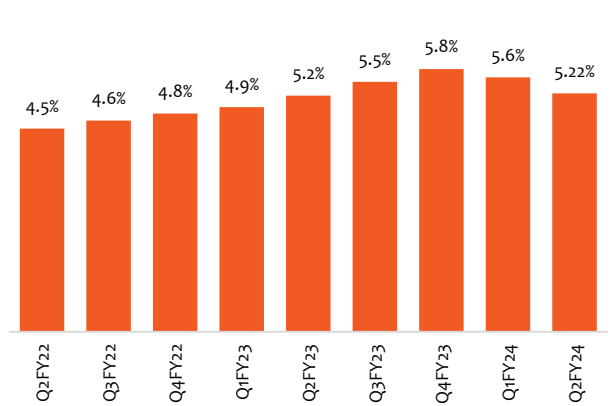
**Valuation and view:** KMB saw a mixed performance in Q2FY24 with decent growth in business momentum and a sharp contraction in margins sequentially. The Bank continued to see a moderation in the margins led by the shift in the deposit with improved traction for its new launch, ActivMoney. The traction towards this product has impacted the growth in the savings account deposits. Still, the management is confident that with the scale-up of new initiatives taken, the savings account will see gradual improvement going ahead. KMB is actively launching new savings account products catering to semi-urban and rural markets. The deposit growth outpaced the credit growth during the quarter. The credit growth remained broad-based and is expected to sustain going ahead. The asset quality was stable despite higher slippages led by healthy recoveries and upgrades. Digitalization continues to be the core engine for growth for the Bank. Thus, it will continue to invest in its digital capabilities to improve its operating leverage. On a consolidated basis, the subsidiaries continue adding reasonable value while maintaining their market share. KMB received approval from RBI to appoint Mr Ashok Vaswani as its MD and CEO for the next three years. He had previously been associated with various reputed Banks and specializes in consumer banking and technology-related initiatives. As Mr Vaswani is an external candidate, we believe the Bank is at a high risk of attrition at the senior management level, which usually happens after a management change in any Company. We also remain watchful of the strategic moves of the new MD & CEO. **We have factored CAGR of 17.0% in advances and 17.3% in profits over FY23-25E, respectively, and a stable RoA of 2.4% by FY25E. We expect the premium valuation for KMB to continue with strong brand equity and consistent performance from a business perspective. We revise our target price to INR 2,075 per share (earlier INR 2,330), using SOTP valuation and applying a P/B multiple of 3.5x to the FY25E adj. BVPS of INR 554.0 for the standalone business and INR 137 per share for subsidiaries, leading to an upside of 21.9% over the CMP. We maintain our recommendation of "BUY" on the shares of KMB.**

## Kotak Mahindra Bank Ltd.

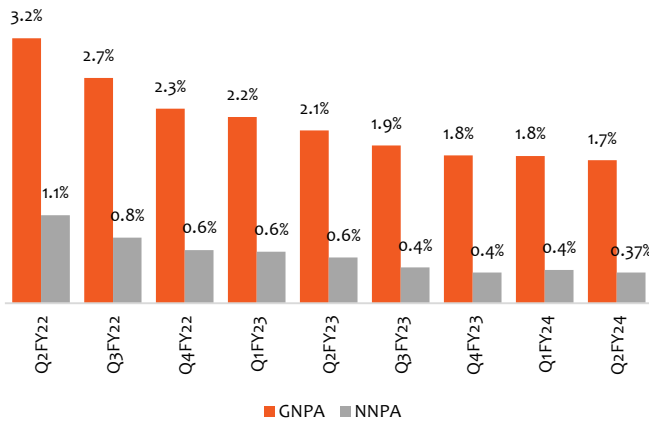
CD Ratio: Deposit growth outpaces credit growth for the quarter



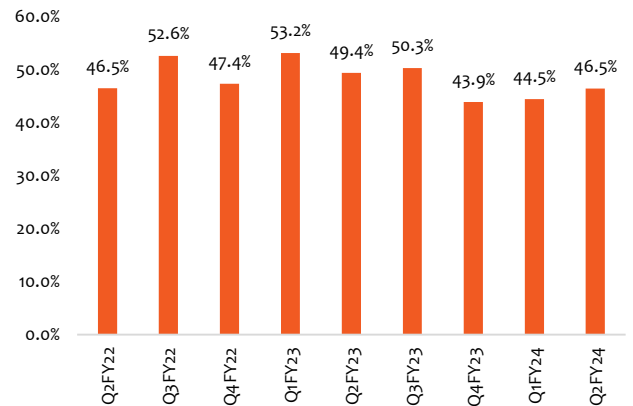
NIM: Higher cost of funds resulted in further moderation of margins



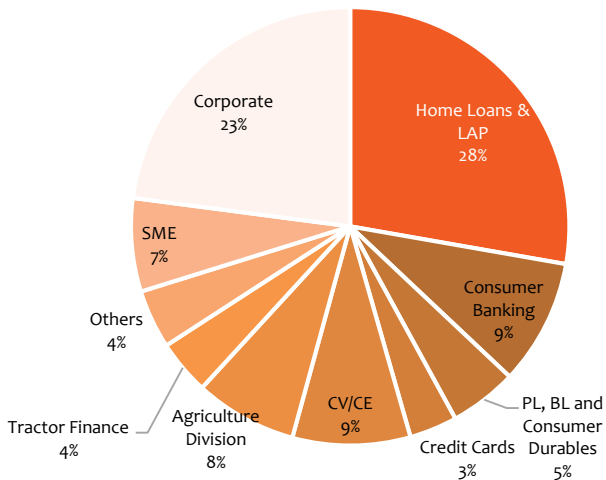
Asset quality: Improves further



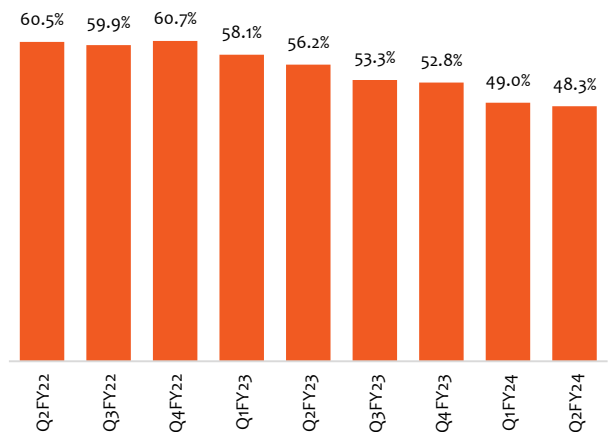
C/I : Lower operating income resulted in higher cost ratios



AUM: Growth in agri and home loans



CASA: Declines owing to lower growth in savings account



Source: Company, KRChoksey Research

## Kotak Mahindra Bank Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Interest Income	2,68,403	2,70,344	3,42,509	4,43,531	5,21,434
Interest Expense	1,15,006	1,02,209	1,26,989	1,88,307	2,26,218
<b>Net Interest Income</b>	<b>1,53,397</b>	<b>1,68,135</b>	<b>2,15,519</b>	<b>2,55,224</b>	<b>2,95,217</b>
Non-interest income	54,592	63,544	70,831	97,746	1,17,295
<b>Operating income</b>	<b>2,07,989</b>	<b>2,31,679</b>	<b>2,86,350</b>	<b>3,52,970</b>	<b>4,12,512</b>
Employee expense	37,291	45,824	55,198	61,822	69,241
- Other operating expense	48,550	65,390	82,672	1,02,309	1,20,515
Operating Expense	85,841	1,11,214	1,37,870	1,64,131	1,89,755
<b>PPOP</b>	<b>1,22,147</b>	<b>1,20,465</b>	<b>1,48,480</b>	<b>1,88,839</b>	<b>2,22,756</b>
Provisions	29,117	6,896	4,570	14,343	22,174
<b>PBT</b>	<b>93,030</b>	<b>1,13,569</b>	<b>1,43,910</b>	<b>1,74,496</b>	<b>2,00,582</b>
Tax Expense	23,382	27,886	34,517	43,624	50,146
<b>PAT</b>	<b>69,648</b>	<b>85,683</b>	<b>1,09,393</b>	<b>1,30,872</b>	<b>1,50,437</b>
Diluted EPS (INR)	36.4	44.8	54.9	65.9	75.7

Source: Company, KRChoksey Research

## Kotak Mahindra Bank Ltd.

### Exhibit 2: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Source of Funds</b>					
Share capital	14,909	14,923	14,933	14,933	14,933
Reserves & Surplus	6,22,382	7,09,955	8,20,270	9,49,553	10,98,400
Net worth	6,37,291	7,24,878	8,35,203	9,64,486	11,13,333
ESOP	2,36,507	2,59,671	2,34,163	2,77,483	3,26,042
Borrowings	28,01,000	31,16,841	36,30,961	42,77,271	50,25,794
Deposits	1,60,088	1,92,894	1,98,299	2,20,156	2,32,420
Other liabilities & provisions	<b>38,34,886</b>	<b>42,94,284</b>	<b>48,98,625</b>	<b>57,39,396</b>	<b>66,97,589</b>
<b>Total Equity &amp; Liabilities</b>					
<b>Uses of Funds</b>					
Balances w/ banks & others	2,71,329	2,68,977	1,25,768	1,28,318	1,50,774
Investments	10,50,992	10,05,802	12,14,037	14,32,886	16,58,512
Loans & advances	22,36,886	27,12,536	31,98,612	37,74,362	44,34,876
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
<b>Total Assets</b>	<b>38,34,886</b>	<b>42,94,284</b>	<b>48,98,625</b>	<b>57,39,396</b>	<b>66,97,589</b>

Source: Company, KRChoksey Research

## Kotak Mahindra Bank Ltd.

### Exhibit 3: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
<b>Growth Rates</b>					
Advances (%)	1.8%	21.3%	17.9%	18.0%	17.5%
Deposits (%)	6.6%	11.3%	16.5%	17.8%	17.5%
Total assets (%)	6.5%	12.0%	14.1%	17.2%	16.7%
NII (%)	13.6%	9.6%	28.1%	18.4%	15.7%
Pre-provisioning profit (%)	21.9%	-1.4%	23.2%	27.2%	18.0%
PAT (%)	17.1%	23.0%	27.6%	19.6%	14.9%
<b>B/S Ratios</b>					
Credit/Deposit (%)	79.9%	87.0%	88.1%	88.2%	88.2%
CASA (%)	60.4%	62.5%	52.8%	48.0%	50.0%
Advances/Total assets (%)	58.3%	63.2%	65.3%	65.8%	66.2%
Leverage - Total Assets to Equity	6.0	5.9	5.9	6.0	6.0
<b>Operating efficiency</b>					
Cost/income (%)	41.3%	48.0%	48.1%	46.5%	46.0%
Opex/total assets (%)	2.4%	2.8%	2.9%	2.9%	2.9%
Opex/total interest earning assets	2.7%	3.1%	3.2%	3.3%	3.2%
<b>Profitability</b>					
NIM (%)	4.8%	4.6%	5.1%	5.1%	5.0%
RoA (%)	1.9%	2.1%	2.4%	2.5%	2.4%
RoE (%)	12.4%	12.6%	14.0%	14.6%	14.5%
<b>Asset quality</b>					
Gross NPA (%)	3.3%	2.3%	1.8%	1.7%	1.7%
Net NPA (%)	1.2%	0.6%	0.4%	0.3%	0.3%
PCR (%)	63.6%	73.2%	79.3%	81.1%	83.8%
Credit cost (%)	0.3%	0.3%	0.3%	0.3%	0.3%
<b>Per share data / Valuation</b>					
EPS (INR)	36.4	44.8	54.9	65.9	75.7
BVPS (INR)	321.6	365.9	420.1	485.2	560.1
ABVPS (INR)	307.9	357.2	414.1	479.0	554.0
P/E (x)	50.1	40.7	35.0	25.8	22.4
P/BV (x)	5.5	4.8	4.6	3.5	3.0
P/ABV (x)	5.7	4.9	4.7	3.5	3.1

Source: Company, KRChoksey Research



## Kotak Mahindra Bank Ltd.

Kotak Mahindra Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
30-Oct-23	1,703	2,075	BUY
27-Jul-23	1,873	2,330	BUY
03-May-23	1,928	2,330	BUY
25-Jan-23	1,751	2,330	BUY
27-Oct-22	1,869	2,260	BUY
26-Jul-22	1,796	2,260	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Accumulate</b>	5% – 15%
<b>Hold</b>	0 – 5%
<b>Reduce</b>	-5% – 0
<b>Sell</b>	Less than – 5%

### \*ANALYST CERTIFICATION:

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