

KOTAK MAHINDRA BANK LIMITED

...a contra bet in the private sector banking space

LKP

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Kotak Mahindra Bank (KMB) has shown a decline in performance over the last three years (3Y return: -7.4%, 1Y return: -13.3%) compared to the returns of Bank Nifty (3Y return: 37.4%, 1Y return: 11.5%) and Nifty (3Y return: 43.6%, 1Y return: 21.6%). This underperformance can be attributed to several factors, including the stepping down of Mr. Uday Kotak, slower business growth relative to Kotak's usual standards, and supervisory actions by the RBI. However, the bank has maintained strong asset quality during this period. Looking ahead to FY25, there are indications of a revival, particularly evident in robust deposit growth, which is expected to bolster business expansion given the comfortable Capital to Deposit Ratio (CDR) level at 84%. We anticipate that margins will remain steady in the near term, supported by favourable credit costs. Our estimate for FY26E Return on Equity (ROE) stands at 18.5%, up from the current level of 15.5%, driven by a projected credit growth of 18% CAGR for FY24-26E. Furthermore, the Bank's valuation is currently at 3(x) trailing Price-to-Book Value per Share (P/BVPS), compared to the 5-Year median P/BVPS of 4.1(x). We believe that there is a strong likelihood of the stock undergoing rerating due to improving return ratios. We recommend a BUY with a target price of ₹2124.

Deposit growth substantial; credit growth to revamp hereon

Amidst a tight liquidity environment and fierce deposit competition, Kotak Mahindra Bank is seeing strong retail deposit inflows. In FY24, the bank's deposits grew by 24% YoY, outpacing the systemic deposit growth of 13%. In terms of deposit growth, it outperformed its peers. This surge has bolstered the bank's Liquidity Coverage Ratio (LCR) and maintains a comfortable Capital to Deposit Ratio (CDR) of 84%. Additionally, the CASA ratio is at 46%. This robust liquidity is expected to support balance sheet growth in FY25E and FY26E. Loan growth is projected to be around 18% CAGR for FY24-26, with corporate and commercial banking segments expected to drive the majority of the lending.

Key Financials (₹ mn)	FY22	FY23	FY24	FY25E	FY26E
NII	168,179	215,519	259,932	301,625	358,964
Operating Profit	120,509	148,480	195,875	248,754	330,622
Reported Profits	85,727	109,393	137,816	173,292	231,866
Net Worth	719,565	829,600	966,395	1,139,686	1,371,553
Loan & Advances	2,712,536	3,198,612	3,760,753	4,437,688	5,236,472
Int. Bearing Liabilities	3,381,512	3,870,123	4,773,219	5,800,218	7,052,291

Key Ratios (%)	FY22	FY23	FY24	FY25E	FY26E
NIM's	4.3	4.9	4.9	4.7	4.6
C/I Ratio	48.0	48.1	46.0	44.8	42.5
Gross NPA Ratio	2.3	1.8	1.4	1.4	1.4
PCR (%)	73.2	79.3	75.9	74.4	73.5
Adj. RoA Ratio	2.1	2.4	2.5	2.6	2.9
Adj. RoE Ratio	12.7	14.1	15.3	16.5	18.5

Rating	BUY
Current Market Price (₹)	1,680
12M Price Target (₹)	2,124
Potential upside (%)	26

Stock Data

Sector:	Banking
FV (₹):	5
Market Cap Full (₹ bn):	3,367
Market Cap Free Float (₹ bn):	2,492
52-Week High / Low (₹):	2,064 / 1,544
Sensex / Nifty:	73,961 / 22,531
BSE Code / NSE Symbol	500247 / KOTAKBANK
Bloomberg:	KMB IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	25.90	25.91	25.93	25.94
FPIs	37.59	39.74	40.97	39.88
MFs	12.82	10.91	9.63	9.45
Insurance	8.69	8.61	8.58	8.43
Others	15.00	14.83	14.89	16.30

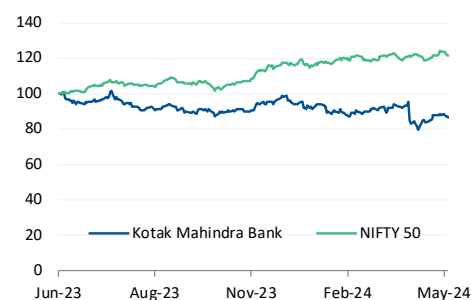
Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
Kotak Bank	3.5%	-0.5%	-4.3%	-13.3%
Nifty 50	-0.3%	2.5%	11.9%	21.6%

* To date / current date : May 31, 2024

Kotak Bank vs Nifty 50



Update on RBI supervisory action

RBI order of 24th April 2024, directs the Bank to cease and desist 1.) On boarding new customers through the Bank's online and mobile banking channels and 2.) Issuing fresh credit cards. The order does not impact servicing and cross-sell of products (excl. new credit cards) to the existing customer base through all channels and on-boarding of new customers through other than online / mobile banking channels. The bank is totally committed to working with the regulators to achieve the required technology standards. The Bank will step-up investments to fortify its IT systems. The focus is on 1) Accelerate execution of the comprehensive plan for core banking resilience, 2) Demonstrate sustainable compliance to Baseline Cyber Security Framework for Banks, and 3) Continue to strengthen digital payment security controls. Moreover, The Bank has assessed impact of above restrictions on: 1) Franchise and customers, 2) Directly impacted businesses, 3) Primarily new credit cards and customer acquisition through 811, and 4) Potential financial impact. The Bank is looking to redeploy resources to minimize the business impact and believes that these directions will not materially impact its overall business.

Asset quality strengthening continues

The bank has seen a significant reduction in GNPA ratio (currently 1.39% versus 1.78% a year earlier) due to slower slippages and improved recoveries. However, the write-offs were also substantial. The bank's Net NPA remains steady at a minuscule level of 0.34% versus 0.37% in FY23 end. The restructuring book (COVID + MSME) is not a major concern as it constitutes merely 10bps of the net loans. Whereas, the contingent buffer (outside PCR) is at the lower end (0.5% of net loans) compared to peers. However, we believe the slower delinquencies will keep the credit cost in check and the IND-AS related provisions are likely to be settled with internal accruals.

Estimating FY26E ROE of 18.5%

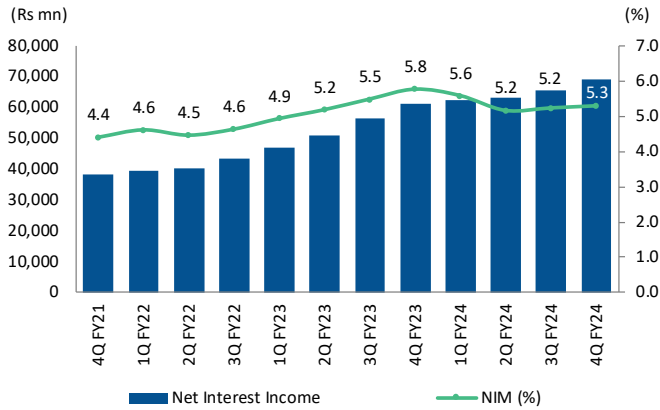
Given the robust growth, we anticipate the NIMs to remain stable at approximately 4.6% for FY25-26E. The bank is projected to be cost-efficient with a FY25E C/I ratio of 44.8% versus 46% in FY24. A stable credit cost (estimated at 0.8% for FY25-26E) is likely to maintain profitability. With a lower leverage level (leverage ratio of 6.4%) and higher capital (20% CRAR), we expect the bank to achieve a ROE of 16.5% in FY25E and 18.5% in FY26E.

Outlook and Valuation

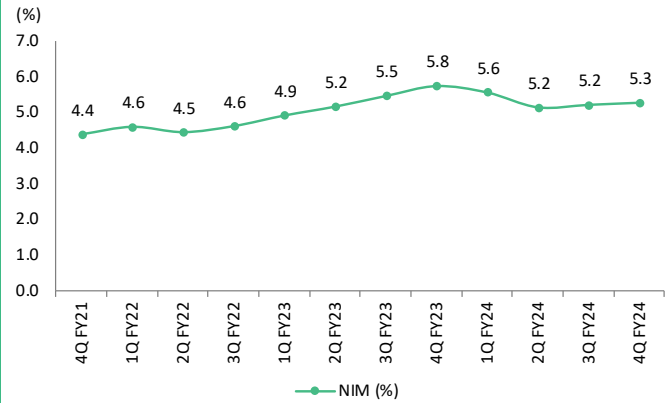
We expect KMB's loan book to grow at CAGR of ~18% over FY24-26E. At CMP of ₹1,680, the stock is available at 2.5(x) standalone FY26E Adj. BVPS of ₹687. Valuing the standalone entity with 2.8x FY26E BVPS and subsidiaries valuation at ₹201; we arrive at a target price of ₹2124. We recommend BUY with a potential upside of ~26%.

Quarterly story in charts

NII Trend



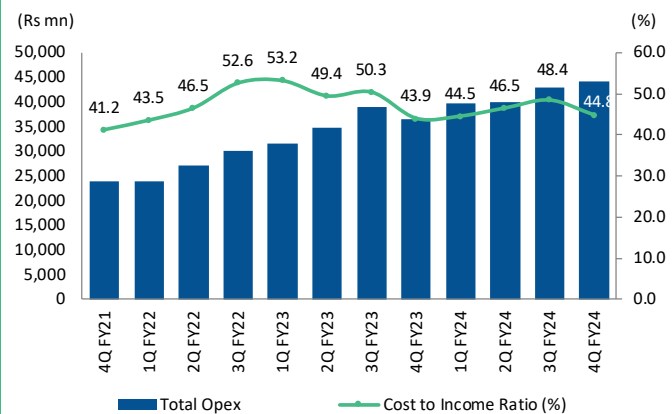
NIMs Trend



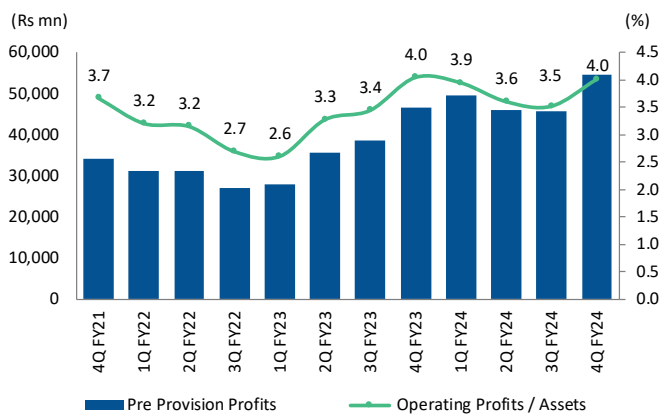
Other Income Trend



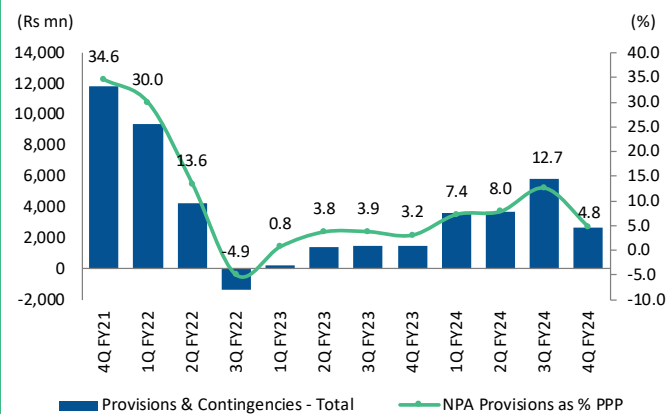
Total Opex Trend



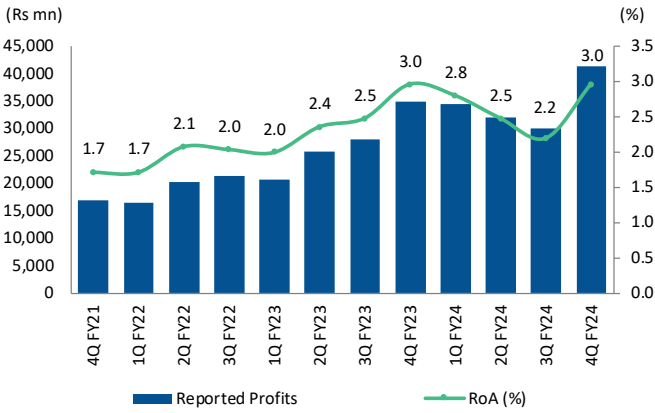
Pre Provision Profit Trend



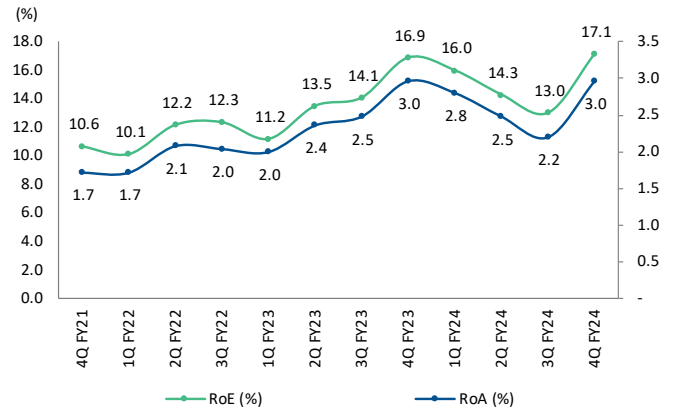
Provision Expenses Trend



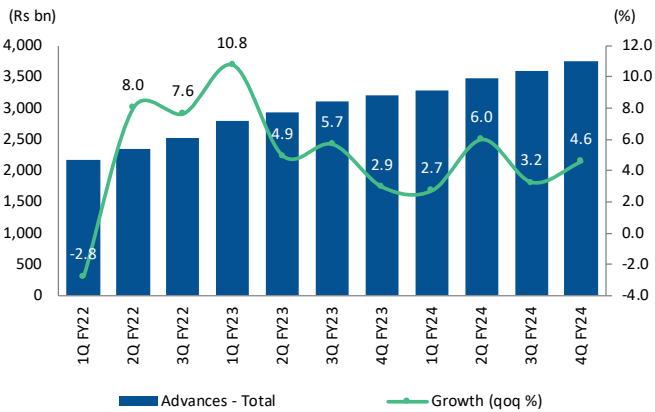
Reported Profit Trend



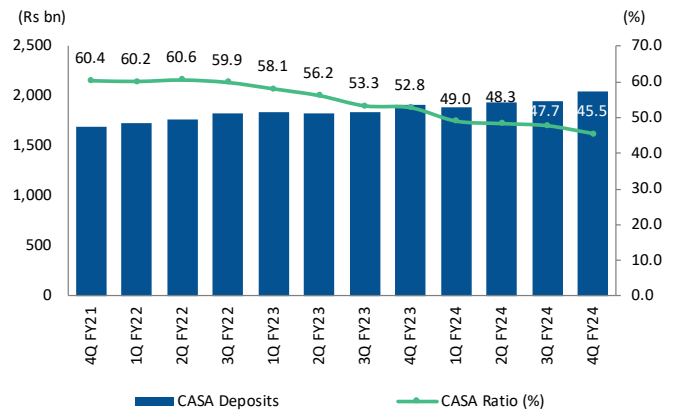
Return Ratio Trend



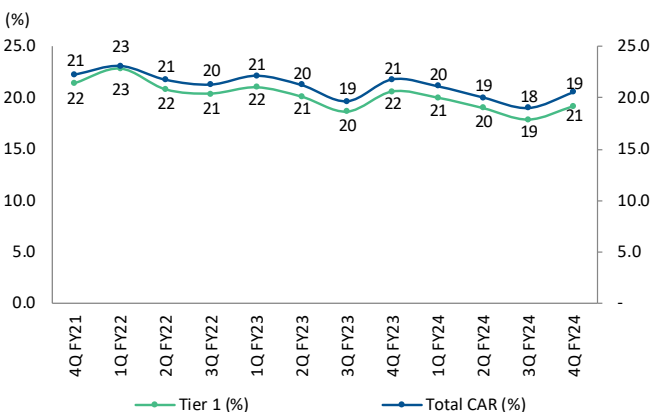
Loan Book Trend



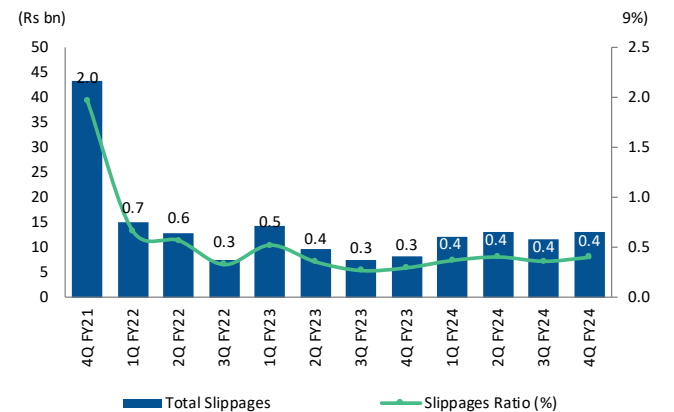
CASA Deposit Trend



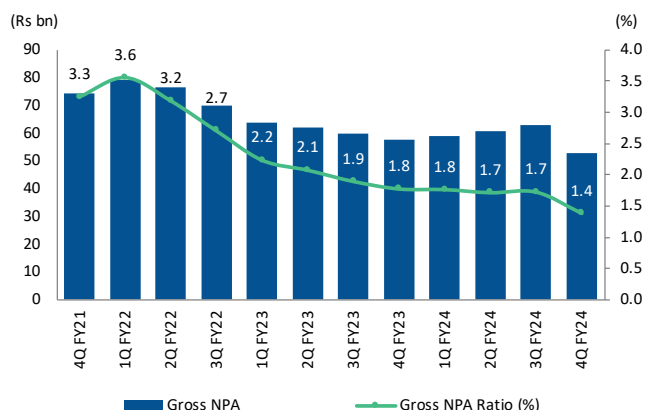
CRAR and Tier 1 trend



Slippages



Gross NPA trend



Net NPA Trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	4Q FY24	4Q FY23	% yoy / bps	3Q FY24	% qoq / bps	FY24	FY23	% yoy / bps
Interest Inc.	123,071	98,209	25.3	117,990	4.3	457,989	342,509	33.7
Interest Expenses	53,977	37,184	45.2	52,455	2.9	198,057	126,989	56.0
Net Interest Income	69,094	61,026	13.2	65,535	5.4	259,932	215,519	20.6
NII to Net Operative Income	69.9	73.6	(375)	74.0	(417)	71.7	75.3	(359)
NIM (%)	5.28	5.8	(47)	5.2	6	4.9	4.9	6
Other Income - Total	29,783	21,863	36.2	22,970	29.7	102,731	70,831	45.0
Other Inc to Net Oper. Income (%)	30.1	26.4	375	26.0	417	28.3	24.7	359
Net Operating Revenue	98,876	82,888	19.3	88,505	11.7	362,663	286,350	26.7
Employee Expenses	18,264	14,545	25.6	17,483	4.5	68,564	55,198	24.2
Other Opex	25,997	21,870	18.9	25,360	2.5	98,225	82,672	18.8
Total Opex	44,261	36,415	21.5	42,843	3.3	166,789	137,870	21.0
Cost to Income Ratio (%)	44.8	43.9	83	48.4	(364)	46.0	48.1	(216)
Pre Provision Profits	54,616	46,474	17.5	45,662	19.6	195,875	148,480	31.9
Provisions & Contingencies - Total	2,637	1,476	78.7	5,791	(54.5)	15,737	4,570	244.4
NPA Provisions as % PPP	4.8	3.2	165	12.7	(785)	8.0	3.1	496
Profit Before Tax	51,978	44,998	15.5	39,871	30.4	180,137	143,910	25.2
Tax	10,645	10,042	6.0	9,821	8.4	42,321	34,517	22.6
Effective Tax Rate (%)	20.5	22.3	(184)	24.6	(415)	23.5	24.0	(49)
Reported Profits	41,333	34,956	18.2	30,050	37.5	137,816	109,393	26.0
RoA (%)	3.0	3.0	-	2.2	76	2.5	2.4	15
RoE (%)	17.1	16.9	25	13.0	411	15.3	14.1	122

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	QoQ % / bps	YoY % / bps
Net Worth	794,360	829,600	865,110	894,564	924,940	966,395	4.5	16.5
RoE (%)	14.1	16.9	16.0	14.3	13.0	17.1	411	25
Tier 1 (%)	18.7	20.6	20.0	19.0	17.9	19.2	130	(140)
Total CAR (%)	19.7	21.8	21.1	20.0	19.0	20.6	155	(125)
Advances - Total	3,107,340	3,198,612	3,285,820	3,482,841	3,595,880	3,760,753	4.6	17.6
Investments	1,122,190	1,214,037	1,238,730	1,286,460	1,457,510	1,554,038	6.6	28.0
Total Assets	4,647,840	4,898,625	5,129,910	5,329,631	5,479,490	6,003,571	9.6	22.6
RoA (%)	2.48	2.96	2.80	2.48	2.20	2.96	76	-
Deposits	3,446,660	3,630,961	3,862,540	4,009,629	4,086,360	4,489,538	9.9	23.6
CASA Deposits	1,835,790	1,918,150	1,892,890	1,934,790	1,950,490	2,043,040	4.7	6.5
CASA Ratio (%)	53.3	52.8	49.0	48.3	47.7	45.5	(220)	(730)
Interest Bearing Liabilities - Total	3,666,940	3,870,123	4,071,320	4,239,773	4,349,760	4,773,219	9.7	23.3

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	QoQ % / bps	YoY % / bps
Deposits	3,446,660	3,630,961	3,862,540	4,009,629	4,086,360	4,489,538	9.9	23.6
CASA Deposits	1,835,790	1,918,150	1,892,890	1,934,790	1,950,490	2,043,040	4.7	6.5
Saving Deposit	1,199,780	1,217,850	1,245,670	1,246,550	1,262,610	1,290,960	2.2	6.0
Current Deposit	636,010	700,300	647,220	688,240	687,880	752,080	9.3	7.4
Term Deposits	1,610,870	1,712,811	1,969,650	2,074,839	2,135,870	2,446,498	14.5	42.8
Borrowings	215,280	234,163	203,780	225,144	258,400	283,681	9.8	21.1
Interest Bearing Liabilities - Total	3,666,940	3,870,123	4,071,320	4,239,773	4,349,760	4,773,219	9.7	23.3

Source: Company, LKP Research

Exhibit 4: Assets Quality Analysis

(₹ mn)	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	4Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	7,480	8,230	12,050	13,140	11,770	13,050	10.9	58.6
Slippages Ratio (%)	0.28	0.30	0.38	0.41	0.37	0.41	4	10
Gross NPA	59,946	57,683	59,092	60,872	63,017	52,748	(16.3)	(8.6)
Gross NPAs Ratio (%)	1.90	1.78	1.77	1.72	1.73	1.39	(34)	(39)
PCR - Calculated (%)	77.6	79.3	78.0	79.1	80.6	75.9	(464)	(340)
Net NPA	13,448	11,933	13,018	12,748	12,253	12,706	3.7	6.5
Net NPAs Ratio (%)	0.43	0.37	0.40	0.37	0.34	0.34	-	(3)
Standard Restructured	7,650	7,180	6,140	5,260	4,590	3,830	(16.6)	(46.7)
Std. Rest. Adv. as % of Advances	0.2	0.2	0.19	0.15	0.13	0.10	(3)	(12)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Int. Income	270,388	342,509	457,989	550,954	662,035
Interest Expenses	102,209	126,989	198,057	249,329	303,071
Net Interest Income	168,179	215,519	259,932	301,625	358,964
<i>NIM (%)</i>	4.29	4.85	4.91	4.67	4.60
Other Income - Total	63,544	70,831	102,731	148,999	216,105
Net Operating Revenue	231,723	286,350	362,663	450,624	575,068
Employee Exp.	46,134	55,198	68,564	85,165	105,787
Other Opex	65,080	82,672	98,225	116,704	138,660
Total Opex	111,214	137,870	166,789	201,869	244,447
<i>C/I Ratio (%)</i>	47.99	48.15	45.99	44.80	42.51
Pre Provision Profits	120,509	148,480	195,875	248,754	330,622
<i>PPP Growth (yoy %)</i>	(1.3)	23.2	31.9	27.0	32.9
Provisions & Contingencies - Total	6,896	4,570	15,737	22,247	27,552
<i>Credit Cost (As % of Op. AUM)</i>	0.50	0.27	0.79	0.79	0.79
Profit Before Tax	113,613	143,910	180,137	226,507	303,070
Tax	27,886	34,517	42,321	53,216	71,203
<i>Effective Tax Rate (%)</i>	24.5	24.0	23.5	23.5	23.5
Reported Profits	85,727	109,393	137,816	173,292	231,866
<i>PAT Growth (yoy %)</i>	23.1	27.6	26.0	25.7	33.8

Exhibit 6: Balance Sheet

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	9,923	9,933	9,940	9,940	9,940
Reserves (ex Revel. Reserve)	709,641	819,667	956,455	1,129,747	1,361,613
Net Worth - Ex Revaluation	719,565	829,600	966,395	1,139,686	1,371,553
Deposits	3,116,841	3,630,961	4,489,538	5,455,501	6,633,160
Borrowings	259,671	234,163	283,681	344,717	419,130
Interest Bearing Liabilities (₹ mn)	3,381,512	3,870,123	4,773,219	5,800,218	7,052,291
Other Lia. & Prov.	192,894	198,299	263,165	304,167	331,645
Total Liabilities	4,294,284	4,898,625	6,003,571	7,244,864	8,756,281
Assets					
Cash & Cash Equivalent	429,239	325,423	527,884	638,347	773,019
Investments	1,005,802	1,214,037	1,554,038	1,989,258	2,546,364
Loan & Advances (₹ mn)	2,712,536	3,198,612	3,760,753	4,437,688	5,236,472
<i>Growth (yoy %)</i>	<i>21.3</i>	<i>17.9</i>	<i>17.6</i>	<i>18.0</i>	<i>18.0</i>
Fixed Assets	16,437	19,203	21,553	26,294	31,820
Other Assets	130,269	141,349	139,343	153,278	168,605
Total Assets	4,294,284	4,898,625	6,003,571	7,244,864	8,756,281

Exhibit 7: Per share data

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Face Value (₹)	5	5	5	5	5
Adjusted Share O/S (mn)	1,985	1,987	1,988	1,988	1,988
Earnings Per Share (₹)	43.2	55.1	69.3	87.2	116.6
EPS (% YoY)	22.9	27.5	25.9	25.7	33.8
P/E (x)	38.9	30.5	24.2	19.3	14.4
Book Value (₹)	362.6	417.6	486.1	573.3	689.9
BVPS (% YoY)	13.6	15.2	16.4	17.9	20.3
P/BV (x)	4.6	4.0	3.5	2.9	2.4
Adj. BV (₹)	358.2	414.6	482.9	570.1	686.7
Adj. BV (% YoY)	14.7	15.8	16.5	18.1	20.5
P/ABV (x)	4.7	4.1	3.5	2.9	2.4

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Yields / Margins					
Yield on Advance	7.8	9.1	10.2	10.2	10.2
Yield on Funds	6.9	7.7	8.7	8.5	8.5
Cost of Funds (CoF)	3.2	3.5	4.6	4.7	4.7
Interest Spread	3.7	4.2	4.1	3.8	3.8
NIM's	4.3	4.9	4.9	4.7	4.6
Interest Income / Assets	6.7	7.5	8.4	8.3	8.3
Interest Exp. / Assets	2.5	2.8	3.6	3.8	3.8
NII / Assets	4.1	4.7	4.8	4.6	4.5
Fee Income / Assets	1.1	1.1	1.4	1.6	1.9
Other Non Core Income / Assets	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Other Income / Assets	1.6	1.5	1.9	2.2	2.7
Net Operating Income / Assets	5.7	6.2	6.7	6.8	7.2
Operating Ratios					
NII to Net Operative Income	72.6	75.3	71.7	66.9	62.4
Other Income to Net Operative Income	27.4	24.7	28.3	33.1	37.6
Empl. Cost/Oper. Exps.	41.5	40.0	41.1	42.2	43.3
Other Op. Exps./Oper. Exps.	58.5	60.0	58.9	57.8	56.7
C/I Ratio (%)	48.0	48.1	46.0	44.8	42.5
Provisions as % PPP	3.0	1.6	4.3	4.9	4.8
Credit Cost (As % of Op. AUM)	0.5	0.3	0.8	0.8	0.8
Effective Tax Rate (%)	24.5	24.0	23.5	23.5	23.5
Employee Exp. / Assets	1.1	1.2	1.3	1.3	1.3
Other Opex/ Assets	1.6	1.8	1.8	1.8	1.7
Total Opex / Assets	2.7	3.0	3.1	3.0	3.1
Operating Profits / Assets	3.0	3.2	3.6	3.8	4.1
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.0	3.2	3.6	3.8	4.1
Provisions / Assets	0.2	0.1	0.3	0.3	0.3
Profit Before Tax / Assets	2.8	3.1	3.3	3.4	3.8
Tax Expenses / Assets	0.7	0.8	0.8	0.8	0.9
RoA	2.1	2.4	2.5	2.6	2.9
Leverage (x)	6.0	5.9	6.2	6.4	6.4
RoE	12.7	14.1	15.3	16.5	18.5
Adj. RoA	2.1	2.4	2.5	2.6	2.9
Adj. RoE	12.7	14.1	15.3	16.5	18.5

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY22	FY23	FY24	FY25E	FY26E
Credit / Deposit Ratio	87.0	88.1	83.8	81.3	78.9
Incremental C/D Ratio	150.6	94.5	65.5	70.1	67.8
Investment Deposit Ratio	32.3	33.4	34.6	36.5	38.4
Dom. SLR Investment / Deposits	24.0	24.9	25.7	27.1	28.5
CASA Ratio	60.7	52.9	45.5	45.5	45.5

Exhibit 10: Credit Quality

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio (%)	1.9	1.5	1.6	1.6	1.6
Gross NPA	64,697	57,683	52,748	62,732	74,514
Gross NPAs Ratio (%)	2.3	1.8	1.4	1.4	1.4
PCR (%)	73.2	79.3	75.9	74.4	73.5
Net NPA	17,367	11,933	12,706	16,039	19,733
Net NPAs Ratio (%)	0.6	0.4	0.3	0.4	0.4
Total Impaired Loans	64,697	57,683	52,748	62,732	74,514
Impaired Loan as % of Loan / AUM	2.2	1.7	1.3	1.3	1.3
Total Risk Reserves	47,330	45,750	40,042	46,693	54,780
Total Risk As % of Loan Book	1.6	1.3	1.0	1.0	1.0

Exhibit 11: Key Assumptions & Forecasts

(₹ mn)	FY22	FY23	FY24	FY25E	FY26E
Loan & Advances (₹ mn)	2,712,536	3,198,612	3,760,753	4,437,688	5,236,472
Growth (yoy %)		17.9	17.6	18.0	18.0
Interest Bearing Liabilities (₹ mn)	3,381,512	3,870,123	4,773,219	5,800,218	7,052,291
Growth (yoy %)		14.4	23.3	21.5	21.6
Yield on Funds	6.9	7.7	8.7	8.5	8.5
Cost of Funds (CoF)	3.2	3.5	4.6	4.7	4.7
Interest Spread	3.7	4.2	4.1	3.8	3.8
NIM's	4.3	4.9	4.9	4.7	4.6
Other Income Growth	16.4	11.5	45.0	45.0	45.0
C/I Ratio (%)	48.0	48.1	46.0	44.8	42.5
Effective Tax Rate (%)	24.5	24.0	23.5	23.5	23.5
Return Ratios					
Adj. RoA	2.1	2.4	2.5	2.6	2.9
Adj. RoE	12.7	14.1	15.3	16.5	18.5
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	0.5	0.3	0.8	0.8	0.8
Gross NPAs Ratio (%)	2.3	1.8	1.4	1.4	1.4
Net NPAs Ratio (%)	0.6	0.4	0.3	0.4	0.4

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