

19 January 2025

Kotak Mahindra Bank

Stand-out performance in a tough quarter; upgrading, to a Buy

Healthy loan growth and stable asset quality led to Kotak Mahindra Bank's 4.1% q/q core PPOP growth. The faster than the system loan growth and greater operating efficiencies would drive a 2.2% RoA over FY25-27. On the brighter asset quality outlook, we upgrade the stock to a Buy. At our TP, it would trade at 2.1x FY27e P/ABV (earlier 2.3x FY26e BV), with subsidiaries valued at Rs.475.

Update on RBI embargo. An external auditor has been appointed with a remedial action plan on track and constant updates to the RBI regarding the progress. At this stage definitive clarity on the outcome is non-existent. So far, the impact has been more on deposits than on advances.

Healthy balance sheet growth, stable NIM. Customer advances grew 14.6% y/y, 2.1% q/q, with corporate loans picking up pace in the quarter. Credit cards and PL loans slowed, as expected. The 15.9% y/y deposit growth was led by strong CA and active deposits growth. We build in 15% credit growth over FY25-27. Reported NIM was stable q/q at 4.93%. The changing product mix and high CASA would sustain NIM of over 4.9%.

Stable asset quality, PL loans see signs of easing. Asset quality was stable, with slippages at 1.66% (30bps better q/q). Management believes that personal-loan and credit-card delinquencies are now stable. Microcredit delinquencies have not yet peaked. We believe that a squeaky-clean franchisee will keep credit cost stable over FY25-27 at 0.6% of advances.

Valuation. Our Rs.2,010 TP stems from the two-stage DDM model. This implies a ~2.1x P/BV on FY27e, with subsidiaries valued at Rs.475 (a 20% holding company discount). **Risks:** Lumpy slippages in the corporate book, slower loan growth.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income (Rs bn)	216	260	290	331	378
Pre-provisioning profit (Rs bn)	148	196	215	245	280
PAT (Rs bn)	109	138	169	161	184
EPS (Rs)	55.1	69.3	85.1	80.7	92.2
NIM (%)	5.1	5.1	4.9	4.9	4.8
Cost-Income (%)	48.1	46.0	47.5	47.9	47.7
RoE (%)	14.0	15.3	12.6	12.9	13.2
RoA (%)	2.4	2.5	2.1	2.2	2.2
Advances growth (%)	17.9	17.6	15.0	15.0	15.0
GNPA (%)	1.8	1.4	1.4	1.4	1.4
CRAR (%)	21.8	20.5	20.9	20.6	20.4
P / E (x)	34.0	27.0	22.0	23.2	20.3
P / BV (x)	4.4	3.8	3.2	2.8	2.5
P / ABV (x)	4.5	3.9	3.2	2.9	2.5

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.2,010

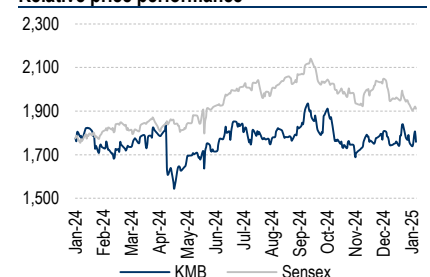
Share Price: Rs.1,758

Key data	KMB IN
52-week high / low	Rs.1,953 / 1,544
Sensex / Nifty	76,619 / 2,3203
3-m average volume	\$80.3m
Market cap	Rs.3,496bn / \$40,368.9m
Shares outstanding	1,988m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	25.9	25.9	25.9
- of which, Pledged			
Free float	74.1	74.1	74.1
- Foreign institutions	32.5	33.4	33.2
- Domestic institutions	28.8	27.9	27.7
- Public	12.8	12.8	13.2

Estimates revision (%)	FY25e	FY26e
Net interest income	(1.0)	(4.0)
Pre-provisioning profit	(0.6)	(3.3)
PAT	(0.4)	(4.5)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	216	260	290	331	378
<i>NII growth (%)</i>	28.1	20.6	11.5	14.3	14.0
Non-interest income	71	103	121	138	158
Income	286	363	411	469	536
<i>Income growth (%)</i>	25.6	26.7	13.2	14.2	14.3
Operating expenses	138	167	195	224	256
PPoP	148	196	215	245	280
<i>PPoP growth (%)</i>	23.2	31.9	10.0	13.5	14.6
Provisions	5	16	25	30	34
PBT	144	180	226	215	246
Tax	35	42	56	54	61
PAT	109	138	169	161	184
<i>PAT growth (%)</i>	28	26	23	-5	15
EPS (Rs)	55.1	69.3	85.1	80.7	92.2
DPS (Rs)	1.1	6.9	8.5	8.1	9.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	15	10	10	10	10
Reserves & surplus	820	957	1,162	1,307	1,473
Deposits	3,631	4,490	5,118	5,886	6,769
Borrowings	234	284	318	356	399
Other liabilities	198	263	132	208	296
Total liabilities	4,899	6,004	6,740	7,767	8,946
Advances	3,199	3,761	4,325	4,974	5,720
Investments	1,214	1,554	1,834	2,146	2,510
Cash & bank balances	325	528	408	457	512
Fixed & other assets	161	161	173	190	205
Total assets	4,899	6,004	6,740	7,767	8,946
No. of shares (m)	1,987	1,988	1,992	1,996	2,000
<i>Deposits growth (%)</i>	16.5	23.6	14.0	15.0	15.0
<i>Advances growth (%)</i>	17.9	17.6	15.0	15.0	15.0

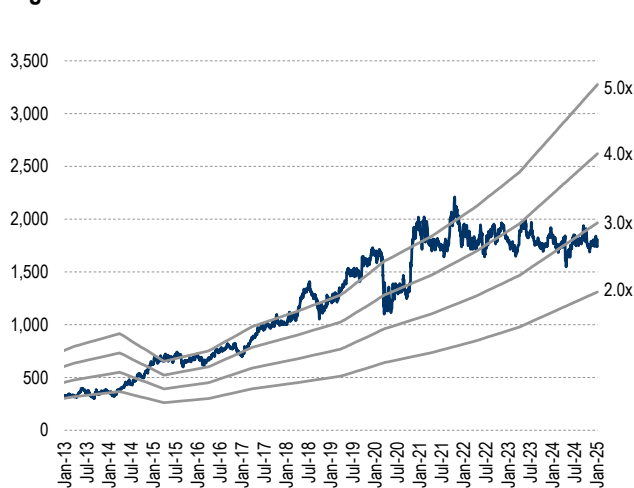
Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
NIM	5.1	5.1	4.9	4.9	4.8
Other inc. / total inc.	24.7	28.3	29.4	29.3	29.5
Cost-income	48.1	46.0	47.5	47.9	47.7
DPS (Rs)	1.1	6.9	8.5	8.1	9.2
Credit-deposit	88.1	83.8	84.5	84.5	84.5
Investment-deposit	33.4	34.6	35.8	36.5	37.1
Gross NPA	1.8	1.4	1.4	1.4	1.4
Net NPA	0.4	0.3	0.3	0.3	0.3
Provision coverage	79.3	75.9	80.0	80.0	80.0
BV (Rs)	420.4	486.5	588.5	660.0	741.6
Adj. BV (Rs)	416.2	482.1	584.2	655.0	735.9
CRAR (%)	21.8	20.5	20.9	20.6	20.4
- Tier 1	20.8	19.2	19.7	19.6	19.5
RoE	14.0	15.3	12.6	12.9	13.2
RoA	2.4	2.5	2.1	2.2	2.2

Source: Company, Anand Rathi Research

Fig 4 – Price-to-book band



Source: Bloomberg

Fig 5 – One-year-forward price-to-book value



Source: Company, Anand Rathi Research

Fig 6 – Price movement



Source: Bloomberg

Earnings call, Key highlights

Personal loans and Portfolio performance

- Strong trends in personal loans have been seen with consistent m/m disbursement growth
- Secured assets are robust with no visible signs of strain; delinquency levels are negligible, supported by better recovery in secured businesses
- Growth in personal loans was moderated in the initial 4-5 months due to adjustments in the digital journey but is now on track, driven by disciplined underwriting practices
- Stan-C portfolio integration is expected to reflect on the books in the coming quarter, providing additional growth momentum.

Unsecured and Microfinance portfolio

- The unsecured portfolio has slowed, largely due to monitored disbursement in micro-credit and the impact of the RBI-imposed credit card embargo
- The micro-finance portfolio performance shows signs of de-acceleration in strain, though it continues to be monitored.

Capital market and Expense management

- Buoyancy in the capital markets has acted as a significant tailwind, supporting growth across relevant business segments
- The bank has maintained tight control over expenses and is confident of execution of its strategic initiatives.

Regulatory updates – the RBI embargo

- Progress on addressing the RBI embargo continues, with ongoing submissions and reviews
- Concurrent discussions with the regulator are taking place; at this stage, however, there is no definitive clarity on the outcome.

Credit monitoring and stability

- Overall credit monitoring is in line with expectations and demonstrates stability
- Recovery in secured segments has improved, further supporting portfolio quality.

Provisioning and Recovery policy

- The unsecured book has been provided for on a 180-day basis, reflecting a cautious approach
- For the retail portfolio, provisions are made at 100%, followed by a lookout period, after which accounts are written off based on case-specific recovery potential
- Credit cards are written off at 27 days past due, whereas other retail portfolios follow a longer timeline for write-offs, emphasising recovery evaluation case-wise.

Asset quality and Risk management

- Asset quality is monitored closely in the context of a volatile market, with a conservative approach to risk management
- The bank adopts a dynamic strategy, adjusting actions regularly in response to changing market conditions while maintaining a cautious stance.

Credit cost and Slippages

- Micro-finance (MF) is an area of concern with rising slippages, while personal loans (PL) overall are improving
- Slippages across the portfolio have declined, with better performance expected in H2 for businesses other than micro-credit
- PL slippages continue to trend downward but challenges in the micro-credit segment persist, requiring close monitoring given the size of the book
- Credit costs in the quarter were significantly hurt by write-offs in the PL and micro-credit portfolios
- As the economy improves, credit costs are expected to gradually normalise, though contingency monitoring continues across other portfolios
- The bank is cautiously optimistic, keeping a watchful eye on credit quality trends over the next 2–3 quarters.

Slippages in the Microfinance portfolio

- Slippages in the MF portfolio increased in the quarter compared to Q2 FY25, despite improvements in other secured business segments
- While slippages in MF are high, the portfolio shows a downward trend in stress, signalling greater stability
- On-ground collections for MF are a challenge, with recovery rates at 50% for 90-day delinquent accounts and 100% for 180 days—more conservative than RBI norms, reflecting a prudent stance
- Total slippages have declined q/q, driven by better performances in secured businesses despite higher contributions from the MF portfolio.

Cost of funds

- CoF has decreased, with an 8–9bp q/q movement, driven by the higher share of CA balances and growth in average CA balances
- The increase in non-interest-bearing CA deposits has supported the reduction in CoF
- Active money growth was 36% y/y, with the lower interest rate on swift term deposits (TDs) contributing to overall CoF optimization
- Growth in CA deposits was supported by IPO-related inflows and FPI activities, though volatility persists in wholesale and capital market deposits
- The bank remains focused on expanding its core customer franchise through payment and collection services, benefiting from custody services and IPO-related flows.

Kotak Mahindra Prime

- KMP was faced with margin pressure in the quarter, which, along with a minor accounting adjustment, resulted in the reported loss
- The two-wheeler business under KMP has seen elevated delinquencies, contributing to the overall financial strain.

RoA

- The RoA is 2.1%, with focus on retaining it above the 2% benchmark
- The bank is balancing its front and back books' RoA, with the front book referring to new originations and the back book representing the legacy portfolio
- Stress in unsecured and retail micro-credit segments, alongside the RBI-imposed embargo, has caused a slowdown in higher-yielding assets
- A normalised credit cycle is anticipated, with credit-card growth expected to resume, post-embargo
- Non-interest-based income is being prioritized to enhance profitability, supported by cost optimisation efforts that are beginning to positively affect the RoA.

Loan growth and Credit cards

- Sequential loan growth is strong, indicating the embargo has not significantly hindered the overall performance
- Certain segments such as credit cards and unsecured PL have seen limited growth due to the embargo and deliberate portfolio adjustments
- The growth trajectory in credit cards and PL is expected to accelerate once the credit cycle normalises and the embargo is lifted.

Deposits and Granular growth via 811 Platform

- The 811 Platform continues to demonstrate robust growth, particularly in granular deposits, providing a strong foundation for future credit expansion
- Post-embargo, the bank aims to leverage its strengthened 811 base and resume broader credit card and unsecured portfolio growth, contributing significantly to overall business recovery.

Early Bucket movements and Asset yields

- Early bucket movements indicate that most growth is now driven by secured portfolios
- As the share of unsecured business grows, supported by stable credit quality, it is expected to enhance yields on earning assets.

Business structure and Subsidiaries

- The bank operates with minimal overlap between entities, ensuring clear delineation of business activities
- Focused on consolidation rather than diversification into multiple subsidiaries or stages of financing
- The subsidiaries operate within the same financing parameters as the bank itself, without venturing into differentiated financing types.

Commercial vehicles portfolio

- The CV portfolio is segmented into three categories, with delinquency increases observed in retail CVs despite growth in disbursements
- Larger CVs have shown growth in both disbursements and portfolio size, demonstrating resilience in this segment.

Market share and Growth strategy

- The current market share is small, and the bank's focus is on gaining a larger share in the present market than on expanding the market itself
- Plans to grow the business 1.5x–2x the nominal GDP rate, emphasizing risk-averse strategies to ensure sustainable growth
- The bank is open to organic and inorganic growth opportunities, carefully evaluating all options to ensure alignment with its strategic goals and risk appetite.

Key Highlights

Quarterly snapshot

Fig 7 – Income statement

(Rs bn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Interest income	112	118	123	127	132	134
Interest expense	49	52	54	59	62	62
NII	63	66	69	68	70	72
<i>YY growth, %</i>	23.5	15.9	13.2	9.8	11.5	9.8
Non-interest income	23	23	30	29	27	26
Total Income	86	89	99	98	97	98
<i>YY growth, %</i>	22.1	16.4	19.3	9.6	12.7	10.9
Operating expenses	40	43	44	45	46	46
Of which, staff cost	16	17	18	19	20	20
PPoP	46	46	55	53	51	52
<i>YY growth, %</i>	0	0	0	0	0	0
Total provisions	4	6	3	6	7	8
PBT	42	40	52	82	44	44
Tax	11	10	11	19	11	11
PAT	32	30	41	62	33	33
<i>YY growth, %</i>	23.6	7.6	18.2	81.0	4.8	10.0

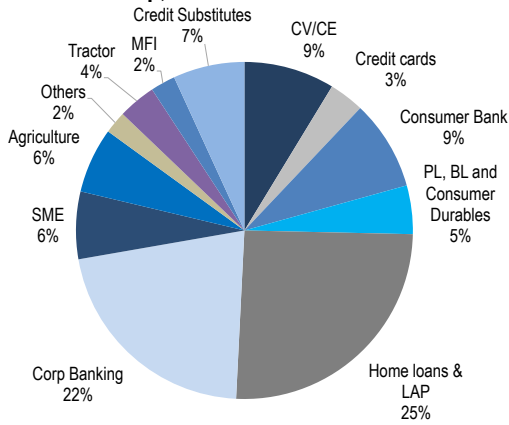
Source: Company, Anand Rathi Research

Fig 8 – Balance sheet

(Rs bn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Net worth	900	930	967	1,063	1,107	1,149
Deposits	4,010	4,086	4,490	4,474	4,615	4,735
Borrowings	225	258	284	294	265	234
Other Liabilities	195	205	263	218	245	252
Total Liabilities	5,330	5,479	6,004	6,049	6,232	6,370
<i>Deposits y/y growth, %</i>	23.3	18.6	23.6	15.8	15.1	15.9
<i>Deposits q/q growth, %</i>	3.8	1.9	9.9	-0.3	3.1	2.6
Cash and cash balances	399	275	528	372	326	411
Advances	3,483	3,596	3,761	3,900	3,995	4,138
Investments	1,286	1,458	1,554	1,626	1,755	1,638
Other Assets	161	151	161	153	156	182
Total Assets	5,330	5,479	6,004	6,049	6,232	6,370
<i>Advances y/y growth, %</i>	18.5	15.7	17.6	18.7	14.7	15.1
<i>Advances q/q growth, %</i>	6.0	3.2	4.6	3.7	2.5	3.6

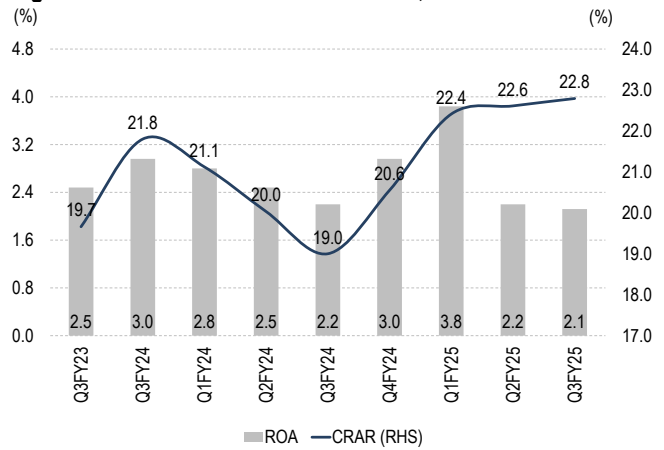
Source: Company, Anand Rathi Research

Fig 9 – Loan break-up, %



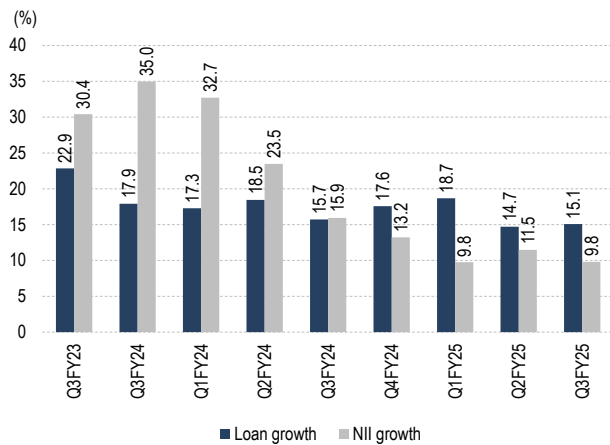
Source: Company, Anand Rathi Research

Fig 10 – Subsidiaries' PAT contribution, %



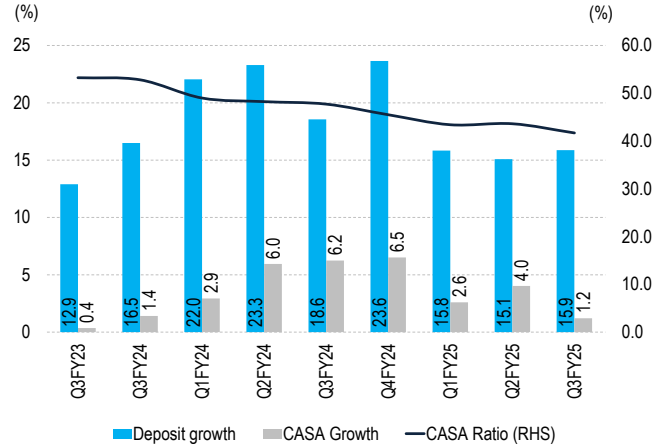
Source: Company, Anand Rathi Research

Fig 11 – Credit growth vs. NII, %



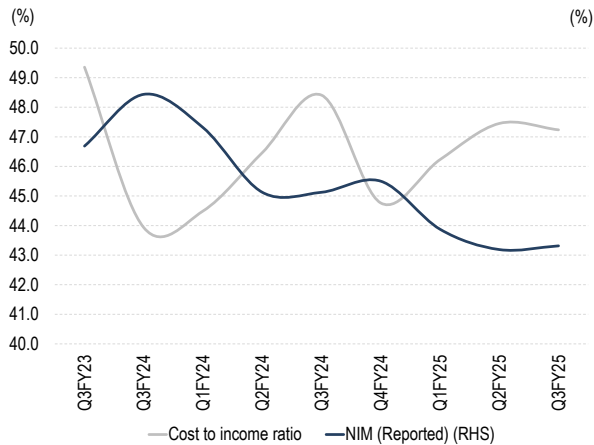
Source: Company, Anand Rathi Research

Fig 12 – CASA ratio vs. Deposit growth, %



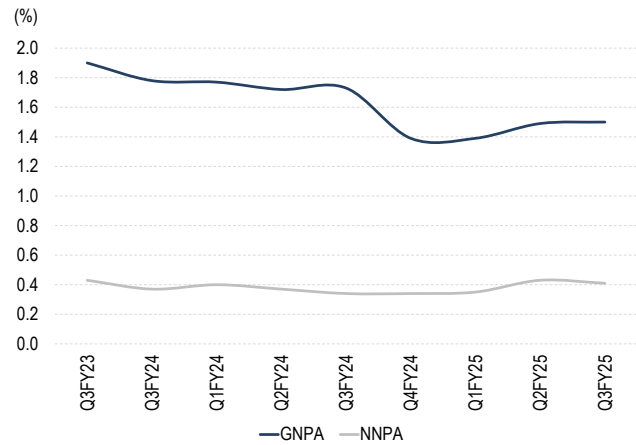
Source: Company, Anand Rathi Research

Fig 13 – Cost-to-income vs. Opex-to-average assets, %



Source: Company, Anand Rathi Research

Fig 14 – Asset quality



Source: Company, Anand Rathi Research

Valuation

Our Rs.2,010 TP stems from the two-stage DDM model. This implies a ~2.1x P/BV on FY27e (earlier 2.3x FY26e BV), with subsidiaries valued at Rs.475 (incl. a 20% holding company discount).

Fig 15 – du Pont analysis

(%)	FY23	FY24	FY25e	FY26e	FY27e
Interest Income / Assets	7.5	8.4	8.3	8.2	8.2
Interest Expense / Assets	2.8	3.6	3.7	3.7	3.7
Net interest income / Assets	4.7	4.8	4.5	4.6	4.5
Non-interest income / Assets	1.5	1.9	1.9	1.9	1.9
Net revenues / Assets	6.2	6.7	6.4	6.5	6.4
Operating expense / Assets	3.0	3.1	3.1	3.1	3.1
PPOP / Assets	3.2	3.6	3.4	3.4	3.4
Provision / Assets	0.1	0.3	0.4	0.4	0.4
Taxes / Assets	0.8	0.8	0.9	0.7	0.7
RoA	2.4	2.5	2.1	2.2	2.2
RoAE	14.0	15.3	15.8	12.9	13.2

Source: Company, Anand Rathi Research

Fig 16 – Estimates revision

	FY25e			FY26e		
	New	Old	Chg (%)	New	Old	Chg (%)
Net interest income (Rs m)	290	293	(1.0)	331	345	(4.0)
Pre-provisioning profit (Rs m)	215	217	(0.6)	245	253	(3.3)
PAT (Rs m)	169	170	(0.4)	161	169	(4.5)

Source: Anand Rathi Research

Risks

- A further embargo by the RBI
- Lumpy slippages from the corporate book. Though unexpected, these would mar our forecasts
- Significant negative surprises on asset quality from the micro-finance book.

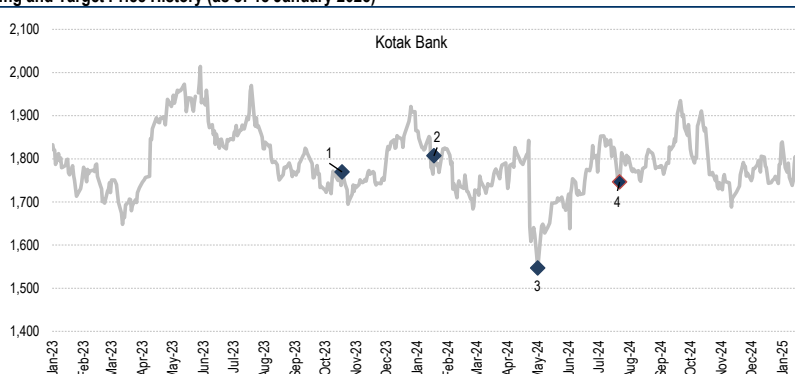
Appendix

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Rating and Target Price History (as of 18 January 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	16-Oct-23	Buy	2,095	1,750
2	20-Jan-24	Buy	2,140	1,806
3	6-May-24	Buy	1,855	1,547
4	21-Jul-24	Hold	1,950	1,821

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