

Kotak Mahindra Bank

Positives fully priced in

KMB's 3Q operating performance was in line with estimates, and was backed by a QoQ revival in credit growth and sustained CASA traction. Current lofty valuations fully price in (1) an imminent pick-up in loan growth momentum, (2) strong CASA traction and resulting CoF tailwinds, and (3) a gradual return to the pre-COVID-19 credit cost trajectory post FY21E. This underpins our REDUCE rating (SoTP value of Rs 1,717).

- Pro forma stress rises:** Like several banks this quarter, KMB witnessed a rise in pro forma GNPA's to ~3.3% (vs. ~2.7% QoQ), implying pro forma slippages of ~Rs 20bn (3.8% ann.). Retail unsecured loans disproportionately contributed to a majority of incremental stress (~45% of slippages vs. ~6% of loans). We continue to conservatively build GNPA's of ~4.0% in FY21E as we expect SME and unsecured retail loans to contribute to incremental stress as suggested by commentary and significant disbursements under the ECLGS.
- Lower-than-expected provisions:** Overall non-tax provisions rose 34.9/62.5% to ~Rs 6bn, albeit ~11.3% below our estimates. Adjusted for interest reversals on pro forma slippages, credit costs would've been ~30bps lower at 86bps. The bank held COVID-19 provisions of ~60bps of loans (flat QoQ). We continue to conservatively build LLPs of 1.0% over FY21-23E.
- Growth revives, sequentially:** While outstanding loans dipped 1.2% YoY, they witnessed a QoQ growth of 4.5%, led by corporate (+5.8%), mortgages (+4.7%) and agri (+5.9%) segments. Commentary suggests that KMB continues to log sustained improvement in monthly business volumes, which are nearing pre-COVID-19 levels across several businesses. We continue to factor in a sharp uptick in loan growth to ~13.6% over FY22-23E.
- CASA engine continues to fire:** Aggregate deposits grew 10.8/1.7%, while CASA balances grew at nearly double the rate (+21.5/4.5%). Consequently, the CASA ratio rose, yet again, to an all time high of ~58.9% (+517/173bps).

Financial summary

YE Mar (Rs mn)	3Q		YoY (%)	2Q		QoQ (%)	FY20	FY21E	FY22E	FY23E
	FY21	FY20		FY21	FY20					
NII	40,068	34,295	16.8%	39,132	2.4%	134,997	156,104	176,675	1,99,783	
PPOP	30,833	23,881	29.1%	32,975	-6.5%	100,208	120,903	133,618	1,48,602	
PAT	18,535	15,959	16.1%	21,845	-15.1%	59,472	70,735	81,492	95,379	
EPS (Rs)	9.4	8.4	12.0%	11.0	-15.2%	31.1	35.8	41.2	48.2	
ROAE (%)						13.9	13.2	12.5	12.9	
ROAA (%)						1.78	1.89	1.98	2.09	
ABVPS (Rs)						232	293	336	382	
P/E (x)						48.9	42.4	36.3	30.4	
P/ABV (x)						6.56	5.17	4.45	3.83	

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	2,235	2,235	0.0%	2,515	2,515	0.0%	2,882	2,882	0.0%
NIM (%)	4.4	4.4	0 bps	4.5	4.5	0 bps	4.5	4.5	-2 bps
NII	155.7	156.1	0.2%	174.3	176.7	1.3%	194.8	199.8	2.5%
PPOP	120.3	120.9	0.5%	131.4	133.6	1.7%	147.2	148.6	1.0%
PAT	70.3	70.7	0.7%	79.9	81.5	2.0%	94.3	95.4	1.1%
ABVPS (Rs)	293.0	293.3	0.1%	335.1	336.1	0.3%	380.8	382.4	0.4%

Source: Bank, HSIE Research

REDUCE

CMP (as on 25 Jan 2021)	Rs 1,795
Target Price	Rs 1,717
NIFTY	14,239

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 1,686	Rs 1,717
	FY21E	FY22E
EPS %	0.7%	2.0%

KEY STOCK DATA

Bloomberg code	KMB IN
No. of Shares (mn)	1,980
MCap (Rs bn) / (\$ mn)	3,554/48,706
6m avg traded value (Rs mn)	9,068
52 Week high / low	Rs 2,027/1,000

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	29.7	32.9	9.2
Relative (%)	10.9	6.1	(7.0)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	26.1	26.0
FIs & Local MFs	15.3	13.2
FPIs	45.2	46.6
Public & Others	13.5	14.4
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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