

Kotak Mahindra Bank Limited

BUY

CMP Rs1,794

Target Rs2,005

Upside 11.8%

Sturdy growth, asset quality and earnings performance; causing mild upgrades in EPS/ABV estimates. Retain BUY rating and raise 12m PT to Rs2,005

KMB delivered a better-than-expected core operating performance, reflected in marginal beat on core PPOP (up 33% yoy and reversion of core PPOP margin to pre-Covid level) and significantly lower credit cost. The latter was underpinned by a strong asset quality performance that was manifested in restrained 60bps sequential increase in proforma Gross NPLs (to 3.3%), marginal one-time restructuring at 0.28% of net advances and lower SMA-2 book at 31 bps of net advances. On the proforma NPLs, KMB provided for interest accrued but not collected even for the moratorium period. As the bank did not dip into its Covid buffer, it was stable at Rs12.8bn (60 bps of advances).

After delivering a strong broad-based 4.5% qoq growth (slower traction in CV/CE and unsecured retail), which was a seven-quarter high, the management sees momentum sustaining in large segments of Mortgages, Agri Finance and Corporate lending. The deposits mix trends remain impressive with incremental gains on CASA (59% of deposits) and granularization. The improvement in LDR (utilization of excess BS liquidity) will aid NIM in coming quarters and this along with normalization of credit cost will drive a solid earnings performance. We estimate 20% earnings CAGR for KMB during FY20-23 with a 20-30 bps expansion in RoA. RoE improvement will be contingent on the pace of growth. The core bank trades at 3.5x FY23 P/ABV, at 20-25% premium to HDFC Bank, thus scope for a large re-rating is restricted. We retain BUY rating and upgrade price target to Rs2,005.

Management Commentary

Key takeaways:

- ✓ A nearly Management sees continuance of loan growth - bank will focus on secured lending and better quality corporate lending - will pursue calibrated growth in unsecured consumer credit.
- ✓ Large difference in stress levels between unsecured and secured retail assets - unsecured loans are 6% of loan book, but contributed 40% to the delta increase in proforma GNPL during Q3 - corporate portfolio has been resilient.
- ✓ Some pockets of stress in secured retail too like CV financing, particularly the Bus segment (10-15% of CV portfolio for the industry) where fleet utilization is low or abysmal.

Exhibit 1: Financial Summary

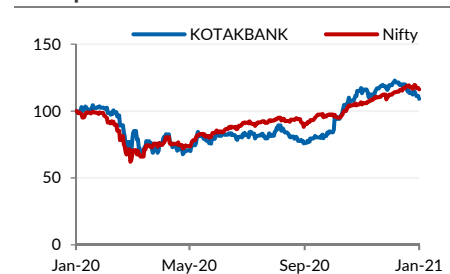
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	188,718	211,970	240,635	279,934
PPOP	100,208	124,345	137,238	159,994
Net profit	59,472	73,284	87,334	104,964
yoy growth (%)	22.2	23.2	19.2	20.2
EPS (Rs)	31.1	37.0	44.2	53.1
Adj. BVPS (Rs)	248.1	309.1	353.5	403.7
P/E (x)	57.7	48.4	40.7	33.8
P/adj.BV (x)	7.2	5.8	5.1	4.4
ROE (%)	12.9	13.0	12.9	13.6
ROA (%)	1.8	1.9	2.1	2.2
CAR (%)	17.9	25.6	25.2	24.3

Source: Company, YES Sec - Research

Stock data (as on January 25, 2021)

Nifty	14,239
52 Week h/l (Rs)	2027 / 1001
Market cap (Rs/USD mn)	3553771 / 48717
Outstanding Shares (mn)	1,980
6m Avg t/o (Rs mn):	8,687
Div yield (%):	-
Bloomberg code:	KMB IN
NSE code:	KOTAKBANK

Stock performance



	1M	3M	1Y
Absolute return	-8.5%	29.7%	9.2%

Shareholding pattern

Promoter	26.0%
FII+DII	58.0%
Others	16.0%

Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	37.0	44.2	53.1
EPS (Old)	33.8	45.4	51.3
% change	9.4%	-2.6%	3.5%

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Kotak Mahindra Bank Limited

- ✓ Restructuring done only for customers who will be able to pay – other stress allowed to flow.
- ✓ Some increase in SMA-2 compared to usual levels which would be closely monitored.
- ✓ Growth in Corporate portfolio driven by higher-rated corporates - RWA growth significant lower, while spreads are stable – the bank grew exposure to high-rated HFCs - remains cautious on office space LRD.
- ✓ Facility utilization and customer acquisition improving in SME segment - bank disbursed Rs97bn under ECLGS schemes.
- ✓ Mortgages witnessed best-ever disbursements in December with bank's focus on fine pricing.
- ✓ In unsecured retail lending (PL, Cards and BL), business traction in improving m-o-m, but currently is below pre-Covid levels.
- ✓ In CE financing, lending activity has fully normalized - strong equipment demand from infra and mining segments.
- ✓ In MSME working capital, the new acquisition is at pre-Covid level – focus is on building a high-quality franchise.
- ✓ In Tractor financing, disbursements stood higher qoq and yoy - Q4 also expected to be strong.
- ✓ Bank's MFI portfolio is largely non-urban – both collections and disbursements have improved m-o-m.
- ✓ Current bucket bounce is stabilizing – bank's focus will remain on late buckets collections and recoveries.
- ✓ Secured advances collections v/s demand for Dec'20 back to pre-Covid levels; for unsecured advances, it is nearing pre-Covid levels and improving m-o-m.

Exhibit 2: Result Table - Standalone

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Interest Income	67,905	68,361	(0.7)	67,356	0.8
Interest expended	(27,837)	(29,228)	(4.8)	(33,061)	(15.8)
Net Interest Income	40,068	39,132	2.4	34,295	16.8
Other income	13,344	14,520	(8.1)	13,414	(0.5)
Total Income	53,412	53,652	(0.4)	47,710	12.0
Operating expenses	(22,579)	(20,678)	9.2	(23,829)	(5.2)
PPOP	30,833	32,975	(6.5)	23,881	29.1
Provisions	(5,990)	(3,686)	62.5	(4,440)	34.9
PBT	24,843	29,289	(15.2)	19,441	27.8
Tax	(6,308)	(7,444)	(15.3)	(3,482)	81.2
PAT	18,535	21,845	(15.1)	15,959	16.1

Source: Company, YES Sec – Research

Exhibit 3: Business Data - Standalone

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Advances	2,141,030	2,048,450	4.5	2,167,740	(1.2)
CV & CE	186,850	183,630	1.8	189,930	(1.6)
Agri.	218,580	209,260	4.5	204,810	6.7
Mortgage loans	499,770	477,320	4.7	460,310	8.6
Small Busi, PLs & CC	415,760	402,680	3.2	418,380	(0.6)
Business + Corp. Bkg	785,770	742,370	5.8	834,230	(5.8)
Deposits	2,653,040	2,615,636	1.4	2,393,540	10.8
CA	439,750	404,540	8.7	367,880	19.5
SA	1,121,990	1,089,900	2.9	917,290	22.3
Others	1,091,300	1,121,196	(2.7)	1,108,370	(1.5)
Investments	1,090,370	1,167,237	(6.6)	766,010	42.3
Borrowings	482,230	417,891	15.4	264,650	82.2

Source: Company, YES Sec - Research

Exhibit 4: Key Ratios - Standalone

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	4.5	4.5	(0.0)	4.7	(0.2)
Cost of Funds	3.6	3.8	(0.2)	5.0	(1.4)
CASA	58.9	57.1	1.8	53.7	5.2
C/D (x)	80.7	78.3	2.4	90.6	(9.9)
Non-int. income	25.0	27.1	(2.1)	28.1	(3.1)
Non-int. income / Int. exp.	47.9	49.7	(1.7)	40.6	7.4
Cost to Income	42.3	38.5	3.7	49.9	(7.7)
Prov. /Income	7.4	4.4	2.9	5.5	1.9
RoE	12.2	14.9	(2.7)	13.7	(1.5)
RoA	2.0	2.4	(0.4)	2.0	(0.0)
CAR	21.5	22.1	(0.5)	18.2	3.3
Gross NPA	2.3	2.6	(0.3)	2.5	(0.2)
Net NPA	0.5	0.6	(0.1)	0.9	(0.4)

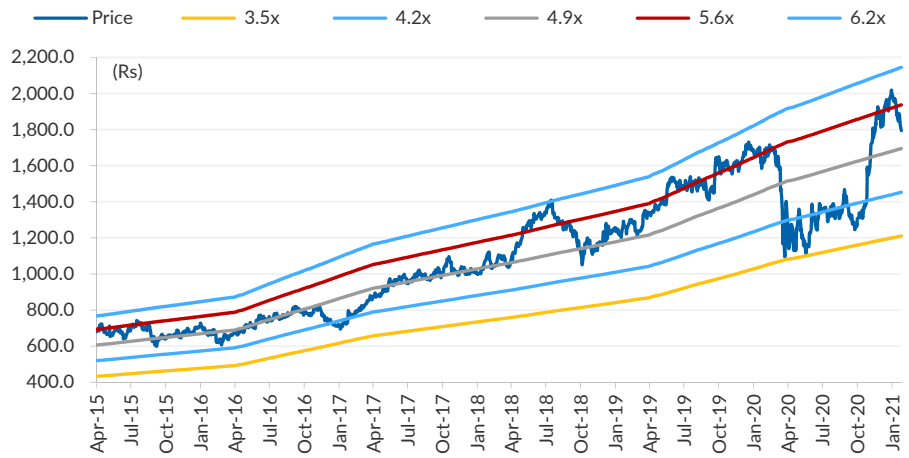
Source: Company, YES Sec - Research

Exhibit 5: Consolidated PAT - Subsidiaries

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Kotak Mahindra Bank	18,540	21,840	(15.1)	15,960	16.2
Kotak Mahindra Prime	1,490	1,330	12.0	1,870	(20.3)
Kotak Life Insurance	1,670	1,710	(2.3)	1,660	0.6
Kotak Securities	1,840	1,990	(7.5)	1,280	43.8
Kotak Mahindra Capital	380	140	171.4	400	(5.0)
Kotak Mahindra AMC	910	840	8.3	910	-
Kotak Investments	680	740	(8.1)	640	6.3

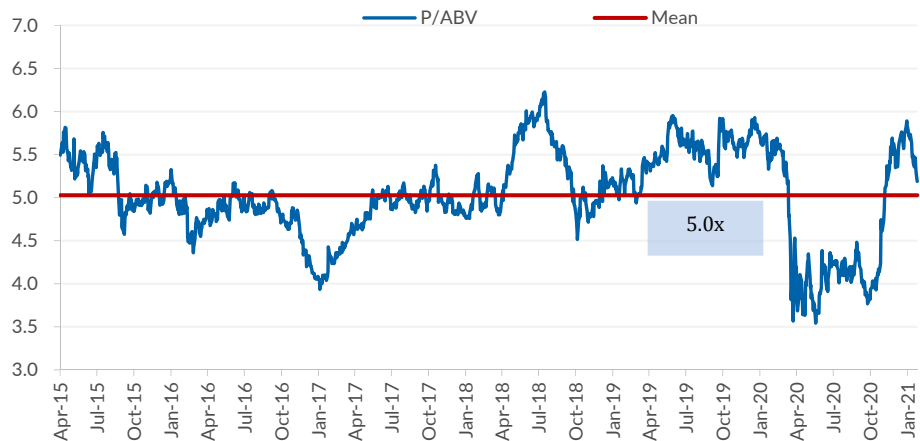
Source: Company, YES Sec - Research

Exhibit 6: 1-year rolling P/ABV band *



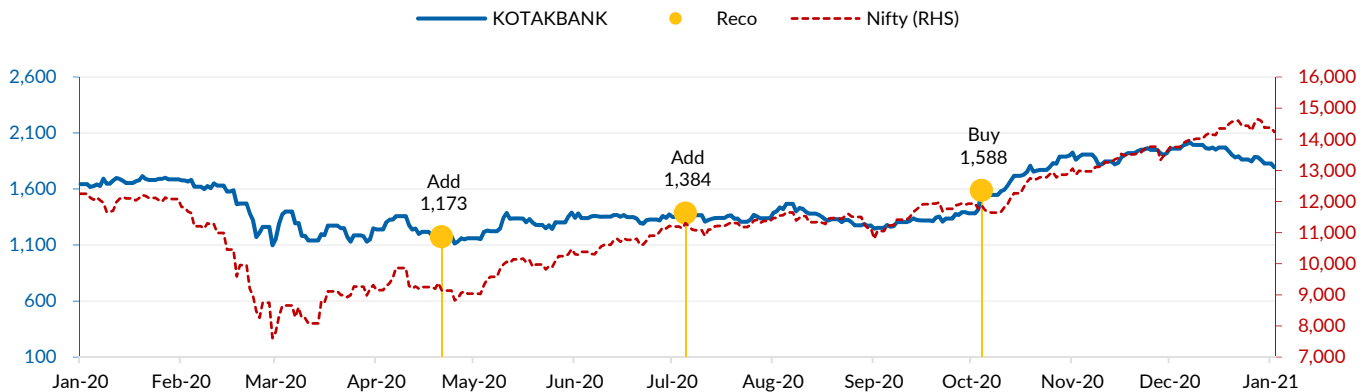
Source: Company, YES Sec – Research, * Price not adjusted for Sub. values

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean *



Source: Company, YES Sec – Research, * Price not adjusted for Sub. values

Recommendation Tracker



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