

Long term prospects intact...

Kotak Mahindra Bank reported a mixed set of numbers on the operating front while credit growth trajectory on a sequential basis was maintained.

Kotak Bank posted lower-than-expected NII growth at 8.0% YoY to ₹ 3842 crore, mainly on account of 34 bps YoY and 19 bps QoQ decline in net interest margins. **The bank took a hit of ~₹ 110 crore in NI line for relief on interest on interest.** Non-interest income (NII) reported a sharp jump of 31% YoY, 51% QoQ to ₹ 1949 crore, driven by 23% QoQ rise in fee income and treasury gains (PBT level) of ₹ 898 crore vs. ₹ 48 crore QoQ. Cost to income ratio declined ~258 bps YoY with 9.4% QoQ reduction in employee expenses due to lower retirement benefits due to improved interest rates. The bank made elevated provisions worth ₹ 1179 crore, up 181% QoQ. Thus, PAT came in at ₹ 1682 crore, slightly below our estimates.

Asset quality, on a reported basis, saw GNPA rise of 99 bps QoQ from 2.26% to 3.25% as Supreme Court quashed standstill asset classification norms. However, considering previous quarter proforma GNPA level of 3.27% there was a tad improvement. The bank has implemented total restructuring of ₹ 435 crore, 0.19% of loans. SMA 2 outstanding declined from ₹ 654 crore to ₹ 110 crore. **Kotak Bank has provisions worth ₹ 1279 crore for Covid-19 related stress while total provisions held were at 95% of GNPA.**

Loan growth maintained its previous quarter's trajectory as advances were up 4.5% QoQ, 1.8% YoY to ₹ 223689 crore, positive growth on yearly basis for last four quarters. Growth was largely driven by 9.5% QoQ jump in home loan portfolio, 9.1% QoQ rise in CV/CE segment and 7.7% uptick in agri finance. Corporate banking segment remained a drag as it was down 6.8% YoY and flattish QoQ. Deposit growth came in at 6.6% on a yearly basis was among the lowest in past many quarters but sequentially deposits were up 5.6% to ₹ 280100 crore. CASA deposits showed strong 8.5% QoQ growth and as a result CASA ratio increased from 58.8% to 60.4% QoQ.

Consolidated PAT came in at ₹ 2589 crore; up 36% YoY driven by healthy performances of subsidiaries as well as bank's YoY PAT growth of 33%. Overall performance of subsidiaries was decent with Kotak Securities positing healthy 48% YoY growth in earnings at ₹ 241 crore. Kotak Life posted 17% YoY growth in PAT at ₹ 193 crore. Kotak Prime, the non-banking arm, witness 14.3% YoY growth in earnings at ₹ 184 crore.

Valuation & Outlook

KMB's long term focus continues on maintaining risk adjusted returns. Credit growth momentum has been maintained sequentially, which is positive. Recent RBI announcement of limiting MD & CEO term to 15 years may not impact the bank immediately as there is adequate time of over 2.5 years for a smooth transition. Comfortable provision provides comfort regarding volatility in asset quality and, thus, earnings. Consistent performance over a period of time, healthy return ratios ~2% RoA & 13% RoE with strong management are reasons for premium valuations. We maintain our **BUY** rating with an SOTP target price of ₹ 2040 (unchanged).



Particulars

Particulars	Amount
Market Capitalisation	₹ 341727 crore
GNPA (Q4FY21)	₹ 7425 crore
NNPA (Q4FY21)	₹ 2705 crore
NIM (Q4FY21)	4.4%
52 week H/L	2049/1100
Net worth	₹ 63729 crore
Face value	₹ 5
DII holding (%)	13.5
FII holding (%)	44.2

Key Highlights

- Sequential loan growth for quarter at 4.5%
- Total loan provisions at 95% of GNPA
- Maintain BUY with unchanged SOTP target price of ₹ 2040

Risk to our call

- Impact of second wave of pandemic could impact asset quality especially in unsecured book
- RBI mandate for promoters holding management (MD&CEO) position, may warrant Uday Kotak to step down post December 2023

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
NII	11206	13500	15340	17295	19940	14%
PPP	8348	10021	12215	13222	15410	12%
PAT	4865	5947	6965	8553	10190	21%
ABV	142	163	205	233	267	
P/E	103.1	84.4	73.8	60.1	50.5	
P/ABV	12.0	10.5	8.3	7.3	6.4	
RoA	1.7	1.8	1.9	2.1	2.1	
RoE	12.1	12.9	12.4	12.6	13.2	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
NII	3,842.8	4,154.6	3,559.7	8.0	3,875.6	-0.8	Decline due to fall in Margins
NIM (%)	4.39	4.60	4.73	-34 bps	4.58	-19 bps	NIMs contracted as bank took hit of ₹110 crore on interest on interest relief given
Other Income	1,949.5	1,310.9	1,489.4	30.9	1,285.2	51.7	Treasury gains aided profits
Net Total Income	5,792.3	5,465.5	5,049.0	14.7	5,160.8	12.2	
Staff cost	868.9	1,010.0	969.6	-10.4	959.3	-9.4	Employee cost declined due to lesser retirement benefits as a result of higher interest rates
Other Operating Expenses	1,516.0	1,285.5	1,354.2	11.9	1,298.6	16.7	
PPP	3,407.5	3,170.0	2,725.3	25.0	2,902.9	17.4	
Provision	1,179.4	674.4	1,047.5	12.6	418.6	181.8	Elevated provisions due to higher loan loss provisions
PBT	2,228.1	2,495.6	1,677.8	32.8	2,484.3	-10.3	
Tax Outgo	545.7	623.9	411.2	32.7	630.8	-13.5	
PAT	1,682.4	1,871.7	1,266.6	32.8	1,853.5	-9.2	
Key Metrics							
GNPA	7,425.5	6,968.9	5,026.9	47.7	4,928.0	50.7	Sequentially GNPA asset quality was steady based on proforma
NNPA	2,705.2	2,230.0	1,557.9	73.6	1,064.0	154.2	
Advances	2,23,689	2,24,802	2,19,748	1.8	2,14,103	4.5	Growth lead by Home loans, Agri and CV segment
Deposits	2,80,100	2,95,674	2,62,821	6.6	2,65,304	5.6	Driven by strong 8.5% QoQ CASA growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	15,457.2	17,294.6	11.9	18,917.1	19,940.0	5.4
Pre Provision Profit	12,122.4	13,221.5	9.1	15,603.5	15,409.7	-1.2
NIM (%)	4.4	4.7	37 bps	4.6	4.7	11 bps
PAT	7,875.1	8,552.7	8.6	10,024.4	10,189.5	1.6
ABV (₹)	226.2	232.6	2.9	256.0	267.4	4.5

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

	Current				Earlier		
	FY20	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Credit growth (%)	6.8	1.8	14.2	15.1	4.2	15.1	15.1
Deposit growth (%)	16.4	6.6	20.0	14.9	11.3	14.9	14.9
NIM calculated (%)	4.5	4.7	4.7	4.7	4.8	4.6	4.6
Cost to income ratio (%)	46.9	41.3	42.6	41.9	41.4	42.4	39.4
Slippage ratio (%)	1.7	1.9	1.1	0.9	1.9	1.2	1.2
Credit cost (%)	1.01	1.30	0.68	0.59	1.1	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	1641
Kotak Life (assumed 100% stake)	103
Kotak Mahindra Prime	78
Kotak Mahindra Capital	28
Kotak Securities	68
Kotak AMC	55
Total	332
20% holding company discount	66
SOTP target (post discount)	2040

Source: Company, ICICI Direct Research

Conference call highlights

Business

- Focus to bring mortgage product
- Ready to pedal growth as situation improves
- Unsecured lending now at 5.8% of balance sheet vs 7.5% last year
- Total ₹ 1100 crore worth ECLGS disbursement for full year FY21
- Disbursements were impacted in April
- Saving lives before livelihood

Asset quality

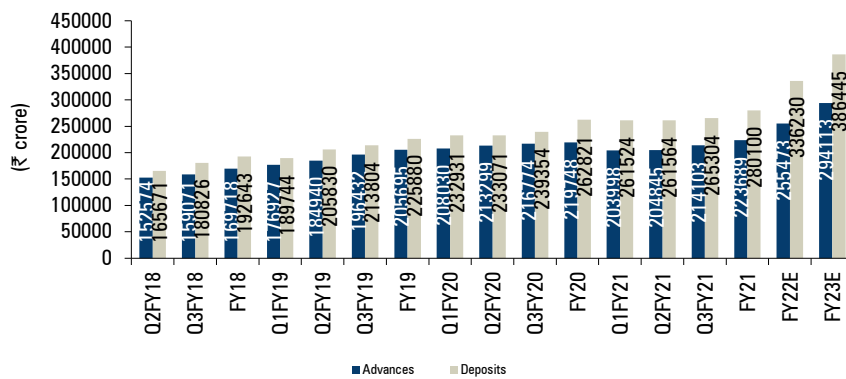
- H2FY21 slippages at ~₹ 4400 crore, mainly added in Q4
- Write-off for H2FY21 at ~₹ 540 crore mostly done in Q4, belongs to unsecured portfolio
- The bank provided 100% in the CV book in the past 180 days

Others

- Significantly building up IT and technological capabilities
- Able to improve pricing on transaction based products

Story in Charts

Exhibit 4: Loan growth to see gradual pick up



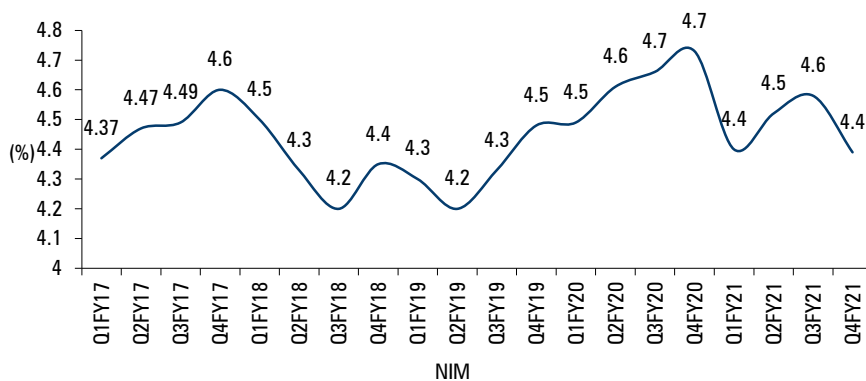
Source: Company, ICICI Direct Research

Exhibit 5: Loan book driven by home and agri loans

₹ crore	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Growth yoy (%)	Proportion (%)	Growth qoq (%)
CVs and construction eqmt.	19688	18993	19253	18442	18363	18685	20387	6	9.1	9.1
Personal Loans incl small business	34852	35636	34294	31671	32117	32633	32832	-4	14.7	0.6
Home loans	44371	46031	46881	47168	47732	49977	54749	17	24.5	9.5
Corporate banking	82374	83423	84855	76167	74237	78577	79084	-7	35.4	0.6
Agricultural finance	27068	27736	28757	27051	29077	30801	33159	15	14.8	7.7
Others	4946	4955	5708	3499	3319	3430	3478	-39	1.6	1.4
Total	213299	216774	219748	203998	204845	214103	223689	2	100.0	4.5

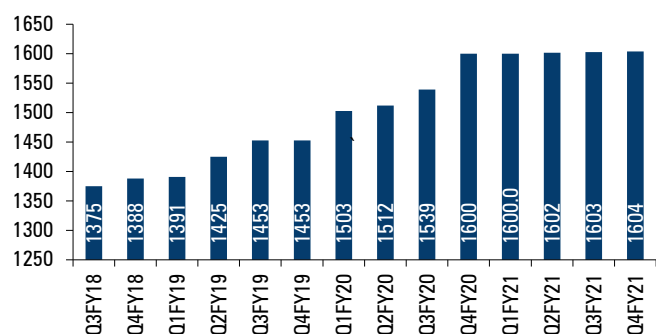
Source: Company, ICICI Direct Research

Exhibit 6: NIM trajectory



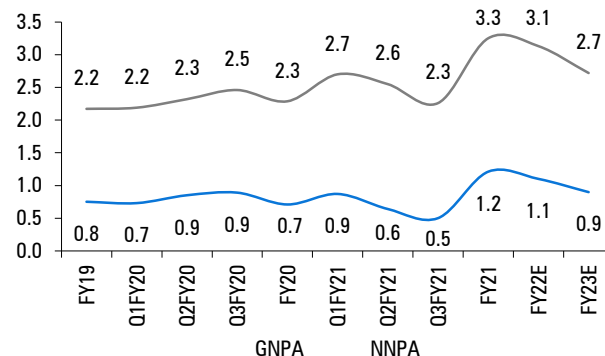
Source: Company, ICICI Direct Research

Exhibit 7: Branch addition remains muted



Source: Company, ICICI Direct Research

Exhibit 8: Asset quality to show improvement



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated performance over quarters

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Kotak Bank	1408	1360	1724	1596	1267	1244	2184	1854	1682
Kotak Securities	111	110	149	128	163	169	199	184	184
Kotak Mahindra Capital	21	45	1	40	-7	6	14	38	38
Kotak Prime	164	153	172	187	161	68	133	149	149
Kotak AMC & Trust	75	73	85	91	88	71	84	91	91
International Subsidiaries	32	29	34	26	30	54	45	5	5
Kotak Investment advisors/ others	15	17	22	42	8	35	28	31	31
Kotak Mahindra Investments	73	63	67	64	77	43	74	68	68
Kotak Mahindra Life Insurance	138	134	144	166	165	161	171	167	167
Total (net off affiliates/minority)	2038	1932	2407	2349	1906	1853	2947	2602	2430

Source: Company, ICICI Direct Research

Exhibit 10: Kotak Prime key financials

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
PBT	240	235	234	250	203	93	179	201	248
PAT	164	153	172	187	161	68	133	149	184
Loans	28268	27749	27298	25855	24864	22834	22710	21033	21804
-car loans in same	20271	19554	19041	17998	17480	16143	16128	15656	15801
CAR	19.4	20.1	21	22.6	24.3	26.2	26.6	29.7	29.4
ROA	2.2	2	2.3	2.6	2.3	1	2.2	2.4	2.9
NET NPA	0.44%	0.54%	0.56%	0.61%	0.60%	1.07%	1.30%	0.90%	1.70%

Source: Company, ICICI Direct Research

Exhibit 11: Life insurance performance

Premium (₹ crore)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Total Premium	2190.0	-1005.0	-2225.0	1207.0	2401.0	2623.0	4870
Indvl Regular	353.0	1564.0	2479.0	222.0	337	367	768
Group	659.0	852.0	769.0	283.0	582	608	1145
Single	165.0	229.0	352.0	133.0	256	270	593
Individual Renewal	1013.0	2645.0	3865.0	569.0	1226	1378	2364
APE	1028.5	2438.9	3283.2	518.3	944.6	1002.0	1972.3
Solvency Ratio (%)	3.1	3.0	2.9	3.0	3.0	3.0	2.9
PAT	144.0	166.0	165.0	161.0	171	167	193

Source: Company, ICICI Direct Research

Exhibit 12: Du point analysis (Standalone)

	FY18	FY19	FY20	FY21	FY22E	FY23E
Net interest income/ avg. total assets	4.0	3.9	4.0	4.1	4.2	4.2
Non-interest income/ avg. total assets	1.7	1.6	1.6	1.5	1.4	1.4
Non-operating profit/ avg. total assets	5.7	5.5	5.6	5.6	5.6	5.6
Operating expenses/ avg. total assets	2.7	2.6	2.6	2.3	2.4	2.3
Operating profit/ avg. total assets	3.0	2.9	3.0	3.3	3.2	3.2
Provisions/ avg. total assets	0.4	0.3	0.7	0.8	0.4	0.4
Return on avg. total assets	1.7	1.7	1.8	1.9	2.1	2.1
Leverage	7.4	7.2	7.3	6.6	6.1	6.2
Return on equity	12.5	12.1	12.9	12.4	12.6	13.2

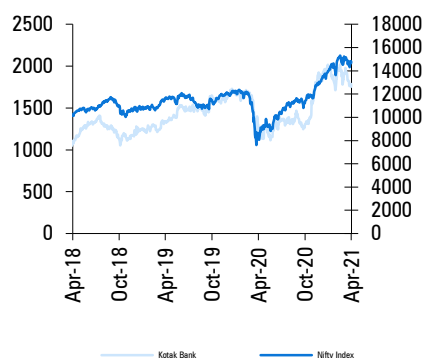
Source: Company, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	30.0	29.9	26.1	26.1	26.0	26.0
FII	39.8	39.2	42.2	42.2	45.1	44.2
DII	12.4	12.6	15.3	14.9	12.9	13.5
Others	17.9	18.3	16.5	16.8	16.0	16.2

Source: Company, ICICI Direct Research

Exhibit 14: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Interest Earned	23890.1	26929.6	26840.3	30448.0	35538.3
Interest Expended	12684.2	13429.9	11500.6	13153.3	15598.3
Net Interest Income	11205.8	13499.7	15339.7	17294.6	19940.0
growth (%)	17.6	20.5	13.6	12.7	15.3
Non Interest Income	4657.2	5372.1	5459.2	5745.6	6582.9
Net Income	15863.0	18871.8	20798.9	23040.2	26522.9
Operating expense	7514.8	8850.9	8584.1	9818.7	11113.2
Gross profit	8348.2	10020.8	12214.7	13221.5	15409.7
Provisions	962.4	2216.2	2911.7	1741.4	1732.5
Taxes	2520.5	1857.5	2338.2	2927.4	3487.7
Net Profit	4865.3	5947.2	6964.8	8552.7	10189.5
growth (%)	19.1	22.2	17.1	22.8	19.1
EPS	16.7	20.4	23.4	28.7	34.2

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Valuation					
No. of Equity Shares	290.9	291.3	298.2	298.2	298.2
EPS (₹)	16.7	20.4	23.4	28.7	34.2
BV (₹)	147.5	168.3	213.7	242.0	276.2
ABV (₹)	142.2	162.9	205.0	232.6	267.4
P/E	103.1	84.4	73.8	60.1	50.5
P/BV	12.1	10.6	8.4	7.4	6.4
P/ABV	12.0	10.5	8.3	7.3	6.4
Yields & Margins (%)					
Yield on avg earning assets	8.8	8.9	8.3	8.3	8.4
Avg. cost on funds	5.3	4.8	3.7	3.9	4.0
Net Interest Margins	4.1	4.5	4.7	4.7	4.7
Avg. Cost of Deposits	5.3	4.9	3.8	3.9	4.1
Yield on average advances	9.8	9.9	8.4	8.9	9.6
Quality and Efficiency (%)					
Cost / Total net income	47.4	46.9	41.3	42.6	41.9
Credit/Deposit ratio	91.1	83.6	79.9	76.0	76.1
GNPA	2.2	2.3	3.3	3.1	2.7
NNPA	0.8	0.7	1.2	1.1	0.9
ROE	12.1	12.9	12.4	12.6	13.2
ROA	1.7	1.8	1.9	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					
	₹ crore				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Capital (incl PCNPS)	1454	1457	1491	1491	1491
ESOPS	2	2	2	2	2
Reserves and Surplus	41444	47559	62236	70682	80872
Networth	42901	49017	63729	72176	82365
Deposits	225880	262821	280100	336230	386445
Borrowings	32248	37993	23651	25117	26925
Other Liabilities & Provisions	11143	10420	16009	11760	13035
Total	312172	360251	383489	445283	508770
Applications of Funds					
Fixed Assets	1652	1623	1535	1790	2040
Investments	71189	75052	105099	123930	146824
Advances	205695	219748	223689	255473	294113
Cash with RBI & call mone	24676	53292	54111	55084	56250
Total	312172	360251	383489	445283	508770

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E
Total assets	17.8	15.4	6.5	16.1	14.3
Advances	21.2	6.8	1.8	14.2	15.1
Deposits	17.3	16.4	6.6	20.0	14.9
Total Income	19.9	13.2	0.0	12.1	16.4
Net interest income	17.6	20.5	13.6	12.7	15.3
Operating expenses	16.9	17.8	-3.0	14.4	13.2
Operating profit	16.6	20.0	21.9	8.2	16.6
Net profit	19.1	22.2	17.1	22.8	19.1
Book value	14.5	14.3	30.0	13.3	14.1
EPS	-22.0	22.1	14.4	22.8	19.1

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
SBI (STABAN)	350	410	Buy	3236	20.0	28.1	30.5	17	12.5	11.5	1.6	1.4	1.3	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	109	180	Buy	129	16.9	29.1	45.5	6.4	3.8	2.4	0.7	0.6	0.5	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	703	900	Buy	2153	25.2	47.7	58.7	27.9	14.7	12.0	2.5	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	170	200	Buy	125	10.0	10.0	10.0	17.0	17.0	17.0	2.5	2.2	2.2	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	90	130	Hold	28	11.0	14.0	16.0	8.2	6.4	5.6	0.9	0.8	0.7	0.9	1.1	1.1	10.4	11.8	12.0
Federal Bank (FEDBAN)	80	90	Buy	154	7.7	7.9	10.0	10.3	10.2	8.0	1.2	1.2	1.1	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1,412	1,700	Buy	8085	56.4	66.4	77.8	25.0	21.3	18.2	3.9	3.5	3.2	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	914	1,100	Buy	706	36.8	56.5	66.5	24.8	16.2	13.7	1.8	1.8	1.7	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	24	25	Hold	17	7.5	10.4	0.0	3.2	2.3		0.3	0.3	1.0	0.5	0.6	0.0	8.1	10.6	0.0
Kotak Bank (KOTMAH)	1,724	2,040	Buy	3417	23.5	27.2	33.7	73.5	63.3	51.2	8.6	7.7	6.7	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	319	370	Hold	513	14.7	24.7	31.4	21.7	12.9	10.2	3.7	2.9	2.3	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	54	52	Buy	338	NA	100.5	103.2	NA	0.5	0.5	2.0	1.8	1.5	0.3	0.5	0.9	2.7	4.8	8.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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