

Kotak Mahindra Bank

BUY

CMP R1,724

Target Rs2,005

Upside 16.0%

Result Highlights

KMB Q4 FY21 was characterized by:

- ✓ Further recovery in loan growth (4.5% qoq/2% yoy).
- ✓ Strong growth in secured assets (mortgages, CV/CE loans, Agri/Tractor finance grew 8-10% qoq).
- ✓ CASA ratio increasing to highest-ever 60%+.
- ✓ Marginal decline in NIM (underpinned by product mix changes, higher interest reversal and interest-on-interest refund).
- ✓ Stronger-than-expected core fee growth and core PPOP continues to grow well ahead of the balance sheet.
- ✓ Elevated credit cost on pent-up slippages (SC stand-still/Moratorium flow). Credit cost excl. Covid provisions stood at 84 bps in FY21 v/s 67 bps in FY20. Restructuring and SMA-2 stands at negligible 20 bps and 5 bps of loans respectively, and surplus Covid provisions were unchanged at 60 bps of loans.

Our view – Continuity of growth and moderation of credit cost will be key drivers:

Management remains focused on growth in both secured and unsecured retail segments and in CV/CE, Agri/Tractor finance and SME working capital segments. The bank would await pricing/risk-reward improvement in the Corporate segment to push the peddle. NIM should remain firm notwithstanding robust traction in Mortgages, supported by the strong liability franchise.

Considering current product mix, growth caution exercised by the bank before Covid, and resilient asset quality experience of first wave, we believe that contingency provisioning buffer should be adequate to absorb the impact of second wave.

We thus keep our credit cost estimate for FY22 unchanged, while marginally lowering the loan growth. We forecast a lift in earnings growth, RoA and RoE from FY23, aided by moderation in cost/income metric and credit cost. The stand-alone bank trades at 3.2x FY23 P/ABV. Retain BUY and 12 TP of Rs2,005.

Exhibit 1: Result table

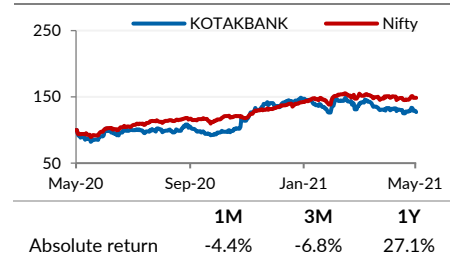
| (Rs mn) | Q4 FY21 | Q3 FY21 | % yoy | Q4 FY20 | % qoq |
|-----------------------|----------|----------|--------|----------|--------|
| Total Interest Income | 64,489 | 66,593 | (3.2) | 68,047 | (5.2) |
| Interest expended | (26,061) | (27,837) | (6.4) | (32,450) | (19.7) |
| Net Interest Income | 38,428 | 38,756 | (0.8) | 35,597 | 8.0 |
| Other income | 19,495 | 12,852 | 51.7 | 14,894 | 30.9 |
| Total Income | 57,923 | 51,608 | 12.2 | 50,490 | 14.7 |
| Operating expenses | (23,849) | (22,579) | 5.6 | (23,238) | 2.6 |
| PPOP | 34,075 | 29,029 | 17.4 | 27,253 | 25.0 |
| Provisions | (11,794) | (4,186) | 181.8 | (10,475) | 12.6 |
| PBT | 22,281 | 24,843 | (10.3) | 16,778 | 32.8 |
| Tax | (5,457) | (6,308) | (13.5) | (4,112) | 32.7 |
| PAT | 16,824 | 18,535 | (9.2) | 12,666 | 32.8 |

Source: Company, YES Sec – Research

Stock data (as on May 03, 2021)

| | |
|------------------------|-----------------|
| Sensex: | 14,634 |
| 52 Week h/l (Rs) | 2049 / 1110 |
| Market cap (Rs/USD mn) | 3419558 / 46251 |
| Outstanding Shares | 1,982 |
| 6m Avg t/o (Rs mn): | 9,566 |
| Div yield (%): | 0.1 |
| Bloomberg code: | KMB IN |
| NSE code: | KOTAKBANK |

Stock performance



Shareholding pattern

| | |
|----------|-------|
| Promoter | 26.0% |
| FII+DII | 57.8% |
| Others | 16.2% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-------|-------|
| Rating | BUY | BUY |
| Target Price | 2,005 | 2,005 |

Financial Summary

| | FY22E | FY23E | FY24E |
|--------------|---------|---------|---------|
| Op. income | 221,747 | 255,296 | 300,057 |
| PPOP | 123,029 | 142,758 | 169,512 |
| Net profit | 76,056 | 92,439 | 109,714 |
| Growth (%) | 9.2 | 21.5 | 18.7 |
| EPS (Rs) | 38.4 | 46.6 | 55.4 |
| ABVPS (Rs) | 346.7 | 391.0 | 443.1 |
| P/E (x) | 44.9 | 37.0 | 31.1 |
| P/adj.BV (x) | 5.0 | 4.4 | 3.9 |
| ROE (%) | 11.3 | 12.3 | 12.9 |
| ROA (%) | 1.9 | 2.0 | 2.1 |
| CAR (%) | 22.4 | 21.3 | 20.1 |

Δ in earnings estimates

| | FY22e | FY23e | FY24e |
|-----------|--------|--------|-------|
| EPS (New) | 38.4 | 46.6 | 55.4 |
| EPS (Old) | 44.2 | 53.1 | - |
| % change | -13.1% | -12.2% | - |

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CON-CALL HIGHLIGHTS

- ✓ 94% of Corporate loan sanctions in FY21 were to those rated A- and above - 85% of the book is rated A- or better.
- ✓ Housing loan originations were 3x pre-Covid run-rate in March – the bank has been penetrating into the salaried segment, and it would be relentless in building this portfolio.
- ✓ The bank has strengthened credit quality and market share in LAP.
- ✓ Demand pick-up witnessed across several segments in MSME working capital segment – combination of improving utilization and growing new acquisition m-o-m – bank’s focus is on building a quality franchise.
- ✓ Spend and acquisition bounced-back in Cards business during Q4 - PL originations in March were at 80-85% of usual run-rate.
- ✓ In retail/consumer finance, the bounce rate and resolutions were back to pre-Covid level.
- ✓ The bank is using technology and analytics to grow the consumer finance business.
- ✓ CV financing disbursement were higher than Q3 - collection efficiency recovered to pre-Covid level – vehicle utilization likely to get impacted in the near-term due to lockdowns.
- ✓ Construction equipment disbursements were higher - collection efficiency was at pre-Covid level.
- ✓ In Agri SME business, demand for credit was strong in Q4 – collection efficiency was normal – prediction of normal monsoon will have a positive impact.
- ✓ MFI disbursement and collections were normal in Q4, but were impacted in April.
- ✓ Tractor finance collection efficiency was near normal during the quarter.
- ✓ In Corporate segment, there was high pressure on pricing in Q4 and thus bank did not build the book.
- ✓ Corporate book credit cost in a Covid year was lower than preceding years - bank maintaining healthy RoEs in this segment.
- ✓ Bank raised exposure to NBFC sector, of which a significant part was to high-rated HFCs - reduced exposure to LRD out of caution.
- ✓ Disbursements under various ECLGS schemes at ~Rs115bn.
- ✓ In Kotak Prime, disbursements were higher both on qoq ad yoy basis – collection efficiency was as good as pre-Covid times.
- ✓ The management is seeking to gain share in secured assets and seeing strong opportunity on the unsecured side with the bank carrying a much lower baggage.
- ✓ Slippages in H2 FY21 at ~Rs44bn, of which a substantial part came in Q4.
- ✓ Credit cost in FY21 at 84 bps v/s 67 bps in FY20 – bulk credit cost came in Q4 (Rs7.5bn) due to the flow through of moratorium stress and 100% provision made on 180 dpd assets.
- ✓ The bank has significant comfort in the quality of the book and a Covid provision buffer of Rs12.8bn (60 bps of loans).
- ✓ Inorganic initiative would be driven by acquisition of customers and capabilities and not distribution set-up or branches – the bank remains open to acquisitions, but having a patient stance.

- ✓ Significant opportunity for the bank to improve the cost/income ratio through operating leverage.
- ✓ Current term of Mr. Uday Kotak up until Dec 31, 2023 - Mr. Dipak Gupta's (Joint MD) term also ends on the same day - the bank and promoters are committed to long-term investor and stakeholder value.

Exhibit 2: Business Data - Standalone

| (Rs mn) | Q4 FY21 | Q3 FY21 | % qoq | Q4 FY20 | % yoy |
|--------------------------|-----------|-----------|--------|-----------|--------|
| Advances | 2,236,890 | 2,141,030 | 4.5 | 2,197,480 | 1.8 |
| CV & CE | 203,870 | 186,850 | 9.1 | 192,530 | 5.9 |
| Agri. | 237,410 | 218,580 | 8.6 | 211,880 | 12.0 |
| Mortgage loans | 547,490 | 499,770 | 9.5 | 468,810 | 16.8 |
| Small Business PLs & CC | 422,500 | 415,760 | 1.6 | 418,630 | 0.9 |
| Business + Corp. Banking | 790,840 | 785,770 | 0.6 | 848,550 | (6.8) |
| Deposits | 2,801,000 | 2,653,040 | 5.6 | 2,628,205 | 6.6 |
| CA | 520,870 | 439,750 | 18.4 | 430,130 | 21.1 |
| SA | 1,172,260 | 1,121,990 | 4.5 | 1,046,090 | 12.1 |
| Others | 1,107,870 | 1,091,300 | 1.5 | 1,151,985 | (3.8) |
| Investments | 1,050,992 | 1,090,370 | (3.6) | 750,515 | 40.0 |
| Borrowings | 236,507 | 482,230 | (51.0) | 379,933 | (37.8) |

Source: Company, YES Sec - Research

Exhibit 3: Key Ratios - Standalone

| (%) | Q4 FY21 | Q3 FY21 | chg qoq | Q4 FY20 | chg yoy |
|-----------------------------|---------|---------|---------|---------|---------|
| NIM | 4.4 | 4.5 | (0.1) | 4.7 | (0.3) |
| Cost of Funds | 3.4 | 3.6 | (0.2) | 4.6 | (1.2) |
| CASA | 60.4 | 58.9 | 1.5 | 56.2 | 4.2 |
| C/D (x) | 79.9 | 80.7 | (0.8) | 83.6 | (3.8) |
| Non-int. income | 33.7 | 24.9 | 8.8 | 29.5 | 4.2 |
| Non-int. income / Int. exp. | 74.8 | 46.2 | 28.6 | 45.9 | 28.9 |
| Cost to Income | 41.2 | 43.8 | (2.6) | 46.0 | (4.9) |
| Prov. /Income | 14.0 | 5.3 | 8.8 | 12.6 | 1.4 |
| RoE | 10.7 | 12.2 | (1.5) | 10.5 | 0.2 |
| RoA | 1.7 | 2.0 | (0.2) | 1.5 | 0.2 |
| CAR | 22.3 | 21.5 | 0.7 | 17.9 | 4.4 |
| Gross NPA | 3.3 | 2.3 | 1.0 | 2.3 | 1.0 |
| Net NPA | 1.2 | 0.5 | 0.7 | 0.7 | 0.5 |

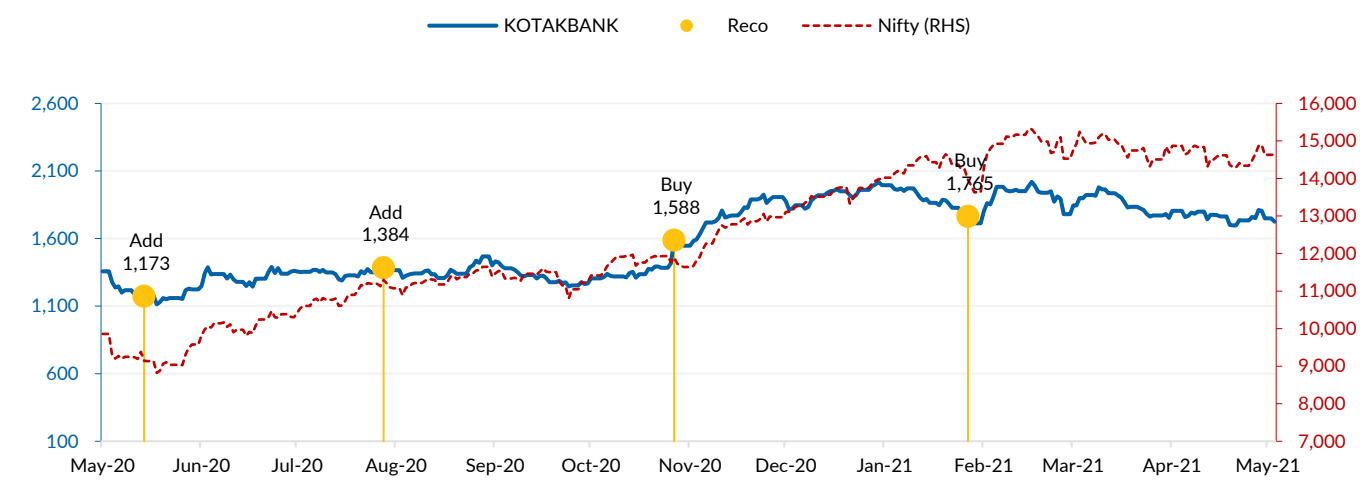
Source: Company, YES Sec - Research

Exhibit 4: Consolidated PAT - Subsidiaries

| (Rs mn) | Q4 FY21 | Q3 FY21 | % qoq | Q4 FY20 | % yoy |
|------------------------|---------|---------|--------|---------|---------|
| Kotak Mahindra Bank | 16,820 | 18,540 | (9.3) | 12,670 | 32.8 |
| Kotak Mahindra Prime | 1,840 | 1,490 | 23.5 | 1,610 | 14.3 |
| Kotak Life Insurance | 1,930 | 1,670 | 15.6 | 1,650 | 17.0 |
| Kotak Securities | 2,410 | 1,840 | 31.0 | 1,630 | 47.9 |
| Kotak Mahindra Capital | 250 | 380 | (34.2) | (70) | (457.1) |
| Kotak Mahindra AMC | 1,000 | 910 | 9.9 | 880 | 13.6 |
| Kotak Investments | 730 | 680 | 7.4 | 770 | (5.2) |

Source: Company, YES Sec - Research

Recommendation Tracker



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