Equity Research

May 4, 2021

BSE Sensex: 48719

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Q4FY21 result review and earnings revision

Banking

Target price: Rs2,023

Earnings revision

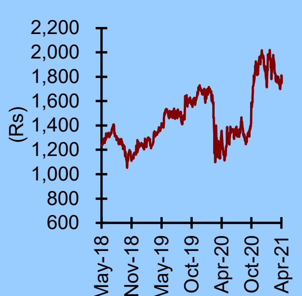
(%)	FY22E	FY23E
PAT	↑ 3	↑ 3

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	26.1	26.0	26.0
Institutional investors	57.4	58.0	57.8
MFs and other	9.3	7.6	8.0
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	5.6	5.1	5.3
FIIs	42.5	45.3	44.5
Others	16.5	16.0	16.2

Source: BSE

Price chart



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INDIA

Kotak Mahindra Bank

ADD
Maintain

Slippages and credit cost elevated; structurally ready for growth

Rs1,725

Kotak Mahindra Bank's (Kotak) Q4FY21 earnings disconcerted on two counts: 1) higher provisioning at >200bps (*vs* 120bps in 9MFY21) and slippages at 4% in H2FY21 (2.5% for FY21), quite uncharacteristic of Kotak. However, on a positive note, GNPAs settled near Q3FY21 proforma levels, restructuring was a mere 0.2%, and SMA-2 pool negligible at 5 bps. 2) On guided lines, loan growth sustained 4.5% QoQ momentum, yet lags its private sector peers with mere 2% YoY growth, due to cautious stance on unsecured lending and pricing focus in corporate banking. NIMs sustained at 4.4% though derailed growth weighed on NII momentum (otherwise >15%). Below-expected banking business performance was offset by higher earnings traction in subsidiaries (be it auto financing, securities, investment banking or asset management). Maintain ADD with target price unchanged at Rs2,023. Key risks: 1) lower than anticipated growth restricting RoE improvement; 2) succession planning related to MD&CEO retirement in Dec'23.

- **Succession planning to be long-term and strategic:** RBI (on 14th Dec'20) approved re-appointment of Mr. Uday Kotak as MD & CEO and Mr. Dipak Gupta as Joint MD for a period of three years w.e.f. 1st Jan'21. Given their current tenure is till Dec'23, they have an opportunity to serve for another two years and eight months till retirement. However, considering RBI's circular on MD&CEO and WTD tenure cap, Kotak will put in place long-term, strategic succession planning evaluating all various options. Bank and the Board would take steps to ensure growth in stakeholder and shareholder value. As part of the promoter family, Mr. Kotak is committed to be a long-term shareholder.
- **Slippages elevated though GNPA settles near Q3FY21 proforma level; restructuring at mere 20bps:** Management highlighted slippages of Rs44bn in H2FY21 (suggesting >4% run-rate However, with lower slippages in H1FY21 of mere Rs10bn, full-year slippages were at 2.5%. Management earlier had highlighted that unsecured retail lending was throwing disproportionate stress. Infact corporate banks segment has displayed tremendous resilience – corporate slippages in FY21 were lower than FY20. With write-offs of Rs5bn, and recoveries and upgrades, GNPA was stable at 3.25% (compared to 3.27% reported in Q3FY21). The bank has not resorted to sale of any assets to ARC. SMA-2 even in these challenging times was negligible at mere 5bps. Bank has restructured 0.2% of advances against the approved restructuring of 0.28% in Q3FY21. Given the resilience in asset quality displayed in FY21 with GNPAs at 3.25% and credit cost (excluding covid provisions) at 84bps, it is confident of sailing through covid 2.0 relatively well.

Market Cap	Rs3417bn/US$46.0bn
Reuters/Bloomberg	KTKM.BO/ KMB IN
Shares Outstanding (mn)	1,981.8
52-week Range (Rs)	2048/1110
Free Float (%)	74.0
FII (%)	44.5
Daily Volume (US$'000)	1,34,530
Absolute Return 3m (%)	(6.9)
Absolute Return 12m (%)	27.1
Sensex Return 3m (%)	(3.1)
Sensex Return 12m (%)	44.5

Year to Mar	FY20	FY21P	FY22E	FY23E
NII (Rs bn)	135	154	176	199
Net Profit (Rs bn)	59	70	86	104
EPS (Rs)	31.1	35.1	43.4	52.4
% Change YoY	22	13	24	21
P/E (x)	42	37	30	25
P/BV (x)	5.1	4.0	3.6	3.1
P/ABV (x)	5.2	4.2	3.7	3.2
GNPA (%)	2.3	3.3	3.0	2.8
RoA (%)	1.8	1.9	2.1	2.2
RoE (%)	12.9	12.4	12.7	13.5

- **Credit cost came in higher; investment provisioning a surprise:** As against the run-rate of 9MFY21 credit cost at 120bps, it was higher in Q4FY21 at 2.2% (including investment provisioning), thereby ending the fiscal marginally higher than our estimate of 1.4%. Investment provisioning includes Rs560mn with respect to mark-down of security receipts and ~Rs3.7bn pertaining to investment MTM loss. With proforma slippages now getting recognised, Kotak exited FY21 with net NPAs of 1.2% (higher than the average of 0.7-0.9%) and provisioning coverage came off to 63%. This needs to be looked in conjunction with standard (Rs10bn) + covid-related buffer of Rs12.8bn (60bps of advances). The bank has neither dipped into nor created any additional buffer in Q4FY21. However, we believe, the bank would conservatively build up coverage in coming quarters, hence we are building-in credit cost of 1.2%/1.0% for FY22E/FY23E.

- **Structurally ready for growth opportunities:** Lower deposit cost, capital buffer, and digital capabilities are structurally preparing Kotak to warm up its credit engine. However, this would be taking into cognisance the current circumstances, proper underwriting standards and selecting the few right segments that are less risky (without hurting margins). Bank highlighted its medium-term strategic shift towards asset-side customer acquisition in Oct'21 and has since been reporting 4.5% QoQ growth, with key focus on secured lending.

  Kotak has been aggressive in mortgage lending with competitive pricing (lowest pricing in the industry taking the benefit of low cost of deposits) and is focused on retail customer acquisition and consolidating relationships for cross-sell. Also, underlying sales momentum supported CV/CE growth (up 9% QoQ) and agri segment growth (8% QOQ). This enabled 4.5% QoQ growth in advances (though still lower YoY at 2%).

  There are segments Kotak has been cautious on, viz. credit card, PL, MFI, CDs (proportion down from 7.5% in FY20 to 5.8% in FY21). However, with low base currently, it is starting to smell more opportunities in the unsecured space as well – though it will be stringent on underwriting standards. Bank is also open for any inorganic opportunity that would help it build customer franchise, business capabilities and necessarily physical branch presence.

  While growth will be below the industry average in FY21 at 2% for Kotak, we expect it to gain momentum in FY22E/FY23E at 17-20%.

- **Strong CASA deposit accretion continues; deposit rates cut:** Build-up of robust, sustainable and granular deposit franchise was reflected in 15% YoY and 9% QoQ growth in CASA deposits. CASA ratio further improved to 60.4% though it had an element of seasonality on current account front. However, efforts to build sustainable and granular deposit base was reflected in 27% YoY growth in average SA deposits and 17% in CA deposits. Cost of savings deposits declined marginally to 3.71%. Nature of deposits continues to be granular with 91% of retail deposits being below Rs50mn. The benefit of low deposit cost would aid the bank in offering competitive rates (in line with large players) among various secured lending products, thereby gaining market share.

- **Overhead costs fail to cheer; core fee income sustains momentum:** Overhead costs were up 17% QoQ (12% YoY) due to increased spend on collections / recoveries, cost of asset (home loan) acquisitions, insurance on deposits, repossession, recovery cost, etc. Employee costs, on the other hand, were lower by 10% YoY in Q4FY21 and 4% in full-year FY21 (Rs2bn of retirement benefit savings in FY21). Core fee income sustained momentum with 23% QoQ rise (also up 9% YoY).

Table 1: Valuation of subsidiaries at Rs430

Particulars - Rs mn	Valuation basis	Total value	Stake	Stake value	Value per share
Kotak Life	**2.25x Appraisal value**	2,68,681	100%	2,68,681	136
Kotak Prime	**2.0x PBV**	1,65,009	100%	1,65,009	83
Securities / Inevstment Banking	20x PE	2,19,376	100%	2,19,376	111
MF/Offshore/AUM/PE	6.0% of AUM	1,98,244	100%	1,98,244	100
Total					**430**

Source: Company data, I-Sec research

Table 2: Banking business was further supported by higher earnings traction in subsidiaries

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY20	FY21	YoY Growth (%)
Kotak Mahindra Bank	16,824	12,670	33	18,535	(9)	59,470	69,648	17
Kotak Mahindra Prime	1,840	1,610	14	1,490	23	6,730	5,340	(21)
Kotak Mahindra Investments	730	770	(5)	680	7	2,710	2,580	(5)
Kotak Mahindra Life Insurance	1,930	1,650	17	1,670	16	6,090	6,920	14
Kotak AMC and TC	1,000	880	14	910	10	3,370	3,460	3
Kotak Securities	2,410	1,630	48	1,840	31	5,500	7,930	44
Kotak Mahindra Capital	250	(70)	(457)	380	(34)	790	830	5
International subsidiaries	500	300	67	50	900	1,190	1,540	29
Others	210	70	200	170	24	760	1,010	33
Total	**25,690**	**19,510**	**32**	**25,730**	**(0)**	**86,610**	**99,250**	**15**
Affiliates & Others	200	(460)	(143)	290	(31)	(680)	660	(197)
Consolidated PAT	**25,890**	**19,050**	**36**	**26,020**	**(0)**	**85,930**	**99,910**	**16**

Source: Company data

Life insurance: Individual segment premium leading growth

- Life insurance reported steep QoQ improvement in gross written premium (up 85% QoQ and 26% YoY) to Rs48.7bn, registering growth across all segments. Individual single segment saw the highest growth of 116% QoQ and 66% YoY, driven by lower base.
- VNB margin at 28.6% is a function of product mix; share of risk premium as a percentage of total premium was 26.6%.
- Profitability improved by 17% YoY in Q4FY21

Table 3: Kotak life insurance - key metrics

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY20	FY21	YoY Growth (%)
New Business premium	48,700	38,650	26	26,230	86	1,03,400	1,11,010	7
Profit After Tax	1,930	1,650	17	1,670	16	6,090	6,920	14

Source: Company data

Kotak Mahindra Prime: PAT growth led by lower opex

- Earnings were up 23% QoQ and 14% YoY, largely driven by lower opex.
- Disbursements during the quarter were higher QoQ as well as YoY. Demand was high despite supply constraints.
- Covid provisions outstanding are Rs900mn (0.4% of customer assets).
- Net NPA fell 50bps QoQ to 1.7% *vs* 2.2% (proforma) while it was well above 0.6% for Q4FY20.
- Capital adequacy remains at a comfortable at 29%.

- Customer assets have declined 12% YoY and increased 4% QoQ. Among customer assets, car assets were up 1% QoQ and down 10% YoY, and other assets rose 12% QoQ and fell 19% YoY.

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Table 4: Kotak Mahindra Prime - key metrics

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY20	FY21	YoY Growth (%)
NII	3,130	3,130	-	3,200	(2)	11,030	12,330	12
PBT	2,480	2,030	22	2,010	23	9,050	7,210	(20)
PAT	1,840	1,610	14	1,490	23	5,990	5,340	(11)
Auto Advances	2,28,340	2,77,490	(18)	2,48,640	(8)	2,77,490	2,28,340	(18)
RoAA	3	2	N/A	2	21			

Source: Company data

Kotak Securities: PAT up 48% YoY, 31% QoQ

- Kotak Securities reported PAT of Rs2.41bn (up 48% YoY, 31% QoQ) with rise in its total market share to 2.2% from 2.0% QoQ. However, market share in cash segment for FY21 fell to 9.3% as against 10% in FY20.
- Peak margining system coupled with upfront margining system (though it created concerns around drop in volumes after initial pull-back) is now normalising and bringing a level playing field amongst players.
- It has launched Trade Free Plan, which is the cheapest plan in the industry.

Table 5: Kotak Mahindra Securities - key metrics

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY20	FY21	YoY Growth (%)
Revenues	5,700	4,630	23	4,740	20	16,900	20,190	19
PBT	3,210	2,180	47	2,450	31	7,380	10,570	43
PAT	2,410	1,630	48	1,840	31	5,500	7,930	44
PAT margin (%)	42	35		39		33	39	

Source: Company data

Table 6: Domestic asset management business - key metrics

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	YoY Growth (%)	Q3FY21	QoQ Growth (%)	FY20	FY21	YoY Growth (%)
PBT	1,340	1,170	15	1,220	10	4,540	4,640	2
PAT	1,000	880	14	910	10	3,370	3,460	3
Average AUMs	23,47,980	18,64,800	26	21,69,010	8	18,64,800	23,47,980	26

Source: Company data

Table 7: Kotak lags its peers in advance growth

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ %	YoY %
KOTAKBANK	2,197	2,040	2,048	2,141	2,237	4.5	1.8
HDFCBANK	9,937	10,033	10,383	10,823	11,328	4.7	14.0
AXISBANK	5,714	5,613	5,764	5,828	6,237	7.0	9.2
INDUSINDBK	2,068	1,981	2,012	2,071	2,130	2.9	3.0

Source: Company data

Table 8: Kotak in line with peers in retail advance growth led by secured lending

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ %	YoY %
KOTAKBANK	1,349	1,278	1,306	1,355.26	1,446	6.7	7.2
HDFCBANK	4,944	4,750	4,850	5,049	5,276	4.5	6.7
AXISBANK	3,054	2,986	3,057	3,179	3,345	5.2	9.5
INDUSINDBK	1,038	1,032	1,043	1,071	1,098	2.6	5.8

Source: Company data

Table 9: Competitive pricing weighing on corporate banking growth for Kotak

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ %	YoY %
KOTAKBANK	646	581	561	599	591	(1.3)	(8.4)
HDFCBANK	4,695	4,982	5,222	5,450	5,713	4.8	21.7
AXISBANK	2,041	2,056	2,101	2,009	2,194	9.2	7.5
INDUSINDBK	913	840	854	885	910	2.9	(0.3)

Source: Company data

Table 10: SME growth for Kotak on YoY basis is modest

(Rs bn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ %	YoY %
KOTAKBANK	203	180	181	187	200	6.7	(1.6)
HDFCBANK	641	606	635	658	709	7.7	10.6
AXISBANK	619	571	606	640	699	9.2	12.8
INDUSINDBK	116	109	115	116	118	1.7	1.1

Source: Company data

Table 11: Growth largely led secured products; cautious in unsecured segment

(Rs mn, year ending March 31)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ %	YoY %
Home Loans & LAP	4,85,160	4,71,680	4,77,320	4,99,770	5,47,490	9.5	12.8
Consumer Bank WC (Secured)	1,98,390	1,82,400	1,95,620	2,05,480	2,18,390	6.3	10.1
Pl, BL & Consumer Durables	97,540	90,880	81,770	75,280	70,240	(6.7)	(28.0)
Credit Cards	47,010	43,430	43,780	45,570	39,690	(12.9)	(15.6)
CV/CE	1,92,530	1,84,420	1,83,630	1,86,850	2,03,870	9.1	5.9
Agriculture Division	2,11,880	1,95,480	2,09,260	2,18,580	2,37,410	8.6	12.0
Tractor Finance	75,690	75,030	81,510	89,430	94,180	5.3	24.4
Corporate Banking	6,45,640	5,81,190	5,61,190	5,98,750	5,91,260	(1.3)	(8.4)
SME	2,02,910	1,80,480	1,81,180	1,87,020	1,99,580	6.7	(1.6)
Others	40,730	34,990	33,190	34,300	34,780	1.4	(14.6)
Total Advances	**21,97,480**	**20,39,980**	**20,48,450**	**21,41,030**	**22,36,890**	**4.5**	**1.8**
Credit Substitutes	92,220	1,28,210	1,39,450	1,47,060	1,51,680	3.1	64.5
Total Customer Assets	**22,89,700**	**21,68,190**	**21,87,900**	**22,88,090**	**23,88,570**	**4.4**	**4.3**

Source: Company data

Kotak Mahindra Bank: Q4FY21 earnings call takeaways

Mr. Uday Kotak's remarks and commentary

- In this exceptional times, people balance sheet matters more than financial balance sheet.
- Sales/collection will be done digitally and will not meet customer in current crisis.
- Structurally ready for a growth engine – keeping in mind proper underwriting and right segments in mind. Significant amount of ability to grow.
- There have segments it has been cautious on – credit card, PL, MFI, CDs (7.5% down to 5.8%). Much lighter on this portfolio and with proper and stringent underwriting will grow both secured as well as unsecured segment.
- Will always factor in risk of covid 3.0 as well. What will make covid less effective will be closely monitored to chart out bank's growth path.
- Growth both organic and inorganic it is very open to.

RBI's corporate governance

- Current term approved by RBI is till Dec'23 - still 2 years, 8 months away with respect to retirement. Will look long term, strategic and evaluate all options.
- Bank and Board is fully aware of the situation and is taking step to ensure growth in stakeholder and shareholder value. As a promoter family, is committed as long term shareholder.

On asset quality

- ***Slippages in FY21 were Rs54bn – of this, H2FY21 it was Rs 44 bn (write-off Rs5.3bn and bulk in Q4FY21).***
- ***Treasury investment book of Rs3.7-3.8bn as well as security receipts mark down of Rs560mn – these are provisioned not booked.***
- ***Net NPA is based on recoverability of GNPA pool – 63% coverage is based on reasonable judgement.***
- SMA-2 at Rs1.1bn as against Rs960 in FY20.
- Credit cost of 84bps without Covid provisions versus 67bps – bulk of it has come in Q4FY21. ***It gives confidence of its resilient asset quality. Covid 2.0 questions are it is short one and long one and can there be covid 3.0.***

On asset growth and mortgages

- ***Customer assets at the group level were up 4.8% QoQ.*** In October has articulated asset acquisition strategy – since then (in H2FY21) it is on annualised basis at 18% - mix is skewed more towards secured than unsecured.
- Building IT and digital capabilities.
- Aggression in mortgage is focused towards customer acquisition and consolidate the relationship. With cost of fund positioning it has, it can get more competitive.
- ***Starting to smell more opportunities in unsecured space as well given a very low base currently.***
- Inorganic opportunity would be more focused on acquiring customers and capabilities and not branches.
- In corporate banking, can get into mid-teen kind of grow

On operating metrics

- ***After taking hit on account of interest on interest reversal – ends this quarter with 4.39%.***
- Consolidated NIMs at 4.5%.
- Distribution is Rs2.9bn – 25% higher than last year.
- Non-fee was higher at Rs5.7bn as included some treasury profits.
- Expenses like recovery related, asset acquisition related cost and deposit insurance. Also cost relating to repossession and recovery.
- Rs2bn of retirement benefit savings in employee expenses for FY21.

Digital and liability strategy

- Customer acquisition (811 SA, assets investments, payments etc), engagement (analytics to cross-sell, API integration) and experience.
- ***CASA ratio further improved to 60.4%. Efforts of building granular deposits - 27% YoY growth in average SA deposits and 17% in CA deposits. Cost of savings deposits decline marginally to 3.71%. Nature of deposits continues to be granular with 91% of retail deposits being below Rs 50mn.***

On home loan/LAP/MSME

- Providing home loans at right price and March has been the best month.
- LAP has improved market share and credit quality.
- MSME – quality franchise in this lending segment

On unsecured lending

- Credit card – focusing on strengthening the acquisition
- Personal loans – end to end digital journey
- Invest in technology, analytics and capacity enhancement

On CV/CE/agri

- CV sales were better in Q4 than Q3 – disbursements were higher and capacity utilization was better. It may get impacted in the near term.
- Passenger vehicles off the road and will take some time.
- Demand of CE driven by government construction projects – collection efficiency has improve than the previous quarter.
- Demand for credit in agri was good due to essential services demand. Prediction of normal monsoon paves well for this segment.

On corporate banking

- On corporate side – remained cautious for first 4-5 months and then built the book from its low.
- ***In Q4FY21, extremely high pressure on pricing and it was not viable to build that book. Focused on making the right choices and not want to get into sub-optimal pricing.***
- Doesn’t look at corporate – will have a fair share of re
- Credit substitute and corporate banking was flattish last quarter.

- Customer level wallet share – transaction banking traction was good. CA remained robust.
- DCM had a record year – no underwritten book left and has sold down every asset.
- Effort to synergize various sub-segments within the group continues
- Corporate NPA displayed tremendous resilience in covid 1.0 – it was lower even than the normal year.
- Maintained healthy RoE in corporate segment. Corporate franchise that is more holistic
- Raised exposure on NBFC sector (top rated HFCs).
- LRD is finely priced product and some part of LRD in commercial space it is cautious (hence exposure has dropped).

Kotak Mahindra Life Insurance

- Mr. G Muralidhar has superannuated and now appointed Mr. Mahesh Balasubramanium
- Q4FY21 Individual APE new business premium grew 37.8% YoY; Q4FY21 group premium grew 48.9% YoY; Q4FY21 Individual renewal premium grew 8.5% YoY. FY21 at 11.8% YoY.
- VNB margin at 28.6% - function of product mix; share of risk premium as a % of total premium was 26.6%
- Persistency across five datapoints were leading the industry on first four. Conservation ratio of 85%
- Profitability improved by 17% YoY in Q4FY21

Kotak Securities

- Income grew to Rs5.7bn; PBT was Rs3.2bn and PAT at Rs2.4bn
- Market share in cash segment for FY21 is 9.3% and including F&O, average market share 2.2%.
- Daily average volume of Rs 493bn (compared to Rs338bn in Q3FY21).
- Trade-free was launched which is cheapest plan in the industry
- Customer can open trading account digitally through DIY

Kotak Mahindra Capital Company

- KMCC did extremely well on DCM as well as ECM.
- Advisory revenues were muted not only for Kotak but for the entire industry.

Kotak Mahindra Prime

- Disbursements during the quarter were higher QoQ as well as YoY. Amidst supply constraints, demand was still high.
- Collection efficiency was as soon as pre-Covid level

Kotak Mahindra AMC

- AUM grew 26%; equity AUM grew 27%; AUM market share rose 40bps to 7.3%
- SIP market share continues to rise both in terms of volume as well as value.
- Relationship value grew by 43% to Rs3.23tn.

Kotak Mahindra Bank: Q3FY21 earnings call takeaways

CEO remarks and commentary

On macro-economic variables

- In H1CY21 is going to vaccine – its effectiveness and efficacy. Heartening to note number of cases is coming down sustainably
- ***Should see normalization of economy through 2021 and will put some demand-supply related inflationary pressures. Gradual firming up of interest rates through 2021 in India.*** Over 2021, overnight rate comes closer to repo rate and yield curve should flatten (10-year can be around 6.5% some plus or minus).
- ***Will get opportunities for growth as economy normalizes.***

On bank and group specific developments

- Loan growth is coming back – ***warming the waters and QoQ growth is 4.5% -*** if this momentum continues, it suggest 18% (annualized) growth run-rate. Some traction on better quality corporates; In unsecured conservative approach continues, though is opening to higher end of the segment
- ***Proforma GNPA have risen from 2.7% (Rs55bn) to 3.27% (Rs70bn). With zero slippages, marginal write-offs and recoveries/upgrades of Rs4bn, proforma slippages for Q3FY21 were Rs19-20bn.***
- ***Much more different picture between unsecured retail consumer (proportion is 6% of loans but delta on proforma NPLs is 40%).***
- ***Restructuring has been done for customers based on viability - Approved restructuring done or invoked Is 0.29% and balance stress is flowing into 90 day bucket.*** No analytical view of classifying accounts and whatever is due more than 90 days are reflected in proforma GNPA.
- No sale to ARC but will look at buying opportunities
- ***In secured segment – CV segment is witnessing some stress (especially bus operators) and bus segment generally forms 10-15% of CV segment.***
- ***Major stress is gone in and baked into earnings.***
- ***Corporate sector has disproportionately benefitted from very benign capital market in last nine months – equity raise or sharp accessibility to liquidity or rationalization of the cost.***
- ***Getting more comfort on risk metrics in corporate banking, it has pressed the growth engine - hence QoQ growth is 7% in corporate banking and with low deposit cost it is also now more competitive on rates.***

Broader strategy of banking in Kotak

- ***Future of branches*** – branches will be required but density of branches will be lower than pre-Covid levels; will leverage digital more
- ***Evaluating closely productivity parameters in terms of working from home.***
- Cutting edge execution of broader framework of strategy

Bank specific highlights

- ***NIMs at 4.5% but after adjusting for interest reversal, it would dip to 4.31%***
- Fees have grown 3% on YoY and 11% QoQ.
- Treasury profits have dropped to Rs1.5bn
- ***Employee cost had element of pension cost in Q3FY20 and Q2FY21 that was not there in Q3FY21***
- ***Operating cost has gone up due to increased spends on promotional and advertising, collections/recoveries, home loan acquisition, insurance on deposits etc.***
- No new NPA is the current quarter, any borrower who has even one account as 90 plus overdue, it has considered it in proforma – has taken provision on interest accrued but not collected for the entire period with moratorium.
- ***Credit cost optically seems higher at 116bps but if interest was reversed from interest income and not from provisions, then credit cost would have been 86 bps.***
- ***Provisions (including standard, UFCE and COVID related) held Rs22.6bn; no COVID-19 provisions dipped into during Q2FY21 and Q3FY21. COVID-19 provision as on Q3FY21 Rs12.8bn.***

On ECLGS

- ***Disbursed close to Rs94bn under ECLGS, Rs97bn till date. Disbursed it close to 50-60% of customers.***
- ***Spread across 3 businesses – small businesses in consumer banking, commercial banking and SME (lower end of corporates) – split would be 80% for consumer/commercial banking and 20% in SME.***
- ***Many customers who took ECLGS benefit has lower the utilization of other limits and hence, there is not much of an uptick in the portfolio growth.***
- Win-win for all – customers get hope for survival and chance to survive, bankers get reasonable yields with security of sovereign guarantee.
- ***How deep you can get into the book to find potential customers who can take sovereign backed loans – the bank deep dived into its entire pool to assess the same.***
- If ECLGS was not there, customers would have gone more vulnerable.
- If economic activity comes back to normal, portfolio will perform well.

Nuances on loan portfolio

- **Home loans** – disbursements have increased MoM – better penetration in salaried segment – expect momentum in home loan to continue. Good mix of new sales as well as balance transfer.
- **LAP** – volumes in December are back to pre-Covid levels
- **MSME working capital** – demand for credit going up; their customers are increasing market share and hence need for credit

- **Unsecured lending** – growing acquisition MoM but slower and lower than pre-Covid.
- **Consumer durable** – significant increase in consumption spending ueing festiv
- **Commercial vehicles** – disbursements were higher in Q3 than Q2 – capacity utilization getting to normalcy
- **Passenger transportation** utilization is low
- **Construction equipment** – demand is good and collection efficiency is back to normal
- **MFI** is mainly in non-urban areas and collection efficiency has improved
- **Tractor sales** – 17% higher than last years; disbursement up YoY
- **Corporate book** – asset quality has remained fairly stable and that gives confidence to grow at an annualized run-rate of 25%. This is in good quality corporates
- **SME** – first time after several quarters seeing uptick led by better utilization from existing customer as well as new customer acquisition.
- Grown exposure in HFC – high AAA rated HFC
- **On CRE** – seeing good traction on residential segment from high quality developers

Collection efficiency

- ***Secured advances - collections vs. demand for Dec'20 back to precovid levels; unsecured advances - nearing precovid levels, improving month on month***
- Stabilization in collection efficiency hereon and hence now ***focus is more on collections in early buckets.***
- Write-off was very marginal this quarter.

On digitization

- Scale acquisition
- Customer delight – be a channel, transactions, products, services
- Mobile being a preferred channel – on asset side, enables digi home loan 2.0, digi personal loans, 811 credit card
- 213 Open Banking Partnerships as of Dec'20; 7X growth in transaction volume over Q3FY20; 3.4X growth in transaction value over Q3FY20

Kotak Securities

- Peak margining system coupled with upfront margining system – though worry was on drop in volumes but is bringing level playing field
- Launched account opening platform where traders are allowed to trade in 60 mins.

Kotak Mahindra Prime

- Supply side constraints are receding and dealer inventories are relatively lower

- Collection efficiency is back to normal
- ***Gross NPA at 2.6% - proforma GNPA would be north of 4%***

Kotak AMC

- Kotak MF grew AUM by 22% YoY and 12.8% QoQ – 5th largest AMC in India
- Equity AUM grew 12.8% QoQ
- Market share in total AUM grew to 7.3%
- Pioneer in responsible investing including ESG
- Relationship Value of Wealth + Priority + Investment Advisory grew more than 12% to Rs3.75tn.

Other highlights

- RBI's FSR estimates seems cautious and conservative and the banking system should do better than that. However, with various dispensations, still need to see the truth as to how scenario actually pans out.
- ***For customers operating in SA balance of Rs0.1-10mn, it has 75bps premium to 3.25% on an average being offered***
- Prime does auto finance business and it is not done at bank – so RBI's corporate structure discussion paper would not really impact this.

Table 12: Q4FY21 result review

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	% Change YoY	Q3FY21	% Change QoQ
Net Interest Income	38,428	35,597	8	38,756	(1)
% Growth	8	17		13	(39)
Fee income	13,780	12,700	9	11,210	23
Add: Other income	5,710	2,190	161	1,640	248
Total Net Income	57,918	50,487	15	51,606	12
% Growth	15	17		8	
Less: Operating Expenses	23,849	23,238	3	22,579	6
Pre-provision operting profit	34,070	27,249	25	29,027	17
Provisions	7,450	3,737	99	4,610	62
Other provisions	4,344	6,738	(36)	(424)	(1,124)
PBT	22,276	16,774	33	24,841	(10)
Less: taxes	5,457	4,112	33	6,308	(13)
PAT	16,824	12,666	33	18,535	(9)
% Growth	33	(10)		16	
Balance sheet (Rs mn)					
Advances	22,36,886	21,97,482	2	21,41,030	4
Deposits	28,01,000	26,28,205	7	26,53,040	6
Asset quality					
Gross NPL	74,255	50,269	48	71,304	4
Net NPL	27,052	15,579	74	27,026	0
Gross NPL ratio (Change bps)	3.25	2.25	100	3.27	(2)
Net NPL ratio (Change bps)	1.21	0.71	50	1.27	(6)
Credit cost (Change bps)	2.2	1.9	23	0.8	136
Coverage ratio (Change bps)	64	69	(544)	62	147
Business ratio					
			Change bps		**Change bps**
RoA	1.7	1.5	26	1.9	(20)
RoE	10.7	10.5	23	12.2	(146)
CASA	60.4	56.2	428	58.8	165
Credit / Deposit Ratio	79.9	83.6	(375)	80.7	(84)
Cost-Income ratio	41.2	46.0	(485)	43.8	(258)
Tier I	21.4	17.3	410	23.0	(160)
Earnings ratios					
			Change bps		**Change bps**
Yield on advances (Calculated)	8.1	9.7	(162)	8.6	(54)
Cost of deposits (Calculated)	3.4	4.6	(121)	3.8	(36)
NIM (Reported)	4.4	4.7	(33)	4.5	(12)

Source: Company data

Chart 1: Loan growth maintains 4.5% QoQ momentum; lags peers though on YoY basis

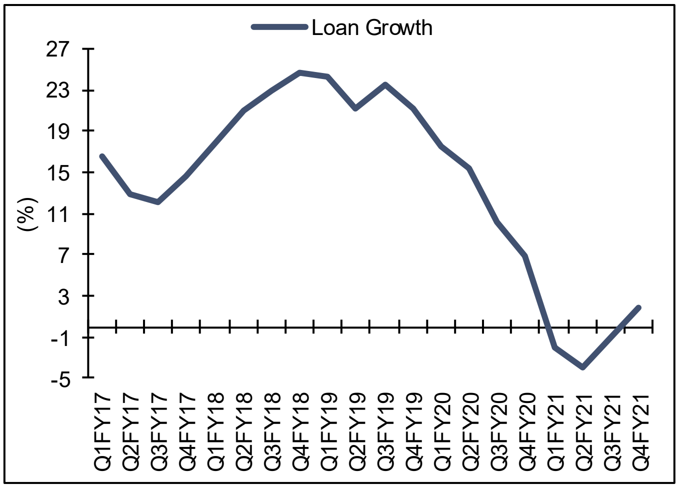


Chart 2: Improving CASA ratio lowers deposit cost

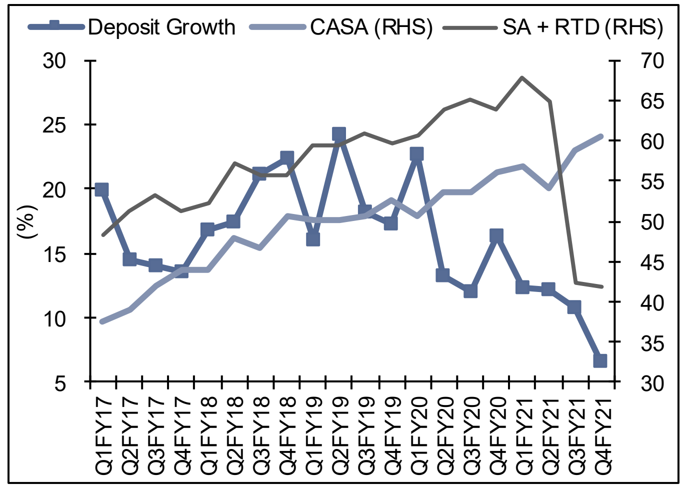


Chart 3: Interest reversal weigh on margins

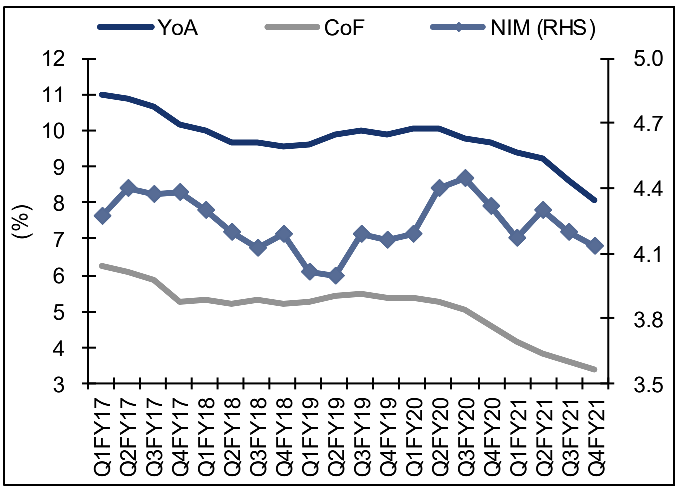


Chart 4: Cost to income ratio trending downwards

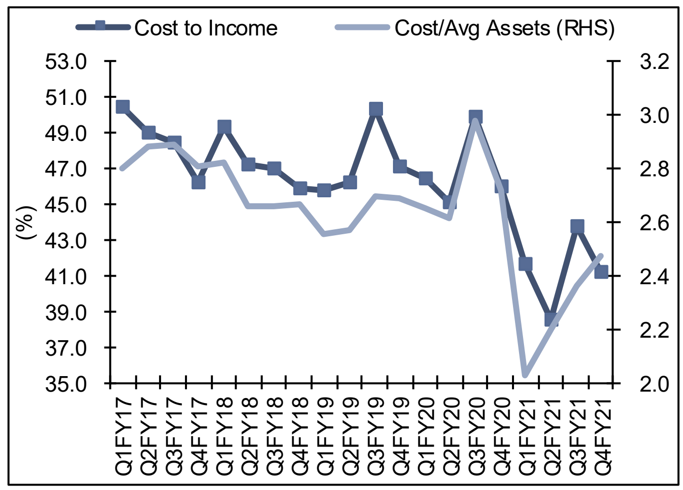


Chart 5: GNPA stable, despite higher slippages

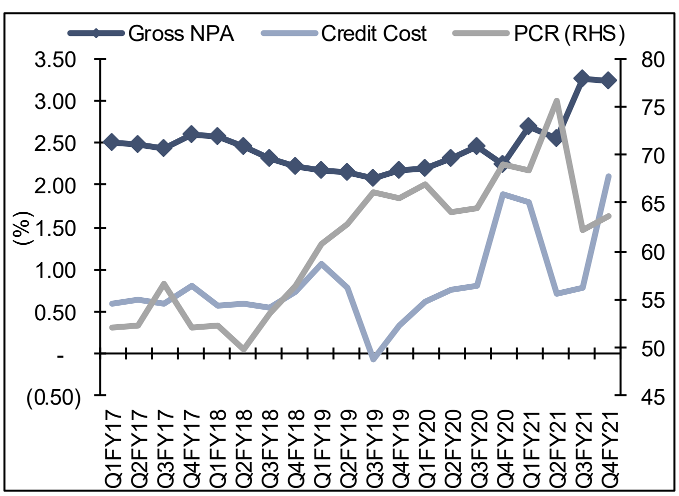


Chart 6: Fee income sustains momentum in current quarter as well

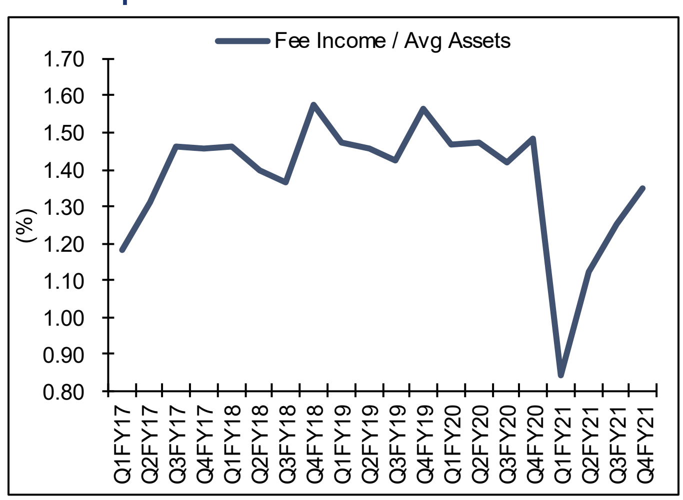


Chart 7: RoA declines due to higher than average credit cost

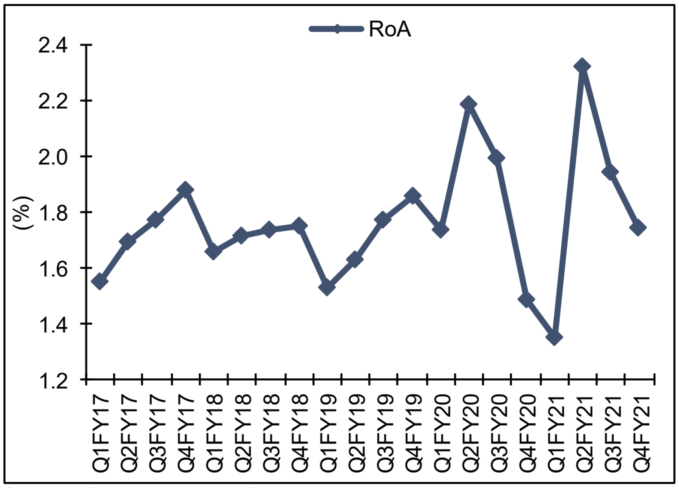
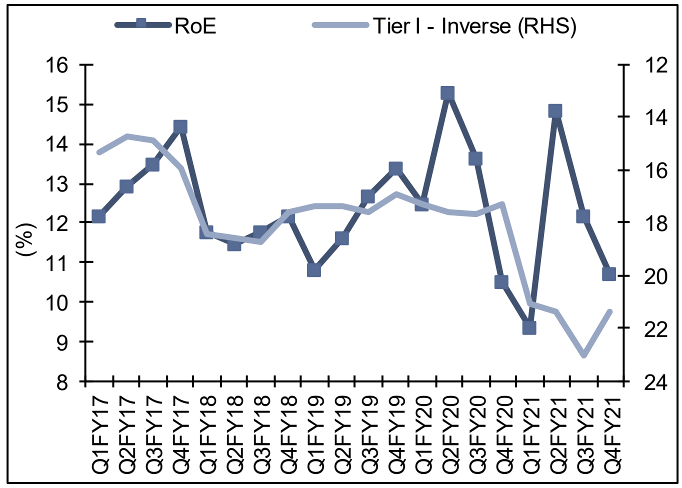


Chart 8: Tier-I strong at 21.4%



Source: Company data, I-Sec research

Financial summary

Table 13: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net Interest Income	**69,004**	**81,261**	**95,317**	**1,12,590**	**1,34,997**	**1,53,554**	**1,75,635**	**1,98,920**
% Growth	63	18	17	18	20	14	14	13
Fee income	17,644	21,207	27,645	33,908	37,793	34,013	44,217	57,482
Add: Other income	8,478	13,565	12,877	12,132	15,929	20,590	23,557	24,333
Total Net Income	**95,126**	**1,16,033**	**1,35,839**	**1,58,630**	**1,88,718**	**2,08,157**	**2,43,409**	**2,80,736**
% Growth	52	22	17	17	19	10	17	15
Less: Operating Expenses	(54,715)	(56,185)	(64,257)	(75,148)	(88,509)	(85,841)	(97,747)	(1,12,409)
Pre-provision operating profit	**40,411**	**59,848**	**71,582**	**83,482**	**1,00,208**	**1,22,316**	**1,45,662**	**1,68,327**
NPA Provisions	**(7,065)**	**(6,144)**	**(6,248)**	**(8,442)**	**(14,760)**	**(19,039)**	**(28,551)**	**(26,724)**
Other provisions	(2,109)	(2,223)	(3,151)	(1,182)	(7,401)	(10,247)	(2,105)	(2,706)
PBT	**31,237**	**51,481**	**62,182**	**73,858**	**78,047**	**93,030**	**1,15,007**	**1,38,897**
Less: taxes	(10,339)	(17,366)	(21,339)	(25,205)	(18,575)	(23,382)	(28,947)	(34,960)
PAT	**20,898**	**34,115**	**40,843**	**48,653**	**59,472**	**69,648**	**86,059**	**1,03,937**
% Growth	12	63	20	19	22	17	24	21

Source: Company data, I-Sec research

Table 14: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Capital	9,172	9,204	9,528	14,544	14,565	14,909	14,909	14,909
Reserve & Surplus	2,30,453	2,66,975	3,65,310	4,14,460	4,75,617	6,22,382	7,05,654	8,06,339
Deposits	13,86,430	15,74,259	19,26,433	22,58,804	26,28,205	28,01,000	32,21,150	37,68,746
Borrowings	2,09,753	2,10,955	2,51,542	3,22,483	3,79,933	2,36,507	2,25,706	2,15,446
Other liabilities	86,789	84,507	96,521	1,11,430	1,04,197	1,60,088	1,38,014	1,38,014
Total liabilities	**19,22,597**	**21,45,900**	**26,49,334**	**31,21,720**	**36,02,517**	**38,34,886**	**43,05,434**	**49,43,455**
Cash & Bank Balances	1,08,797	2,25,720	1,96,201	2,46,755	5,32,923	3,96,265	4,35,892	5,01,276
Investment	5,12,602	4,50,742	6,45,623	7,11,891	7,50,515	10,50,992	10,72,012	11,25,612
Advances	11,86,653	13,60,821	16,97,179	20,56,948	21,97,482	22,36,886	26,18,911	31,44,694
Fixed Assets	15,516	15,376	15,272	16,516	16,231	15,353	20,295	22,505
Other Assets	99,029	93,240	95,059	89,611	1,05,365	1,35,390	1,58,324	1,49,368
Total Assets	**19,22,597**	**21,45,900**	**26,49,334**	**31,21,720**	**36,02,517**	**38,34,886**	**43,05,434**	**49,43,455**
% Growth	81.4	11.6	23.5	17.8	15.4	6.5	12.3	14.8

Source: Company data, I-Sec research

Table 15: DuPont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Interest income	11.0	8.7	8.2	8.3	8.0	7.2	7.2	7.3
Interest expense	(6.4)	(4.7)	(4.3)	(4.4)	(4.0)	(3.1)	(2.9)	(3.0)
NII	**4.6**	**4.0**	**4.0**	**3.9**	**4.0**	**4.1**	**4.3**	**4.3**
Other income	0.6	0.7	0.5	0.4	0.5	0.6	0.6	0.5
Fee income	1.2	1.0	1.2	1.2	1.1	0.9	1.1	1.2
Total income	**6.4**	**5.7**	**5.7**	**5.5**	**5.6**	**5.6**	**6.0**	**6.1**
Operating expenses	(3.7)	(2.8)	(2.7)	(2.6)	(2.6)	(2.3)	(2.4)	(2.4)
Operating profit	**2.7**	**2.9**	**3.0**	**2.9**	**3.0**	**3.3**	**3.6**	**3.6**
NPA provision	**(0.5)**	**(0.3)**	**(0.3)**	**(0.3)**	**(0.4)**	**(0.5)**	**(0.7)**	**(0.6)**
Total provisions	(0.6)	(0.4)	(0.4)	(0.3)	(0.7)	(0.8)	(0.8)	(0.6)
PBT	2.1	2.5	2.6	2.6	2.3	2.5	2.8	3.0
Tax	(0.7)	(0.9)	(0.9)	(0.9)	(0.6)	(0.6)	(0.7)	(0.8)
PAT	**1.4**	**1.7**	**1.7**	**1.7**	**1.8**	**1.9**	**2.1**	**2.2**

Source: Company data, I-Sec research

Table 16: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	11	19	21	25	31	35	43	52
% Growth	18	62	16	19	22	13	24	21
DPS (Rs)	1	1	1	1	-	1	1	1
Book Value per share (BVPS) (Rs)	131	150	197	225	256	322	364	414
% Growth	79	15	31	14	14	25	13	14
Adjusted BVPS (Rs)	126	144	191	219	250	311	353	404
% Growth	78	14	33	15	14	24	13	14
Valuations								
Price / Earnings (x)	113.4	69.9	60.4	50.8	41.7	36.8	29.8	24.7
Price / Book (x)	9.9	8.6	6.6	5.8	5.1	4.0	3.6	3.1
Price / Adjusted BV (x)	10.2	9.0	6.8	5.9	5.2	4.2	3.7	3.2
Asset Quality								
Gross NPA (Rs mn)	2.6	2.6	2.2	2.1	2.3	3.3	3.0	2.8
Gross NPA (%)	31,173.0	35,786.1	38,253.8	44,679.4	50,268.9	74,255.1	80,525	89,719
Net NPA (Rs mn)	1.1	1.3	1.0	0.8	0.7	1.2	1.0	0.9
Net NPA (%)	12,620.0	17,181.1	16,650.9	15,444.1	15,578.9	27,051.7	27,052	27,552
NPA Coverage ratio (%)	60	52	56	65	69	64	66	69
Gross Slippages (%)	4.3	1.5	1.3	1.2	1.6	2.4	1.9	1.7
Credit Cost (%)	1.0	0.6	0.6	0.5	1.0	1.3	1.2	1.0
Net NPL/Networth	5.3	6.2	4.4	3.6	3.2	4.2	3.8	3.4
Business ratios (%)								
ROAA	1.4	1.7	1.7	1.7	1.8	1.9	2.1	2.2
ROAE	11.0	13.2	12.5	12.1	12.9	12.4	12.7	13.5
Credit Growth	79.4	14.7	24.7	21.2	6.8	1.8	17.1	20.1
Deposits Growth	85.2	13.5	22.4	17.3	16.4	6.6	15.0	17.0
CASA	38.1	44.0	50.8	52.5	56.2	60.4	61.5	62.0
Credit / Deposit Ratio	85.6	86.4	88.1	91.1	83.6	79.9	81.3	83.4
Cost-Income ratio	57.5	48.4	47.3	47.4	46.9	41.2	40.2	40.0
Operating Cost / Avg. Assets	3.7	2.8	2.7	2.6	2.6	2.3	2.4	2.4
Fee Income / Avg. Assets	1.2	1.0	1.2	1.2	1.1	0.9	1.1	1.2
Earning ratios								
Yield on Advances	13.5	10.5	9.6	9.8	9.9	8.4	8.6	8.6
Yield on Earning Assets	11.6	9.2	8.6	8.6	8.3	7.5	7.5	7.6
Cost of Deposits	7.4	5.6	5.1	5.3	4.9	3.8	3.8	3.8
Cost of Funds	7.7	5.7	5.2	5.3	4.8	3.8	3.7	3.7
NIM	4.9	4.2	4.2	4.1	4.2	4.3	4.5	4.5
Capital Adequacy (%)								
RWA (Rs)	15,79,627	17,50,016	19,90,000	23,50,000	28,33,420	29,82,994	35,53,538	41,77,730
Tier I	15.3	15.9	17.6	16.9	17.3	21.0	19.7	19.2
CAR	16.3	16.8	18.2	17.5	17.9	21.3	20.0	19.5

Source: Company data, I-Sec research

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