

# Kotak Mahindra Bank

BSE SENSEX 43,828 S&P CNX 12,858



Stock Info	
Bloomberg	KMB IN
Equity Shares (m)	1,907
M.Cap.(INRb)/(USDb)	3687.3 / 51.5
52-Week Range (INR)	1948 / 1000
1, 6, 12 Rel. Per (%)	27/18/9
12M Avg Val (INR M)	7380
Free float (%)	74.0

#### Financials Snapshot (INR b)

Y/E March	FY20	FY21E	FY22E
NII	135.0	156.0	174.0
OP	100.2	120.0	132.5
NP	59.5	69.9	82.6
NIM (%)	4.3	4.4	4.4
EPS (INR)	31.1	35.9	41.8
EPS Gr. (%)	22.0	15.4	16.2
ABV (INR)	234.2	290.2	325.3
Cons. BV (INR)	348.3	385.3	442.6

#### Ratios

RoE (%)	13.1	12.6	12.4
RoA (%)	1.8	1.8	2.0

#### Valuations

P/BV (x) (Cons.)	5.3	4.8	4.2
P/ABV (x)	5.8	4.7	4.2
P/E (x)	43.4	37.6	32.4

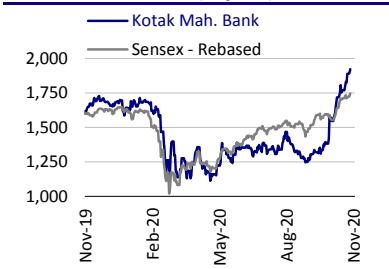
\*Price adjusted for value of subs

#### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	26.1	26.1	30.0
DII	15.3	15.3	12.3
FII	42.2	42.2	40.2
Others	16.5	16.5	17.6

FII Includes depository receipts

#### Stock Performance (1-year)



**CMP: INR1,862 TP: INR1,800 (-3%) Downgrade to Neutral**

#### Risk-reward unfavorable after sharp outperformance

Valuations at 17% premium to five-year average; downgrade to Neutral

- KMB has delivered 32% returns since our Oct'20 upgrade, resulting in a sharp expansion in trading multiple to 4.2x FY22E ABV – a 17% premium to its five year average multiple. The sharp outperformance in the stock (aided by MSCI inclusion) when seen in the context of growth outlook and return ratios (average RoE of 12.7% over FY21-23E) drives us to downgrade our rating to Neutral.
- During 2HFY19-2HFY21, KMB delivered tepid loan growth (5% CAGR, 3% excluding ECLG linked loans). The management expects an improvement in asset growth after doing an exemplary job in building a robust liability franchise. We currently estimate loan growth to sustain at 12% CAGR over FY21-23E.
- Asset quality metrics have improved as collection efficiency improved to mid-90s in Sep'20. The management remains confident on the quantum of its COVID-19 provisions (62bp of loans). We thus factor in a credit cost of 1.2% for FY21E, which will gradually decline to 0.7% by FY23E as PCR has improved sharply to 76%.
- KMB has delivered 18%/19%/21% CAGR in BV over the past 3/5/10 years owing to successive capital raises. However, with Tier I at 22.8% (highest in the past decade), modest growth trajectory and no further requirement to dilute as the promoter holding issue is already settled, we estimate BV to compound at 13% CAGR over FY21-23E. We, thus, downgrade our rating to Neutral and revise our TP to INR1,800/share (3.6x Sep'22E ABV + value its subsidiaries at INR511/share).

#### Loan book grew at 5% CAGR over the past two years; estimate 12% CAGR over FY21-23E

During 2HFY19-2HFY21, KMB delivered tepid loan growth (5% CAGR, 3% excluding ECLG-linked loans) v/s 18% for HDFCB and 8-12% for its peers. The management expects an improvement in asset growth after doing an exemplary job in building a robust liability franchise. We expect loan growth to sustain at 12% CAGR over FY21-23E.

#### Robust liability franchise; best-in-class funding cost to enable growth opportunities

The bank has significantly lowered its cost of funds (CoF) to 3.8% (decline of 140bp YoY) – the lowest among its peers – aided by a sharp reduction in its savings and term deposit (TD) rates. KMB inarguably has the best-in-class liability franchise, with a CASA mix of 57%. While lower CoF enables the bank to pursue wider lending opportunities at competitive rates, we expect overall loan growth to remain modest given bank's historically conservative underwriting approach. The management said it is not looking to further reduce deposit rates in the near term and so we expect margin to remain steady ~4.5-4.6%.

**Asset quality outlook stable; disbursals under ECLG remain high**

KMB has maintained pristine asset quality over the past decade, avoiding bulk of the stress which the banking system has witnessed, resulting in controlled NPA ratios. Even its moratorium book was one of the lowest, while collection efficiency improved to mid-90s in Sep'20. We expect asset quality to remain stable. The bank has a fairly high proportion of loans disbursed under the ECLG scheme at INR81b (4% of loans v/s 1-1.5% for its other large peers), while provision cushion stands at INR12.7b (0.6% of loans). We are factoring in a credit cost of 1.2% for FY21E, which will gradually decline to 0.7% by FY23E.

**BV compounding to moderate; estimate average RoE of 12.7% over FY21-23E**

PAT has grown at 19% CAGR over FY15-20, enabling it to maintain strong profitability, aided by strong control on asset quality, which kept credit costs in check. However, return ratios, particularly RoE, have been modest (11-13% range), impacted by higher capitalization levels which the bank has always carried. We estimate PPOP/PAT to grow at 15%/19% CAGR over FY20-23E, with FY23E RoA/RoE of 2.1%/13.2%. KMB has delivered 18%/19%/21% CAGR in BV over the past 3/5/10 years owing to successive capital raises. With Tier I at 22.8% (highest in the past decade), modest growth trajectory and no further requirement to dilute as the promoter holding issue is already settled, we estimate BV to compound at 13% CAGR over FY21-23E.

**Valuations expensive after a sharp rally; downgrade to Neutral**

KMB has delivered a 32% return since our Oct'20 upgrade, resulting in a sharp expansion in trading multiples to 4.2x FY22E ABV – a 17% premium to its five-year average trading multiple. The sharp stock outperformance (aided by MSCI inclusion) when seen in context of growth outlook and return ratios (average RoE of 12.7% over FY21-23E) drives us to **downgrade our rating to Neutral** and revise our TP to INR1,800/share (3.6x Sep'22E ABV + value its subsidiaries at INR511/share). Mr. Uday Kotak's current term as MD and CEO ends on 31<sup>st</sup> December 2020 and given RBI's intent (as per its discussion paper) to separate ownership of a bank from its management and limit the tenure of a promoter-CEO for 10 years and non-promoter CEO for 15 years, management succession could be an overhang for the bank.

## Loan book grew at 5% CAGR over the past two years; estimate 12% CAGR over FY21-23E

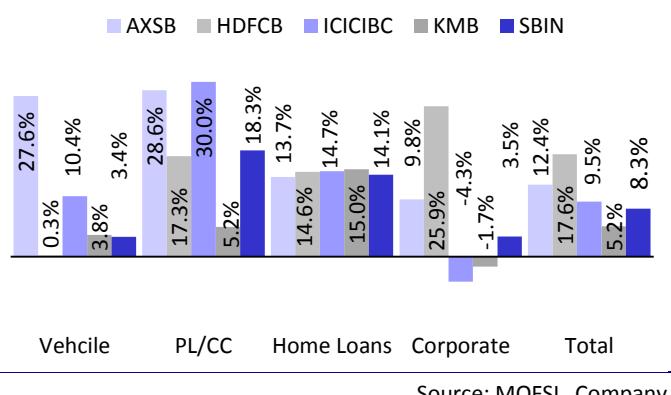
KMB has been a conservative lender in the past despite being well capitalized with Tier I capital in the 17-23% range – much higher than its peers. During 2HFY19-2HFY21, KMB delivered tepid loan growth (5% CAGR, 3% excluding ECLG-linked loans) v/s 18% for HDFCB and 8-12% for its peers. The management expects an improvement in asset growth after doing an exemplary job in building a robust liability franchise. We expect loan growth to sustain at 12% CAGR over FY21-23E.

**Exhibit 1: Incremental market share in total advances over the years**

Advances	FY17	FY18	FY19	FY20	1HFY21
AXSB	5.7%	19.0%	8.9%	15.9%	14.5%
HDFCB	15.0%	29.7%	26.0%	36.1%	37.3%
ICICIBC	4.8%	13.8%	12.0%	12.1%	10.4%
KMB	2.9%	9.6%	5.8%	2.9%	-2.2%
SBIN	67.5%	18.8%	40.6%	28.8%	39.0%

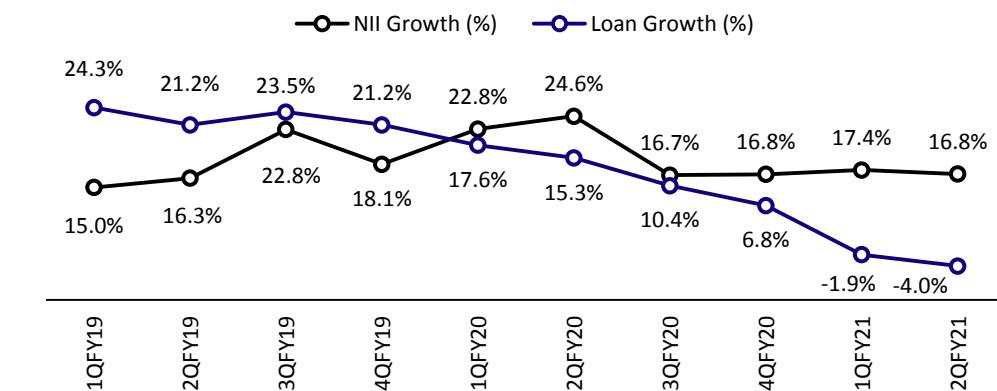
Source: MOFSL, Company

**Exhibit 2: Loan growth across segments for major banks over the past two years**



KMB cuts its interest rate by 150-200bp, enabling it to maintain healthy NII growth despite muted loan growth

**Exhibit 3: NII growth healthy despite muted loan growth aided by lower CoF**



## Robust liability franchise; best-in-class funding cost to enable growth opportunities

KMB lowers its TD rate by 140bp over the past one-year

KMB continues to strengthen its liability franchise and has succeeded in building a robust one, with an industry best CASA ratio of 57%. Total deposits grew at 16% CAGR over FY15-20, while CASA deposits grew at 29% YoY over a similar period. TD, on the other hand, grew by 7% CAGR. CASA and retail TD constitute 91% of total deposits, while TD sweep (less than INR10m) forms 7.7%, signifying the granularity of its deposit franchise.

The bank has significantly lowered its CoF to 3.8% (140bp YoY decline) – the lowest among its peers – aided by a sharp reduction in its savings (~3-4%) and TD rates (5.1% – 170bp YoY decline). KMB inarguably has the best-in-class liability franchise with a CASA mix of 57%. While lower CoF enables the bank to pursue wider lending opportunities at competitive rates, we expect overall loan growth to remain modest given its historically conservative underwriting approach. The management said it is not looking to reduce deposit rates further in the near term and so we expect margin to remain steady ~4.5-4.6%.

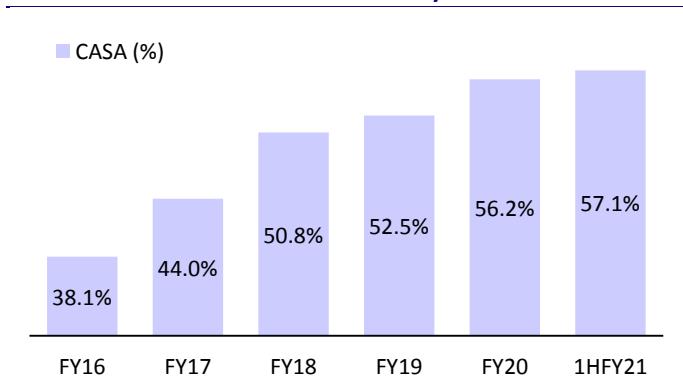
CASA ratio continues to witness a strong uptick; stands at 57%

**Exhibit 4: CASA ratio trends across banks for the past few quarters**

CASA (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
AXSB	41.0	41.0	41.0	41.0	41.0	44.0
DCBB	24.5	23.2	23.2	21.5	21.9	22.4
HDFCB	39.7	39.3	39.5	42.2	40.1	41.6
ICICIBC	45.2	46.7	47.0	45.1	42.5	43.8
IIB	43.1	41.4	42.4	40.4	40.0	40.3
<b>KMB</b>	<b>50.7</b>	<b>53.6</b>	<b>53.7</b>	<b>56.2</b>	<b>56.7</b>	<b>57.1</b>
YES	30.2	30.8	32.1	26.6	25.8	24.8
FB	31.4	31.6	31.5	30.5	32.0	33.7
RBK	25.8	26.5	26.8	29.6	30.1	31.1
SBIN	45.1	45.1	44.7	45.2	45.3	45.4

Source: MOFSL, Company

**Exhibit 5: CASA ratio stands at industry best of 57.1%**



Source: MOFSL, Company

**Exhibit 6: KMB significantly cuts its CoF in the past one-year**

Cost of funds (%)	2QFY21	YoY (bp)	QoQ (bp)
AXSB	4.60%	(102)	(33)
HDFCB*	4.26%	(114)	(27)
ICICIBC	4.35%	(84)	(26)
<b>KMB*</b>	<b>3.82%</b>	<b>(143)</b>	<b>(36)</b>
SBIN*	4.12%	(74)	(25)
IIB	4.94%	(96)	(16)
DCBB	6.61%	(52)	(21)
FB*	5.03%	(76)	(14)
RBK	5.92%	(83)	(23)

\*On a calculated basis

Source: MOFSL, Company

**Exhibit 7: NIM trends across banks – KMB under pressure for the past few quarters; expect NIM to stabilize/improve**

NIM (%)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
AXSB	3.40	3.51	3.57	3.55	3.40	3.58
DCBB	3.67	3.67	3.71	3.64	3.42	3.74
HDFCB	4.30	4.20	4.20	4.30	4.30	4.10
ICICIBC	3.61	3.64	3.77	3.87	3.69	3.57
IIB	4.05	4.10	4.15	4.25	4.28	4.16
<b>KMB</b>	<b>4.49</b>	<b>4.61</b>	<b>4.69</b>	<b>4.72</b>	<b>4.40</b>	<b>4.52</b>
YES	2.80	2.70	1.40	1.90	3.00	3.10
FB	3.15	3.01	3.00	3.04	3.07	3.13
RBK	4.31	4.35	4.57	4.93	4.85	4.34
SBIN	2.81	2.90	3.05	2.97	3.01	3.12

Source: MOFSL, Company

**Exhibit 8: One-year peak TD rates across banks**

Peak deposit rate (%)	Mar'19	Jun'19	Aug'19	Sep'19	Nov'19	Apr'20	May'20	Jun'20	Jul'20	Oct'20	Change (bp)
BOB	6.80	6.80	6.70	6.60	6.40	5.70	5.70	5.30	5.20	5.10	-150
PNB	6.75	6.75	6.75	6.60	6.40	5.80	5.75	5.50	5.40	5.25	-135
SBIN	6.80	6.80	6.70	6.70	6.25	5.70	5.30	5.30	5.20	4.90	-180
AXSB	7.50	7.50	7.20	7.00	6.85	6.10	5.80	5.80	5.50	5.10	-190
HDFCB	7.40	7.40	7.30	7.00	6.85	6.00	5.75	5.50	5.30	5.10	-190
ICICIBC	7.50	7.50	7.10	7.00	6.85	6.00	5.75	5.50	5.30	5.00	-200
KMB	7.30	7.30	6.90	6.80	6.50	5.80	5.25	5.25	5.20	5.10	-170
Repo rate	6.25	5.75	5.40	5.40	5.15	4.40	4.00	4.00	4.00	4.00	-140

Source: MOFSL, Company website

**Exhibit 9: SA rate trends over the past year**

KMB - SA Rate (%)	Pre-Apr'19	Apr'19	Pre-Mar'20	Mar'20	Apr'20	May'20	Change (bp)
Balances upto INR1Lac	6.0	6.0	6.0	5.0	4.5	4.0	(200)
Balances above INR1Lac	5.0	4.5	4.0	4.0	3.75	3.5	(150)

Source: MOFSL, Company

**Exhibit 10: Current SA rates across major banks**

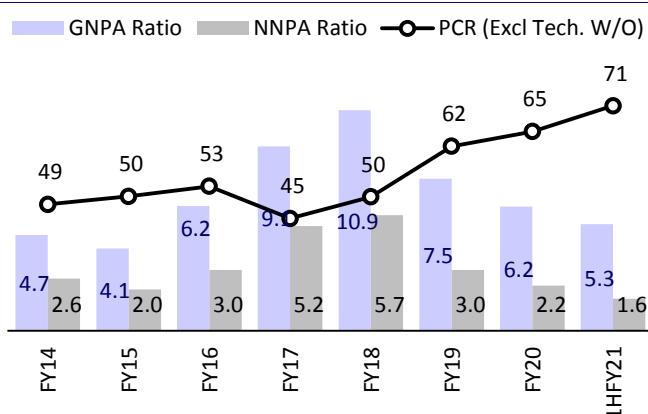
SA rate	%
AXSB	3
HDFCB	3
ICICIBC	3
KMB	3.5/4
SBIN	2.7

Source: MOFSL, Company

## Asset quality outlook stable; disbursements under ECLG remain high

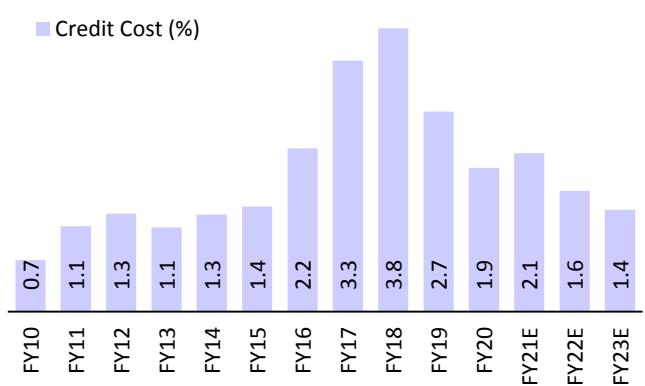
KMB has maintained pristine asset quality over the past decade, avoiding bulk of the stress which the banking system has witnessed, resulting in controlled NPA ratios. Even its moratorium book was one of the lowest, while its collection efficiency improved to mid-90s in Sep'20. We expect asset quality to remain stable. The bank has a fairly high proportion of loans disbursed under the ECLG scheme at INR81b (4% v/s 1-1.5% for its other larger peers), while provision cushion stands at INR12.7b (0.6% of loans). We are factoring in a credit cost of 1.2% for FY21E, which will gradually decline to 0.7% by FY23E.

**Exhibit 11: Asset quality to remain stable; provision coverage ratio improves to ~76%**



Source: Company, MOFSL

**Exhibit 12: Credit cost to remain at normalized levels over FY22-23**



Source: Company, MOFSL

In a press conference held on 12<sup>th</sup> November 2020, the government not only extended the scheme till 31<sup>st</sup> March 2021, but also broadened its scope by including corporates (26 stressed sector as identified by the Kamath Committee) having outstanding loans of INR500m-INR5b as on 20<sup>th</sup> February 2020. We believe that banks, particularly KMB, who has been aggressive under ECLG 1.0 could further lend under the extended scheme.

KMB saw the highest disbursements under the ECLG scheme in terms of the proportion of loans

**Exhibit 13: Snapshot of credit disbursed under the ECLG scheme across banks**

INRb	Credit under ECLG		ECLG disbursed	
	Sanctioned	Disbursed	Total loans	% of loans
KMB*	101.3	81.0	2,048.4	4.0%
RBK	NA	4.5	561.6	0.8%
AXSB	NA	60.0	5,763.7	1.0%
AUBANK**	NA	3.8	272.3	1.4%
IIB	NA	16.0	2,012.5	0.8%
DCBB	20.0	3.0	248.8	1.2%
ICICIBC***	160.0	106.0	6,526.1	1.6%
BOB	85.0	73.0	6,698.5	1.1%
SBIN	350.0	320.0	22,939.0	1.4%

\*For KMB, sanctions stood ~65% for eligible borrowers with 80% of the amount being disbursed

\*\*For AUBANK, we have considered SBL MSME and Agri SME for total SME loans

\*\*\* For ICICIBC, clubbed business banking and SME loans

Source: Company, MOFSL

Additional provision cushion for KMB stands at 0.6% of total loans

**Exhibit 14: Total additional/COVID-19 provisions held by the banks as on 2QFY21**

As on 2QFY21	Loans (INR b)	COVID-19 provisions	Additional provisions	Total provisions	As a % of loans
AXSB	5,764	30.0	78.4	108.4	1.9%
BANDHAN	733	17.4	3.6	21.0	2.9%
DCBB	249	1.4	1.0	2.5	1.0%
HDFCB	10,383	15.5	77.5	93.0	0.9%
ICICIBC	6,526	87.7	14.4	102.1	1.6%
IIB	2,012	21.6	NA	21.6	1.1%
IDFCFB	900	20.0	NA	20.0	2.2%
KMB	2,048	12.7	NA	12.7	0.6%
FB	1,229	1.9	4.0	5.9	0.5%
RBK	562	6.7	NA	6.7	1.2%
AUBANK	272	2.8	NA	2.8	1.0%
EQUITAS	159	1.7	NA	1.7	1.1%
SBIN	22,939	32.5	NA	32.5	0.1%
SBICARD	219	7.6	NA	7.6	3.5%

Source: Company, MOFSL

**Exhibit 15: Snapshot of collection efficiency trends across key banks (as of Sep'20)**

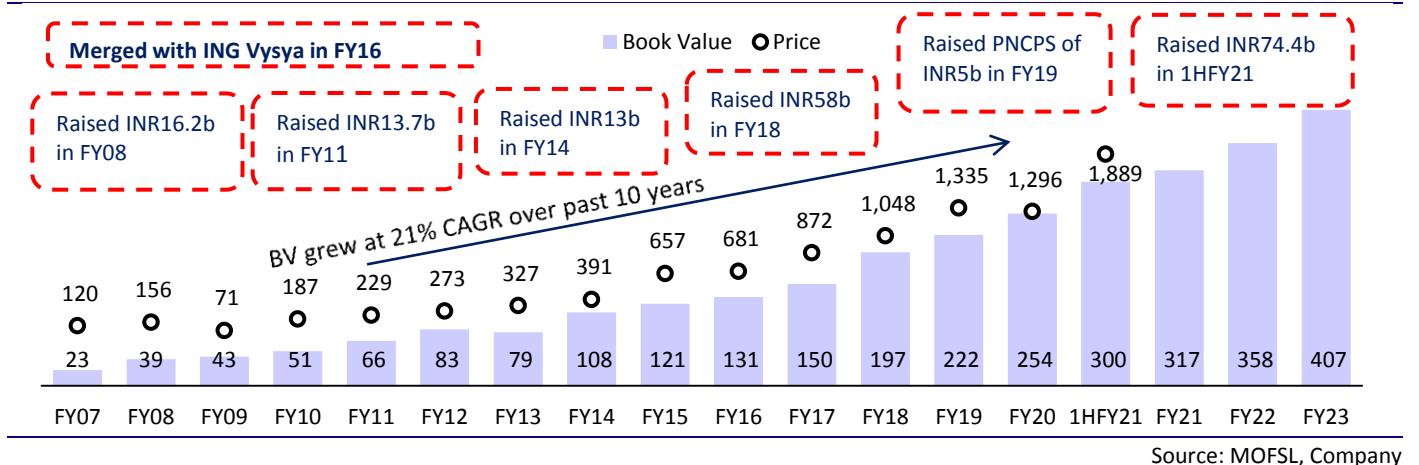
Collection efficiency	%	Comments
AXSB	97.0%	Demand resolution stood at 94% (currently at 97%)
HDFCB	97.0%	Collection trends stood at 97% levels (~99% in non-moratorium book)
ICICIBC	97.0%	Represents demand resolution in retail business to pre-COVID levels
IIB	95.7%	For vehicles, CE stands at 94.3%, while for MFI, it stands at 93%
KMB	Mid-90%	CE for overall book would be at mid-90 levels
DCBB	NA	CE was 91% for Home Loans, 87.5% for Business Loans, and 77% for CV Loans
FB	95%	95% of Feb'20 levels were seen in Sep'20
RBK	NA	(a) MFI – Advance payments touched ~93%. Excluding arrears, they stood ~87%; (b) Credit Cards – Total collections stood ~91%
AUBANK	96%	Customer activation rate improved to 78% in Sep'20 (average 80%)
BANDHAN	93%	96% of customers have started to make payments
BOB	91%	94% in the non-moratorium book; 87% in the moratorium book
SBIN	97%	Represents CE in the domestic loan book (excluding the Agri segment)

Source: MOFSL, Company

## BV compounding to moderate; estimate average RoE of 12.7% over FY21-23E

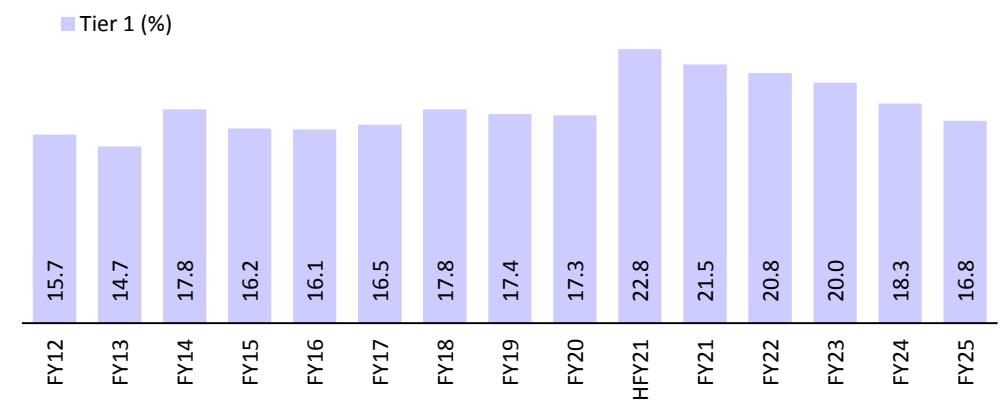
KMB has grown its PAT at 19% CAGR over FY15-20, enabling it to maintain strong profitability, aided by strong control on asset quality, which kept the credit costs in check. However, return ratios, particularly RoE, have been modest in the 11-13% range, impacted by the higher capitalization levels, which the bank has always carried. We estimate PPOP/PAT to grow at 15%/19% CAGR over FY20-23E, with a FY23E RoA/RoE of 2.1%/13.2%. The bank has delivered 18%/19%/21% CAGR in BV over the past 3/5/10 years owing to successive capital raises. With Tier I at 22.8% (highest in the past decade), modest growth trajectory and no further requirement to dilute as the promoter holding issue is already settled, we estimate BV to compound at 13% CAGR over FY21-23E.

**Exhibit 16: BV increases by 18% CAGR over the past three years owing to successive capital raise; expect this to moderate at 13% over FY21-23E**



Modest growth and internal accrual may preclude any necessity to raise capital till FY25

## Exhibit 17: We expect Tier I ratio to remain in excess of 15% till FY25

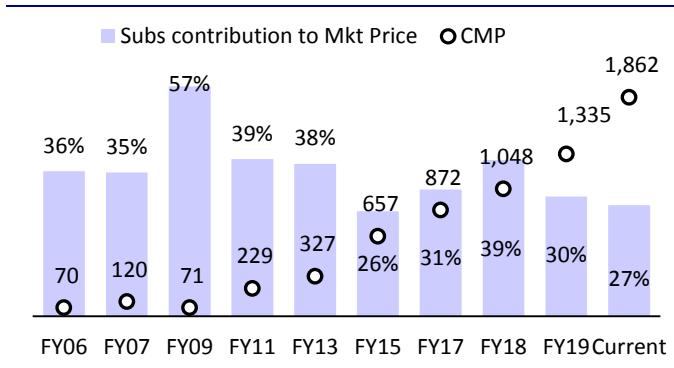


Source: MOFSL, Company

## Performance of its subsidiaries remain mixed

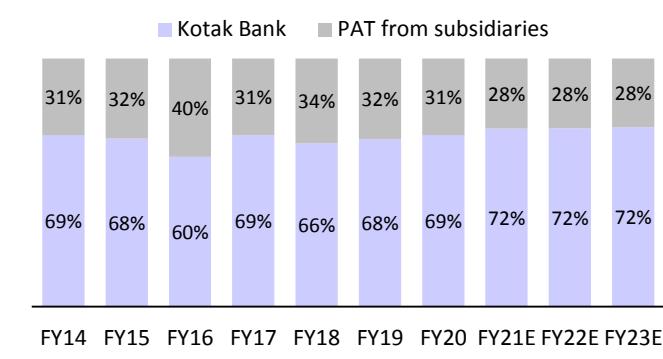
KMB's subsidiaries have displayed a healthy performance over the past few years, resulting in an increase in the contribution of subsidiaries to 31% of consolidated profits. The performance of Kotak Securities, Kotak Investment, Kotak AMC and Kotak Life have been strong, while that of Kotak Prime has been muted. The bank has always been a SOTP-based play, with subsidiaries contributing ~28% to our SOTP. The contribution of subsidiaries to consolidated profit stood ~30%. As these businesses gain further scale and market share, the capital-light nature of its capital market/asset management businesses could provide an upside to overall RoE.

**Exhibit 18: KMB subsidiaries' contribution to CMP**



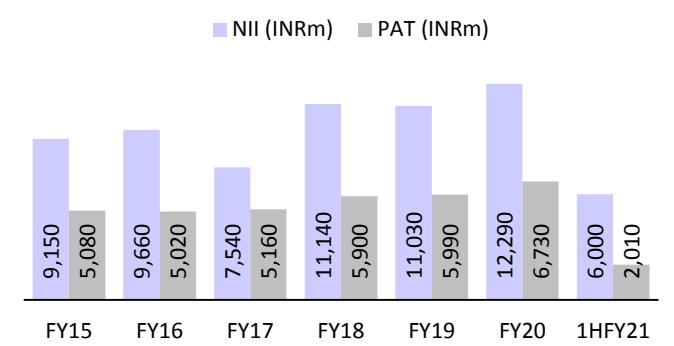
Source: MOFSL, Company

**Exhibit 19: Trend in composition of consolidated PAT**



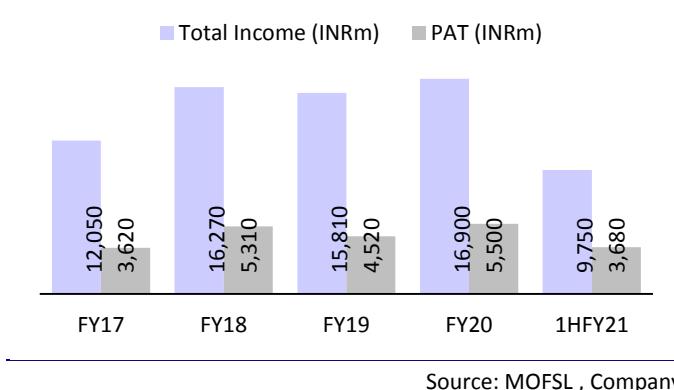
Source: MOFSL, Company

**Exhibit 20: Kotak Prime: NII/PAT grew by 6% CAGR each over FY15-20**



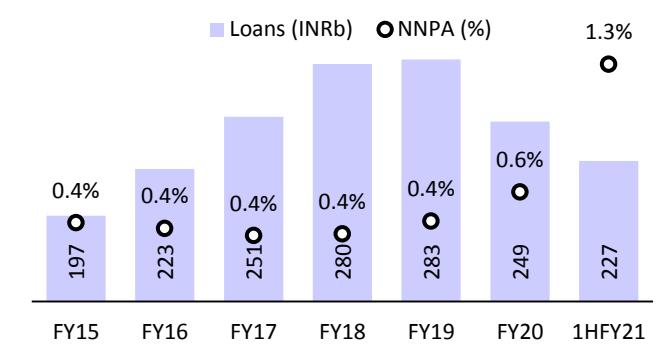
Source: MOFSL, Company

**Exhibit 22: Kotak Securities' PAT increases by 14% CAGR over FY15-20; further grew by 42% in 1HFY21**



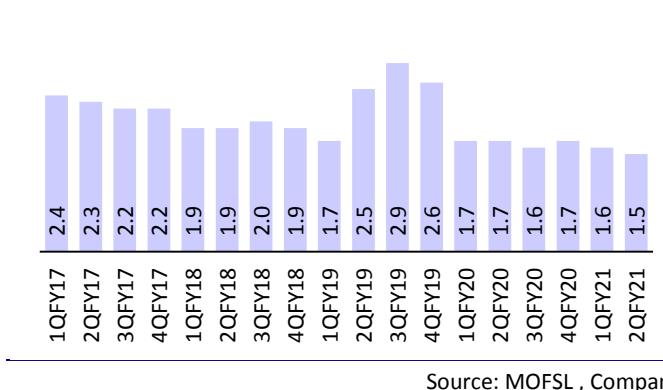
Source: MOFSL, Company

**Exhibit 21: Kotak Prime: Loans grew by 5% CAGR over FY15-20; NNPA increased to 1.3%**



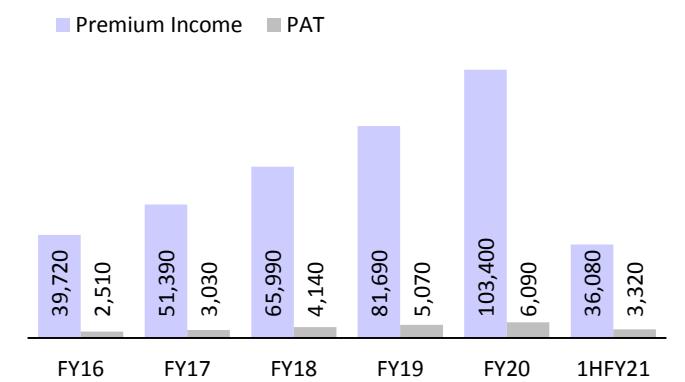
Source: MOFSL, Company

**Exhibit 23: Kotak Securities' market share stood at 1.5%; declines over the past few quarters**



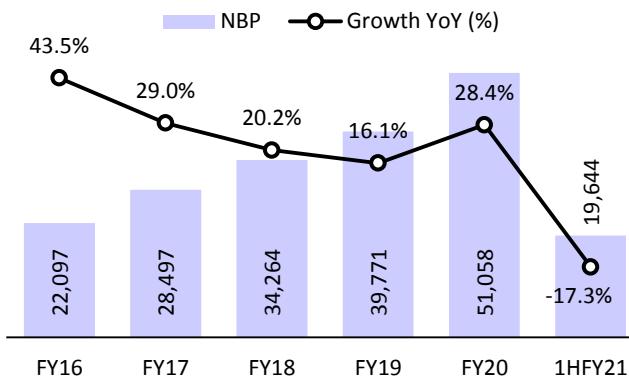
Source: MOFSL, Company

Exhibit 24: Kotak Life – PAT grew by 22% CAGR over FY15-20



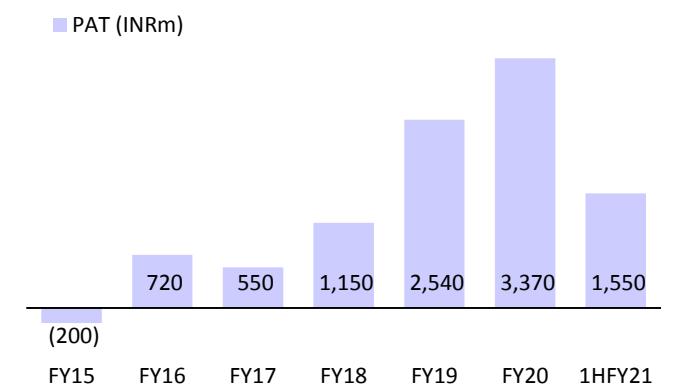
Source: MOFSL, Company

Exhibit 25: Kotak Life – NBP grew by 27% CAGR over FY15-20



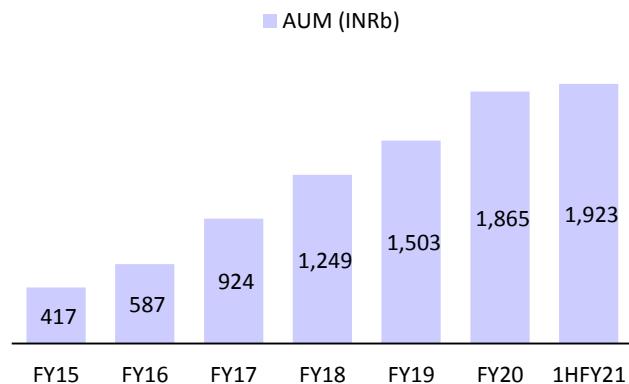
Source: MOFSL, Company

Exhibit 26: Kotak AMC – PAT grew by 47% CAGR over FY16-20



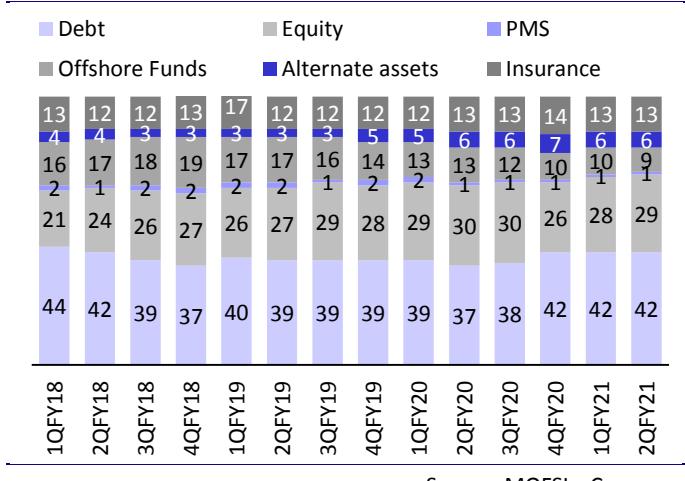
Source: MOFSL, Company

Exhibit 27: Kotak AMC – AUM grew by 35% CAGR over FY15-20



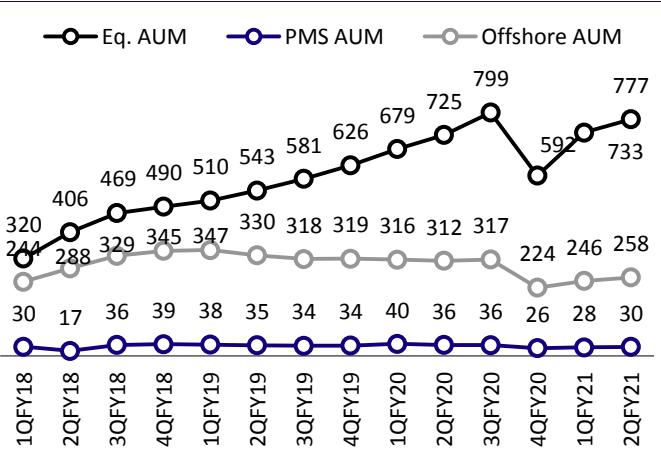
Source: MOFSL, Company

Exhibit 28: Domestic AUM grew by 17% YoY in 1HFY21



Source: MOFSL, Company

Exhibit 29: AUM mix (INR b)



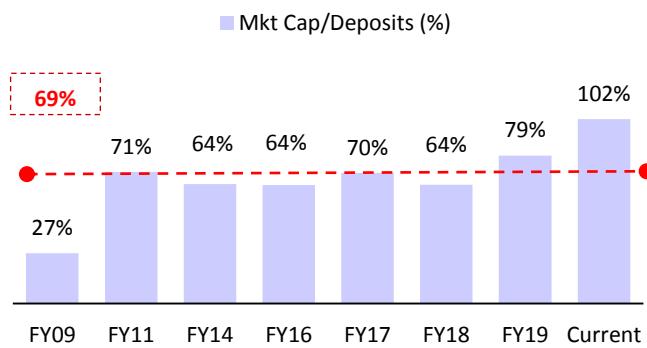
Source: MOFSL, Company

## Valuation view

Core bank trades at a valuation of 4.2x FY22E P/ABV

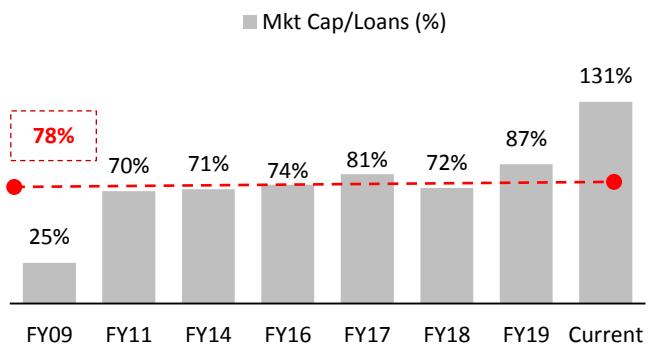
- Loan growth has been flattish as the management remains cautious in a weak macro environment. However, a strengthening liability franchise would improve the bank's competitive positioning and aid asset growth. The management has guided for a shift in focus toward customer acquisitions on the asset side. We, thus, expect loan growth to see a 12% uptick over FY21–23E.
- The bank continues to strengthen its liability franchise, with the CASA ratio (~57%, the highest among its peers) continuing to surprise on the positive side. This has enabled the bank to reduce its CoF and achieve a competitive position (lower cost of deposits v/s large banks). It has resulted in an improvement in margin, which is likely to remain steady going forward.
- On the asset quality front, slippages were lower (partially aided by the SC order), resulting in a sequential decline in NPL ratios (stable if not for the SC order). The management suggested an improving trend in asset quality and remains confident on the quantum of its COVID-19 provisions (62bp of loans). We thus expect credit cost to decline gradually to 0.7% by FY23E.
- The bank has a healthy capitalization (Tier I of 22.8%), which puts it in a comfortable position to manage the current crisis. The capital-light nature of its capital market/asset management businesses could provide an upside to its RoE when a macro recovery happens and the corporate earnings cycle improves.
- **Downgrade to Neutral, with a target price of INR1,800/share:** KMB has delivered a 32% return since our Oct'20 upgrade, resulting in a sharp expansion in trading multiples to 4.2x FY22E ABV – a 17% premium to its five-year average trading multiple. The sharp stock outperformance (aided by MSCI inclusion) when seen in context with a modest growth outlook and return ratios (average RoE of 12.7% over FY21-23E) drives us to **downgrade our rating to Neutral and revise our TP to INR1,800 per share (3.6x Sep'22E ABV + value its subsidiaries at INR511/share)**. Mr. Uday Kotak's current term as MD & CEO ends on 31st December 2020 and given RBI's intent (as per its discussion paper) to separate the ownership of a bank from its management and limit the tenure of a promoter-CEO for 10 years and non-promoter CEO for 15 years, the management succession could be an overhang for the bank.

**Exhibit 30: Market capitalization to deposits (adjusted for subsidiaries) currently ~102% – one of the highest**



Source: MOFSL, Company

**Exhibit 31: M-cap to loans (adjusted for subs) across cycles currently one of the highest ~131%**

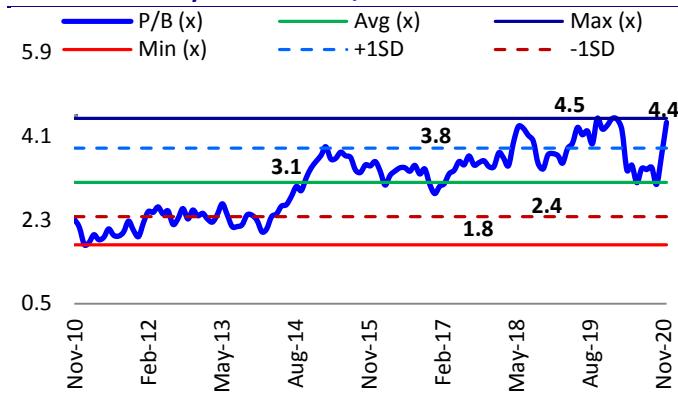


Source: MOFSL, Company

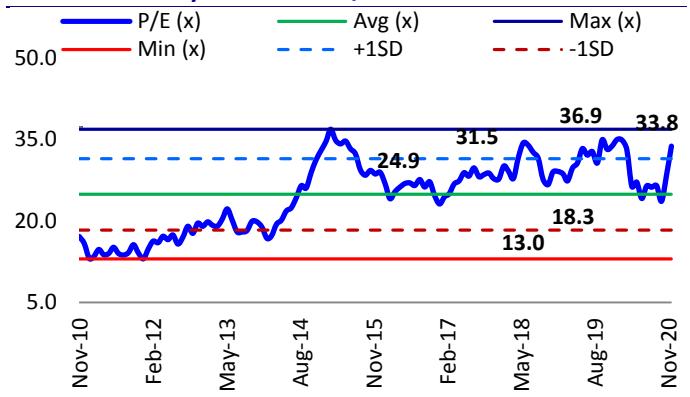
## Exhibit 32: SOTP-based pricing

	Value (INR b)	Value (USD b)	INR per share	% of total	Rationale
<b>Lending business</b>	<b>2,982</b>	<b>40.4</b>	<b>1,507</b>	<b>84</b>	
KMB	2,550	34.5	1,289	72	3.6x Sep-22E networth
Kotak Prime (Car and Other Loans)	332	4.5	168	9	3.6x Sep-22E networth
Kotak Investment Company (LAS)	100	1.4	50	3	3.6x Sep-22E networth
<b>Asset Management Business</b>	<b>246</b>	<b>3.3</b>	<b>125</b>	<b>7</b>	6.5% of Sep'22E AUMs
Domestic Mutual Fund	209	2.8	106	6	
Alternative Assets	14	0.2	7	0	
Offshore Funds	23	0.3	12	1	
<b>Capital market-related business</b>	<b>174</b>	<b>2.4</b>	<b>88</b>	<b>5</b>	
Kotak Securities	152	2.1	77	4	17x Sep'22E PAT
Kotak Investment Banking (KMCC)	22	0.3	11	1	2.5x Sep'22E networth
<b>Kotak Life Insurance</b>	<b>410</b>	<b>5.6</b>	<b>207</b>	<b>12</b>	3.2x Sep'22E EV
<b>Value of subsidiaries @ 20% discount</b>	<b>1,010</b>	<b>13.7</b>	<b>511</b>	<b>28</b>	
<b>Target value (after 20% holding discount)</b>	<b>3,560</b>	<b>48.2</b>	<b>1,800</b>	<b>100</b>	

## Exhibit 33: One-year forward P/B



## Exhibit 34: One-year forward P/E



## Exhibit 35: DuPont Analysis — Expect KMB to deliver RoA/RoE of 2.1%/13.1% in FY23E

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	9.0	8.70	8.24	8.28	8.01	7.69	7.54	7.47
Interest Expense	5.2	4.71	4.26	4.40	3.99	3.58	3.44	3.33
<b>Net Interest Income</b>	<b>3.8</b>	<b>3.99</b>	<b>3.98</b>	<b>3.88</b>	<b>4.02</b>	<b>4.11</b>	<b>4.11</b>	<b>4.14</b>
Fee income	1.3	1.49	1.60	1.59	1.45	1.21	1.18	1.17
Trading and others	0.1	0.22	0.09	0.02	0.14	0.13	0.12	0.11
<b>Non-Interest income</b>	<b>1.4</b>	<b>1.71</b>	<b>1.69</b>	<b>1.61</b>	<b>1.60</b>	<b>1.34</b>	<b>1.30</b>	<b>1.27</b>
<b>Total Income</b>	<b>5.2</b>	<b>5.70</b>	<b>5.67</b>	<b>5.50</b>	<b>5.61</b>	<b>5.45</b>	<b>5.41</b>	<b>5.42</b>
<b>Operating Expenses</b>	<b>3.0</b>	<b>2.76</b>	<b>2.68</b>	<b>2.60</b>	<b>2.63</b>	<b>2.29</b>	<b>2.28</b>	<b>2.22</b>
Employee cost	1.5	1.36	1.23	1.10	1.16	1.10	1.15	1.13
Others	1.5	1.40	1.45	1.50	1.47	1.19	1.14	1.09
<b>Operating Profits</b>	<b>2.2</b>	<b>2.94</b>	<b>2.99</b>	<b>2.89</b>	<b>2.98</b>	<b>3.16</b>	<b>3.13</b>	<b>3.19</b>
<b>Core operating Profits</b>	<b>2.1</b>	<b>2.72</b>	<b>2.90</b>	<b>2.87</b>	<b>2.84</b>	<b>3.03</b>	<b>3.01</b>	<b>3.08</b>
<b>Provisions</b>	<b>0.5</b>	<b>0.41</b>	<b>0.39</b>	<b>0.33</b>	<b>0.66</b>	<b>0.70</b>	<b>0.52</b>	<b>0.41</b>
NPA	0.4	0.30	0.26	0.29	0.42	0.69	0.48	0.37
Others	0.1	0.11	0.13	0.04	0.24	0.01	0.04	0.04
<b>PBT</b>	<b>1.7</b>	<b>2.53</b>	<b>2.59</b>	<b>2.56</b>	<b>2.32</b>	<b>2.46</b>	<b>2.61</b>	<b>2.78</b>
Tax	0.6	0.85	0.89	0.87	0.55	0.62	0.66	0.70
<b>RoA</b>	<b>1.1</b>	<b>1.68</b>	<b>1.70</b>	<b>1.69</b>	<b>1.77</b>	<b>1.84</b>	<b>1.95</b>	<b>2.08</b>
Leverage (x)	8.1	7.9	7.4	7.2	7.3	6.8	6.3	6.3
<b>RoE</b>	<b>9.3</b>	<b>13.2</b>	<b>12.5</b>	<b>12.1</b>	<b>12.9</b>	<b>12.5</b>	<b>12.3</b>	<b>13.1</b>

## Financials and valuations

Income Statement <span style="float: right;">(INR b)</span>								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	163.8	177.0	197.5	238.9	269.3	292.0	319.5	358.9
Interest Expense	94.8	95.7	102.2	126.8	134.3	136.1	145.5	159.9
<b>Net Interest Income</b>	<b>69.0</b>	<b>81.3</b>	<b>95.3</b>	<b>112.1</b>	<b>135.0</b>	<b>156.0</b>	<b>174.0</b>	<b>199.0</b>
Growth (%)	11.7	17.8	17.3	17.6	20.5	15.5	11.6	14.3
Non-Interest Income	26.1	34.8	40.5	46.6	53.7	51.0	55.1	61.2
<b>Total Income</b>	<b>95.1</b>	<b>116.0</b>	<b>135.8</b>	<b>158.6</b>	<b>188.7</b>	<b>207.0</b>	<b>229.1</b>	<b>260.1</b>
Growth (%)	4.6	22.0	17.1	16.8	19.0	9.7	10.7	13.5
Operating Expenses	54.7	56.2	64.3	75.1	88.5	87.1	96.6	106.8
<b>Pre Provision Profits</b>	<b>40.4</b>	<b>59.8</b>	<b>71.6</b>	<b>83.5</b>	<b>100.2</b>	<b>120.0</b>	<b>132.5</b>	<b>153.3</b>
Growth (%)	-4.3	48.1	19.6	16.6	20.0	19.7	10.5	15.7
<b>Core Operating Profits</b>	<b>38.3</b>	<b>55.4</b>	<b>69.5</b>	<b>82.8</b>	<b>95.4</b>	<b>115.0</b>	<b>127.5</b>	<b>148.2</b>
Growth (%)	-1.6	44.8	25.3	19.2	15.2	20.6	10.8	16.3
Provisions (excl. tax)	9.2	8.4	9.4	9.6	22.2	26.5	22.1	19.9
<b>PBT</b>	<b>31.2</b>	<b>51.5</b>	<b>62.2</b>	<b>73.9</b>	<b>78.0</b>	<b>93.4</b>	<b>110.4</b>	<b>133.4</b>
Tax	10.3	17.4	21.3	25.2	18.6	23.5	27.8	33.6
Tax Rate (%)	33.1	33.7	34.3	34.1	23.8	25.2	25.2	25.2
<b>PAT</b>	<b>20.9</b>	<b>34.1</b>	<b>40.8</b>	<b>48.7</b>	<b>59.5</b>	<b>69.9</b>	<b>82.6</b>	<b>99.8</b>
Growth (%)	-15.7	63.2	19.7	19.1	22.2	17.5	18.2	20.8
<b>Consolidated PAT</b>	<b>34.6</b>	<b>49.4</b>	<b>62.0</b>	<b>72.0</b>	<b>85.9</b>	<b>97.4</b>	<b>115.0</b>	<b>138.2</b>
Growth (%)	-5.4	42.8	25.5	16.2	19.3	13.4	18.1	20.1
Balance Sheet <span style="float: right;">(INR b)</span>								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	9.2	9.2	9.5	9.5	9.6	9.9	9.9	9.9
Preference Share Capital	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0
Reserves & Surplus	230.5	267.0	365.3	414.5	475.6	617.3	697.4	794.4
<b>Net Worth</b>	<b>239.6</b>	<b>276.2</b>	<b>374.8</b>	<b>429.0</b>	<b>490.2</b>	<b>632.2</b>	<b>712.3</b>	<b>809.3</b>
<i>Of which Equity Net-worth</i>	239.6	276.2	374.8	424.0	485.2	627.2	707.3	804.3
<b>Deposits</b>	<b>1,386.4</b>	<b>1,574.3</b>	<b>1,926.4</b>	<b>2,258.8</b>	<b>2,628.2</b>	<b>2,838.5</b>	<b>3,207.5</b>	<b>3,688.6</b>
Growth (%)	11.8	13.5	22.4	17.3	16.4	8.0	13.0	15.0
<b>of which CASA Dep</b>	<b>527.8</b>	<b>692.6</b>	<b>977.7</b>	<b>1,185.9</b>	<b>1,476.2</b>	<b>1,555.5</b>	<b>1,770.5</b>	<b>2,050.9</b>
Growth (%)	27.8	31.2	41.2	21.3	24.5	5.4	13.8	15.8
Borrowings	209.8	211.0	251.5	322.5	379.9	410.0	447.7	503.1
Other Liabilities & Prov.	86.8	84.5	96.5	111.4	104.2	108.4	114.9	124.1
<b>Total Liabilities</b>	<b>1,922.6</b>	<b>2,145.9</b>	<b>2,649.3</b>	<b>3,121.7</b>	<b>3,602.5</b>	<b>3,989.1</b>	<b>4,482.4</b>	<b>5,125.1</b>
Current Assets	108.8	225.7	196.2	246.8	532.9	461.3	475.2	448.5
<b>Investments</b>	<b>512.6</b>	<b>450.7</b>	<b>645.6</b>	<b>711.9</b>	<b>750.5</b>	<b>1,215.8</b>	<b>1,422.5</b>	<b>1,707.0</b>
Growth (%)	-0.1	-12.1	43.2	10.3	5.4	62.0	17.0	20.0
<b>Loans</b>	<b>1,186.7</b>	<b>1,360.8</b>	<b>1,697.2</b>	<b>2,056.9</b>	<b>2,197.5</b>	<b>2,153.5</b>	<b>2,390.4</b>	<b>2,725.1</b>
Growth (%)	10.9	14.7	24.7	21.2	6.8	-2.0	11.0	14.0
Fixed Assets	15.5	15.4	15.3	16.5	16.2	17.2	18.4	19.7
<b>Total Assets</b>	<b>1,922.6</b>	<b>2,145.9</b>	<b>2,649.3</b>	<b>3,121.7</b>	<b>3,602.5</b>	<b>3,989.1</b>	<b>4,482.4</b>	<b>5,125.1</b>
Asset quality								
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
GNPA	28.4	35.8	38.3	44.7	50.3	57.9	71.7	80.9
NNPA	12.6	17.2	16.7	15.4	15.6	15.3	20.5	23.3
GNPA Ratio (%)	2.36	2.59	2.23	2.14	2.25	2.64	2.94	2.91
NNPA Ratio (%)	1.06	1.26	0.98	0.75	0.71	0.71	0.86	0.86
Slippage Ratio (%)	2.46	1.15	1.00	0.89	1.38	2.20	1.50	1.20
Credit Cost (%)	0.76	0.48	0.41	0.45	0.66	1.20	0.90	0.70
PCR (Excl. Tech. write off) (%)	55.5	52.0	56.5	65.4	69.0	73.5	71.4	71.2

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>12.0</b>	<b>9.6</b>	<b>9.0</b>	<b>8.9</b>	<b>8.6</b>	<b>8.2</b>	<b>8.1</b>	<b>8.1</b>
Avg. Yield on loans	13.5	10.5	9.6	9.8	9.9	9.6	9.5	9.4
Avg. Yield on Investments	8.7	7.9	7.5	7.6	7.6	7.2	7.1	7.0
<b>Avg. Cost-Int. Bear. Liabilities</b>	<b>7.7</b>	<b>5.7</b>	<b>5.2</b>	<b>5.3</b>	<b>4.8</b>	<b>4.3</b>	<b>4.2</b>	<b>4.1</b>
Avg. Cost of Deposits	7.4	5.6	5.1	5.3	4.9	4.2	4.1	3.9
<b>Interest Spread</b>	<b>6.1</b>	<b>5.0</b>	<b>4.5</b>	<b>4.5</b>	<b>4.9</b>	<b>5.4</b>	<b>5.4</b>	<b>5.5</b>
<b>Net Interest Margin</b>	<b>5.1</b>	<b>4.4</b>	<b>4.3</b>	<b>4.2</b>	<b>4.3</b>	<b>4.4</b>	<b>4.4</b>	<b>4.5</b>
<b>Capitalization ratios (%)</b>								
CAR	17.0	17.2	18.4	17.9	17.9	22.1	21.4	20.6
Tier I	16.1	16.5	17.8	17.4	17.3	21.5	20.7	19.9
Tier II	0.9	0.7	0.6	0.5	0.6	0.6	0.7	0.7
<b>Asset-liability profile (%)</b>								
Loans/Deposit Ratio	85.6	86.4	88.1	91.1	83.6	75.9	74.5	73.9
CASA Ratio	38.1	44.0	50.8	52.5	56.2	54.8	55.2	55.6
Cost/Assets	2.8	2.6	2.4	2.4	2.5	2.2	2.2	2.1
Cost/Total Income	57.5	48.4	47.3	47.4	46.9	42.1	42.2	41.1
Cost/Core Income	58.8	50.3	48.1	47.6	48.1	43.1	43.1	41.9
Int. Expense/Int. Income	57.9	54.1	51.7	53.1	49.9	46.6	45.5	44.6
Fee Income/Total Income	25.2	26.2	28.3	28.9	25.9	22.3	21.9	21.5
Non Int. Inc./Total Income	27.5	30.0	29.8	29.4	28.5	24.7	24.1	23.5
Empl. Cost/Total Expenses	51.2	49.3	45.9	42.4	44.2	48.1	50.2	50.9
Investment/Deposit Ratio	37.0	28.6	33.5	31.5	28.6	42.8	44.4	46.3
<b>Profitability ratios and valuation</b>								
RoE (%)	11.0	13.2	12.5	12.2	13.1	12.6	12.4	13.2
RoA (%)	1.4	1.7	1.7	1.7	1.8	1.8	2.0	2.1
Consolidated RoE (%)	10.4	12.8	12.3	12.4	12.8	12.7	13.1	13.6
Consolidated RoA (%)	1.8	1.9	2.0	2.0	2.1	2.1	2.2	2.2
RoRWA (%)	1.1	1.5	1.5	1.6	1.9	2.0	2.1	2.2
Standalone BV (INR)	130.6	150.0	196.7	222.1	253.6	317.1	357.6	406.6
Growth (%)	8.0	14.8	31.1	12.9	14.2	25.0	12.8	13.7
Price-BV (x)		9.0	6.9	6.1	5.3	4.3	3.8	3.3
Consolidated BV (INR)	181.9	209.1	264.9	302.7	348.3	385.3	442.6	511.4
Growth (%)	10.8	15.0	26.7	14.3	15.1	10.6	14.9	15.5
Price-Consol BV (x)		8.9	7.0	6.2	5.3	4.8	4.2	3.6
Standalone Adjusted BV (INR)	121.6	138.8	177.6	203.2	234.2	290.2	325.3	368.3
Growth (%)	18.2	14.2	28.0	14.4	15.3	23.9	12.1	13.2
Price-ABV (x)		9.7	7.6	6.7	5.8	4.7	4.2	3.7
Consolidated Adjusted BV (INR)	172.5	197.7	253.5	291.3	337.1	373.8	428.6	495.7
Growth (%)	7.8	14.6	28.3	14.9	15.7	10.9	14.6	15.7
Price-Consol ABV (x)		9.4	7.3	6.4	5.5	5.0	4.3	3.8
Standalone EPS (INR)	12.4	18.6	21.8	25.5	31.1	35.9	41.8	50.5
Growth (%)	-9.0	50.1	17.4	17.0	22.0	15.4	16.2	20.8
Price-Earnings (x)		72.8	62.0	53.0	43.4	37.6	32.4	26.8
Consolidated EPS (INR)	18.9	26.8	32.5	37.7	44.9	49.2	58.2	69.9
Change (%)	-6.0	42.3	21.3	16.0	19.0	9.6	18.1	20.1
Price-Consolidated Earnings (x)		69.4	57.2	49.3	41.5	37.8	32.0	26.7

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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