Kotak Mahindra Bank

05 May 2024

Strong treasury contribution boost 4QFY24 earnings.

RESULT UPDATE	
Sector: Banks	**Rating: BUY**
CMP: Rs 1,550	**Target Price: Rs 1,815**

Stock Info

Sensex/Nifty	78,878/22,475
Bloomberg	KMB IN
Equity shares	1987mn
52-wk High/Low	Rs 2,063/1,544
Face value	Rs 5
M-Cap	Rs 3,075bn / USD 37bn
3-m Avg value	USD 150mn

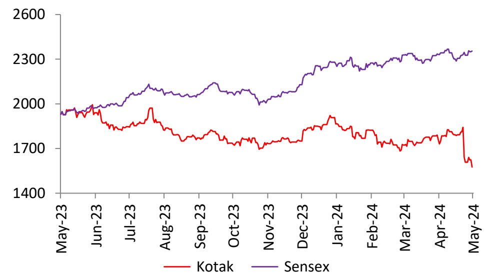
Financial Snapshot (Rs bn)

Y/E March	FY24	FY25E	FY26E
NII	260	297	341
PPP	196	214	246
PAT	138	140	163
EPS (Rs)	69	70	82
EPS Gr. (%)	25.9	1.6	16.2
BV/Sh (Rs)	486	555	634
Adj. BV/Sh (Rs)	481	548	626
Ratios			
NIM (%)	4.9	4.7	4.7
C/I ratio (%)	46.0	48.7	48.8
RoA (%)	2.5	2.2	2.2
RoE (%)	15.3	13.5	14.0
Payout (%)	2.9	2.9	2.9
Valuations			
P/E (x)	16.0	15.8	13.6
P/BV (x)	2.3	2.0	1.8
P/Adj. BV (x)	2.3	2.0	1.8
Div. Yield (%)	0.1	0.1	0.2

Shareholding pattern (%)

	Sep'23	Dec'23	Mar'24
Promoter	26	26	26
–Pledged	-	-	-
FII	41	40	38
DII	20	21	23
Others	13	13	13

Stock Performance (1-year)



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Kotak Mahindra bank reported 4QFY24 PAT of Rs 41.3bn (+38% qoq, 18% yoy) which was higher than estimates due to (i) marginally improved NIMs (3bps benefit from interest on IT refund), (ii) higher other income on reversal of MTM losses and higher fee income, (iii) lower provisions due to reversal of ~80% AIF provision done in previous quarter and (iv) lower taxes from tax credits of Rs 2bn (5% of total tax).

Other key highlights were: (1) Advances growth of 4.6% qoq, 18% yoy was mainly led by 6-7% qoq growth in Commercial banking and SME. PL/BL/Cons. durables and credit cards growth was soft at 4% and was below bank's average growth. (2) Deposit growth (9% qoq, 24% yoy) was led by term deposit growth of 14.5% qoq. CASA ratio declined to 45.5% (-223bps qoq) as compared to peers witnessing an increase qoq. (3) C-D ratio reduced to 83.8% (-423bps qoq) and the bank expects it to be in the range of 86-87%. (4) Reported 4QFY24 NIM increased to 5.3% (+6bps qoq) with 3bps benefit from interest on IT refund. (5) Other income increased by 30% qoq due to reversal of MTM losses on SRs classified as NPI and seasonally higher distribution and syndication income which also benefitted from few large deals in infrastructure, real estate and NBFC financing space. (6) Opex is likely to increase in FY25 on the back of regulatory curbs and the bank guided for Rs 3.5-4.5bn of impact to PBT which reflects the net impact of curb on business operations related spends coupled with higher tech spends for strengthening core banking resilience amongst others. (7) GNPA declined to 1.4% (-34bps qoq) mainly due to higher write-offs in retail unsecured loans which were fully provided, mainly done to align with industry practice of writing off 180 dpd loans. (8) Basis RBI circular on 27-Mar'24, the bank released AIF provision of Rs 1.57bn (~80% of the provision made in Q3FY24). (9) RoA was 2.97% (2.5% ex Interest on IT refund, AIF provision reversal and tax credits).

We retain our BUY rating with a Mar'26 TP of Rs 1,815 (from Rs 2,095 earlier) valuing the standalone bank at 2.2x (earlier 2.5x) Mar'26 Adj BVPS for FY25-26E average RoA of 2.2%. We assign Rs 440 per share, post hold co discount, for its holding in the subsidiaries. We trim our loan growth estimates marginally and increase our opex estimates by ~6%.

Update on RBI's action on 24th April'24 regarding pause in onboarding new customers through bank's on-line and mobile banking channels and issuing fresh credit cards: The company reported that the order does not impact (i) servicing and cross-sell of products (excl. new credit cards) to existing customer base through all channels (ii) on-boarding new customers through other than online / mobile banking channels (iii) the bank will step up investments in IT (iv) redeploy resources to minimize the business impact. Overall, the management believes that these directions will not materially impact its overall business with the **management guiding for Rs 3.5-4.5bn hit to PBT (i.e ~2.5% of e.FY25 PBT) mainly stemming from higher tech spends partly offset by savings on customer acquisition costs due to ban on onboarding new customers digitally.**

Advances growth led by commercial and SME with softness in PL and credit cards: Advance growth (4.6% qoq, 18% yoy) was in-line with high teens growth guidance and was led by 6-7% qoq growth in Commercial banking and SME with strong growth in retail MFI (17% qoq) and CV/CE (9% qoq). Consumer banking growth of 5% was in-line with overall average growth while PL/BL/Cons. durables and credit cards growth

Investors are advised to refer disclosures made at the end of the research report.

of 4% was below bank's average growth. Corporate banking (net of IBPC) growth was flattish qoq. In FY24, the share of higher yielding consumer and commercial banking has increased by ~50bps each while that of lower yielding corporate book has declined by ~100bps. **The management remains confident of sustaining the current growth trend in customer assets despite RBI's supervisory actions on the back of cross-selling and deepening relationships with existing customer base.**

4Q NIMs supported by interest on IT refund and expected to remain stable going forward: Deposit growth (9% qoq, 24% yoy) was led by TD growth of 14.5% qoq, 43% yoy. CASA ratio declined to 45.5% (-223bps qoq) as compared to peers witnessing an increase qoq. TD- Sweep growth at 13% qoq was much lower as compared to 55-60% qoq growth seen in past 2 quarters. On reported basis, 4QFY24 NIM increased to 5.3% (+6bps qoq) with 3bps benefit from interest on IT refund. However, on calculated basis, NIM declined by -5bps qoq as (i) funding cost decreased by -16bps qoq, likely due to back-ended deposit growth and was more than offset by -18bps qoq decrease in average yields due to higher period end cash balances (ii) reduced leverage with C-D ratio reducing to 83.8% (-423bps qoq). The bank expects C-D ratio be in the range of 86-87% going forward. Despite the higher share of floating rate SA in total SA (23% vs 14% qoq), reported cost of SA balances declined to 4.13% (-19bps qoq), likely due to back-ended deposit growth. FY24 NIM at 5.32% was largely stable vs FY23 and in-line with guidance of ~5%. **The management does not foresee a need to materially increase TD rates as fallout of the RBI ban on onboarding customers via digital channels especially 811 as 70-75% of the customers acquired in the last 2 years has been via 811. It further guided for funding cost increase to be gradual in FY25 as the back-book has been largely repriced and it will also actively pursue refinance and infrastructure bond finance as means of incremental funding**.

Other income benefitted from one-offs; opex likely to increase on higher tech spends: Other income increased by 30% qoq due to (i) reversal of MTM losses in respect of SRs classified as NPI during Q3FY24 (ii) distribution and syndication income nearly doubling qoq on seasonality and also the bank benefitted from few large deals in infrastructure, real estate and NBFC financing space. As a result, CIR declined to 44.8% (-364bps qoq). **That said, opex is likely to increase in FY25 on the back of regulatory curbs and the bank guided for Rs 3.5-4.5bn of impact to PBT mainly stemming from higher tech spends**. Tech spends will continue to be about 10% of opex and the spends will be more towards increasing risk resiliency and capacity increase as opposed to adding new features/products in FY25.

Asset quality continues to remain largely stable despite higher write-offs: Gross / Net slippages increased to 1.43% / 0.6% vs (1.33% /1.43% qoq). However, GNPA declined to 1.4% (-34bps qoq) and NNPA at 0.3% was stable qoq mainly due to higher write-offs (1.76% vs 0.16% qoq). **Retail unsecured loans which were fully provided, constituted 93% of the total write-offs. As per the management, this was mainly done to align with practice of writing off 180dpd unsecured loans and it remains comfortable with the asset quality of the unsecured book**. **Management further re-iterated that despite credit cycles remaining benign, it will continue to maintain prudence in underwriting risk.** In 4Q, basis RBI circular of 27-Mar'24, the bank released AIF provision of Rs 1.57bn (~80% of the provision made in Q3FY24). Despite PCR declining to 76% (-464bps qoq), reported credit costs (incl. std provisions and excl. reversal of COVID & restructuring provisions) increased to 50bps vs 40bps qoq.

Valuation and recommendation: We retain our BUY rating with a Mar'26 TP of Rs 1,815 (from Rs 2,095 earlier) valuing the standalone bank at 2.2x (earlier 2.5x) Mar'26 Adj BVPS for FY25-26E average RoA of 2.2%. We assign Rs 440 per share (post Holdco discount of 20%) for its holding in the subsidiaries. We reduce our loan growth estimates and increase our opex estimates by 6%.

Key takeaways from 4QFY24 earnings call:

Balance sheet

- 79% (vs 81% in 3Q) of the investment book is in AFS and HFT with modified duration of 1.1yr
- In 4Q, CV disbursements 46% yoy, outpacing industry growth with the bank gaining market share.
- CE disbursements grew by 47% yoy and the company expects to retain the growth momentum.
- In FY24 tractor finance growth was flattish for the bank vs degrowth of 7.5% for the industry, thus indicating market share gains for the bank.
- Real estate book saw strong acquisitions in the latter half of the quarter.
- In mid -market the bank onboarded 2x the number of customers in FY24 vs FY23
- In MFI, Sonata acquisition was completed by end of Mar'24 with full impact in FY25. Post the acquisition, the banks presence has increased to 16 states, 1400 BCs and customer count of 27 lakh women borrowers.
- Wholesale liabilities, which is current account largely grew even on account of higher share of flows and transaction banking in the corporate segment.

P&L

- The bank indicated of yield improvement in mortgages towards the end of the quarter.
- The bank continued to see pricing pressures in the SME and large corporate book
- The bank added 168 branches in FY24 (o/s 1948 branches) and 150 more to be added in FY25 as well.

Asset Quality

- Collection efficiencies in the CV segment remained stable.
- The bank reported initial signs of stress in tractor finance and MFI in monsoon deficient geographies. But yoy basis, collection efficiencies remained stable

Subsidiary performance

- Kotak securities: Overall market share increased to 11.8% in FY24 vs 9.6% in FY23
- Kotak Life: Embedded value growth of 21.8% yoy in FY24 and gross written premium growth of 16% yoy while individual APE growth was muted 4% yoy.
- Kotak Prime: AUM grew by 4.6% qoq. However, PAT degrew by 7%qoq on lower other income
- Kotak AMC: Total AUM increased by 5% qoq with equity AUM growth of 7.6% qoq.
- BSS Micro finance post FY24 PAT of Rs 3.83bn (+29% yoy)

Exhibit 1: Quarterly performance

(INR, mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Interest income	1,23,071	98,209	25%	1,17,990	4.3%
Interest expenses	53,977	37,184	45%	52,455	2.9%
NII	**69,094**	**61,026**	**13%**	**65,535**	**5.4%**
Other income	29,783	21,860	36%	22,970	29.7%
Operating income	**98,876**	**82,886**	**19%**	**88,505**	**11.7%**
Operating expenses	44,261	36,415	22%	42,843	3.3%
- Staff expenses	18,264	14,545	26%	17,483	4.5%
PPOP	**54,616**	**46,471**	**18%**	**45,662**	**19.6%**
Provisions	2,637	1,476	79%	5,791	-54.5%
Profit before tax	**51,978**	**44,995**	**16%**	**39,871**	**30.4%**
Taxes	10,645	10,042	6%	9,821	8.4%
Profit after tax	**41,333**	**34,953**	**18%**	**30,050**	**37.5%**
Key Ratios (%)	**4QFY24**	**4QFY23**	**YoY (bps)**	**3QFY24**	**QoQ (bps)**
Net Advances growth (YoY, %)	17.6%	17.9%	-35 bp	15.7%	185 bp
Net Advances growth (QoQ, %)	4.6%	2.9%	165 bp	3.2%	134 bp
Deposit growth (YoY, %)	23.6%	16.5%	715 bp	18.6%	509 bp
Deposit growth (QoQ, %)	9.9%	5.3%	452 bp	1.9%	795 bp
CASA Ratio	45.5%	52.8%	-733 bp	47.7%	-223 bp
CD Ratio	83.8%	88.1%	-433 bp	88.0%	-423 bp
NIM (reported)	5.3%	5.8%	-47 bp	5.2%	6 bp
Cost to Income	44.8%	43.9%	83 bp	48.4%	-364 bp
Credit costs	0.5%	0.2%	25 bp	0.4%	11 bp
GNPA (%)	1.4%	1.8%	-39 bp	1.7%	-34 bp
NNPA (%)	0.3%	0.4%	-3 bp	0.3%	0 bp
PCR (%)	75.9%	79.3%	-340 bp	80.6%	-464 bp
CAR	21.8%	21.8%	0 bp	22.2%	-40 bp
Tier-I	20.7%	20.6%	10 bp	21.2%	-50 bp

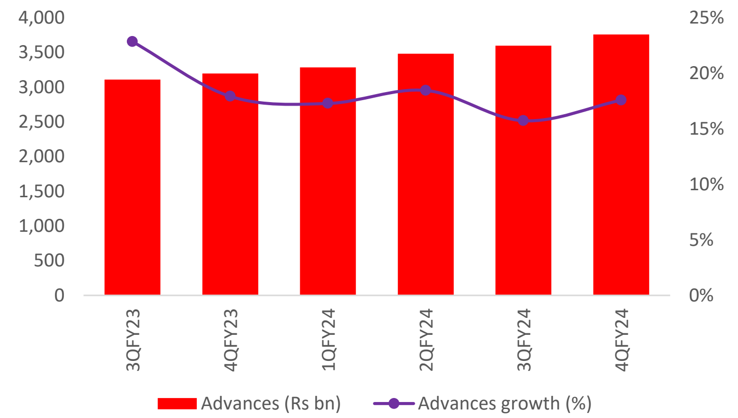
Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

Du Pont (% of average assets)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Net interest income	**5.1%**	**5.0%**	**4.8%**	**4.9%**	**4.8%**
Other income	1.8%	2.1%	1.8%	1.7%	2.1%
Total income	**6.9%**	**7.1%**	**6.6%**	**6.6%**	**6.9%**
Operating expenses	3.1%	3.2%	3.1%	3.2%	3.1%
Employee expenses	1.2%	1.3%	1.3%	1.3%	1.3%
PPOP	**3.9%**	**3.9%**	**3.5%**	**3.4%**	**3.8%**
Provisions	0.1%	0.3%	0.3%	0.4%	0.2%
PBT	3.8%	3.7%	3.2%	3.0%	3.6%
PAT (RoAA)	**2.9%**	**2.8%**	**2.4%**	**2.2%**	**2.9%**
Leverage	5.86	5.90	5.93	5.93	6.06
ROE	**17.2%**	**16.2%**	**14.5%**	**13.2%**	**17.4%**

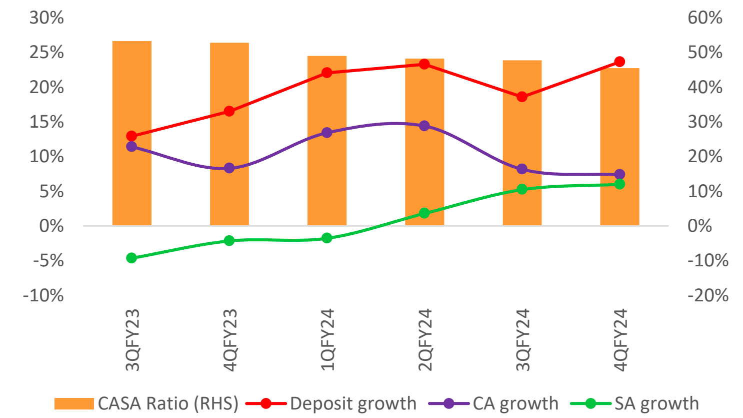
Source: Company, Systematix Institutional Research

Exhibit 3: Commercial and SME credit drive strong credit growth



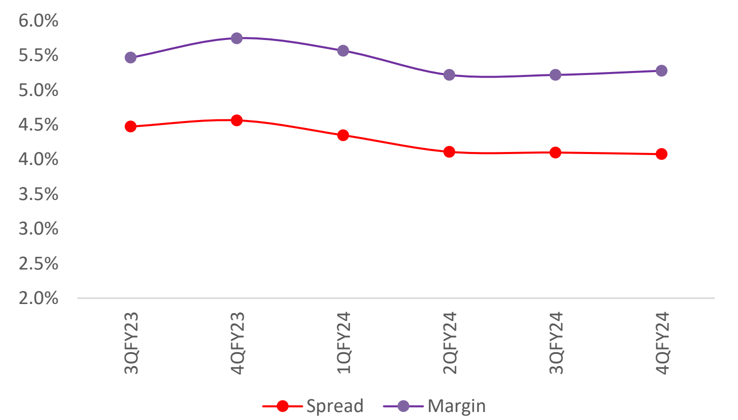
Source: Company, Systematix Institutional Research

Exhibit 4: CASA ratio declined qoq



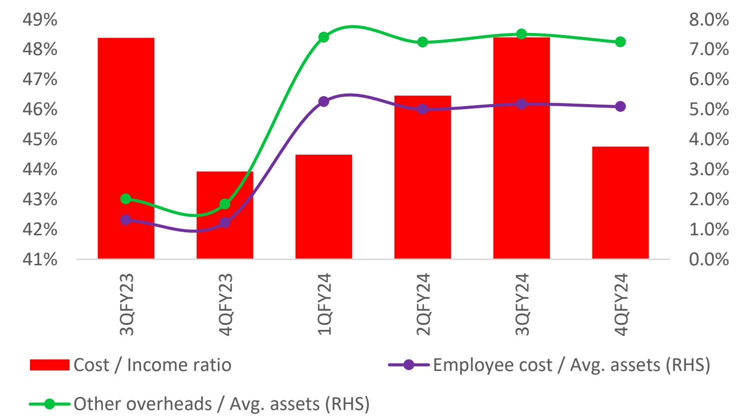
Source: Company, Systematix Institutional Research

Exhibit 5: NIM increased by 6bps qoq



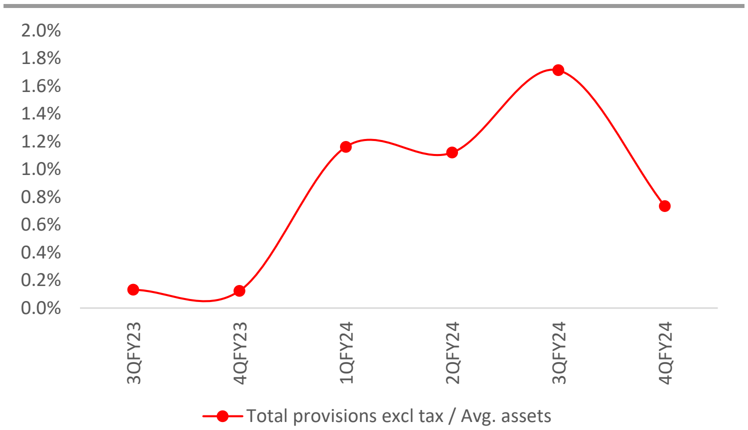
Source: Company, Systematix Institutional Research

Exhibit 6: Opex to increase going forward due to higher tech spends



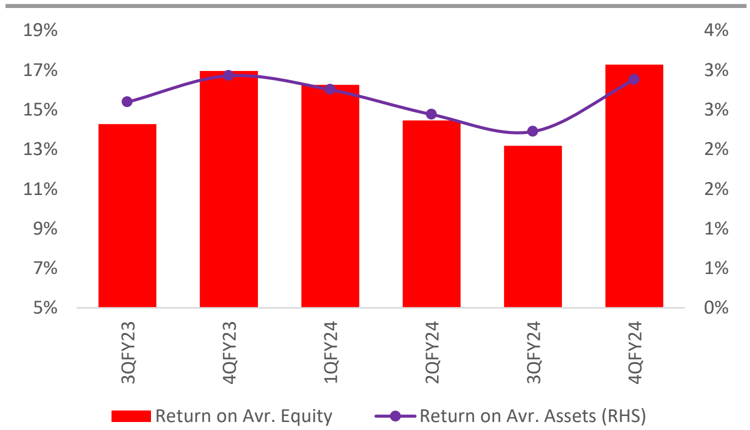
Source: Company, Systematix Institutional Research

Exhibit 7: Credit costs decreased due to AIF provisions reversal



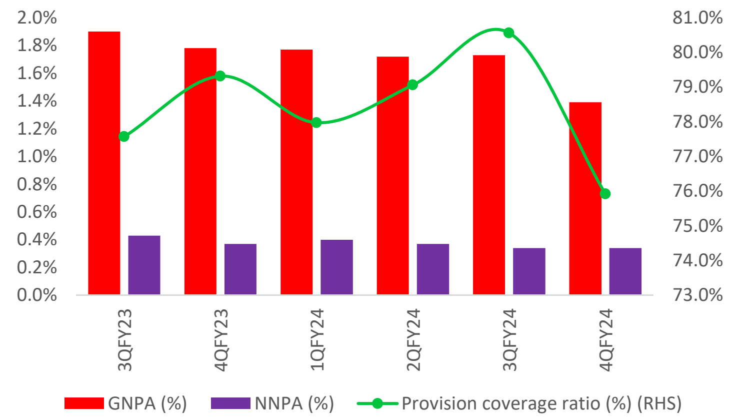
Source: Company, Systematix Institutional Research

Exhibit 8: Return ratios remained strong. 4QFY24 RoA at 2.9%



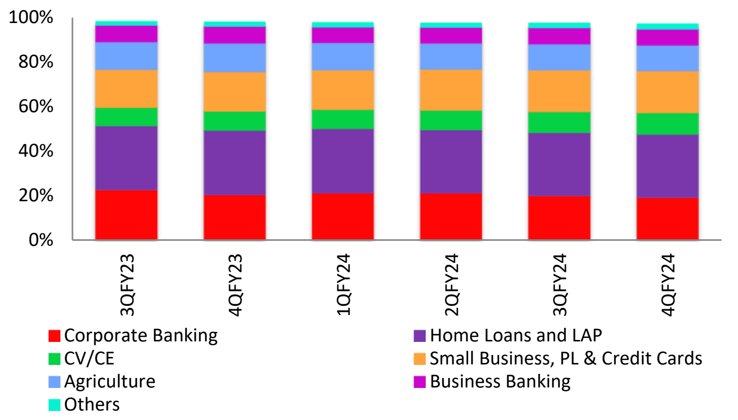
Source: Company, Systematix Institutional Research

Exhibit 9: Asset quality largely stable.



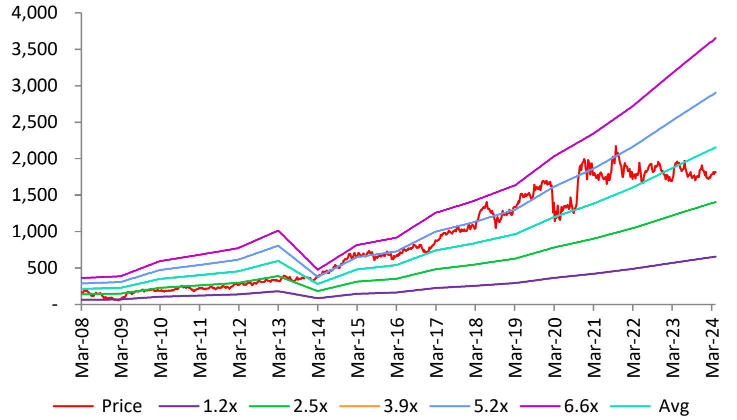
Source: Company, Systematix Institutional Research

Exhibit 10: Unsecured retail was at 11.8% of portfolio



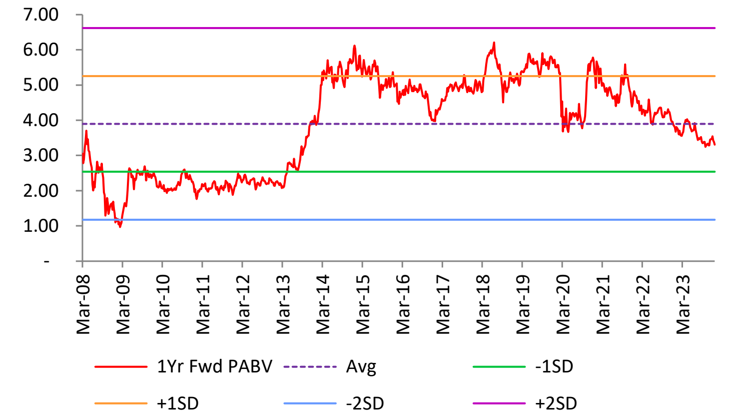
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward P/ABV (x) trajectory



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/ABV (x) near long term average



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	270	343	458	554	639
Interest Expenses	102	127	198	257	298
Net Interest Income	**168**	**216**	**260**	**297**	**341**
Change (%)	9.6	28.1	20.6	14.3	14.7
Commission, Ex. & Br. Inc.	42	54	67	83	99
Add: Other income	18	16	35	38	41
Net Income	**228**	**286**	**363**	**417**	**481**
Change (%)	12.1	25.6	26.7	15.1	15.2
Operating Expenses	108	138	167	203	235
Operating Profit	**121**	**148**	**196**	**214**	**246**
Change (%)	2.5	23.2	31.9	9.4	14.9
Provisions	7	5	16	28	29
PBT	**114**	**144**	**180**	**187**	**217**
Tax	28	35	42	47	54
Tax Rate (%)	24.5	24.0	23.5	25.0	25.0
PAT	**86**	**109**	**138**	**140**	**163**
Change (%)	23.1	27.6	26.0	1.6	16.2
Proposed Dividend	2	3	4	4	5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Capital	10	10	10	10	10
Reserves & Surplus	710	820	956	1,092	1,251
Net Worth	**720**	**830**	**967**	**1,103**	**1,261**
Change (%)	13.9	15.3	16.5	14.1	14.3
Deposits	**3,117**	**3,631**	**4,490**	**5,255**	**6,140**
Change (%)	11.3	16.5	23.6	17.0	16.9
CASA Ratio (%)	60.7	52.8	45.5	43.5	41.5
Borrowings	**279**	**254**	**304**	**335**	**369**
Other Liabilities	179	183	243	255	268
Total Liabilities	**4,294**	**4,899**	**6,004**	**6,947**	**8,038**
Change (%)	12.0	14.1	22.6	15.7	15.7
Investments	1,006	1,214	1,554	1,911	2,198
Cash & Bank balance	429	325	528	490	559
Loans	**2,713**	**3,199**	**3,761**	**4,381**	**5,108**
Change (%)	21.3	17.9	17.6	16.5	16.6
Fixed Assets	16	19	22	24	28
Other Assets	130	141	139	140	145
Total Assets	**4,294**	**4,899**	**6,004**	**6,947**	**8,038**

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	6.7	7.5	8.4	8.6	8.5
Interest Expended	2.5	2.8	3.6	4.0	4.0
Net Interest Income	**4.1**	**4.7**	**4.8**	**4.6**	**4.5**
Commission, Ex. & Br. Inc.	1.0	1.2	1.2	1.3	1.3
Other Fee Income	0.4	0.5	0.8	0.5	0.4
Net Operating Income	**5.6**	**6.4**	**6.8**	**6.3**	**6.3**
Profit on sale of investment	(0.0)	(0.2)	(0.1)	0.1	0.1
Net Income	5.6	6.2	6.7	6.4	6.4
Operating Expenses	**2.6**	**3.0**	**3.1**	**3.1**	**3.1**
Operating Income	3.0	3.2	3.6	3.3	3.3
Provisions	0.2	0.1	0.3	0.4	0.4
PBT	**2.8**	**3.1**	**3.3**	**2.9**	**2.9**
Tax	0.7	0.8	0.8	0.7	0.7
PAT	**2.1**	**2.4**	**2.5**	**2.2**	**2.2**
Leverage	6.0	5.9	6.1	6.3	6.4
RoE	**12.7**	**14.1**	**15.3**	**13.5**	**13.7**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Yield on Advances	7.8	9.1	10.2	10.4	10.3
Yield on Earning Assets	6.9	7.7	8.7	8.8	8.7
Cost of Deposits	3.1	3.5	4.5	4.9	4.9
Cost of Funds	3.2	3.5	4.6	5.0	4.9
NIM	4.3	4.9	4.9	4.7	4.7
Profitability Ratios (%)					
Cost/Income	47.2	48.1	46.0	48.7	48.8
PPOP / Avg. assets	3.0	3.2	3.6	3.3	3.3
RoE	12.7	14.1	15.3	13.5	14.0
RoA	2.11	2.38	2.53	2.16	2.18
Asset Quality (%)					
GNPA (Rs bn)	65	58	53	73	88
NNPA (Rs bn)	17	12	13	18	22
GNPA	2.3	1.8	1.4	1.6	1.7
NNPA	0.6	0.4	0.3	0.4	0.4
PCR	73.2	79.3	75.9	75.1	75.1
Capitalisation (%)					
CAR	22.7	21.8	19.8	19.4	19.1
Tier I	21.7	20.8	19.5	19.1	18.8
Tier II	1.0	1.0	0.3	0.3	0.3
Average Leverage on Assets (x)	6.0	5.9	6.1	6.3	6.3
Valuations					
Book Value (Rs)	361	416	486	555	634
Adj. Book Value (Rs)	356	413	481	548	626
Price-BV (x)	3.1	2.7	2.3	2.0	1.8
Price-Adj. BV (x)	3.1	2.7	2.3	2.0	1.8
EPS (Rs)	43.2	55.1	69.3	70.5	81.9
EPS Growth (%)	22.9	27.5	25.9	1.6	16.2
Price-Earnings (x)	25.7	20.2	16.0	15.8	13.6
Dividend (Rs)	1	2	2	2	2
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2

Source: Company, Systematix Institutional Research

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