Kotak Mahindra Bank (KOTMAH)

ICICI Direct

CMP: ₹ 1980 | Target: ₹ 2350 (19%) | Target Period: 12 months | BUY

July 28, 2025

Result Update

Margin drags overall performance, revival expected in H2...

About the stock: Kotak Mahindra Bank is one of the leading private sector banks in India providing a wide array of banking and financial services, boasting around ₹ 6,93,624 crore in customer assets.

- It spans over 2154 branches and 2927 ATMs
- Consistent in delivering superior RoA of 2+% and RoE of 13+%

Q1FY26 performance: Kotak Mahindra Bank reported a weak Q1FY26, impacted by sharp margin compression and elevated credit costs. Advances grew 14.1% YoY (4.2% QoQ), led by strong corporate growth, while unsecured retail slowed. Deposits rose 14.6% YoY, with term deposits up 19% YoY, though CASA ratio declined to 40.9%. NIM dropped to 4.65% (vs 4.97% in Q4), affected by day count, asset repricing, and lower unsecured mix. Slippages rose to ₹1,812 crore, mainly from retail CV and rural segment. Credit cost increased to 93 bps, while GNPA/NNPA inched up to 1.48%/0.34%. PAT stood at ₹3,282 crore.

Investment Rationale

- **Growth steady, but margin pressure to linger near term:** Management continues to target credit growth at 1.5–2x of nominal GDP, led by consumer banking (16% YoY), wholesale banking (13% YoY). While unsecured growth is expected to revive gradually as personal loan disbursements scale and traction in credit cards improves post new product launches. On the margin front, NIM declined 35 bps QoQ to 4.65% in Q1FY26, impacted by repo rate cuts, run-down in unsecured mix, and seasonal factors. Management expects NIMs to bottom out in Q2, with recovery over next 3–4 quarters aided by term deposit repricing (avg. TD tenor: 9–12 months), SA rate cuts (down to 2.5% vs 3.25% avg in Q1), and CRR benefit from September'25. Deposit mix optimisation & improving asset mix are expected to cushion further pressure and aid margin in H2.
- **MFI and retail CV weigh on slippages, core portfolio healthy:** Asset quality pressures were primarily driven by MFI and retail CV stress, with slippages rising to ₹1,812 crore (up 22% QoQ) and credit cost at 93 bps (vs 64 bps in Q4FY25), GNPA/NNPA stood at 1.48%/0.34%, with PCR at 77%. Management believes MFI credit cost has peaked and expects moderation from H2, while personal loans and credit cards have stabilised. SME and business banking remain healthy and largely secured, while retail CV stress is being addressed through calibrated disbursement. On the cost front, C/I ratio saw near-term impact from tech and marketing spends, but is expected to improve as tech investments reap benefit.

Rating and Target Price

- While revival is seen in growth momentum, margins & credit cost face headwinds. Management expects recovery in H2, amid levers including CRR, repricing of liabilities and secured MSME book.
- We expect the bank to deliver ~15% CAGR in business and RoA at 2-2.1%. Maintaining multiple for standalone bank at 2.4x FY27E BV and assigning ₹600 for subsidiaries, we revise our target price to ₹2350 (earlier 2,400). Recommend a Buy rating.

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Kotak Mahindra Bank

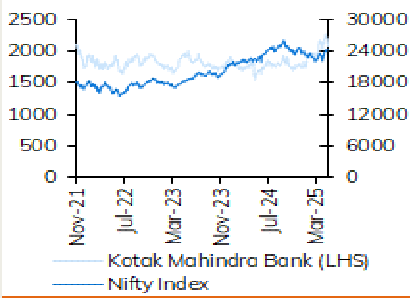
Particulars

Particulars	Amount
Market Capitalisation	₹ 3,96,187 crore
52 week H/L	2,302 / 1,679
Net worth	₹ 1,57,489 crore
Face value	5

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25
Promoter	26	26	26
FII	33	33	33
DII	29	29	29
Others	13	12	12

Price Chart



Key risks

(i) Sustained stress in retail CV and MFI

(ii) Slower than expected deposit repricing

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY23	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	21,552	25,993	28,342	19%	30,888	35,891	13%
PPP	14,848	19,587	24,526	27%	23,276	27,050	5%
PAT	10,939	13,782	19,970	33%	14,437	17,546	-6%
ABV	415	481	580		647	731	
P/E	35.9	28.5	19.6		27.2	22.4	
P/ABV	4.8	4.1	3.4		3.1	2.7	
RoA	2.4	2.5	3.1		2.0	2.1	
RoE	14.0	15.3	18.8		11.7	12.6	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Management expects overall credit growth to remain healthy, aligned with the bank's stated strategy of growing advances at 1.5–2x of nominal GDP.
- Retail Secured Loans:
  - Mortgage (Home Loans & LAP): Continue to focus despite irrational pricing in the home loan market; LAP demand remains strong.
  - Business Banking: Strong pipeline and granular SME growth expected to continue, led by working capital demand.
- Retail Unsecured Loans:
  - Personal Loans: Growth to be maintained with focus on salaried, digitally acquired customers. Portfolio showing stable flows and healthy collection efficiency.
  - Credit Cards: Traction to improve with launch of new products (Solitaire, IndiGo); expected to scale over coming quarters.
  - MFI: Disbursements being cautiously restarted; stress has peaked in Q1. Bank expects recovery in H2FY26, aided by new risk-based underwriting models.
- Retail CV & CE:
  - Remains under pressure, especially in retail goods transport; disbursement curtailed.
  - Bank expects improvement post-monsoon and festive season; will remain cautious in retail CV.
- Tractor Finance:
  - Positive outlook supported by normal monsoon and favourable Kharif crop; credit costs may moderate in H2FY26.
- Wholesale Banking:
  - Mid-market and SME lending to drive growth; shift towards flow-based business (trade, transaction banking) over long-tenure loans.
  - Large corporates to remain pricing-challenged; bank prefers capital-light, relationship-led model.
- Fixed-rate SA rates have been cut to 2.5% (from 3.25% average in Q1); benefit to accrue meaningfully from Q2.
- Aspirational mix of unsecured loans in medium term: ~15% of book (currently ~9.7%)

Margins

- NIM declined to 4.65% (down 35 bps QoQ) due to:
  - Repo cut impact
  - Loan mix shift (lower unsecured loans)
  - Seasonal day-count impact
- Repo Rate Transmission:
  - Only partial impact of 50 bps June cut seen in Q1; full impact to play out in Q2.
  - Margin recovery expected over next 3–4 quarters through:
    - Deposit repricing (9–12M TD tenure)
    - SA rate cuts (down to 2.5% from 3.25% avg in Q1)
    - CRR cut benefit from Sep onwards
- After a repo cut, it takes broadly 3 months to flow through completely on assets side

Opex and credit cost

- Gross slippages rose to ₹1,812 crore (vs ₹1,488 crore in Q4FY25); Credit cost at ~93 bps in Q1.
- Asset quality: GNPA at 1.48%, NNPA at 0.34%, PCR at 77%.
- Credit cost rise largely due to MFI, retail CV stress and lower recoveries from legacy corporate book.

- Migration to individual risk-based underwriting from JLG in MFI is underway which will significantly improve underwriting mechanism and thus asset quality.
- Growth in opex expected to remain controlled despite increased acquisition spend:
  - Tech investments (~13.5% of CapEx) to drive efficiency (notably in payroll)
  - Onboarding via 811 and card business will increase variable opex, but matched by revenue pickup
- Marketing spends were high on account of restart of 811 and cards offering.
- Karnataka issues in Jan–Feb'25 have contributed to credit cost in MFI

Other updates

- Fee was impacted due to lower credit card fee and lower deal income.
- Launched Solitaire for affluent customers — bundling investments, protection, loans, cards.
- Continued investments in digital platforms like Kotak Fyn and revamped Kotak 811.
- Cross-sell momentum improving, especially through 811 and Solitaire platforms

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	7,259	6,842	6.1	7,284	-0.3	Higher growth in advances QoQ offset by margin compression
NIM (%)	5	5	-37 bps	5	-32 bps	Elevated CoF and lag in repricing of laibilities
Other Income	3,080	2,929	5.2	3,182	-3.2	Surge in treasury and fees income (embargo in last fiscal)
Net Total Income	10,339	9,771	5.8	10,466	-1.2	
Staff cost	2,066	1,871	10.4	2,106	-1.9	
Other Operating Expenses	2,710	2,647	2.4	2,888	-6.1	Steady opex
PPP	5,564	5,254	5.9	5,472	1.7	
Provision	1,208	578	108.8	909	32.8	Higher credit cost 0.93% vs 0.64% Q4FY25
PBT	4,356	4,676	-6.8	4,563	-4.5	
Tax Outgo	1,074	1,156	-7.1	1,011	6.2	
PAT	3,282	3,520	-6.8	3,552	-7.6	Elevated provision and margin pressure impacted earnings
Key Metrics						
GNPA	6,638	5,477	21.2	6,134	8.2	Increase owing to higher slippages
NNPA	1,531	1,376	11.2	1,343	14.0	
Advances	444,823	389,957	14.1	426,909	4.2	Robust growth across retail and corporate segment
Deposits	512,838	447,418	14.6	499,055	2.8	Moderation in CASA ratio to 40.9%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	45,798.9	52,919.7	57,860.8	66,334.2
Interest Expended	19,805.7	24,578.0	26,972.5	30,443.5
Net Interest Income	25,993.2	28,341.8	30,888.3	35,890.7
Growth (%)	20.6	9.0	9.0	16.2
Non Interest Income	10,273.1	14,961.1	13,288.8	14,775.3
Net Income	36,266.3	43,302.9	44,177.1	50,666.1
Operating expense	16,678.8	18,776.4	20,901.5	23,615.7
Gross profit	19,587.5	24,526.5	23,275.7	27,050.4
Provisions	1,573.7	2,942.4	3,896.7	3,498.7
Taxes	4,232.1	5,134.0	4,941.6	6,005.7
Exceptional item	0.0	3,519.9	0.0	0.0
Net Profit	13,781.6	19,970.0	14,437.3	17,546.0
growth (%)	26.0	44.9	-27.7	21.5
EPS	69.5	100.8	72.8	88.5

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares	198.2	198.2	198.2	198.2
EPS	69.5	100.8	72.8	88.5
BV	487.6	586.9	658.3	745.1
ABV	481.2	580.1	647.2	730.9
P/E	28.5	19.6	27.2	22.4
P/BV	4.1	3.4	3.1	2.7
P/ABV	4.1	3.4	3.1	2.7
Yields & Margins (%)				
Yield on avg earning assets	8.9	8.8	8.4	8.5
Avg. cost on funds	4.6	4.8	4.6	4.5
Net Interest Margins	5.1	4.7	4.5	4.6
Avg. Cost of Deposits	4.5	4.8	4.7	4.6
Yield on average advances	10.2	10.1	9.7	9.8
Quality and Efficiency (%)				
Cost / Total net income	46.0	43.4	47.3	46.6
Credit/Deposit ratio	83.8	86.0	86.3	86.4
GNPA	1.4	1.4	1.5	1.4
NNPA	0.3	0.3	0.4	0.5
RoE	15.3	18.8	11.7	12.6
RoA	2.5	3.1	2.0	2.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital (incl PCNPS)	994.0	994.1	994.1	994.1
ESOPS	79.3	94.3	94.3	94.3
Reserves and Surplus	95,645.5	115,319.9	129,468.5	146,663.5
Networth	96,718.8	116,408.3	130,556.8	147,751.9
Deposits	448,953.7	496,595.0	570,607.8	656,301.7
Borrowings	28,368.1	48,442.8	53,918.0	60,393.6
Other Liabilities & Provisions	26,316.4	28,886.4	32,010.8	35,500.2
Total	600,357.0	690,332.4	787,093.4	899,947.4
Applications of Funds				
Fixed Assets	2,155.3	2,358.9	2,747.1	3,176.8
Investments	155,403.8	181,907.4	197,524.3	215,723.7
Advances	376,075.3	426,909.2	492,637.6	566,865.1
Other Assets	13,934.3	13,377.8	24,077.8	39,134.1
Cash with RBI & call money	52,788.4	65,779.2	70,106.6	75,047.8
Total	600,357.0	690,332.4	787,093.4	899,947.4

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	22.6	15.0	14.0	14.3
Advances	17.6	13.5	15.4	15.1
Deposits	23.6	10.6	14.9	15.0
Total Income	26.7	19.4	2.0	14.7
Net interest income	20.6	9.0	9.0	16.2
Operating expenses	21.0	12.6	11.3	13.0
Operating profit	31.9	25.2	-5.1	16.2
Net profit	26.0	44.9	-27.7	21.5
Book value	15.8	20.4	12.2	13.2
EPS	26.0	44.9	-27.7	21.5

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%

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