Kotak Mahindra Bank (KOTMAH)

ICICI Direct

CMP: ₹ 423 | Target: ₹ 515 (22%) | Target Period: 12 months | BUY

January 27, 2026

Steady Q3, Credit cost eases further…

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.

- It spans over 2218 branches and 2749 ATMs
- Consistent in delivering superior RoA of 2+% and RoE of 13+%

Q3FY26 performance: Kotak Mahindra Bank delivered a steady Q3FY26 performance, marked by advances growth of 16% YoY (4% QoQ), led by strong traction in business banking and mortgages, while deposits rose 14.6% YoY (2.6% QoQ) with CASA at 41.3% (down 100 bps). NIM stood at 4.54% (flat QoQ) as benefits from deposit repricing and CRR cut offset the impact of repo rate transmission and temporary deployment of surplus liquidity in low-yield treasury asset. Credit cost moderated to 63 bps (vs 79 bps in Q2) with improvement in MFI and credit card portfolio, while asset quality remained robust (GNPA/NNPA: 1.30%/0.31%). PAT stood at ₹3,446 crore with CET-1 at 21.5%.

Investment Rationale

- **Growth visibility improving with calibrated mix shift toward higher-yield segments:** Management expects loan growth to remain aligned with its medium-term guidance of ~1.5–2x nominal GDP, led by sustained momentum in business banking, mid-market and secured retail segments. Over the next few quarters, growth is expected to tilt gradually towards unsecured retail, with the unsecured share rising from ~9% currently toward low-teens, as credit cards and personal loans scale up post product revamp and MFI disbursements normalise. Deposit growth is expected to broadly track advances, supported by a granular franchise, while CASA is guided to remain resilient around low-40% levels, despite system-wide competition for low-cost balances.
- **Stabilising margins and normalising credit cost supports RoA:** Margins are expected to show greater stability from Q1FY27, as TD repricing (9–12M maturity) largely completes, CRR benefits flow fully, and short-term liquidity distortion unwinds. On the asset quality front, management expects credit cost to trend toward 55–60 bps over the medium term, supported by improving collections in MFI, personal loans and credit cards, while stress in retail CV is likely to remain contained through calibrated underwriting. Operating leverage is expected to improve, with cost-to-assets guided toward ~2.5–2.6%. Credit cost declined to 63bps (vs. 79bps Q2FY26) and management expects further credit cost normalisation ahead. ECL transition impact (post-tax) is guided at <2% of NW.

Rating and Target Price

- Risk-calibrated growth, margin stability and cost efficiency positions the bank well for consistent profitability through the cycle.
- Expect the bank to deliver ~15% CAGR in business and RoA at ~2.1%. Rolling over FY28E, we value the standalone bank at ~2.4x FY28E ABV and assigning ₹127 for subsidiaries, thereby assigning target price of ₹515. Maintain Buy rating.

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Kotak Mahindra Bank

Result Update

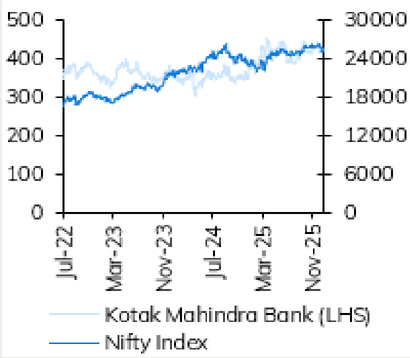
Particulars

Particulars	Amount
Market Capitalisation	₹ 4,20,147 crore
52 week H/L	460 / 372
Net worth	₹ 1,67,935 crore
Face value	₹ 1

Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	25.9	25.9	25.9	25.9
FII	32.6	32.3	29.8	29.4
DII	29.1	29.6	32.0	32.9
Others	12.4	12.2	12.3	11.8

Price Chart



Key risks

(i) Elevated competitive intensity on liabilities accretion

(ii) Asset quality stress in select segment

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY24	FY25	3 year CAGR (FY22-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	25993	28342	19%	30180	35812	41561	14%
PPP	19587	24526	27%	21857	26636	30885	8%
PAT	13782	19970	33%	13541	17235	19837	0%
ABV	96	116		129	145	165	
P/E	30.4	21.1		31.1	24.4	21.2	
P/ABV	4.4	3.7		3.3	2.9	2.6	
RoA	2.5	3.1		1.9	2.1	2.1	
RoE	15.3	18.8		11.0	12.5	12.7	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Performance and growth outlook

- Management reiterated its strategy of scaling advances at ~1.5–2x of nominal GDP, with loan growth expected to remain healthy, driven by SME, mid-market and secured retail segments.
- Consumer and MSME:
    - Mortgages (HL + LAP): Strong traction; home loans positioned as an anchor product for affluent relationships; LAP share ~55–65%.
    - Business banking: Strong secured MSME growth; utilisation elevated in festive period; unsecured BB grown cautiously.
    - Personal loans: Organic PL performing well; acquired SCB PL book performing better than expected, with residual <₹1,500 crore (~20% of original), expected to run down over ~2 quarters.
    - Credit cards: Product suite revamped; Solitaire card gaining traction in affluent segment; growth to be measured, prioritising spend quality before AUM scale.
- Commercial banking:
    - Retail CV: Underwriting tightened; newer vintages showing better early delinquency.
    - Tractor finance: Strong industry backdrop (GST cuts, rural sentiment); near-term collection softness expected to improve with rabi cashflows.
    - MFI: Book flat QoQ; origination improving gradually; portfolio quality stable; CGFMU cover being used.
- Wholesale & institutional:
    - Emphasis on granular SME/mid-market growth and flow businesses.
    - Pricing pressure persists in large corporates; focus on profitability via transaction banking, FX, DCM and cross-sell.
    - Capital markets activity rebounded in Q3 with strong IPO/QIP and advisory participation.
- Unsecured mix: To rise ~15% of total advances over the medium term (current: ~9%).

Margins

- NIM stood at ~4.5% (flat QoQ).
- Sequential margin performance reflects:
    - Full transmission of earlier repo cut on floating-rate assets.
    - Deposit repricing benefit, with cost of funds declining to ~4.54% (vs ~4.7% in Q2).
    - Temporary dilution due to large IPO-related short-term funds deployed in low-yield treasury asset.
- Management highlighted that underlying NIM improved to ~4.58%, excluding the impact of short-term liquidity deployment.
- Margin outlook:
    - Q4FY26: Moderate improvement expected, aided by full-quarter CRR benefit and February day-count advantage, partly offset by 25 bps repo cut transmission and slower deposit repricing.
    - FY27: Management expects a clearer steady-state NIM trajectory from Q1FY27, once seasonal and technical factors normalise.
    - Deposit repricing largely expected to complete by Q1FY27, given 9–12 month average term deposit maturity.

Opex and credit cost

- Employee cost includes labour code-related provision (~₹96 crore pre-tax at bank level; ~₹128 crore at group level).
- Other opex increased due to:
    - Festive-season marketing spends

    - Higher acquisition costs (tractor finance seasonality; upfront brokerage)
    - Scaling of 811 and other volume-linked businesses
- Management reiterated confidence in operating leverage, guiding towards cost-to-assets at ~2.5–2.6% over time, with automation/digitisation offsetting growth-linked cost.
- Credit cost: Declined to ~63 bps (vs ~79 bps in Q2), driven by:
    - Improvement in MFI, personal loans and credit card portfolios.
    - Credit card delinquencies have plateaued, with no incremental stress.

Other updates

- Introduced Anup Saha (WTD-designate) with ~3 decades of experience across retail finance, analytics, risk, collections and operations; to lead consumer bank data analytics and marketing.
- Fee income grew ~6% QoQ, led by FX, debt capital market and distribution income; credit card fee income remained subdued.
- Capital adequacy remains strong: CRAR ~22% with CET-1 at ~21.5%, providing ample growth headroom.
- ECL framework: Draft ECL impact estimated at <2% of net worth (post-tax); strong capital buffers provide comfort.
- Digital initiatives: Continued investments in Kotak 811 and enterprise platforms to improve acquisition, engagement and cross-sell.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	7,564.6	7,196.3	5.1	7,310.7	3.5	Healthy growth in advances offset by repo transmission on floating assets
NIM (%)	4.54	4.93	-39 bps	4.54	0 bps	Deposit repricing and CRR benefit offset temporary deployment of surplus liquidity in low-yield treasury asset
Other Income	2,837.8	2,622.8	8.2	2,589.2	9.6	Led by FX, debt capital markets and distribution income
Net Total Income	10,402.4	9,819.1	5.9	9,899.9	5.1	
Staff cost	2,245.8	1,952.5	15.0	1,979.5	13.5	Labour code provision of ~₹96 crore (pre-tax)
Other Operating	2,776.8	2,685.6	3.4	2,652.1	4.7	Steady opex
PPP	5,379.8	5,181.0	3.8	5,268.3	2.1	
Provision	809.6	794.1	1.9	947.4	-14.5	Credit cost witnessed moderation at 0.63% vs 0.79% in Q2FY26
PBT	4,570.2	4,386.9	4.2	4,320.9	5.8	
Tax Outgo	1,124.1	1,082.1	3.9	1,067.5	5.3	
PAT	3,446.1	3,304.8	4.3	3,253.3	5.9	Margin pressure offset by declining credit cost thereby supporting earnings
Key Metrics						
GNPA	6,319.8	6,266.0	0.9	6,479.6	-2.5	Down 9 bps QoQ to 1.30%
NNPA	1,496.9	1,681.0	-11.0	1,491.0	0.4	
Advances	480,673.0	413,839.0	16.1	462,688.0	3.9	Robust growth across retail and agri segment
Deposits	542,638.0	473,497.0	14.6	528,776.0	2.6	CASA at 41.3%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	52919.7	55580.0	65560.8	75095.7
Interest Expended	24578.0	25400.3	29749.0	33535.0
Net Interest Income	28341.8	30179.7	35811.7	41560.7
Growth (%)	9.0	6.5	18.7	16.1
Non Interest Income	14961.1	11728.0	13325.2	15249.9
Net Income	43302.9	41907.7	49136.9	56810.6
Operating expense	18776.4	20050.3	22500.8	25925.6
Gross profit	24526.5	21857.4	26636.1	30885.0
Provisions	2942.4	3875.3	3501.3	4257.6
Taxes	5134.0	4441.6	5899.4	6790.0
Exceptional item	3519.9	0.0	0.0	0.0
Net Profit	19970.0	13540.5	17235.4	19837.4
growth (%)	44.9	-32.2	27.3	15.1
EPS	20.1	13.6	17.3	20.0

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of Equity Shares	994.1	994.3	994.3	994.3
EPS (₹)	20.1	13.6	17.3	20.0
BV (₹)	117.0	130.3	147.3	166.9
ABV (₹)	115.7	128.8	145.4	164.9
P/E	21.1	31.1	24.4	21.2
P/BV	3.7	3.3	2.9	2.6
P/ABV	3.7	3.3	2.9	2.6
Yields & Margins (%)				
Yield on avg earning assets	8.8	8.1	8.5	8.5
Avg. cost on funds	4.8	4.4	4.5	4.5
Net Interest Margins	4.7	4.4	4.6	4.7
Avg. Cost of Deposits	4.8	4.4	4.6	4.5
Yield on average advances	10.1	9.4	9.8	9.8
Quality and Efficiency (%)				
Cost / Total net income	43.4	47.8	45.8	45.6
Credit/Deposit ratio	86.0	89.0	89.1	89.6
GNPA	1.4	1.4	1.4	1.3
NNPA	0.3	0.3	0.3	0.3
RoE	18.8	11.0	12.5	12.7
RoA	3.1	1.9	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital (incl PCNPS)	994	994	994	994
ESOPS	94	94	94	94
Reserves and Surplus	115320	128590	145480	164921
Networth	116408	129678	146569	166009
Deposits	496595	554928	637899	734000
Borrowings	48443	51854	55750	60164
Other Liabilities & Provision	28886	32011	35500	39399
Total	690332	768470	875718	999573
Applications of Funds				
Fixed Assets	2359	2747	3177	3601
Investments	181907	188269	209523	234614
Advances	426909	494053	568493	657866
Other Assets	13378	13294	19478	22782
Cash with RBI & call money	65779	70107	75048	80710
Total	690332	768470	875718	999573

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	15.0	11.3	14.0	14.1
Advances	13.5	15.7	15.1	15.7
Deposits	10.6	11.7	15.0	15.1
Total Income	19.4	-3.2	17.3	15.6
Net interest income	9.0	6.5	18.7	16.1
Operating expenses	12.6	6.8	12.2	15.2
Operating profit	25.2	-10.9	21.9	16.0
Net profit	44.9	-32.2	27.3	15.1
Book value	20.4	11.4	13.0	13.3
EPS	44.4	-32.2	27.3	15.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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