

Robust all-round performance...

About the stock: Kotak Mahindra Bank (KMB) is a powerful banking franchise, with promoter stake at ~26% and strong promoter led management. It has a presence across the financial services value chain.

- CASA forms ~53% of total deposits aiding lower costs
- Superior RoA of ~2% and RoE of ~12%

Q3FY23 Results: Robust business growth and operational performance.

- Advances up 22.9% YoY to ₹ 3.1 lakh crore, deposits up 12.9% YoY
- NII growth at 30.4% YoY, NIMs expand 30 bps QoQ to 5.47%
- Credit cost at 27 bps. PAT grew 31% YoY, 8.2% QoQ at ₹ 2791 crore
- GNPA declined 18 bps QoQ to 1.9%; net slippages at 0.2% of advances

What should investors do? KMB's share price has grown by 1.6x over the past five years. Focus on risk adjusted growth, granularity of liabilities and improving wealth management business to aid earnings and keep return ratios.

- We maintain **BUY** rating on the stock

Target Price and Valuation: Rolling to FY25E, we value the standalone bank at ~3.35x FY25E ABV and subsidiaries at ~₹ 497 post holding company discount giving an SOTP target of ₹ 2175.

Key triggers for future price performance:

- Continued focus on unsecured lending to drive growth as well as margins
- Business growth, repricing of rates and shift to high yielding segment to aid margins; though deposit accretion at reasonable cost remains a challenge
- Focus on wealth management business to aid fee income without NPA risk
- Gradual improvement in contribution of subsidiaries to aid valuation of consolidated entity

Alternate Stock Idea: Apart from Kotak, in our coverage we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with target price of ₹ 1000



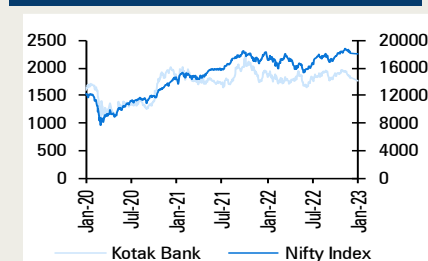
Particulars

Particulars	Amount
Market Capitalisation	₹ 350196 crore
52 week H/L	1997/1630
Net worth	₹ 79375 crore
Face value	₹ 5

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	26.0	26.0	26.0	26.0	26.0
FII	42.1	40.9	40.6	40.9	40.9
DII	15.5	16.6	17.3	20.0	20.1
Others	16.5	16.6	16.2	13.2	13.1

Price Chart



Recent Event & Key risks

- NIMs expanded 30 bps QoQ to 5.47%
- **Key Risk:** i) Slower growth in CASA deposits, ii) Elevated opex may impact profitability

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Key Financial Summary

₹ crore	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	13500	15340	16818	14%	20749	23161	26600	17%
PPP	10021	11762	12051	13%	14245	16044	18667	16%
PAT	5137	6965	8573	22%	10206	11161	12741	14%
ABV	248	308	357		408	460	501	
P/E	65.7	50.2	40.8		34.2	31.3	27.4	
P/ABV	7.1	5.7	4.9		4.3	3.8	3.5	
RoA	1.5	1.9	2.1		2.2	2.1	2.1	
RoE	11.2	12.4	12.6		13.2	12.6	13.0	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Overall robust performance; margins climb to new high

- KMB reported a robust performance during the quarter. NII growth came in at 30.4% YoY and 10.9% QoQ to ₹ 5653 crore, aided by 30 bps sequential expansion in NIMs to 5.47% and robust growth in advances
- Other income jumped 54% YoY and 7.5% QoQ to ₹ 2100 crore, primarily due to strong growth of 23.5% YoY (~5% QoQ) in fee income
- Opex increased 30.2% YoY and 12% QoQ, resulting in C/I ratio of 50.3% (vs. 52.6% in Q3FY22 and 49.4% in Q2FY23)
- Provisions inched up 8.6% QoQ to ₹ 148.8 crore (post utilising ₹ 38 crore from restructured provision) though credit cost remained steady on a sequential basis to 27 bps (annualised). PAT reported growth at 31% YoY and 8.2% QoQ to ₹ 2792 crore (in line with our estimates)
- Advances growth was healthy at 22.9% YoY & 5.7% QoQ to ₹ 3.1 lakh crore, led by growth across retail segments. Of retail loans, credit card, personal & consumer durable and home loans increased 85%, 69% and 29% YoY, respectively. Corporate loan growth was muted at ~2% YoY whereas SME segment grew 25% YoY
- Deposits were up 12.9% YoY, 6.0% QoQ to ₹ 3.44 lakh crore, with robust accretion in term deposits. Thus, CASA ratio contracted to 53.3% vs. 56.2% in Q2FY23 and 59.9% in Q3FY22
- Asset quality performance improved (both in percentage terms and absolute terms). GNPA and NNPA declined 18 bps and 12 bps sequentially to 1.9% and 0.43%, respectively. Slippage for the quarter was at ₹ 748 crore (0.2% of loans) vs. ₹ 653 crore (0.2% of loans) in Q2FY23
- The bank held total provisions of ₹ 6570 crore vs. ₹ 6496 crore in the previous quarter. Total provision consists of ₹ 400 crore as Covid provision and ₹ 185 crore as restructuring provision

Q3FY23 Earnings Conference Call highlights

- The management will continue to focus on growth with risk adjusted return in focus. In the corporate segment, competitive pressure on pricing was significant during the quarter. The aim is to focus more on mid-market segment in SME and large corporate. SME book is expected to witness faster growth of 25% YoY compared to the rest of the corporate book
- Focus on granular deposit and liability franchise especially salaried segment
- Unsecured retail segment proportion to increase to mid-teens by Q4FY24 vs. 9.3% at present
- AIF business to be more than \$5 million in the next couple of quarters. The bank is committed to put ~15% of group capital
- Opex was higher due to promotional activities, higher cost on IT and related activities, payout to DSAs. Going ahead. investment in franchise and capability building to continue in the next couple of quarters
- Total ~15% of the MCLR book is yet to be repriced, which is expected to see some pickup in NIMs in the coming quarter
- SA deposits (especially bulk deposits, which are more than ₹ 50 lakh) have moved to term deposits and mutual funds and non-replenishment of some government business. LCR was at ~121.4%
- Digital transactions are going up. Hence, the bank will take measured steps in expanding the branch network. Though addition of ~150 branches is on the cards in FY24
- Employee count is ~73000 at the bank level (~71000 in Q2FY23) and ~1 lakh at the group level

Kotak Mahindra Bank - ESG Disclosure Score			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	16.6	18.3	-
Social	23.6	23.6	-
Governance	83.6	83.6	-
Overall ESG Score	41.3	41.9	-

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)				
	(₹)	TP(₹)			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Axis Bank (AXIBAN)	930	1,000	Buy	2,862	21.5	42.4	66.1	72.9	43.2	21.9	14.1	12.8	3.0	2.7	2.3	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,660	1,920	Buy	9,261	56.4	66.7	78.7	93.7	29.4	24.9	21.1	17.7	3.9	3.4	3.0	2.5	16.7	16.9	17.5	17.7
IndusInd Bank (INDBA)	1,202	1,450	Buy	932	36.7	59.5	93.1	111.0	32.8	20.2	12.9	10.8	2.2	2.0	1.8	1.6	7.3	10.1	14.2	14.9
Kotak Bank (KOTMAH)	1,763	2,175	Buy	3,501	35.1	43.0	51.5	56.3	50.2	41.0	34.2	31.3	5.7	4.9	4.3	3.8	12.4	12.6	13.2	12.6
Bandhan (BANBAN)	241	265	Hold	381	-12.8	0.8	12.9	15.9	-18.8	308.6	18.7	15.2	3.8	2.5	2.2	2.0	-14.6	0.8	11.3	12.6
IDFC First (IDFBAN)	59	70	Buy	370	0.8	0.2	3.4	4.3	74.4	253.4	17.7	13.7	2.1	1.9	1.6	1.5	2.7	0.8	9.5	11.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	5,652.9	5,383.3	4,334.3	30.4	5,099.4	10.9	Driven by business growth and margins uptick
NIM (%)	5.47	5.30	4.62	85 bps	5.17	30 bps	Higher focus on retail unsecured segment and repricing improved NIMs
Other Income	2,100.0	1,977.3	1,363.7	54.0	1,954.2	7.5	Fee income up 23.5% YoY
Net Total Income	7,752.9	7,360.7	5,698.0	36.1	7,053.6	9.9	
Staff cost	1,477.8	1,313.8	1,199.8	23.2	1,414.7	4.5	
Other Operating Expenses	2,425.3	2,246.4	1,797.1	35.0	2,071.4	17.1	Focus on building capabilities keep opex elevated
PPP	3,849.8	3,800.4	2,701.0	42.5	3,567.5	7.9	
Provision	148.8	201.4	-131.7	-213.0	137.0	8.6	Covid provisions of ₹ 38 crore got reversed
PBT	3,701.0	3,599.0	2,832.7	30.7	3,430.5	7.9	
Tax Outgo	909.1	899.8	701.4	29.6	849.8	7.0	
PAT	2,791.9	2,699.3	2,131.4	31.0	2,580.7	8.2	Aided by strong top line and sustained business growth
Key Metrics							
GNPA	5,994.6	6,040.1	6,982.8	-14.2	6,210.2	-3.5	Out of total slippages, ₹ 171 crore got upgraded
NNPA	1,344.8	1,630.8	2,003.5	-32.9	1,630.4	-17.5	
Advances	3,10,734	3,09,845	2,52,935	22.9	2,94,023	5.7	Aided by secured and unsecured retail segment
Deposits	3,44,666	3,43,447	3,05,286	12.9	3,25,202	6.0	Fixed SA deposits declined marginally YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	20,148.4	20,748.7	3.0	23,958.8	23,161.3	-3.3	26,599.6
Pre Provision Profit	14,093.2	14,244.9	1.1	16,808.6	16,043.6	-4.6	18,667.2
NIM (%)	4.7	4.9	19 bps	4.8	4.8	-4 bps	4.8
PAT	9,670.0	10,206.2	5.5	11,293.4	11,161.1	-1.2	12,741.1
ABV (₹)	407.4	408.4	0.3	462.5	460.3	-0.5	500.8

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	20.1	19.2	18.5	23.1	21.3
Deposit growth (%)	14.0	17.7	18.5	15.0	20.9
NIM (Calc) %	4.9	4.8	4.8	4.7	4.8
C/l ratio %	48.8	48.5	47.8	48.2	47.3
Slippage ratio %	1.0	1.0	1.0	1.0	1.0
Credit cost %	0.17	0.27	0.34	0.33	0.41

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	1678
Kotak Life (assumed 100% stake)	201
Kotak Mahindra Prime	118
Kotak Mahindra Capital & others	67
Kotak Securities	122
Kotak AMC	112
Total	621
20% holding company discount	124
SOTP target (post discount)	2175

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Interest Earned	27038.8	33095.3	38125.7	44258.1	
Interest Expended	10220.9	12346.6	14964.3	17658.6	
Net Interest Income	16817.9	20748.7	23161.3	26599.6	
growth (%)	9.6	23.4	11.6	14.8	
Non Interest Income	6354.4	7055.5	7978.6	9138.8	
Net Income	23172.3	27804.2	31139.9	35738.4	
Operating expense	11121.4	13559.2	15096.3	17071.2	
Gross profit	12050.9	14244.9	16043.6	18667.2	
Provisions	689.6	545.3	1062.3	1565.0	
Taxes	2788.6	3493.4	3820.2	4361.1	
Net Profit	8572.7	10206.2	11161.1	12741.1	
growth (%)	23.1	19.1	9.4	14.2	
EPS	43.0	51.5	56.3	64.3	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Valuation					
No. of Equity Shares	198.4	198.2	198.2	198.2	
EPS (₹)	43.2	51.5	56.3	64.3	
BV (₹)	365.4	417.1	473.4	516.4	
ABV (₹)	356.8	408.4	460.3	500.8	
P/E	40.8	34.2	31.3	27.4	
P/BV	4.9	4.3	3.8	3.5	
P/ABV	4.9	4.3	3.8	3.5	
Yields & Margins (%)					
Yield on avg earning assets	7.3	7.9	7.9	8.0	
Avg. cost on funds	3.2	3.4	3.6	3.6	
Net Interest Margins	4.5	4.9	4.8	4.8	
Avg. Cost of Deposits	3.1	3.4	3.6	3.6	
Yield on average advances	7.8	8.6	8.6	8.6	
Quality and Efficiency (%)					
Cost / Total net income	48.0	48.8	48.5	47.8	
Credit/Deposit ratio	87.0	91.7	92.8	92.9	
GNPA	2.3	2.0	1.7	1.5	
NNPA	0.6	0.5	0.7	0.7	
ROE	12.6	13.2	12.6	13.0	
ROA	2.1	2.2	2.1	2.1	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Sources of Funds					
Capital (incl PCNPS)	1492	1492	1492	1492	
ESOPS	31	31	31	31	
Reserves and Surplus	70964	81170	92331	100858	
Networth	72488	82694	93855	102382	
Deposits	311684	355233	418039	495208	
Borrowings	25967	28144	30730	33771	
Other Liabilities & Provisions	19289	21051	23358	25936	
Total	429428	487122	565982	657297	
Applications of Funds					
Fixed Assets	1644	2023	2349	2665	
Investments	100580	101931	104091	106326	
Advances	271254	325671	388049	459933	
Cash with RBI & call money	55951	44270	46066	48349	
Total	429428	487122	565982	657297	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios		(%)			
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total assets	12.0	13.4	16.2	16.1	
Advances	21.3	20.1	19.2	18.5	
Deposits	11.3	14.0	17.7	18.5	
Total Income	4.9	20.2	14.8	15.8	
Net interest income	9.6	23.4	11.6	14.8	
Operating expenses	29.6	21.9	11.3	13.1	
Operating profit	2.5	18.2	12.6	16.4	
Net profit	23.1	19.1	9.4	14.2	
Book value	13.7	14.1	13.5	9.1	
EPS	23.1	19.1	9.4	14.2	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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