

Another quarter of 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 ~14%

Q4FY23 Results: Robust performance with further improvement in asset quality.

- Advances up 17.9% YoY to ₹ 3.2 lakh crore, deposits up 16.5% YoY
- NII growth at 35% YoY, NIMs expand 28 bps QoQ to 5.75%
- Credit cost at 24 bps. PAT grew 26.3% YoY, 25.2% QoQ at ₹ 3495 crore
- GNPA declined 12 bps QoQ to 1.8%; net slippages at 0.3% of advances

What should investors do? KMB's share price has grown by 1.6x over the past five years. Focus on granular asset, liability mix and risk adjusted margins to aid earnings and return ratios. Management transition remains a near term event.

- We maintain **BUY** rating on the stock as the long term well capitalised bank offers comfort

Target Price and Valuation: We value the standalone bank at ~3.4x FY25E ABV and subsidiaries at ~₹ 501 post holding company discount giving an SOTP target price of ₹ 2290.

Key triggers for future price performance:

- Management confident of better than industry growth and have required resources to fund the growth
- Healthy demand in unsecured segment to drive growth as well as margins. Expect strong RoA of 2.4% and gradual improvement in RoE
- Continued investment in tech and branch expansion may elevate opex in the near term, though benefit to accrue subsequently
- 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 ₹ 1100

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	3 year CAGR (FY20-FY23)	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	13500	15340	16818	21552	17%	24857	28314	15%
PPP	10021	11762	11682	14848	14%	17705	20368	17%
PAT	5137	6965	8204	10939	29%	12841	14731	16%
ABV	248	308	357	415		480	526	
P/E	72.1	55.1	46.8	35.1		29.9	26.1	
P/ABV	7.8	6.2	5.4	4.7		4.0	3.7	
RoA	1.5	1.9	2.0	2.4		2.4	2.4	
RoE	11.2	12.4	12.0	14.0		14.3	14.6	



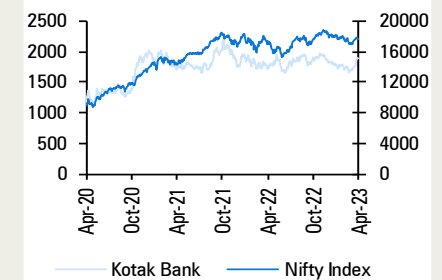
Particulars

Particulars	Amount
Market Capitalisation	₹ 384935 crore
52 week H/L	1997/1630
Net worth	₹ 83460 crore
Face value	₹ 5

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	26.0	26.0	26.0	26.0	26.0
FII	40.9	40.6	40.9	40.9	39.4
DII	16.6	17.3	20.0	20.1	21.3
Others	16.6	16.2	13.2	13.1	13.3

Price Chart



Recent Event & Key risks

- NIMs expanded 28 bps QoQ to 5.75%
- **Key Risk:** i) Pressure on deposits accretion, ii) Slower growth in unsecured portfolio may moderate credit growth

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Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Overall strong performance; margins at all-time high

- KMB reported a robust performance during the quarter. NII growth came in at 35% YoY and 8% QoQ to ₹ 6102 crore, aided by 28 bps sequential expansion in NIMs to 5.75% and robust growth in advances
- Other income jumped 20% YoY and 4% QoQ to ₹ 2186 crore, primarily due to strong growth of 22% YoY in fee income
- Opex was largely controlled during the quarter (up 21% YoY, down 7% QoQ) resulting in C/I ratio declining to 43.9% (vs. 47.4% in Q4FY22 and 50.3% in Q3FY23), partly aided by higher income levels
- Provisions were largely steady on a sequential basis at ₹ 148 crore (vs. reversals of ₹ 306 crore in Q4FY22). Hence, annualised credit cost remained steady on a sequential basis to 24 bps (vs. 27 bps). Aided strong PPP and lowered provisions, PAT reported growth at 26.3% YoY and 25.2% QoQ to ₹ 3495 crore (ahead of our estimates of ₹ 2984 crore)
- Advances growth was healthy at 17.9% YoY & 2.9% QoQ to ₹ 3.2 lakh crore, led by growth across retail segments. Of retail loans, credit card, personal & consumer durable and home loans increased 81%, 56% and 22% YoY, respectively. Corporate loan growth was muted at ~1% YoY whereas SME segment grew 18% YoY. MFI book doubled on a YoY basis
- Deposits were up 16.5% YoY, 5.3% QoQ to ₹ 3.63 lakh crore, with robust accretion in term deposits. Thus, CASA ratio largely steady at 53% QoQ (vs. 61% in Q4FY22)
- Asset quality performance improved (both in percentage terms and absolute terms). GNPA, NNPA declined 12 bps, 6 bps sequentially to 1.78% and 0.37%, respectively. Slippage for the quarter was at ₹ 823 crore (0.3% of loans) vs. ₹ 748 crore (0.2% of loans) in Q3FY23. The bank held total provisions of ₹ 6508 crore vs. ₹ 6570 crore in the previous quarter
- Subsidiaries performance was mixed with AMC and Kotak Prime remaining good while subdued results were seen for Kotak Securities reporting lower PAT at ₹ 182 crore vs. ₹ 241 crore in Q3FY22 in spite of volumes surging. Similarly, Kotak Life also reported PAT of ₹ 205 crore vs. ₹ 330 crore QoQ and ₹ 267 crore YoY

Kotak Mahindra Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	3.5	3.5	-
Social	14.3	14.3	-
Governance	83.6	83.6	-
Overall ESG Score	33.9	33.9	-

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

Q4FY23 Earnings Conference Call highlights

- Guidance – NIMs at 5% plus in FY24. Industry credit growth to be 1.5-2x of nominal GDP
- The management will continue to focus on growth with risk adjusted returns. The share of unsecured retail loans improved to double digit and likely to improve further driven by strong demand
- During the quarter, the corporate segment witnessed competitive pressure on pricing. The aim will be to focus more on mid-market segment in SME and large corporate
- Demand for housing loans was healthy in spite of rising interest rates. However, it witnessed some pressure in the CRE segment
- The bank has gained market share in the CV segment led by strong volume growth
- MFI – The bank has increased its presence to 10 states vs. five states earlier
- Loan mix – 30% book at fixed rate, 57% is EBLR linked and balance linked to MCLR

- CASA share has declined as most of the SA has shifted to term deposits and MF due to higher rates. The management will continue to focus on SA accretion
- Bank will continue to invest in tech, employee and branch addition in FY24. Total ~150 branches will be added in FY24
- The management mentioned that they are open for inorganic growth (across financial services including PSU banks)

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoA (%)				RoE (%)				ABV (₹)			
	(₹)	TP(₹)	Rating		FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Axis Bank (AXIBAN)	855	1,100	Buy	2,640	42.4	31.1	88.9	106.1	20.2	27.5	9.6	8.1	2.5	2.2	1.7	1.5	1.2	0.8	1.9	2.0	12.0	8.0	19.1	18.4	348	385	499	588
HDFC Bank (HDFBAN)	1,676	2,050	Buy	9,357	66.7	79.1	93.3	108.3	25.1	21.2	18.0	15.5	3.9	3.4	3.0	2.5	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1	425	494	561	659
IndusInd Bank (INDBA)	1,143	1,450	Buy	887	59.5	95.3	113.9	136.2	19.2	12.0	10.0	8.4	1.9	1.7	1.5	1.3	1.2	1.7	1.8	1.9	10.1	14.5	15.4	16.3	592	677	743	863
Kotak Bank (KOTMAH)	1,937	2,290	Buy	3,501	43.0	55.2	64.8	74.3	45.0	35.1	29.9	26.1	5.4	4.7	4.0	3.7	2.1	2.4	2.4	2.4	12.6	14.0	14.3	14.6	357	415	480	526

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	6,102.6	5,946.7	4,521.4	35.0	5,652.9	8.0	Led by healthy uptick in margins
NIM (%)	5.75	5.70	4.78	97 bps	5.47	28 bps	Higher focus on retail unsecured segment and repricing improved NIMs
Other Income	2,186.3	2,282.9	1,826.3	19.7	2,100.0	4.1	Fee income up 22% YoY
Net Total Income	8,288.8	8,229.6	6,347.7	30.6	7,752.9	6.9	
Staff cost	1,454.5	1,521.4	1,122.8	29.5	1,477.8	-1.6	
Other Operating Expenses	2,187.0	2,563.6	1,885.0	16.0	2,425.3	-9.8	
PPP	4,647.4	4,144.5	3,339.9	39.1	3,849.8	20.7	
Provision	147.6	164.8	-306.2	-148.2	148.8	-0.8	Credit cost at 24bps vs 27bps QoQ
PBT	4,499.8	3,979.7	3,646.1	23.4	3,701.0	21.6	
Tax Outgo	1,004.2	994.9	878.7	14.3	909.1	10.5	
PAT	3,495.6	2,984.8	2,767.4	26.3	2,791.9	25.2	Aided by strong PPP and lowered provisions
Key Metrics							
GNPA	5,768.3	5,596.3	6,469.7	-10.8	5,994.6	-3.8	Out of total slippages, ₹ 218 crore got upgraded
NNPA	1,193.3	1,511.0	1,736.7	-31.3	1,344.8	-11.3	
Advances	3,19,861	3,29,574	2,71,254	17.9	3,10,734	2.9	Aided by secured and unsecured retail segment
Deposits	3,63,096	3,53,761	3,11,684	16.5	3,44,666	5.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	23,161.3	24,857.4	7.3	26,599.6	28,313.9	6.4
Pre Provision Profit	16,043.6	17,705.5	10.4	18,667.2	20,368.3	9.1
NIM (%)	4.8	5.0	17 bps	4.8	5.0	18 bps
PAT	11,161.1	12,841.5	15.1	12,741.1	14,730.7	15.6
ABV (₹)	460.3	479.7	4.2	500.8	526.0	5.0

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	21.3	18.5	19.2	18.5
Deposit growth (%)	14.6	13.5	17.7	18.5
NIM (Calc) %	5.0	5.0	4.8	4.8
C/l ratio %	46.1	45.6	48.5	47.8
Slippage ratio %	0.9	1.0	1.0	1.0
Credit cost %	0.12	0.13	0.27	0.34

Source: Company, ICICI Direct Research

Exhibit 3: Valuation (₹)

Company	Value / share
KMB	1789
Kotak Life (assumed 100% stake)	201
Kotak Mahindra Prime	118
Kotak Mahindra Capital & others	67
Kotak Securities	122
Kotak AMC	115
Total	624
20% holding company discount	122
SOTP target (post discount)	2290

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	27038.8	34250.8	39348.9	44786.2
Interest Expended	10220.9	12698.9	14491.5	16472.4
Net Interest Income	16817.9	21551.9	24857.4	28313.9
growth (%)	9.6	28.1	15.3	13.9
Non Interest Income	6354.4	7083.1	7978.6	9138.8
Net Income	23172.3	28635.0	32836.0	37452.7
Operating expense	11121.4	13787.0	15130.6	17084.4
Gross profit	12050.9	14848.0	17705.5	20368.3
Provisions	689.6	457.0	468.6	595.6
Taxes	2788.6	3451.7	4395.4	5042.0
Net Profit	8572.7	10939.3	12841.5	14730.7
growth (%)	23.1	27.6	17.4	14.7
EPS	43.0	55.2	64.8	74.3

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares	198.4	198.2	198.2	198.2
EPS (₹)	43.2	55.2	64.8	74.3
BV (₹)	365.4	421.1	485.6	535.4
ABV (₹)	356.8	415.1	479.7	526.0
P/E	46.8	35.1	29.9	26.1
P/BV	5.4	4.7	4.0	3.7
P/ABV	5.4	4.7	4.0	3.7
Yields & Margins (%)				
Yield on avg earning assets	7.3	7.9	7.9	7.9
Avg. cost on funds	3.2	3.5	3.4	3.4
Net Interest Margins	4.5	5.0	5.0	5.0
Avg. Cost of Deposits	3.1	3.4	3.5	3.5
Yield on average advances	7.8	8.6	8.6	8.5
Quality and Efficiency (%)				
Cost / Total net income	48.8	48.1	46.1	45.6
Credit/Deposit ratio	87.0	88.1	93.2	97.3
GNPA	2.3	1.8	1.4	1.3
NNPA	0.6	0.4	0.3	0.4
ROE	12.6	14.0	14.3	14.6
ROA	2.1	2.4	2.4	2.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital (incl PCNPS)	1492	1493	1493	1493
ESOPS	31	60	60	60
Reserves and Surplus	70964	81967	94745	104605
Networth	72488	83520	96298	106158
Deposits	311684	363096	416172	472486
Borrowings	25967	23416	30730	33771
Other Liabilities & Provisions	19289	19830	23358	25936
Total	429428	489862	566559	638351
Applications of Funds				
Fixed Assets	1644	1920	2349	2665
Investments	100580	121404	118934	120862
Advances	271254	319861	388049	459933
Cash with RBI & call money	55951	32542	46066	48349
Total	429428	489862	566559	638351

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets				
Total assets	12.0	14.1	15.7	12.7
Advances	21.3	17.9	21.3	18.5
Deposits	11.3	16.5	14.6	13.5
Total Income	3.7	25.2	14.5	13.9
Net interest income	9.6	28.1	15.3	13.9
Operating expenses	29.6	24.0	9.7	12.9
Operating profit	-0.7	27.1	19.2	15.0
Net profit	17.8	33.3	17.4	14.7
Book value	13.7	15.2	15.3	10.2
EPS	17.8	33.3	17.4	14.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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