

Kotak Mahindra Bank (KOTMAH)

CMP: ₹ 1633

Target: ₹ 1800 (10%)

Target Period: 12 months

May 7, 2024

Strong performance; lifting of ban can drive valuation

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 ₹ 479,169 crore in customer assets.

- It spans over 1948 branches and 3291 ATMs
- Consistent in delivering superior ROA of 2+% and ROE of 14+%

Q4FY24 performance: Kotak Mahindra Bank reported robust performance with delivery on growth, improvement in margins and asset quality, though the quarter has certain one-offs. Advances growth came strong at 18% YoY to ₹376075 crore, driven by traction across segment. Robust growth in unsecured retail segment (including acquired Sonata Microfinance) continued with proportion increasing from 10% in Q4FY23 and 11.6% in Q3FY24 to 11.8% in Q4FY24. Momentum continued in liabilities accretion with deposits growing at 23.6% YoY and 9.9% QoQ to ₹448954 crore, driven by robust inflow in term deposit. Despite decline in CD ratio and higher inflow of term deposit, margins improved 6 bps to 5.28% (including IT refund of ₹~140 crore). Asset quality continued to remain prudent with slippages at 0.3% of advances, 34 bps QoQ decline in GNPA ratio at 1.39% and flat NNPA ratio at 0.34%. PAT grew 37.5% YoY to ₹4133 crore, led by healthy business growth, improvement in margins and efficiency coupled with decline in credit cost (including release of AIF provision of ₹157 crore and tax write-back of ₹200 crore).

Investment Rationale

- **Regulatory ban to act as an overhang:** RBI bank on onboarding of new customers through online medium and issuance of new credit card is expected to impact pace of customer accretion (bank added 93 lakh customers in FY24 of which majority were through digital medium including 811). The bank is cognizant of the fact and is planning to deepen relationship with existing customer to ensure steady business growth. Tech & digitization remains in focus with contribution in Opex at ~10%. Management is assessing impact of ₹300-450 crore (annualised) at PBT level. Though, timeline of lifting of the bank could not be ascertained, it remains crucial for pedalling growth and earnings trajectory
- **Customer centric strategy with focus on unsecured business to aid RoA:** Strategy to focus on high yield unsecured retail is expected to supported margins amid further increase anticipated in cost of funds. However, asset quality in unsecured segment remains watchful. Step up in IT spends and branch expansion coupled with some pressure on margins could impact RoA trajectory, however, overall franchise remains strong with healthy growth and focus on maintaining favourable risk reward metrics.

Rating and Target Price

- While regulatory ban is expected to impact growth, the fundamentals continue to remain strong with ability to pedal healthy business growth along with RoA at 1.8-2%. Thus, valuing standalone bank at 1.9x FY26E BV and ₹575 for subsidiaries, we assign a target price of ₹1800 with a Hold rating.

Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY20-FY23)	FY25E	FY26E	2 year CAGR (FY23-25E)
NII	15340	16818	21552	25993	19%	29479	32958	13%
PPP	11762	12051	14848	19587	19%	21486	24292	11%
PAT	6965	8573	10939	13782	26%	14455	16290	9%
ABV	308	357	415	481		550	629	
P/E	46.2	37.6	29.4	23.4		22.3	22.3	
P/ABV	5.2	4.5	3.9	3.4		2.9	2.9	
RoA	1.9	2.1	2.4	2.5		2.2	2.2	
RoE	12.4	12.6	14.0	15.3		13.9	13.9	

Source: Company, ICICI Direct Research

HOLD



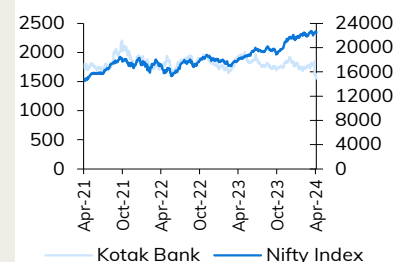
Particulars

Particulars	Amount
Market Capitalisation	₹ 3,24,230 crore
52 week H/L	2,064/ 1,544
Net worth	₹ 96,719 crore
Face value	₹ 5

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	26.0	26.0	25.9	25.9	25.9
FII	39.4	41.5	41.0	39.7	37.6
DII	21.3	19.6	20.0	21.4	23.4
Others	13.3	12.9	13.1	13.0	13.1

Price Chart



Key risks

- Delay in lifting of regulatory ban
- Better than expected performance on asset quality in unsecured book

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Gaurav Singh
gaurav.si@icicisecurities.com

Krishna Vyas
krishna.vyas@icicisecurities.com

Concall highlights and outlook

Highlights & Guidance

- Risk, Resiliency, Capacity to be the mantra going forward. Delivering returns with controlled risk and maintaining a customer centric business model remains long term strategy.
- The management has made its primary priority to get business back on track i.e. Business as usual as soon as possible.
- Exit of key managerial personnel won't have a deep impact as the management has a strong and experienced bench of personnels.

Profit & Loss

- NIMs were relatively flat at 5.32% for the year and fell on YoY basis from 5.75% in Q4FY23 to 5.28% in Q4FY24. Repricing of deposit book is broadly over. Cost of funds seen to increase gradual ahead in 1HFY24
- Opex was on the rise, mainly due to IT enhancements and branch expansions. The company added 150 branches in FY24 and expect similar addition in FY25E
- Tech spends were higher mainly to strengthen IT infrastructure and to meet the ever-growing demand and keep up with digitization. ~10% of the opex was directed towards IT spends (~₹1700 crore in FY24 vs ₹1300 crore in FY23). Going ahead, tech spends is seen to continue at ~10% of opex
- The bank has written off unsecured loans worth ₹1,455 crore which were fully provided
- It received a favourable tax credit of ₹200 crore
- There was an AIF provision reversal of ₹157 crore during the quarter

Balance Sheet

- The bank aims of grow 1.5-2x of GDP going forward
- Bank continues with its strategy to increase proportion of high yield unsecured book from 11.6% in Q3FY24 to 11.8% in Q4FY24. Going ahead, bank remains comfortable with the asset quality behaviour of the portfolio and plans to continue with the strategy to increase proportion of unsecured book to mid-teens.

Regulatory Ban

- The RBI banned Kotak from further acquiring new customers through its digital channels and issuing new credit cards. This action won't have any impact on the existing customers of the bank as they can continue to use the banks digital services. However, the ban could impact accretion of new customers through 811 and cards. The financial implication of this action is estimated around ₹300-450 crore on PBT.
- While timeline for lifting of regulatory ban could not be ascertained, bank aim to strengthen their current customer base through deepening customer relationship and network, providing state of the art services and also increase new customer base through channels other than online/mobile channels

Exhibit 1: Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
NII	6,909.4	6,102.6	13.2	6,553.5	5.4	Led by healthy business growth
NIM (%)	5.28	5.75	-47 bps	5.22	6 bps	Higher focus on retail unsecured segment and repricing improved NIMs
Other Income	2,978.3	2,186.3	36.2	2,297.0	29.7	Fee income up 28% YoY, treasury gains in Q4FY24
Net Total Income	9,887.6	8,288.8	19.3	8,850.5	11.7	
Staff cost	1,826.4	1,454.5	25.6	1,748.3	4.5	
Other Operating Expenses	2,599.7	2,187.0	18.9	2,536.0	2.5	Tech expense at ~10% of opex
PPP	5,461.6	4,647.4	17.5	4,566.2	19.6	
Provision	263.7	147.6	78.7	579.1	-54.5	Reversal of AIF related provision of ₹157 crore
PBT	5,197.8	4,499.8	15.5	3,987.1	30.4	
Tax Outgo	1,064.5	1,004.2	6.0	982.1	8.4	
PAT	4,133.3	3,495.6	18.2	3,005.0	37.5	Aided by strong PPP and lowered provisions
Key Metrics						
GNPA	5,274.8	5,768.3	-8.6	6,301.7	-16.3	Slippages at ₹1305 crore (0.3% of book); ₹236 crore got upgraded in the quarter
NNPA	1,270.6	1,193.3	6.5	1,225.3	3.7	
Advances	3,76,075	3,19,861	17.6	3,59,588	4.6	Uptick in unsecured credit continued at 11.8% of book
Deposits	4,48,954	3,63,096	23.6	4,08,636	9.9	Deposit accretion led by term deposit

Financial Summary

Exhibit 2: Profit and loss statement

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	27038.8	34250.9	45798.9	53519.5	61560.4
Interest Expended	10220.9	12698.9	19805.7	24040.8	28602.8
Net Interest Income	16817.9	21551.9	25993.2	29478.7	32957.5
Growth (%)	9.6	28.1	20.6	13.4	11.8
Non Interest Income	6354.4	7083.1	10273.1	11368.2	13351.5
Net Income	23172.3	28635.0	36266.3	40846.9	46309.0
Operating expense	11121.4	13787.0	16678.9	19361.0	22017.2
Gross profit	12050.9	14848.0	19587.5	21485.9	24291.8
Provisions	689.6	457.0	1573.7	2083.5	2426.0
Taxes	2788.6	3451.7	4232.1	4947.6	5575.8
Net Profit	8572.7	10939.3	13781.6	14454.8	16290.0
growth (%)	23.1	27.6	26.0	4.9	12.7
EPS	43.0	55.2	69.5	72.9	82.2

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	198.4	198.2	198.2	198.2	198.2
EPS (I)	43.2	55.2	69.5	72.9	82.2
BV (I)	365.4	421.1	487.6	559.1	639.7
ABV (I)	356.8	415.1	481.0	550.0	629.0
P/E	37.6	29.4	23.4	22.3	19.8
P/BV	4.6	3.9	3.4	3.0	2.6
P/ABV	4.5	3.9	3.4	2.9	2.6
Yields & Margins (%)					
Yield on avg earning assets	7.3	7.9	9.2	9.0	8.7
Avg. cost on funds	3.2	3.5	4.7	4.8	4.8
Net Interest Margins	4.5	5.0	5.2	5.0	4.7
Avg. Cost of Deposits	3.1	3.5	3.7	4.9	4.9
Yield on average advanc	7.8	9.0	10.0	10.1	9.9
Quality and Efficiency (%)					
Cost / Total net income	48.0	48.1	46.0	47.4	47.5
Credit/Deposit ratio	87.0	88.1	83.8	84.5	85.2
GNPA	2.3	1.8	1.4	1.3	1.2
NNPA	0.6	0.4	0.3	0.4	0.4
ROE	12.6	14.0	15.3	13.9	13.7
ROA	2.1	2.4	2.5	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital (incl PCNPS)	1492	1493	994	994	994
ESOPS	31	60	79	60	60
Reserves and Surplus	70964	81967	95646	109811	125775
Networth	72488	83520	96719	110865	126830
Deposits	311684	363096	448954	515277	595288
Borrowings	25967	23416	28368	33771	37315
Other Liabilities & Provision:	19289	19830	26316	25936	28818
Total	429428	489862	600357	685849	788251
Applications of Funds					
Fixed Assets	1644	1920	2155	2765	3259
Investments	100580	121404	155404	171319	200686
Advances	271254	319861	376075	435450	507089
Other Assets	33027	14135	13934	26104	20673
Cash with RBI & call money	55951	32542	52788	50212	56545
Total	429428	489862	600357	685849	788251

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	12.0	14.1	22.6	14.2	14.9
Advances	21.3	17.9	17.6	15.8	16.5
Deposits	11.3	16.5	23.6	14.8	15.5
Total Income	4.9	23.6	26.7	12.6	13.4
Net interest income	9.6	28.1	20.6	13.4	11.8
Operating expenses	29.6	24.0	21.0	16.1	13.7
Operating profit	2.5	23.2	31.9	9.7	13.1
Net profit	23.1	27.6	26.0	4.9	12.7
Book value	13.7	15.2	15.8	14.7	14.4
EPS	23.1	27.6	26.0	4.9	12.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vishal Narnolia, MBA, Gaurav Singh, PGDM, Krishna Vyas, MMS, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.