

BUY
 TP: Rs 2,100 | ▲ 17%

KOTAK MAHINDRA BANK

| Banking

| 24 January 2024

NIM intact QoQ; higher provisions dull profits

- Business growth held strong in Q3, but treasury losses and higher provisions weighed on PAT (-6% QoQ)
- Reported NIM was stable sequentially at 5.2%, asset quality healthy with controlled slippages, and credit cost flat ex-AIF provision
- TP revised to Rs 2,100 from Rs 2,007 as we now value the stock at 2.5x on FY26E ABV (vs. 2.7x on FY25E)

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Mixed sequential performance: KMB posted modest PAT of Rs 30.1bn (+8% YoY/-6% QoQ) in Q3FY24 on account of a one-off provision of Rs 1.9bn towards exposure to AIFs along with a treasury loss of Rs 1.7bn. However, NII grew at a healthy 16% YoY (+4% QoQ) on the back of strong business growth, wherein advances rose 16% YoY (+3% QoQ) and deposits increased 19% YoY (+ 2% QoQ). Other income was muted once again (+9% YoY/-1% QoQ) due to treasury losses along with elevated opex on a sequential basis as the bank continued to invest in employee and network expansion. The C/I ratio increased by 194bps QoQ to 48.4%.

Robust business growth: Deposit growth outpaced loan growth driven by term deposits. The 'ActivMoney' product grew at a strong 23% QoQ, helping the bank fund credit demand. Healthy credit growth was fuelled by the unsecured retail book which contributed 11.6% of loans vs. 11% in Q2 – in line with the bank's strategy of taking unsecured share to the mid-teens. The corporate book grew 20% YoY while SME loan growth was modest at 11.5%. In the retail book, commercial vehicle, personal and consumer durable loans along with credit cards and the MFI book outperformed. We broadly retain FY24/FY25 loan estimates while cutting deposit estimates by 2%/3%.

NIM flat sequentially: Reported NIM at 5.2% was flat QoQ supported by an increased share of high-yielding assets which offset the higher cost of deposits. Management expects deposit repricing to continue for the next 1-2 quarters but believes a favourable loan mix would enable it to maintain margins at current levels.

Asset quality stable, credit cost dips: Controlled slippages led to flat GNPA/NNPA of 1.7%/0.3% while PCR improved 150bps QoQ. Reported credit cost (ex-AIF provision) improved to 40bps from 47bps in Q2. KMB is well capitalised at 21.3% CAR.

Maintain BUY: Given strong growth in the high-yielding unsecured portfolio, we raise our FY24/FY25 NII estimates by 2%/4%, leading to a 2%/5% hike in PAT. We introduce FY26 forecasts and roll valuations forward, leading to a revised SOTP-based TP of Rs 2,100 from Rs 2,007, set at 2.5x FY26E ABV (vs. 2.7x on FY25E) using the Gordon Growth Model. This includes Rs 659/sh as the value of subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KMB IN/Rs 1,789
Market cap	US\$ 46.7bn
Free float	74%
3M ADV	US\$ 84.7mn
52wk high/low	Rs 2,064/Rs 1,644
Promoter/FPI/DII	26%/40%/21%

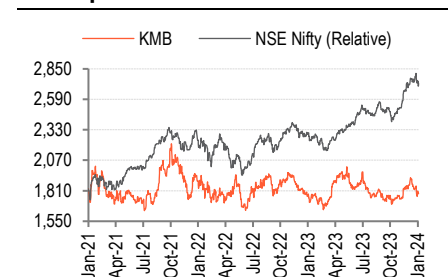
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	21,552	25,866	30,703
NII growth (%)	28.1	20.0	18.7
Adj. net profit (Rs mn)	10,939	12,925	15,031
EPS (Rs)	55.1	60.3	70.1
Consensus EPS (Rs)	55.1	64.9	73.1
P/E (x)	32.5	29.7	25.5
P/BV (x)	4.3	4.0	3.5
ROA (%)	2.8	2.4	2.4
ROE (%)	17.8	14.4	14.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Income Statement							
Interest Income	71,433	77,809	82,982	86,763	92,099	28.9	6.1
Income on investments	16,464	18,843	20,074	21,485	22,758	38.2	5.9
Int. on bal. with RBI & inter-bank funds & Others	2,090	1,558	1,944	3,681	3,134	49.9	(14.9)
Interest income	89,986	98,209	105,000	111,928	117,990	31.1	5.4
Interest expense	33,457	37,184	42,663	48,962	52,455	56.8	7.1
Net interest income	56,529	61,026	62,337	62,966	65,535	15.9	4.1
Growth YoY (%)	30.4	35.0	32.7	23.5	15.9	(1,449bps)	(755bps)
Non-interest income	21,000	21,863	26,833	23,145	22,970	9.4	(0.8)
Growth YoY (%)	54.0	19.7	115.7	18.4	9.4	(4,461bps)	(906bps)
Total income	77,529	82,888	89,170	86,112	88,505	14.2	2.8
Growth YoY (%)	36.1	30.6	50.1	22.1	14.2	(2,191bps)	(792bps)
Staff expenses	14,778	14,545	16,470	16,346	17,483	18.3	7.0
Other operating expenses	24,253	21,870	23,204	23,665	25,360	4.6	7.2
Operating expenses	39,031	36,415	39,674	40,011	42,843	9.8	7.1
Pre-Provisioning Profit (PPoP)	38,498	46,474	49,496	46,101	45,662	18.6	(1.0)
Growth YoY (%)	42.5	39.1	77.8	29.2	18.6	(2,393bps)	(1,062bps)
Provisions	1,488	1,476	3,643	3,666	5,791	289.1	58.0
Growth YoY (%)	(213.0)	(148.2)	1444.3	167.6	289.1	50,210bps	12,157bps
PBT	37,010	44,998	45,853	42,436	39,871	7.7	(6.0)
Tax	9,091	10,042	11,330	10,526	9,821	8.0	(6.7)
PAT	27,919	34,956	34,523	31,910	30,050	7.6	(5.8)
Growth YoY (%)	31.0	26.3	66.7	23.6	7.6	(2,336bps)	(1,601bps)
Per Share							
FV (Rs)	5	5	5	5	5	0.0	0.0
EPS (Rs)	14	17	17	16	15	7.5	(5.9)
Book Value (Rs)	403	420	438	453	468	16.2	3.3

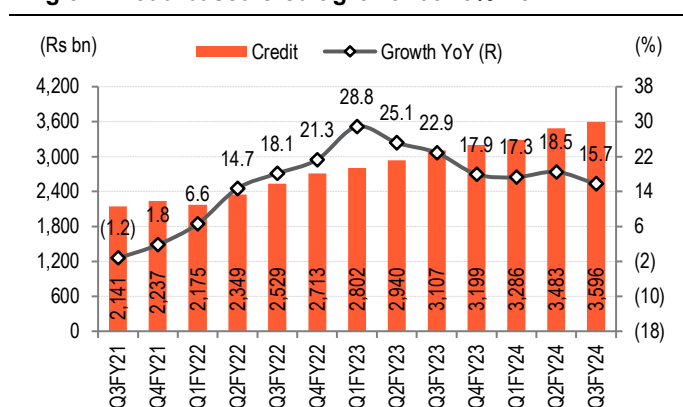
Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other metrics

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Deposits	3,446,660	3,630,961	3,862,540	4,009,629	4,086,360	18.6	1.9
Growth YoY (%)	12.9	16.5	22.0	23.3	18.6	566bps	(474bps)
Advances	3,107,340	3,198,612	3,285,820	3,482,841	3,595,880	15.7	3.2
Growth YoY (%)	22.9	17.9	17.3	18.5	15.7	(713bps)	(273bps)
Investment	1,122,190	1,214,037	1,238,730	1,286,460	1,457,510	29.9	13.3
Equity	799,360	835,203	870,110	900,349	929,940	16.3	3.3
Assets	4,647,840	4,898,625	5,129,910	5,329,631	5,479,490	17.9	2.8
Growth YoY (%)	11.2	14.1	20.8	20.6	17.9	674bps	(269bps)
Yield (%)							
Yield on Funds	8.2	8.5	8.7	8.8	9.0	75bps	16bps
Cost of Funds	3.8	4.0	4.3	4.7	4.9	112bps	17bps
Spread	4.5	4.6	4.4	4.1	4.1	(37bps)	(2bps)
Net Interest Margin (calc.)	5.2	5.3	5.1	5.0	5.0	(18bps)	2bps
Ratios (%)							
Other Income / Net Income	27.1	26.4	30.1	26.9	26.0	(113bps)	(92bps)
Cost to Income ratio	50.3	43.9	44.5	46.5	48.4	(194bps)	194bps
CASA ratio	53.3	52.8	49.0	48.3	47.7	(553bps)	(52bps)
C/D ratio	90.2	88.1	85.1	86.9	88.0	(216bps)	114bps
Investment to Assets	24.1	24.8	24.1	24.1	26.6	246bps	246bps
Assets Quality							
GNPA	59,946	57,683	59,092	60,872	63,017	5.1	3.52
NNPA	13,448	11,933	13,018	12,748	12,253	(8.9)	(3.9)
Provision	46,498	45,750	46,074	48,124	50,764	9.2	5.5
GNPA (%)	1.9	1.8	1.8	1.7	1.7	(17bps)	1bps
NNPA (%)	0.4	0.4	0.4	0.4	0.3	(9bps)	(3bps)
Provision Coverage Ratio (%)	77.6	79.3	78.0	79.1	80.6	299bps	150bps
Others							
Branches	1,752	1,780	1,788	1,850	1,869	117	19
ATMs	2,814	2,963	3,047	3,170	3,239	425	69
Employees	73,000	74,226	74,560	77,145	77,937	4,937	792

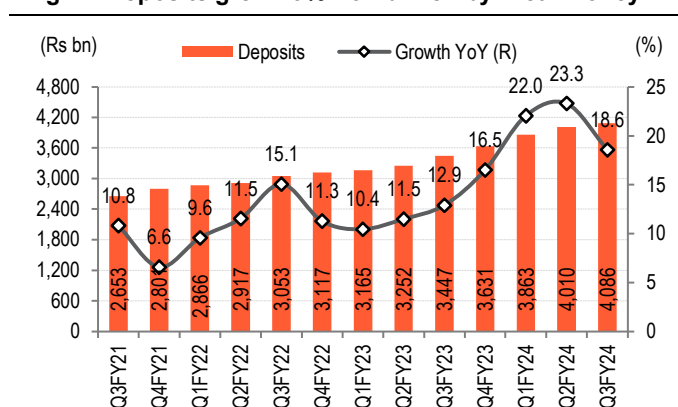
Source: Company, BOBCAPS Research

Fig 3 – Broad-based credit growth at 16% YoY



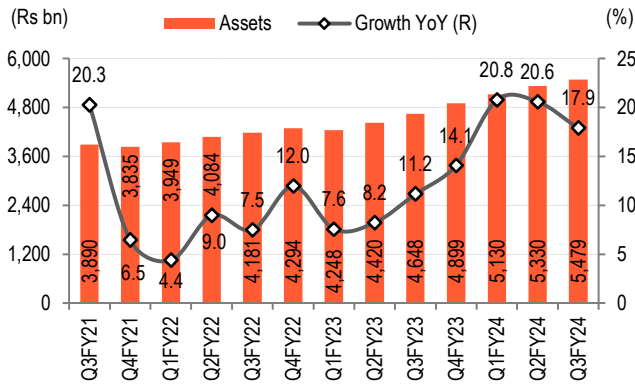
Source: Company, BOBCAPS Research

Fig 4 – Deposits grew 19% YoY driven by ‘ActivMoney’



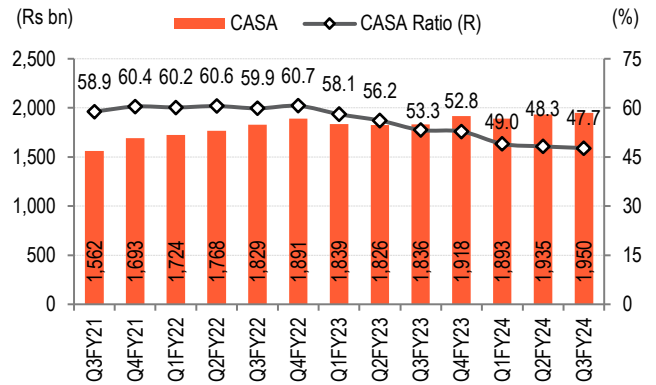
Source: Company, BOBCAPS Research

Fig 5 – Asset growth at 18% YoY



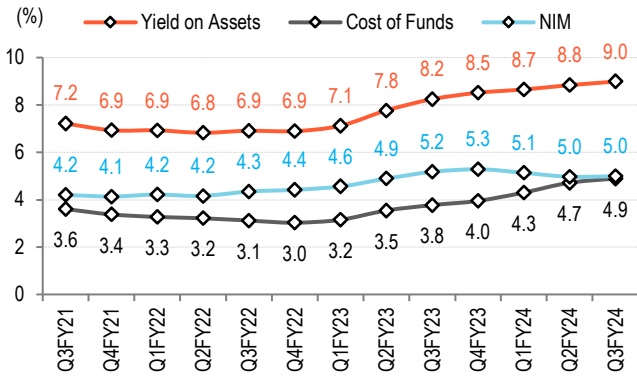
Source: Company, BOBCAPS Research

Fig 6 – Decline in CASA due to subdued SA mobilisation



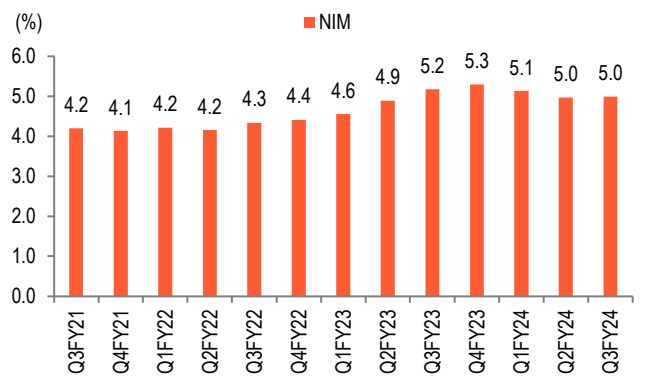
Source: Company, BOBCAPS Research

Fig 7 – NIM (calc.) remained flat QoQ...



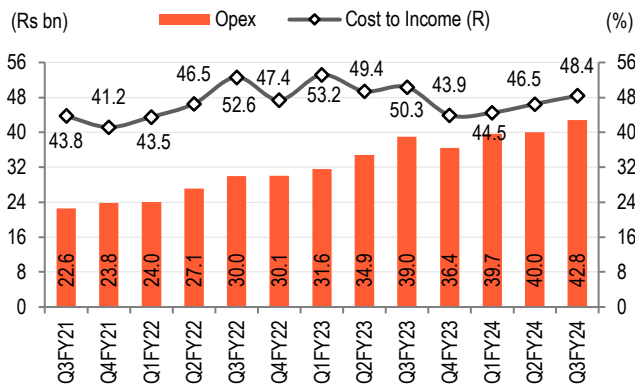
Source: Company, BOBCAPS Research

Fig 8 – ...and forecast at 5% for FY24E-FY25E



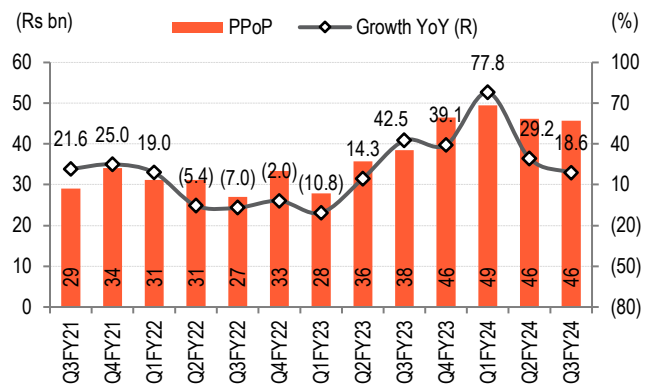
Source: Company, BOBCAPS Research

Fig 9 – Opex elevated on higher employee and promotional cost



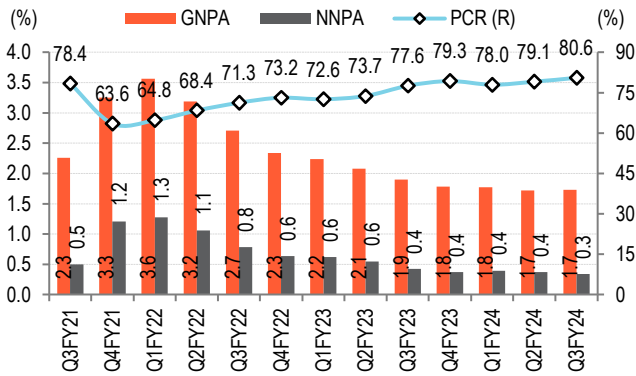
Source: Company, BOBCAPS Research

Fig 10 – Lower other income growth weighed on PPOP growth



Source: Company, BOBCAPS Research

Fig 11 – Asset quality stable



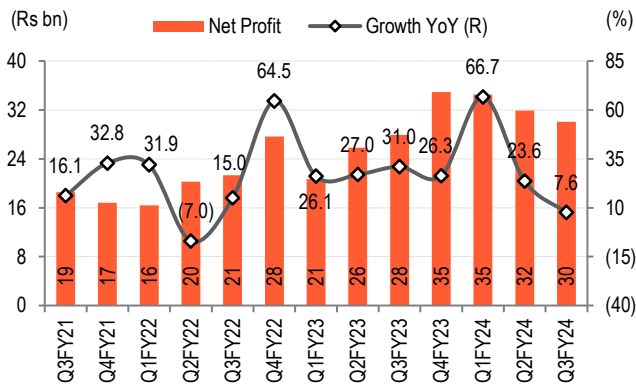
Source: Company, BOBCAPS Research

Fig 12 – Credit cost flat ex-AIF provision



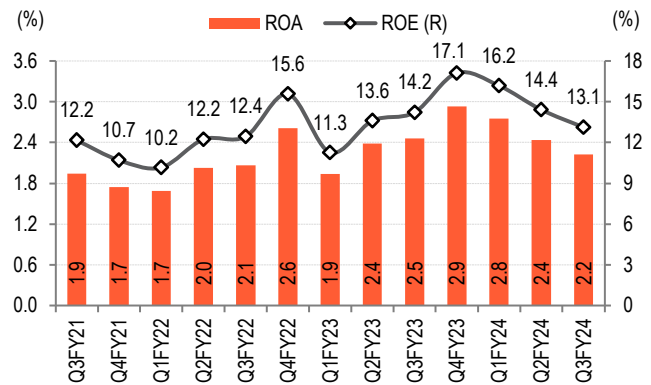
Source: Company, BOBCAPS Research

Fig 13 – PAT growth moderated on higher provisions



Source: Company, BOBCAPS Research

Fig 14 – Moderation in return ratios temporary in nature



Source: Company, BOBCAPS Research

Earnings call highlights

Growth outlook

- KMB sees a better growth to NIM trade-off than growth to credit cost trade-off in the current climate.
- High CAR along with healthy LCR provide further opportunities for the bank to expand its balance sheet.
- Management indicated that KMB can potentially grow at 1.75-2x the nominal GDP growth rate.

Asset quality

- Slippages stood at Rs 11.8bn (1.2% annualised) in Q3FY24 vs. Rs 13.1bn (1.6% annualised) in Q2FY24.
- Recoveries and upgrades were at Rs 8.3bn. Including write-offs, the total reduction in stress was Rs 9.6bn vs. Rs 9.4bn in Q2. KMB had no sale of NPA for the quarter.
- Credit cost stood at 67bps (including provisions towards alternate investment fund or AIF exposure) vs. 47bps in Q2.

- Provisions during the quarter include Rs 1.9bn towards AIF exposure, per RBI's recent mandate.
- KMB wrote back Rs 260mn of Covid-related provisioning this quarter and has outstanding of Rs 2.9bn as of now.

NII and NIM

- NII grew 16% YoY (+4% QoQ) while other income grew at a slow 9% YoY (-1% QoQ) mainly due to treasury losses.
- Reported NIM was flat at 5.22% on a sequential basis while it contracted by 25bps YoY.
- In terms of loans to NBFCs, the bank has repriced the interest rates as per the latest regulatory requirement and continues to pass on the cost due to high-risk weightage.
- Average LCR stood at 120% for the bank and 127% at the group level.

Operating performance

- Other income was muted due to an MTM loss of Rs 1.7bn on treasury (debt swap).
- KMB has 81% of its investment book in the AFS and HFT categories.
- Other operating expenses increased owing to higher promotion and marketing spends during the festive period.

Loans

- Net advances grew 16% YoY in Q3 vs. 18.5% YoY in Q2. Inclusive of credit substitutes, growth was at 17% YoY (+5% QoQ).
- The unsecured portfolio, including MFI, constituted 11.6% of the loan book in Q3 vs. 11% a year ago, and the bank is comfortable growing the book given high risk weightage.
- About 58% of the loan book is linked to the repo rate which may offset some margin gains from the unsecured portfolio once the interest rate cycle reverses.
- About 92% of credit card business comes from existing customers and risk metrics for these are under control; hence, KMB intends to continue investing in the cards franchise.

Deposits

- Deposits grew 19% YoY (+2% QoQ) in Q3 led by term deposits, mainly from KMB's 'ActivMoney' product which grew 23% QoQ.
- CASA growth was subdued at 6% YoY (+1% QoQ) while the term deposit book grew 33% YoY (+3% QoQ), leading to a 52bps QoQ decline in CASA ratio to 47.7%.
- SA mobilisation (excluding government business) continues to be a challenge.

Subsidiaries

- **Kotak Securities:** PAT came in at Rs 3.1bn compared with Rs 2.4bn in Q3FY23 (and Rs 3.2bn in Q2FY24). Market share grew to 10.3% vs. 5.8% a year ago and 8.8% in Q2FY24.
- **Kotak AMC:** AAUM was up 23% YoY to Rs 3.5tn. Equity AAUM grew 32% YoY to Rs 2.1tn with market share of 6.6% from 6.4% in Q3FY23.
- **Kotak Prime:** PAT grew to Rs 2.4bn from Rs 2.2bn in Q3FY23 along with improvement in NNPA to 0.8% from 1.1% in the year-ago period.

Fig 15 – Loan book distribution

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Corporate Banking	685,290	666,740	666,330	695,310	699,870	724,050	775,690	818,440	842,460
SME	185,600	204,440	205,290	211,750	231,540	221,530	233,120	245,690	258,160
Commercial Vehicles	203,880	224,900	232,460	246,040	258,140	277,860	285,260	310,460	337,510
Agriculture Finance	225,840	252,000	246,040	250,020	261,280	275,470	265,130	270,310	275,120
Tractor finance	101,290	107,660	110,150	120,150	129,860	139,090	139,160	143,760	151,560
Home loans & LAP	688,710	760,770	809,750	858,430	891,120	927,310	951,470	991,000	1,022,340
Consumer Bank WC (Secured)	240,530	264,440	264,870	274,040	289,400	303,430	299,060	330,950	337,900
PL, BL and Consumer Durables	85,800	100,710	116,160	131,970	145,420	157,730	166,920	178,620	193,100
Credit Cards	49,480	55,720	68,190	79,030	91,590	100,900	113,600	125,970	138,820
Others	38,770	44,560	45,970	50,000	55,740	65,810	71,270	75,050	82,570
Micro Finance	24,160	30,600	36,500	44,430	53,380	62,250	69,630	79,870	85,100
Loan	2,529,350	2,712,540	2,801,710	2,961,170	3,107,340	3,255,430	3,370,310	3,570,120	3,724,640
Credit substitutes	216,340	212,270	234,580	273,010	285,790	271,090	251,730	234,000	282,950
Total customer assets	2,745,690	2,924,810	3,036,290	3,234,180	3,393,130	3,526,520	3,622,040	3,804,120	4,007,590

Source: Company, BOBCAPS Research

Fig 16 – Loan book distribution (%)

Segment (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Corporate Banking	25.0	22.8	21.9	21.5	20.6	20.5	21.4	21.5	21.0
SME	6.8	7.0	6.8	6.5	6.8	6.3	6.4	6.5	6.4
Commercial Vehicles	7.4	7.7	7.7	7.6	7.6	7.9	7.9	8.2	8.4
Agriculture Finance	8.2	8.6	8.1	7.7	7.7	7.8	7.3	7.1	6.9
Tractor finance	3.7	3.7	3.6	3.7	3.8	3.9	3.8	3.8	3.8
Home loans & LAP	25.1	26.0	26.7	26.5	26.3	26.3	26.3	26.1	25.5
Consumer Bank WC (Secured)	8.8	9.0	8.7	8.5	8.5	8.6	8.3	8.7	8.4
PL, BL and Consumer Durables	3.1	3.4	3.8	4.1	4.3	4.5	4.6	4.7	4.8
Credit Cards	1.8	1.9	2.2	2.4	2.7	2.9	3.1	3.3	3.5
Others	1.4	1.5	1.5	1.5	1.6	1.9	2.0	2.0	2.1
Micro Finance	0.9	1.0	1.2	1.4	1.6	1.8	1.9	2.1	2.1
Loan	92.1	92.7	92.3	91.6	91.6	92.3	93.1	93.8	92.9
Credit substitutes	7.9	7.3	7.7	8.4	8.4	7.7	6.9	6.2	7.1
Total customer assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, BOBCAPS Research

Fig 17 – Loan book growth YoY

Segment (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Corporate Banking	14.5	12.8	11.6	7.1	2.1	8.6	16.4	17.7	20.4
SME	(0.8)	2.4	22.0	16.3	24.8	8.4	13.6	16.0	11.5
Commercial Vehicles	9.1	10.3	20.1	26.2	26.6	23.5	22.7	26.2	30.7
Agriculture Finance	3.3	6.1	12.2	8.4	15.7	9.3	7.8	8.1	5.3
Tractor finance	13.3	14.3	18.7	24.8	28.2	29.2	26.3	19.7	16.7
Home loans & LAP	37.8	39.0	45.6	39.6	29.4	21.9	17.5	15.4	14.7
Consumer Bank WC (Secured)	17.1	21.1	25.8	18.7	20.3	14.7	12.9	20.8	16.8
PL, BL and Consumer Durables	14.0	43.4	77.0	81.8	69.5	56.6	43.7	35.3	32.8
Credit Cards	8.6	40.4	77.2	81.1	85.1	81.1	66.6	59.4	51.6
Others	13.0	28.1	41.0	44.7	43.8	47.7	55.0	50.1	48.1
Micro Finance	-	-	-	-	120.9	103.4	90.8	79.8	59.4
Loan	18.1	21.3	28.8	26.0	22.9	20.0	20.3	20.6	19.9
Credit substitutes	47.1	39.9	31.1	27.6	32.1	27.7	7.3	(14.3)	(1.0)
Total customer assets	20.0	22.5	29.0	26.2	23.6	20.6	19.3	17.6	18.1

Source: Company, BOBCAPS Research

Fig 18 – Loan book growth QoQ

Segment (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Corporate Banking	5.5	(2.7)	(0.1)	4.3	0.7	3.5	7.1	5.5	2.9
SME	2.0	10.2	0.4	3.1	9.3	(4.3)	5.2	5.4	5.1
Commercial Vehicles	4.6	10.3	3.4	5.8	4.9	7.6	2.7	8.8	8.7
Agriculture Finance	(2.1)	11.6	(2.4)	1.6	4.5	5.4	(3.8)	2.0	1.8
Tractor finance	5.2	6.3	2.3	9.1	8.1	7.1	0.1	3.3	5.4
Home loans & LAP	12.0	10.5	6.4	6.0	3.8	4.1	2.6	4.2	3.2
Consumer Bank WC (Secured)	4.2	9.9	0.2	3.5	5.6	4.8	(1.4)	10.7	2.1
PL, BL and Consumer Durables	18.2	17.4	15.3	13.6	10.2	8.5	5.8	7.0	8.1
Credit Cards	13.4	12.6	22.4	15.9	15.9	10.2	12.6	10.9	10.2
Others	12.2	14.9	3.2	8.8	11.5	18.1	8.3	5.3	10.0
Micro Finance	-	26.7	19.3	21.7	20.1	16.6	11.9	14.7	6.5
Loan	7.6	7.2	3.3	5.7	4.9	4.8	3.5	5.9	4.3
Credit substitutes	1.2	(1.9)	10.5	16.4	4.7	(5.1)	(7.1)	(7.0)	20.9
Total customer assets	7.1	6.5	3.8	6.5	4.9	3.9	2.7	5.0	5.3

Source: Company, BOBCAPS Research

Valuation methodology

KMB delivered strong deposit growth during Q3FY24 but considering the difficult climate, we trim our deposit estimates by 2%/3% for FY24/FY25. We broadly retain our loan book forecasts while factoring in the shift toward high-yielding unsecured assets by raising NII estimates 2%/5% for FY24/FY25 and modelling for higher NIM of 5% for both years vs. 4.9% earlier, leading to a 2%/5% rise in our PAT estimates. We also introduce FY26 forecasts for the bank and now expect a 17% PAT CAGR over FY23-FY26.

KMB is well capitalised with CAR at 21.3% (CET1 at 20.1%) as of Q3FY24, while healthy LCR of 120% provides ample opportunity to leverage its balance sheet for expansion and inorganic growth. We expect the bank to continue to deliver healthy return ratios and pencil in ROA at 2.4% and ROE of 14.5% over FY24-FY26.

Upon rolling valuations forward, we have a revised SOTP-based TP of Rs 2,100 for KMB from Rs 2,007 earlier, set at 2.5x FY26E ABV (vs. 2.7x on FY25E) using the Gordon Growth Model. This includes Rs 659/sh as the value of subsidiaries. Maintain BUY.

Fig 19 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	3,745,575	4,419,778	3,793,554	4,487,774	(1.3)	(1.5)
Deposits	4,288,164	5,017,152	4,371,676	5,158,578	(1.9)	(2.7)
Assets	5,802,302	6,840,445	5,831,892	6,882,036	(0.5)	(0.6)
NII	258,655	307,027	254,014	292,785	1.8	4.9
PPoP	190,773	224,075	186,798	214,682	2.1	4.4
Provisions	17,046	22,046	15,732	22,360	8.4	(1.4)
PAT	129,253	150,309	127,273	143,088	1.6	5.0

Source: BOBCAPS Research

Fig 20 – Key operational assumptions

Parameter (%)	FY23A	FY24E	FY25E	FY26E
Advances Growth	17.9	17.1	18.0	17.2
Net Interest Income Growth	28.1	20.0	18.7	16.8
PPoP Growth	23.2	28.5	17.5	15.4
PAT Growth	50.6	18.2	16.3	15.2
NIM	4.9	5.0	5.0	5.0
GNPA	1.8	1.8	1.7	1.6
CAR	21.8	20.6	20.2	20.1

Source: Company, BOBCAPS Research

Fig 21 – SOTP valuation summary

Business	Valuation	Holdings (%)	Value (Rs/sh)
Kotak Bank	2.5x FY26E ABV	100	1,441
Kotak Life	3x FY26E EV	100	264
Kotak Prime	2.5x FY26E BV	100	133
Kotak AMC	7.5% FY26E AAUM	100	159
Kotak Securities	20x FY26E PAT	100	149
Others	-	100	27
Holding Co. Discount	10%	-	(73)
Total	-	-	2,100

Source: Company, BOBCAPS Research

Fig 22 – Valuation assumptions

Gordon growth model	(%)
Return on Equity (RoE)	16.5
Cost of Equity (Ke)	12.3
Growth (Period 1)	14.9
Growth (Long Term)	6.6
Initial High Growth Period (yrs)	10.0
Dividend Payout (Period 1)	10.0
Dividend Payout (Long Term)	60.0
Factor 1	1.1
Factor 2	14.0
Justified P/BV Multiple	2.5

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- reversal in credit cycle, which can lead to higher deterioration than anticipated in asset quality and thus weaker profitability owing to higher provisions, and
- inability to manage cost of funds, which may drag down the bank's NIM as well as overall profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Bandhan Bank	BANDHAN IN	4.4	224	276	BUY
Federal Bank	FB IN	4.2	142	189	BUY
HDFC Bank	HDFCB IN	133.6	1,456	1,896	BUY
ICICI Bank	ICICIB IN	85.3	999	1,189	BUY
Indusind Bank	IIB IN	14.1	1,491	1,952	BUY
Kotak Mahindra Bank	KMB IN	46.7	1,789	2,100	BUY
RBL Bank	RBK IN	1.9	260	309	BUY
State Bank of India	SBIN IN	67.2	618	747	BUY

Source: BOBCAPS Research, NSE | Price as of 24 Jan 2024

Glossary

Glossary of Abbreviations			
AFS	Available For Sale	ICRR	Incremental Cash Reserve Ratio
AUCA	Advance Under Collection Account	LAP	Loans against Property
ARC	Asset Reconstruction Company	LCR	Liquidity Coverage Ratio
BRDS	Bills Rediscounting Scheme	MCLR	Marginal Cost of Funds-based Lending Rate
CASA	Current Account and Savings Account	MTM	Mark to Market
CAR	Capital Adequacy Ratio	NII	Net Interest Income
CET1	Common Equity Tier 1	NIM	Net Interest Margin
CD	Credit-Deposit Ratio	NNPA	Net Non-Performing Assets
C/I	Cost-Income Ratio	PCR	Provision Coverage Ratio
CRB	Commercial and Rural Banking	PPOP	Pre-Provision Operating Profit
EBLR	External Benchmark-based Lending Rate	PSU	Public Sector Unit
ECL	Expected Credit Loss	RWA	Risk-weighted Assets
GNPA	Gross Non-Performing Assets	SLR	Statutory Liquidity Ratio
HFT	Held for Trading	SMA	Special Mention Account
IBPC	Interbank Participation Certificate	SME	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	16,818	21,552	25,866	30,703	35,872
NilI growth (%)	9.6	28.1	20.0	18.7	16.8
Non-interest income	6,354	7,083	9,791	11,189	12,625
Total income	23,172	28,635	35,656	41,892	48,497
Operating expenses	11,121	13,787	16,579	19,484	22,633
PPOP	12,051	14,848	19,077	22,408	25,864
PPOP growth (%)	2.5	23.2	28.5	17.5	15.4
Provisions	772	457	1,705	2,205	2,592
PBT	11,279	14,391	17,373	20,203	23,272
Tax	4,016	3,452	4,447	5,172	5,958
Reported net profit	7,263	10,939	12,925	15,031	17,314
Adjustments	0	0	0	0	0
Adjusted net profit	7,263	10,939	12,925	15,031	17,314

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	1,492	1,493	1,572	1,572	1,572
Reserves & surplus	70,995	82,027	94,970	110,001	127,316
Net worth	72,488	83,520	96,543	111,574	128,888
Deposits	311,684	363,096	428,816	501,715	588,010
Borrowings	25,967	23,416	26,929	30,968	34,994
Other liab. & provisions	19,289	19,830	27,942	39,788	40,663
Total liab. & equities	429,428	489,862	580,230	684,044	792,555
Cash & bank balance	42,924	32,542	39,444	46,061	53,941
Investments	100,580	121,404	150,892	177,917	199,356
Advances	271,254	319,861	374,557	441,978	517,998
Fixed & Other assets	14,671	16,055	15,336	18,088	21,260
Total assets	429,428	489,862	580,230	684,044	792,555
Deposit growth (%)	11.3	16.5	18.1	17.0	17.2
Advances growth (%)	21.3	17.9	17.1	18.0	17.2

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	36.6	55.1	60.3	70.1	80.7
Dividend per share	1.1	1.5	1.8	3.5	4.0
Book value per share	362.7	417.9	447.8	517.9	598.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	48.9	32.5	29.7	25.5	22.2
P/BV	4.9	4.3	4.0	3.5	3.0
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	4.5	5.2	4.8	4.9	4.9
Non-interest income	1.7	1.7	1.8	1.8	1.7
Operating expenses	2.8	3.1	3.1	3.1	3.1
Pre-provisioning profit	3.4	3.8	3.6	3.5	3.5
Provisions	0.2	0.1	0.3	0.3	0.4
PBT	3.2	3.7	3.2	3.2	3.2
Tax	1.1	0.8	0.8	0.8	0.8
ROA	2.1	2.8	2.4	2.4	2.3
Leverage (x)	0.1	0.1	0.1	0.1	0.1
ROE	13.7	17.8	14.4	14.5	14.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Net interest income	9.6	28.1	20.0	18.7	16.8
Pre-provisioning profit	2.5	23.2	28.5	17.5	15.4
EPS	28.5	50.5	9.4	16.3	15.2
Profitability & Return ratios (%)					
Net interest margin	4.3	4.3	4.9	5.0	5.0
Fees / Avg. assets	0.4	0.4	0.5	0.4	0.4
Cost-Income	48.0	48.1	46.5	46.5	46.7
ROE	13.7	17.8	14.4	14.5	14.5
ROA	2.1	2.8	2.4	2.4	2.3
Asset quality (%)					
GNPA	2.3	1.8	1.8	1.7	1.6
NNPA	0.6	0.4	0.4	0.3	0.3
Slippage ratio	1.9	1.5	1.6	1.6	1.6
Credit cost	0.3	0.2	0.5	0.5	0.5
Provision coverage	72.7	79.0	79.7	80.7	80.7
Ratios (%)					
Credit-Deposit	87.0	88.1	87.3	88.1	88.1
Investment-Deposit	32.3	33.4	35.2	35.5	33.9
CAR	22.7	21.8	20.6	20.2	20.1
Tier-1	21.7	20.8	19.7	19.3	19.3

Source: Company, BOBCAPS Research

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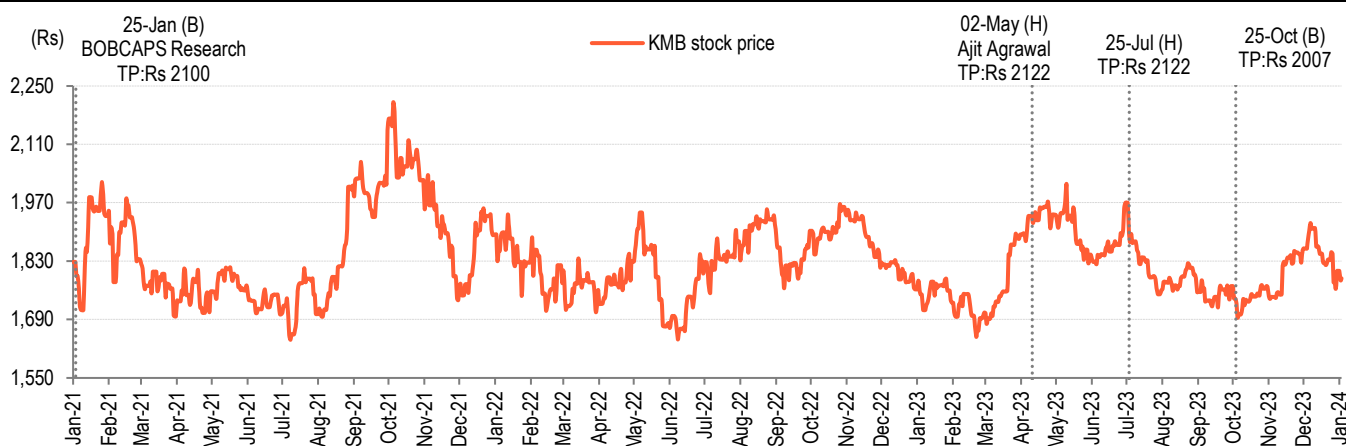
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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): KOTAK MAHINDRA BANK (KMB IN)



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