

RESEARCH
KOTAK MAHINDRA BANK | TARGET: Rs 2,007 | +15% | BUY

Mixed Q2; raise to BUY on low valuation, succession clarity

BOB ECONOMICS RESEARCH | SOWING UPDATE

Projection of Kharif output 2023-24

RBL BANK | TARGET: Rs 258 | +14% | HOLD

Strong growth but priced in

Daily macro indicators

Indicator	23-Oct	24-Oct	Chg (%)
US 10Y yield (%)	4.85	4.82	(3bps)
India 10Y yield (%)	7.36	7.38	2bps
USD/INR	83.12	83.19	(0.1)
Brent Crude (US\$/bbl)	89.8	88.1	(2.0)
Dow	32,936	33,141	0.6
Hang Seng	17,172	16,992	(1.1)
Sensex	65,398	64,572	(1.3)
India FII (US\$ mn)	19-Oct	20-Oct	Chg (\$ mn)
FII-D	(1.9)	79.7	81.6
FII-E	(114.3)	216.5	330.9

Source: Bank of Baroda Economics Research

SUMMARY
KOTAK MAHINDRA BANK

- Strong business growth in Q2 but NIM down 35bps QoQ on higher deposit cost and liquidity buffer; other income muted
- Appointment of Ashok Vaswani, ex-CEO Barclays UK, as MD & CEO of KMB to help lift management succession overhang
- We reset from 3.1x to 2.7x FY25E P/ABV for a new TP of Rs 2,007 (vs. Rs 2,122); raise from HOLD to BUY on inexpensive valuations

[Click here for the full report.](#)
INDIA ECONOMICS: SOWING UPDATE

India witnessed below normal rainfall in 2023 after a span of over 4-years (of normal and above normal rains) with a deficiency of 6% below LPA. Region wise, rainfall has been deficient across two of the regions including South Peninsula (92% of LPA) and North East region (82% below LPA). Rainfall in North West, Central region stands at 101% and 100% of LPA. Overall Kharif sowing has inched up marginally with much higher acreage in rice. However, pulses and oilseeds sown area logged lower sowing. Given this backdrop, we expect marginal improvement in kharif output.

[Click here for the full report.](#)
BOBCAPS Research

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RBL BANK

- Q2 credit growth rises 21% YoY led by the high-yielding retail book and recovery in deposit mobilisation to 13%
- Opex still elevated but asset quality continues to improve, along with prudent provisioning
- TP raised to Rs 258 (vs. Rs 233) as we revise estimates and now value RBK at 1x FY25E ABV (vs. 0.9x); retain HOLD

[Click here](#) for the full report.

BUY
 TP: Rs 2,007 | ▲ 15%

KOTAK MAHINDRA BANK

| Banking

| 25 October 2023

Mixed Q2; raise to BUY on low valuation, succession clarity

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Ajit Agrawal

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Mixed sequential performance: KMB posted mixed Q2FY24 results wherein PAT declined 8% QoQ (+24% YoY) mainly due to flat NII (+23% YoY), while business growth was strong with advances rising 6% QoQ (+18.5% YoY) and deposits up 4% QoQ (+23% YoY). Operating expense was flat QoQ (+15% YoY), but the C/I ratio rose to 46.5% vs. 44.5% in Q1.

Robust business growth: Q2 credit growth of 18.5% YoY was backed by an 18% rise in the corporate book (+10% incl. credit substitutes), alongside strong traction in credit cards (+59%), personal loans (+35%) and consumer banking (+21%). Home loan growth moderated to 15% YoY vs. 40% in the year-ago quarter. The unsecured book formed 11% of advances vs. 8.7% a year ago. Deposits increased 23% YoY led by term deposits wherein the bank's 'ActivMoney' product grew 28% QoQ due to a shift from retail SA, leading to a lower CASA ratio of 48.3%. We broadly retain FY24/FY25 loan estimates but raise our deposit forecast for FY24/FY25 by 3%/4%.

NIM falls sequentially: Reported NIM contracted 35bps QoQ to 5.2% owing to upward deposit rate repricing, flat yield on advances and 14-15bps impact from a one-off ICRR and liquidity buffer. Management believes most of the deposit repricing is complete and, hence, does not foresee significant margin headwinds.

Stable asset quality; credit cost rises: Slippages were flat QoQ at 1.6%, leading to stable GNPA/NNPA at 1.7%/0.4% with PCR of 79%. Credit cost was also flat, normalising at 45bps, leading us to raise our FY24/FY25 forecasts to 45bps/54bps vs. 36bps each.

Upgrade to BUY: Given strong growth in the high yielding unsecured portfolio, we raise our FY24/FY25 NII estimates by 4% each and PPOP by 9%/8%. Resetting our target multiple to 2.7x FY25E ABV (vs. 3.1x) based on the Gordon Growth Model, we move to a TP of Rs 2,007 (vs. Rs 2,122) that includes Rs 600/sh as the value of subsidiaries. KMB looks inexpensive at current levels of 2.1x FY25E P/ABV and recent clarity shed on the management succession plan with Ashok Vaswani appointed as MD & CEO augurs well – we thus upgrade from HOLD to BUY.

Key changes

Target	Rating
▼	▲

Ticker/Price	KMB IN/Rs 1,741
Market cap	US\$ 42.1bn
Free float	74%
3M ADV	US\$ 86.0mn
52wk high/low	Rs 2,064/Rs 1,644
Promoter/FPI/DII	26%/41%/20%

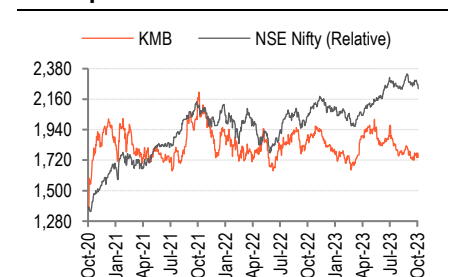
Source: NSE | Price as of 23 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	21,552	25,401	29,278
NII growth (%)	28.1	17.9	15.3
Adj. net profit (Rs mn)	10,939	12,727	14,309
EPS (Rs)	55.1	64.1	72.0
Consensus EPS (Rs)	55.1	60.1	69.3
P/E (x)	31.6	27.2	24.2
P/BV (x)	4.2	3.6	3.1
ROA (%)	2.8	2.4	2.3
ROE (%)	17.8	14.2	13.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



SOWING UPDATE

25 October 2023

Projection of Kharif output 2023-24

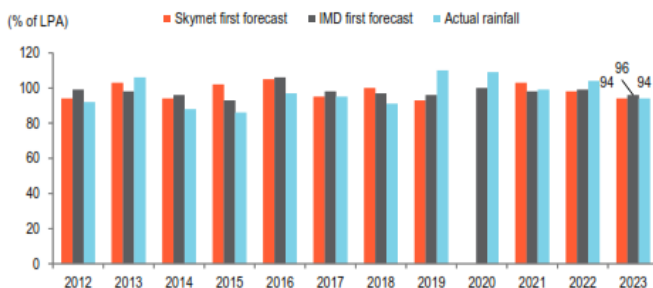
India witnessed below normal rainfall in 2023 after a span of over 4-years (of normal and above normal rains) with a deficiency of 6% below LPA. Region wise, rainfall has been deficient across two of the regions including South Peninsula (92% of LPA) and North East region (82% below LPA). Rainfall in North West, Central region stands at 101% and 100% of LPA. Overall Kharif sowing has inched up marginally with much higher acreage in rice. However, pulses and oilseeds sown area logged lower sowing. Given this backdrop, we expect marginal improvement in kharif output.

Jahnvi Prabhakar
Economist

Introduction

India's south-West monsoon was tad lower than normal rainfall this year. Actual rainfall received during this period was 820mm against the long period average of 868.6mm. Though in the rainfed agricultural region also called as monsoon core zone, the rainfall received was normal at 101% of LPA. Amongst 36 subdivisions, 3 of them (covering 9% of the region) received excess rainfall, followed by 26 subdivisions (73% of area) which received normal rainfall and 7 subdivisions had registered deficient rainfall. These included, Kerala, Jharkhand, Gangetic West Bengal, Bihar, East UP, Gangetic West Bengal, states in North-eastern region (Nagaland, Manipur, Mizoram and Tripura). On a monthly basis, across all the 4-months, August experienced the highest deficiency (64% of LPA) while July (113% of LPA) and September (113% of LPA) registered excess rainfall. Despite fears of El Nino, rainfall activity turned out to be marginally lower than last year.

Fig 1: Actual rainfall tad lower than normal



Kharif sowing in 2022-23

As of 30 Sep 2023, the overall Kharif sowing area improved by 0.2% compared with last year. Rice sown area had advanced by 1.9% followed by higher sowing for coarse cereals (up by 1.8%) and Sugarcane (7.6%). Acreage of pulses declined by (-) 4.2% led by lower sowing of Arhar (-4.9%) and urad (-1.3%) compared with last year. Oilseeds and cotton has logged in lower sowing area, with the exception of soybean and castor which has registered some improvement amongst oilseeds.



HOLD

TP: Rs 258 | ▲ 14%

RBL BANK

| Banking

| 25 October 2023

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Ajit Agrawal

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Strong credit growth with recovery in deposits: RBK's Q2FY24 loan growth held strong at 21% YoY (+4% QoQ) and deposit mobilisation recovered to 13% YoY (+5% QoQ) after sub-10% growth for the last 2-3 quarters. This recovery was spurred by term deposits which rose 14% YoY while CASA grew 11.5% YoY. Growth in advances were steered by commercial banking (+17% YoY), credit cards (+27%), microfinance (+48% YoY), housing (+43%) and newly launched products. Management aims to maintain a quarterly run-rate of 5-8% in retail business to achieve its goal of 60-65% for 2026.

NIM stable QoQ: Reported NIM was steady sequentially at 5.5% (post reclassification of charges paid to business correspondents from interest cost to operating cost), as an 18bps/14bps QoQ rise in cost of funds/cost of deposits was offset by a 16bps increase in yield on advances. Management indicated that most of the deposit repricing is complete, and margins should improve hereon as the mix shifts towards high-yielding assets. Factoring in continued market share gains in new launches, we estimate NIM at 5.3-5.4% over FY24/FY25 vs. 4.7% expected earlier.

Building buffer provisions as a prudent measure: RBK used a one-off tax reversal of ~Rs 3bn to (a) build a Rs 2.5bn contingent provision buffer covering 1% of its credit card and MFI loan book (together 35% of the portfolio), and (b) set aside Rs 480mn for a change in provisioning norms towards credit cards (100% towards 120 days past due vs. 180 days earlier) as a prudent measure. Credit cost in Q2 stood at 90bps (47bps excluding the contingent buffer) with a 600bps QoQ rise in PCR to 75.6%. GNPA/NNPA improved 10bps/22bps QoQ to 3.1%/0.8% while restructured loans declined to 0.9% from 1.05% in Q1.

Maintain HOLD: Accounting for a growing share of high-yielding assets as well as sticky operational costs, we forecast a PPOP CAGR of 30% over FY23-FY25 (vs. 24% earlier). Factoring in the prudent provisioning, we increase our PAT estimates by 6%/11%. We now value the bank at 1x FY25E ABV (vs. 0.9x) using the Gordon Growth Model, leading to a revised TP of Rs 258 (vs. Rs 233). However, we retain HOLD as the stock offers limited upside at the current valuation of 0.9x FY25E ABV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RBK IN/Rs 225
Market cap	US\$ 1.6bn
Free float	100%
3M ADV	US\$ 34.5mn
52wk high/low	Rs 257/Rs 120
Promoter/FPI/DII	0%/30%/19%

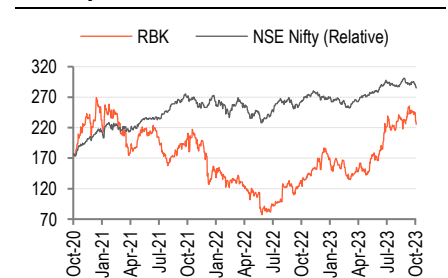
Source: NSE | Price as of 25 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	44,515	61,480	72,483
NII growth (%)	10.5	38.1	17.9
Adj. net profit (Rs mn)	8,827	12,804	15,682
EPS (Rs)	14.7	21.4	26.2
Consensus EPS (Rs)	14.7	20.8	26.4
P/E (x)	15.3	10.6	8.6
P/BV (x)	1.0	0.9	0.8
ROA (%)	0.8	1.0	1.1
ROE (%)	6.7	9.1	10.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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