

**BUY**  
 TP: Rs 2,000 | ▲ 22%

**KOTAK MAHINDRA BANK**

| Banking

| 07 May 2024

**Healthy business growth; other income supports rise in PAT**

- **Healthy business growth in Q4, deposits outpaced credit growth driven by TDs, NII's remained modest while boost in other income aided PPOP**
- **Lower valuation multiple and ~13% price correction YTD factors in most of the performance moderation, and likely will improve over FY25**
- **Anticipating stable asset quality, we revise our growth estimates and, hence, our TP to Rs 2,000 (from Rs 2,100) but maintain BUY**

**Ajit Agrawal**

research@bobcaps.in

**Strong QoQ performance:** KMB posted PAT of Rs 43.1bn (38% QoQ) backed by one-offs like AIF provision reversal (Rs 1.6bn), interest on income tax refund (Rs 1.4bn), tax credit (Rs 2bn) and treasury gains (Rs 1.4bn). NII grew 5% QoQ on higher yield on asset despite rise in deposit cost and reported NIM up 6bps QoQ.

**Higher other income and lower provision aided PAT:** Other income rose 30% QoQ (36% YoY) backed by interest on income tax refund and a treasury gain. Opex remained muted with a 3% rise QoQ leading to a 364bps improvement in the C/I ratio. Management guided for its C/I ratio to stay elevated in FY25 on higher investments towards tech upgradation to address regulatory issues related to issuing new credit cards and digital onboarding of clients, while it continues to invest in branch expansion to cater new clients. Also, the bank guided for Rs 3.5bn-4bn of impact on PBT due to regulatory business restrictions in FY25 and further clarified that until it gets resolved KMB would focus on deepening its client engagement to cross sell retail products.

**Robust business growth:** Deposit growth (10%/24% QoQ/YoY) outpaced loan growth (5%/18% QoQ/YoY) driven by terms deposits – ActivMoney doubled over FY23. Healthy credit growth was fueled by growth across the segment, wherein retail grew by 21% YoY and SME/Corporate by 23%/21% YoY. Unsecured retail contributed 11.8% of loans vs. 10% in Q4FY23 (11.6% in Q3) and KMB retained its guidance on unsecured retail mix in the mid-teens despite the business restriction by RBI. We broadly retain credit growth estimates and raise deposit growth estimates for FY25/ FY26 by 4%. We cut PAT estimates by 9% for each year due to business challenges.

**Stable asset quality:** Despite the rise in slippages, higher upgrades and write-offs led to improved asset quality. GNPA/NNPA/PCR stood at 1.4%/0.3%/76%. Credit cost improved to 29bps on AIF provision reversal from 67bps in Q3. CAR remained healthy.

**Maintain BUY:** Considering the moderation in business growth, we estimate RoA/RoE at 2.1%/13% over FY25/FY26 and we cut our SOTP-based TP to Rs 2,000, from Rs 2,100, set at 2.3x FY26E ABV (2.5x earlier) using the GGM. This includes Rs 642/sh as the value of subsidiaries.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	KMB IN/Rs 1,644
Market cap	US\$ 39.8bn
Free float	74%
3M ADV	US\$ 159.2mn
52wk high/low	Rs 2,064/Rs 1,544
Promoter/FPI/DII	26%/38%/23%

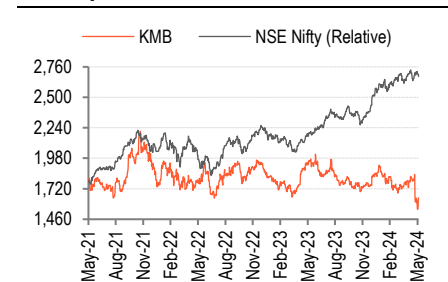
Source: NSE | Price as of 7 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	25,993	29,619	34,971
NII growth (%)	20.6	13.9	18.1
Adj. net profit (Rs mn)	13,782	13,693	15,696
EPS (Rs)	69.3	68.9	79.0
Consensus EPS (Rs)	69.3	73.1	80.6
P/E (x)	23.7	23.9	20.8
P/BV (x)	3.4	3.0	2.6
ROA (%)	2.5	2.1	2.1
ROE (%)	15.3	13.2	13.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly snapshot: Income statement**

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	77,809	82,982	86,763	92,099	94,736	21.8	2.9
Income on investments	18,843	20,074	21,485	22,758	24,664	30.9	8.4
Int. on bal. with RBI & inter-bank funds & Others	1,558	1,944	3,681	3,134	3,671	135.7	17.1
<b>Interest income</b>	<b>98,209</b>	<b>105,000</b>	<b>111,928</b>	<b>117,990</b>	<b>123,071</b>	<b>25.3</b>	<b>4.3</b>
Interest expense	37,184	42,663	48,962	52,455	53,977	45.2	2.9
<b>Net interest income</b>	<b>61,026</b>	<b>62,337</b>	<b>62,966</b>	<b>65,535</b>	<b>69,094</b>	<b>13.2</b>	<b>5.4</b>
Growth YoY (%)	35.0	32.7	23.5	15.9	13.2	(2,175bps)	(271bps)
<b>Non-interest income</b>	<b>21,863</b>	<b>26,833</b>	<b>23,145</b>	<b>22,970</b>	<b>29,783</b>	<b>36.2</b>	<b>29.7</b>
Growth YoY (%)	19.7	115.7	18.4	9.4	36.2	1,652bps	2,684bps
<b>Total income</b>	<b>82,888</b>	<b>89,170</b>	<b>86,112</b>	<b>88,505</b>	<b>98,876</b>	<b>19.3</b>	<b>11.7</b>
Growth YoY (%)	30.6	50.1	22.1	14.2	19.3	(1,129bps)	513bps
Staff expenses	14,545	16,470	16,346	17,483	18,264	25.6	4.5
Other operating expenses	21,870	23,204	23,665	25,360	25,997	18.9	2.5
<b>Operating expenses</b>	<b>36,415</b>	<b>39,674</b>	<b>40,011</b>	<b>42,843</b>	<b>44,261</b>	<b>21.5</b>	<b>3.3</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>46,474</b>	<b>49,496</b>	<b>46,101</b>	<b>45,662</b>	<b>54,616</b>	<b>17.52</b>	<b>19.6</b>
Growth YoY (%)	39.1	77.8	29.2	18.6	17.5	(2,163bps)	(109bps)
<b>Provisions</b>	<b>1,476</b>	<b>3,643</b>	<b>3,666</b>	<b>5,791</b>	<b>2,637</b>	<b>78.7</b>	<b>(54.5)</b>
Growth YoY (%)	(148.2)	1444.3	167.6	289.1	78.7	22,691bps	(21,041bps)
<b>PBT</b>	<b>44,998</b>	<b>45,853</b>	<b>42,436</b>	<b>39,871</b>	<b>51,978</b>	<b>15.5</b>	<b>30.4</b>
Tax	10,042	11,330	10,526	9,821	10,645	6.0	8.4
<b>PAT</b>	<b>34,956</b>	<b>34,523</b>	<b>31,910</b>	<b>30,050</b>	<b>41,333</b>	<b>18.2</b>	<b>37.5</b>
Growth YoY (%)	26.3	66.7	23.6	7.6	18.2	(807bps)	1,061bps
<b>Per Share</b>							
FV (Rs)	5	5	5	5	5	0.0	0.0
EPS (Rs)	17	17	16	15	21	18.5	36.2
Book Value (Rs)	420	438	453	468	487	15.7	4.0

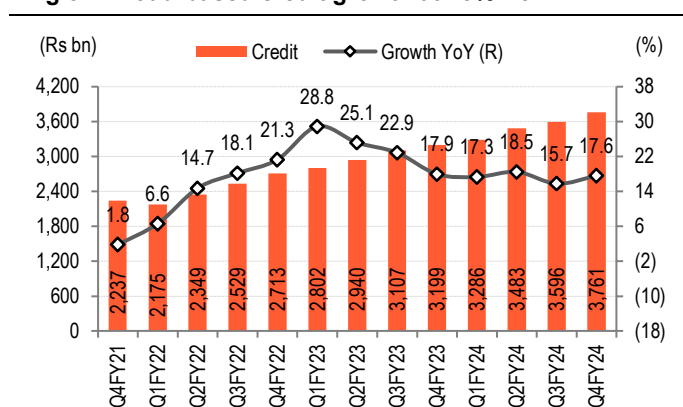
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly snapshot: Balance sheet & other metrics**

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Deposits	3,630,961	3,862,540	4,009,629	4,086,360	4,489,538	23.6	9.9
Growth YoY (%)	16.5	22.0	23.3	18.6	23.6	715bps	509bps
Advances	3,198,612	3,285,820	3,482,841	3,595,880	3,760,753	17.6	4.6
Growth YoY (%)	17.9	17.3	18.5	15.7	17.6	(35bps)	185bps
Investment	1,214,037	1,238,730	1,286,460	1,457,510	1,554,038	28.0	6.6
Equity	835,203	870,110	900,349	929,940	967,188	15.8	4.0
Assets	4,898,625	5,129,910	5,329,631	5,479,490	6,003,571	22.6	9.6
Growth YoY (%)	14.1	20.8	20.6	17.9	22.6	848bps	466bps
<b>Yield (%)</b>							
Yield on Funds	8.5	8.7	8.8	9.0	8.8	30bps	(18bps)
Cost of Funds	4.0	4.3	4.7	4.9	4.7	78bps	(16bps)
Spread	4.6	4.4	4.1	4.1	4.1	(48bps)	(2bps)
Net Interest Margin (calc.)	5.29	5.14	4.97	4.99	4.95	(34bps)	(5bps)
<b>Ratios (%)</b>							
Other Income / Net Income	26.4	30.1	26.9	26.0	30.1	375bps	417bps
Cost to Income ratio	43.9	44.5	46.5	48.4	44.8	83bps	(364bps)
CASA ratio	52.8	49.0	48.3	47.7	45.5	(732bps)	(223bps)
C/D ratio	88.1	85.1	86.9	88.0	83.8	(433bps)	(423bps)
Investment to Assets	24.8	24.1	24.1	26.6	25.9	110bps	(71bps)
<b>Assets Quality</b>							
GNPA	57,683	59,092	60,872	63,017	52,748	(8.6)	(16.30)
NNPA	11,933	13,018	12,748	12,253	12,706	6.5	3.7
Provision	45,750	46,074	48,124	50,764	40,042	(12.5)	(21.1)
GNPA (%)	1.8	1.8	1.7	1.7	1.4	(39bps)	(34bps)
NNPA (%)	0.4	0.4	0.4	0.3	0.3	(3bps)	0bps
Provision Coverage Ratio (%)	79.3	78.0	79.1	80.6	75.9	(340bps)	(464bps)
<b>Others</b>							
Branches	1,780	1,788	1,850	1,869	1,948	168	79
ATMs	2,963	3,047	3,170	3,239	3,291	328	52
Employees	74,226	74,560	77,145	77,937	81,232	7,006	3,294

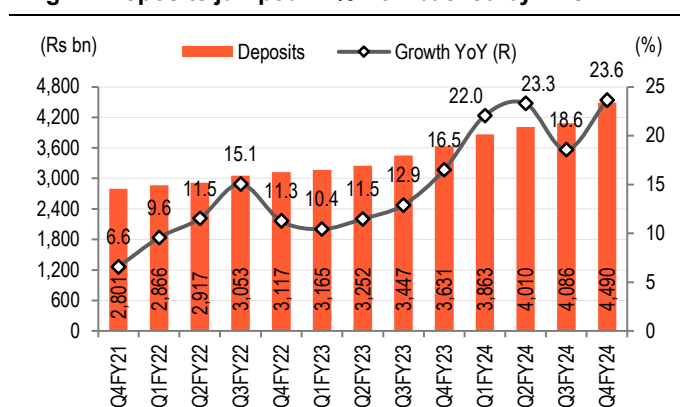
Source: Company, BOBCAPS Research

**Fig 3 – Broad-based credit growth at 18% YoY**



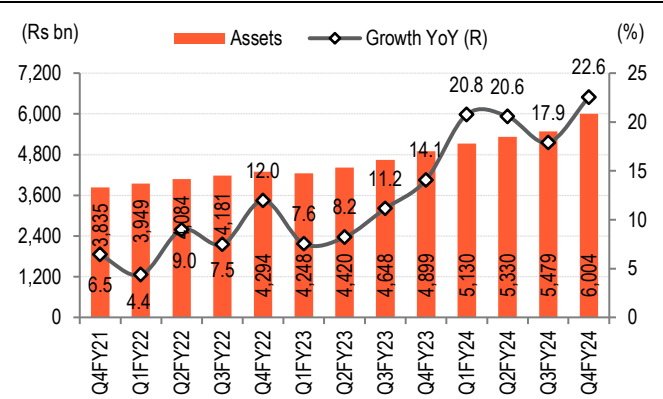
Source: Company, BOBCAPS Research

**Fig 4 – Deposits jumped 24% YoY backed by TDs**



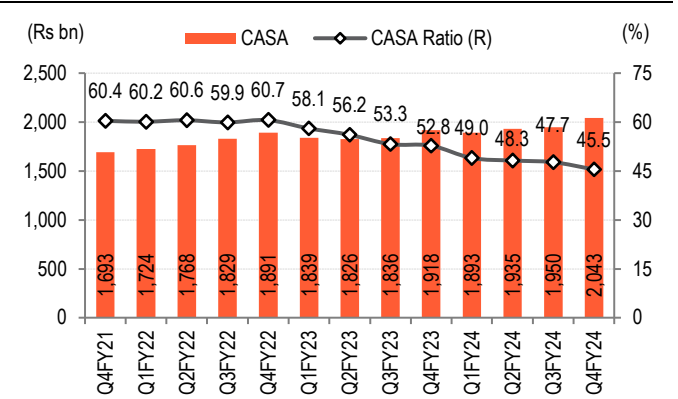
Source: Company, BOBCAPS Research | TDs: Term Deposits

**Fig 5 – Asset growth at 23% YoY**



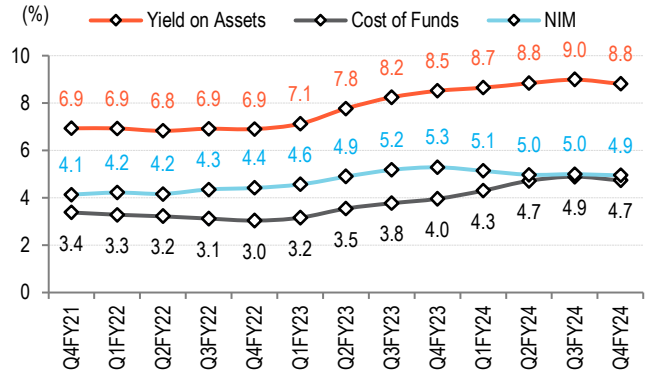
Source: Company, BOBCAPS Research

**Fig 6 – Decline in CASA due to subdued CASA mobilisation**



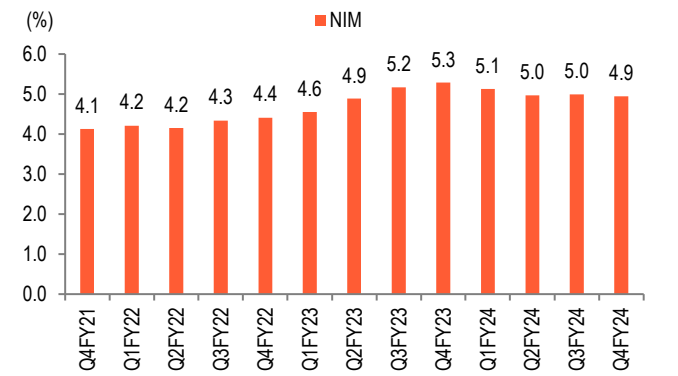
Source: Company, BOBCAPS Research

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



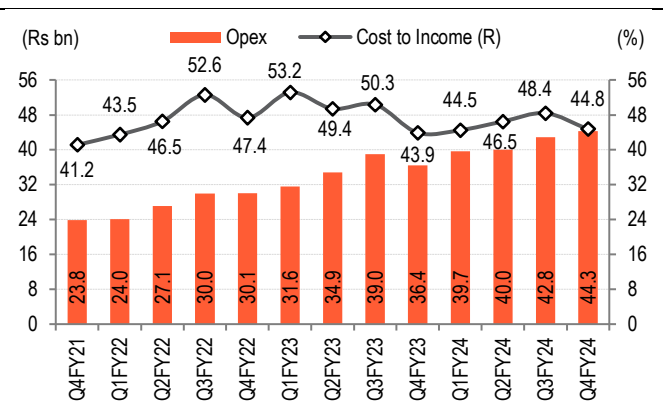
Source: Company, BOBCAPS Research

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



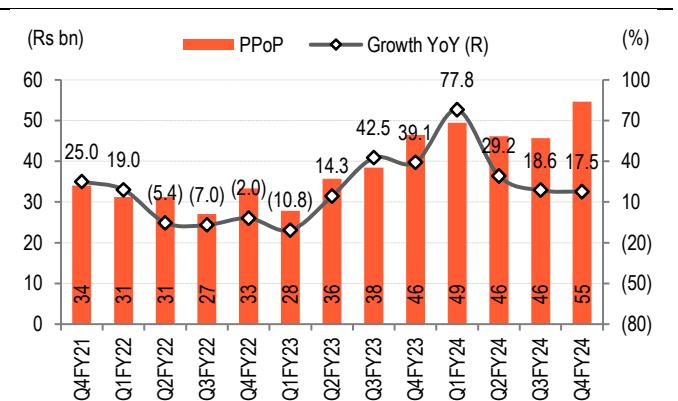
Source: Company, BOBCAPS Research

**Fig 9 – C/I ratio declined on modest growth in opex; likely to remain elevated over FY25E**



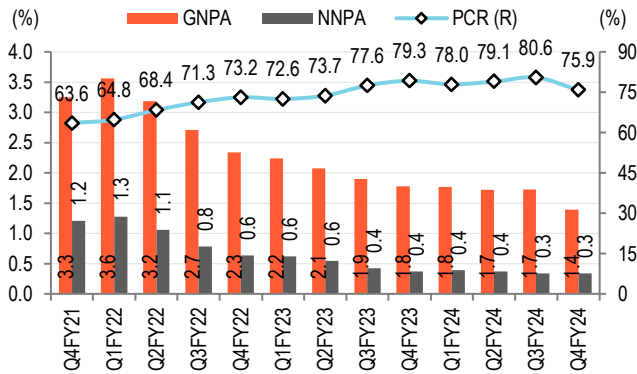
Source: Company, BOBCAPS Research

**Fig 10 – Jump in other income supported PPOP**



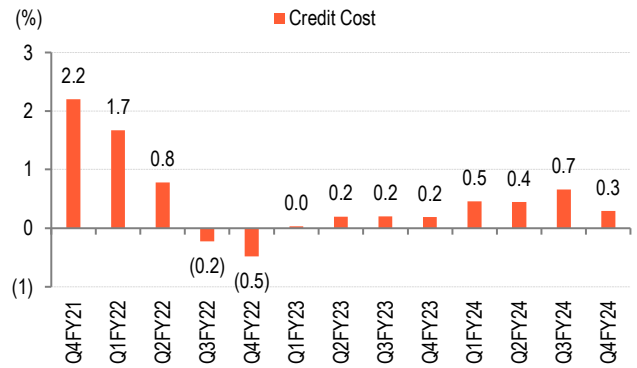
Source: Company, BOBCAPS Research

**Fig 11 – Asset quality improved on higher reduction in stress**



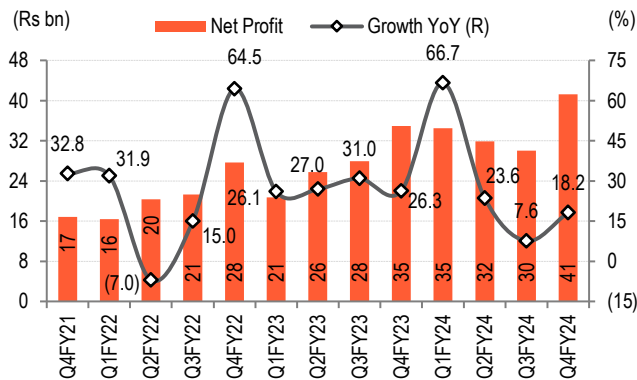
Source: Company, BOBCAPS Research

**Fig 12 – Credit cost decline with provision reversal**



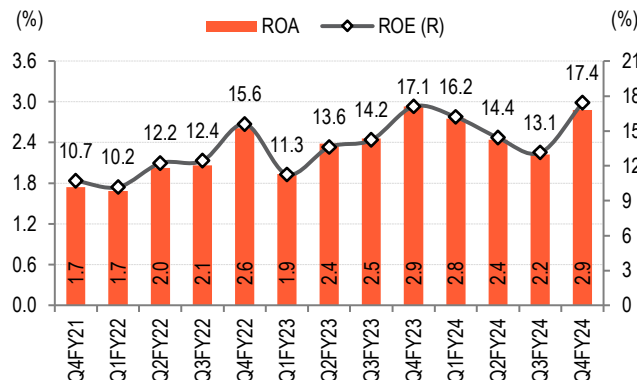
Source: Company, BOBCAPS Research

**Fig 13 – PAT growth supported by one-off gains**



Source: Company, BOBCAPS Research

**Fig 14 – Return ratios remained healthy**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Growth outlook

- KMB's focus on risk-calibrated business growth against gross volume boost to improve overall performance.
- Management expects some moderation in business due to regulatory restriction on new credit card (CC) issuance and the digital onboarding of clients. KMB clarified its focus on client engagement would deepen further to enhance the business until the issue is resolved and it will continue to invest in branch and technology upgradation to grab business opportunities.

### Asset quality

- Slippages stood at Rs 13bn (1.5% annualised) in Q4FY24 vs. Rs 11.8bn (1.4% annualised) in Q3FY24.
- Recoveries and upgrades were at Rs 2.4bn while write-offs during the quarter stood at Rs 21bn leading to a total reduction in stress of Rs 23bn.
- KMB had no sale of non-performing assets (NPAs) in the quarter.
- Credit cost stood at 29bps (as Rs 1.6bn of AIF provision reversal) vs. 67bps in Q3.

### NII and NIM

- NII grew 13% YoY (+5% QoQ) on healthy business growth.
- Reported NIM rose 6bps QoQ to 5.3% despite the rise in cost of funds supported by higher yield on asset.

### Operating performance

- Other income jumped 36% YoY (30% QoQ) mainly due to treasury gain and interest on income tax refund.
- KMB has 79% of its investment book in the AFS and HFT categories.
- Tech-related expenditure contributed 10% of opex.

### Loans

- Net advances grew 18% YoY in Q4 vs. 16% YoY in Q3. Inclusive of credit substitutes, growth was at 20% YoY (+6% QoQ).
- The unsecured portfolio, including microfinance (MFI), constituted 11.8% of the loan book in Q4 vs. 10% a year ago and 11.6% in Q3FY24, and the bank is comfortable growing the book given high-risk weightage and maintained their guidance to increase it to mid-teen levels.

### Deposits

- Deposits grew 4% YoY (10% QoQ) in Q4 led by term deposits, mainly from KMB's ActivMoney product which grew 102% YoY.
- CASA growth was subdued at 6% YoY (5% QoQ) while the term deposit book grew 43% YoY (14% QoQ), leading to a 223bps QoQ decline in CASA ratio to 45.5%.

### Subsidiaries

- **Kotak Securities:** PAT came in at Rs 3.8bn compared to Rs 3.1bn in Q3FY24 (and Rs 1.8bn in Q4FY23). Market share grew to 11.4% vs. 10.1% a year ago and 11.6% in Q3FY24.
- **Kotak AMC:** AAUM was up 32% YoY to Rs 3.8tn. Equity AAUM grew 50% YoY to Rs 2.4tn with market share of 6.5% from 6.6% in Q3FY24.
- **Kotak Prime:** PAT decline to Rs 2.2bn from Rs 2.4bn in Q3FY24 along with QoQ flat NNPA of 0.8% vs. 0.9% in the year-ago period.

**Fig 15 – Loan book distribution**

(Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Corporate Banking	666,740	666,330	695,310	699,870	724,050	775,690	818,440	842,460	873,100
SME	204,440	205,290	211,750	231,540	221,530	233,120	245,690	258,160	272,470
Commercial Vehicles	224,900	232,460	246,040	258,140	277,860	285,260	310,460	337,510	368,330
Agriculture Finance	252,000	246,040	250,020	261,280	275,470	265,130	270,310	275,120	278,500
Tractor finance	107,660	110,150	120,150	129,860	139,090	139,160	143,760	151,560	158,020
Home loans & LAP	760,770	809,750	858,430	891,120	927,310	951,470	991,000	1,022,340	1,067,260
Consumer Bank WC (Secured)	264,440	264,870	274,040	289,400	303,430	299,060	330,950	337,900	359,970
PL, BL and Consumer Durables	100,710	116,160	131,970	145,420	157,730	166,920	178,620	193,100	200,490
Credit Cards	55,720	68,190	79,030	91,590	100,900	113,600	125,970	138,820	145,050
Others	44,560	45,970	50,000	55,740	65,810	71,270	75,050	82,570	94,270
Micro Finance	30,600	36,500	44,430	53,380	62,250	69,630	79,870	85,100	99,830
<b>Loan</b>	<b>2,712,540</b>	<b>2,801,710</b>	<b>2,961,170</b>	<b>3,107,340</b>	<b>3,255,430</b>	<b>3,370,310</b>	<b>3,570,120</b>	<b>3,724,640</b>	<b>3,917,290</b>
Credit substitutes	212,270	234,580	273,010	285,790	271,090	251,730	234,000	282,950	315,950
<b>Total customer assets</b>	<b>2,924,810</b>	<b>3,036,290</b>	<b>3,234,180</b>	<b>3,393,130</b>	<b>3,526,520</b>	<b>3,622,040</b>	<b>3,804,120</b>	<b>4,007,590</b>	<b>4,233,240</b>

Source: Company, BOBCAPS Research

**Fig 16 – Loan book distribution (%)**

Segment (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Corporate Banking	22.8	21.9	21.5	20.6	20.5	21.4	21.5	21.0	20.6
SME	7.0	6.8	6.5	6.8	6.3	6.4	6.5	6.4	6.4
Commercial Vehicles	7.7	7.7	7.6	7.6	7.9	7.9	8.2	8.4	8.7
Agriculture Finance	8.6	8.1	7.7	7.7	7.8	7.3	7.1	6.9	6.6
Tractor finance	3.7	3.6	3.7	3.8	3.9	3.8	3.8	3.8	3.7
Home loans & LAP	26.0	26.7	26.5	26.3	26.3	26.3	26.1	25.5	25.2
Consumer Bank WC (Secured)	9.0	8.7	8.5	8.5	8.6	8.3	8.7	8.4	8.5
PL, BL and Consumer Durables	3.4	3.8	4.1	4.3	4.5	4.6	4.7	4.8	4.7
Credit Cards	1.9	2.2	2.4	2.7	2.9	3.1	3.3	3.5	3.4
Others	1.5	1.5	1.5	1.6	1.9	2.0	2.0	2.1	2.2
Micro Finance	1.0	1.2	1.4	1.6	1.8	1.9	2.1	2.1	2.4
<b>Loan</b>	<b>92.7</b>	<b>92.3</b>	<b>91.6</b>	<b>91.6</b>	<b>92.3</b>	<b>93.1</b>	<b>93.8</b>	<b>92.9</b>	<b>92.5</b>
Credit substitutes	7.3	7.7	8.4	8.4	7.7	6.9	6.2	7.1	7.5
<b>Total customer assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, BOBCAPS Research

**Fig 17 – Loan book growth YoY**

Segment (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Corporate Banking	12.8	11.6	7.1	2.1	8.6	16.4	17.7	20.4	20.6
SME	2.4	22.0	16.3	24.8	8.4	13.6	16.0	11.5	23.0
Commercial Vehicles	10.3	20.1	26.2	26.6	23.5	22.7	26.2	30.7	32.6
Agriculture Finance	6.1	12.2	8.4	15.7	9.3	7.8	8.1	5.3	1.1
Tractor finance	14.3	18.7	24.8	28.2	29.2	26.3	19.7	16.7	13.6
Home loans & LAP	39.0	45.6	39.6	29.4	21.9	17.5	15.4	14.7	15.1
Consumer Bank WC (Secured)	21.1	25.8	18.7	20.3	14.7	12.9	20.8	16.8	18.6
PL, BL and Consumer Durables	43.4	77.0	81.8	69.5	56.6	43.7	35.3	32.8	27.1
Credit Cards	40.4	77.2	81.1	85.1	81.1	66.6	59.4	51.6	43.8
Others	28.1	41.0	44.7	43.8	47.7	55.0	50.1	48.1	43.2
Micro Finance	-	-	-	120.9	103.4	90.8	79.8	59.4	60.4
<b>Loan</b>	<b>21.3</b>	<b>28.8</b>	<b>26.0</b>	<b>22.9</b>	<b>20.0</b>	<b>20.3</b>	<b>20.6</b>	<b>19.9</b>	<b>20.3</b>
Credit substitutes	39.9	31.1	27.6	32.1	27.7	7.3	(14.3)	(1.0)	16.5
<b>Total customer assets</b>	<b>22.5</b>	<b>29.0</b>	<b>26.2</b>	<b>23.6</b>	<b>20.6</b>	<b>19.3</b>	<b>17.6</b>	<b>18.1</b>	<b>20.0</b>

Source: Company, BOBCAPS Research

**Fig 18 – Loan book growth QoQ**

Segment (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Corporate Banking	(2.7)	(0.1)	4.3	0.7	3.5	7.1	5.5	2.9	3.6
SME	10.2	0.4	3.1	9.3	(4.3)	5.2	5.4	5.1	5.5
Commercial Vehicles	10.3	3.4	5.8	4.9	7.6	2.7	8.8	8.7	9.1
Agriculture Finance	11.6	(2.4)	1.6	4.5	5.4	(3.8)	2.0	1.8	1.2
Tractor finance	6.3	2.3	9.1	8.1	7.1	0.1	3.3	5.4	4.3
Home loans & LAP	10.5	6.4	6.0	3.8	4.1	2.6	4.2	3.2	4.4
Consumer Bank WC (Secured)	9.9	0.2	3.5	5.6	4.8	(1.4)	10.7	2.1	6.5
PL, BL and Consumer Durables	17.4	15.3	13.6	10.2	8.5	5.8	7.0	8.1	3.8
Credit Cards	12.6	22.4	15.9	15.9	10.2	12.6	10.9	10.2	4.5
Others	14.9	3.2	8.8	11.5	18.1	8.3	5.3	10.0	14.2
Micro Finance	26.7	19.3	21.7	20.1	16.6	11.9	14.7	6.5	17.3
<b>Loan</b>	<b>7.2</b>	<b>3.3</b>	<b>5.7</b>	<b>4.9</b>	<b>4.8</b>	<b>3.5</b>	<b>5.9</b>	<b>4.3</b>	<b>5.2</b>
Credit substitutes	(1.9)	10.5	16.4	4.7	(5.1)	(7.1)	(7.0)	20.9	11.7
<b>Total customer assets</b>	<b>6.5</b>	<b>3.8</b>	<b>6.5</b>	<b>4.9</b>	<b>3.9</b>	<b>2.7</b>	<b>5.0</b>	<b>5.3</b>	<b>5.6</b>

Source: Company, BOBCAPS Research



## Valuation methodology

KMB delivered strong deposits growth (24%/10% YoY/QoQ) during Q4FY24 outpacing credit growth (18%/6% YoY/QoQ) driven by term deposit and deposit mobilisation, which remain key for funding asset growth. Considering the bank's priority towards deposits mobilisation we increase our deposits estimates by 5%/4% for FY25/FY26 while broadly retaining our credit growth estimates. Due to continuous deposits rate repricing and higher cost of funds we lower our NII estimates 3%/2% for FY25/FY26 while the expected rise in operational cost will likely drag PPOP by 7%/6% over the same period. Additionally, normalisation of credit cost will likely elevate provision and we revise our provision estimates by 11%/27% for FY25/FY26 leading to a PAT decline of 9% each for the mentioned period (PAT CAGR of 7% over the same period). We expect some moderation in NIM over the same period (NIM calculated at 4.7%/4.8% over FY25/FY26).

KMB is well capitalised with CAR at 20.5% (CET1 at 19.2%) as of Q4FY24 to fund future asset growth. We expect some moderation in the overall return ratio over FY25 and FY26 which remain healthy at 2.1% and 13%, vs. earlier estimates of 2.4%/14.5% over same period.

**Maintain BUY:** The recent regulatory restriction on new credit card issuance and digital onboarding of new clients may decelerate growth momentum and so also margin and the overall return ratio. Considering moderation in business growth, we estimate RoA/RoE at 2.1%/13% over FY25/FY26 and we cut our SOTP-based TP to Rs 2,000, from Rs 2,100, set at 2.3x FY26E ABV (2.5x earlier) using the GGM. This includes Rs 642/sh as the value of subsidiaries. However, recent price correction has factored in most of the negatives and we maintain BUY. Additionally, recent changes in top level management may pose challenges to business dynamics and the long-term growth strategy and would be a key watchable.

**Fig 19 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Loan	4,403,841	5,156,898	4,419,778	5,179,980	(0.4)	(0.4)
Deposits	5,252,759	6,119,464	5,017,152	5,880,102	4.7	4.1
Assets	7,018,664	8,104,386	6,840,445	7,925,551	2.6	2.3
NII	296,189	349,713	307,027	358,718	(3.5)	(2.5)
PPOP	208,544	243,953	224,075	258,639	(6.9)	(5.7)
Provisions	24,494	32,985	22,046	25,919	11.1	27.3
PAT	136,933	156,961	150,309	173,143	(8.9)	(9.3)

Source: BOBCAPS Research

**Fig 20 – Key operational assumptions**

Parameter (%)	FY23A	FY24P	FY25E	FY26E
Advances Growth	17.9	17.6	17.1	17.1
Net Interest Income Growth	28.1	20.6	13.9	18.1
PPoP Growth	23.2	31.9	6.5	17.0
PAT Growth	50.6	26.0	(0.6)	14.6
NIM	4.9	4.9	4.7	4.8
GNPA	1.8	1.5	1.6	1.6
CAR	21.8	20.0	19.5	19.3

Source: Company, BOBCAPS Research

**Fig 21 – SOTP valuation summary**

Business	Valuation	Holdings (%)	Value (Rs/sh)
Kotak Bank	2.3x FY26E ABV	100	1,409
Kotak Life	2.3x FY26E EV	100	231
Kotak Prime	2.5x FY26E BV	100	137
Kotak AMC	4.5% FY26 AAUM	100	118
Kotak Securities	15x FY26 PAT	100	121
Others	-	100	50
Holding Co. Discount	10%	-	(66)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,000</b>

Source: Company, BOBCAPS Research

**Fig 22 – Valuation assumptions**

Gordon growth model	(%)
Return on Equity (RoE)	16.1
Cost of Equity (Ke)	12.3
Growth (Period 1)	14.5
Growth (Long Term)	6.4
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	13.2
Justified P/BV	2.3

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

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

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	42.4	1,128	1,252	HOLD
Bandhan Bank	BANDHAN IN	3.6	181	270	BUY
DCB Bank	DCBB IN	0.5	134	172	BUY
Federal Bank	FB IN	4.7	160	189	BUY
HDFC Bank	HDFCB IN	138.2	1,506	1,872	BUY
ICICI Bank	ICICIB IN	96.8	1,132	1,272	HOLD
IDFC First Bank	IDFCBK IN	6.4	78	96	BUY
Indusind Bank	IIB IN	13.8	1,453	1,881	BUY
Kotak Mahindra Bank	KMB IN	39.8	1,644	2,000	BUY
RBL Bank	RBK IN	1.8	246	309	BUY
State Bank of India	SBIN IN	87.1	802	842	BUY

Source: BOBCAPS Research, NSE | Price as of 7 May 2024

## Glossary

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

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Net interest income</b>	<b>16,818</b>	<b>21,552</b>	<b>25,993</b>	<b>29,619</b>	<b>34,971</b>
NilI growth (%)	9.6	28.1	20.6	13.9	18.1
Non-interest income	6,354	7,083	10,273	11,525	13,157
Total income	23,172	28,635	36,266	41,144	48,128
Operating expenses	11,121	13,787	16,679	20,289	23,733
PPOP	12,051	14,848	19,587	20,854	24,395
PPOP growth (%)	2.5	23.2	31.9	6.5	17.0
Provisions	772	457	1,574	2,449	3,298
PBT	11,279	14,391	18,014	18,405	21,097
Tax	4,016	3,452	4,232	4,712	5,401
<b>Reported net profit</b>	<b>7,263</b>	<b>10,939</b>	<b>13,782</b>	<b>13,693</b>	<b>15,696</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,263</b>	<b>10,939</b>	<b>13,782</b>	<b>13,693</b>	<b>15,696</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	1,492	1,493	994	994	994
Reserves & surplus	70,995	82,027	95,725	109,418	125,114
Net worth	72,488	83,520	96,719	110,412	126,108
Deposits	311,684	363,096	448,954	525,276	611,946
Borrowings	25,967	23,416	28,368	32,623	36,864
Other liab. & provisions	19,289	19,830	26,316	33,555	35,520
<b>Total liab. &amp; equities</b>	<b>429,428</b>	<b>489,862</b>	<b>600,357</b>	<b>701,866</b>	<b>810,439</b>
Cash & bank balance	42,924	32,542	52,788	56,992	56,293
Investments	100,580	121,404	155,404	186,340	217,208
Advances	271,254	319,861	376,075	440,384	515,690
Fixed & Other assets	14,671	16,055	16,090	18,150	21,248
<b>Total assets</b>	<b>429,428</b>	<b>489,862</b>	<b>600,357</b>	<b>701,866</b>	<b>810,439</b>
Deposit growth (%)	11.3	16.5	23.6	17.0	16.5
Advances growth (%)	21.3	17.9	17.6	17.1	17.1

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	36.6	55.1	69.3	68.9	79.0
Dividend per share	1.1	1.5	2.0	3.4	3.9
Book value per share	362.7	417.9	486.5	555.4	634.4

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	44.9	29.9	23.7	23.9	20.8
P/BV	4.5	3.9	3.4	3.0	2.6
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Net interest income	4.5	5.2	4.8	4.5	4.6
Non-interest income	1.7	1.7	1.9	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	3.2	3.2
Provisions	0.2	0.1	0.3	0.4	0.4
PBT	3.2	3.7	3.3	2.8	2.8
Tax	1.1	0.8	0.8	0.7	0.7
ROA	2.1	2.8	2.5	2.1	2.1
Leverage (x)	0.1	0.1	0.1	0.1	0.1
ROE	13.7	17.8	15.3	13.2	13.3

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Net interest income	9.6	28.1	20.6	13.9	18.1
Pre-provisioning profit	2.5	23.2	31.9	6.5	17.0
EPS	28.5	50.5	25.9	(0.6)	14.6
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.3	4.3	4.9	4.9	4.7
Fees / Avg. assets	0.4	0.4	0.5	0.4	0.4
Cost-Income	48.0	48.1	46.0	49.3	49.3
ROE	13.7	17.8	15.3	13.2	13.3
ROA	2.1	2.8	2.5	2.1	2.1
<b>Asset quality (%)</b>					
GNPA	2.3	1.8	1.5	1.6	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	0.6	0.7
Provision coverage	72.7	79.0	75.6	80.8	80.8
<b>Ratios (%)</b>					
Credit-Deposit	87.0	88.1	83.8	83.8	84.3
Investment-Deposit	32.3	33.4	34.6	35.5	35.5
CAR	22.7	21.8	20.0	19.5	19.3
Tier-1	21.7	20.8	19.1	18.6	18.4

Source: Company, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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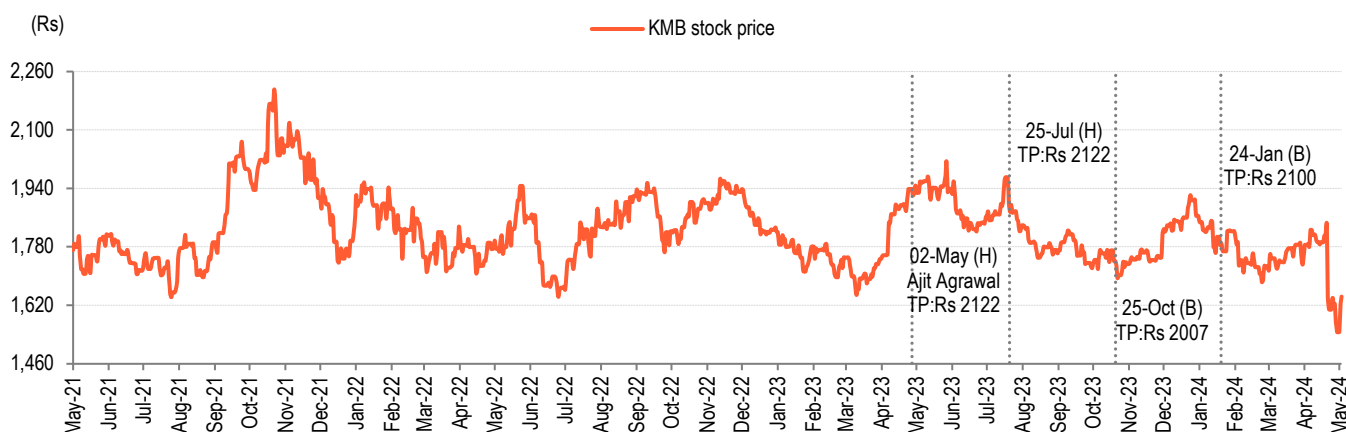
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