

04 September 2023

India | Equity research | Company Update

Kotak Mahindra Bank

Banking

Mr. Uday Kotak steps down as MD & CEO; remains associated as non-executive director

As per the meeting held on 2nd Sep'23, the board of Kotak Mahindra Bank (KMB) has informed that Mr. Uday Kotak has resigned as the MD & CEO of the bank and has become a non-executive non-independent director of the bank for a period of 5 years. He would not be liable to retire by rotation. Mr. Dipak Gupta (joint MD) would carry out MD & CEO responsibilities in the interim, subject to regulatory and other approvals. The key monitorable for the stock would be the candidature and transition of the new MD & CEO. We maintain **HOLD** on KMB with a revised target price of INR 1,850 (earlier: INR 2,000) valuing the stock at ~2.6x FY25E core banking book (earlier: ~2.8x). Upside risk is in growth exceeding expectations and downside risk is in less than smooth management transition.

Mr. Dipak Gupta to carry out MD & CEO role in the interim

As per the extant RBI norms on maximum permissible tenure for MD&CEO and whole-time directors, the term of Mr. Kotak and Mr. Dipak Gupta (joint MD) is ending on 31st Dec'23. With a view to sequence this process from a transition and stability perspective, Mr. Kotak has decided to step down ahead of the scheduled term. As an interim arrangement, Mr. Gupta, joint managing director, will carry out the duties of the MD & CEO till 31st Dec'23, subject to RBI and other approvals. The bank has already made an application to RBI for the approval of the new MD & CEO and is awaiting RBI decision in this respect

Maintain HOLD; cut target price to INR 1,850

The decision of Mr. Kotak stepping down from executive role around 4 months ahead of the scheduled term has come as a somewhat negative surprise. Important to note is that Mr. Kotak would still remain associated with the bank as a non-executive director (thereby ensuring continuity). The key monitorable for the stock would be the candidature and transition of the new MD & CEO. Considering the culture at KMB, promotion of an insider to the top job (vs a lateral hire) would be preferred by investors, in our view. There is no change in our earnings estimates. Maintain **HOLD** on the stock with the target price cut to INR 1,850 (earlier: INR 2,000), valuing it at ~2.6x FY25E core bank ABV (earlier: ~2.8x).

Financial summary

Y/E March 2023	FY22A	FY23A	FY24E	FY25E
NII (INR bn)	168.2	215.5	242.0	262.8
Op. profit (INR bn)	120.5	148.5	173.3	177.1
Net Profit (INR bn)	85.7	109.4	114.4	115.1
EPS (INR)	43.0	55.1	57.6	57.9
EPS % change YoY	22.3	28.1	4.5	0.5
ABV (INR)	356.2	413.4	467.7	523.1
P/BV (x)	4.9	4.2	3.7	3.3
P/ABV (x)	4.0	3.3	2.8	2.4
Return on Assets (%)	2.1	2.4	2.2	1.9
Return on Equity (%)	12.7	14.1	12.9	11.5

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Market Data

Market Cap (INR)	3,520bn
Market Cap (USD)	42,558mn
Bloomberg Code	KMB IN
Reuters Code	KTKM.BO
52-week Range (INR)	2,064 /1,644
Free Float (%)	74.0
ADTV-3M (mn) (USD)	145.4

Price Performance (%)	3m	6m	12m
Absolute	(8.2)	1.6	(6.8)
Relative to Sensex	5.3	11.1	12.7

ESG Disclosure	2021	2022	Change
ESG score	33.8	36.4	2.5
Environment	3.5	3.5	-
Social	14.3	21.8	7.5
Governance	83.6	83.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

24-07-2023: [Q1FY24 results review](#)

01-05-2023: [Q4FY23 results review](#)

Exhibit 1: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	26.0	26.0	25.9
Institutional investors	61.0	60.8	61.1
MFs and other	9.8	11.0	9.5
Banks/ FIs	1.5	1.6	1.5
Insurance Cos.	8.6	8.6	8.4
FII	41.1	39.6	41.7
Others	13.0	13.2	13.0

Source: Bloomberg, I-Sec research

Exhibit 2: Price chart



Source: Bloomberg, I-Sec research

Financial summary

Exhibit 3: Profit & Loss

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Interest income	270,388	342,509	425,546	498,915
Interest expense	102,209	126,989	183,553	236,112
Net interest income	168,179	215,519	241,992	262,803
Non-interest income	63,544	70,831	99,830	112,131
Operating income	231,723	286,350	341,823	374,934
Operating expense	111,214	137,870	168,563	197,792
Staff expense	46,134	55,198	69,893	82,132
Operating profit	120,509	148,480	173,260	177,142
Core operating profit	129,857	158,200	166,260	173,142
Provisions & Contingencies	6,896	4,570	20,266	23,294
Pre-tax profit	113,613	143,910	152,994	153,848
Tax (current + deferred)	27,886	34,517	38,555	38,770
Net Profit	85,727	109,393	114,440	115,078
Adjusted net profit	85,727	109,393	114,440	115,078

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Cash and balance with RBI/Banks	429,239	325,423	438,519	517,877
Investments	1,005,802	1,214,037	1,321,849	1,465,763
Advances	2,712,536	3,198,612	3,762,207	4,433,110
Fixed assets	16,437	19,203	21,124	23,236
Other assets	130,269	141,349	169,957	206,251
Total assets	4,294,284	4,898,625	5,713,654	6,646,237
Deposits	3,116,841	3,630,961	4,375,825	5,210,179
Borrowings	264,671	239,163	240,163	241,163
Other liabilities and provisions	192,894	198,299	156,455	142,056
Share capital	9,923	9,933	9,936	9,936
Reserve & surplus	709,955	820,270	931,276	1,042,902
Total equity & liabilities	4,294,284	4,898,625	5,713,654	6,646,237
% Growth	12.0	14.1	16.6	16.3

Source Company data, I-Sec research

Exhibit 5: Growth ratio

(INR mn, year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
Net Interest Income	9.6	28.1	12.3	8.6
Operating profit	2.5	23.2	16.7	2.2
Core operating profit	8.7	21.8	5.1	4.1
Profit after tax	23.1	27.6	4.6	0.6
EPS	22.3	28.1	4.5	0.5
Advances	20.8	17.6	17.5	17.7
Deposits	11.3	16.5	20.5	19.1
Book value per share	13.7	15.2	13.3	11.9
Adj Book value per share	15.3	16.1	13.1	11.8

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending March 2023)

	FY22A	FY23A	FY24E	FY25E
No. of shares and per share data				
No. of shares (mn)	1,985	1,987	1,987	1,987
Adjusted EPS	43.0	55.1	57.6	57.9
Book Value per share	363	418	474	530
Adjusted BVPS	356	413	468	523
Valuation ratios				
PER (x)	41.2	32.1	30.7	30.6
Price/ Book (x)	4.9	4.2	3.7	3.3
Price/ Adjusted book (x)	4.0	3.3	2.8	2.4
Dividend Yield (%)	0.1	0.1	0.1	0.1
Profitability ratios (%)				
Yield on advances	7.8	9.1	9.6	9.7
Yields on Assets	6.7	7.5	8.0	8.1
Cost of deposits	3.1	3.5	4.3	4.7
Cost of funds	2.5	2.8	3.5	3.8
NIMs	4.3	4.9	4.7	4.4
Cost/Income	48.0	48.1	49.3	52.8
DuPont Analysis (as % of Avg Assets)				
Interest Income	6.7	7.5	8.0	8.1
Interest expended	2.5	2.8	3.5	3.8
Net Interest Income	4.1	4.7	4.6	4.3
Non-interest income	1.6	1.5	1.9	1.8
Trading gains	(0.2)	(0.2)	0.1	0.1
Fee income	1.7	1.7	1.7	1.7
Total Income	5.7	6.2	6.4	6.1
Total Cost	2.7	3.0	3.2	3.2
Staff costs	1.1	1.2	1.3	1.3
Non-staff costs	1.6	1.8	1.9	1.9
Operating Profit	3.0	3.2	3.3	2.9
Core Operating Profit	3.2	3.4	3.1	2.8
Non-tax Provisions	0.2	0.1	0.4	0.4
PBT	2.8	3.1	2.9	2.5
Tax Provisions	0.7	0.8	0.7	0.6
Return on Assets (%)	2.1	2.4	2.2	1.9
Leverage (x)	6.0	5.9	6.0	6.2
Return on Equity (%)	12.7	14.1	12.9	11.5
Asset quality ratios (%)				
Gross NPA	2.3	1.8	1.7	1.6
Net NPA	0.6	0.4	0.4	0.4
PCR	73.2	79.3	76.0	75.0
Gross Slippages	1.9	1.5	1.7	0.0
LLP / Avg loans	0.4	0.5	0.6	0.6
Total provisions / Avg loans	0.3	0.2	0.6	0.6
Net NPA / Networth	2.4	1.4	1.7	1.7
Capitalisation ratios (%)				
Core Equity Tier 1	21.5	20.6	20.0	19.2
Tier 1 cap. adequacy	21.7	20.8	20.1	19.2
Total cap. adequacy	22.7	21.8	21.1	20.1

Source Company data, I-Sec research

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