

# Kotak Mahindra Bank (KMB)

Banking | 2QFY24 Result Update

**BUY**

**CMP: Rs1,770 | Target Price (TP): Rs2,182 | Upside: 23%**

**October 22, 2023**

## NIM impacted by one-off items; Smooth management transition key

### Key Points

- Kotak Mahindra Bank's 2QFY24 results were marginally below our estimates, with NII/PPOP/PAT coming at a variation of 0.2%/-1.5%/-2.1% vs. our estimates. This was on account of lower other income due to a higher base of 1QFY24. NIM declined sequentially from 5.57% in 1QFY24 to 5.22% in 2QFY24. There was one-off impact of 15bps on NIM due to ICRR, increased liquidity and short-term inflows invested in lower yielding liquid instruments.
- While the appointment of Mr. Ashok Vaswani as new MD & CEO of the bank brings in clarity with respect to leadership, smooth management transition will be key. With his vast expertise in building corporate and consumer lending businesses at a global scale, Mr. Vaswani's leadership is expected to accelerate digital and tech initiatives at Kotak Bank.
- We roll forward our valuation to Sept. 2025E ABV, lowering our target multiple to 3x. After adding subsidiary valuation of Rs381 per share, we arrive at a target price (TP) of Rs2,182 (as against Rs2,371 earlier, valuing it at 3.1x FY25E ABV + subsidiary value per share). We maintain a 'BUY' rating on KMB.

**Lower other income impacted overall profitability QoQ:** Lower other income (down by 13.8% QoQ) impacted the overall profitability (PPoP down by 6.9% QoQ; PAT down by 7.6% QoQ) on a sequential basis. This was on account of a high base of 1QFY24 in other income. Fee & Services income growth continued to remain robust (up by 10.9% QoQ). Reported NIM stood at 5.22% in 2QFY24 vs. 5.57% in 1QFY24. RoA remained healthy at ~2.5% in 2QFY24. The management highlighted that while the yield on advances held up, the cost of funds (CoF) continued to inch up, thereby impacting the overall spreads for 2QFY24. One-off impact of 15bps on NIM (due to ICRR, liquidity being increased and investment of short term inflows in liquid instruments), is unlikely to be repeated in the coming quarters, thereby indicating a stable trend in margins going ahead.

**Strong growth across segments supported healthy loan growth:** The bank reported healthy loan growth (incl. IBPS/BRDs up by 21% YoY and 6% QoQ), supported by strong growth across all segments. The management indicated that while the bank is witnessing demand for credit offtake from large corporates as well as SMEs in the wholesale loan segment (demand for new secured working capital loans has been strong), the improvement in the utilisation of working capital limit has been relatively slow.

Est Change	Downgrade
TP Change	Downgrade
Rating	Maintain

### Company Data and Valuation Summary

Reuters	KTKM.BO
Bloomberg	KMB IN Equity
Mkt Cap (Rsbn/US\$bn)	3,517.1 / 42.2
52 Wk H / L (Rs)	2,064 / 1,644
ADTV-3M (mn) (Rs/US\$)	7,036.3 / 84.9
Stock performance (%) 1M/6M/1yr	(1.1) / (6.1) / (5.0)
Nifty 50 performance (%) 1M/6M/1yr	(3.2) / (0.7) / 11.2

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	26.0	26.0	25.9
DII's	21.8	23.0	21.2
FII's	39.2	37.8	39.9
Others	13.1	13.3	12.9
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
NII	1,68,179	2,15,519	2,57,584	2,90,766
% growth	9.6	28.1	19.5	12.9
NIM %	4.3	4.9	5.0	4.8
C/I Ratio %	48.0	48.1	46.0	44.2
Operating Profit	1,20,509	1,48,480	1,92,353	2,26,246
% growth	2.5	23.2	29.5	17.6
Adjusted PAT	85,727	1,09,393	1,34,258	1,56,857
% growth	23.1	27.6	22.7	16.8
ABVPS (INR /share)	361	419	483	560
P/ABV	4.9	4.2	3.7	3.2
RoA (%)	2.1	2.4	2.5	2.5
Leverage (x)	6.0	5.9	5.9	5.9
RoE (%)	12.7	14.1	14.9	15.1

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

**Key Links-** [2QFY24 presentation](#)

Please refer to the disclaimer towards the end of the document.

The bank is also witnessing some irrational pricing pressure in the SME segment, impacting the risk-reward metrics of the segment. The share of unsecured retail advances (incl. Micro Finance) as a % of net advances inched up to 11% in 2QFY24 (8.7% in 2QFY23). The management further highlighted that given the current interest rate scenario, the bank's focus on credit substitutes would remain subdued as it is more rewarding to lend to corporates directly rather than participate through bonds.

**Strong deposit mobilization continues:** Led by strong growth in term deposits (up by 47% YoY), KMB continued to report strong traction in deposits in 2QFY24 (up by 23.3% YoY and 3.8% QoQ). CASA deposit growth remained moderate at 6.0% YoY (up by 2.2% QoQ) on account of pressure in saving account deposits (down by 1.0% YoY). The management highlighted that saving deposit mobilization continues to remain a challenge (especially higher ticket sized SA deposits from government), in line with industry growth trend. CASA ratio moderated to 48.3% in 2QFY24 (56.2% in 2QFY23). The bank is focusing on scaling up the active money proposition (up by ~28% QoQ, not annualized) by leveraging technology & analytical capabilities and has recently launched straight through digital on-boarding journeys for savings and corporate salary account opening.

**Other income growth moderated sequentially:** Other income (excl. fee & service income) declined by 66.3% QoQ (up by 47.7% YoY) mainly on account of: (a) no dividend from subsidiaries (Rs3.1bn in 1QFY24) and (b) no treasury profit from Security Receipts. Fee & Services income was up by 10.9% QoQ, supported by growth across general banking, distribution and syndication income. Reported trading and marked-to-market gain for 2QFY24 stood at Rs1.5bn (vs. loss of Rs0.6bn in 2QFY23 and gain of Rs2.4bn in 1QFY24).

**Mr. Ashok Vaswani to be the new MD & CEO of Kotak Empire:** KMB has received the RBI's approval for the appointment of Mr. Ashok Vaswani as the bank's new MD & CEO for three years from the effective date of taking charge as the CEO (which shall not be later than 1st Jan'24). Mr. Vaswani has over 3.5-decades of experience in banking industry, spanning global MNCs such as Citi Group and Barclays. At KMB, Mr. Vaswani is expected to accelerate the pace of digital & technology, thereby focusing on delivering enhanced customer value. Given the fact that the tenure of the current MD & CEO is about to expire on 1st Nov'23, the bank shall apply to the RBI for an extension of the tenure. In light of the upcoming retirement of current COO, the bank has also appointed Mr. Himanshu Vasa as the next COO for three years, effective from 23<sup>rd</sup> October'23.

**Sonata acquisition to strengthen presence in Micro Finance segment:** KMB has recently received the RBI's approval to acquire 100% of issued and paid-up capital of Sonata Finance for a consideration of Rs5.37bn, thereby making Sonata Finance a wholly-owned business correspondent subsidiary of the bank. Sonata Finance is an MFI-NBFC headquartered in Uttar Pradesh and has its presence across 10 states with a network of 540 branches, ~1mn customers and a loan book size of Rs25bn (~0.6-0.7% of the overall loan book of KMB). The bank expects Sonata Finance acquisition to: (a) be value accretive (given it's a high yielding book) (b) strengthen its presence in the Micro Finance segment (by leveraging on the branch network and customer base). KMB entered the Micro Finance lending space in 2017 through the acquisition of BSS Micro Finance and has reported ~65% YoY growth in disbursements for 2QFY24 with a loan book size of Rs79.9bn (~2.3% of the net advances, up by 80% YoY and 15% QoQ).

**Asset quality remains pristine:** KMB reported an improvement in asset quality, with GNPA/NNPA at 1.72%/0.37% vs. 2.08%/0.55% in 2QFY23. Gross slippages in 2QFY24 stood at Rs13.1bn (~0.4% of net advances), of which Rs3bn got upgraded during the quarter, resulting in net slippages of Rs10bn. Recoveries & upgrades stood strong at Rs9.4bn. Reported fund-based restructured standard advances under COVID and MSME stood at 0.15% of overall advances. The management highlighted that slippages and delinquencies in the unsecured loan portfolio (incl. credit cards) remained at comfortable levels. SMA2 (for borrowers with an exposure > Rs50mn) inched up to Rs1.6bn (vs. Rs1.2bn YoY). Reported credit cost stood at 47bps annualised for 2QFY24.

## Exhibit 1: Quarterly performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24E	4Q24E	FY23	FY24E	2Q24E	Variation(%)
<b>NII</b>	<b>46,970</b>	<b>50,994</b>	<b>56,529</b>	<b>61,026</b>	<b>62,337</b>	<b>62,966</b>	<b>64,840</b>	<b>67,440</b>	<b>2,15,519</b>	<b>2,57,584</b>	<b>62,818</b>	<b>0.2</b>
YoY (%)	19.2	26.8	30.4	35.0	32.7	23.5	14.7	10.5	28.1	19.5	23.2	-
<b>NIM (%)</b>	<b>4.9</b>	<b>5.2</b>	<b>5.5</b>	<b>5.8</b>	<b>5.6</b>	<b>5.2</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>	<b>5.0</b>	<b>5.0</b>	<b>22bps</b>
Non-interest income	12,438	19,542	21,000	21,863	26,833	23,145	23,906	24,920	70,831	98,804	24,823	-6.8
<b>Net Revenue</b>	<b>59,408</b>	<b>70,536</b>	<b>77,529</b>	<b>82,888</b>	<b>89,170</b>	<b>86,112</b>	<b>88,746</b>	<b>92,360</b>	<b>2,86,350</b>	<b>3,56,387</b>	<b>87,641</b>	<b>-1.7</b>
OpEx	31,575	34,861	39,031	36,415	39,674	40,011	42,770	41,580	1,37,870	1,64,034	40,859	-2.1
<b>PPOP</b>	<b>27,833</b>	<b>35,675</b>	<b>38,498</b>	<b>46,474</b>	<b>49,496</b>	<b>46,101</b>	<b>45,977</b>	<b>50,780</b>	<b>1,48,480</b>	<b>1,92,353</b>	<b>46,782</b>	<b>-1.5</b>
YoY (%)	-10.8	14.3	42.5	39.1	77.8	29.2	19.4	9.3	24.0	19.0	31.1	-
Provisions	235.9	1,370.0	1,488.3	1,475.7	3,643.1	3,666	3,548.4	2,774.5	4,569.9	13,631.5	3,322.2	10.3
<b>PBT</b>	<b>27,597</b>	<b>34,305</b>	<b>37,010</b>	<b>44,998</b>	<b>45,853</b>	<b>42,436</b>	<b>42,428</b>	<b>48,005</b>	<b>1,43,910</b>	<b>1,78,722</b>	<b>43,460</b>	<b>-2.4</b>
Tax	6,885	8,498	9,091	10,042	11,330	10,526	10,607	12,001	34,517	44,464	10,865	-3.1
<b>ETR (%)</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>22</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>24</b>	<b>25</b>	<b>25</b>	<b>-20bps</b>
<b>PAT</b>	<b>20,712</b>	<b>25,807</b>	<b>27,919</b>	<b>34,956</b>	<b>34,523</b>	<b>31,910</b>	<b>31,821</b>	<b>36,004</b>	<b>1,09,393</b>	<b>1,34,258</b>	<b>32,595</b>	<b>-2.1</b>
YoY (%)	26.1	27.0	31.0	26.3	66.7	23.6	14.0	3.0	27.6	22.7	26.3	-
<b>Business Metrics</b>												
Loans	2,801,710	2,940,232	3,107,340	3,198,612	3,285,820	34,82,841	36,39,568	37,85,151	31,98,612	37,85,151	33,84,395	<b>2.9</b>
YoY (%)	28.8	25.1	22.9	17.9	17.3	18.5	17.1	18.3	17.9	18.3	15.1	-
Deposits	3,164,830	3,252,032	3,446,660	3,630,961	3,862,540	40,09,629	41,70,014	43,78,514	36,30,961	43,78,514	39,39,791	<b>1.8</b>
YoY (%)	10.4	11.5	12.9	16.5	22.0	23.3	21.0	20.6	16.5	14.5	21.1	-
<b>Asset Quality Metrics</b>												
<b>GNPA (%)</b>	<b>2.2</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>2bps</b>
<b>NNPA (%)</b>	<b>0.6</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>0.3</b>	<b>0.4</b>	<b>-1bps</b>
<b>PCR (%)</b>	<b>72.6</b>	<b>73.8</b>	<b>77.6</b>	<b>79.3</b>	<b>78.0</b>	<b>79.1</b>	<b>79.3</b>	<b>79.5</b>	<b>79.3</b>	<b>79.5</b>	<b>78.2</b>	<b>87bps</b>

Source: Company, Nirmal Bang Institutional Equities Research

## 2QFY24 ConCall Highlights:

### Operating Performance

- Consolidated PAT for 2QFY24 stood at Rs44.6bn, up by 24% YoY and 7% QoQ. Standalone bank contributed 72% to the overall PAT followed by Kotak Securities (contributed Rs3.24bn).
- RoA at group level stood at 2.68%.
- Book Value (per share) including PAT stood at Rs605.
- PAT for standalone bank stood at Rs31.4bn (up by 24% YoY).
- NII stood at Rs63bn, up by 23% YoY.
- Other Income (excl. fee & services income) declined QoQ on account of: (a) no dividend from subsidiaries in 2QFY24 (b) No treasury profit from Security Receipts in 2QFY24. Both the factors contributed to lower PAT QoQ due to a high base of 1QFY24.
- Other expenses included amount spent on promotion & marketing.
- NIM (calculated on daily average balance) stood at 5.22% vs. 5.15% in 2QFY23. According to management, NIM had 14-15bps one-off impact due to following reasons - (1) ICRR, which now has been phased out (2) Higher liquidity buffers built, thus taking LCR to 120% at bank level (3) Short-term inflows invested in liquid investments.
- After tech costs stabilize in six months, the cost ratios should begin to abate.
- RoA at standalone bank level stood at 2.45%.
- Yield on advances held up while the cost of funds inched up, which impacted the spread.

### Macro Comments:

- Given the geopolitical situation and its resultant impact on inflation and the tight liquidity situation domestically, interest rates will continue to remain elevated.

### Appointment of Mr. Ashok Vaswani as new MD & CEO:

- Based on the bank's application dated July 19, 2023 made to the RBI for the approval of new MD & CEO of the bank, the RBI has approved the appointment of Mr. Ashok Vaswani for three years from the date of taking charge. Mr. Vaswani has a proven track record of three & a half decades - initially at Citigroup and more recently at Barclays in building and growing Consumer and Corporate businesses at the global scale. His leadership is expected to accelerate digital & tech initiatives at the bank, thereby allowing the management to focus on delivering enhanced customer value. On the new CEO's joining date, the bank will have a clear picture in eight weeks' time. The joining shall be no later than January 1, 2024. As the present interim MD Mr. Dipak Gupta's tenure ends on November 1, 2023, the bank will make an application to the RBI for extending his tenure till Mr. Vaswani joins and takes over.

## Advances:

- Advances (before impact of IBPS/BRDs) witnessed strong growth of 25% YoY in 2QFY24 (up by 6% QoQ), supported by strong growth across segments.
- Corporate Loan book too witnessed growth.
- Unsecured retail book (incl. MFI entity) stood at ~11% of advances.
- Witnessed demand for credit off-take from both large corporates and SMEs in the wholesale loan book.
- Wholesale loan book was up by 17% YoY and 5% QoQ.
- Focus on credit substitutes would remain subdued on account of the prevailing interest rate scenario as it is more rewarding to directly lend to corporates rather than invest via bonds.
- Mid Corporate segment (which was started recently) is witnessing strong growth of ~8-10% sequentially.
- Witnessing some irrational competition in the SME segment, impacting the risk-reward metrics of the segment.
- In Auto Finance, demand is slow at the lower end of the Car business. On the other hand, SUVs and top-end premium segments continued to grow well.
- Commercial Vehicle disbursement volume was up by 30% YoY in 2QFY24 (outpacing the industry growth, thereby resulting in bank's increased market share).
- Disbursements (in value terms) in Commercial Equipment witnessed strong growth of 39% YoY.
- Tractor disbursement volume was up by 9% YoY.
- Collections in the Tractor segment are witnessing some stress in certain states on account of erratic rainfall.
- Micro Finance disbursements were up by 65% YoY, spread across 12 states through a network of 800+ BCs and ~17 lakh women borrowers.
- While the demand for new working capital loans has been strong, the improvement in the limit utilization is relatively slow.
- ~70% of the book is linked to floating rate, of which ~58-59% is linked to repo rate.
- Commercial Vehicle as well as Tractor loans are linked to fixed rate.

## Deposits and Investments:

- Saving deposit mobilization still remains a challenge and government SA deposits are an industry-wide problem.
- CASA stood at ~48.3% as on 30th Sept'23.
- Witnessing lower growth in the non-custody flows in offshore space.
- In 2QFY24, the bank focused on scaling up the active money proposition by leveraging technology and analytical capabilities.
- The bank has recently launched straight through digital on-boarding journeys for savings and corporate salary account opening.

- Average tenure of bank's liabilities is 10-11 months. More or less the re-pricing is done (might extend to one more quarter).

## Asset Quality:

- Asset quality improved, with GNPA/NNPA at 1.72%/0.37% in 2QFY24 as against 1.77%/0.4% in 1QFY24.
- Slippages stood at Rs13.1bn, of which Rs3bn got upgraded during the quarter, thus resulting in net slippages of Rs10bn.
- Recoveries & upgrades stood at Rs9bn.
- Restructured standard advances under COVID and MSME stood at 0.15% of overall advances. SMA 2 book stood at Rs1.55bn (0.15% of advances).
- Credit cost in corporate side was negligible.
- Unsecured retail advances (incl. Retail Micro Finance) as a % of net advances stood at 11.0% as at September 30, 2023 (8.7% as at September 30, 2022). Currently, slippages and delinquencies in the unsecured loan products (incl. credit card) are in line with levels with which the bank is comfortable and bounce rates are under control. 92% of credit card base comes from existing bank customers and most of the 'new to bank' acquisition comes through existing customers of co-brand partners.

## Subsidiaries:

- Kotak Securities continues to gain market share. Its market share increased from 5% in 2QFY23 to 8.8% in 2QFY24.
- Kotak Prime PAT declined YoY on account of reduction in profit on account of rundown of a bought-out portfolio (Volkswagen and Ford), which it had carried out in FY23.
- BSS' (MFI subsidiary) PAT crossed the Rs1bn mark this quarter, coming in at Rs1.08bn.
- The RBI has approved Kotak Bank's acquisition of another MFI named Sonata Finance, which is based out in Uttar Pradesh (spread across 10 states with a network of 540 branches and ~1mn customers). As the MFI's loan book of Rs25bn forms only 0.6% of the bank's loan book, it is unlikely to impact NIM meaningfully.
- Cash market share in Kotak Securities declined in 2QFY24 and stood at 10%.

## Others:

- 75% of the investment book comprises HFT and AFS with a modified duration (net of OIS) at 1.2 years.
- Went live in: (a) Electronic Bank Guarantee Solutions (b) 365-day CMS solution.
- Witnessing increased market share both in terms of cards spend and card in-force. The bank is continuing to invest in the cards business.
- It has launched revamped a Loan Origination System built on Salesforce platform for LAP business.
- LCR at group level stood at 126% while at bank level it stood at 120%.



## Quarterly Income Statement

(INR mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Interest Inc. on Advances	63,976	71,433	77,809	82,982	86,763	35.6	4.6
Interest Inc. on Investments	14,860	16,464	18,843	20,074	21,485	44.6	7.0
Others	2,092	2,090	1,558	1,944	3,681	75.9	89.4
Total Interest Inc.	80,928	89,986	98,209	105,000	111,928	38.3	6.6
Interest Expended	29,934	33,457	37,184	42,663	48,962	63.6	14.8
<b>NII</b>	<b>50,994</b>	<b>56,529</b>	<b>61,026</b>	<b>62,337</b>	<b>62,966</b>	<b>23.5</b>	<b>1.0</b>
CXB	17,600	18,470	19,280	18,270	20,260	15.1	10.9
Other Non-Interest Inc.	1,950	2,530	2,583	8,563	4,281	119.6	(50.0)
Total Non-interest Income	18,324	21,000	21,863	26,833	23,145	26.3	(13.7)
<b>Total Net Income</b>	<b>69,318</b>	<b>77,529</b>	<b>82,888</b>	<b>89,170</b>	<b>86,112</b>	<b>24.2</b>	<b>(3.4)</b>
Payments to/Prov. for employees	14,147	14,778	14,545	16,470	16,346	15.5	(0.8)
Other operating expenses	19,496	24,253	21,870	23,204	23,665	21.4	2.0
Total Operating Exp.	33,643	39,031	36,415	39,674	40,011	18.9	0.8
<b>Operating Profit</b>	<b>35,675</b>	<b>38,498</b>	<b>46,474</b>	<b>49,496</b>	<b>46,101</b>	<b>29.2</b>	<b>(6.9)</b>
Provisions for NPAs	1,810	1,870	1,476	3,643	3,666	102.5	0.6
Total Provisions	1,370	1,488	1,476	3,643	3,666	167.6	0.6
PBT	34,305	37,010	44,998	45,853	42,436	23.7	(7.5)
Tax Provision	8,498	9,091	10,042	11,330	10,526	23.9	(7.1)
<b>Net Profit</b>	<b>25,807</b>	<b>27,919</b>	<b>34,956</b>	<b>34,523</b>	<b>31,910</b>	<b>23.6</b>	<b>(7.6)</b>
EPS	13.0	14.1	17.6	17.4	16.1	23.6	(7.6)

## Key Ratios

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (bps)	QoQ (bps)
NIM	5.15	5.47	5.75	5.57	5.22	7.0	(35.0)
CAR	22.6	21.7	21.8	21.8	21.7	(90.0)	(10.0)
Tier I	21.5	20.1	20.6	20.6	20.6	(90.0)	-
ROA	2.4	2.5	3.0	2.8	2.5	12.0	(32.0)
CD Ratio	90.4	90.2	88.1	85.1	86.9	(355.0)	179.3
	5.15	5.47	5.75	5.57	5.22	7.0	(35.0)

## Asset Quality

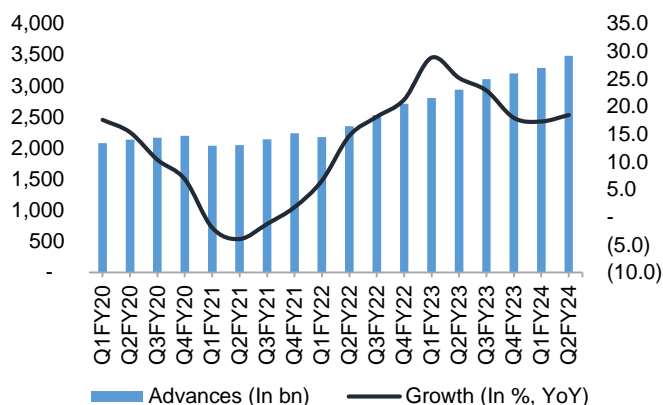
(INR mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
GNPA	62,102	59,946	57,683	59,092	60,872	(2.0)	3.0
NNPA	16,304	13,448	11,933	13,018	12,748	(21.8)	(2.1)
						YoY (bps)	QoQ (bps)
GNPA (in %)	2.08	1.90	1.78	1.77	1.72	(36.0)	(5.0)
NNPA (in %)	0.55	0.43	0.37	0.40	0.37	(18.0)	(3.0)
PCR (%)	73.7	77.6	79.3	78.0	79.1	531.1	108.8

## Balance Sheet Details

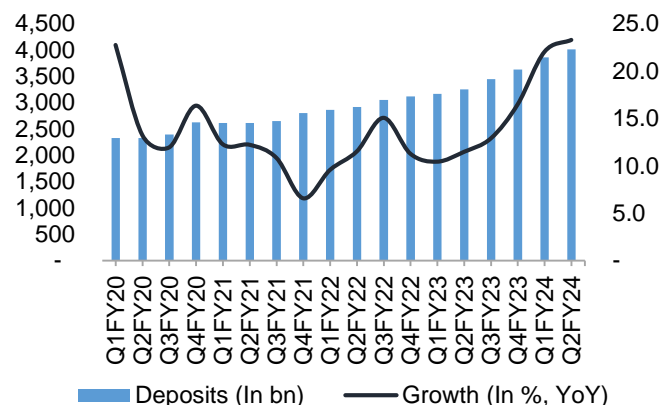
(INR mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Advances	2,940,232	3,107,340	3,198,612	3,285,820	3,482,841	18.5	6.0
Savings Deposits	1,224,480	1,199,780	1,217,850	1,245,670	1,246,550	1.8	0.1
Current Deposits	601,620	636,010	700,300	647,220	688,240	14.4	6.3
CASA Deposits	1,826,100	1,835,790	1,918,150	1,892,890	1,934,790	6.0	2.2
Term Deposits	1,425,932	1,610,870	1,712,811	1,969,650	2,074,839	45.5	5.3
Total Deposits	3,252,032	3,446,660	3,630,961	3,862,540	4,009,629	23.3	3.8
CASA (%)	56.2	53.3	52.8	49.0	48.3	(789.90)	(75.28)

Quarterly Du-pont (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
NII	4.7	5.0	5.1	5.0	4.8
Non-interest income	1.7	1.9	1.8	2.1	1.8
Total income	6.4	6.8	6.9	7.1	6.6
Opex	3.1	3.4	3.1	3.2	3.1
PPOP	3.3	3.4	3.9	3.9	3.5
Provision	0.1	0.1	0.1	0.3	0.3
PBT	3.2	3.3	3.8	3.7	3.2
Tax	0.8	0.8	0.8	0.9	0.8
ROA	2.4	2.5	2.9	2.8	2.4
Leverage(x)	6.9	8.7	8.7	7.0	5.9
ROE	16.4	21.4	25.4	19.4	14.4

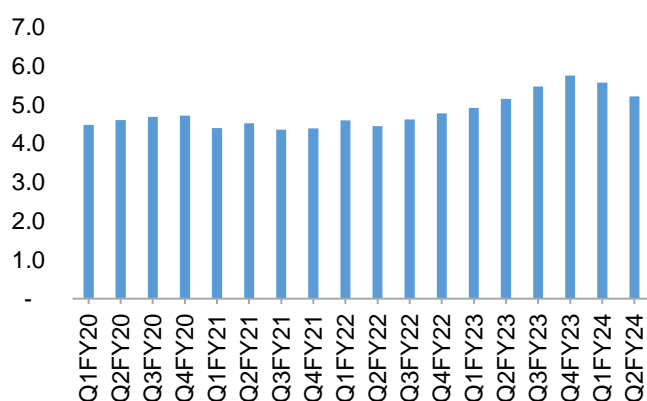


**Exhibit 2: Advances (Rsbn), growth (YoY, %)**


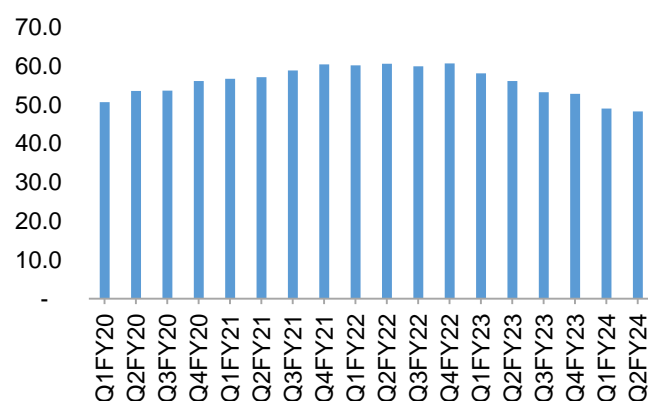
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Deposits (Rsbn), growth (YoY, %)**


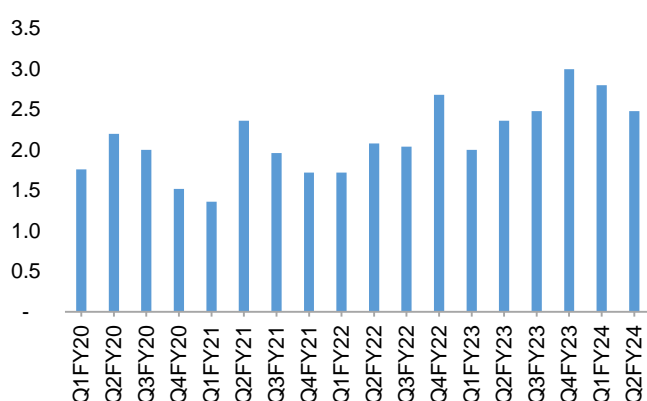
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: NIM (%)**


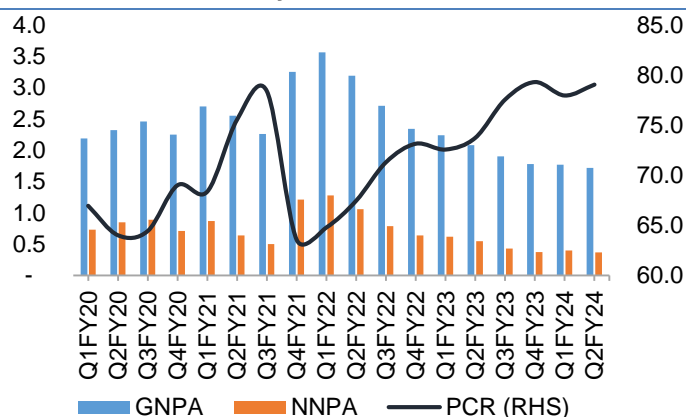
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: CASA Ratio (In %)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: RoA (In %)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Asset Quality Metrics**


Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 8: SOTP valuation

Entity	Valuation methodology	Holding	Value per share (INR) FY25E
Kotak Mahindra Bank – standalone	3x 2QFY26E ABV	100.0%	1,802
Kotak Life Insurance	30x FY23 VNB & 3x FY23 EV	100.0%	241
Kotak AMC	30x FY23 EPS	100.0%	56
Kotak Prime	2x FY23 BV	100.0%	56
Kotak Securities	20x FY23 EPS	100.0%	58
Kotak Investments	1.8x FY23 BV	100.0%	17
Kotak Capital	15x FY23 EPS	100.0%	7
Others	1x BV	100.0%	14
Holding co. discount (%)			15%
<b>Value of subs (INR per share)</b>			<b>381</b>
<b>Value of total (INR per share)</b>			<b>2,182</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 9: Financial summary

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	1,53,396	1,68,179	2,15,519	2,57,584	2,90,766
Operating profit	1,17,620	1,20,509	1,48,480	1,92,353	2,26,246
PAT	69,648	85,727	1,09,393	1,34,258	1,56,857
EPS (Rs)	35	43	55	68	79
BV (Rs)	319	363	420	485	562
P/E (x)	50.4	41.0	32.1	26.2	22.4
P/BV (x)	5.5	4.9	4.2	3.6	3.2
GNPAs (%)	3.3	2.3	1.8	1.7	1.5
NNPAs (%)	1.2	0.6	0.4	0.3	0.3
RoA (%)	1.9	2.1	2.4	2.5	2.5
RoE (%)	12.5	12.7	14.1	14.9	15.1

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 10: Actual performance versus our estimates

(Rsmn)	2QFY24	2QFY24E	Devi. (%)	Consensus estimates	Devi. (%)
Net interest income	62,966	62,818	0.24	86,409	(27.13)
Pre-provisioning Operating Profit	46,101	46,782	(1.46)	46,695	(1.27)
PAT	31,910	32,595	(2.10)	32,806	(2.73)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 11: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (Rsmn)	2,57,584	2,90,766	2,58,283	2,92,154	-0.3	-0.5
NIMs (%)	5.00	4.85	5.03	4.91	-3 bps	-6 bps
Operating Profit (Rsmn)	1,92,353	2,26,246	1,97,887	2,24,564	-2.8	0.7
Profit after tax (Rsmn)	1,34,258	1,56,857	1,38,010	1,56,508	-2.7	0.2
Loan Book (Rsbn)	3,785	4,406	3,731	4,343	1.5	1.5
ABVPS (Rs)	483	560	487	563	-0.7	-0.5

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: One-year forward P/ABV**



Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 13: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	268,403	270,388	342,509	4,54,113	5,15,713
Interest expense	115,006	102,209	126,989	1,96,529	2,24,946
<b>Net interest income</b>	<b>153,396</b>	<b>168,179</b>	<b>215,519</b>	<b>2,57,584</b>	<b>2,90,766</b>
Non-interest income	50,065	63,544	70,831	98,804	1,15,007
<b>Net Revenue</b>	<b>203,462</b>	<b>231,723</b>	<b>286,350</b>	<b>3,56,387</b>	<b>4,05,774</b>
Operating Expense	85,841	111,214	137,870	1,64,034	1,79,528
-Employee Exp	37,654	46,134	55,478	66,702	72,067
-Other Exp	48,187	65,080	82,392	97,332	1,07,461
<b>Operating profit</b>	<b>117,620</b>	<b>120,509</b>	<b>148,480</b>	<b>1,92,353</b>	<b>2,26,246</b>
Provisions	24,590	6,896	4,570	13,632	17,104
<b>PBT</b>	<b>93,030</b>	<b>113,613</b>	<b>143,910</b>	<b>1,78,722</b>	<b>2,09,142</b>
Taxes	23,382	27,886	34,517	44,464	52,286
<b>PAT</b>	<b>69,648</b>	<b>85,727</b>	<b>109,393</b>	<b>1,34,258</b>	<b>1,56,857</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 15: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	9,909	9,923	9,933	9,938	9,938
Reserves & Surplus	622,382	709,955	820,270	9,54,209	11,06,360
<b>Shareholder's Funds</b>	<b>632,291</b>	<b>719,878</b>	<b>830,203</b>	<b>9,64,146</b>	<b>11,16,297</b>
<b>Deposits</b>	<b>2,801,000</b>	<b>3,116,841</b>	<b>3,630,961</b>	<b>43,78,514</b>	<b>50,97,145</b>
Borrowings	241,506	264,671	234,163	2,55,706	2,79,231
Other liabilities	160,089	192,894	203,299	1,45,106	1,30,212
<b>Total liabilities</b>	<b>3,834,887</b>	<b>4,294,284</b>	<b>4,898,625</b>	<b>57,43,472</b>	<b>66,22,885</b>
Cash/Equivalent	396,265	429,239	325,423	3,92,367	4,31,280
<b>Advances</b>	<b>2,236,886</b>	<b>2,712,536</b>	<b>3,198,612</b>	<b>37,85,151</b>	<b>44,06,087</b>
Investments	1,050,992	1,005,802	1,214,037	13,91,679	15,89,507
Fixed Assets	15,353	16,437	19,203	20,611	21,447
Other assets	135,390	130,269	141,349	1,53,664	1,74,564
<b>Total assets</b>	<b>3,834,886</b>	<b>4,294,284</b>	<b>4,898,625</b>	<b>57,43,472</b>	<b>66,22,885</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 14: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>					
NII growth	13.6	9.6	28.1	19.5	12.9
Pre-provision profit growth	17.4	2.5	23.2	29.5	17.6
PAT growth	17.1	23.1	27.6	22.7	16.8
<b>Business (%)</b>					
Deposit growth	6.6	11.3	16.5	14.5	14.0
Advance growth	1.8	21.3	17.9	18.3	16.4
CD	79.9	87.0	88.1	86.4	86.4
CASA	60.4	60.7	52.8	48.3	49.3
<b>Operating efficiency (%)</b>					
Cost-to-income	42.2	48.0	48.1	46.0	44.2
Cost-to-assets	2.3	2.7	3.0	3.1	2.9
<b>Spreads (%)</b>					
Yield on advances	8.4	7.8	9.1	9.3	9.3
Yield on investments	7.6	6.5	5.8	5.8	5.8
Cost of deposits	3.7	3.1	3.7	4.0	4.1
Yield on assets	7.5	6.9	7.7	8.8	8.6
Cost of funds	3.8	3.2	3.5	4.6	4.5
NIMs	4.3	4.3	4.9	5.0	4.8
<b>Capital adequacy (%)</b>					
Tier I	21.4	21.7	22.3	22.6	22.6
Tier II	0.9	1.0	1.0	0.1	0.1
Total CAR	22.3	22.7	23.3	22.7	22.7
<b>Asset Quality (%)</b>					
Gross NPA	3.3	2.3	1.8	1.7	1.5
Net NPA	1.2	0.6	0.4	0.3	0.3
Provision coverage	64.9	74.7	79.3	79.5	80.3
Slippage	2.4	1.6	1.2	1.4	1.5
Credit-cost	1.1	0.3	0.2	0.4	0.4
<b>Return (%)</b>					
ROE	12.5	12.7	14.1	14.9	15.1
ROA	1.9	2.1	2.4	2.5	2.5
RORWA	2.3	2.9	3.3	3.4	3.4
<b>Per share</b>					
EPS	35	43	55	68	79
BV	319	363	420	485	562
ABV	316	361	419	483	560
<b>Valuation</b>					
P/E	50.4	41.0	32.1	26.2	22.4
P/BV	5.5	4.9	4.2	3.6	3.2
P/ABV	5.6	4.9	4.2	3.7	3.2

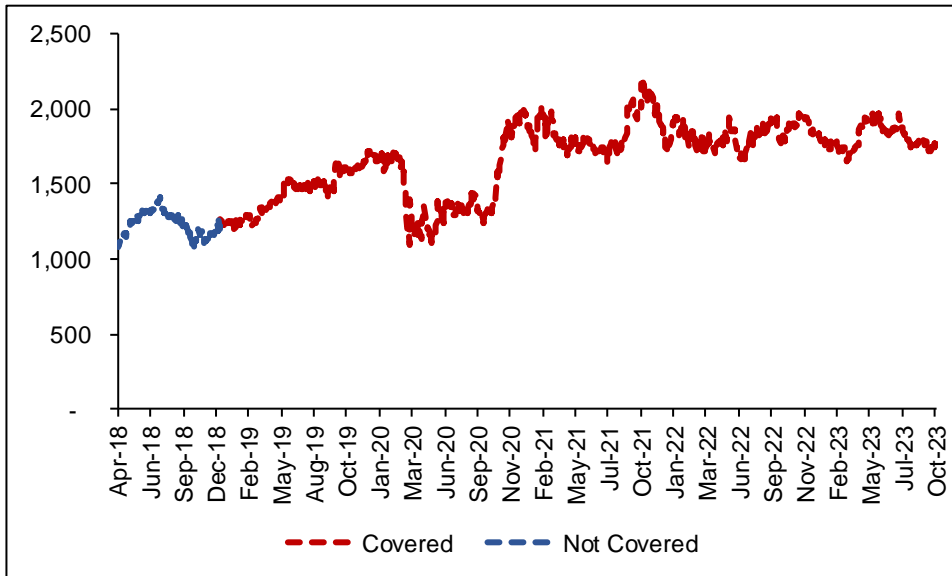
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	1,237	1,558
22 January 2019	Buy	1,267	1,559
8 April 2019	Buy	1,336	1,561
2 May 2019	Buy	1,387	1,638
8 July 2019	Buy	1,517	1,751
23 July 2019	Buy	1,454	1,676
7 October 2019	Buy	1,563	1,830
23 October 2019	Buy	1,629	1,905
4 December 2019	Accumulate	1,649	1,781
8 January 2020	Accumulate	1,655	1,781
21 January 2020	Accumulate	1,617	1,757
27 March 2020	Buy	1,390	1,658
9 April 2020	Buy	1,188	1,658
14 May 2020	Buy	1,186	1,463
9 July 2020	Buy	1,463	1,614
28 July 2020	Buy	1,322	1,578
23 September 2020	Buy	1,271	1,639
7 October 2020	Buy	1,338	1,633
27 October 2020	Buy	1,410	1,642
26 November 2020	Accumulate	1,862	1,840
08 January 2021	Accumulate	1,952	1,973
27 January 2021	Accumulate	1,795	1,910
21 February 2021	Accumulate	1,942	1,950
4 May 2021	Accumulate	1,724	1,926
27 July 2021	Accumulate	1,739	1,922
26 September 2021	Accumulate	2,028	2,048
27 October 2021	Accumulate	2,210	2,115
30 January 2022	Accumulate	1,891	2,115
21 February 2022	Buy	1,842	2,240
05 May 2022	Buy	1,776	2,134
24 July 2022	Buy	1,826	2,117
19 September 2022	Buy	1,930	2,281
24 October 2022	Buy	1,902	2,289
22 January 2023	Buy	1,763	2,121
22 March 2023	Buy	1,705	2,077
30 April 2023	Buy	1,933	2,243
24 July 2023	Buy	1,971	2,372
22 October 2023	Buy	1,770	2,247

Coverage was transferred to Rati J Pandit with effect from July 23, 2023

**Rating track graph**





## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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