

Strong Growth Supported by Stability in Margins; Maintain BUY

Est. Vs. Actual for Q3FY24: NII – **BEAT**; PPOP – **MISS**; PAT – **MISS**

Changes in Estimates post Q3FY24

FY24E/FY25E: NII: -3.3%/-3.7%; PPOP: -4.7%/-3.6%; PAT: -3.5%/-2%

Recommendation Rationale

- **Credit growth momentum to continue**—Amongst the various wholesale segments, the bank saw strong demand for credit offtake from mid-market and SME segments (up 18/5% YoY/QoQ). However, the management highlighted that pressure exists in the traditional large corporate segment in the long term as well as short term. Furthermore, in the unsecured book, with overall risk metrics holding stable and the book being appropriately priced to achieve the targeted risk-adjusted return, the management remains focused on growing the unsecured book to mid-teens (currently at 11.6% of Net advances). The CV segment continues to outpace the industry growth and gain market share. The management reiterated that credit growth in FY25 would be 1.75x to 2x the growth of nominal GDP. We model in credit growth of **19% over FY24-FY26E**.
- **Measure for Deposit Growth:** Deposit growth (19% YoY/2% QoQ) was driven by strong traction in terms of deposits (33% YoY/3% QoQ). The bank is seeing good traction in its term deposit (TD) Sweep product (Activ Money) which grew 13% QoQ to Rs 417.8 Bn.
- **Margins are expected to remain at ~5.2% for FY24:** In Q3FY24, the bank's margins have remained stable sequentially at 5.22%. Although the cost of funds has increased, the mix of earning assets has changed towards advances which has supported margins. With deposit accretion remaining a challenge, we expect some margin pressure to continue in the near term. However, we expect the margin to remain at ~5.2% for FY24. Further, although deposit growth has been a challenge, the management highlighted that it won't impact asset growth as there are other avenues as well to fund the same; nevertheless, the focus of the bank would remain on deposit accretion.

Sector Outlook: Positive

Company Outlook: KMB's business growth is expected to remain buoyant over the short-medium term. Even as margins see pressure, as CoF see a sharp increase and credit costs gravitate to normalised levels, we expect NIMs to stay at ~5% over the medium term. We believe improving cost ratios should support the bank in delivering a consistent RoA of ~2.4% and RoE of 14%+ over FY24-26E.

Current Valuation: 3x Sep25E ABV (Earlier - 3.5x FY25E ABV)

Current TP: Rs 2,140/share (Earlier - Rs 2,300/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage: HDFC Bank (TP –1,970), ICICI Bank (TP – 1,250),

Outlook: Margins have remained stable sequentially at 5.22%. With challenges in deposit accretion higher cost of funds may impact margin in the near term, however, we expect margins at ~5.2% for FY24E. Also, the management's focus on high-yielding loans would provide some support to margins. Thus, with robust advances in growth and margins remaining healthy would aid healthy NII growth. Further, sub-dued growth has been reported in fees traction in the current year. Presently, higher spends on promotion and marketing kept the opex at elevated levels. However, the same is expected to decline and operating leverage will kick in, thereby supporting PPOP growth. Slippages are comfortable and bounce rate metrics are holding up currently. Moreover, GNPA has remained stable QoQ and NNPA has improved. However, asset quality is expected to normalize going forward. With margins remaining intact, we believe, the bank is poised to sustain ROA at 2.4% over FY24-26E.

Valuation & Recommendation: We have revised our margin estimate downward due to the challenge of deposit accretion and opex estimates upwards. We maintain our **BUY** recommendation on the stock with a revised target price of **Rs 2,140/share**, valuing the bank's core book at **3x Sep25E ABV** and subsidiaries at **Rs 397/share**. The target price implies an upside of 19% from the CMP.

Key Financials (Standalone)

(Rs Bn)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
NII	6,553	4.1	15.9	6,447	1.6%
PPOP	4,566	-1.0	18.6	4,787	-4.6%
PAT	3,005	-5.8	7.6	3,294	-8.7%
RoA %	2.2	-25bps	-26bps	2.4	-8.3%
NNPA %	0.34	-3bps	-9bps	0.36	-5.5%

Source: Company, Axis Research

(CMP as of 20th Oct, 2023)

CMP (Rs)	1,806
Upside /Downside (%)	19%
High/Low (Rs)	2,064/1,644
Market cap (Cr)	3,59,129
Avg. daily vol. (6m)Shrs.	40,14,694
No. of shares (Cr)	198.7

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	25.9	25.9	25.9
FII's	39.9	39.3	38.1
MFs / UTI	9.5	9.6	10.9
Others	24.9	25.4	26.1

Financial & Valuations

Y/E Mar (Rs Bn)	FY24E	FY25E	FY26E
NII	244	279	125
PPOP	181	218	96
Net Profit	126	149	66
EPS (Rs)	63.4	75.0	87.9
ABV (Rs)	472.8	541.5	621.4
P/ABV (x)	3.8	3.3	2.9
RoA (%)	2.3	2.4	2.4
NNPA (%)	0.4	0.4	0.5

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
NII	-3.3	-3.7
PPOP	-4.7	-3.6
PAT	-3.5	-2.0

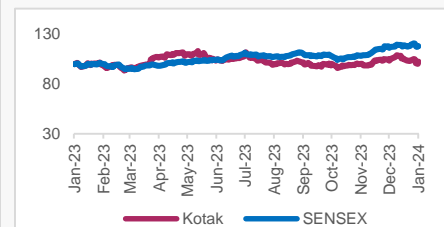
ESG disclosure Score**

Environmental Disclosure	3.5
Social Disclosure Score	21.8
Governance Disclosure Score	83.6
Total ESG Disclosure Score	33.9
Total ESG Disclosure Score	39.1

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Financial Performance:

- **Advances** grew robust at ~19.9%/4.3% YoY/QoQ, largely driven by Credit cards (+52/10% YoY/QoQ), Personal loans (+33/8% YoY/QoQ) and CV/CE (+31/9% YoY/QoQ). The share of unsecured retail loans in the overall portfolio mix increased to 11.6% vs. 9.3%/11% YoY/QoQ. Deposit growth improved to 18.6%/1.9% YoY/QoQ, led by TDs which grew by 32.6%/2.9% YoY/QoQ. With growth in CA and SA continuing to remain under pressure, the CASA ratio declined to 47.7% vs 53.3/48.3% YoY/QoQ.
- **NII** grew by 16%/4% YoY/QoQ, led by strong growth in advances. Margins contracted by ~25bps YoY, however, remained flat sequentially at 5.22%. Non-interest income continued its growth momentum (+18% YoY) led by fee income (+16/6% YoY/QoQ). However, the bank reported a trading and MTM loss of Rs 168 Crs Vs a gain of Rs 150 cr in Q2FY24, which resulted in lower growth in other income. C/I ratio inched up to 48.4% Vs 46.5% QoQ due to an increase in opex driven by both employee cost due to retiral cost (up by 18% YoY) and other opex (up by 12% YoY) driven by higher marketing and promotion cost during the festive season. PPOP reported robust YoY growth at 19% YoY, however, due to cost pressures and trading losses reported a marginal decline of 1% sequentially.
- **Asset quality** remained stable with GNPA/NNPA at ~1.73%/0.34%. The restructured book stood improved to 13bps vs. 15bps QoQ. Slippages during the quarter were at Rs 1,177 Cr (slippage ratio of 1.4% vs.1.6% QoQ). AIF investments of Rs 190 cr having downstream exposure to debtor companies of the Bank fully provided. Thus provision was reported higher-than-expectation at Rs 579 cr. Credit costs on net advances improved to ~40bps vs. 47bps sequentially. PAT reported growth of 8% YoY, however, it de-grew by 6% QoQ.

Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum which could potentially derail earnings momentum for the bank.
- Management focusing on growing the unsecured portfolio would support margins but may come at the cost of challenges on asset quality.

Change in Estimates

(Rs Bn)

	Revised			Old			% Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	244	279	317	252	290	-	-3.3	-3.7	-
PBP	181	218	260	190	226	-	-4.7	-3.6	-
Provisions	14	20	28	16	22	-	-11.0	-9.3	-
PAT	126	149	175	130	152	-	-3.5	-2.0	-

Source: Company, Axis Securities

KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	3x Sep25E ABV	1744
Subsidiaries		
Kotak Mahindra Prime	1.4x Sep25E ABV	77
Kotak Mahindra Investments	13x Sep25E P/E	29
Kotak Securities	12x Sep25E P/E	77
Kotak Mahindra AMC	24x Sep25E EPS	83
Kotak Life	2.5x Sep25E Embedded Value	216
KMCC - Investment Banking Business	14x Sep25E P/E	16
Total Subsidiary Value		496
Less: 20% Holdco discount		99
Subsidiary Value post discount		397
Total Value		2140
CMP		1806
Potential		19%

Source: Company, Axis Securities

Result Review (Standalone)
(RsBn)

Rs Bn	Q3FY24	Q3FY23	% YoY	Q2FY24	% QoQ	9mFY24	9mFY23	% YoY
Net Interest Income	66	57	15.9	63	4.1	191	154	23.5
Non-Interest Income	23	19	17.9	23	-0.8	73	51	41.7
Operating expenses	43	38	14.2	40	7.1	123	104	17.9
Staff Cost	17	15	18.3	16	7.0	50	41	23.7
Pre provision profits	46	38	18.6	46	-1.0	141	102	38.5
Provisions and contingencies	6	1	289.1	4	58.0	13	3	323.4
PBT	40	37	7.7	42	-6.0	128	99	29.6
Provision for Tax	10	9	8.0	11	-6.7	32	24	29.4
PAT	30	28	7.6	32	-5.8	96	74	29.6

Business Update

Advances	3,596	3,107	15.7	3,483	3.2	3,596	3,107	15.7
Deposits	4,086	3,447	18.6	4,010	1.9	4,086	3,447	18.6
CASA Deposits	1,950	1,836	6.2	1,935	0.8	1,950	1,836	6.2
CASA Ratio	47.7	53.3	-553bps	48.3	-52bps	47.7	53.3	-553bps
CD Ratio	88.0	90.2	-216bps	86.9	114bps	88.0	90.2	-216bps
NIM	5.2	5.5	-25bps	5.2	0bps	5.3	5.2	-25bps
Cost-Income ratio (%)	48.4	49.4	-94bps	46.5	194bps	46.5	50.6	-94bps

Asset Quality

Gross NPA (%)	1.7	1.9	-17bps	1.7	1bps	1.7	1.9	-17bps
Net NPA (%)	0.3	0.4	-9bps	0.4	-3bps	0.3	0.4	-9bps
PCR (%)	80.6	77.6	299bps	79.1	150bps	80.6	77.6	299bps
Slippages	13.0	7.5	73.8	13.1	-1.1	38.2	31.7	73.8
Slippage Ratio (%)	1.5	1.0	48bps	1.6	-8bps	1.5	1.5	48bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY23	FY24E	FY25E	FY26E
Net Interest Income	216	244	279	125
Other Income	71	99	119	50
Total Income	286	343	398	175
Total Operating Exp	138	161	180	80
PPOP	148	181	218	96
Provisions & Contingencies	5	14	20	7
PBT	144	167	198	88
Provision for Tax	35	41	49	22
PAT	109	126	149	66

Source: Company, Axis Securities

Balance Sheet

(Rs Bn)

Y/E March	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	10	10	10	10
Preference Share Capital	5	5	5	5
Reserves & Surplus	820	939	1,081	1,247
Net Worth	835	955	1,096	1,262
Deposits	3,631	4,176	4,735	5,417
Borrowings	234	448	616	738
Other Liabilities	198	217	251	289
Total Liabilities	4,899	5,796	6,699	7,706
APPLICATION OF FUNDS				
Cash & Bank Balance	325	429	416	394
Investments	1,214	1,344	1,490	1,647
Advances	3,199	3,851	4,594	5,436
Fixed & Other Assets	161	173	199	229
Total Assets	4,899	5,796	6,699	7,706

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24E	FY25E	FY26E
VALUATION RATIOS				
EPS	55.1	63.4	75.0	87.9
Earnings Growth (%)	27%	15%	18%	17%
BVPS	420.4	480.6	551.8	635.4
Adj. BVPS	414.4	472.8	541.5	621.4
ROAA (%)	2.3	2.3	2.4	2.4
ROAE (%)	13.8	14.0	14.4	14.7
P/E (x)	32.8	28.5	24.1	20.5
P/ABV (x)	4.4	3.8	3.3	2.9
Dividend Yield (%)	0.1	0.2	0.2	0.2
PROFITABILITY				
NIM (%)	5.3	5.2	5.1	5.0
Cost-Income Ratio(%)	48.1	47.0	45.3	45.5
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	17.9%	20.4%	19.3%	18.3%
Deposit Growth (%)	16.5%	15.0%	13.4%	14.4%
C/D Ratio (%)	88.1%	92.2%	97.0%	100.3%
CAR (%)	21.8	21.6	20.8	23.9
Tier 1 CAR (%)	20.8	20.4	19.6	22.7
ASSET QUALITY				
Gross NPLs (%)	1.8	1.7	1.8	1.9
Net NPLs (%)	0.4	0.4	0.4	0.5
Coverage Ratio (%)	83.8	81.0	79.7	77.5
Credit costs(%)	0.2%	0.4%	0.5%	0.6%
ROAA TREE				
Net Interest Income	4.7%	4.6%	4.5%	4.4%
Non-Interest Income	1.5%	1.8%	1.9%	1.9%
Operating Cost	3.0%	3.0%	2.9%	2.7%
Provisions	0.1%	0.3%	0.3%	0.4%
Tax	0.8%	0.8%	0.8%	0.8%
ROAA	2.3%	2.3%	2.4%	2.4%
Leverage (x)	5.9	6.0	6.1	6.1
ROAE	13.8%	14.0%	14.4%	14.7%

Source: Company, Axis Securities

Kotak Mahindra Bank Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-22	BUY	2,400	Result Update
05-May-22	BUY	2,300	Result Update
25-Jul-22	BUY	2,250	Result Update
25-Oct-22	BUY	2,300	Result Update
23-Jan-23	BUY	2,330	Result Update
02-May-23	BUY	2,385	Result Update
24-Jul-23	BUY	2,300	Result Update
23-Oct-23	BUY	2,300	Result Update
23-Jan-24	BUY	2,140	Result Update

Source: Axis Securities

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