

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	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

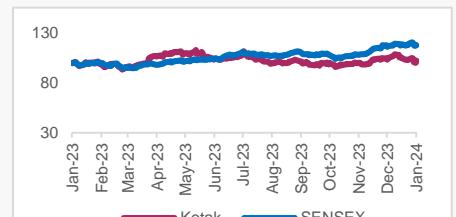
ESG disclosure Score**

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

Prathamesh Sawant, CFA

Research Analyst

Email: prathamesh.sawant@axissecurities.in

CA Bhavya Shah

Research Associate

Email: bhavya1.shah@axissecurities.in

Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

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

About the analyst

Analyst: Prathamesh Sawant, CFA

Contact Details: prathamesh.sawant@axissecurities.in
Sector: BFSI

Analyst Bio: Prathamesh Sawant is a CFA Charter holder with over 7 years of experience in Equity Research &Valuation.

About the associate

Associate: CA Bhavya Shah

Contact Details: bhavya1.shah@axissecurities.in
Sector: BFSI

Analyst Bio: Bhavya Shah is Chartered Accountant and CFA level 2 cleared with over 18 months of research experience in the BFSI.

About the analyst

Analyst: Dnyanada Vaidya

Contact Details: dnyanada.vaidya@axissecurities.in
Sector: BFSI

Analyst Bio: Dnyanada Vaidya is M.M.S (Finance) with over 4 years of research experience in the Banking/NBFC sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.

ASL has no material adverse disciplinary history as on the date of publication of this report.

I/We, Prathamesh Sawant, CFA author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.

In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Terms & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United States (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alterations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Axis Securities Ltd, Unit No.1001, 10th Floor, Level-6, Q2 Building, Aurum, Q Parc, Plot No. 4/1, TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai. – 400 710, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706