

Kotak Mahindra Bank (KMB)

Banking | 4QFY24 Result Update

BUY

CMP: Rs1,547 | Target Price (TP): Rs1,923 | Upside: 24%

May 05, 2024

Upgrade to BUY post recent correction on RBI's supervisory action

Key Points

- KMB's 4QFY24 PAT of Rs41.3bn was at a variation of 17.6%/24.2% vs. NBIE/Consensus estimates. PAT grew by 18.2% YoY/37.5% QoQ on the back of 17.6% YoY loan growth, improvement in NIM & asset quality and the impact of three one-off items: (1) Writeback of Rs1.57bn AIF provisions in 4QFY24 (2) Interest on IT refunds at Rs1.4bn and (3) Tax credits of Rs2bn. While deposits surprised positively, growing at 9.9% QoQ vis-a-vis top 3 peer banks, a good part of it came from TD growing by 14.5% QoQ and CA at 9.3% QoQ. Savings Accounts remain a challenge, with the same growing at a modest 2.2% QoQ.
- With respect to the RBI's supervisory action, the management sees Rs3-4.5bn impact at the PBT level based on three factors: (1) Tech spends continuing at 10% of opex as it looks to ramp up its tech platforms as per the regulator's expectations and some expenses continuing on the existing Credit Card customer base (2) Business lost in 811 and Credit Card verticals and (3) Savings in customer acquisition costs in these two segments.
- In order to mitigate the impact of the RBI's action, the bank is increasing its focus on cross-selling and acquiring customers through physical network, for which it will also utilize 811 vertical's on-ground salesforce. In our view, this step has the potential to bring in better ticket sizes of liability and asset products from the existing metro/urban customer base (as against better volume and low-value products coming through the digital route).
- After a study of precedents mentioned in exhibit 8, we can see that the duration for which supervisory actions by the RBI have lasted anywhere between 5 months and 2 years. Based on our assumption of the ban being lifted by FY25E-end and accounting for Kotak General Insurance's 70% stake sale in 4QFY25E (calculations in Exhibit 9; RBI and IRDAI approval pending), we have raised our estimates for FY25E by 9.6%. We have rolled forward our target multiple from 2.25x Dec 2025E ABV earlier to 2.25x FY26E ABV and after adding subsidiary value per share of Rs526, we have raised our target price (TP) from Rs1,909 to Rs1,923. Due to the recent correction in the stock price of KMB, we have upgraded our rating on the bank from an 'Accumulate' to a 'Buy'.

Performance supported by strong business growth and one-off line items:

KMB's reported PAT grew by 18.2% YoY/37.5% QoQ to Rs41.3bn, supported by: (a) strong loan growth (17.6% YoY and 4.6% QoQ) (b) NIM and asset quality improvement and (c) impact of three one-off items: (1) Writeback of Rs1.57bn AIF provisions in 4QFY24 vs Rs1.9bn provision made in 3QFY24 (2) Interest on IT refunds at Rs1.4bn and (3) Tax credits of Rs2bn. NII was up by 13.2% YoY/5.4% QoQ at Rs69.1bn while PPoP grew by 17.5% YoY/19.6% QoQ to Rs54.6bn. Reported NIM improved QoQ by 6bps to 5.28% in 4QFY24 (2.5bps coming from IT refund, as per our calculation). Non-interest income witnessed a strong growth trajectory and stood at Rs29.8bn (up by 36.2% YoY and 29.7% QoQ), supported by 68.4%/17.1%/6.7% YoY growth in distribution & syndication income/general banking fees/other fee income.

Est Change	Upward
TP Change	Upward
Rating	Upgrade

Company Data and Valuation Summary

Reuters	TKKM.BO
Bloomberg	KMB IN Equity
Mkt Cap (Rsbn/US\$bn)	3,074.7 / 36.9
52 Wk H / L (Rs)	2,064 / 1,544
ADTV-3M (mn) (Rs/US\$)	13,224.2 / 158.9
Stock performance (%) 1M/6M/1yr	(10.7)/(10.8)/(19.9)
Nifty 50 performance (%) 1M/6M/1yr	1.6 / 3.6 / 23.1

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	25.9	25.9	25.9
DILs	21.7	23.0	25.1
FILs	39.3	38.1	35.9
Others	13.1	13.0	13.1
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rs mn)	FY23	FY24	FY25E	FY26E
NII	2,15,519	2,59,932	2,93,967	3,33,725
% growth	28.1	20.6	13.1	13.5
NIM %	4.9	4.9	4.7	4.7
C/I Ratio %	48.1	46.0	45.0	45.2
Operating Profit	1,48,480	1,95,875	2,42,256	2,56,256
% growth	23.2	31.9	23.7	5.8
Adjusted PAT	1,09,393	1,37,816	1,60,662	1,69,929
% growth	27.6	26.0	16.6	5.8
ABVPS (INR /share)	419	485	563	646
P/ABV	3.7	3.2	2.7	2.4
RoA (%)	2.4	2.5	2.5	2.3
Leverage (x)	5.9	6.0	6.2	6.1
RoE (%)	14.0	15.3	15.4	14.1

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [4QFY24 presentation](#)

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

Deposit mobilization continued to remain strong: KMB's deposit mobilization continued to remain strong in 4QFY24 (up by 23.6% YoY vs. 18.6% YoY in 3QFY24), supported by strong growth in term deposits (up by 42.8% YoY and 14.5% QoQ). The bank witnessed strong growth in TD Sweep (active money) proposition, which grew by 102% YoY (up by 12.6% QoQ) to Rs470.5bn. CASA deposit grew by 6.5% YoY (up by 4.7% QoQ), supported by healthy growth in CA deposits (up by 7.4% YoY and 9.3% QoQ). Consequently, the CASA ratio moderated to 45.5% in 4QFY24 (vs. 52.8% in 4QFY23 and 47.7% in 3QFY24). Net advances growth (excl. credit substitutes of Rs316bn and IBPC/BRDS of Rs156.5bn) too remained strong at 17.6% YoY/4.6% QoQ, supported by 20%/20%/21%/18%/43% YoY growth in consumer/commercial/corporate banking/SME/other advances.

Asset quality improved sequentially: KMB's reported GNPA/NNPA improved in 4QFY24 to 1.39%/0.34% vs. 1.73%/0.34% in 3QFY24. Slippages for 4QFY24 stood at Rs13.1bn (at 0.3% of net advances) while recoveries & upgrades stood at Rs7.7bn. The bank has written off retail unsecured loans worth Rs14.6bn in 4QFY24. Credit cost (incl. standard provision, excluding reversal of COVID & restructuring) stood at 50bps in 4QFY24 (vs. 40bps in 3QFY24) while the standard restructured book declined from 0.13% in 3QFY24 to 0.10% in 4QFY24. The bank holds provisions towards advances worth Rs 59bn and is currently comfortable with the credit quality of unsecured loan portfolio.

Update on RBI's Supervisory Action: KMB on 24th April, 2024 received an order from the RBI, directing the bank to desist from: (a) on-boarding new customers through the bank's online and mobile banking channels and (b) issuing fresh credit cards. The order does not affect the bank's ability to: (a) service and cross-sell products (excl. new credit cards) to the existing customer base through all channels and (b) on-board new customers through other than online/mobile banking channels. Based on the internal calculations, the bank expects the impact of the RBI order to be worth Rs3.0-4.5bn annually at the PBT level. Since both the products were in its 1st year of operations, the cost incurred on the same was higher than the revenue generated and hence the impact of the regulator's order on the financial position is expected to be limited. The management indicated that the bank is currently in touch with the regulator and it is seeking guidance for building resilience in the platform besides enhancing the customer experience. The bank's core focus remains on protecting existing customer base and deepening relationships with them so that whenever the embargo is lifted, it can leverage on the same.

Tech spends to be more focused on building resilience and capacity in short run: KMB's technology-related expenses stood at Rs17bn in FY24 (vs Rs13bn in FY23) and constituted ~10% of the overall opex. The management indicated that in the short run, the core focus of tech spends would be towards building resilience & capacity and meeting regulatory data cyber security standards as opposed to coming up with new product/new features or a new mobile banking application. Going forward, the bank's investment in tech spends would continue to be ~10% of the overall opex.

Exhibit 1: Quarterly performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	4Q24E	Variation (%)	FY23	FY24
NII	46,970	50,994	56,529	61,026	62,337	62,966	65,535	69,094	67,134	2.9	215,519	259,932
YoY (%)	19.2	26.8	30.4	35.0	32.7	23.5	15.9	13.2	10.0	-	28.1	20.6
NIM (%)	4.9	5.2	5.5	5.8	5.6	5.2	5.2	5.3	5.0	33bps	5.3	5.3
Non-interest income	12,438	18,324	19,483	21,863	26,833	23,145	22,970	29,783	25,404	17.2	70,831	102,731
Net Revenue	59,408	69,318	76,012	82,888	89,170	86,112	88,505	98,876	92,538	6.8	286,350	362,663
OpEx	31,575	33,643	37,514	36,415	39,674	40,011	42,843	44,261	41,117	7.6	137,870	166,789
PPOP	27,833	35,675	38,498	46,474	49,496	46,101	45,662	54,616	51,421	6.2	148,480	195,875
YoY (%)	-10.8	14.3	42.5	39.1	77.8	29.2	18.6	17.5	10.6	-	23.2	31.9
Provisions	236	1,370	1,488	1,476	3,643	3,666	5,791	2,637	4,558	-42.1	4,570	15,737
PBT	27,597	34,305	37,010	44,998	45,853	42,436	39,871	51,978	46,863	10.9	143,910	180,137
Tax	6,885	8,498	9,091	10,042	11,330	10,526	9,821	10,645	11,716	-9.1	34,517	42,321
ETR (%)	25	25	25	22	25	25	25	20	25	-452bps	24	23
PAT	20,712	25,807	27,919	34,956	34,523	31,910	30,050	41,333	35,147	17.6	109,393	137,816
YoY (%)	26.1	27.0	31.0	26.3	66.7	23.6	7.6	18.2	0.5	-	27.6	26.0
Business Metrics												
Loans (Rs bn)	2,802	2,940	3,107	3,199	3,286	3,483	3,596	3,761	3,722	1.0	3,199	3,761
YoY (%)	28.8	25.1	22.9	17.9	17.3	18.5	15.7	17.6	16.4	-	17.9	17.6
Deposits (Rs bn)	3,165	3,252	3,447	3,631	3,863	4,010	4,086	4,490	4,291	4.6	3,631	4,490
YoY (%)	10.4	11.5	12.9	16.5	22.0	23.3	18.6	23.6	18.2	-	16.5	23.6
Asset Quality Metrics												
GNPA (%)	2.2	2.1	1.9	1.8	1.8	1.7	1.7	1.4	1.7	-26bps	1.8	1.4
NNPA (%)	0.6	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.3	2bps	0.4	0.3
PCR (%)	72.6	73.7	77.6	79.3	78.0	79.1	80.6	75.9	80.8	-484bps	79.3	75.9

Source: Company, Nirmal Bang Institutional Equities Research

4QFY24 Con Call Highlights:

- **PAT** grew by 18.2% YoY/37.5% QoQ on the back of 17.6% YoY loan growth, improvement in NIM & asset quality and impact of three one-off items: (1) Writeback of Rs1.57bn AIF provisions in 4QFY24 vs Rs1.9bn provision made in 3QFY24 (2) Interest on IT refunds at Rs1.4bn and (3) Tax credits of Rs2bn due to favorable tax order.
- **Update on RBI action:** The bank on 24th April, 2024 has received an order from the RBI, directing the bank to cease and desist from: (a) on-boarding new customers through the bank's online and mobile banking channels and (b) issuing fresh credit cards. This RBI order does not impact: (a) servicing and cross-selling of products (excl. new credit cards) to the existing customer base through all channels and (b) on-boarding of new customers through other than online / mobile banking channels. According to the management, it has fallen short of the regulator's expectations. This is because technology changes take time to play out and customer demand is growing at an ever-changing pace. The customer's exposure, outlook and affluence levels are changing. The bank is seeking guidance from the regulator for building resilience in the platform and enhancing the customer experience.
- **Impact of RBI ban on financials:** The overall impact will depend on the duration of the ban. According to internal calculations by the management, the impact of this RBI action is expected to be Rs3-4.5bn at PBT level because of 3 reasons: (1) The tech spends will continue to be 10% of opex as it looks forward to strengthen its online/mobile banking platforms. Besides this, some expenses on existing credit card customer base will continue. (2) Business lost in case of 811 and credit cards and (3) The cost savings on acquisition cost of credit cards and 811 customers.
- **Steps being taken to mitigate impact of the supervisory action:** The bank is focused on protecting the existing customer base and deepening relationships with them through customer engagement and loyalty programmes. For new customer acquisition, the bank will focus on branch banking, tab banking, bio metrics etc. The bank has a good stock of OTP customers, which it can convert to KYC accounts. As the bank was acquiring customers aggressively through the 811 vertical, it has 25mn customers there and its cross-sell ratio thus remains small, which it intends to capitalize. The field salesforce of the 811 vertical will be utilized for acquiring new customers. This vertical has been high in terms of customer counts, but in terms of value it doesn't contribute much. On the asset side, except 811 and credit cards, which have been impacted, the rest of the businesses are on growth path. Its focus for growth will be on private bank, consumer bank, capital markets, institutional equities, Kotak Securities, corporates, tractors and SMEs. At present, 95% of customers, especially SA customers, open accounts outside branch, but the FDs can be opened through online/mobile banking channels. Focus on the liabilities side will be on salaried accounts, which are a stable source of deposits. KMB's top priority is the get back to business as usual as soon as possible. Post getting back to normalcy, the bank expects to get more aggressive in terms of growth.
- **Tech spends: Tech-related expenses amounted to Rs17bn in FY24 (vs Rs13bn in FY23).** The bank expects tech-related expenses to be ~10% of the total operating expenses. For the time being, currently, the tech spends would be more towards building risk, resilience and capacity. The bank currently would refrain from launching new products.
- **Branch expansion and customer acquisition:** The bank opened ~150 new branches in FY24 and expects to open similar no of branches in FY25 too. The bank would continue to increase its branch network in a more calibrated manner. KMB acquired 9.3mn customers in FY24, of which 2.4mn were acquired in 4QFY24.
- **Advances:** Net advances grew by 17.6% YoY/4.6% QoQ to Rs3.8tn due to 20%, 20%, 21%, 18% and 43% YoY growth in consumer, commercial, corporate banking, SME and other advances, respectively. Net advances excluded credit substitutes of Rs316bn and

IBPC/BRDS of Rs156.5bn. Mortgage Lending (HL/LAP) witnessed strong growth of 15% YoY. The bank has witnessed yields picking up towards the end of 4QFY24. Commercial Vehicle segment disbursements witnessed strong growth (up by 46% YoY), outpacing industry growth rate. The strong disbursements has helped the bank to increase its market share in the segment. Collection Efficiency remained stable in the segment in 4QFY24. There were NTB additions in large corporates, MNCs and financial institutions. The bank continues to see profitable opportunities in Infrastructure Lending, among better-rated entities in renewables, roads, hospitality and allied sectors. Real Estate segment witnessed growth picking up towards the latter part of 4QFY24. However, the rate competition in Large Corporate and Conglomerates continues. In Business Banking, there has been a pick-up in working capital demand and utilization levels among Micro Enterprises. In Construction Equipment, the disbursements grew by 47% YoY and the bank continues to gain market share. Growth in the Tractor segment was muted at 7.5% YoY but Used Tractors continued to see good growth. Long term guidance for credit growth remains at 1.5-2x of nominal GDP.

- **Unsecured loan book quality:** The bank is currently comfortable with the unsecured loan portfolio and the portfolio is within the bank's risk appetite. Given the benign credit environment, the bank would continue to be watchful of the portfolio. For both secured as well as unsecured loans, it is growing as per its risk appetite and not going very aggressive.
- **Deposits:** Deposit mobilisation witnessed strong growth of 24% YoY (up by 9.9% QoQ), supported by strong growth in Retail TD (TD Sweep Deposit witnessed strong growth; up by 102% YoY). CASA deposits for 4QFY24 stood at 45.5% (vs. 47.7% QoQ and 52.8% YoY). Saving Deposit mobilization continued to remain challenging. The bank's liability strategy has evolved from physical expansion to phygital and to digital first. On the re-pricing front, majority of the deposits have been re-priced and it will be the macro demand-supply of money that will drive the TD rates. But, from here, the bank expects deposit rates to be relatively stable. It will also raise refinance and infrastructure bonds.
- **Asset led acquisition strategy:** Unlike earlier when the bank followed a liability-led strategy, where asset products were cross sold to liability customers, now it is following the reverse strategy i.e also tapping asset customers for liability products.
- **NIM:** NIM for FY24 stood at 5.32% - unchanged from last year. In 4QFY24, it improved by 6bps QoQ to 5.28%.
- **Asset quality:** The bank has done a reversal of AIF-related provisions (had made provision of Rs1.9bn in 3QFY24) worth Rs1.57bn in 4QFY24. Credit cost for FY24 stood at 45bps. The bank has written off retail unsecured retail loans amounting to Rs14.55bn in FY24. As these were fully provided for, they did not affect the financials. KMB provides for 100% of the unsecured loans which remain overdue for more than 180 days. The bank carries provisions (incl. Covid/Restructuring/Standard Assets) amounting to Rs59bn as on 31st March'24. According to the bank, its overall provision cover is within reasonable levels, being higher than GNPA. There is some stress in collections in Tractors and Microfinance due to erratic weather conditions in some states, but the overall trend is stable.
- **Fee income:** In DCM division, fee income was strong from infrastructure, real estate and NBFC deals. The transaction banking revenue also picked up.
- **Sonata Micro Finance:** The bank completed the acquisition of Sonata Micro Finance in March'24, making it a 100% owned subsidiary of the bank. It is a Lucknow-based MFI with 610 branches and a presence in 165 districts in UP, MP, Bihar and North India. This is complimentary to the other acquisition in the MFI space done in South India. These loans are included as part of commercial banking operations. With this acquisition, Kotak Bank now has presence in 16 states through a network of 1400 BCs and customer base of 2.7mn women borrowers.

- **Capital position:** The redeemed preference share capital during the qtr. and hence CET-1 comprises equity capital only. Standalone CAR for 4QFY24 stood at 20.55%, comprising CET-1 capital of 19.25%.
- **Top management exits:** Mr. KVS Manian has left due to his own aspirations. The bank has a good pool of talent, which has been groomed for key positions.
- **The capital market subsidiaries** performed well due to buoyant markets and deal flows.

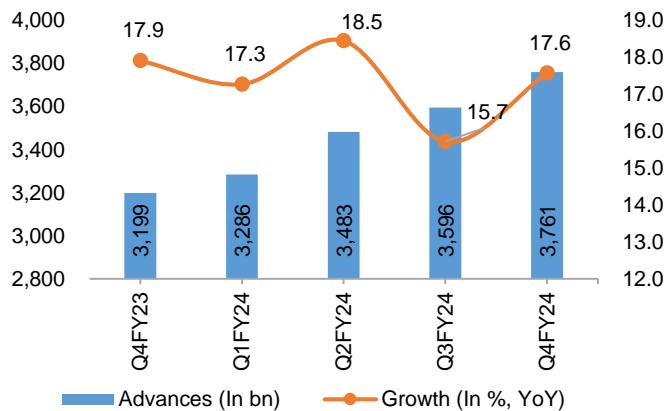
Quarterly Income Statement							
(INR mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Interest Inc. on Advances	77,809	82,982	86,763	92,099	94,736	21.8	2.9
Interest Inc. on Investments	18,843	20,074	21,485	22,758	24,664	30.9	8.4
Others	1,558	1,944	3,681	3,134	3,671	135.7	17.1
Total Interest Inc.	98,209	105,000	111,928	117,990	123,071	25.3	4.3
Interest Expended	37,184	42,663	48,962	52,455	53,977	45.2	2.9
NII	61,026	62,337	62,966	65,535	69,094	13.2	5.4
CXB	19,280	18,270	20,260	21,440	24,670	28.0	15.1
Other Non-Interest Inc.	2,583	8,563	2,885	1,530	5,113	98.0	234.1
Total Non-interest Income	21,863	26,833	23,145	22,970	29,783	36.2	29.7
Total Net Income	82,888	89,170	86,112	88,505	98,876	19.3	11.7
Payments to/Prov. for employees	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
Total Operating Exp.	36,415	39,674	40,011	42,843	44,261	21.5	3.3
Operating Profit	46,474	49,496	46,101	45,662	54,616	17.5	19.6
Total Provisions	1,476	3,643	3,666	5,791	2,637	78.7	(54.5)
PBT	44,998	45,853	42,436	39,871	51,978	15.5	30.4
Tax Provision	10,042	11,330	10,526	9,821	10,645	6.0	8.4
Net Profit	34,956	34,523	31,910	30,050	41,333	18.2	37.5
EPS	17.6	17.4	16.1	15.1	20.8	18.3	37.6

Key Ratios							
(%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (bps)	QoQ (bps)
NIM	5.75	5.57	5.22	5.22	5.28	-47 bps	6 bps
CAR	21.8	21.8	21.7	21.2	20.5	-130 bps	-70 bps
CET 1	20.6	20.6	20.6	20.1	19.2	-140 bps	-91 bps
ROA	3.0	2.8	2.5	2.2	3.0	0 bps	76 bps
CD Ratio	88.1	85.1	86.9	88.0	83.8	-433 bps	-424 bps

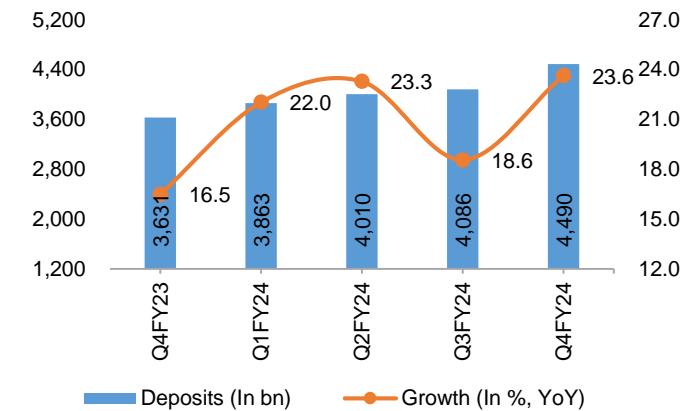
Asset Quality							
(INR mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
GNPA	57,683	59,092	60,872	63,017	52,748	(8.6)	(16.3)
NNPA	11,933	13,018	12,748	12,253	12,706	6.5	3.7
						YoY (bps)	QoQ (bps)
GNPA (in %)	1.78	1.77	1.72	1.73	1.39	-39 bps	-34 bps
NNPA (in %)	0.37	0.40	0.37	0.34	0.34	-4 bps	0 bps
PCR (%)	79.3	78.0	79.1	80.6	75.9	-341 bps	-465 bps

Balance Sheet Details							
(INR mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Net Advances	3,198,612	3,285,820	3,482,841	3,595,880	3,760,753	17.6	4.6
Savings Deposits	1,217,850	1,245,670	1,246,550	1,262,610	1,290,960	6.0	2.2
Current Deposits	700,300	647,220	688,240	687,880	752,080	7.4	9.3
CASA Deposits	1,918,150	1,892,890	1,934,790	1,950,490	2,043,040	6.5	4.7
Term Deposits	1,712,811	1,969,650	2,074,839	2,135,870	2,446,498	42.8	14.5
Total Deposits	3,630,961	3,862,540	4,009,629	4,086,360	4,489,538	23.6	9.9
CASA (%)	52.8	49.0	48.3	47.7	45.5	-733 bps	-223 bps

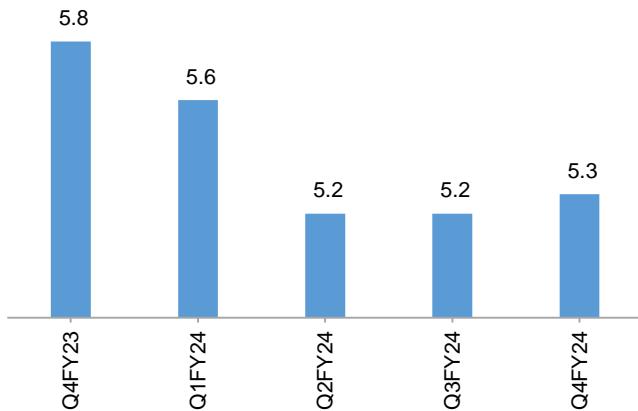
Quarterly Du-pont (%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
NII	5.1	5.0	4.8	4.9	4.8
Non-interest income	1.8	2.1	1.8	1.7	2.1
Total income	6.9	7.1	6.6	6.6	6.9
Opex	3.1	3.2	3.1	3.2	3.1
PPOP	3.9	3.9	3.5	3.4	3.8
Provision	0.1	0.3	0.3	0.4	0.2
PBT	3.8	3.7	3.2	3.0	3.6
Tax	0.8	0.9	0.8	0.7	0.7
ROA	2.9	2.8	2.4	2.2	2.9
Leverage(x)	8.7	7.0	5.9	5.9	6.1
ROE	25.4	19.4	14.4	13.1	17.4

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


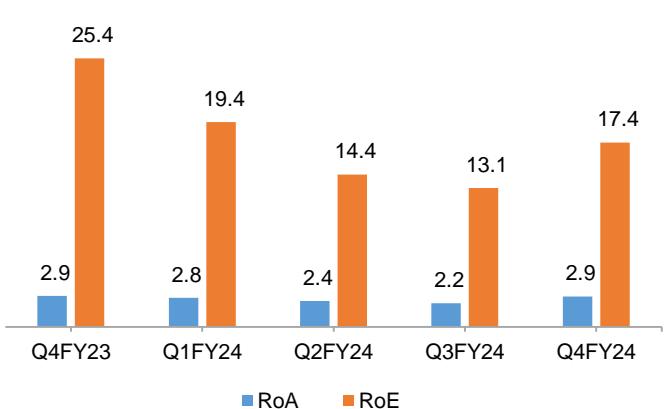
Source: Company, Nirmal Bang Institutional Equities Research

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


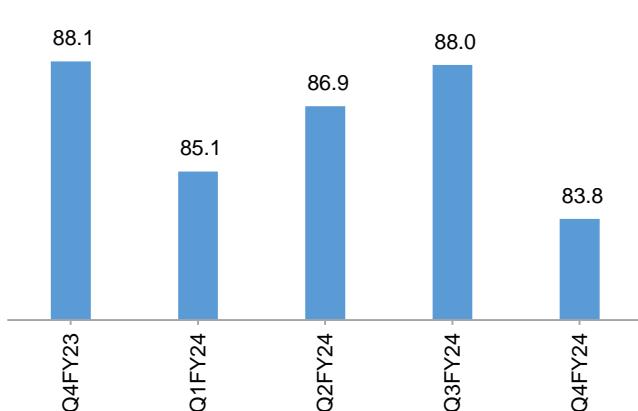
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: NIM (%)


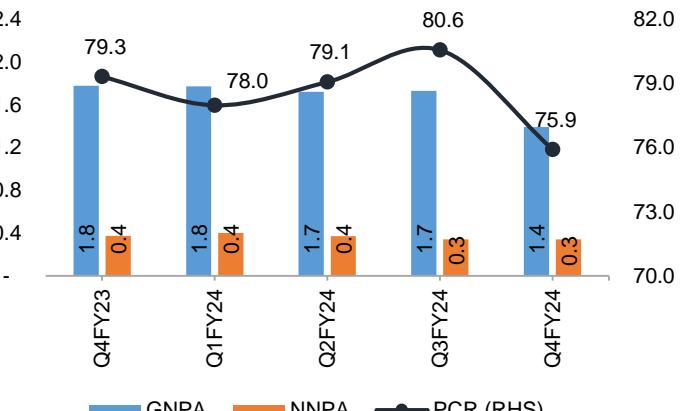
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Profitability ratio (In %)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Loan to Deposit Ratio (In %)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Asset Quality Metrics


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: History of Recent Regulatory Actions in BFSI Sector

Date	Lender Name	Action taken	Reason	Duration / Phases of Ban	Impact
Dec 2, 2020	HDFC Bank Ltd	Temporary stop on launch of Digital 2.0 program and sourcing of new credit card customers.	Frequent Outages in internet/mobile banking and payment systems.	Allowed to issue new credit cards in August 2021. Restrictions on new digital launches lifted in March 2022.	Credit card market share declined from 25.3% to 23.1% during 8 months of ban. At present it continues to hold leadership position in this segment with 20.2% market share.
Oct 10, 2023	BOB	Directed the bank to suspend onboarding of new customers into 'bob World' mobile application.	Cyber fraud; material supervisory concerns RBI observed in the manner of onboarding customers into this mobile application.	The management in January 2024 had mentioned that it has provided all compliance to RBI and is hoping for the ban to be revoked.	The bank expanded other modes of acquiring new customers, like tab banking, branch banking etc. At the time of ban 97%/91% of SA/CA customers were acquired digitally. 35% of FD/RDs were opened through BoB World app. 84% of UPI handles were generated through the app.
Nov 15, 2023	Bajaj Finance	RBI asking BFL to stop sanctions and disbursal of loans under 2 lending products eCOM and 'Insta EMI Card'.	Non adherence to extant provisions of digital lending guidelines, particularly non-issuance/deficiencies in Key Fact Statements to borrowers on digital platform.	Based on remedial actions taken by the company, RBI lifted the restrictions on these two products on May 2, 2024.	New loans booked were lower by approximately 0.8mn in 4QFY24 and 1.2mn in FY24. 4% impact on 4QFY24 PBT as per company disclosure.
March 11, 2022, Jan & Feb 2024	One 97	RBI in 2022 asked the payments bank to stop onboarding new customers and to appoint one IT audit firm for a comprehensive systems audit. Jan 31, 2024 - No deposits / credits / top ups allowed in customer accounts and other prepaid instruments. Withdrawals by customers allowed. Nodal accounts to be terminated.	First action was based on material supervisory concerns observed by RBI. The systems audit that followed revealed non-compliances and continued supervisory concerns.	Mr. Vijay Shekhar Sharma resigned from board of PPBL on Feb 28, 2024. On March 14, 2024 NPCI granted PAYTM Third Party Application Provider (TPAP) license.	The migration of merchant customers from Paytm to the new Payment System Provider (PSP) bank handles has been completed in April month. As other customers move out of PPBL wallet, transactions continue to decline.
Mar 4, 2024	IIFL Gold Loans	RBI asked IIFL to stop sanction / disbursal / assignment / securitization / sale of gold loans. Company continues to service existing gold loans.	Material supervisory concerns which included deviation in weight and purity of gold collateral at auctioning stage, LTV breach, cash transactions in excess of statutory limit, non-adherence to standard auction process and lack of transparency in charges levied.	Special audit of gold loan portfolio started from April 23, 2024.	As gold loans are shorter tenure products, the run down of portfolio will be faster due to the company's inability to grow with restrictions being placed.
Mar 12, 2024	Federal Bank	Stopped issuance of new co-branded credit cards (Tie-ups include OneCard, Scapia and Neo bank Fi)	On concerns over the co-branding partners access to customer data.	The management in 4QFY24 earnings call mentioned that it is taking corrective actions and will present same to RBI. It continues to service existing customers in co-branded segment.	Co-branded cards form <2% of loans but contribute slightly more than this to cards fee income. Personal loans are not cross sold to these customers and is done to ETB / NTB customers.

March 12, 2024	South Indian Bank	Stopped issuance of new co-branded credit cards (tie-up with SBI Cards, OneCard).	On concerns over the co-branding partners access to customer data.	Not onboarding new customers on their co-branded credit cards until it is fully compliant with RBI guidelines on same. However, it continues to service existing co-branded card customers.	Very small impact on business growth and fee income, as credit cards including those acquired through direct sourcing form 2% of loan book.
April 24, 2024	Kotak Bank	Not allowed to onboard new customers through online / mobile banking channels and issuing fresh credit cards.	Based on IT examinations done during 2022 and 2023 and continued failure on part of the bank to address these concerns in a comprehensive and timely manner. The bank's CBS and digital banking channels faced frequent outages.	The duration and phases of ban will be monitorable here.	79-99% transactions on lending side and 76-95% on deposit side were done digitally in 3QFY24.

Source: Company; Nirmal Bang Institutional Equities Research

Exhibit 9: Kotak General Insurance Deal Valuation

Particulars - March 31, 2024	Amount (Rs mn)
Networth	4,470.0
% of KMB consolidated networth	0.3
Fresh growth capital infusion by Zurich Insurance	16090.0
Networth post capital infusion	20,560.0
Post money valuation of Kotak General Insurance	79430.0
P/BV (x) - post capital infusion	3.9
Net Loss - on TTM Basis	-890.0
P/E (x)	-89.2

Profit on 70% Stake Sale Coming in Kotak Bank P&L	Amount (Rs mn)
Total consideration to be paid by Zurich Insurance Co. (including capital infusion) for 70% Stake	55600.0
Less: Equity Infusion by Zurich Insurance Co.	16090.0
Less: Cost of Investment in Kotak General Insurance	7300.0
Profit on 70% Stake Sale in Kotak General Insurance	32210.0
Less: 25.17% tax on Profit on stake sale	8107.3
Profit on 70% Stake Sale in Kotak General Insurance (Net of Tax)	24102.7

Source: Company; Nirmal Bang Institutional Equities Research

Exhibit 10: SOTP valuation
Calculation of FY26E ABV

Particulars	Amount (Rs mn)
March 2026E Networth	1287860.8
March 2026E NNPA	16680.8
Cost of Investment in Subsidiaries	37,060.1
March 2026E Adj. Networth	1234119.9
March 2026E ABV (Rs)	620.8

Entity	Valuation methodology	Holding	Value per share (INR) FY25E
Kotak Mahindra Bank - standalone	2.25x FY26E ABV	100.0%	1,397
Kotak Life Insurance	25x FY24 VNB & 2x FY24 EV	100.0%	286
Kotak AMC	25x FY24 EPS	100.0%	66
Kotak Prime	2x FY24 BV	100.0%	92
Kotak Securities	15x FY24 EPS	100.0%	93
Kotak Investments	1.8x FY24 BV	100.0%	30
Kotak Gen. Ins	3.9x FY24 BV	30.0%	12
Kotak Capital	15x FY24 EPS	100.0%	16
Others	1x BV	100.0%	24
Holding co. discount (%)			15%
Value of subs (INR per share)			526
Value of total (INR per share)			1,923

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Financial summary

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net interest income	1,68,179	2,15,519	2,59,932	2,93,967	3,33,725
Operating profit	1,20,509	1,48,480	1,95,875	2,42,256	2,56,256
PAT	85,727	1,09,393	1,37,816	1,60,662	1,69,929
EPS (Rs)	43	55	69	81	85
BV (Rs)	365	420	487	565	648
P/E (x)	35.8	28.1	22.3	19.1	18.1
P/BV (x)	4.2	3.7	3.2	2.7	2.4
GNPAs (%)	2.3	1.8	1.4	1.5	1.5
NNPAs (%)	0.6	0.4	0.3	0.3	0.3
RoA (%)	2.1	2.4	2.5	2.5	2.3
RoE (%)	12.6	14.0	15.3	15.4	14.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Actual performance versus our estimates

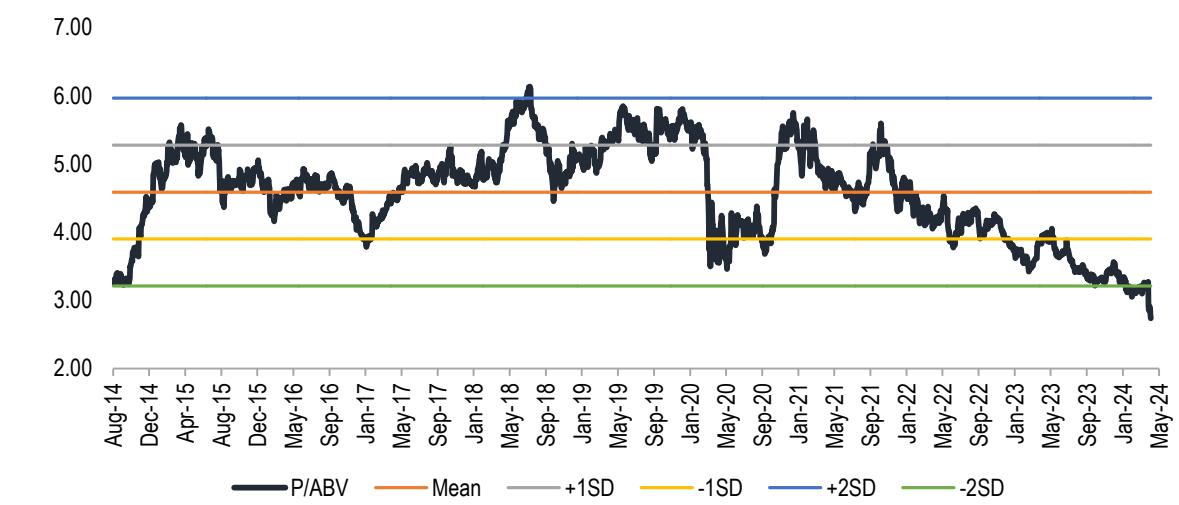
(Rsmn)	4QFY24	4QFY24E	Devi. (%)	Consensus estimates	Devi. (%)
Net interest income	69,094	67,134	2.9	-	-
Pre-provisioning Operating Profit	54,616	51,421	6.2	49,505	10.3
PAT	41,333	35,147	17.6	33,283	24.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Change in our estimates

(Rs mn)	Revised Estimate		Earlier Estimate		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (Rs mn)	2,93,967	3,33,725	2,87,934	3,29,309	2.1	1.3
NIMs	4.70	4.66	4.85	4.83	-16 bps	-18 bps
Operating Profit (Rs mn)	2,42,256	2,56,256	2,19,271	2,55,122	10.5	0.4
PAT (Rs mn)	1,60,662	1,69,929	1,46,604	1,67,219	9.6	1.6
Loan Book (Rs bn)	4,335	4,998	4,332	4,995	0.1	0.1
ABVPS (Rs)	563	646	553	635	1.8	1.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	2,70,388	3,42,509	4,57,989	5,29,831	6,15,379
Interest expense	1,02,209	1,26,989	1,98,057	2,35,864	2,81,654
Net interest income	1,68,179	2,15,519	2,59,932	2,93,967	3,33,725
Non-interest income	59,859	70,831	1,02,731	1,46,292	1,33,823
Net Revenue	2,28,038	2,86,350	3,62,663	4,40,259	4,67,548
Operating Expense	1,07,530	1,37,870	1,66,789	1,98,003	2,11,292
-Employee Exp	46,134	55,198	68,564	80,272	87,431
-Other Exp	61,396	82,672	98,225	1,17,731	1,23,861
Operating profit	1,20,509	1,48,480	1,95,875	2,42,256	2,56,256
Provisions	6,896	4,570	15,737	28,041	32,171
PBT	1,13,613	1,43,910	1,80,137	2,14,215	2,24,085
Taxes	27,886	34,517	42,321	53,554	54,155
PAT	85,727	1,09,393	1,37,816	1,60,662	1,69,929

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	14,923	14,933	9,940	9,940	9,940
Reserves & Surplus	7,09,954	8,20,270	9,57,248	11,13,090	12,77,921
Shareholder's Funds	7,24,878	8,35,203	9,67,188	11,23,029	12,87,861
Deposits	31,16,841	36,30,961	44,89,538	51,73,993	60,20,689
Borrowings	2,59,671	2,34,163	2,83,681	3,09,780	3,38,279
Other liabilities	1,92,894	1,98,299	2,63,165	2,51,418	2,13,670
Total liabilities	42,94,284	48,98,625	60,03,571	68,58,220	78,60,499
Cash/Equivalent	4,29,239	3,25,423	5,27,884	5,82,493	6,47,711
Advances	27,12,536	31,98,612	37,60,753	43,35,089	49,97,833
Investments	10,05,802	12,14,037	15,54,038	17,59,915	20,11,792
Fixed Assets	16,437	19,203	21,553	22,428	23,339
Other assets	1,30,269	1,41,349	1,39,343	1,58,295	1,79,824
Total assets	42,94,284	48,98,625	60,03,571	68,58,220	78,60,499

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Growth (%)					
NII growth		9.6	28.1	20.6	13.1
Pre-provision profit growth		2.5	23.2	31.9	23.7
PAT growth		23.1	27.6	26.0	16.6
Business (%)					
Deposit growth		11.3	16.5	23.6	15.2
Advance growth		21.3	17.9	17.6	15.3
CD		87.0	88.1	83.8	83.0
CASA		60.7	52.8	45.5	44.5
Operating efficiency (%)					
Cost-to-income		47.2	48.1	46.0	45.0
Cost-to-assets		2.6	3.0	3.1	2.9
Spreads (%)					
Yield on advances		7.8	9.1	9.3	9.3
Yield on investments		6.5	5.8	5.8	5.8
Cost of deposits		3.1	3.5	4.0	4.1
Yield on assets		6.9	7.7	8.7	8.6
Cost of funds		3.2	3.5	4.6	4.6
NIMs		4.3	4.9	4.9	4.7
Capital adequacy (%)					
Tier I		21.7	22.3	19.2	19.6
Tier II		1.0	1.0	1.3	1.0
Total CAR		22.7	23.3	20.5	20.6
Asset Quality (%)					
Gross NPA		2.3	1.8	1.4	1.5
Net NPA		0.6	0.4	0.3	0.3
Provision coverage		73.2	79.3	75.9	76.9
Slippage		1.6	1.2	1.4	1.5
Credit-cost		0.3	0.2	0.5	0.7
Return (%)					
ROE		12.6	14.0	15.3	15.4
ROA		2.1	2.4	2.5	2.5
RORWA		2.9	3.3	3.5	3.2
Per share					
EPS		43	55	69	81
BV		365	420	487	565
ABV		363	419	485	563
Valuation					
P/E		35.8	28.1	22.3	19.1
P/BV		4.2	3.7	3.2	2.7
P/ABV		4.3	3.7	3.2	2.7

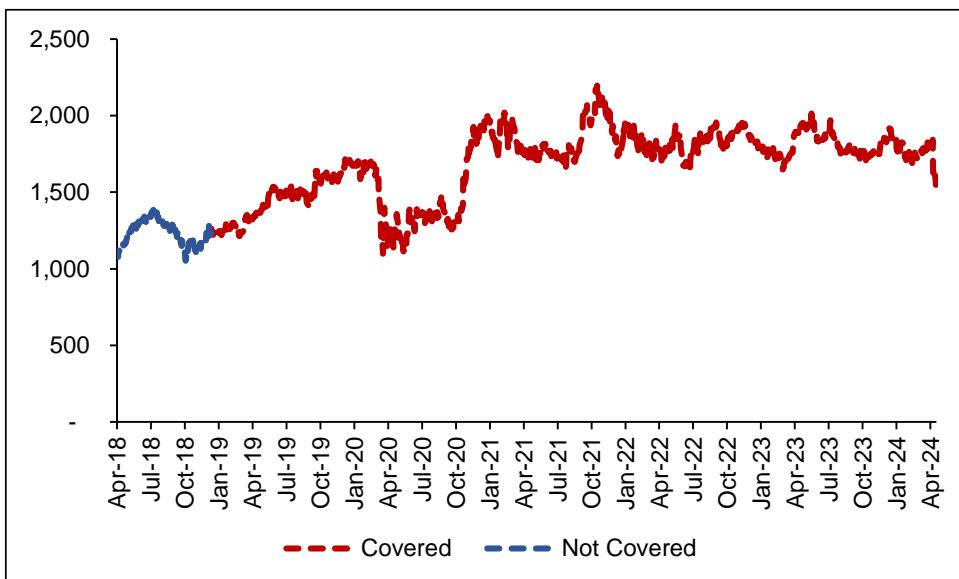
Source: Company, Nirmal Bang Institutional Equities Research

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
23 January 2024	Accumulate	1,806	2,057
21 February 2024	Accumulate	1,763	1,909
05 May 2024	Buy	1,547	1,923

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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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