



TM

26 July 2025

## Kotak Mahindra Bank

### Asset quality and margins under pressure, but expected to improve

#### RESULT UPDATE

**Sector:** Banks **Rating:** BUY  
**CMP:** Rs 2,125 **Target Price:** Rs 2,450

#### Stock Info

Nifty	24,842
Bloomberg Code	KMB IN
Equity shares	1988mn
52-wk High/Low	Rs 2302/ 1679
Face value	Rs 5
M-Cap	Rs 4,224bn/ USD 48.8bn
3-m Avg volume	USD 92.5mn

#### Financial Snapshot (Rs bn)

Y/E March	FY26E	FY27E	FY28E
NII	316	373	438
PPP	234	277	330
PAT	149	184	222
EPS (Rs)	75	93	112
EPS Gr. (%)	-9	23	21
BV/Sh (Rs)	662	752	861
Adj. BV/Sh (Rs)	654	742	849

#### Ratios

NIM (%)	4.8	5.0	5.0
C/I ratio (%)	47.5	47.0	46.0
RoA (%)	2.0	2.2	2.3
RoE (%)	12.0	13.1	13.9

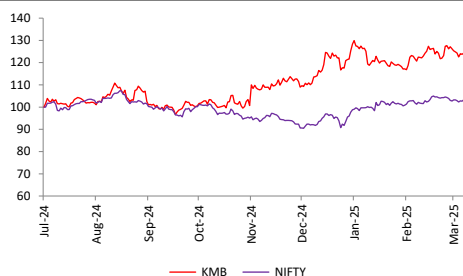
#### Valuations

P/E (x)	17.8	14.4	11.9
P/BV (x)	2.0	1.8	1.5
P/ABV (x)	2.0	1.8	1.6

#### Shareholding pattern (%)

	Dec'24	Mar'25	Jun'25
Promoter	26	26	26
–Pledged	-	-	-
FII	32	33	32
DII	29	29	30
Others	13	12	12

#### Stock Performance



Kotak Mahindra Bank reported 1QFY26 PAT of Rs 32.8bn down by -7.6% QoQ, largely due to the adverse impact of (i) fall in NIM (ii) higher provisions. The NIM was impacted by transmission of fall in repo rate, lower share of unsecured loans and number of days effect. The slippages in the quarter were largely driven by microfinance, retail CV and rural loans. The credit cost at 1.1% has been elevated in the quarter but expected to trend lower going forward as the stress in microfinance is expected to have peaked. The advances growth has been healthy in the quarter at 4% QoQ and 14% YoY, where business banking and mortgages segment has been the key driver. The deposits growth has also been strong at 3% QoQ and 15% YoY, driven by growth in term deposits. During the quarter both income aspects and asset quality aspects have lagged our expectation and hence we have revised our estimates accordingly. We continue to maintain our BUY rating on KMB with a revised target price of Rs. 2,450 (earlier Rs 2,500). We are valuing the standalone bank at 2.2x on its FY27E book value per share of Rs. 752. Further, we assign Rs 794 per share value to its subsidiaries and associates.

**Credit cost has seen a sharp increase but expected to have peaked:** Kotak Mahindra Bank (KMB) in 1QFY26 has reported gross slippages of Rs. 18.12bn, up by 21% QoQ and 50% YoY. The annualised gross slippage ratio during the quarter came in at 1.6%, up by 24bps both QoQ and YoY. The slippages during the quarter were driven by microfinance, retail CV and stress in rural segment which is more of seasonal in nature. The recoveries and upgrades were lower at Rs. 5.49bn, down by -27% QoQ and -21% YoY. Hence, the net slippages for the quarter have increased significantly by 70% QoQ and 146% YoY to Rs. 12.63bn. The net slippage ratio came in at 1.1%, up by 45bps QoQ and 35bps YoY. The GNPA has inched up higher by 6bps QoQ and 9bps YoY to 1.5%. The total provisions for the quarter were at Rs. 12.08bn, up by 33% QoQ and 109% YoY. The credit cost was at 1.1%, up by 24bps QoQ and 50bps YoY. With regards to the microfinance segment, the management expects the credit cost has peaked in 1QFY26 and will trend lower from 2Q. The credit cost in the credit card segment has plateaued and is expected to trend lower in H2FY26. Also, the credit cost in the personal loan segment has stabilised from 4QFY25. The bank is not seeing any stress as of now in the SME or the business banking segment.

**Net interest margin has come off sharply during the quarter:** KMB reported a net interest margin (NIM) of 4.65% in Q1FY26 down by -32bps QoQ and -37bps YoY. The key reasons for the sequential de-growth in margins are i.) Transmission of repo rate reduction impacting floating rate loan book (60% of portfolio), partly off-set by fall in cost of deposits. ii.) Lower share of unsecured book (down -80bps QoQ) iii.) Negative impact from number of days calculation in Q1 vs. Q4. The CASA ratio was at 40.9% down by -210bps QoQ and -250bps YoY. The share of fixed rate SA in total deposits was at 22.4%, down by -8bps QoQ and -119bps YoY. The bank during the quarter has taken saving account interest rate cut to protect its margin and hence, the SA rates were down by -47bps QoQ and -80bps YoY to 3.32%. The bank has also reduced the share of its floating rate SA book. Going forward the yield on advances in Q2FY26 will have the negative impact of the Repo rate cut transmission of 50 bps. The bank has reduced its SA rate to 2.5% in June 2025 and around 75bps of benefit in SA rates is expected to flow in Q2. Further, the bank will also have cost side benefits in H2FY26 due to the lower CRR and some repricing of its term deposits. The repricing of deposit book would happen over 9-12 months.

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**Advances and deposits growth momentum remains strong:** In Q1FY26, net advances have increased by 4.2% QoQ and 14.1% YoY. The share of unsecured advances declined to 9.7%, down -80bps QoQ. Mortgage advances grew strongly by 3.6% QoQ and 19% YoY. The home loans segment has faced competitive pricing pressures but the loans against property (LAP) remained resilient. The bank's business banking book has witnessed strong working capital demand and the secured business banking book comprising of small SME grew by 18% YoY. In the credit cards segment during the quarter the bank has undertaken a one-time cleanup of blocked accounts which were inactive which led to a drop in market share. The bank has launched 2 new credit cards, Solitaire and Indigo, with focus on affluent segment. The commercial vehicle segment faced challenges, with an -18% YoY industry decline, leading to moderated disbursements. The Wholesale book along with credit substitutes grew by 6% QoQ and 13% YoY, largely driven by granular SME and mid-markets. During the quarter, select SME accounts were migrated to corporate banking hence the SME and Wholesale book are not comparable with prior periods. Microfinance segment is expected to witness a gradual recovery in H2FY26. The merger of BSS and Sonata is under way and expected to be completed by 2QFY26. On the deposit side, total deposits grew by 2.8% QoQ and 14.6% YoY, with a CASA ratio of 40.9% and a credit-to-deposit ratio of 86.7%. Average deposits rose by 13% YoY. The fixed SA deposits were up 9% YoY and term deposits surged by 19.7% YoY. Active money increased by 23% YoY.

**Operating expenses evolved broadly in control:** The total operating expense was Rs. 47.76bn, down -4.4% QoQ but up 5.7% YoY. The YoY growth was driven by increased IT spending and acquisition costs for 811 customers and credit cards. The Tech spends accounted for 13.5% of total operating expense. The cost-to-income ratio in 1Q was at 46.2%, down by -153bps QoQ and -4bps YoY.

**Valuation and recommendation:** During the quarter both income aspects and asset quality aspects have lagged our expectation and hence we have revised our estimates accordingly. We continue to maintain our BUY rating on KMB with a revised target price of Rs. 2,450 (earlier Rs 2500). We are valuing the standalone bank at 2.2x on its FY27E book value per share of Rs. 752. Further, we assign Rs 794 per share value to its subsidiaries and associates.

## Key takeaways from 1QFY26 earnings call:

### 1. Asset Quality Aspects

- Slippage increased to Rs 18.12 bn, driven by microfinance, retail CV, and rural segment stress which is more seasonal in nature.
- The credit cost for microfinance segment has peaked in Q1FY26 and is expected to decline in coming quarters. The stress in microfinance started in Q3FY25, with Karnataka issues adding pressure in Jan-Feb 2025.
- Credit cost in the Credit card segment has plateaued and is expected to decline in H2FY26; one-time cleanup of blocked accounts led to a drop in market share.
- Personal loans credit cost stabilized from Q4 and the bank is committed to growing this book.
- Retail CV segment shows stress, expected to persist for 1-2 quarters and the bank has adopted a cautious approach in this segment.
- Rural book impacted seasonally, affecting asset quality.
- Recoveries were lower due to reduced corporate account recoveries compared to Q4.
- Provision Coverage Ratio (PCR) at 77%.
- SME and MSME portfolios fully secured, with no reported stress.
- The bank has shifted its model from joint liability group underwriting to individual risk-weighted underwriting model. They have back-tested it and the result were broadly under the expected risk levels.

### 2. Margin Aspects

- Net Interest Margin (NIM) at 4.65%, down -32bps QoQ due to:
  - Transmission of repo rate reduction impacting floating rate loan book (60% of portfolio), partly off-set by fall in cost of deposits.
  - Lower share of unsecured book.
  - Negative impact from number of days in Q1 vs. Q4.
- There are no one-off impacts on the reported NIM for 1QFY26.
- The yield on advances in Q2FY26 will have a negative impact of the Repo rate cut transmission of 50 bps. The repricing of repo linked loan gets completed in 3 months.
- The cost of funds has reduced by 8-9 bps in 1Q. The bank has reduced its SA rate to 2.5% in June 2025 and around 75bps of benefit in SA rates is expected in Q2.
- Deposit repricing would happen over 9-12 months.

### 3. Advances

- Net advances up 14% YoY, 4% QoQ.
- Unsecured advances share was at 9.7% in 1Q, down -80bps QoQ. The bank would generally like to have a 15% share of unsecured book where microfinance to be capped at 2-4%.

- Mortgage advances were up 19% YoY; home loans face irrational and competitive pricing, while LAP remains strong.
- Business banking shows strong demand for working capital, with secured small SME segment growth at 18% YoY.
- Credit card segment launched new products (Solitaire and Indigo), with plans to ramp up going forward.
- Commercial vehicle (CV) segment shows stress, with industry down -18% YoY; disbursements moderated.
- Microfinance growth to pick up in H2FY26; gradual recovery expected. The merger of BSS and Sonata is under way and expected to be completed by 2QFY26.
- Wholesale book growth driven by granular SME and mid-market segments.

#### 4. Deposits

- Deposits up 15% YoY, 3% QoQ.
- CASA ratio at 40.9%.
- CD ratio at 86.7%.
- Average deposits up 13% YoY.
- Fixed SA deposits up 9% YoY, 2% QoQ.
- Term deposits up 6.5% QoQ and 19.7% YoY.
- Active money up 23% YoY in Q1.
- The bank is more focused on core mass affluent and affluent customers.

#### 5. Operating Expense Aspects

- Operating expenses grew 6% YoY, driven by increased IT spending and acquisition costs for 811 customers and credit cards.
- Retiral costs increased due to rate reductions.
- Higher marketing costs due to the launch of 811.
- With use to technology, benefits are seen on Payroll cost.
- Tech spends accounts for 13.5% of total operating expenses.

## Exhibit 1: Quarterly performance

P&L (INR, mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Interest Earned	1,38,365	1,35,298	2.3	1,27,461	8.6
Interest Expended	(65,773)	(62,462)	5.3	(59,038)	11.4
<b>Net Interest Income</b>	<b>72,593</b>	<b>72,836</b>	<b>(0.3)</b>	<b>68,424</b>	<b>6.1</b>
Fee income	22,490	26,160	(14.0)	22,400	0.4
Non-fee Income	8,310	5,665	46.7	6,890	20.6
<b>Other Income</b>	<b>30,800</b>	<b>31,825</b>	<b>(3.2)</b>	<b>29,290</b>	<b>5.2</b>
<b>Total Net Income</b>	<b>1,03,393</b>	<b>1,04,660</b>	<b>(1.2)</b>	<b>97,714</b>	<b>5.8</b>
Employee Expense	(20,655)	(21,063)	(1.9)	(18,705)	10.4
Other operating expense	(27,101)	(28,876)	(6.1)	(26,468)	2.4
<b>Operating expenses</b>	<b>(47,756)</b>	<b>(49,938)</b>	<b>(4.4)</b>	<b>(45,173)</b>	<b>5.7</b>
<b>PPOP</b>	<b>55,637</b>	<b>54,722</b>	<b>1.7</b>	<b>52,541</b>	<b>5.9</b>
<b>Core PPOP</b>	<b>47,327</b>	<b>49,057</b>	<b>(3.5)</b>	<b>45,651</b>	<b>3.7</b>
Provisions	(12,078)	(9,094)	32.8	(5,785)	108.8
Exceptional Items	-	-	NA	35,199	NA
<b>PBT</b>	<b>43,559</b>	<b>45,628</b>	<b>(4.5)</b>	<b>81,955</b>	<b>(46.8)</b>
Tax	(10,743)	(10,111)	6.2	(19,457)	(44.8)
<b>PAT</b>	<b>32,817</b>	<b>35,517</b>	<b>(7.6)</b>	<b>62,498</b>	<b>(47.5)</b>
Key Ratios (%)	Q1 FY26	Q4 FY25	chg qoq	Q1 FY25	chg yoy
Net interest margin	4.65	4.97	-32bps	5.02	-37bps
Cost of SA	3.32	3.79	-47bps	4.12	-80bps
CASA ratio	40.9	43.0	-210bps	43.4	-250bps
Loan to Deposit Ratio	86.7	85.5	119bps	87.2	-42bps
Fee Income to Avg. Total Assets	1.3	1.6	-27bps	1.5	-19bps
Non-int. income / Total Income	29.8	30.4	-62bps	30.0	-19bps
Cost to Income	46.2	47.7	-153bps	46.2	-4bps
Opex to Avg. Total Assets	2.8	3.0	-24bps	3.0	-24bps
Annualised Slippage Ratio	1.6	1.4	24bps	1.4	24bps
Credit Cost	1.1	0.9	24bps	0.6	50bps
Gross NPA	1.5	1.4	6bps	1.4	9bps
PCR excl. TWO	77.0	78.0	-100bps	75.0	200bps
Net NPA	0.3	0.3	3bps	0.4	-1bps
RoA	1.9	2.2	-24bps	4.2	-228bps
RoE	10.9	12.2	-133bps	24.6	-1372bps
Capital adequacy ratio	23.0	22.3	75bps	22.4	60bps
Common Equity Tier 1 ratio	22.7	21.1	160bps	21.3	140bps
Capital adequacy ratio*	23.0	22.3	75bps	22.8	20bps
Common Equity Tier 1 ratio*	22.7	22.3	40bps	21.9	80bps

Source: Company, Systematix Institutional Research, \*Consolidated

**Exhibit 2: Advances and Deposits break-up**

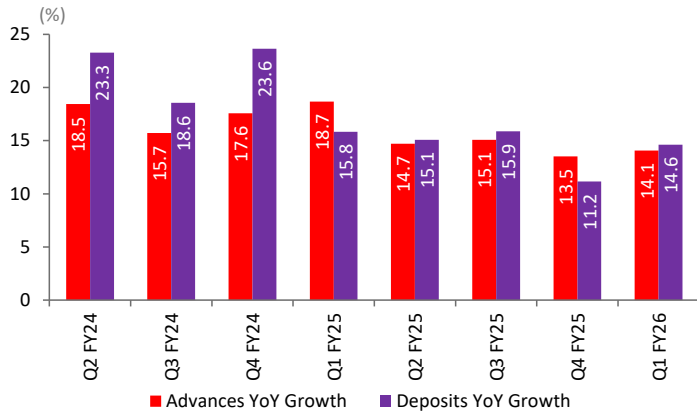
Particulars (Rs mn)	Q1 FY26	Q4 FY25	% qoq	Q1 FY25	% yoy
Advances	44,48,230	42,69,090	4.2	38,99,570	14.1
Home Loans & LAP	13,15,410	12,70,250	3.6	11,08,500	18.7
Consumer Bank WC (Secured)	4,44,690	4,27,970	3.9	3,75,910	18.3
PL, BL and Consumer Durables	2,43,680	2,48,180	(1.8)	2,03,170	19.9
Credit Cards	1,29,240	1,34,200	(3.7)	1,46,440	(11.7)
CV/CE	4,29,720	4,30,080	(0.1)	3,79,410	13.3
Agriculture Division	2,51,740	2,80,590	(10.3)	2,73,240	(7.9)
Tractor Finance	1,78,740	1,78,150	0.3	1,58,000	13.1
Retail Micro Finance	58,820	66,970	(12.2)	1,03,680	(43.3)
Corporate Banking*	10,28,210	9,27,790	10.8	9,35,810	9.9
SME*	3,47,830	3,57,540	(2.7)	2,81,860	23.4
Others	1,61,420	1,21,440	32.9	93,550	72.5
IBPC & BRDS	-1,41,270	-1,74,070	(18.8)	-1,60,000	(11.7)
Deposits	51,28,380	49,90,551	2.8	44,74,180	14.6
CA deposits	8,17,000	8,28,610	(1.4)	7,01,440	16.5
SA deposits	12,79,450	13,15,560	(2.7)	12,40,780	3.1
Term deposits	30,31,930	28,46,381	6.5	25,31,960	19.7

Source: Company, Systematix Institutional Research, \* not comparable QoQ and YoY due to internal realignment in 1QFY26

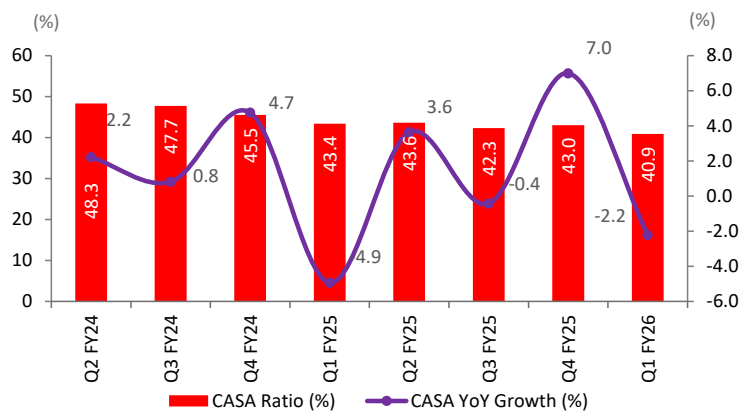
**Exhibit 3: Actuals Vs Expectation**

Q1FY26 (Rs. mn)	Actuals	Estimates	Variance
Net Interest Income	72,593	73,980	(1.9)
Pre-Prov. Operating Profit	55,637	54,760	1.6
Profit After Tax	32,817	36,059	(9.0)

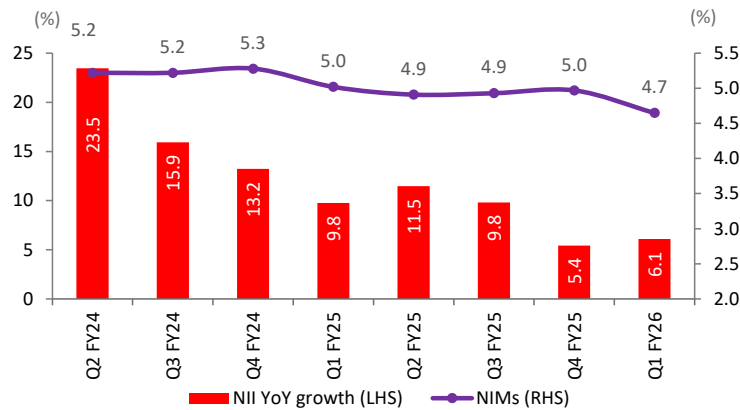
Source: Company, Systematix Institutional Research

**Exhibit 4: Advances and Deposits YoY Growth (%)**

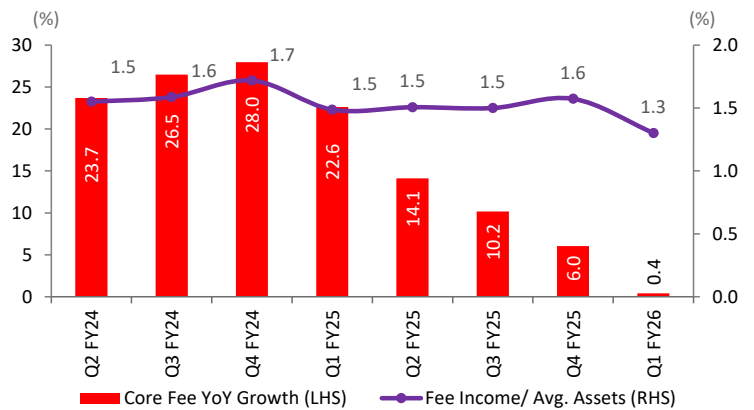
Source: Company, Systematix Institutional Research

**Exhibit 5: CASA Ratio and CASA YoY Growth (%)**

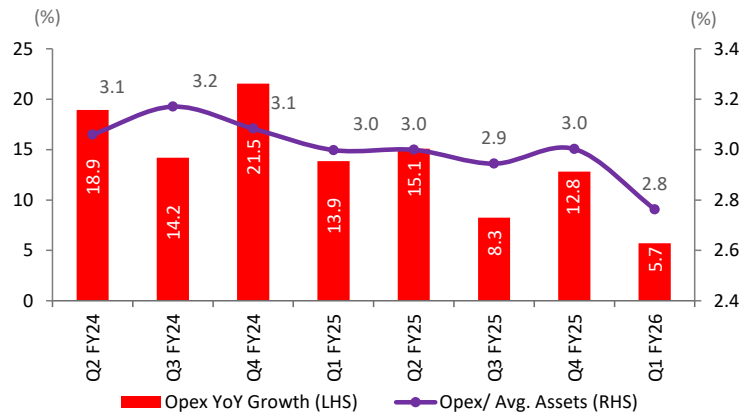
Source: Company, Systematix Institutional Research

**Exhibit 6: NII YoY Growth and NIM (%)**

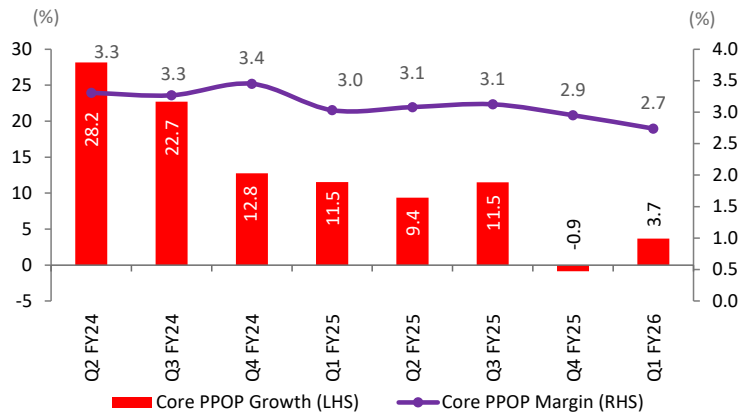
Source: Company, Systematix Institutional Research

**Exhibit 7: Fee Income YoY Growth and as % of average assets (%)**

Source: Company, Systematix Institutional Research

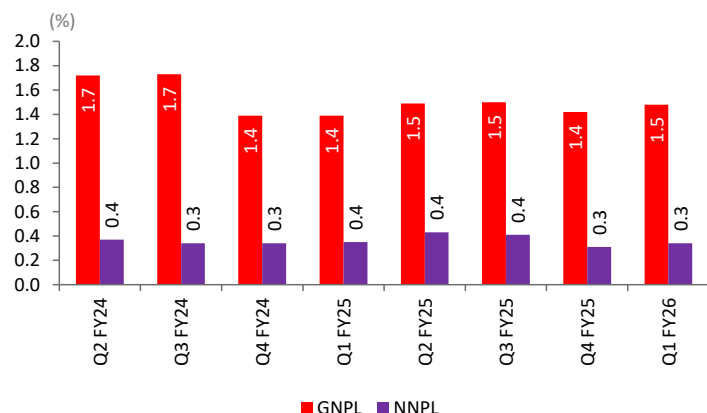
**Exhibit 8: Opex YoY growth and as % of average assets (%)**

Source: Company, Systematix Institutional Research

**Exhibit 9: Core PPOP YoY Growth and Margin (%)**

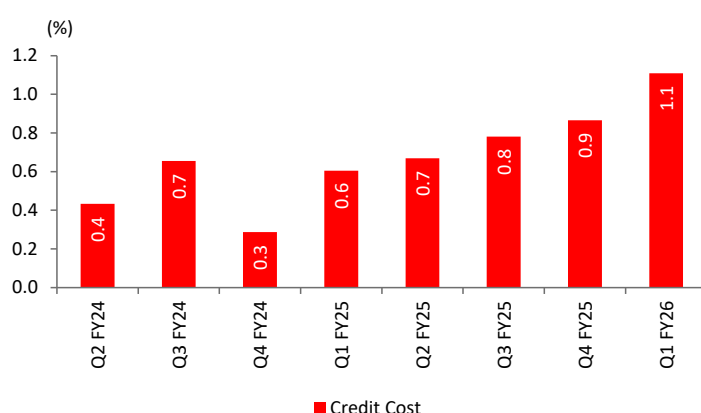
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA and NNPA Ratio (%)



Source: Company, Systematix Institutional Research

Exhibit 11: Credit Cost (%)



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/BV (x) trajectory



Source: Company, Systematix Institutional Research

Exhibit 13: 1-year forward P/BV (x) near long term average



Source: Company, Systematix Institutional Research

Exhibit 14: Revised vs earlier estimates

Particulars (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Interest Income	3,15,882	3,73,491	4,37,818	3,24,814	3,82,882	4,49,537	(2.7)	(2.5)	(2.6)
Pre-Prov. Operating Profit	2,33,767	2,76,816	3,29,672	2,41,059	2,83,838	3,36,573	(3.0)	(2.5)	(2.1)
Profit after tax	1,49,057	1,83,973	2,22,139	1,59,760	1,89,240	2,27,315	(6.7)	(2.8)	(2.3)

Source: Company, Systematix Institutional Research

Exhibit 15: SOTP

Subsidiary	Value (Rs mn)	Valuation metric	Metric value (Rs mn)	Multiple	Stake (%)	Stake value (Rs mn)	Per share (Rs)
Kotak Life Insurance	5,28,360	EV	1,76,120	3.0	100%	5,28,360	265.7
Kotak Prime	2,60,538	BV	1,30,269	2.0	100%	2,60,538	131.0
Kotak Securities	2,10,492	BV	84,197	2.5	100%	2,10,492	105.9
Kotak Capital	72,200	PAT	3,610	20	100%	72,200	36.3
Kotak AMC	4,82,537	AAUM	48,25,371	10%	100%	4,82,537	242.7
Kotak General	79,430	GWP	20,358	3.9	30%	23,829	12.0
<b>Value of Subsidiaries</b>						<b>15,77,956</b>	<b>794</b>

Source: Company, Systematix Institutional Research

## FINANCIALS

### Profit & Loss Statement

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	458	529	589	677	789
Interest expense	(198)	(246)	(273)	(304)	(351)
<b>Net interest income</b>	<b>260</b>	<b>283</b>	<b>316</b>	<b>373</b>	<b>438</b>
Fee Income	85	95	108	125	145
Other Income	18	54	21	24	28
Total Non-interest income	103	150	130	149	172
<b>Total income</b>	<b>363</b>	<b>433</b>	<b>446</b>	<b>522</b>	<b>610</b>
Operating expenses	(167)	(188)	(212)	(246)	(281)
<b>PPoP</b>	<b>196</b>	<b>245</b>	<b>234</b>	<b>277</b>	<b>330</b>
Core PPOP	178	191	212	252	302
Provisions	(16)	(29)	(36)	(32)	(33)
Profit before tax	180	216	197	245	296
Taxes	(42)	(51)	(48)	(61)	(74)
<b>Net profit</b>	<b>138</b>	<b>165</b>	<b>149</b>	<b>184</b>	<b>222</b>

Source: Company, Systematix Institutional Research

### Dupont

YE: Mar (%)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	8.4	8.2	8.0	8.1	8.2
Interest expense	(3.6)	(3.8)	(3.7)	(3.6)	(3.6)
Net interest income	4.8	4.4	4.3	4.4	4.5
Non-interest income	1.9	2.3	1.8	1.8	1.8
Total income	6.7	6.7	6.0	6.2	6.3
Operating expenses	(3.1)	(2.9)	(2.9)	(2.9)	(2.9)
PPoP	3.6	3.8	3.2	3.3	3.4
Provisions	(0.3)	(0.5)	(0.5)	(0.4)	(0.3)
Profit before tax	3.3	3.3	2.7	2.9	3.1
Taxes	(0.8)	(0.8)	(0.7)	(0.7)	(0.8)
Net profit	2.5	2.5	2.0	2.2	2.3

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs bn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	10	10	10	10	10
Reserves & surplus	957	1,162	1,306	1,485	1,701
<b>Net worth</b>	<b>967</b>	<b>1,172</b>	<b>1,316</b>	<b>1,494</b>	<b>1,711</b>
Deposits	4,490	4,991	5,663	6,511	7,486
Borrowings	284	484	529	584	648
Other liabilities	263	289	313	384	489
<b>Total liabilities</b>	<b>6,004</b>	<b>6,936</b>	<b>7,821</b>	<b>8,974</b>	<b>10,334</b>
Total cash & equ.	528	658	643	695	793
Investments	1,554	1,819	2,067	2,363	2,702
Advances	3,761	4,269	4,909	5,695	6,606
Fixed assets	22	24	26	29	31
Other assets	139	167	175	193	202
<b>Total assets</b>	<b>6,004</b>	<b>6,936</b>	<b>7,821</b>	<b>8,974</b>	<b>10,334</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth Trend (%)</b>					
Net interest income	20.6	9.0	11.5	18.2	17.2
Total Income	26.7	19.4	2.9	17.3	16.8
PPoP	31.9	25.2	(4.7)	18.4	19.1
Net profit	26.0	19.4	(9.4)	23.4	20.7
Advances	17.6	13.5	15.0	16.0	16.0
Deposits	23.6	11.2	13.5	15.0	15.0
<b>Return Ratios (%)</b>					
Return on Average Equity	15.3	15.4	12.0	13.1	13.9
Return on Average Assets	2.5	2.5	2.0	2.2	2.3
<b>Per share data (Rs)</b>					
EPS	69	83	75	93	112
BVPS	487	590	662	752	861
ABVPS	480	583	654	742	849
<b>Valuation multiples (x)</b>					
P/E	19.2	16.1	17.8	14.4	11.9
P/BV	2.7	2.3	2.0	1.8	1.5
P/ABV	2.8	2.3	2.0	1.8	1.6
<b>Spread Analysis (%)</b>					
Net interest margin	5.3	5.0	4.8	5.0	5.0
Yield on loans	10.2	10.1	9.8	9.9	10.0
Cost of deposits	4.5	4.8	4.5	4.4	4.5
Loan-deposit ratio	83.8	85.5	86.7	87.5	88.2
<b>Opex control (%)</b>					
Cost/Income ratio	46.0	43.4	47.5	47.0	46.0
Cost to average assets	3.1	2.9	2.9	2.9	2.9
<b>Asset quality (%)</b>					
Gross NPL ratio	1.4	1.4	1.5	1.5	1.5
Gross Slippage ratio	1.4	1.6	1.4	1.3	1.3
Total Credit Cost	0.5	0.7	0.8	0.6	0.5
Net NPA ratio	0.3	0.3	0.3	0.3	0.3

Source: Company, Systematix Institutional Research

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