



## MODERATE PERFORMANCE; STABLE ASSET QUALITY

Kotak Mahindra Bank (KMB) Q4FY21 was a moderate performance with muted loan growth (1.8%/4.5% yoy/qoq), lower NIM (4.39%) and stable asset quality (G/NNPA 3.25%/1.21%). The bank took an 'interest on interest' hit of Rs 1.1 bn in NII. Conservative provisioning continued (Rs 7.5 bn vs Rs 4.6 bn qoq). Slippages for FY21 amounted to Rs 54 bn, of which Rs 44 bn were during H2FY21. The bank has not dipped into its Covid-19 provisions, which stand at Rs 12.8 bn (~0.6% of loan book) and all provisions taken together provide a coverage of ~95% on the GNPA book.

We remain positive on the stock given the management strength and sustainability and strong deposit franchise. However, we are watchful on loan growth and asset quality, though provisioning is largely adequate. **We maintain our rating at Hold with a revised target price of 1800 (SOTP basis).**

### Key Result Highlights

- Loan book growth was muted at 1.8% yoy and 4.5% qoq. Sequential growth was driven by mortgages, secured consumer working capital loans, SME and CV/CE loans.
- Deposits grew 6.6%/5.6% yoy to Rs 2,801 bn. CASA mix improved further to 60% from 58.9% in Q3FY21 and 57.1% in Q2FY21.
- NII grew 8% yoy and was down 0.8% qoq. NIM were marginally lower at 4.39% from 4.5% as the bank took an interest on an interest hit of Rs 1.1 bn.
- Conservative provisioning continued at Rs 7.5 bn of advances compared to Rs 4.6 bn in the previous quarter. Total provisioning was Rs 11.8 bn including investment provisioning.
- Total Covid-19 provisions stood at Rs 12.8 bn (0.6% of loans)
- Asset quality was stable with G/NNPA of 3.25%/ 1.21% vs 3.27%/1.24% (proforma) qoq.

### Key Concall Takeaways

- **Opening remarks - Mr Uday Kotak**
  - ✓ In FY20, out of ~70,000 employees, 17 died due to Covid-19 whereas in FY21, in employees have died due to Covid-19.
  - ✓ For the next 1 week, no employee will step out of home for any purpose, whether for except if he is required to do so under law.
  - ✓ Branches will operate with 3 employees per branch instead of the usual count of monitor the situation on a week-on-week basis.

### Key Financials (Standalone)

(Rs. bn)	FY20	FY21P	FY22E	FY23E
NII	135	153	170	192
PPOP	100	122	137	157
Net Profit	59	70	81	96
EPS (Rs.)	29.5	34.8	40.3	48.0
ABV	247	311	350	398
P/ABV	7.0	5.6	5.0	4.4
ROAA	1.8	1.8	2.0	2.1
NNPA (%)	0.7	1.0	0.9	0.7

Source: Company, Axis Research9

(CMP as of May 03, 2021)

CMP (Rs)	1723
Upside /Downside (%)	5%
High/Low (Rs)	2049/1110
Market cap (Cr)	3,41,728
Avg. daily vol. (6m) Shrs.	27,44,631
No. of shares (Cr)	198.2

### Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	26.1	26.0	26.0
FIIs	42.2	45.1	44.2
MFs / UTI	9.3	7.6	8.0
Banks / FIs	5.6	5.1	5.3
Others	16.8	16.2	16.4

### Financial & Valuations

Y/E Mar (Rs. bn)	2021P	2022E	2023E
NII	153	170	192
PPOP	122	137	157
Net Profit	70	81	96
EPS (Rs.)	34.8	40.3	48.0
ABV	311.2	350.4	398.4
P/ABV	5.6	5.0	4.4
ROAA	1.80	2.00	2.10
NNPA (%)	1.00	0.85	0.72

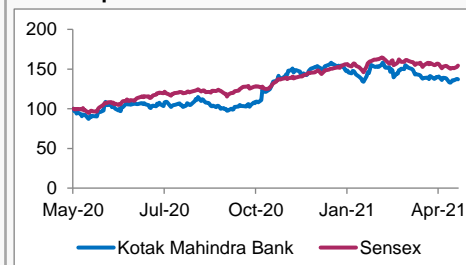
### Change in Estimates (%)

Y/E Mar	FY22E	FY23E
NII	-4.9	-4.7
PPOP	-3.7	-3.7
PAT	-7.1	-6.5

### Axis vs Consensus

EPS Estimates	2021E	2022E	2022E
Axis	34.8	40.3	48.0
Consensus	37.3	42.9	50.9
<b>Mean Consensus TP (12M)</b>			<b>1898</b>

### Relative performance



Source: Capitaline, Axis Securities

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## Key Concall Takeaways

- **Asset quality:**
  - ✓ Provisions for the quarter amounted to Rs 11.79 billion, of which Rs 7.46 billion were on advances and the remaining were on the investment book. Of the ~Rs 4 billion provisions on investments, about Rs 0.5-0.6 billion were on the Security Receipts book and the remaining were on the treasury book.
    - The bank applies aggressive provisions on a 180-day delinquency basis, with 180 days kicking in materially for a significant portion of delinquent book during February and March.
  - ✓ The bank has not dipped into its Covid provisions, which stand at Rs 12.79 billion
  - ✓ Excluding Covid provisions, the credit costs for the year amounted to 84 bps compared with 67 bps last year.
  - ✓ Slippages for FY21 amounted to Rs 54 billion whereas, in FY20, they had amounted to Rs 34 billion. Of the slippages in FY21, Rs 44 billion were during H2FY21.
- **Loan growth**
  - ✓ The bank is now more optimistic on segments that it was cautious on since 18 months
  - ✓ Focus on home loans continues. March saw very strong home loan disbursements of roughly 3x of pre-pandemic level. The focus on mortgages is from a perspective of making it a base product around which to cross-sell other products.
  - ✓ In corporate lending, there was pricing pressure during the fourth quarter. It is currently not viable to build this book owing to PSL cost
  - ✓ The total ECLGS disbursement amounts to Rs 115 billion.
- **Operational Performance**
  - ✓ NIM during the quarter was 4.39% as a result of taking the 'interest on interest' hit of Rs 1.1 billion during the quarter
  - ✓ 94% of savings account transactions are now through digital or non-branch channels
  - ✓ The full-year decline in employee costs has been contributed to by lower retiral cost and lower ESOP cost
  - ✓ The bank is adding about half a million customers per month, most of them being liability customers
- **On Succession Planning**
  - ✓ The terms of both Uday Kotak and Dipak Gupta are approved till 31st December 2023. The bank will always take a decision with a focus on creating long-term shareholder value. The Kotak family remain committed long-term stakeholders and will always keep company's and shareholder's interest in mind
- **Subsidiaries performance**
  - ✓ Subsidiaries reported a mixed performance with Kotak Securities (+40% PAT growth yoy) and Kotak Life Insurance (+10% PAT growth yoy) doing well. Kotak Prime underperformed.

### Change in Estimates

(In bn)	New			Old			%Change		
	FY21P	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
NII	153	170	192	161	179	202	-4.7	-4.9	-4.7
PPOP	122	137	157	127	142	163	-3.8	-3.7	-3.7
PAT	70	81	96	74.6	86.7	102.6	-6.6	-7.1	-6.5
EPS	34.8	40.3	48.0	37	43	51	-5.9	-6.4	-6.0

Source: Company, Axis Securities

## Valuation & Outlook

We believe KMB remains best placed across metrics, with a best-in-class liability franchise, prudent underwriting, strong capital position, and adequate margin levers. The management intends to focus on growth on the asset side via higher customer acquisition, deepening relationships and cross-selling, moving from its 2011 strategy of leaning towards liability first and then cross-selling asset products. However, given the current Covid situation management is trading cautiously. We are positive on the stock given management strength and sustainability, strong deposit franchise and robust NIM. We are watchful on loan growth and asset quality, though provisioning is largely adequate. **We maintain Hold with a revised target price of 1800 (SOTP basis valuing core bank at 3.2x FY23 ABV).**

### KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	3.2x FY23E ABV	1275
Kotak Mahindra Prime	2x FY23E ABV	89
Kotak Mahindra Investments	15x FY22E P/E	34
Kotak Securities	15x FY23E P/E	90
Kotak Mahindra AMC	6% FY23E AUM	114
Kotak Life	Appraisal value	163
KMCC - Investment Banking Business	13x FY23E P/E	11
Kotak Alternative Assets	11% FY22E AUM	15
International business	8x FY23E P/E	9
<b>Total Value</b>		<b>1800</b>

Source: Company, Axis Securities

### Result Update (Standalone)

(Rs mn)

Y/E March	Q4FY21	Q4FY20	% YoY	Q3FY21	% QoQ
Net Interest Income	38,428	35,597	8.0	38,756	-0.8
Non Interest Income	19,495	14,894	30.9	12,852	51.7
Operating expenses	23,849	23,238	2.6	22,579	5.6
Staff Cost	8,689	9,696	-10.4	9,593	-9.4
Pre provision profits	34,075	27,253	25.0	29,029	17.4
Provisions and contingencies	11,794	10,475	12.6	4,186	181.8
PBT	22,281	16,778	32.8	24,843	-10.3
Provision for Tax	5,457	4,112	32.7	6,308	-13.5
PAT	16,824	12,666	32.8	18,535	-9.2
Deposits (Rs bn)	2801	2628	6.6	2653	5.6
Advances (Rs bn)	2237	2197	1.8	2141	4.5
CD ratio (%)	79.9	83.6		80.7	
CASA (%)	58.9	53.7		57.1	
Tier 1	20.9	17.7		22.8	
CAR	21.5	18.2		23.4	
NIM (%)	4.5	4.7		4.5	
Cost-Income ratio (%)	42.3	50.0		38.5	
Gross NPAs (%)	3.2	2.5		2.6	
Net NPAs (%)	1.2	0.9		0.6	

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs bn)

Y/E March	FY20	FY21P	FY22E	FY23E
<b>Net Interest Income</b>	135	153	170	192
<b>Other Income</b>	54	55	60	68
<b>Total Income</b>	189	208	230	261
<b>Total Operating Exp</b>	89	86	94	104
<b>PPOP</b>	100	122	137	157
Provisions & Contingencies	22	29	28	27
<b>PBT</b>	78	93	109	130
Provision for Tax	19	23	28	34
<b>PAT</b>	59	70	81	96

Source: Company, Axis Securities

### Balance Sheet

(Rs bn)

Y/E March	FY20	FY21P	FY22E	FY23E
<b>SOURCES OF FUNDS</b>				
Equity capital	10	10	10	10
Preference capital	5	5	5	5
Reserves	476	622	703	799
<b>Shareholder's Funds</b>	486	632	713	809
<b>Total Deposits</b>	2,628	2,801	3,109	3,451
Borrowings	380	237	253	263
Other Liabilities & Provisions	104	160	132	155
<b>Total Liabilities</b>	3,603	3,835	4,212	4,683
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	533	396	672	765
Investments	751	1,051	991	1,090
Advances	2,197	2,237	2,393	2,705
Fixed Assets & Other Assets	121	151	156	123
<b>Total Assets</b>	3,602	3,835	4,212	4,683

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY20	FY21P	FY22E	FY23E
<b>VALUATION RATIOS</b>				
EPS	29.5	34.8	40.3	48.0
Earnings Growth (%)	20.4	18.0	15.6	19.1
DPS	1.0	-	-	-
BVPS	253	316.2	356.4	404.4
Adj. BVPS	247	311.2	350.4	398.4
ROA (%)	1.8	1.8	2.0	2.1
ROE (%)	13.1	12.5	12.6	13.1
P/E (x)	60.2	51.0	44.1	37.0
P/ABV (x)	7.0	5.6	5.0	4.4
Dividend Yield (%)	0.1	-	-	-
<b>PROFITABILITY</b>				
NIM (%)	4.3	4.5	4.6	4.6
Cost-Income Ratio	47.1	41.3	40.6	39.8
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	6.8	1.8	7.0	13.0
Deposit Growth (%)	16.3	6.6	11.0	11.0
C/D Ratio (%)	83.6	79.9	77.0	78.4
CASA	56.0	58.0	58.0	58.0
CAR	17.9	19.3	19.1	19.3
CAR Tier I	17.3	19.6	19.3	19.5
<b>ASSET QUALITY</b>				
Gross NPLs (%)	2.3	2.6	2.3	2.0
Net NPLs (%)	0.7	1.0	0.9	0.7
Coverage Ratio (%)	69.6	61.5	63.0	63.9
Credit costs	0.7	1.3	1.2	1.0

Source: Company, Axis Securities

**About the analyst****Analyst:** Siji Philip**Contact Details:** [siji.philip@axissecurities.in](mailto:siji.philip@axissecurities.in)**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC sector and stock markets.**Disclosures:**

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