

NIM Contraction Continues; Eyeing Growth in Secured Book Amidst Embargo!
Est. Vs. Actual for Q2FY25: NII – INLINE; PPOP – MISS; PAT – MISS
Changes in Estimates post Q2FY25
FY25E/FY26E/27E: NII -1.4%/-2.0%/0.0%; PPOP -0.9%/-1.7%/-0.6%; PAT +0.5%/+0.6%/+1.7%
Recommendation Rationale

- Chasing Growth – Both Organic and Inorganic:** KMB's growth in the Credit Cards and Personal Loan portfolio amidst the embargo and in the microfinance book given stress in certain geographies and customer over-leveraging, continues to remain subdued. Thus, the focus has shifted towards growing secured businesses and corporate lending. In the wholesale portfolio, the bank, in line with its strategy is making strides to improve market share and grow the granular book at a faster pace. As irrational pricing has been visible in the large corporate segment, KMB's strategy has shifted to focusing on higher cross-selling and deepening relationships to increase revenue penetration in this segment. The management indicated that the bank will continue to chase growth organically; however, it will not shy away from growing inorganically. We expect KMB to register a healthy credit growth of ~18% CAGR over FY24-27E.
- Asset Quality to remain stable:** In Q2FY25, slippages were primarily from the credit card and microfinance pool. The management indicated that the vintage credit card portfolio is showing signs of stress, while the trends in the new sourcing have been better and are expected to hold up. Similarly, in the microfinance book, asset quality deterioration has largely been on account of customer over-leveraging and is likely to pan out over the next 2-3 quarters. However, the bank has tightened credit filters and expects the credit quality of the new acquisitions to remain healthy. Additionally, the recoveries from the rural and secured businesses are likely to offset incremental stress from the unsecured portfolio. Resultantly, credit costs are likely to remain steady at 65-70bps before trending downwards.

Sector Outlook: Positive

Company Outlook: With the RBI restrictions hampering growth in better-yielding unsecured products, the bank has pushed the pedal in secured and corporate lending. Margin pressures are expected to be visible in the near term, as the portfolio mix shifts away from the unsecured segment, even as CoF is likely to have stabilised. While slippages are expected to remain elevated (mainly from Credit cards and Microfinance), better recoveries in H2FY25 should keep asset quality under control. We expect KMB to report RoA/RoE of 2.2%/13-14% over FY25-27E.

Current Valuation: 2.2x Sep'26E ABV; Earlier Valuation: 2.4x FY26E ABV
Current TP: Rs 2,150/share; Earlier TP: Rs 2,040/share
Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

- Operational Performance:** KMB's advances grew by 17/3% YoY/QoQ. The unsecured book (+17/-1% YoY/QoQ) stood at 10.8% vs 11.2% QoQ, owing to the embargo and the bank's cautious approach in pursuing growth in the MFI segment. Deposits growth improved to 15/3% YoY/QoQ, led by CASA Deposits (+4% YoY/QoQ each) and TD (+25/3% YoY/QoQ). CASA Ratio improved marginally to 43.6% vs. 43.4% QoQ. C-D Ratio stood at 86.6% vs 87.2% QoQ.
- Financial Performance:** NII grew by 11/3% YoY/QoQ, with NIMs at 4.91% vs. 5.02% QoQ. Non-interest income de-grew by ~8% QoQ, owing to the absence of dividend income from subsidiaries. Core fee income growth was healthy at 14/3% YoY/QoQ. Opex grew by 15/2% YoY/QoQ. C-I Ratio inched up to 47.5% vs 46.5/46.2% YoY/QoQ. PPOP grew by 11% YoY and de-grew by 3% QoQ. Provisions were up 80/14% YoY/QoQ. PAT grew by 5% YoY and de-grew by 46% QoQ (as Q1 had a one-time gain from a stake sale in Kotak GI).
- Asset quality:** Slippages inched up QoQ, with a slippage ratio increasing to 1.9% from 1.6/1.4% YoY/QoQ. A bulk of the slippages were from the credit card (30-35%) and MFI portfolio. GNPA/NNPA inched up marginally to 1.5/0.4% vs 1.4/0.4% QoQ.

Outlook:

In regards to the recent RBI circular (issued on 4th October 2024) placing restrictions on overlapping business segments between the bank and its subsidiaries, the bank is currently evaluating its implications. We expect KMB to deliver healthy Advances/NII/Earnings growth of 18/17/12% CAGR over FY24-27E. We have made minor tweaks to our NII estimates to account for NIM pressures, while encouraging outlook on credit cost improvement in the coming quarters has resulted in a minor upward revision of ~1-2% in our earnings estimates over FY25-27E.

Valuation & Recommendation:

We value the bank's core book at 2.2x Sep'26E ABV (vs current valuation of 2.8x Sep'26E ABV) and assign a value of Rs 578 to the subsidiaries, thereby arriving at a target price of Rs 2,150/share. The TP implies an upside of 15% from the CMP. **We maintain our BUY rating on the stock.**

Key Financials (Standalone)

(Rs Bn)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	70.2	+2.6	+11.5	69.6	+0.9
PPOP	51.0	-2.9	+10.6	53.5	-4.7
Net Profit	33.4	-46.5	+4.8	35.6	-6.1
NNPA (%)	0.4	+7 bps	+6 bps	0.3	+8 bps
RoA (%)	2.2	-197 bps	-26 bps	2.3	-13 bps

Source: Company, Axis Securities Research

(CMP as of 18 October, 2024)

CMP (Rs)	1,870
Upside /Downside (%)	15%
High/Low (Rs)	1,953/1,544
Market cap (Cr)	3,71,739
Avg. daily vol. (6m) Shrs.	70,83,939
No. of shares (Cr)	198.8

Shareholding (%)

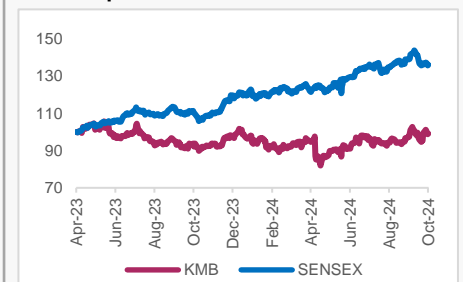
	Mar-24	Jun-24	Sep-24
Promoter	25.9	25.9	25.9
FIIs	37.6	33.2	33.4
MFs / UTI	12.8	16.5	16.7
Others	23.7	24.4	24.0

Financial & Valuations

Y/E Mar (Rs Bn)	FY25E	FY26E	FY27E
NII	288	331	390
PPOP	216	250	298
Net Profit	169	164	194
EPS (Rs)	84.8	82.7	97.5
ABV (Rs)	560.4	637.5	728.4
P/ABV (x)	3.3	2.9	2.5
RoA (%)	2.2	2.2	2.2
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-1.4	-2.0	0.0
PPOP	-0.9	-1.7	-0.6
PAT	+0.5	+0.6	+1.7

Relative performance


Source: AceEquity, Axis Securities Research

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Key Takeaways

- Multiple NIM improvement levers, though uncertainty prevails:** KMB's margins have taken a hit largely owing to the shift in the portfolio mix owing to the embargo (imposed in Apr'24) as the bank has been pursuing growth opportunities in the lower-yielding secured and corporate book. Additionally, the recent 50 bps rate cut on SA deposits (in the <Rs 5 Lk buckets) is expected to add another 2 bps to the NIMs. Currently, ~60% of the bank's portfolio is EBLR-linked and in the event of a rate cut, NIMs are expected to contract sharply. **However, KMB will look to protect NIMs by balancing multiple factors such as (i) support from downward repricing of deposits in a rate cut cycle, (ii) better proportion of CASA Deposits and (iii) a potential lifting of the embargo resulting in resumption of growth in better yielding unsecured products. Collectively, this should support KMB's margins which are expected to range between 4.8-4.9% over FY25-27E.**
- CASA Deposits seeing green-shoots:** The bank is incrementally focusing on **premium and affluent categories** of customers for its **SA deposits**. The management indicated that SA Deposits have started showing signs of progress. KMB also re-launched the 'Activ Money' proposition (+41/9% YoY/QoQ) which is being received well. Hereon, the focus will continue to focus on granular deposits mainly SA, TDs and Activ Money. We believe **KMB will look to maintain its credit growth around deposit growth as it aims to maintain its LDR between 83-87%.**
- Making progress on regulator supervisory action:** Q2FY25 was the first full quarter, wherein the impact of the embargo was visible. The embargo has weighed not only on the growth aspirations in the unsecured portfolio but also on the margins, given the portfolio shift towards secured and corporate lending. In its endeavour to resolve the issues with the regulator at the earliest, KMB has made notable progress on core banking resilience, business continuity action plan, cyber security and digital payments frameworks. The bank is also engaging with an external auditor and is getting the actions it has taken so far validated. The potential financial impact continues to be in line with the initial estimates. The bank is redirecting resources to deepen existing relationships and improve cross-selling.

Key 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.
- Delay in lifting of the embargo, resulting in slower growth remains a key risk to our estimates

Change in Estimates

(Rs Bn)

	Revised Estimates			Old Estimates			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	288	331	390	292	337	390	-1.4	-2.0	0.0
PBP	216	250	298	218	254	299	-0.9	-1.7	-0.6
Provisions	27	31	40	29	36	45	-7.1	-12.7	-11.0
PAT	169	164	194	168	163	191	0.5	0.6	1.7

Source: Company, Axis Securities Research

KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	2.2x Sep'26E ABV	1571
Subsidiaries		
Kotak Mahindra Prime	1.3x Sep'26E ABV	76
Kotak Mahindra Investments	1.8x Sep'26E BV	43
Kotak Securities	18x Sep'26E P/E	179
Kotak Mahindra AMC	28x Sep'26E EPS	146
Kotak Life	2.2x Sep'26E EV	259
KMCC - Investment Banking Business	12x Sep'26E P/E	19
Total Sub Value		722
Less: Holdco Discount @20%		144
Total Subs. Value (post discount)		578
Total Value		2,150
CMP		1,870
Potential		15%

Source: Company, Axis Securities Research

Results Review (Standalone)
(Rs Bn)

Rs Bn	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	70	63	11.5	68	2.6	139	125	10.6
Non-Interest Income	27	23	16.0	29	-8.4	56	50	12.3
Operating expenses	46	40	15.1	45	1.9	91	80	14.5
Staff Cost	20	16	19.4	19	4.3	38	33	16.5
Pre provision profits	51	46	10.6	53	-2.9	104	96	8.3
Provisions and contingencies	7	4	80.2	6	14.2	12	7	69.5
PBT	44	42	4.6	82	-45.8	91	88	3.2
Provision for Tax	11	11	4.0	19	-43.7	30	22	39.1
PAT	33	32	4.8	62	-46.5	96	66	44.4
Business Update								
Advances	3,995	3,483	14.7	3,900	2.5	3,995	3,483	14.7
Deposits	4,615	4,010	15.1	4,474	3.1	4,615	4,010	15.1
CASA Deposits	2,013	1,935	4.0	1,942	3.6	2,013	1,935	4.0
CASA Ratio	43.6	48.3	-464bps	43.4	21bps	43.6	48.3	-464bps
C-D Ratio	86.6	86.9	-28bps	87.2	-58bps	86.6	86.9	-28bps
NIM	4.9	5.2	-31bps	5.0	-11bps	5.0	5.4	-31bps
Cost-Income ratio (%)	47.5	46.5	99bps	46.2	122bps	46.8	45.5	99bps
Asset Quality								
Gross NPA (%)	1.5	1.7	-23bps	1.4	10bps	1.5	1.7	-23bps
Net NPA (%)	0.4	0.4	6bps	0.4	7bps	0.4	0.4	6bps
PCR (%)	71.4	79.1	-763bps	74.9	-344bps	71.4	79.1	-763bps
Slippages	18.8	13.1	42.7	13.6	38.1	32.3	25.2	42.7
Slippage Ratio (%)	1.9	1.6	35bps	1.4	48bps	1.7	1.5	35bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	260	288	331	390
Other Income	103	121	141	165
Total Income	363	408	472	555
Total Operating Exp	167	193	222	258
PPOP	196	216	250	298
Provisions & Contingencies	16	27	31	40
Exceptional items	0	35	0	0
PBT	180	224	219	258
Provision for Tax	42	56	54	64
PAT	138	169	164	194

Source: Company, Axis Securities Research

Balance Sheet

(Rs Bn)

Y/E March	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Equity Share Capital	10	10	10	10
Reserves & Surplus	956	1,120	1,276	1,460
Net Worth	967	1,131	1,287	1,472
Deposits	4,490	5,233	6,111	7,152
Borrowings	284	389	450	565
Other Liabilities	263	280	326	381
Total Liabilities	6,004	7,033	8,173	9,570
APPLICATION OF FUNDS				
Cash & Bank Balance	528	611	683	763
Investments	1,554	1,832	2,079	2,433
Advances	3,761	4,401	5,193	6,118
Fixed & Other Assets	161	188	219	256
Total Assets	6,004	7,033	8,173	9,570

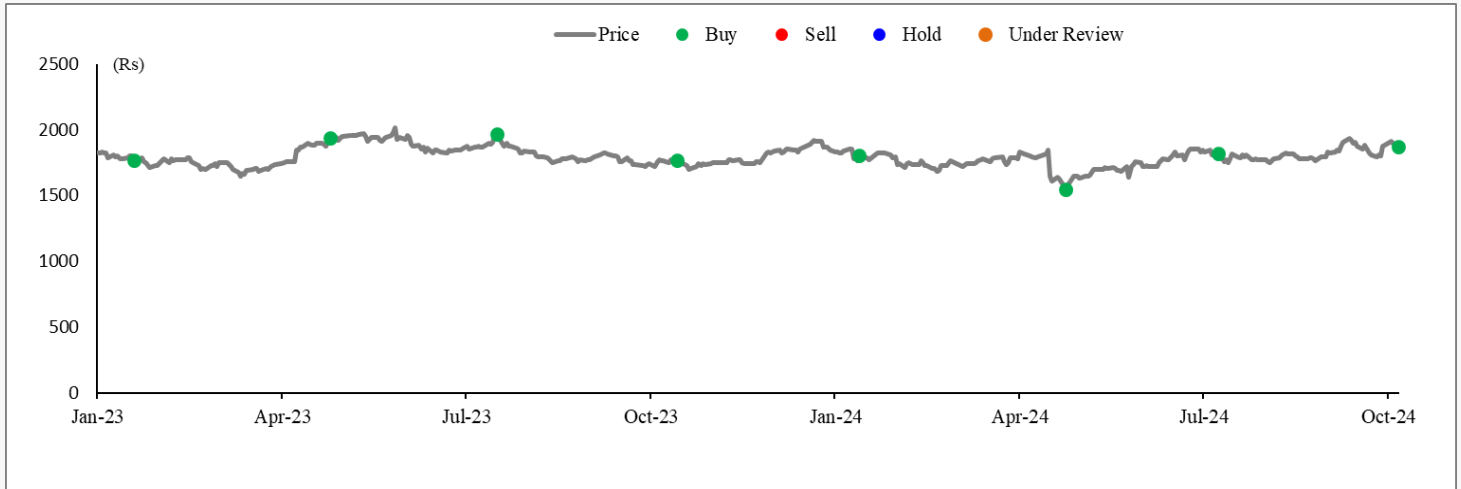
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	69.3	84.8	82.7	97.5
Earnings Growth (%)	26%	22%	-2%	18%
BVPS	486.5	568.8	647.5	740.2
Adj. BVPS	480.1	560.4	637.5	728.4
ROAA (%)	2.5	2.2	2.2	2.2
ROAE (%)	15.0	13.5	13.5	14.0
P/E (x)	27.0	22.1	22.6	19.2
P/ABV (x)	3.9	3.3	2.9	2.6
Dividend Yield (%)	0.1	0.1	0.2	0.3
PROFITABILITY				
NIM (%)	5.3	4.9	4.8	4.9
Cost-Income Ratio (%)	46.0	47.2	47.0	46.4
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	17.6	17.0	18.0	17.8
Deposit Growth (%)	23.6	16.6	16.8	17.0
C/D Ratio (%)	83.8	84.1	85.0	85.5
Equity/Assets (%)	16.1	16.1	15.7	15.4
Equity/Loans (%)	25.7	25.7	24.8	24.1
CAR (%)	20.6	20.2	19.7	19.0
Tier 1 CAR (%)	19.3	19.0	18.5	17.9
ASSET QUALITY				
Gross NPLs (%)	1.4	1.5	1.5	1.5
Net NPLs (%)	0.3	0.4	0.4	0.4
Coverage Ratio (%)	75.9	75.0	75.0	75.0
Credit costs (%)	0.5	0.7	0.7	0.7
ROAA TREE				
Net Interest Income	4.8	4.4	4.3	4.4
Non-Interest Income	1.9	1.9	1.9	1.9
Operating Cost	3.1	3.0	2.9	2.9
Provisions	0.3	0.4	0.4	0.4
Tax	0.8	0.7	0.7	0.7
ROAA	2.5	2.2	2.2	2.2
Leverage (x)	6.0	6.2	6.3	6.4
ROAE	15.0	13.5	13.5	14.0

Source: Company, Axis Securities Research

Kotak Mahindra Bank Price Chart and Recommendation History



(Rs)

Date	Reco	TP	Research
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
06-May-24	BUY	1,755	Result Update
22-Jul-24	BUY	2,040	Result Update
21-Oct-24	BUY	2,150	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.