

Steady Performance; Growth Lags

Kotak Mahindra Bank (KMB) Q1FY22 performance was supported by higher NIMs and lower provisions. The loan book was up 6.6% YoY and down 2.8% QoQ, driven by mortgage and SME. Slippage stood at 2.7% with the management expecting a decline in slippages in absence of any major impact from Covid 3.0. The bank has not dipped into its Covid provisions, which stand at Rs 12.8 Bn.

Most of the slippages came in from the secured retail book, mainly tractors, and CVs. Management indicated better bounce rates and improving collection efficiencies in the month of June-July '21. The management hopes and believes that the third wave of Covid-19 will not be as severe as the second. The total outstanding restructuring carried out, including 1.0, 2.0, and MSME amounts to Rs 5.5 Bn. The SMA2 outstanding is Rs 4.3 Bn. The bank does not believe in making sale to ARC or flexiloans.

We remain positive on the stock given management strength and sustainability and a strong deposit franchise. However, we are watchful on loan growth which does not justify its premium valuations even as most other parameters are best in class. **We maintain our rating at Hold with a revised target price of 1890(SOTP basis)**

Key Result Highlights

- NII up 5.8%/2.6% YoY/QoQ to Rs 39.4 Bn led by higher NIM of 4.6% (4.39% QoQ). Advances up 6.6% YoY and down 2.8% QoQ. Deposits were up 9.6%/2.3% YoY/QoQ. CASA at 60% vs 56.7%/58.9% YoY/QoQ
- Non-interest income up 105% YoY and down 19% QoQ to Rs 15.8 Bn
- Opex was up 28/0.8% YoY/QoQ. C-I stood at 43.5% vs 41.7%/41.2% YoY/QoQ. PPOP was up 19% YoY and down 8% QoQ to Rs 31.2 Bn
- G/NNPAs at 3.56%/1.28% vs 3.25%/1.21%. Provisions down 2.8%/20.7% YoY/QoQ to Rs 9.3 Bn
- PAT up 32% YoY and down 2.4% QoQ to Rs 16.4 Bn.

Key Concall Takeaways

Opening remarks

- Mr. Uday Kotak hopes and believes that the third Covid wave will not be as severe as the second one.

Asset quality

- Slippages in Q1FY22 amounted to Rs 15bn with the bulk of the slippages from the Retail and commercial book. SME and Business banking held up well.
- Within retail, the mortgage had less impact while tractor/CV loan book was more impacted on account of Covid 2.0. However, bounce rates have reverted to Q4FY21.
- The management sees a significant decline in slippages in the coming quarters assuming the third wave is not severe.

Key Financials (Standalone)

(Rs Bn)	FY20	FY21P	FY22E	FY23E
NII	135	153	172	194
PPOP	100	122	139	161
Net Profit	59	70	83	105
EPS (Rs.)	29.5	34.8	41.4	52.5
ABV	247	311	352	404
P/ABV	6.9	5.5	4.9	4.2
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 July 26, 2021)

CMP (Rs)	1740
Upside /Downside (%)	8.5%
High/Low (Rs)	2049/1231
Market cap (Cr)	3,45,065
Avg. daily vol. (6m) Shrs.	19,80,989
No. of shares (Cr)	198.2

Shareholding (%)

	Jun-21	Mar-21	Dec-20
Promoter	26.0	26.0	26.0
FII	42.8	44.2	45.1
MFs / UTI	8.6	8.0	7.6
Banks / FI	6.0	5.3	5.1
Others	16.6	16.4	16.2

Financial & Valuations

Y/E Mar (Rs. bn)	2021P	2022E	2023E
NII	153	172	194
PPOP	122	139	161
Net Profit	70	83	105
EPS (Rs.)	34.8	41.4	52.5
ABV	311.2	351.6	404.1
P/ABV	5.5	4.9	4.2
ROAA	1.80	2.00	2.10
NNPA (%)	1.00	0.85	0.72

Change in Estimates (%)

Y/E Mar	FY22E	FY23E
NII	1.1	1.1
PPOP	1.7	2.5
PAT	2.3	9.3

Axis vs Consensus

EPS Estimates	2022E	2022E
Axis	41.4	52.5
Consensus	41.2	48.3
Mean Consensus TP (12M)		1879

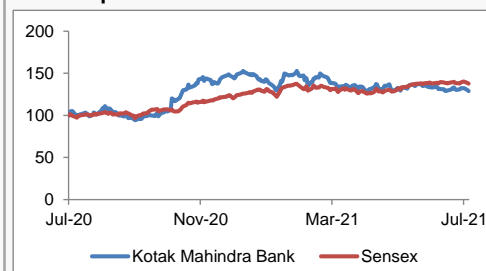
ESG disclosure Score**

Environmental Disclosure	9.8
Social Disclosure Score	43.3
Governance Disclosure Score	42.9
Total ESG Disclosure Score	26.8

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 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

Asset quality:

- Collections in the tractors and commercial vehicle loans are generally digital but once a customer defaults, the collection is usually physical. Some slippages registered was on account of mobility restrictions and in some cases, customers were conserving cash
- Collections were good in June and further improved in July.
- Total standalone provisions amounted to Rs 9.25 Bn w/w Rs 7.25 Bn was towards advances (credit costs ~133 bps credit cost). The bank has not dipped into Covid provisions of Rs 12.8 Bn.
- The total quantum of outstanding restructuring carried out, including 1.0, 2.0, and MSME amounts to Rs 5.5 Bn.
- The SMA2 outstanding is Rs 4.3 Bn. The bank does not believe in making a sale to ARC or making flexiloans.

Loan growth

- In Retail, the bank has reverted to 80% of March volumes in mortgages in Jun'21. Similarly for personal loan disbursements, which are on track to be back to pre-Covid levels. There has been a sequential increase in credit card acquisition numbers on the back of new product launches. Capacity utilization of vehicles has improved in June and then further in July. In MFI June was better than May and Jul'21 was better than June.
- In the Wholesale segment, under CRE the bank is cautious on commercial and retail segments. However, the bank is seeing good traction in a residential estate. The 'flow through' in 1QFY221 is 40% higher than that witnessed in FY21, on average.
- In NBFCs, the bank is focused on housing finance companies. Some of the credit substitutes are to these companies. Apart from NBFCs, the bank has also lent credit substitutes to high-rated corporates.
- Under ECLGS, Outstanding disbursement had stood at Rs 113.7 bn as of March, which has risen to Rs 119bn as of June.

Operational Performance

- In Q1FY22, the overall cost of deposits was lower than Q4FY21. The bank has one of the lowest overall costs of deposits in the industry despite still having a ~50 bps premium in SA cost to the industry.
- The bank intends is to keep chipping away (downward) at the SA rate premium while not impacting the liability franchise. This process of tweaking the SA cost lower will happen while there will be a piecemeal improvement in asset yield.
- Transaction banking, current accounts, trade, and forex have been doing well leading to wholesale fee income growth outpacing wholesale asset growth. The bank has been investing in transaction banking and has upgraded trade and cash management platforms.
- In Retail fees, Insurance commission, in general, is lower in the first quarter compared with a seasonally strong fourth quarter.

Subsidiaries - Mixed performance

- On Kotak Life, the bank had, in June itself, guided for a loss ranging between Rs 2.3-2.8 Bn for Q1FY22. It registered a loss of Rs 2.4 Bn due to unprecedented death claims. The death claims during Q1FY22 amounted to Rs 5.6 Bn compared to just Rs 0.96 Bn YoY.
- Kotak Prime reported a 57% QoQ decline in PAT while up 32% YoY. Kotak AMC PAT grew 7% /51% QoQ/YoY

Change in Estimates

(Rs Bn)

	Revised		Old		%Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	172	194	170	192	1.1	1.1
PPOP	139	161	137	157	1.7	2.5
PAT	83	105	81	96	2.3	9.3
EPS	41.4	52.5	40.3	48	2.8	9.3

Source: Company, Axis Research

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. 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 treading cautiously. We are positive on the stock given management strength and sustainability, strong deposit franchise, and robust NIM. We are keenly eye pick-up in loan growth. **We maintain Hold with a revised target price of 1890 (SOTP basis valuing core bank at 3.3x FY23 ABV).**

KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	3.3x FY23E ABV	1333
Kotak Mahindra Prime	2x FY23E ABV	89
Kotak Mahindra Investments	15x FY22E P/E	44
Kotak Securities	15x FY23E P/E	100
Kotak Mahindra AMC	6% FY23E AUM	114
Kotak Life	Appraisal value	163
KMCC - Investment Banking Business	13x FY23E P/E	21
Kotak Alternative Assets	11% FY22E AUM	15
International business	8x FY23E P/E	9
Total Value		1890

Source: Company, Axis Securities

Result Update (Standalone)

(Rs Mn)

Y/E March	Q1FY22	Q1FY21	% YoY	Q4FY21	% QoQ
Net Interest Income	39,417	37,239	5.8	38,428	2.6
Non Interest Income	15,830	7,735	104.6	19,495	-18.8
Operating expenses	24,036	18,737	28.3	23,849	0.8
Staff Cost	10,823	9,109	18.8	8,689	24.6
Pre provision profits	31,211	26,237	19.0	34,075	-8.4
Provisions and contingencies	9,348	9,620	-2.8	11,794	-20.7
PBT	21,863	16,617	31.6	22,281	-1.9
Provision for Tax	5,444	4,173	30.5	5,457	-0.2
PAT	16,419	12,445	31.9	16,824	-2.4
Deposits (Rs bn)	2866	2615	9.6	2801	2.3
Advances (Rs bn)	2175	2040	6.6	2237	-2.8
CD ratio (%)	75.9	78.0		79.9	
CASA (%)	60.2	56.7		58.9	
Tier 1	22.8	21.1		20.9	
CAR	23.7	21.7		21.5	
NIM (%)	4.6	4.4		4.4	
Cost-Income ratio (%)	43.5	41.7		41.2	
Gross NPAs (%)	3.6	2.7		3.2	
Net NPAs (%)	1.3	0.9		1.2	
Coverage ratio (%)	64.8	68.4		63.6	

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY20	FY21P	FY22E	FY23E
Net Interest Income	135	153	172	194
Other Income	54	55	61	70
Total Income	189	208	233	264
Total Operating Exp	89	86	94	103
PPOP	100	122	139	161
Provisions & Contingencies	22	29	27	19
PBT	78	93	112	142
Provision for Tax	19	23	29	37
PAT	59	70	83	105

Source: Company, Axis Securities

Balance Sheet

(Rs Bn)

Y/E March	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS				
Equity capital	10	10	10	10
Preference capital	5	5	5	5
Reserves	476	622	705	810
Shareholder's Funds	486	632	715	820
Total Deposits	2,628	2,801	3,137	3,514
Borrowings	380	237	253	263
Other Liabilities & Provisions	104	160	132	155
Total Liabilities	3,603	3,835	4,242	4,757
APPLICATION OF FUNDS				
Cash & Bank Balance	533	396	680	790
Investments	751	1,051	991	1,090
Advances	2,197	2,237	2,416	2,754
Fixed Assets & Other Assets	121	151	156	123
Total Assets	3,602	3,835	4,242	4,757

Source: Company, Axis Securities

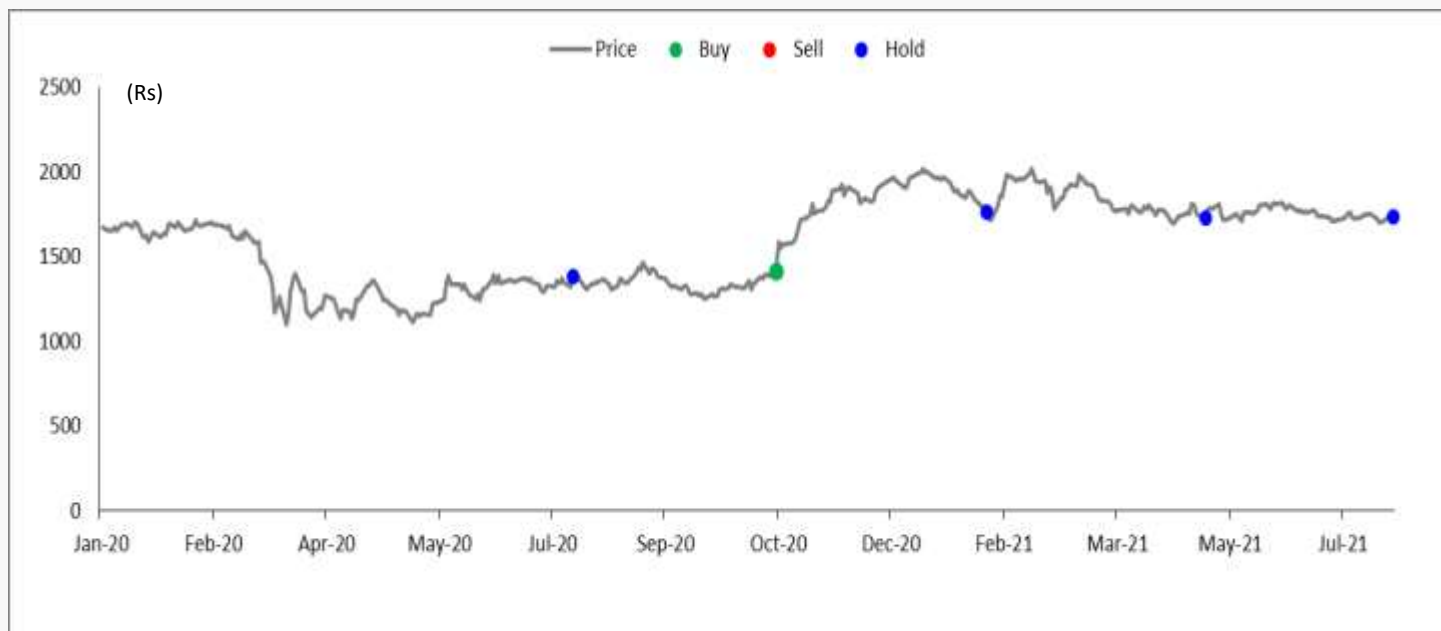
Ratio Analysis

(%)

Y/E March	FY20	FY21P	FY22E	FY23E
VALUATION RATIOS				
EPS	29.5	34.8	41.4	52.5
Earnings Growth (%)	20.4	18.0	19.0	26.6
DPS	1.0	-	-	-
BVPS	253	316.2	357.6	410.1
Adj. BVPS	247	311.2	351.6	404.1
ROA (%)	1.8	1.8	2.0	2.1
ROE (%)	13.1	12.5	12.6	13.1
P/E (x)	59.0	50.0	42.0	33.2
P/ABV (x)	6.9	5.5	4.9	4.2
Dividend Yield (%)	0.1	-	-	-
PROFITABILITY				
NIM (%)	4.3	4.5	4.6	4.6
Cost-Income Ratio	47.1	41.3	40.2	39.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	6.8	1.8	8.0	14.0
Deposit Growth (%)	16.3	6.6	12.0	12.0
C/D Ratio (%)	83.6	79.9	77.0	78.4
CASA	56.0	58.0	59.0	59.0
CAR	17.9	19.3	19.1	19.3
CAR Tier I	17.3	19.6	19.3	19.5
ASSET QUALITY				
Gross NPLs (%)	2.3	2.6	2.2	1.9
Net NPLs (%)	0.7	1.0	0.9	0.7
Coverage Ratio (%)	69.6	61.5	61.4	61.9
Credit costs	0.7	1.3	1.1	0.7

Source: Company, Axis Securities

Kotak Mahindra Price Chart and Recommendation History



Source: Axis Securities

About the analyst



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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.

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