

RESEARCH
Kotak Mahindra Bank | Target: Rs 1,950 | +18% | BUY

In a league of its own – initiate with BUY

SUMMARY
Kotak Mahindra Bank

Kotak Mahindra Bank (KMB) has forged a powerful banking franchise backed by a formidable liability profile. Its cost of funds is now comparable to larger peers and serves as a strong moat that enables the bank to gain profitable market share while de-risking the balance sheet. A calibrated growth approach alongside strong underwriting standards should keep asset quality stable and contain credit costs at 40-60bps over FY20-FY22E. We initiate coverage with BUY and a Mar'21 TP of Rs 1,950, with subsidiaries driving 25% of our valuation.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.81	4bps	3bps	(109bps)
India 10Y yield (%)	6.61	15bps	14bps	(81bps)
USD/INR	71.29	0.3	(0.7)	(0.5)
Brent Crude (US\$/bbl)	63.39	0.6	2.0	5.5
Dow	27,678	0.1	0.8	10.9
Shanghai	2,899	0.7	(2.6)	11.3
Sensex	40,780	(0.2)	1.2	15.5
India FII (US\$ mn)	4 Dec	MTD	CYTD	FYTD
FII-D	6.6	178.4	4,423.2	3,878.5
FII-E	27.2	(189.0)	13,183.4	6,338.2

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 1,950 | ▲ 18%

**KOTAK MAHINDRA
BANK**

| Banking

| 06 December 2019

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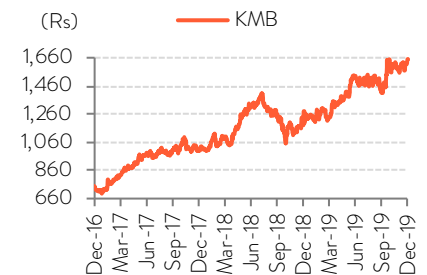
Exemplary liability franchise: KMB's relentless focus on CASA and retail deposits has turned its funding mix more granular and bridged its cost of funds differential with top private banks. We believe the bank's liability profile will continue to improve (57% CASA ratio by FY22E) and the multiplier effect of its granularity will further strengthen return ratios (17% ROE by FY22E).

Judicious growth; comfortable asset quality: KMB has stringent underwriting standards and also targets risk-adjusted returns on lending – practices that have traditionally led to prudent growth. We model for a loan CAGR of 20% over FY19-FY22 amid the current cautious lending climate. KMB's NIM is forecast to stay resilient, compensating for its measured growth aspirations. We also see limited downside risks to asset quality given the bank's demonstrated ability to initiate timely damage control measures, and thus model for moderate credit cost of 40-60bps over the next three years.

Initiate with BUY: We expect a 29% PAT CAGR over FY19-FY22 underpinned by KMB's strong liability profile and sound asset quality – both key drivers for a sustained valuation premium. Our Mar'21 SOTP-based target price of Rs 1,950 is set at 4.5x FY22E adj. P/B. Regulatory overhang from promoter's stake sale remains a key valuation risk.

Ticker/Price	KMB IN/Rs 1,649
Market cap	US\$ 44.2bn
Shares o/s	1,910mn
3M ADV	US\$ 58.4mn
52wk high/low	Rs 1,684/Rs 1,210
Promoter/FPI/DII	30%/40%/30%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Net interest income	95,317	112,590	137,749	167,851	206,767
NII growth (%)	1729.6	1812.1	2234.6	2185.3	2318.5
Adj. net profit (Rs mn)	40,619	42,738	66,040	83,222	104,947
EPS (Rs)	21.8	25.5	34.6	43.6	55.0
P/E (x)	75.6	64.7	47.7	37.8	30.0
P/BV (x)	8.4	7.4	6.5	5.6	4.7
ROA (%)	1.7	1.7	2.0	2.1	2.3
ROE (%)	12.5	12.2	14.5	15.8	17.1

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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