

BUY

TP: Rs 2,100 | ▲ 22%

**KOTAK MAHINDRA
BANK**

| Banking

| 03 May 2021

Q4 in line; well capitalised for growth

Kotak Bank's (KMB) Q4FY21 PAT at Rs 16.8bn (+33% YoY) was largely in line with our estimates. Asset quality remained stable with GNPA ratio at 3.3% and a negligible SMA-2 book (0.05% of loans). Credit cost at 84bps for FY21 (ex-Covid provisions) gives us comfort on asset quality resilience. Loan growth at 5% QoQ in Q4 is gradually perking up and with adequate capital in place, the bank is open to both organic and inorganic routes to grow. CASA ratio has improved further to 60.4%. Maintain BUY, Mar'22 TP Rs 2,100.

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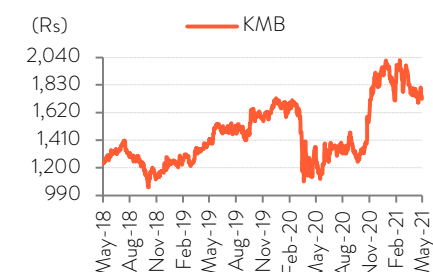
Asset quality stable: Slippages in H2FY21 stood at Rs 44bn. A large part of this was driven by the unsecured portfolio under moratorium. KMB's PCR at 64% is low versus peers but management believes these loans have high recovery potential. The bank has disbursed ~Rs 11.5bn under ECLGS and has significant comfort on the book. Covid provisions stood at ~Rs 12.8bn (0.6% of loans).

Ticker/Price	KMB IN/Rs 1,725
Market cap	US\$ 46.3bn
Shares o/s	1,982mn
3M ADV	US\$ 100.7mn
52wk high/low	Rs 2,049/Rs 1,110
Promoter/FPI/DII	26%/44%/30%

Source: NSE

Geared for growth: The bank has been cautious on unsecured loans – credit card, personal loans, MFI, consumer durable loans – and its exposure is down to 5.8% vs. 7.5% in FY20. KMB intends to expand both the secured as well as unsecured segments aided by stringent underwriting. In the mortgage portfolio (+10% QoQ), the bank is targeting customer acquisition and cross-sell opportunities. Its corporate portfolio remained flat QoQ for the quarter given high pricing pressure and low risk-adjusted returns. NIM declined ~10bps QoQ to 4.4% owing to reversal of Rs 1.1bn of interest-on-interest.

STOCK PERFORMANCE



Source: NSE

Leadership transition: Both the MD and Joint MD will retire on 31 Dec 2023.

Per management, the board will look at long-term strategic options and take adequate steps to ensure growth in stakeholder and shareholder value.

Management reiterated that the promoter and his family are fully committed as long-term shareholders.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	112,590	134,997	153,554	178,062	207,659
NII growth (%)	1812.1	1990.2	1374.7	1596.0	1662.2
Adj. net profit (Rs mn)	36,116	59,472	69,648	85,807	102,054
EPS (Rs)	25.5	31.1	35.8	43.3	51.5
P/E (x)	67.6	55.4	48.2	39.9	33.5
P/BV (x)	7.8	6.8	5.4	4.8	4.2
ROA (%)	1.7	1.8	1.9	2.1	2.2
ROE (%)	12.2	13.1	12.5	12.8	13.5

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

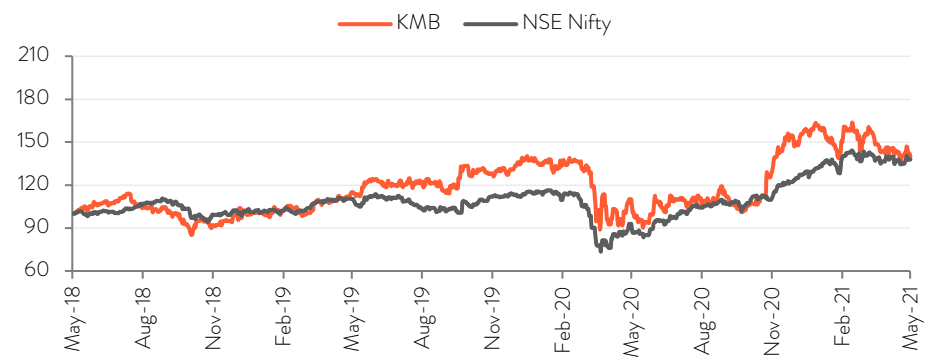
(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Income Statement								
Interest income	64,489	68,047	66,593	(5.2)	(3.2)	268,560	269,418	(0.3)
Interest expense	26,061	32,450	27,837	(19.7)	(6.4)	115,006	134,300	(14.4)
Net interest income	38,428	35,597	38,756	8.0	(0.8)	153,554	135,118	13.6
Non-interest income	19,495	14,894	12,852	30.9	51.7	54,603	53,600	1.9
Net total income	57,923	50,490	51,608	14.7	12.2	208,157	188,718	10.3
Staff expenses	8,689	9,696	9,593	(10.4)	(9.4)	37,291	38,776	(3.8)
Other operating expenses	15,160	13,542	12,986	11.9	16.7	48,550	49,733	(2.4)
Operating expenses	23,849	23,238	22,579	2.6	5.6	85,841	88,509	(3.0)
Pre-provisioning profit	34,075	27,253	29,029	25.0	17.4	122,316	100,208	22.1
Total provisions	11,794	10,475	4,186	12.6	181.8	29,286	22,162	32.1
Profit before tax	22,281	16,778	24,843	32.8	(10.3)	93,030	78,047	19.2
Tax	5,457	4,112	6,308	32.7	(13.5)	23,382	18,575	25.9
Profit after tax	16,824	12,666	18,535	32.8	(9.2)	69,648	59,472	17.1
Balance Sheet								
Advances	2,236,886	2,197,482	2,141,030	1.8	4.5	2,236,886	2,197,482	1.8
Deposits	2,801,000	2,628,205	2,653,040	6.6	5.6	2,801,000	2,628,205	6.6
CASA ratio (%)	60.4	56.2	58.9	428bps	158bps	60.4	56.2	428bps
Yields and margins (%)								
Net interest margin	4.4	4.7	4.5	(33bps)	(12bps)			
Yield on advances	8.1	9.7	8.6	(162bps)	(54bps)			
Cost of funds	3.4	4.6	3.6	(120bps)	(23bps)			
Key ratios (%)								
Cost/Income	41.2	46.0	43.8	(485bps)	(258bps)	41.2	46.9	(566bps)
Tax rate	24.5	24.5	25.4	(2bps)	(90bps)	25.1	23.8	133bps
Loan to Deposit ratio	79.9	83.6	80.7	(375bps)	(84bps)	79.9	83.6	(375bps)
Capital adequacy ratios (%)								
Tier 1	21.4	17.3	23.0	410bps	(160bps)	21.4	17.3	410bps
Total CAR	22.3	17.9	23.6	440bps	(130bps)	22.3	17.9	440bps
Asset quality (Rs mn)								
Gross NPAs	74,255	50,269	49,280	47.7	50.7	74,255	50,269	47.7
Net NPAs	27,052	15,579	10,640	73.6	154.2	27,052	15,579	73.6
Gross NPA ratio (%)	3.3	2.3	2.3	100bps	99bps	3.3	2.3	100bps
Net NPA ratio (%)	1.2	0.7	0.5	50bps	71bps	1.2	0.7	50bps
Credit cost (%)	1.3	0.7	0.9	65bps	47bps	0.9	0.7	19bps
Coverage Ratio (%)	63.6	69.0	78.4	(544bps)	(1,484bps)	63.6	69.0	(544bps)

Source: Company, BOBCAPS Research | * GNPA and NNPA ratios for Q3FY21 are on proforma basis

Valuation methodology

KMB is currently trading at 3.2x FY22E core P/BV. We like the bank for its proven leadership, strong liability franchise, best-in-class margins and sound underwriting standards. Our SOTP-based Mar'22 target price of Rs 2,100 values the core business at an unchanged P/BV multiple of 3.7x on FY23E (Rs 1,456), using the Gordon Growth Model. Subsidiaries continue to drive 30% of our fair value. Maintain BUY.

FIG 2 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A worsening economic environment can impact our loan growth and credit cost assumptions and lead to deterioration in KMB's asset quality.
- The bank derives significant value from its insurance, lending and capital markets subsidiaries; should they perform poorly, this will have an adverse impact on the bank's fair value and subsequently on our target price.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	112,590	134,997	153,554	178,062	207,659
NII growth (%)	1812.1	1990.2	1374.7	1596.0	1662.2
Non-interest income	46,040	53,721	54,603	60,237	67,260
Total income	158,630	188,718	208,157	238,300	274,919
Operating expenses	(75,148)	(88,509)	(85,841)	(93,730)	(107,598)
Operating profit	83,482	100,208	122,316	144,569	167,321
Operating profit growth (%)	1,662.5	2,003.6	2,206.1	1,819.3	1,573.8
Provisions	(22,162)	(22,162)	(29,286)	(29,237)	(30,152)
PBT	61,320	78,047	93,030	115,332	137,169
Tax	(25,205)	(18,575)	(23,382)	(29,525)	(35,115)
Reported net profit	36,116	59,472	69,648	85,807	102,054
Adjustments	0	0	0	0	0
Adjusted net profit	36,116	59,472	69,648	85,807	102,054

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	9,544	9,565	9,909	9,909	9,909
Reserves & surplus	414,461	475,616	622,382	699,180	796,551
Net worth	429,005	490,182	637,291	714,089	811,461
Deposits	2,258,804	2,628,205	2,801,000	3,137,120	3,576,317
Borrowings	327,043	384,493	241,295	264,502	290,201
Other liabilities & provisions	106,870	99,637	155,300	173,596	194,036
Total liabilities and equities	3,121,721	3,602,517	3,834,886	4,289,307	4,872,015
Cash & bank balance	246,755	532,923	396,265	268,784	222,807
Investments	711,891	750,515	1,050,992	1,214,430	1,428,019
Advances	2,056,948	2,197,482	2,236,886	2,460,575	2,755,844
Fixed & Other assets	106,127	121,597	150,743	345,519	465,345
Total assets	3,121,721	3,602,517	3,834,886	4,289,307	4,872,015
Deposit growth (%)	17.3	16.4	6.6	12.0	14.0
Advances growth (%)	21.2	6.8	1.8	10.0	12.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	25.5	31.1	35.8	43.3	51.5
Dividend per share	0.8	1.0	0.9	1.7	2.1
Book value per share	222.1	253.6	319.0	357.8	406.9

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	67.6	55.4	48.2	39.9	33.5
P/BV	7.8	6.8	5.4	4.8	4.2
Dividend yield (%)	0.0	0.1	0.1	0.1	0.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	3.9	4.0	4.1	4.4	4.5
Non-interest income	1.6	1.6	1.5	1.5	1.5
Operating expenses	2.6	2.6	2.3	2.3	2.3
Pre-provisioning profit	2.9	3.0	3.3	3.6	3.7
Provisions	0.3	0.7	0.8	0.7	0.7
PBT	2.1	2.3	2.5	2.8	3.0
Tax	0.9	0.6	0.6	0.7	0.8
ROA	1.7	1.8	1.9	2.1	2.2
Leverage (x)	7.2	7.4	6.7	6.1	6.0
ROE	12.2	13.1	12.5	12.8	13.5

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Net interest income	18.1	19.9	13.7	16.0	16.6
Pre-provisioning profit	16.6	20.0	22.1	18.2	15.7
EPS	17.0	22.0	14.9	21.1	18.9
Profitability & Return ratios (%)					
Net interest margin	4.1	4.2	4.3	4.7	5.0
Fees / Avg. assets	1.2	1.1	1.0	1.0	1.0
Cost-Income	47.4	46.9	41.2	39.3	39.1
ROE	12.2	13.1	12.5	12.8	13.5
ROA	1.7	1.8	1.9	2.1	2.2
Asset quality (%)					
GNPA	2.1	2.3	3.3	3.0	2.8
NNPA	0.8	0.7	1.2	1.1	1.1
Credit cost	0.4	0.7	0.9	0.8	0.8
Provision coverage	65.4	69.0	63.6	63.9	62.4
Ratios (%)					
Credit-Deposit	91.1	83.6	79.9	78.4	77.1
Investment-Deposit	31.5	28.6	37.5	38.7	39.9
CAR	17.5	17.9	22.4	21.0	20.8
Tier-1	16.9	17.3	21.6	20.3	20.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

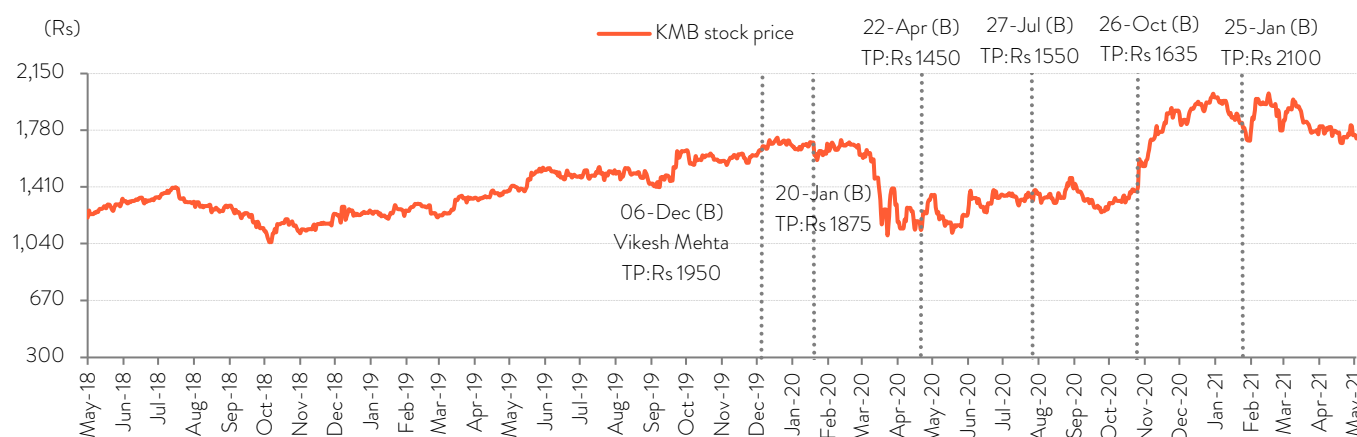
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

RATINGS AND TARGET PRICE (3-YEAR HISTORY): KOTAK MAHINDRA BANK (KMB IN)



B – Buy, A – Add, R – Reduce, S – Sell

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