

## One-offs aid earnings; lifting of ban remains crucial

About the stock: Kotak Mahindra Bank is one of the leading private sector banks in India providing a wide array of banking and financial services, boasting around ₹ 4,94,105 crore in customer assets.

- It spans over 1965 branches and 3279 ATMs
- Consistent in delivering superior ROA of 2+% and ROE of 13+%

Q1FY25 performance: Kotak Mahindra Bank reported healthy performance with one-off gains owing to stake sale in general insurance. During the quarter, stake sale has led to ₹ 2730 crore, net of direct expense along with reversal of accumulated loss of ₹ 284 crore. Advances growth continued at 18.7% YoY to ₹ 389957 crore, driven by uptick in corporate book. Traction in retail loans remained steady with marginal moderation seen in unsecured segment. Liabilities accretion remained at 15.8% YoY, led by accretion in term deposit while CASA dipped ~210 bps QoQ. Despite increase in CD ratio, higher accretion in term deposit led to decline in 26 bps in margin at 5.02%. Asset quality continued to remain prudent with slippages at 0.3% of advances, flat GNPA ratio at 1.39% and NNPA ratio at 0.35%. PAT got reported at ₹ 6250 crore, led by healthy business growth and one-off gains from stake sale in general insurance business.

### Investment Rationale

- Growth witnessed moderation; regulatory ban to act as overhang: Advances growth came healthy at 19% YoY and 4% QoQ, driven by corporate segment (up 7% QoQ). Growth in retail and commercial segment remained steady, with moderation in pace of unsecured segment which resulted in 20 bps dip in share to 11.6%. On liabilities front, elevated competitiveness in liabilities accretion has impacted growth as well as led to higher cost of funds. While the management reiterates long term goal of higher than industry growth coupled with share of unsecured credit in mid-teens, near term moderation owing to regulatory ban could be ruled out. Expect advance growth at ~15.4% in FY25E.
- Margins headwinds, provision trend to drive RoA: Moderation in share of unsecured retail loans (amid regulatory ban) and rising cost of funds (owing to lower CASA and higher pricing) remains headwinds for margins trajectory. Thus, expect a dip of ~20-40 bps in margins in FY25E, while management expects margins to remain steadier at ~5%. Continued investment in technology and physical branch expansion (targeting 3000-3500 branches in next 3-4 years) is seen to keep elevated, though credit cost could remain at 50-70 bps.

### Rating and Target Price

- While focus remains on long-term goal of healthy business growth, share of unsecured loans in mid-teens and prudent asset quality, regulatory ban and competition in liabilities remains a challenge.
- Value standalone bank at 1.9x FY26E BV and assign ₹574 for subsidiaries, thus maintaining target price at ₹1800 per share. Maintain Hold.

### Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	15340	16818	21552	25993	19%	28721	32496	12%
PPP	11762	12051	14848	19587	19%	20838	23414	9%
PAT	6965	8573	10939	13782	26%	16169	15074	5%
ABV	308	357	415	481		558	629	
P/E	49.3	40.1	31.4	24.9		21.2	21.2	
P/ABV	5.6	4.8	4.2	3.6		3.1	3.1	
RoA	1.9	2.1	2.4	2.5		2.5	2.5	
RoE	12.4	12.6	14.0	15.3		15.5	15.5	

Source: Company, ICICI Direct Research



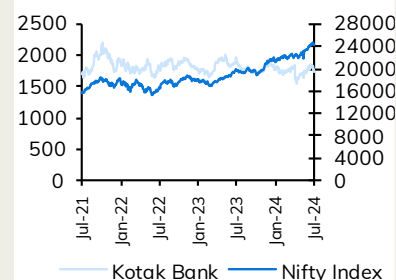
### Particulars

Particulars	Amount
Market Capitalisation	₹ 3,44,145 crore
52 week H/L	1,926 / 1,544
Net worth	₹ 96,719 crore
Face value	₹ 5

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	26.0	25.9	25.9	25.9	25.9
FII	41.5	41.0	39.7	37.6	33.2
DII	19.6	20.0	21.4	23.4	27.7
Others	12.9	13.1	13.0	13.1	13.3

### Price Chart



### Key risks

- Delay in lifting of regulatory ban
- Better than expected performance on asset quality in unsecured book

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## Concall highlights and outlook

- The company completed disinvestment of 70% stake in Kotak General Insurance for a consideration of ₹ 5,560 crore on June 18th 2024. This stake sale indicates a CAGR of 45% since 2014 for KGI. Kotak General Insurance is now an associate company and the bank's stake has come down from 100% to 30% post sale. The result of sale post tax after netting of direct expenses was ₹ 2,730 crore in standalone books. The bank saw a reversal of accumulated loss of ₹ 284 crore. Thus, total profit impact can be calculated at ₹ 3,013 crore at consolidated level.
- The management stated that they have made substantial progress in context to RBI embargo order. No specific comments were made on RBI embargo status. The management refrained from giving any timeline but stated that they are on track and slightly ahead on deliverables.
- The first quarter saw muted growth due to RBI order impact, as the company was barred from on-boarding customers digitally and issuance of new credit cards. This led to lower growth and consequently on NIM.
- The company focused on deepening relationships with 811 customers and through enhanced offers. This resulted in increased market share of spends on the credit card March in May.
- Certain level of stress on consumer, retail, unsecured assets particularly in low-ticket levels is visible in certain segments where the customer was overleveraged.
- The RBI directive requiring banks to value certain investments at fair value impacted the bank's Q1 results. The bank adopted this rule on April 1st, 2024. As a result, these previously held-at-cost investments were marked to market, leading to a post-tax gain of ₹ 3,414 crore as reflected in Q1
- Wholesale advances grew 6% QoQ and 21% YoY. Trade assets and supply chain book saw significant growth. The focus going forward would be on SME and mid-market segments. The management reiterated their strategy to maintain mid-teen growth in unsecured retail loans, with potential growth in credit cards and personal loans once the embargo is lifted
- Credit costs increased to 55 bps annualized in Q1FY25, and this increase is largely due to losses in unsecured retail book in lower-ticket segment and select geographies for microcredit business.
- Micro finance business posted a PAT of ₹ 50 crores as against ₹ 95 crore in the same quarter previous year. This was mainly due to lower disbursement, higher branch expansion costs, besides increase in delinquencies in select states. Micro finance saw some degree of increased delinquencies as well as collection issues. Some parts of Tamil Nadu, Madhya Pradesh and Maharashtra saw higher delinquencies.
- The management stated a NIM guidance of around 5% and will try to sustain it over the periods to come. Building deposit franchise at competitive rate remains in focus. Repricing of major proportion of deposits over
- The stance on LCR growth was positive as the growth of LCR from 126% to 139% over the last 2 quarters was organic and no special efforts were taken to increase it specifically.
- The management aims to expand geographically, reaching 3,000 to 3,500 branches over the next 4-5 years.

**Exhibit 1: Variance Analysis**

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	6,842.4	6,233.7	9.8	6,909.4	-1.0	Credit off-take offset by decline in NIM
NIM (%)	5.02	5.57	-55 bps	5.28	-26 bps	Impacted due increasing cost of funds & reduced yield on advances
Other Income	2,929.0	2,683.3	9.2	2,978.3	-1.7	Fee income grew strongly at 23% YoY
Net Total Income	9,771.4	8,917.0	9.6	9,887.6	-1.2	
Staff cost	1,870.5	1,647.0	13.6	1,826.4	2.4	
Other Operating Expenses	2,646.8	2,320.4	14.1	2,599.7	1.8	Increased IT spends inched Opex
PPP	5,254.1	4,949.6	6.2	5,461.6	-3.8	
Provision	578.5	364.3	58.8	263.7	119.3	
PBT	4,675.6	4,585.3	2.0	5,197.8	-10.0	Higher provision impacted growth
Tax Outgo	1,156.0	1,133.0	2.0	1,064.5	8.6	
Exceptional item	2,730.0	0.0	NA	0.0	NA	Proceeds from stake sale in general insurance
PAT	6,249.6	3,452.3	81.0	4,133.3	51.2	
<b>Key Metrics</b>						
GNPA	6,251.4	5,909.2	5.8	5,274.8	18.5	
NNPA	1,688.8	1,301.8	29.7	1,270.6	32.9	
Advances	3,89,957	3,28,582	18.7	3,76,075	3.7	Growth in wholesale book aided advances growth
Deposits	4,47,418	3,86,254	15.8	4,48,954	-0.3	Lower share of SA resulted degrowth sequentially

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	27038.8	34250.9	45798.9	53728.1	61008.2
Interest Expended	10220.9	12698.9	19805.7	25007.3	28512.3
Net Interest Income	16817.9	21551.9	25993.2	28720.8	32495.8
Growth (%)	9.6	28.1	20.6	10.5	13.1
Non Interest Income	6354.4	7083.1	10273.1	11939.4	13505.6
Net Income	23172.3	28635.0	36266.3	40660.2	46001.5
Operating expense	11121.4	13787.0	16678.8	19822.4	22587.5
Gross profit	12050.9	14848.0	19587.5	20837.8	23414.0
Provisions	689.6	457.0	1573.7	2799.0	3180.2
Taxes	2788.6	3451.7	4232.1	4599.9	5159.6
Exceptional item	0.0	0.0	0.0	2730.0	0.0
Net Profit	8572.7	10939.3	13781.6	16168.9	15074.2
growth (%)	23.1	27.6	26.0	17.3	-6.8
EPS	43.3	55.2	69.5	81.6	76.1

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	198.2	198.2	198.2	198.2	198.2
EPS (₹)	43.3	55.2	69.5	81.6	76.1
BV (₹)	365.6	421.1	487.6	567.6	642.1
ABV (₹)	356.8	415.1	481.2	558.5	629.0
P/E	40.1	31.4	24.9	21.2	22.8
P/BV	4.9	4.2	3.6	3.1	2.8
P/ABV	4.8	4.2	3.6	3.1	2.7
Yields & Margins (%)					
Yield on avg earning assets	7.3	7.9	8.9	8.9	8.7
Avg. cost on funds	3.2	3.5	4.6	4.8	4.8
Net Interest Margins	4.5	5.0	5.1	4.7	4.6
Avg. Cost of Deposits	3.1	3.5	4.5	4.9	4.9
Yield on average advances	7.8	9.1	10.2	10.1	10.0
Quality and Efficiency (%)					
Cost / Total net income	48.0	48.1	46.0	48.8	49.1
Credit/Deposit ratio	87.0	88.1	83.8	83.8	85.2
GNPA	2.4	1.8	1.4	1.6	1.8
NNPA	0.6	0.4	0.3	0.4	0.5
RoE	12.6	14.0	15.3	15.5	12.6
RoA	2.1	2.4	2.5	2.5	2.0

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital (incl PCNPS)	1492	1493	994	994	994
ESOPS	31	60	79	60	60
Reserves and Surplus	70964	81967	95646	111491	126264
Networth	72488	83520	96719	112545	127318
Deposits	311684	363096	448954	518314	595184
Borrowings	25967	23416	28368	30774	33725
Other Liabilities & Provision:	19289	19830	26316	29153	32320
Total	429428	489862	600357	690786	788547
Applications of Funds					
Fixed Assets	1644	1920	2155	2765	3259
Investments	100580	121404	155404	169525	185719
Advances	271254	319861	376075	434141	506845
Other Assets	33027	14135	13934	27882	29929
Cash with RBI & call money	55951	32542	52788	56472	62796
Total	429428	489862	600357	690786	788547

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	12.0	14.1	22.6	15.1	14.2
Advances	21.3	17.9	17.6	15.4	16.7
Deposits	11.3	16.5	23.6	15.4	14.8
Total Income	13.9	23.6	26.7	12.1	13.1
Net interest income	9.6	28.1	20.6	10.5	13.1
Operating expenses	29.6	24.0	21.0	18.8	13.9
Operating profit	2.5	23.2	31.9	6.4	12.4
Net profit	23.1	27.6	26.0	17.3	-6.8
Book value	13.7	15.2	15.8	16.4	13.1
EPS	23.1	27.6	26.0	17.3	-6.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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