

Strong Quarter; Regulatory Headwinds to Restrict Near-Term Growth!

Est. Vs. Actual for Q4FY24: NII – **BEAT**; PPOP – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E: NII +5.2%/+6.1%; PPOP -1.7%/-4.8%; PAT -4.6%/-7.2%

Recommendation Rationale

- **Corrective action on supervisory action underway** – RBI's order has directed to cease and desist (i) onboarding new customers through the Bank's online and mobile banking channels and (ii) issuing fresh credit cards. *The management expects the impact on business to be minimal and has repeatedly highlighted that its top priority remains on ensuring returning to business-as-usual at the earliest. Assuming the restrictions stay for a year, KMB expects an impact of ~Rs 300-450 Cr considering higher tech spends and the financial impact of restrictions.* While the restrictions will pose challenges to new customer acquisition, the bank will focus on (a) protecting the existing customer base and deepening relationships with them, (b) accelerating the execution of technology strategy to achieve resilience, and appropriate capacity and to meet regulatory data cybersecurity standards. While these restrictions will have a direct bearing on the growth in the retail segment, the management has highlighted that the customer onboarding in the corporate and commercial and private banking segments is not entirely digital and hence these segments are unlikely to be impacted. While credit card growth will face headwinds, the bank will try to recoup the lost opportunity through the personal loan segment as well as through assisted physical journey through branches and to existing customers.

Sector Outlook: Positive

Company Outlook: KMB is faced with multiple headwinds with multiple exits at the top-level management in the past 6-8 months along with RBI restrictions slowing down customer acquisition momentum through online channels and the growth in the credit cards portfolio. The uncertainties around the timeline of relaxation of restrictions by the regulator along with top-level management stability will weigh on the near-term performance of the stock.

Current Valuation: 2.1x FY26E ABV; **Earlier Valuation:** 3.0x Sep'25E ABV

Current TP: Rs 1,755/share; **Earlier TP:** Rs 2,140/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

HDFC Bank (TP – Rs 1,885), ICICI Bank (TP – Rs 1,325)

Financial Performance:

- **Operational Performance:** KMB's advances growth was strong at 18/5% YoY/QoQ, driven by Consumer Banking (+22/7% YoY/QoQ), CV/CE (+33/9% YoY/QoQ) and Retail MFI (+60/17% YoY/QoQ). Corporate book grew by 21/4% YoY/QoQ. Deposit growth was impressive at 24/10% YoY/QoQ, led by TDs which grew by 43/15% YoY/QoQ. CASA Deposits grew by 5% QoQ, CASA ratio stood at 45.5% vs. 52.8/47.7% YoY/QoQ.
- **Financial Performance:** NII grew by 13/5% YoY/QoQ, driven by healthy growth and margin expansion of 6bps QoQ. NIMs stood at 5.28% vs. 5.75/5.22% YoY/QoQ. Non-interest income grew by 36/30% YoY/QoQ, led by fee income (+28/15% YoY/QoQ). The bank reported a treasury gain of Rs 138 Cr (vs. Rs 1/168 Cr loss YoY/QoQ). Opex growth was controlled at 22/3% YoY/QoQ. Its C-I Ratio improved to 44.8% from 48.4% QoQ. PPOP growth was strong at 18/20% YoY/QoQ. Provisions were lower than expected as the bank released an AIF provision of Rs 157 Cr. PAT grew by 18/38% YoY/QoQ, supported by lower taxes owing to a tax credit of Rs 200 Cr.
- **Asset quality** improved with GNPA/NNPA at 1.4/0.3% vs. 1.7/0.3% QoQ. Slippages during the quarter stood at Rs 1,305 Cr (slippages ratio of 1.4% vs 1/1.3% YoY/QoQ). The bank has written off the retail unsecured loans (fully provided for) to the tune of Rs 1,455 Cr during Q4FY24.

Outlook:

Despite the regulatory ban, the management remains confident of no significant financial impact. With restrictions on customer acquisition digitally, KMB will look to increase its branch count in a calibrated manner. A large part of the Opex will continue to be deployed towards tech upgrades. Given near-term challenges on growth, higher Opex largely towards tech (~10% of Opex currently) and normalising credit costs with bank pursuing growth in unsecured book, we reduce our earnings estimates by 4-7% over FY24-26E. We expect KMB's RoA/RoE to be limited to 2.2%/13-14% over FY25-26E.

Valuation & Recommendation:

We value the bank's core book at 2.1x FY26E ABV and assign a value of Rs 447 to the subsidiaries, thereby arriving at a target price of Rs 1,755/share. The TP implies an upside of 13% from the CMP. **We maintain our BUY recommendation on the stock.**

Key Financials (Standalone)

(Rs Bn)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	69.1	+5.4	+13.2	67.2	+2.8
PPOP	54.6	+19.6	+17.5	51.2	+6.7
Net Profit	41.3	+37.5	+18.2	34.3	+20.5
NNPA (%)	0.3	0 bps	-3 bps	0.3	-
RoA (%)	2.9	+66 bps	-5 bps	2.2	+68 bps

Source: Company, Axis Research

(CMP as of 03 May, 2024)

CMP (Rs)	1,547
Upside/Downside (%)	13%
High/Low (Rs)	2,063/1,544
Market cap (Cr)	3,07,581
Avg. daily vol. (6m) Shrs.	52,84,431
No. of shares (Cr)	198.7

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	25.9	25.9	25.9
FII's	41.0	39.7	37.6
MFs / UTI	9.6	10.9	12.8
Others	23.5	23.5	23.7

Financial & Valuations

Y/E Mar (Rs Bn)	FY24	FY25E	FY26E
NII	260	294	336
PPOP	196	214	247
Net Profit	138	142	162
EPS (Rs)	69.3	71.5	81.4
ABV (Rs)	480.1	547.0	622.4
P/ABV (x)	3.2	2.8	2.5
RoA (%)	2.5	2.2	2.2
NNPA (%)	0.3	0.4	0.4

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
NII	+5.2	+6.1
PPOP	-1.7	-4.8
PAT	-4.6	-7.2

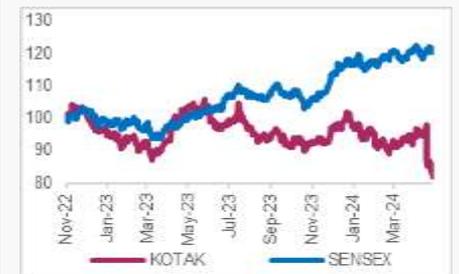
ESG disclosure Score**

Environmental Disclosure	3.5
Social Disclosure Score	21.8
Governance Disclosure Score	83.6
Total ESG Disclosure Score	33.9
Sector Average	39.1

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 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Takeaways

- Near-term slowdown in certain segments likely** – The management reiterated that the bank’s focus on growing the unsecured loan segment will continue, as KMB aspires to take the share of unsecured loans to the mid-teens. In the unsecured lending segment, the focus on personal loans and microfinance will continue. The acquisition of Sonata Microfinance will further strengthen the MFI portfolio and drive healthy growth going into FY25. The bank has seen healthy momentum in the CV and CE segment in Q4FY24 and KMB will look to accelerate growth in these segments. Used tractors will also remain a key focus area where the bank will look to push the growth pedal and depend on its presence. As KMB exited FY24, the bank saw strong credit offtake across large corporates and multinational financial institutions. Real estate book saw strong disbursals in the latter part of the quarter and the bank remains optimistic about this sector given the strong sales and is actively trying to increase business penetration across commercial and residential segments. While growth across most segments remains healthy, we expect the regulatory restrictions to weigh on growth in the near term. We expect KMB to deliver credit growth of ~16% CAGR over FY24-26E.
- CoF increase to continue, though at a slower pace** – The management stated that despite a large part of deposits having already been repriced, CoF will continue to inch up, though at a slower pace. With the challenges around the mobilisation of low-cost CASA deposits KMB re-introduced ‘**Activ Money**’ which is a quasi-TD product, where the cost of deposit is marginally higher than the SA but lower than the TD.
- Eyeing to keep deposit growth healthy** – The retail TD growth in Q4FY24 was driven by strong growth in ‘Activ Money’ (+102% YoY) and the bank will continue to focus on this product, given the challenge on CASA mobilisation. The bank energized its effort to integrate current and savings account propositions into asset customers presenting them with a complete suite of banking products. KMB will look to increase the wallet share of its asset customers to support deposit growth.

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.

Change in Estimates

(Rs Bn)

	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
NII	294	336	279	317	5.2	6.1
PBP	214	247	218	260	-1.7	-4.8
PAT	142	162	149	175	-4.6	-7.2

Source: Company, Axis Securities

KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	2.1x FY26E ABV	1,307
Subsidiaries		
Kotak Mahindra Prime	1.4x FY26E ABV	85
Kotak Mahindra Investments	1.3x FY26E BV	32
Kotak Securities	16x FY26E P/E	131
Kotak Mahindra AMC	24x FY26E EPS	94
Kotak Life	2.0x FY26E EV	206
KMCC - Investment Banking Business	14x FY26E P/E	11
Total Sub Value		559
Less: Holdco Discount @20%		112
Total Subs. Value (post discount)		447
Total Value		1,755
CMP		1,547
Potential		13%

Source: Company, Axis Securities

Results Review (Standalone)

(Rs Bn)

Rs Bn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	FY24	FY23	% YoY
Net Interest Income	69	61	13.2	66	5.4	260	216	20.6
Non Interest Income	30	22	36.2	23	29.7	103	73	40.1
Operating expenses	44	36	21.6	43	3.3	167	140	18.8
Staff Cost	18	15	25.6	17	4.5	69	55	24.2
Pre provision profits	55	46	17.5	46	19.6	196	148	31.9
Provisions and contingencies	3	1	78.7	6	-54.5	16	5	244.4
PBT	52	45	15.5	40	30.4	180	144	25.2
Provision for Tax	11	10	6.0	10	8.4	42	35	22.6
PAT	41	35	18.2	30	37.5	138	109	26.0
Business Update								
Advances	3,761	3,199	17.6	3,596	4.6	3,761	3,199	17.6
Deposits	4,490	3,631	23.6	4,086	9.9	4,490	3,631	23.6
CASA Deposits	2,043	1,918	6.5	1,950	4.7	2,043	1,918	6.5
CASA Ratio	45.5	52.8	-732bps	47.7	-223bps	45.5	52.8	-732bps
CD Ratio	83.8	88.1	-433bps	88.0	-423bps	83.8	88.1	-433bps
NIM	5.3	5.8	-47bps	5.2	6bps	5.3	5.3	-47bps
Cost-Income ratio (%)	44.8	43.9	83bps	48.4	-364bps	46.0	49.0	83bps
Asset Quality								
Gross NPA (%)	1.4	1.8	-39bps	1.7	-34bps	1.4	1.8	-39bps
Net NPA (%)	0.3	0.4	-3bps	0.3	0bps	0.3	0.4	-3bps
PCR (%)	75.9	79.3	-340bps	80.6	-464bps	75.9	79.3	-340bps
Slippages	13.1	8.2	58.6	11.8	10.9	50.0	39.9	58.6
Slippage Ratio (%)	1.4	1.0	38bps	1.3	9bps	1.4	1.4	38bps

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY23	FY24	FY25E	FY26E
Net Interest Income	216	260	294	336
Other Income	71	103	117	133
Total Income	286	363	411	469
Total Operating Exp	138	167	197	222
PPOP	148	196	214	247
Provisions & Contingencies	5	16	24	31
PBT	144	180	190	216
Provision for Tax	35	42	48	55
PAT	109	138	142	162

Source: Company, Axis Securities

Balance Sheet

(Rs Bn)

Y/E March	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS				
Equity Share Capital	10	10	10	10
Preference Share Capital	5	0	0	0
Reserves & Surplus	820	956	1,093	1,247
Net Worth	835	967	1,104	1,257
Deposits	3,631	4,490	5,306	6,205
Borrowings	234	284	249	208
Other Liabilities	198	263	276	318
Total Liabilities	4,899	6,004	6,935	7,989
APPLICATION OF FUNDS				
Cash & Bank Balance	325	528	618	693
Investments	1,214	1,554	1,788	2,015
Advances	3,199	3,761	4,342	5,066
Fixed & Other Assets	161	161	186	214
Total Assets	4,899	6,004	6,935	7,989

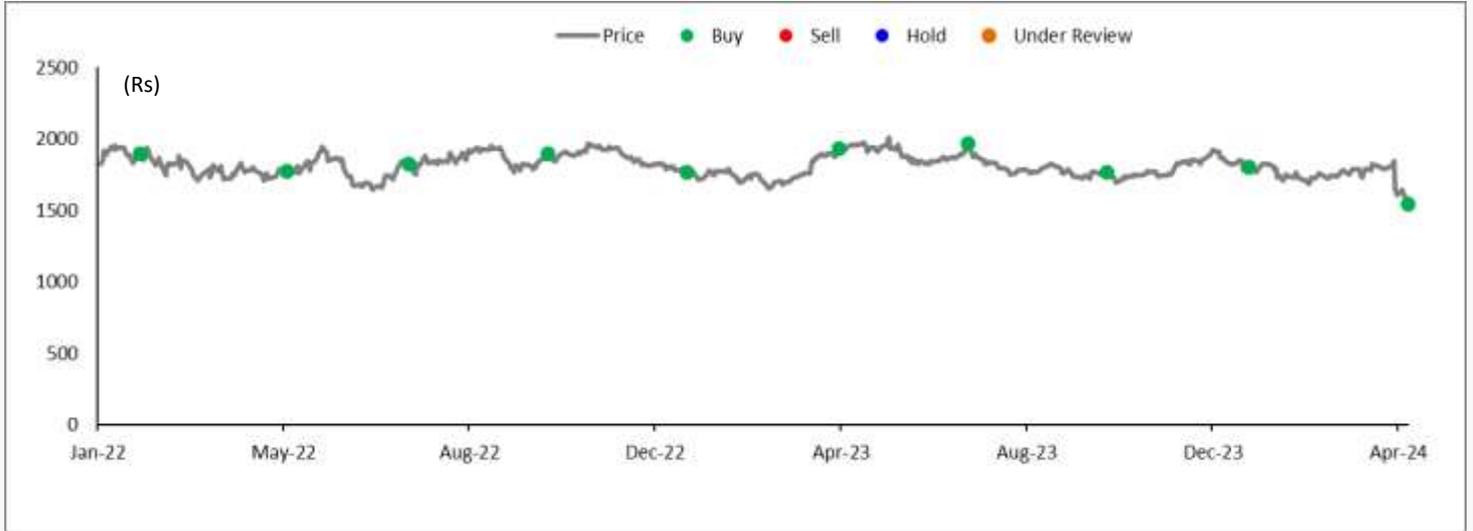
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY23	FY24	FY25E	FY26E
VALUATION RATIOS				
EPS	55.1	69.3	71.5	81.4
Earnings Growth (%)	27%	26%	3%	14%
BVPS	420.4	486.5	555.2	632.5
Adj. BVPS	414.4	480.1	547.0	622.4
ROAA (%)	2.3	2.5	2.2	2.2
ROAE (%)	13.8	15.0	13.7	13.9
P/E (x)	28.1	22.3	21.6	19.0
P/ABV (x)	3.7	3.2	2.8	2.5
Dividend Yield (%)	0.1	0.1	0.2	0.3
PROFITABILITY				
NIM (%)	4.7	5.3	5.1	5.1
Cost-Income Ratio (%)	48.1	46.0	47.9	47.3
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	17.9	17.6	15.5	16.7
Deposit Growth (%)	16.5	23.6	18.2	16.9
C/D Ratio (%)	88.1	83.8	81.8	81.6
Equity/Assets (%)	17.0	16.1	15.9	15.7
Equity/Loans (%)	26.1	25.7	25.4	24.8
CAR (%)	21.8	20.5	19.8	19.3
Tier 1 CAR (%)	20.8	19.2	18.6	18.2
ASSET QUALITY				
Gross NPLs (%)	1.8	1.4	1.5	1.7
Net NPLs (%)	0.4	0.3	0.4	0.4
Coverage Ratio (%)	83.8	75.9	76.0	76.0
Credit costs (%)	0.2	0.5	0.6	0.7
ROAA TREE				
Net Interest Income	4.7	4.8	4.5	4.5
Non-Interest Income	1.5	1.9	1.8	1.8
Operating Cost	3.0	3.1	3.0	3.0
Provisions	0.1	0.3	0.4	0.4
Tax	0.8	0.8	0.7	0.7
ROAA	2.3	2.5	2.2	2.2
Leverage (x)	5.9	6.0	6.2	6.3
ROAE	13.8	15.0	13.7	13.9

Source: Company, Axis Securities

Kotak Mahindra Bank Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-22	BUY	2,400	Result Update
05-May-22	BUY	2,300	Result Update
25-Jul-22	BUY	2,250	Result Update
25-Oct-22	BUY	2,300	Result Update
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

Source: Axis Securities

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Disclosures:

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