

Retail Equity Research Kotak Mahindra Bank Ltd.

Banking

BSE CODE: 500247

NSE CODE: KOTAKBANK

Bloomberg CODE: KMB:IN

SENSEX: 37,607

BUY

12M Investment period

Rating as per Large cap

CMP Rs. 1,367 TARGET Rs. 1,572 RETURN 15%
(Closing: 31-07-20)



KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Protecting asset quality a primary objective

Kotak Mahindra Bank is one of the leading banking and financial groups in India. Currently, the bank has 1,539 full-fledged branches and 2,447 ATMs.

- About 9.65% of the total loan book is under moratorium 2.0.
- Bank expects to get back to a run rate of 2019-20 in about a year's time (by Q1FY22).
- Collection efficiency during June is close to pre-COVID levels.
- We retain our BUY rating on the stock and value the bank at 3.5x FY22E BVPS with a revised target price of Rs. 1,572.

Core operating metrics improve

Kotak recorded a marginal improvement of 1.6% YoY in interest income to Rs. 8,422cr in Q1FY21. Although the months of April and May had negligible collections, the company had strengthened its collections teams by moving key leadership and sales teams to collections, thus witnessing improvements in the months of June and July. Despite having a flat to negative loan growth, Net-interest income registered a healthy growth of 15.9% YoY to Rs. 4,793cr with NIM remaining flat YoY at 4.44% in the quarter. Non-interest income comprising of fees and treasury related services was also up 1.6% YoY to Rs. 3,901cr. The company has decided to increase its provisions although there was a dip in the moratorium. With provisions rising three-fold YoY to Rs. 1,119cr, the quarter ended with PAT at Rs. 1,853cr (-4.1% YoY).

Cautious approach deteriorates asset quality

This quarter saw strong growth in deposits with CASA ratio at 56.7% (vs. 50.7% in Q1FY20). Loans and advances saw a dip of 3.9% YoY this quarter. The company has taken a conservative approach to protect its asset quality, even if it foregoes short-term profits. Following a stringent screening procedure for allowing its customers to avail moratorium and some of its doubtful accounts has flown into NPA. Fresh slippages was at Rs. 796cr comprising of one large account with GNPA down 40bps to 2.7% and NNPA declining 20bps to 0.9% on a sequential basis. The bank remained well capitalized with CRAR at 23.0% (vs. 18.4% in Q1FY20).

Key highlights

- 80% of customers out of 9.65% in moratorium 2 is secured.
- The bank has not booked profits on MTMs worth ~Rs. 3,000cr in order to continue to earn the interest benefits on them.
- Employee cost down 6%, and Opex levels down 18% YoY.
- Given good monsoon predications and good customer cash flows, the bank is keen to gain market share in tractor markets.
- The bank launched a secured credit card designated for its 811 customers.

Outlook & Valuation

The bank's long-term focus to protect its Balance Sheet and cautious approach for providing moratorium has had a positive impact which is able to give better NII returns with comparatively lower advances. This shows that the bank is able to give higher returns with reduced risk factor in these uncertain times. Hence, we value the bank at 3.5x FY22E BVPS, with a target price of Rs. 1,572 and maintain our BUY rating on the stock.

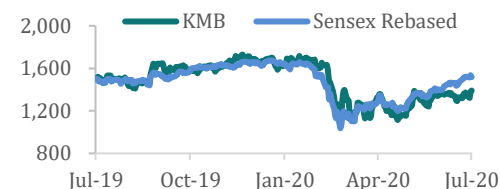
Company Data

Market Cap (cr)	Rs. 265,267
Outstanding Shares (cr)	191.1
Free Float	70.0%
Dividend Yield	0.0%
52 week high	Rs. 1,740
52 week low	Rs. 1,000
6m average volume (cr)	0.09
Beta	1.1
Face value	Rs. 5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	30.0	29.9	26.1
FIIs	39.8	39.2	42.2
MFs/Insti	12.4	12.7	15.3
Public	9.4	9.4	9.1
Others	8.5	8.9	7.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.3%	-14.7%	-7.3%
Absolute Sensex	11.9%	-7.8%	0.9%
Relative Return*	-9.6%	-7.0%	-8.2%

*over- or underperformance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Net Interest Income	17,573	18,880	21,238
Growth (%)	20.0	7.4	12.5
NIM (%)	4.8	4.9	4.9
Pre-provision Profit	13,980	14,375	15,333
Net Profit	8,593	7,392	9,886
Growth (%)	19.3	(14.0)	33.7
Adj. EPS	44.7	38.4	51.4
Growth (%)	18.4	(14.0)	33.7
BVPS	349.1	398.7	449.3
P/E	29.0	36.1	27.0
P/B	3.7	3.5	3.1
P/ABV	3.7	3.5	3.1
ROE (%)	13.7	10.3	12.1
ROA (%)	2.1	1.6	2.0

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. Cr.	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	8,422	8,289	1.6	8,434	(0.1)
Interest Expense	3,628	4,155	(12.7)	3,801	(4.5)
Net Interest Income (NII)	4,793	4,134	15.9	4,633	3.5
Non-Interest Income	3,901	3,840	1.6	3,651	6.9
Total Net Income	8,695	7,974	9.0	8,284	5.0
Total Income	12,323	12,130	1.6	12,085	2.0
Operating Expenses	5,140	4,711	9.1	4,347	18.2
Total Expenditure	8,768	8,866	(1.1)	8,148	7.6
Pre-Provision profit	3,555	3,263	8.9	3,937	(9.7)
Provisions	1,119	350	219.6	1,262	(11.3)
Profit Before Tax	2,435	2,913	(16.4)	2,674	8.9
Tax	595	986	(39.7)	723	17.7
Net Profit	1,853	1,932	(4.1)	1,905	2.8
EPS - Diluted (Rs.)	9.6	10.1	(5.3)	9.7	1.3

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	20,829	25,271	18,880	21,238	(9.4)	(16.0)
Net Interest Margin (%)	4.8	5.0	4.9	4.9	8bps	(9bps)
Pre-Provision Profit	16,712	20,215	14,375	15,333	(14.0)	(24.1)
Net Profit	11,146	13,499	7,392	9,886	(33.7)	(26.8)
EPS (Rs.)	58.3	70.6	38.4	51.4	(34.1)	(27.2)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	25,131	29,831	33,474	34,348	38,478
Interest Expense	12,467	15,187	15,901	15,468	17,240
Net Int. Income	12,664	14,645	17,573	18,880	21,238
% Change	16.5	15.6	20.0	7.4	12.5
Non-Int. Income	13,593	16,072	16,826	18,340	19,257
Net Income	26,257	30,717	34,399	37,220	40,495
Total Income	38,724	45,903	50,300	52,688	57,735
Operating Exp.	16,074	19,096	20,419	22,845	25,162
Total Exp.	28,541	34,282	36,320	38,313	42,401
Pre-Prov. Profit	10,183	11,621	13,980	14,375	15,333
Provisions	1,025	1,045	2,558	4,620	2,259
PBT	9,158	10,576	11,422	9,755	13,074
Tax	3,011	3,456	2,815	2,455	3,291
Tax Rate (%)	32.9	32.7	24.6	25.2	25.2
Net Profit	6,201	7,204	8,593	7,392	9,886
% Change	25.5	16.2	19.3	(14.0)	33.7
No. of Shares (cr)	190	191	192	192	192
Adj. EPS (Rs.)	32.7	37.7	44.7	38.4	51.4
% Change	21.6	15.5	18.4	(14.0)	33.7
DPS (Rs.)	0.7	0.8	0.0	0.8	1.1

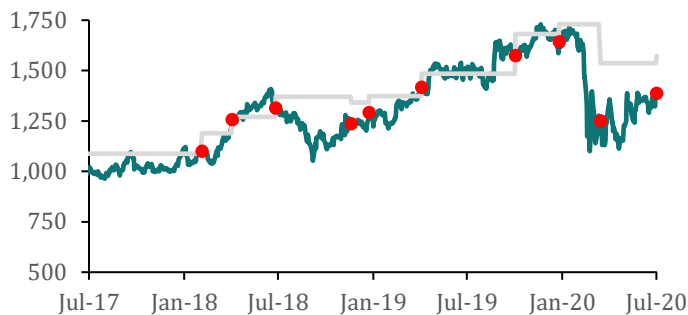
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	24,401	31,264	64,080	65,982	68,266
Investments	90,977	103,487	111,197	127,876	147,058
Advances	205,997	243,462	249,879	263,482	301,260
Fixed Assets	1,750	1,884	1,861	1,906	1,951
Other Assets	14,596	15,074	16,156	16,898	17,677
Total Assets	337,720	395,171	443,173	476,146	536,212
Capital	953	1,454	1,457	1,471	1,471
Reserves & Surplus	49,533	56,825	65,678	75,215	84,936
Deposits	191,236	224,824	260,400	257,796	301,622
Borrowings	58,604	66,439	65,577	74,430	84,478
Other Liabilities	37,395	45,628	50,062	67,234	63,705
Total Liabilities	337,720	395,171	443,173	476,146	536,212
BVPS (Rs.)	265.9	305.3	349.1	398.7	449.3
% Change	25.5	14.8	14.3	14.2	12.7

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	32.1	35.5	29.0	36.1	27.0
P/BV (x)	3.9	4.4	3.7	3.5	3.1
Div. Yield (%)	0.1	0.1	0.0	0.1	0.1
Profitability & Return (%)					
Yield on Advances	9.9	9.9	10.1	9.6	9.8
Cost of Deposits	5.5	5.6	5.2	4.7	4.8
Spread	4.4	4.2	4.9	4.9	5.0
NIM	4.6	4.4	4.8	4.9	4.9
ROE	13.9	13.2	13.7	10.3	12.1
ROA	2.0	2.0	2.1	1.6	2.0
Capital Adequacy (%)					
CAR	18.4	17.9	19.8	20.8	20.5
Tier I	17.8	17.5	19.2	20.5	20.3
Tier II	0.6	0.4	0.6	0.4	0.2
Asset Quality (%)					
GNPA	2.0	1.9	2.3	2.6	2.7
NNPA	0.9	0.7	0.7	0.8	0.9
Operating Ratios (%)					
Credit/ Deposit	107.7	108.3	96.0	102.2	99.9
Cost/ Income	61.2	62.2	59.4	61.4	62.1
CASA	50.8	52.5	52.5	54.4	54.4

Recommendation Summary



Dates	Rating	Target
5-Mar-18	HOLD	1,190
2-May-18	HOLD	1,271
25-Jul-18	HOLD	1,370
18-Dec-18	HOLD	1,342
22-Jan-19	HOLD	1,373
3-May-19	HOLD	1,484
31-Oct-19	HOLD	1,682
24-Jan-20	HOLD	1,730
13-Apr-20	BUY	1,537
03-Aug-20	BUY	1,572

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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