

Kotak Mahindra Bank

RESULT UPDATE

 Bloomberg: KMB IN
 Reuters: KTKM.BO

SELL

Headline defies the pressure points on spreads, growth & costs; liquidity management saves the day....

Amidst the headline noise we see pressure points at the core. While the blended growth was healthy, we sense areas of market share loss and weakness in the retail. Headline NIMs were up (4.33% vs 4.2% QoQ). While we see pressure on core retail spreads, the same got negated by liquidity management (high C/D & ID ratios) and higher other interest income. We had assessed the bank to be largely past the productivity benefits from the acquired branches, the pick-up in branch expansion and costs growth this quarter cements that view. While the Savings Account growth is relatively healthy however we note the same came with continuing inch up in Average Cost of SA suggesting led by non-granular accounts. On the positives, asset quality was stable (GNPA%/NNPA%/PCR% 2.1/0.7/66 VS 2.2/0.8/63 QoQ) and core fee income robust. We maintain Strong SELL on the stock with the revised target price of Rs 910 (earlier Rs 930) valuing core lending book at 2.9x FY20 P/B and subsidiaries at Rs 253 per share.

Margins aided by liquidity management& other Interest income; do not see scope for further maneuvering; pressure imminent ahead: While the reported NIMs were higher at 4.33% (NII Rs 29.4 bn 9.3%/22.8% QoQ/YoY) vs 4.2% in 2QFY19, we sense it comes from liquidity management in the balance sheet and camouflages the pressure on core spreads for a quarter. The Advances 'Deposits+Borrowings' ratio was up by a massive 330 bps in a single quarter while Investment 'Deposits+Borrowings' was up ~180 bps QoQ. The liquidity management also helped in improved CASA profile (50.7% vs 50.26% QoQ) aiding margins. We underscore that increase in 'Interest from RBI& other interbank funds' would itself have contributed ~5bps to margins. We expect the pressure on core retail spreads to continue.

Blended loan growth healthy, but within retail we see areas of weakness & market share loss: The bank's standalone loan growth (Rs 1.9 trillion) was healthy at 6.2%/23.5% QoQ/YoY. The sequential momentum in loan growth was led by corporate 8.4% QoQ, while the retail too was healthy at 5.2% QoQ. However we see areas of weakness and market loss. The key laggard was Business Banking (Rs 180 bn, ~9% of loan book, -3.0%/0% QoQ/YoY) where we sense loss of market share. We also sense relatively weaker sequential momentum in CV/CE (5.6%/35.8% QoQ/YoY) and PL (7.0%/35.7% QoQ/YoY). We lower our loan growth estimate to 21%/21% FY19E/FY20E as against our earlier estimates of 22%/23.5%. We underscore that consolidated lending book growth has slipped to 19% YoY.

Key Financials:

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	69,004	81,262	95,317	112,993	129,473
Pre-Provision Profit	40,411	59,848	71,582	85,130	99,162
PAT	20,898	34,115	40,843	48,008	58,088
EPS (Rs)	11.4	18.5	21.4	25.2	30.5
BV (Rs)	131	150	197	217	242
P/E (x)	111.2	68.4	59.1	50.3	41.6
P/BV* (x)	8.1	7.0	5.3	4.8	4.3
Net NPA (%)	1.1	1.3	1.0	0.7	0.7
ROA (%)	1.5	1.8	1.8	1.7	1.8
ROE (%)	11.4	13.2	12.5	12.2	13.3
Tier 1 (%)	15.3	15.9	17.6	16.1	14.8

Source: Company, Karvy Stock Broking, Excluding Subsidiaries

Recommendation

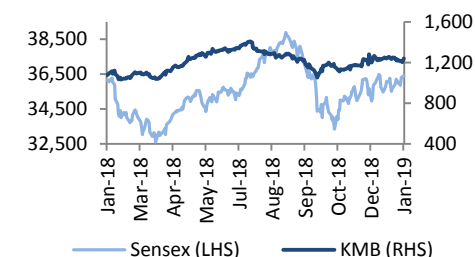
CMP:	Rs1268
Target Price:	Rs910
Downside (%)	28%
Previous Target Price:	Rs930

Stock Information

Market Cap. (Rs bn / US\$ mn)	2,418/33,969
52-week High/Low (Rs)	1,424/1002
3m ADV (Rs mn /US\$ mn)	4,508/63
Beta	0.9
Sensex/ Nifty	36,579/10,962
Share outstanding (mn)	1908

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	3.3	5.7	19.5	0.9
Rel. to Sensex	0.9	(0.8)	16.0	(0.5)

Performance


Source: Bloomberg

Earnings Revision

(%)	FY19E	FY20E
Loan	↓ 0.8	↓ 2.8
NII	↑ 1.8	↑ 0.4
PAT	↑ 0.7	↓ 2.1

Source: Karvy Stock Broking

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Kotak Mahindra Bank
Exhibit 1: Variance

Rs mn	Revised Estimates		Old Estimates		Variance %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Loan Book	2,053,587	2,484,840	2,070,559	2,557,140	-0.8%	-2.8%
NII	112,993	129,473	110,997	128,930	1.8%	0.4%
Operating Profit	85,130	99,162	85,078	101,384	0.1%	-2.2%
Credit Cost	13,476	12,463	13,906	12,860	-3.1%	-3.1%
PAT	48,008	58,088	47,685	59,311	0.7%	-2.1%

Source: Company, Karvy Stock Broking

SOTP

	Multiple	Per Share	Rationale
Kotak Mahindra Bank - Banking Business	2.9	682	2.9x FY20E Core BV
Kotak Mahindra Prime - Car Finance	1.7	54	1.7x FY20E core NW
Kotak Mahindra Investments - LAS	2.0	18	2.0x FY20E core NW
Kotak Securities - Broking	2.4	59	2.4x FY20E core NW
Kotak AMC and TC	1.8	9	1.8x FY20E NW
Kotak Life	9.0	106	9X FY18 NW
KMCC - Investment Banking Business	1.4	4	1.4x FY20E core NW
Others	0.6	4	0.6x FY20E NW
Total Value of Sub		253	
Less : 10% Holding discount		25	
Total Value		910	

Source: Karvy Stock Broking

Exhibit 2: Quarterly Summary

Rs mn	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (%)	QoQ (%)
Net Interest Income	23,937	25,798	25,829	26,891	29,391	9.3%	22.8%
Non Interest Income	10,398	11,516	11,646	12,053	9,639	-20.0%	-7.3%
<i>Fee Income</i>	8,290	10,100	9,890	10,190	10,380	1.9%	25.2%
Operating Income	34,335	37,314	37,475	38,944	39,030	0.2%	13.7%
Operating Expenses	16,135	17,134	17,150	17,994	19,646	9.2%	21.8%
Pre provision Profits	18,201	20,180	20,325	20,950	19,384	-7.5%	6.5%
Provisions	2,128	3,069	4,696	3,538	(323)	-109.1%	-115.2%
<i>NPA Provisions</i>	1,698	1,749	2,600	2,213	2,550	15.2%	50.2%
PBT	16,073	17,110	15,629	17,412	19,707	13.2%	22.6%
Provision For Tax	5,541	5,870	5,380	5,995	6,798	13.4%	22.7%
PAT	10,532	11,241	10,249	11,417	12,909	13.1%	22.6%
Balance Sheet							
Deposits (Rs bn)	1,808	1,926	1,897	2,058	2,138	3.9%	18.2%
CASA (%)	46.7	50.8	50.3	50.2	50.7	48 bps	404 bps
Advances (Rs bn)	1,591	1,697	1,769	1,849	1,964	6.2%	23.5%
% Share							
CV And CE (%)	8.0	8.3	9.0	9.1	9.2	16 bps	122 bps
Agri Finance (%)	12.9	12.9	13.5	12.0	12.1	12 bps	-81 bps
Mortgage Loans (%)	19.3	19.5	19.1	19.2	19.5	28 bps	21 bps
PL (%)	13.7	14.4	14.8	14.8	15.7	89 bps	202 bps
Business Banking (%)	11.9	11.3	10.8	10.2	10.0	-20 bps	-183 bps
Corp Banking (%)	32.1	31.4	30.7	32.6	31.4	-120 bps	-71 bps
Others (%)	2.1	2.2	2.1	2.1	2.0	-5 bps	-10 bps
CD ratio (%)	88.0	88.1	93.2	89.9	91.9	202 bps	391 bps
Tier I (%)	18	17.6	17.6	17.4	17.6	20 bps	-40 bps
Profitability							
NIM (%)	4.20	4.35	4.30	4.20	4.33	13 bps	13 bps
Cost-Income Ratio (%)	47.0	45.9	45.8	46.2	50.3	413 bps	334 bps
Tax Rate (%)	34.5	34.3	34.4	34.4	34.5	6 bps	2 bps
Asset Quality							
Gross NPA (Rs bn)	37.1	38.3	39.0	40.3	41.3	2.4%	11.1%
Net NPA (Rs bn)	17.3	16.7	15.3	15.0	14.0	-6.9%	-19.1%
Gross NPAs (%)	2.3	2.2	2.2	2.2	2.1	-8 bps	-24 bps
Net NPAs (%)	1.0	1.0	0.9	0.8	0.7	-10 bps	-33 bps
Coverage Ratio (%)	53.5	56.5	60.8	62.8	66.2	337 bps	1267 bps

Source: Company, Karvy Stock Broking

Kotak Mahindra Bank
Exhibit 3: Income Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	69,004	81,262	95,317	112,993	129,473
Fees	23,990	30,356	38,399	46,835	57,279
Investment Profit	2,132	4,416	2,123	696	1,700
Net Revenue	95,126	116,033	135,839	160,523	188,452
Operating Expense	54,715	56,185	64,257	75,393	89,290
-Employee Exp	28,170	27,685	29,298	31,788	37,192
-Other Exp	26,546	28,500	34,960	43,605	52,098
Pre-provision Profit	40,411	59,848	71,582	85,130	99,162
Provisions	9,175	8,368	9,400	13,476	12,463
PBT	31,236	51,481	62,182	71,654	86,699
Taxes	10,338	17,366	21,339	23,646	28,611
PAT	20,898	34,115	40,843	48,008	58,088

Source: Company, Karvy Stock Broking

Exhibit 4: Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Capital	9,172	9,205	9,528	9,528	9,528
Reserves & Surplus	230,453	266,975	365,310	404,677	452,309
Shareholder's Funds	239,625	276,179	374,838	414,205	461,837
Deposits	1,386,430	1,574,259	1,926,433	2,299,402	2,805,050
-Current deposits	232,817	277,608	322,460	380,503	452,798
-Saving deposits	294,947	415,039	655,290	799,454	975,334
-Term deposit	858,666	881,612	948,683	1,119,446	1,376,918
Borrowings	209,753	210,955	251,542	291,788	379,325
Other liabilities	88,049	85,966	96,522	123,215	149,090
Total liabilities	1,923,858	2,147,359	2,649,334	3,128,610	3,795,302
Cash/Equivalent	108,797	225,720	196,201	233,425	286,862
Advances	1,186,653	1,360,821	1,697,179	2,053,587	2,484,840
Investments	512,602	450,742	645,624	695,690	849,931
Fixed Assets	15,516	15,376	15,272	16,493	17,813
Other assets	100,289	94,700	95,058	129,415	155,856
Total assets	1,923,858	2,147,359	2,649,334	3,128,610	3,795,302

Source: Company, Karvy Stock Broking

Kotak Mahindra Bank
Exhibit 5: Ratio's

<i>Ratio's</i>	FY16	FY17	FY18	FY19E	FY20E
Growth (%)					
NII growth	63.4	17.8	17.3	18.5	14.6
Pre-provision profit growth	34.8	48.1	19.6	18.9	16.5
PAT growth	12.0	63.2	19.7	17.5	21.0
Business (%)					
Advance growth	79.4	14.7	24.7	21.0	21.0
Balance Sheet growth	81.4	11.6	23.4	18.1	21.3
Credit/Outsider's Liabilities	74.3	76.2	77.9	79.3	78.0
CASA	38.1	44.0	50.8	51.3	50.9
Operating efficiency (%)					
Cost-to-income	57.5	48.4	47.3	47.0	47.4
Cost-to-income (Ex Treasury)	58.8	50.3	48.1	47.2	47.8
Cost-to-advances	4.6	4.1	3.8	3.7	3.6
Spreads (%)					
Spreads	4.7	3.5	3.5	3.4	3.2
NIMs	4.9	4.2	4.2	4.1	3.9
Capital adequacy (%)					
Tier I	15.3	15.9	17.6	16.1	14.8
Asset Quality (%)					
Gross NPA	2.4	2.6	2.2	2.0	1.9
Net NPA	1.1	1.3	1.0	0.7	0.7
Provision coverage	55.5	52.0	56.5	63.5	64.4
Slippage	4.3	1.5	1.4	0.9	1.2
Credit-cost	0.8	0.6	0.4	0.5	0.5
Return (%)					
ROE	11.4	13.2	12.5	12.2	13.3
ROA	1.5	1.8	1.8	1.7	1.8
Per share (Rs)					
EPS	11.4	18.5	21.4	25.2	30.5
BV	131	150	197	217	242
ABV	124	141	188	210	233
Valuation (x)					
P/E	111.2	68.4	59.1	50.3	41.6
P/BV*	8.1	7.0	5.3	4.8	4.3
P/ABV*	8.5	7.5	5.5	4.9	4.4

Source: Company, Karvy Stock Broking, *adjusted for subsidiaries

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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