



Maintain BUY / TGT ₹ 2476



## Kotak – Diversified and Integrated Fintech Behemoth



**Kotak Mahindra Bank Limited (KMBL)** is the flagship company of the Kotak group and has diversified operations covering commercial vehicle financing, consumer loans, corporate finance and asset reconstruction. Through its subsidiaries, the bank is engaged in investment banking, equity broking, securities-based lending and car finance. KMBL was reconstituted as a commercial bank from a non-banking financial company (NBFC) in fiscal 2003 to provide a more comprehensive range of financial services. Effective April 1, 2015, ING Vysya Bank was merged with KMBL and the integration process has been completed.



**About the Bank:** Kotak Mahindra Bank is a diversified financial services group providing a wide range of banking and financial services all over India. Presently, the bank is the fourth largest bank and third largest private bank in India, in terms of market capitalization.

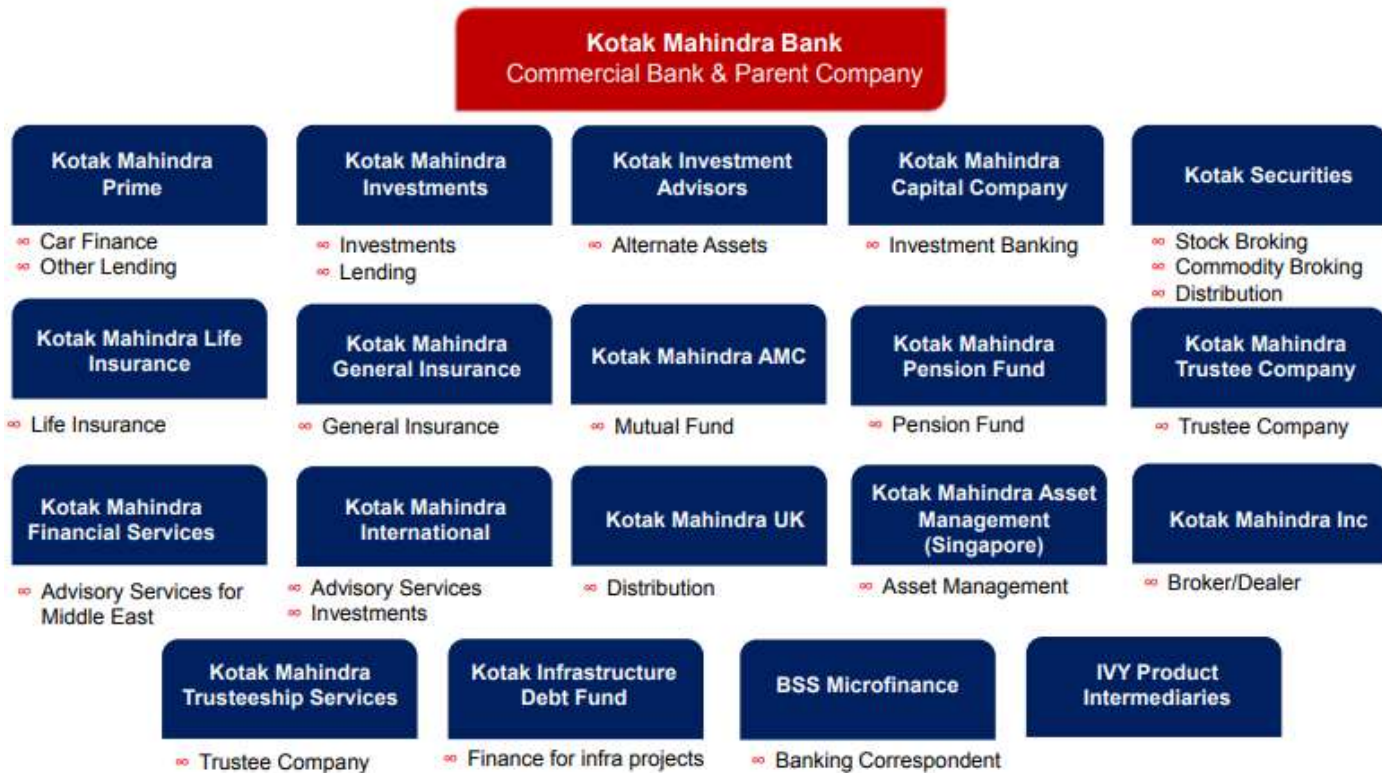
Other than KMBL, the key operating companies of the Kotak group are **Kotak Mahindra Prime Ltd** (car financing), **Kotak Mahindra Capital Company** (investment banking), **Kotak Securities Ltd** (retail and institutional equities broking, and portfolio management services), **Kotak Mahindra Investments Ltd** (commercial real estate lending and securities-based lending) and **Kotak Investment Advisors Ltd** (alternate assets space). The group also operates in the life and general insurance business through **Kotak Mahindra Life Insurance Company Ltd** and **Kotak Mahindra General Insurance Company Ltd**. It is also present in the asset management business through **Kotak Mahindra AMC and Trustee Company Ltd**.





## Group Profile

### Kotak – Diversified and integrated financial services



Today, Kotak Mahindra Bank is a one-stop financial shop which does everything from commercial banking to investment banking, insurance, mutual fund and asset reconstruction. *The group is leveraging its expertise and presence to deliver a banking and financial services experience that is contemporary, customized and built for the not-as-usual world.*

**High Management Quality & Corporate Governance:** Creating a strong management team is a vital component of running a successful business. The Kotak group has one of the best organizational structures in the banking business, and it is managed by an extraordinary team of industry experts with adequate experience. Uday Suresh Kotak, an Indian billionaire banker, is the executive vice chairman and managing director of Kotak Mahindra Bank.



## The MIDAS touch

*“When it comes to money, Kotak has the Midas touch.”*

- Tamal Bandyopadhyay

## Strong and Committed Leadership Team

 <b>Dipak Gupta</b> Jt. MD 30 Years Compliance, IT, HR & Marketing, Digital, Customer experience, Audit & Vigilance	 <b>Gaurang Shah</b> WTD 25 Years Credit, ARD, Asset Mgmt, Alternate Assets, Insurance & International Business	 <b>KVS Manian</b> WTD 26 Years Corporate, Institutional Equities, Investment Bank & Wealth	 <b>D Kannan</b> 30 Years Commercial Banking	 <b>Shanti Ekambaram</b> 30 Years Consumer Banking	
 <b>Jaimin Bhatt</b> 26 Years Group CFO, Operations	 <b>Nilesh Shah</b> 7 Years Asset Management	 <b>Jaideep Hansraj</b> 28 Years Retail Brokerage	 <b>Virat Diwanji</b> 17 Years Retail Liabilities & Branch Banking	 <b>Srini Srinivasan</b> 29 Years Investment Advisory	 <b>Paul Parambi</b> 30 Years Risk





## Investment Rationale

**Strong Capital Position:** KMBL's Capital adequacy is amongst the highest in the Indian banking sector which provides the basis for growth. **The Tier-I capital adequacy ratio (CAR) and overall CAR were healthy at 23.7% and 24.5%, respectively, as on December 31, 2021.** Even during the pandemic, the bank's capital position was well above the regulatory requirement.

Kotak group's capitalisation will continue to be backed by steady internal cash accrual and remain strong to support growth initiatives over the medium term. Moreover, strong capital adequacy position also protects KMBL against risks during adversity.

**Strong Financials:** KMBL has comfortable earnings with consolidated return on assets (RoA) improved to ~2.6% for Q3 FY22 vs 2.2% in the same period of the previous financial year. The earnings profile remains supported by healthy industry leading net interest margin (NIM) of 4.54% for the nine months ended December 31, 2021. **High (best amongst peers) NIM reflects KMBL's strategic focus centered around risk adjusted returns and its ability to evaluate and appropriately price risk.**

KMBL's growth has been supported by a healthy contribution of low-cost deposits (current and savings accounts). **The bank's continued focus on low-cost current and savings accounts (59.9% share in total deposits as on December 31, 2021) has significantly contributed in lowering its cost of funds.** Kotak was the first to offer aggressive deposit rates to customers when deposit rates shrunk with well defended high net interest margins (NIMs) and healthy credit quality.

*"Banks often misprice the risk. For every loan we give, I ask myself, 'will we get the money back'?"*

- Uday Kotak

**Healthy asset quality:** The Kotak group has demonstrated its ability to maintain asset quality through cycles. Over the years, the bank has avoided large exposure to sectors such as infrastructure and metals, among others, which have resulted in significant asset quality challenges for many of its peers.



₹ cr	31-Dec-21	31-Dec-20 Proforma	30-Sep-21
GNPA	6,983	7,126	7,658
NNPA	2,004	2,646	2,491
GNPA (%)	2.71%	3.27%	3.19%
NNPA (%)	0.79%	1.24%	1.06%
PCR (excl standard and COVID prov)	71%	63%	67%

Kotak group's stringent underwriting standards, strong risk management systems and processes, and rigorous collection measures will keep asset quality healthy over the medium term. However, delinquencies could inch up due to the challenging current macro environment.



## Investment Rationale

**At the forefront of developing Digital Ecosystem:** Digitalization has been integral to Kotak's core growth strategy focusing on customer acquisition, engagement and experience. It has also been instrumental in building a future-ready banking franchise. When the pandemic-induced disruptions brought forward digital transformation by several years, Kotak was more prepared than ever to leapfrog a few generations of emerging technologies. Today, Kotak is redefining customer experience as well as business models, harnessing the power of data analytics and AI.

**Over 97% of SA transaction volumes were in digital or non-branch modes in Q3**

### Traditional Digital Channels

#### Netbanking

- ❑ 58% YoY growth in Logins, Q3FY22 vs Q3FY21
- ❑ 33% YoY growth in 90-day active user base, Q3FY22 vs Q3FY21
- ❑ 26% YoY growth in Financial transaction value, Q3FY22 vs Q3FY21

#### Website

- ❑ 49% YoY growth in Visits, Q3FY22 vs Q3FY21
- ❑ 37% YoY growth in Page views, Q3FY22 vs Q3FY21

#### WhatsApp Banking

- ❑ 62% YoY growth Monthly Active Users, Dec '21 vs Dec '20
- ❑ 40+ Services live, 2 new added in Q3

#### Keya Chatbot

- ❑ 54% YoY growth Monthly Active Users, Dec '21 vs Dec '20
- ❑ 33 SRs / Enquiries live, 2 new added in Q3

### Emerging Digital Channels

### Digital Lending

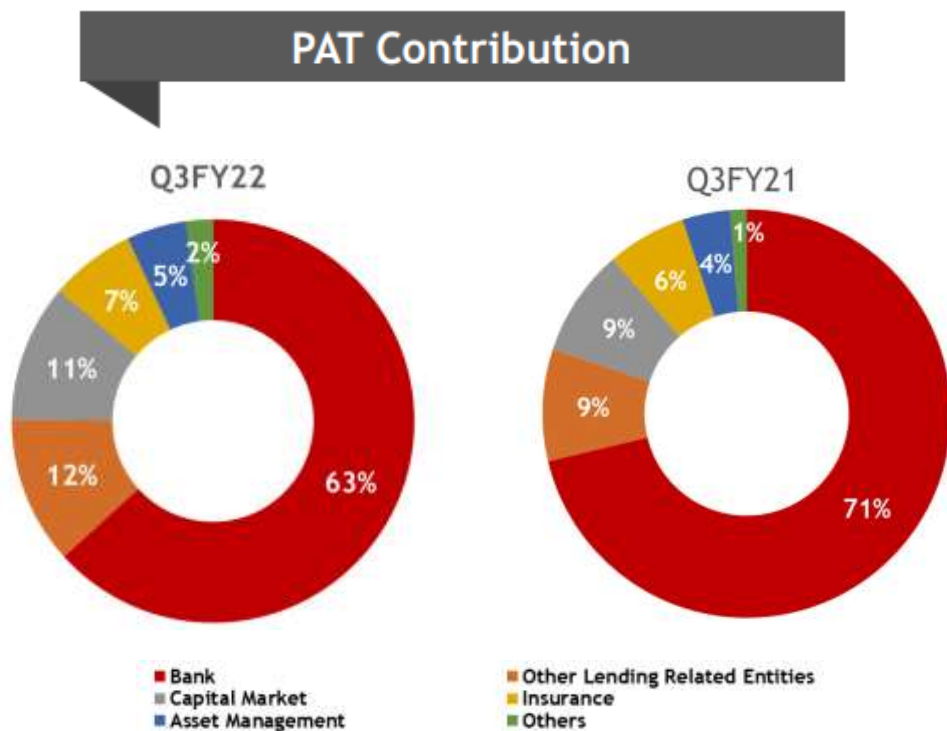
- ❑ 14.6X volume & 6.2X value in Personal loans sourced Q4 vs Q3 FY22
- ❑ 80% of Credit Cards sourced through digital platforms

- ❑ 81% RDs and 81% FDs booked digitally
- ❑ 92% investment a/cs sourced via App & Netbanking
- ❑ 56% of MF/SIPs booked through digital channels
- ❑ 77% of individual NPS opened via MB

### Adoption and Cross-sell

Since 2016, Kotak Bank collaborated with over 100 fintechs in the areas of AI, automation, lending, payments, API banking and Blockchain. Lately, the bank added several new features to its digital platforms and witnessed an exponential increase in their usage. **From Video KYC to cardless ATM transactions and more online payment options to end-to-end loan processing, the Kotak Digital Universe is enabling a seamless transition to the digital economy while elevating customer delight.**

**Value unlocking from the subsidiaries in the future:** Unlike HDFC or ICICI, the shareholders of Kotak Bank are yet to derive the benefits of listing the broking, life insurance and asset management business. In Q3FY22, banking business contributed 63% to consolidated earnings (down from 71% in Q3FY21) and earnings were more broad-based across group entities.



Among the subsidiaries, the securities broking business had a market share of 10.4% in 9MFY22 in the cash segment, while the asset management business had an overall market share of 7.4% in 3QFY22 (based on average assets under management). The investment banking entity, Kotak Mahindra Capital Company has multiple marquee deals to its credit. Also, Kotak Mahindra Life Insurance stood seventh in terms of the total premium among private life insurance players in India.



**Profit and Loss statement**
**in ₹ (Crores)**

Year to March	FY21	FY22E	FY23E	FY24E
<b>Net Interest Income (NII)</b>	15340	16860	20330	23870
Add: Fee & Other Income	5006	6137	7185	8255
<b>Total Income</b>	20346	22997	27515	32125
Less: Operating Expenses	8584	11276	13375	15470
<b>Operating Profit</b>	11762	11721	14140	16655
Less: Provision & Contingencies	2459	1217	2250	3300
<b>PBT</b>	9303	10504	11890	13355
Less: Taxes	2338	2626	2970	3340
<b>PAT</b>	6965	7878	8920	10015

**Valuations**

Year to March	FY21	FY22E	FY23E	FY24E
<b>Return on Equity (%)</b>	11.77%	11.55%	12.40%	13.05%
<b>Book Value (₹)</b>	426	485	547	619
<b>P/Bv (x)</b>	4.23x	3.68x	3.26x	2.88x

Source: Company data, JRK research



## Investment Risks

**Relative competitiveness in the banking space, especially in Retail segment can reduce deposits or advances market share.** (Competition from already established players like ICICI, HDFC or Axis and from mobile wallets and payments banks).

**Macro Headwinds like High Inflation (Stagflation) can slowdown economic recovery, which could impact the demand for loans thereby impacting earnings profile of the bank.**



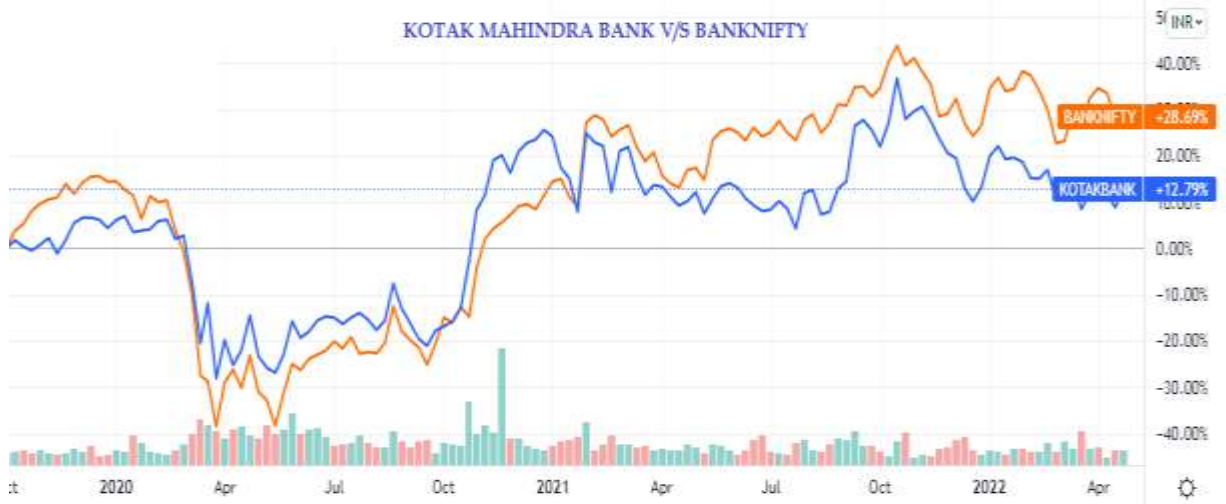
## Comparable Peer Group

Banks	NIM(%)	RoE (%)	RoA (%)	CRAR (%)	Credit Growth (%)	Price to Book Value (x)	CASA Ratio (%)
HDFC	4.0%	15.4%	2.03%	18.90%	20.8%	3.20x	48.2%
ICICI	4.0%	13.7%	1.84%	19.16%	17%	3.03x	45.0%
Axis	3.5%	12.9%	1.21%	18.54%	15%	1.95x	45.0%
Kotak*	4.5%	11.2%	1.95%	23.30%	18%	3.83x	59.9%
IndusInd	4.1%	10.6%	1.33%	18.42%	12%	1.58x	43.0%

\*Kotak Bank – Numbers are updated till 9M FY22 & for rest of the Banks, data is updated till FY22.



## Stock Price Performance

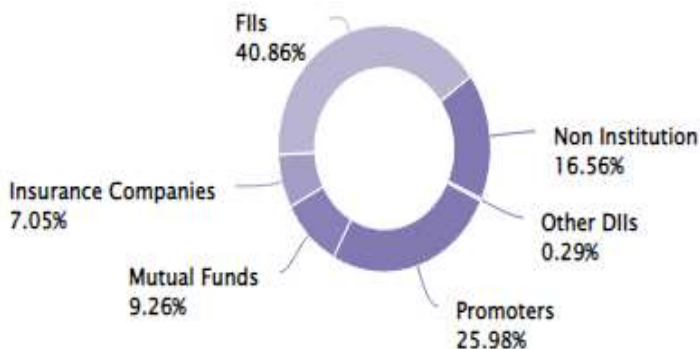


Lately, KMBL has under-performed the Bank Nifty. We expect this trend to reverse soon as market starts discounting the advances growth of KMBL which is outpacing its peers. Kotak Mahindra Bank has traded at a price to book value multiple above 4x over the past five years. **We arrived at a target price for the stock ₹ 2,476 over a period of two years. (discounting the stock to trade at 4x of FY24E BV of ₹ 619)**



## Other Information

### Shareholding Snapshot



Market Cap 3.55 Lakh Cr

CMP (2 May'22) 1774

52 week Range 2252/1627

NSE Symbol KOTAKBANK

EPS 54.21

PE (x) 32.7x

Book Value 467

P/Bv (x) 3.80x

## **We are SEBI Registered “Research Analyst” INH300008881**

**This Report is Prepared by JRK Research Team for internal circulation.**

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