INVasset Corporate Insights

Kotak Mahindra Bank

26th February, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Kotak Mahindra Bank, a titan in the realm of financial services within India, has continually cemented its status as a comprehensive and multifaceted financial powerhouse. Its extensive suite of services spans consumer, commercial, and corporate banking, credit and financing, asset management, and a spectrum of insurance and investment solutions. The quarter ended March 23, Kotak Mahindra Bank's commitment to excellence and innovation in banking, asset management, and a multitude of financial services has propelled its asset base to an impressive ₹ 6.2 trillion as of March 31st, 2023.

The bank's diversified approach extends to its substantial assets under management, amounting to ₹ 4.20 trillion, and its total deposits, which have reached ₹ 3.61 trillion. With a significant ₹ 3.59 trillion in total advances and ₹ 1.39 trillion in total investments, the bank's robust fiscal standing is evident. A testament to its expansive reach and trusted reputation is a formidable clientele of 41.2 million customers, all serviced by a dedicated workforce exceeding 1,00,000 full-time employees. Kotak's influence transcends national boundaries, with international branches and subsidiaries that mark its global presence. Driven by a relentless focus on customer needs, technological advancement, and nurturing talent, Kotak Mahindra Bank is not just experiencing growth but accelerating it, ensuring sustainability across its various business verticals and customer segments.

Expansive and Balanced Network: Kotak Mahindra Bank boasts a comprehensive branch network of about 1,700 branches and nearly 2,700 ATMs across India. With a strategic emphasis on accessibility, 45% of these branches serve the bustling metro cities, while a substantial 55% cater to the diverse needs of urban, semi-urban, and rural areas. The geographical spread is balanced, with the North, East, and West regions housing roughly 30% of the branches, and the East constituting 8%, highlighting a targeted yet inclusive growth strategy.

Diversified Lending Portfolio: Kotak Mahindra Bank's standalone loan book reveals a well-diversified and strategically allocated customer asset portfolio. Housing-related finances, comprising home loans and loans against property, form the largest category at 26%, followed by corporate banking loans at 23%. The bank also supports the backbone of the economy with 9% of its loans dedicated to working capital and another 9% to agriculture, underscoring its commitment to a variety of vital economic sectors. Other significant areas include commercial vehicle and construction equipment financing at 8%, SME loans at 7%, and credit substitutes also at 7%, showcasing a balanced risk distribution across different lending streams.

Revenue Streams and Digital Transformation: Kotak Mahindra Bank's revenue generation is predominantly anchored in its general banking operations, which account for approximately 78% of its fee income. Distribution and syndication activities also play a significant role, contributing around 19%, with the remaining 3% derived from a variety of other sources. In parallel to its financial performance, the bank's strategic digital advancements have led to a staggering 97% of savings account transactions and 65% of overall service requests being executed through digital or non-branch channels, highlighting the bank's successful pivot towards a digital-first approach.

Comprehensive Financial Ecosystem: Kotak Mahindra Bank's expansive presence across the financial value chain is illustrated by its diverse subsidiaries, each specializing in a facet of the financial sector. From vehicle financing through Kotak Mahindra Prime Ltd, to strategic investment banking services via Kotak Mahindra Capital Company Ltd, the bank covers an extensive range of services. It delves into securities through Kotak Securities Ltd, and into asset and alternate asset management with Kotak Asset Management and Kotak Investment Advisors Limited, respectively. Furthermore, it addresses insurance needs with KM Life Insurance and KM General Insurance Companies, while promoting financial inclusion via BSS Microfinance Ltd, thereby reinforcing its commitment to serving a wide spectrum of financial needs and contributing to the socio-economic development across various regions.

Stock Data	
CMP (26-02-2024)	1724.75
52 Week High/Low	1643.5 / 2064.4
Face Value	5
Market Cap (In Crs)	3,42,671
Enterprise Value (In Crs)	7,18,579
NSE	KOTAKBANK
BSE	500247
Bloomberg	KMB:IN
Sector	Private Sector Bank

Shareholding Pattern (in %)		
	DEC 23	SEP 23
Promoter	25.91	25.92
FII	39.74	40.97
DII	21.38	20.00
Public	12.98	13.11

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	2.99	14.56	24.63
KOTAKBANK	-4.54	-2.02	-0.31

Key Ratios	
P/E	19.7
P/S	6.47
P/B	3.06
Debt To Equity	3.75
ROE	14.3%
ROCE	6.86%
Dividend Yield	0.09%

Q3 FY 24 Result Update

Q3 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Revenue	14,495	13,717	11,011	5.67%	31.64%
Interest Income	5,985	5,536	3,802	8.11%	57.42%
Profit before Tax	5,614	5,888	5,224	-4.65%	7.47%
Net Profit	4,265	4,461	3,995	-4.39%	6.76%
EPS	21.46	22.45	20.12	-4.41%	6.66%

Result Highlights

Kotak Mahindra Bank's Q3 FY24 results present a sturdy financial performance with notable year-on-year growth. The bank reported a revenue of ₹ 14,495 Cr, a significant increase of 31.64% compared to the same quarter of the previous fiscal year. The interest income surged to ₹ 5,985 Cr, marking a substantial growth of 57.42% year-on-year, which indicates the bank's increasing efficiency in generating earnings from its core activities. Despite a slight quarter-on-quarter dip in profit before tax and net profit, registering at ₹ 5,614 Cr and ₹ 4,265 Cr respectively, they showcase a healthy annual growth of 7.47% and 6.76%.

The earnings per share (EPS) for Q3 FY24 stood at 21.46, reflecting a modest increase of 6.66% over the last year, despite a decrease from the previous quarter. This consistent performance in EPS demonstrates the bank's resilience and ability to enhance shareholder value over time. The quarter-over-quarter figures do exhibit a slight contraction in profitability metrics, which is a common occurrence in the dynamic banking sector, potentially attributable to seasonal fluctuations or strategic investments that may pay off in the longer term. Overall, Kotak Mahindra Bank's Q3 results underline a trajectory of solid growth and profitability.

Robust Profitability: Kotak Mahindra Bank's Q3 FY24 results showcased a commendable 8% year-over-year growth in Profit After Tax (PAT), a clear indicator of its robust profitability and operational efficiency. The consistent performance is further highlighted by the 30% YoY surge in PAT for the nine-month period, demonstrating the bank's capacity to maximize earnings amidst fluctuating economic conditions. The unwavering Net Interest Margin (NIM) at 5.22%, mirroring the previous quarter, underscores the bank's strategic acumen in managing interest income and expenditure.

Strong Asset Quality and Capitalization: The bank's stringent credit risk framework is reflected in the low Net Non-Performing Assets (NNPA) ratio of 0.34%, which is indicative of the high quality of its loan book and effective recovery mechanisms. With a Capital Adequacy Ratio (CAR) of 22.2% and Common Equity Tier 1 (CET1) at 21.2%, the bank exhibits a formidable capital structure, well-equipped to support future expansion and absorb potential shocks, far surpassing regulatory benchmarks.

Deposit Base and Customer Assets: Kotak Mahindra Bank has maintained a strong CASA ratio of 47.7%, despite the competitive challenges in attracting deposits, which speaks to the bank's loyal customer base and effective deposit mobilization strategies. The substantial growth in Customer Assets to ₹ 451,524 cr not only signifies the bank's aggressive lending strategies but also mirrors the growing confidence of its clientele, contributing to the bank's overall financial stability and growth prospects.

Expansion of Subsidiaries and Strategic Partnerships: The remarkable growth of Kotak Securities, with its market share almost doubling to 10.3%, signifies the subsidiary's growing influence and success in the securities broking market. Kotak General Insurance's strategic partnership with Zurich Insurance promises to bolster its market presence by leveraging Zurich's global expertise, potentially leading to innovative insurance products and enhanced customer service.

Digital Prowess and Prudent Provisions: The bank's digital transformation efforts are evident, with a significant shift of customers to digital channels, reflecting changing consumer behaviors and the bank's ability to stay ahead in the digital banking race. The prudent provision of ₹ 190 cr for Alternative Investment Fund investments showcases Kotak Mahindra Bank's commitment to compliance with the Reserve Bank of India's regulations, balancing its progressive approach with careful risk management.

Concall Highlights

Strengthened Earnings: In Q3 FY24, Kotak Mahindra Bank and its subsidiaries have delivered a commendable performance, as seen in the consolidated Profit After Tax (PAT). The bank itself contributed ₹ 3,005 crores to the PAT, marking a substantial increase from both the previous quarter and the same quarter in the prior year. The significant year-on-year growth in Kotak Mahindra Investments and a stable performance from Kotak Securities reflect the robustness of the bank's diversified financial services. Despite a slight decrease, Kotak Mahindra Life Insurance continues to be a notable contributor. While Kotak Mahindra General Insurance faced a setback, the overall contributions from bank and subsidiaries totalled ₹ 4,207 crores, leading to a robust consolidated PAT of ₹ 4,265 crores. This financial snapshot portrays the group's resilience and strategic proficiency in navigating the complex financial landscape.

Enhanced Financial Foundation: Kotak Mahindra Bank and its subsidiaries have bolstered their financial bedrock, as depicted by the entity-wise capital and reserves & surplus for the period ending December 2023. The group's capital base has seen a robust expansion with the bank's reserves swelling to ₹ 92,994 crores, a significant leap from the previous year-end, symbolizing a strong retention of earnings and financial fortitude. Subsidiaries like Kotak Securities and Kotak Mahindra Prime have also contributed positively to this reinforcement. This augmentation in capital and reserves, summing up to ₹ 126,917 crores for the bank and its subsidiaries, lays a solid groundwork for future ventures and growth plans, indicating the group's strategic foresight and commitment to sustainable financial health.

Standalone Financial Highlights: Kotak Mahindra Bank's standalone financial results for Q3 FY24 showcase robust growth and financial stability. The Profit After Tax (PAT) saw a healthy rise to ₹ 3,005 crore, up from ₹ 2,792 crore in Q3 FY23, reflecting strong profitability. Net Interest Income (NII) also reported growth, indicating effective interest revenue generation. The Net Interest Margin (NIM) remained stable, demonstrating the bank's ability to maintain a profitable spread between the interest it earns and the interest it pays to depositors. Furthermore, the bank reported a solid Return on Assets (ROA) of 2.20%, signifying efficient asset utilization. With a Capital Adequacy Ratio (CAR) of 21.2% and a Common Equity Tier 1 (CET1) ratio of 20.1%, the bank's capital structure remains strong, well above the regulatory requirements, ensuring financial resilience.

Enhanced Financial Performance : Kotak Mahindra Bank's financial performance over the nine months ending Q3 FY24 has exhibited a noteworthy upswing, underscored by a robust Net Interest Income of ₹ 19,084 crore, which marks an improvement over the previous year. The bank's Other Income, particularly from fees and services, has impressively surged to ₹ 5,998 crore, contributing significantly to the Net Total Income of ₹ 26,379 crore. This period has also seen a diligent control over expenses, leading to an Operating Profit of ₹ 14,126 crore. Despite a prudent increase in provisions and contingencies to ₹ 1,310 crore, the bank's Profit Before Tax (PBT) reached ₹ 12,816 crore. The bank's Profit After Tax (PAT) climbed to ₹ 9,648 crore, reflecting the strength of its core operations and strategic financial management. The improved Cost to Income ratio at 46.4% further indicates the bank's efficiency and fiscal prudence during this period.

Maintained Asset Quality and Proactive Risk Management: Kotak Mahindra Bank's Asset Quality report as of 31st December 2023, demonstrates a sustained focus on maintaining strong asset quality and prudent risk management. The Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) percentages are at 1.73% and 0.34% respectively, reflecting stringent credit policies and efficient recovery processes. The Provision Coverage Ratio (PCR) at a healthy 80.6% further assures the bank's readiness to absorb potential losses. Recovery efforts have been fruitful with ₹ 830 crore recouped, and the credit cost on net advances has been maintained at a conservative 40 basis points on an annualized basis for Q3 FY24.

Diversified Customer Asset Portfolio Signaling Growth: Kotak Mahindra Bank's Customer Assets overview as of 31st December 2023, exhibits a diversified and growing loan portfolio. Significant year-on-year growth in consumer banking and unsecured personal loans by 33% and 52% respectively highlights consumer confidence and the bank's aggressive retail strategy. Notably, Corporate Banking and SME sectors have shown robust advances, contributing to a 19% increase in total advances, signaling the bank's strong footing in these critical segments. The increase in unsecured retail advances to 11.6% of net advances underlines the bank's strategic expansion in higher-yield segments while balancing the associated risks.

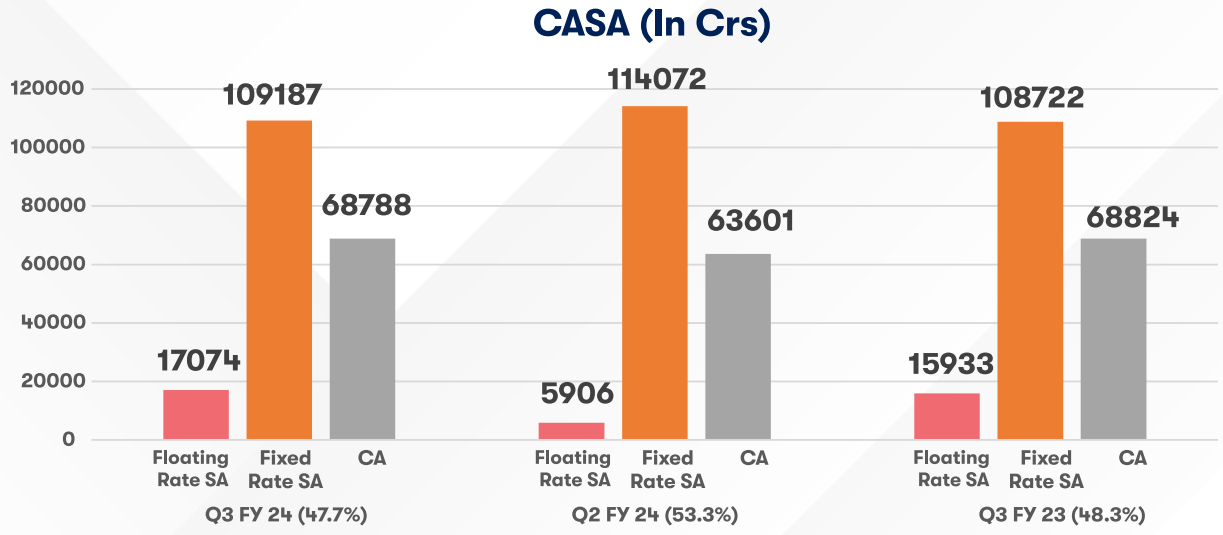
Sustained Deposit Growth and CASA Stability: In Q3 FY24, Kotak Mahindra Bank's deposit mobilization strategy yielded positive results, with an impressive year-over-year increase of 43% in term deposits, indicating a strong customer trust and a successful campaign to secure long-term funds. The bank's Current and Savings Account (CASA) ratio held steady at 47.7%, underscoring its ability to retain low-cost deposit bases amidst fluctuating market rates. The notable quarterly growth in both current and savings account balances reflects a deepening of customer relationships and a focus on deposit mix optimization. The Term Deposit (TD) sweep program's significant quarter-over-quarter growth further highlights the bank's innovative approach to liquidity management. This strategic deposit composition ensures a robust liquidity profile, vital for supporting Kotak Mahindra Bank's lending activities and operational needs.

Innovation at the Core of Banking Technology: Embracing innovation, Kotak Mahindra Bank continues to invest in its technological backbone, ensuring a future-ready banking experience. The launch of the Tech@Kotak Developer Portal signifies a strategic move towards leveraging in-house engineering talent to enhance digital solutions, reduce long-term costs, and drive modernization. With a focus on optimizing app testing and implementing AI for customer interactions, the bank is poised to deliver efficiency and superior service. Additionally, bolstering cybersecurity measures and deploying automated tools to assess risks have become pivotal in safeguarding client assets and maintaining trust in the digital ecosystem. These initiatives represent Kotak Mahindra Bank's commitment to providing a secure, user-friendly, and technologically advanced banking environment.

Strategic Asset Management Expansion: With a comprehensive and strategic approach, Kotak Mahindra Bank has expanded its Asset Management portfolio, achieving significant year-on-year growth. The bank's diverse asset classes, from domestic mutual fund equity and debt to alternate assets, cater to the varying risk appetites and investment goals of its clients. This diversification strategy not only balances the AUM but also allows the bank to tap into new market segments. The success in asset management is underpinned by a deep understanding of market dynamics and customer preferences, enabling Kotak to offer customized solutions. By maintaining a strong foothold in asset management, the bank continues to build its reputation as a trusted wealth manager, thereby fostering long-term relationships with its clients.

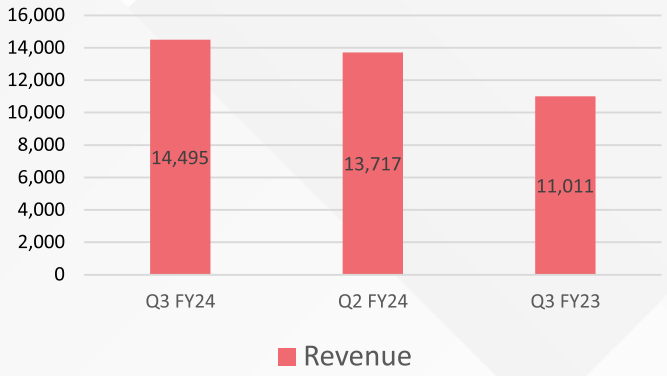
Leveraging Strengths for Market Leadership: Kotak Mahindra Bank's strategic pillars underscore its market leadership. The integrated financial services model and diversified business operations have provided stability and growth, even in fluctuating market conditions. The bank's focus on return on capital, combined with comprehensive enterprise risk management, ensures resilience and sustained profitability. Digital capabilities remain a core strength, with best-in-class digital processes enhancing customer experiences and long-term engagement. Identifying and leveraging opportunities across its broad product spectrum have allowed Kotak to maintain a strong brand presence and leadership position. The governance culture and experienced management team provide a solid foundation, reinforcing Kotak's strategic objectives and commitment to excellence.

Charting the Leadership Path in Finance: Kotak Mahindra Bank's leadership journey is defined by a strategic framework focused on capital adequacy, which is among the highest in the Indian banking sector. The multiple growth engines that the bank has set in motion are driven by leveraging its technological infrastructure and tapping into India's asset class strengths. A keen eye on risk management with extensive ground presence and long-standing corporate relationships has cemented Kotak's position as a bank that understands and mitigates risks effectively. By attracting and retaining top talent and pursuing cross-sell opportunities within its extensive retail network, Kotak continues to innovate and grow. This path of leadership is meticulously designed to ensure that Kotak not only retains its strong market position but also sets new benchmarks for success.

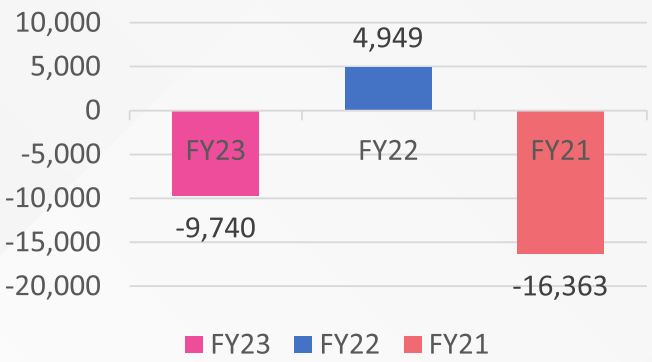


Story Through Charts

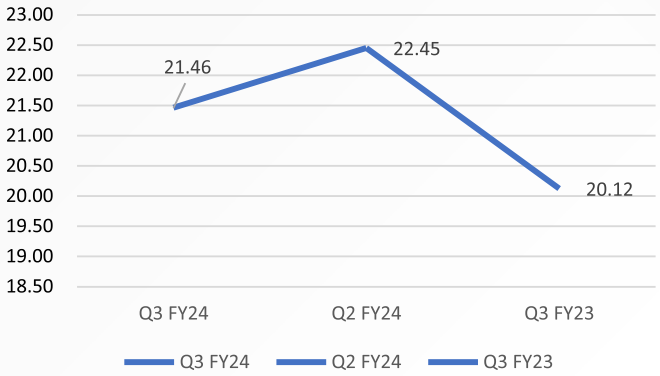
Revenue (In Cr)



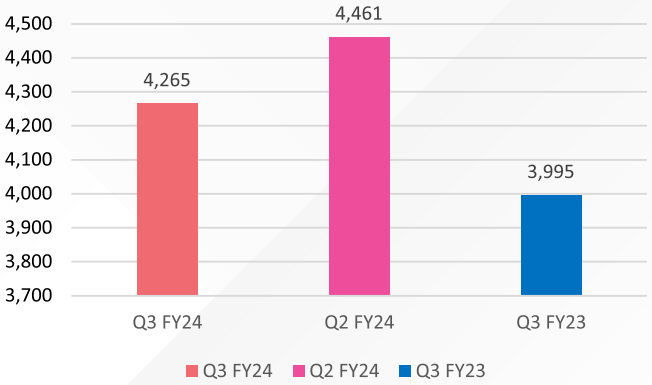
Cashflow (In Cr)



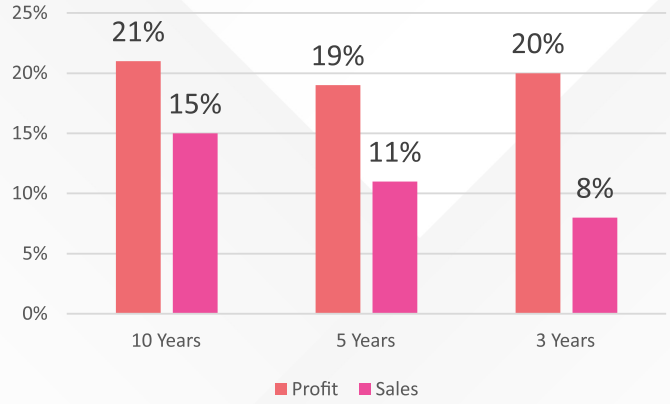
EPS



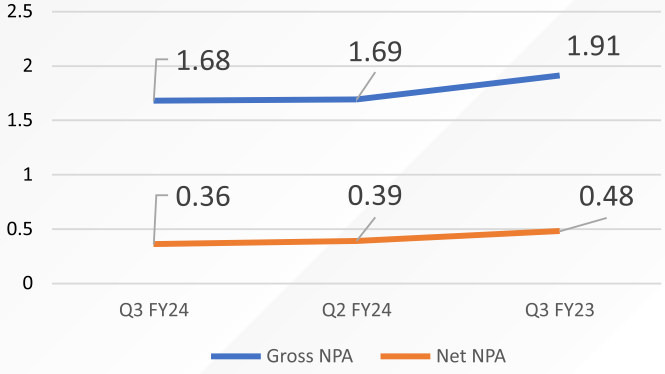
PAT (In Cr)



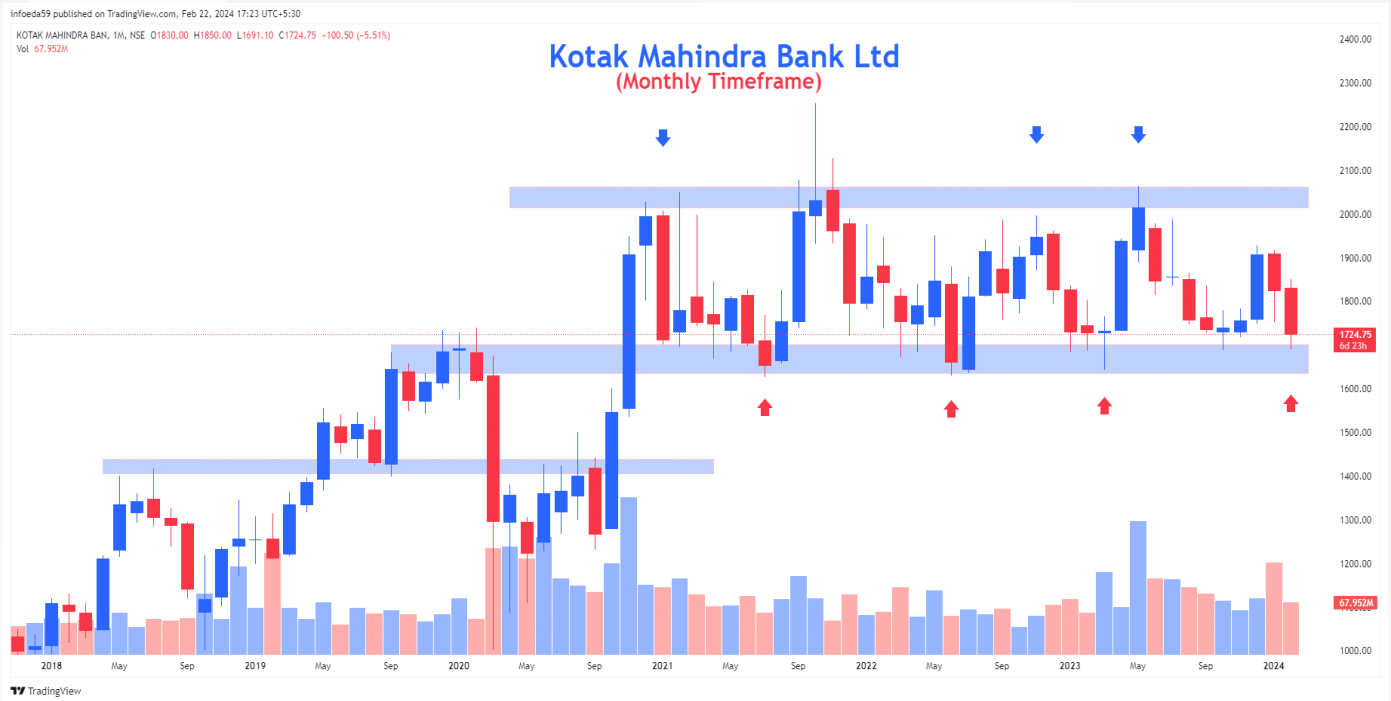
Compounded Growth (In %)



NPA



Technical Outlook



The chart depicts Kotak Mahindra Bank's stock price movement on a monthly timeframe, showcasing a trading range with defined resistance and support levels, indicated by blue and red arrows respectively. The volume bars, colored to represent the price direction, suggest periods of varying trading activity. Over time, the stock has experienced swings within these bounds, reflecting the market's consensus on value at different periods, without a clear long-term directional trend being established as of the last data point.

Kotak Mahindra Bank's stock analysis shows its Simple Moving Averages (SMA) and Exponential Moving Averages (EMA) progressively increasing over longer periods, suggesting a gradual uptrend. The 200-day SMA and EMA are the highest, indicating long-term positive momentum. The Relative Strength Index (RSI) for daily and weekly timeframes is 40.27 and 41.90, respectively, which points to a lack of strong momentum, as they are near the mid-range (30-70) without indicating overbought or oversold conditions.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	1742.9	1746.0
10	1738.2	1750.5
20	1772.2	1766.4
50	1814.9	1788.8
100	1785.0	1795.9
200	1820.2	1804.6

Pivot Levels : FIBONACCI		
R1 1763.22	Pivot 1751.88	S1 1734.77
R2 1780.33		S2 1723.43
R3 1791.67		S3 1706.32

	Daily	Weekly
Relative Strength Index (RSI)	40.27	41.90

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