INVasset Corporate Insights

Kotak Mahindra Bank

9th May, 2024

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India's Best Performing and Most Customer Centric PMS

Empowering Financial Futures: Kotak Mahindra's Dynamic Journey

Versatile Financial Services Portfolio: Kotak Mahindra Bank stands as a powerhouse in the financial sector, offering a diverse range of services encompassing retail banking, corporate banking, investment banking, stock broking, and insurance. With a comprehensive suite of offerings, it caters to the varied needs of individual and corporate clients, ensuring holistic financial solutions under one roof.

Extensive Branch Network and Regional Distribution: Boasting an extensive network of approximately 1,700 branches and 2,700 ATMs across India, Kotak Mahindra Bank ensures widespread accessibility to its services. Its strategic branch distribution, with 45% in metro cities and 55% in urban, semi-urban, and rural areas, reflects a balanced approach towards catering to diverse customer segments.

Robust Customer Base and Loan Portfolio: With an active customer base exceeding 3.2 crore, the bank's loan portfolio showcases a strategic allocation across various sectors. From home loans to corporate banking and agriculture finance, Kotak Mahindra Bank strategically diversifies its lending, mitigating risk while maximizing returns.

Revenue Streams and Digital Transformation: The bank's revenue streams predominantly stem from general banking fees, distribution, and syndication income, highlighting its diversified income sources. Embracing digital transformation, Kotak Mahindra Bank has made significant strides in digitizing its operations, enhancing customer convenience and operational efficiency.

Comprehensive Presence Across Financial Verticals: With subsidiaries spanning across vehicle financing, real estate development finance, securities broking, and asset management, Kotak Mahindra Bank maintains a robust presence across the financial value chain. This extensive reach enables it to cater to the multifaceted needs of its clientele effectively.

Merger Amplifies Strengths and Market Reach: The successful merger with ING Vysya Bank in 2015 significantly augmented Kotak Mahindra Bank's market reach and customer base. Leveraging the strengths of both entities, the merger bolstered its presence, particularly in South India, strengthening its foothold in key regions.

Strategic Acquisitions for Growth: In line with its growth strategy, the recent acquisition of the Agri and Healthcare Equipment financing portfolio further underscores Kotak Mahindra Bank's commitment to expanding its business verticals. This strategic move enhances its customer base and market penetration in key sectors.

Commitment to Financial Inclusion and Empowerment: Through initiatives like BSS Microfinance Ltd., the bank actively contributes to financial inclusion and empowerment, especially in rural and semi-urban areas. By facilitating microfinance loans to underserved communities, Kotak Mahindra Bank fosters economic growth and social development.

Stock Data	
CMP	1,641.70
52 Week High/Low	2,064/1,544
Face Value	5.00
Market Cap (In Crs)	3,26,516
Enterprise Value (In Crs)	7,01,897
NSE	KOTAKBANK
BSE	500247
Bloomberg	KMB/F:IN
Sector	BANKS – PRIVATE SECTOR

Shareholding Pattern (in %)		
	MAR 24	DEC 23
Promoter	25.90	25.91
FII	37.59	39.74
DII	23.40	21.38
Public	13.11	12.98

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	-3.46	13.08	19.94
KOTAKBANK	-9.84	-5.94	-16.18

Key Ratios	
P/E	17.9
P/S	5.81
P/B	2.90
Debt To Equity	3.75
ROE	16.3%
ROCE	8.75%
Dividend Yield	0.09%

Q4 FY 24 Result Update

Q4 FY24 Result Comparison (In Rs Cr)					
	Q4 FY24	Q3 FY24	Q4 FY23	QOQ	YOY
Revenue	15,156	14,495	11,982	4.56%	26.49%
Other Income	12,751	9,588	8,785	32.99%	45.15%
Expenses	14,920	12,484	10,548	19.51%	41.45%
Interest Expense	6,212	5,985	4,230	3.79%	46.86%
Net Profit	5,337	4,265	4,566	25.13%	16.89%
EPS	26.85	21.46	22.99	25.12%	16.79%

Result Highlights

Rising Above: Kotak Mahindra Bank's Stellar Quarterly Growth

Robust Revenue Growth: Kotak Mahindra Bank showcased a solid financial performance in the latest quarter (Q4 FY24) with revenues soaring to ₹15,156 Cr, a sequential increase of 4.56% from Q3 FY24 and a notable 26.49% growth year-over-year (YOY) from ₹11,982 Cr in Q4 FY23. This significant uptick in revenue highlights the bank's successful expansion strategies and growing customer base, reinforcing its market leadership in the competitive banking sector. The growth trajectory underscores the bank's resilience and adaptability in a fluctuating economic landscape, promising further scalability and market penetration.

Impressive Surge in Other Income: The bank's other income remarkably rose to ₹12,751 Cr this quarter, demonstrating a 32.99% increase over the previous quarter and an impressive 45.15% rise YOY. This surge indicates a strong performance in non-interest income streams, such as fees and commission earnings, trading profits, and miscellaneous income, underlining the bank's diversified revenue sources beyond traditional banking. Such financial diversification is crucial for reducing reliance on interest-based income and fortifying the bank's financial health against market volatilities.

Strategic Expense Management: Despite a sharp increase in total expenses to ₹14,920 Cr, reflecting a 19.51% increase sequentially and 41.45% YOY, Kotak Mahindra Bank has managed its expenses strategically. The bank's ability to enhance its operational efficiency while investing in growth initiatives suggests prudent cost management aligned with its long-term objectives. This fiscal discipline aids in sustaining profitability even as the bank scales operations and invests in technology and infrastructure to support growth.

Elevated Interest Expenses: The bank's interest expenses climbed to ₹6,212 Cr, up 3.79% from the last quarter and a significant 46.86% YOY. This rise could point to a greater leverage or increased cost of funds, posing a challenge in the current economic environment. It underscores the need to monitor debt levels and financing strategies closely to maintain financial stability. Managing these costs is vital for the bank to sustain its profit margins and continue its growth momentum.

Profitability and Net Gains: Net profit increased to ₹5,337 Cr, achieving a 25.13% growth over the previous quarter and a 16.89% increase YOY. Despite higher interest expenses, the bank has effectively leveraged its revenue streams to boost profitability. This performance reflects strong operational execution and the ability to capitalize on market opportunities to enhance shareholder value. Such financial outcomes signify robust strategic management and a focus on maintaining a competitive edge in the financial sector.

Enhanced Earnings Per Share: The earnings per share (EPS) also saw a healthy increase to 26.85, marking a 25.12% sequential growth and a 16.79% rise YOY. This growth in EPS indicates not only improved profitability but also represents enhanced value for shareholders, reinforcing Kotak Mahindra Bank's commitment to delivering superior returns in a dynamic financial landscape. The increase in EPS is a direct result of effective capital management and operational excellence, projecting strong future prospects for the bank.

Concall Highlights

Kotak Mahindra Bank's Strong Fiscal Performance in Fy24: Kotak Mahindra Bank displayed robust growth in the fiscal year 2024, as evident from its impressive financial metrics. The Profit After Tax (PAT) surged by 22% year-on-year to ₹18,213 crore, reflecting strong operational performance and effective cost management. Similarly, the bank's customer assets grew by 22%, reaching ₹479,169 crore, indicating significant growth in core banking operations. Despite a slight decline in Return on Assets (ROA) to 2.66% from 2.62%, the bank maintained solid profitability metrics. The bank's capital adequacy remained strong with a Capital Adequacy Ratio (CAR) at 21.8% and Common Equity Tier 1 (CET-1) at 20.7%, ensuring stability and resilience. The book value per share also increased to ₹653, up from ₹563, showcasing an enhanced underlying value and financial health.

Diverse Contributions to Kotak Group's Profit After Tax in Fy24: The Kotak Group's Profit After Tax (PAT) for FY24 paints a picture of robust diversity across its various entities. Kotak Mahindra Bank, the group's flagship, led with a PAT of ₹4,133 Cr in Q4 FY24, up 17% YOY, significantly contributing to the group's consolidated PAT of ₹18,213 Cr, a 22% increase YOY. Other significant contributors include Kotak Securities and Kotak Mahindra Capital, both experiencing over 40% growth in PAT, highlighting the strength of the group's capital market operations. On the downside, Kotak Mahindra Life Insurance saw a 35% decrease in PAT, reflecting volatility in the insurance sector. Asset Management also showed resilience with a notable 15% growth in PAT, emphasizing the group's strong management capabilities across a broad spectrum of financial services.

Kotak Group's Financial Robustness and Value Creation in Fy24: The Kotak Group demonstrated significant financial robustness and value creation throughout FY24, reflected in its net worth and returns on equity (ROE). Kotak Mahindra Bank, a central figure in the conglomerate, reported a substantial net worth of ₹96,639 Cr and a Profit After Tax (PAT) of ₹13,782 Cr, leading to an ROE figure reflective of strong profitability. The bank and other lending entities combined for a remarkable net worth of ₹111,064 Cr, achieving an ROE of 15.1%. The capital markets division excelled with an ROE of 16.6%, indicating high efficiency in capital utilization. Overall, the group's total net worth reached ₹132,283 Cr with a consistent ROE of 15.1%, underscoring a sustainable growth trajectory and effective wealth generation for its stakeholders.

Improving Asset Quality and Strengthening Recovery at Kotak Mahindra Bank: Kotak Mahindra Bank has shown substantial improvement in asset quality as of March 31, 2024. The bank's Gross Non-Performing Assets (GNPA) decreased to ₹5,275 crore, representing a decline from 1.78% to 1.39% year-over-year. Similarly, the Net Non-Performing Assets (NNPA) saw a reduction, dropping to 0.34% from 0.37% the previous year. This indicates enhanced credit management and effective risk mitigation strategies. Additionally, the Provision Coverage Ratio (PCR) slightly decreased to 75.9%, reflecting a strategic adjustment in provisioning in response to improved asset quality. Recovery efforts were robust with ₹772 crore recovered during the quarter, alongside ₹1,455 crore of retail unsecured loans fully written off, underlining the bank's proactive approach to maintaining a healthy balance sheet and minimizing exposure to risk.

Expansive Growth in Kotak Mahindra Bank's Customer Assets: Kotak Mahindra Bank has witnessed significant growth in its customer assets, reaching ₹423,324 Cr as of March 31, 2024, a robust increase of 20% year-over-year. This growth is driven by substantial gains across various segments. Notably, Home Loans & LAP surged by 15% to ₹1,06,726 Cr, underpinning the bank's strong position in the housing finance market. Additionally, the Retail Micro Finance sector showed remarkable growth of 60%, emphasizing the bank's focus on expanding its financial services to micro enterprises. The bank also saw a notable rise in unsecured retail advances, which now constitute 11.8% of net advances, compared to 10.0% the previous year, indicating a strategic shift towards high-margin unsecured loans. This diversified portfolio growth not only strengthens the bank's asset base but also enhances its ability to manage risks and capitalize on market opportunities.

Kotak Mahindra Bank's Response to RBI Supervisory Actions: Kotak Mahindra Bank has been directed by the Reserve Bank of India (RBI) as of April 24, 2024, to halt the onboarding of new customers through its online and mobile banking channels and to cease issuing fresh credit cards. This directive does not affect the servicing or cross-selling of existing products to current customers through all channels or the onboarding of new customers through offline modes. In response, the bank is committed to aligning with all regulatory requirements by enhancing its IT systems and reinforcing its cybersecurity measures. The focus is on accelerating the implementation of its core banking resilience plan, ensuring compliance with the Baseline Cyber Security Framework for Banks, and strengthening digital payment security controls. The bank has analyzed the potential business impacts and is strategically redeploying resources to minimize disruptions, maintaining confidence that these measures will not significantly impact its overall business operations.

Kotak's Strategic Growth Through Diverse Asset Classes: Kotak has significantly expanded its asset management portfolio, raising a total of USD 9.4 billion since inception across various asset classes, showcasing a compounded annual growth rate (CAGR) of 25%. The strategic allocation includes USD 3,344 million in real estate and USD 2,870 million in strategic situations, indicating a diversified and robust investment approach. The Kotak Strategic Situations Fund II notably secured a USD 150 million commitment from a global pension fund in Q4 FY24, reflecting confidence in Kotak's strategic investment capabilities. Additionally, the Kotak Private Credit Fund, aimed at providing debt to growth-oriented companies, raised USD 165 million as of March 31, 2024. These initiatives illustrate Kotak's commitment to leveraging complex asset classes to drive growth and offer high-value investment opportunities to its clients.

Kotak Mahindra Bank's Commitment to Environmental, Social, and Governance (ESG) Excellence: Kotak Mahindra Bank demonstrates a profound commitment to ESG principles, evident in its comprehensive strategies and practices. The bank has established a sustainable finance framework and boasts a Green Portfolio worth over Rs. 6,000 Cr, underscoring its dedication to environmentally friendly investments. In social aspects, it champions diversity with a 26% gender diversity rate and aims to increase this to at least a third. The bank also plays a significant role in community engagement through its CSR initiatives, like partnerships with IIT Kanpur and IISc Bangalore to nurture talent in sustainability, AI, and ML. Governance is equally robust, with a board that maintains 60% independence and adherence to international cybersecurity standards, reflecting strong ethical practices and leadership in corporate governance.

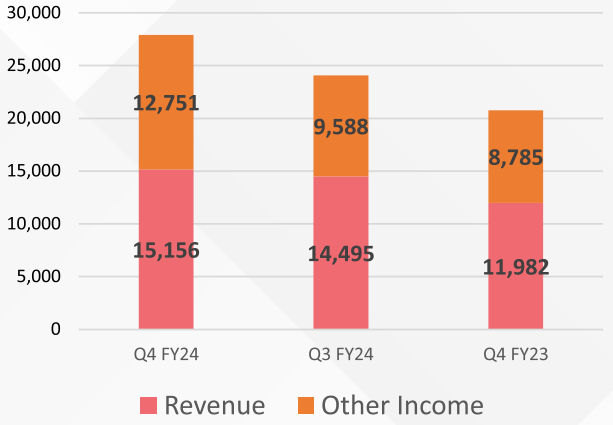
Core Competencies Elevating Kotak Mahindra Bank's Market Stance: Kotak Mahindra Bank's distinguished strengths consolidate its position as a leading financial conglomerate. Anchored by an integrated financial services model, the bank leverages its diversified business model to provide stability and access to multiple growth opportunities, ensuring resilience during economic downturns. Its commitment to healthy asset quality and prudent risk management is evidenced by a strong focus on return on capital and a robust Enterprise Risk Management framework. Furthermore, Kotak's digital and technological capabilities deliver best-in-class digital experiences, fostering long-term customer relationships. The bank's innovative culture and strong governance structure underpin its ability to identify lucrative opportunities and maintain leadership across various business segments, supported by a motivated and engaged workforce. These competencies enable Kotak to not only navigate challenges but also drive continuous growth and industry leadership.

Strategic Pillars Guiding Kotak Mahindra Bank's Future: Kotak Mahindra Bank's strategy for sustained growth and market leadership is built on several foundational pillars. Central to its approach is a strong emphasis on technology, aiming to enhance both operational capabilities and customer experiences. The bank focuses on leadership in digital capabilities, ensuring that its processes and interfaces are state-of-the-art. Expanding access to low-cost liabilities and pursuing growth in advances through risk-adjusted pricing are also key aspects, aiming to maintain high asset quality and financial robustness. Moreover, Kotak prioritizes customer centricity, placing customer needs at the heart of its operations to foster long-term relationships. Executing with discipline, improving productivity, and leveraging its strong corporate standing to explore inorganic growth opportunities further underscore its strategic agenda, positioning the bank well for future challenges and opportunities.

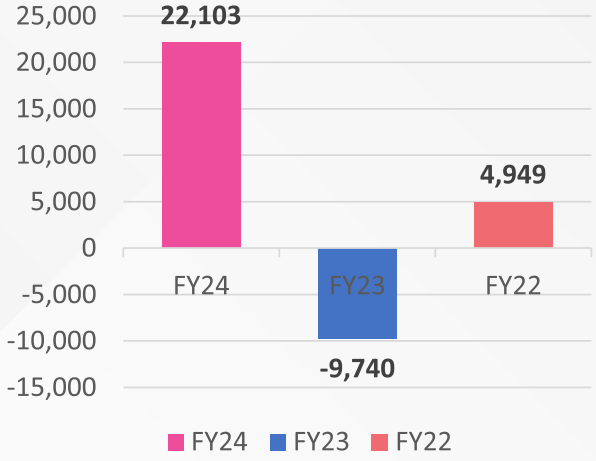
Kotak Mahindra Bank: Navigating the Future with Strategic Foundations: Kotak Mahindra Bank continues to lead with a strategic blueprint that emphasizes a strong capital base, diversified growth engines, rigorous risk management, and a focus on talent and market opportunities. Its capital adequacy, one of the highest in the Indian banking sector, lays a robust foundation for sustained growth and innovation. The bank capitalizes on multiple growth engines by leveraging its technological infrastructure to enhance cost-efficiency and attract global investments, enhancing its market-linked revenue streams. Comprehensive risk management strategies are bolstered by deep relationships and on-ground presence, ensuring stability in dynamic environments. Moreover, the bank's ability to attract and retain top talent, combined with its expansive retail network, provides a significant competitive edge, enabling effective cross-selling and deeper market penetration. These elements collectively ensure Kotak's leadership and resilience in the financial industry.

Robust Growth Reflected in Kotak Mahindra Bank's Strengthened Balance Sheet: Kotak Mahindra Bank's balance sheet as of March 31, 2024, demonstrates substantial growth and financial stability. The bank's capital and reserves increased significantly from ₹83,460 crore in March 2023 to ₹96,639 crore in March 2024, highlighting strong financial health. Deposits grew markedly to ₹448,954 crore, driven by a solid increase in both CASA and term deposits, reflecting enhanced customer trust and expanded banking operations. Additionally, the net advances surged to ₹376,075 crore, underscoring the bank's aggressive lending strategy and robust asset acquisition. This growth in core financial metrics not only supports Kotak's market position but also solidifies its foundation for future expansion and resilience against economic fluctuations.

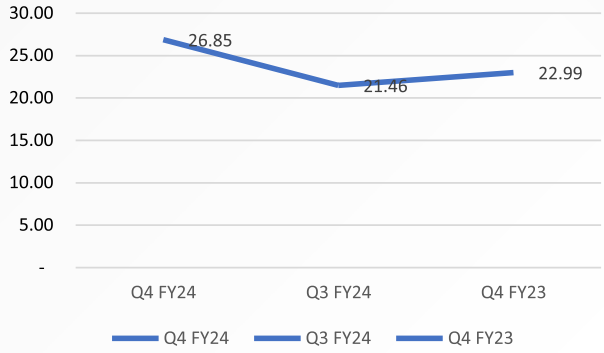
Revenue & Other Income (In Cr)



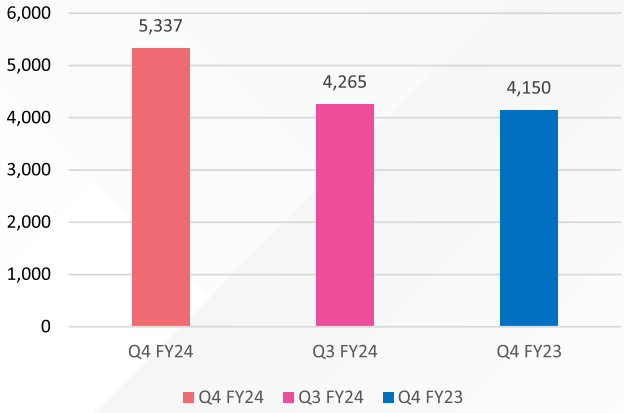
Cashflow (In Cr)



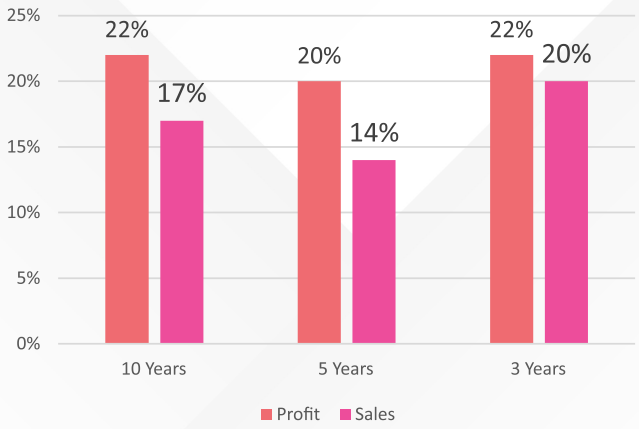
EPS



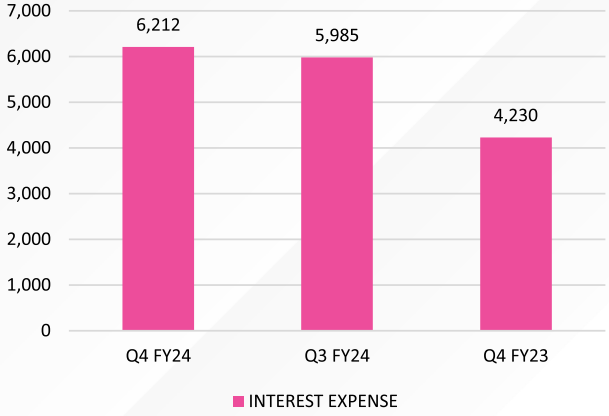
PAT (In Cr)



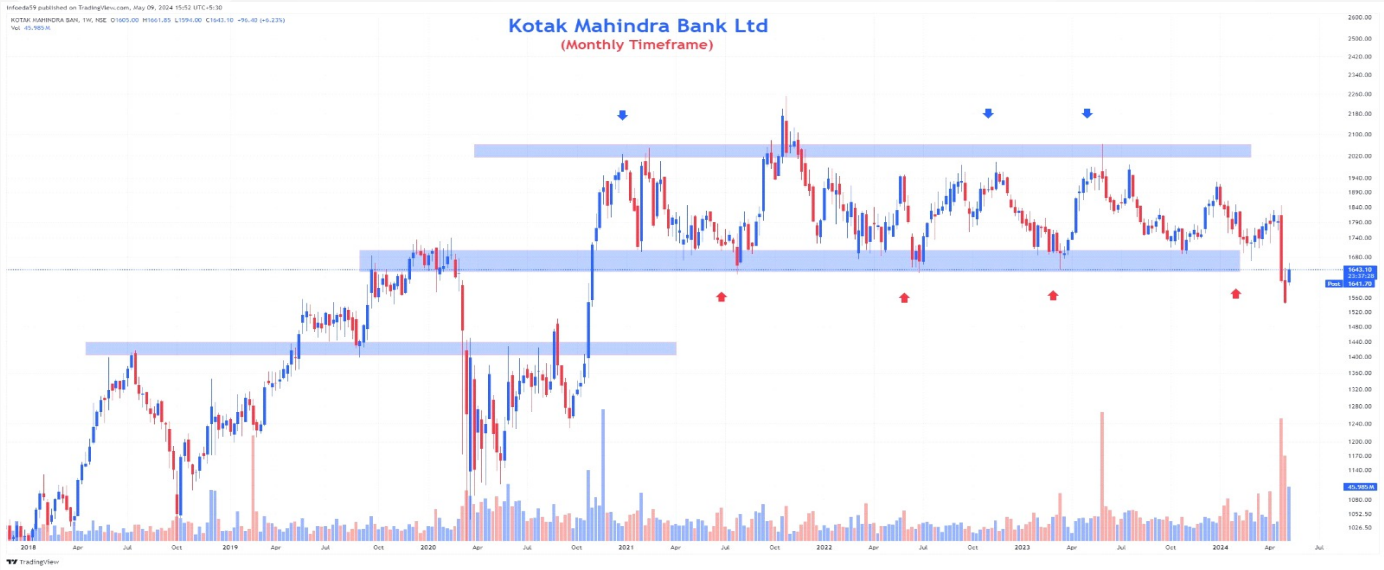
Compounded Growth (In %)



Interest Expense (In Cr)



Technical Outlook



The monthly chart for Kotak Mahindra Bank displays a volatile trading range between support and resistance levels, indicating significant price fluctuations over the years. The chart shows resistance around the 2150 level and support near the 1350 mark. Notably, there have been several attempts to break these bounds but the price generally rebounds from these levels, suggesting strong buyer and seller activity at these points. The volume bars reveal occasional spikes, correlating with large price movements, hinting at high trading interest during these periods. Currently, the stock is in a downward movement from the upper resistance towards mid-range, suggesting caution among investors.

Kotak Mahindra Bank's technical analysis reveals a positive trend as indicated by both simple moving averages (SMA) and exponential moving averages (EMA) across various periods. The values progressively increase from shorter to longer periods, with the EMAs generally positioned higher than the SMAs, suggesting sustained momentum and potentially stronger future performance.

The Relative Strength Index values for Kotak Bank suggest a lack of strong momentum, with a daily RSI of 41.00 and a weekly RSI of 39.58, both under the neutral threshold of 50. These figures indicate that the stock is neither overbought nor oversold, but slightly leans towards the oversold condition, suggesting potential cautious opportunities without strong bullish signals.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	1602.2	1612.0
10	1672.8	1652.4
20	1732.0	1697.2
50	1736.8	1735.0
100	1777.6	1756.7
200	1781.2	1777.9

Pivot Levels : FIBONACCI		
R1 1640.2	Pivot 1617.10	S1 1601.2
R2 1656.1		S2 1578.1
R3 1679.2		S3 1562.2

	Daily	Weekly
Relative Strength Index (RSI)	41.00	39.58

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