MIRAE ASSET Sharekhan

Stock Update

Company Update

Kotak Mahindra Bank Ltd

Improving Outlook, reiterate buy

Bank	Sharekhan code: KOTAKBANK
Reco/View: Buy ↔	CMP: Rs. 2,143 / Price Target: Rs. 2,500 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

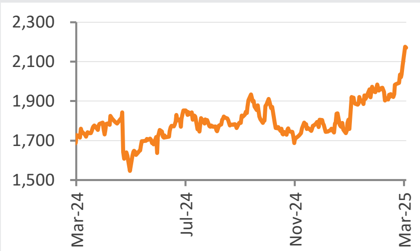
Company details

Market cap:	Rs. 4,26,146 cr
52-week high/low:	Rs. 2,203 / 1,544
NSE volume: (No of shares)	42.8 lakh
BSE code:	500247
NSE code:	KOTAKBANK
Free float: (No of shares)	146.6 cr

Shareholding (%)

Promoters	25.9
FII	32.5
DII	28.8
Others	12.8

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	22.5	12.9	20.7
Relative to Sensex	5.3	24.0	22.2	14.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- The bank is reasonably confident to deliver loan growth of 1.5-2.0x the nominal GDP growth and sustain RoA over ~2% in the near to medium term.
- PL and CC delinquencies have broadly stabilised. Slippages in the MFI segment are likely to peak out over the next two quarters. Secured assets portfolio quality continues to remain stable.
- Growth rebound in the unsecured segment is likely to help the bank manage the margins and growth better than peers in FY26E. Also, recent appointments of senior management personnel hint at stability in the near future.
- We reiterate buy on KMB with a revised SOTP-based PT of Rs. 2,500. We believe balance sheet growth /profitability is expected to be better than peers. The stock is trading at 2.3x/2.1x its FY2026E/FY2027E core BV estimates.

Kotak Mahindra Bank is well-positioned to deliver superior performance. We should see a marginal uptick in the loan growth led by a rebound in the unsecured segment in FY26E although the slowdown in the unsecured retail segment was adequately compensated by uptick in the secured book and non-retail segment in 9MFY25. NIMs faced downward pressure due to rising funding cost and lower share of high yielding assets in 9MFY25 due to embargo but as embargo has been lifted, we believe that growth rebound in PL/CC and acquisition of the high-yielding PL book from Standard Chartered Bank will likely to help bank in managing the margins partially offsetting yield pressure from rate-cuts in FY26E. Delinquencies in personal loans and credit card portfolios have broadly stabilised,while slippages in the MFI segment are likely to peak out over the next two quarters. Secured assets portfolio quality continues to remain stable. Thus, credit cost is expected to probably peak out in next one-two quarter. Operating cost to remain in control in FY26E. Hence, balance sheet growth and profitability is expected to be better than peers in FY26E. The macro environment has also started to improve gradually led by improving liquidity. Additionally, recent appointments of senior management personnel hint at stability in the near future.

- **Healthy growth outlook:** The slowdown in the unsecured retail segment was adequately compensated by an uptick in the secured book and the non-retail segment in 9MFY25. Loan growth is expected to remain healthy & broad based across the segments except MFI over the next couple of quarters. CV segment should also see slightly lower growth due to marginal stress in LCV segment. But broadly, we should see a marginal uptick in the loan growth led by a rebound in the PL/CC portfolio. The unsecured retail mix declined to ~10% of advances from 12% due to reduced disbursements caused by an embargo and the aim is to take the share of unsecured retail mix to mid mid-teens.
- **Loan mix to cushion NIMs in lower interest rate cycle:** NIMs faced downward pressure (declined by ~35bps from Q4FY24) due to rising funding cost and lower share of high yielding assets due to embargo but as embargo has been lifted, we believe that growth rebound in PL/CC and acquisition of the high-yielding PL book from Standard Chartered Bank will likely to help bank in managing the margins partially offsetting yield pressure from rate-cuts (as ~60% book linked to external benchmarks rates) in FY26E. Additionally, the rate cut cycle is expected to be shallow.
- **Credit cost expected to fall:** Delinquencies in personal loans and credit card portfolios have broadly stabilised, while slippages in the MFI segment are likely to peak out over the next two quarters. Secured assets portfolio quality continues to remain stable, except delinquencies in the retail CV segment, especially LCV, have seen a slight increase, aligning with overall industry trends. Credit cost is expected to be higher in Q4 but should probably peak out over next one-two quarter.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,500: We reiterate buy on KMB with a revised SOTP-based PT of Rs. 2,500 given growth /profitability is expected to be better than peers in FY26E. The bank is reasonably confident to sustain RoA over ~2% in the near to medium term. We also expect its subsidiaries' contribution to increase to consolidated earnings, as it gains scale and market share gradually going forward. The stock is trading at 2.3x/2.1x its FY2026E/FY2027E core BV estimates.

Key Risks

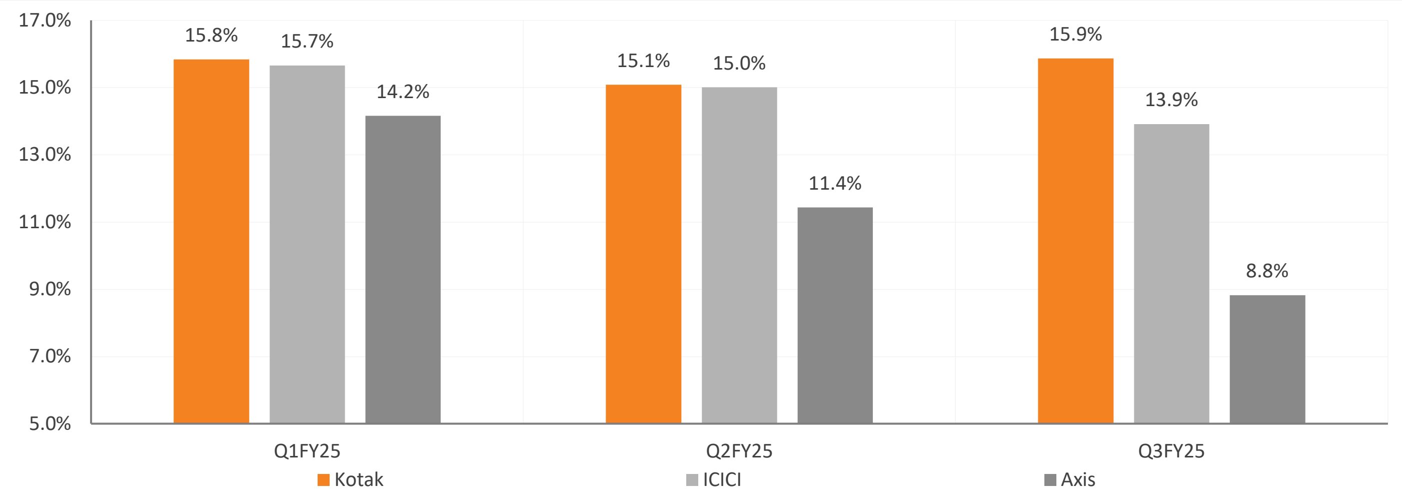
Slower loan growth, higher credit cost, lower margins and slower growth in retail liabilities.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	21,552	25,993	28,444	32,552	37,048
Net profit	10,939	13,782	16,622	15,800	17,949
EPS (Rs.)	54.9	69.2	83.2	78.7	88.9
P/E (x)	27.4	21.7	18.1	19.1	16.9
P/BV (x)	3.6	3.1	2.7	2.3	2.1
RoE	14.1	15.3	15.8	13.0	13.0
RoA	2.4	2.5	2.6	2.1	2.1

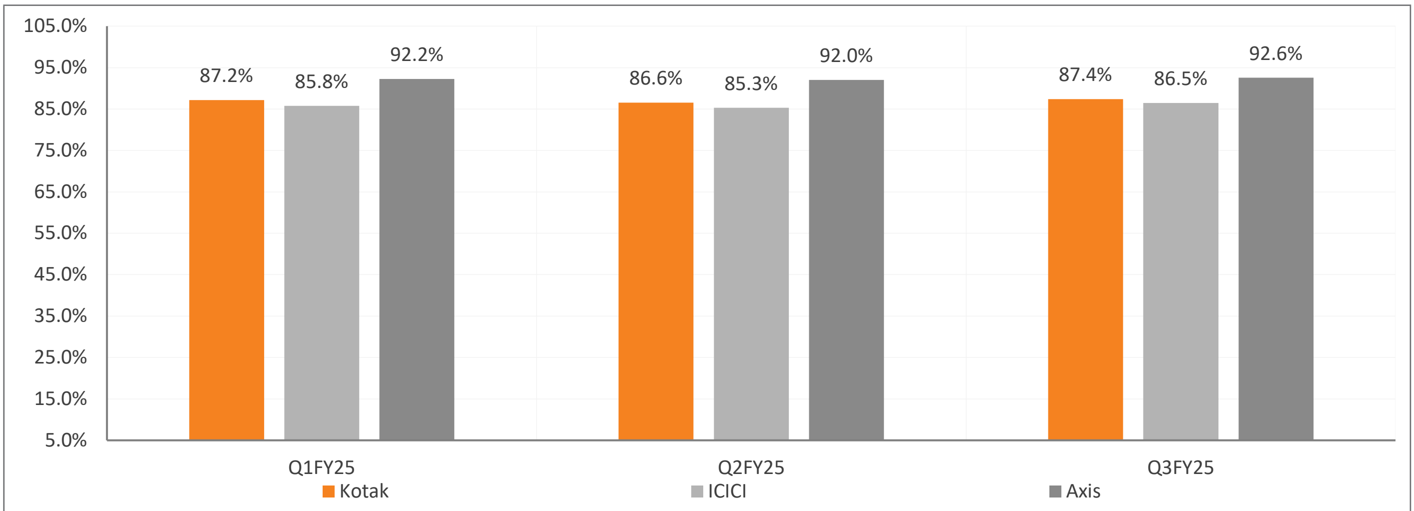
Source: Company; Mirae Asset Sharekhan estimates

Outperformed peers on loan growth (YoY) front despite RBI embargo in 9MFY25



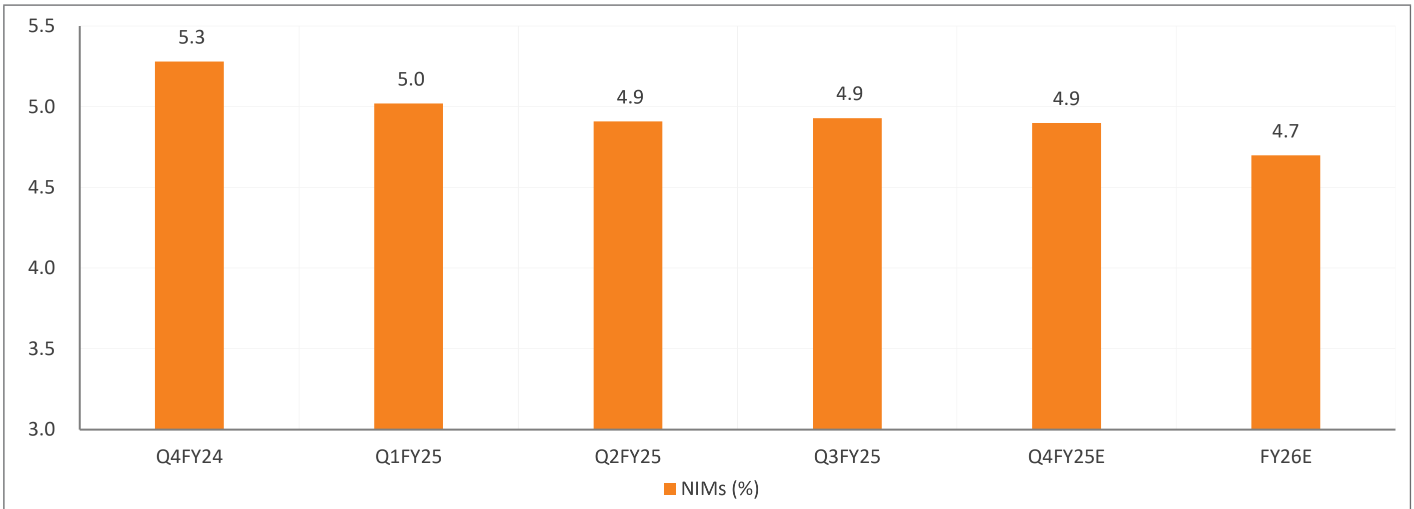
Source: Company; Mirae Asset Sharekhan Research

LDR remains at the comfortable level for Kotak bank



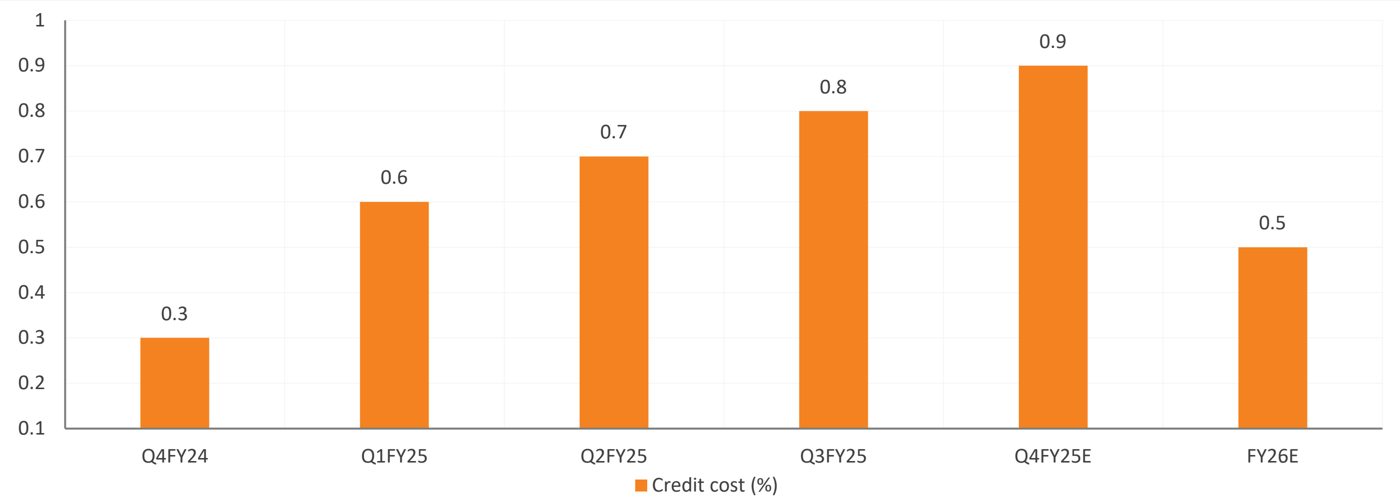
Source: Company; Mirae Asset Sharekhan Research

NIMs to stabilize around ~4.7% in FY26E



Source: Company; Mirae Asset Sharekhan Research

Credit cost is expected to peak out in Q4FY25 and fall in FY26



Source: Company; Mirae Asset Sharekhan Research

SOTP Valuation

Subsidiary/Associate	Per share value (Rs.)
Kotak Prime	132
Kotak Securities	132
Kotak Life Insurance	219
Kotak Mahindra Investments	40
Kotak AMC	87
Others	31
Value of subs/ associates	**640**
Core Bank	1,860
Total SOTP-based valuation (Rs.)	**2,500**

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~11.4% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth, slowdown in unsecured retail segment and a high credit-deposit ratio. Deposit growth at 10.3% is lagging loan growth and stays rangebound at 10-12%. Also, deposit growth is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to the elevated cost of term deposits, while a lower interest rate cycle will lead to yield pressure. Overall, asset quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Attractive franchise

We believe KMB is an attractive business franchise over the medium to long term. The bank's subsidiaries are shaping up well, and while at present, they are relatively small, we believe each one has a strong business model and is well on track to be a significant value contributor to the consolidated business in the long term. We remain constructive from a medium to long-term perspective.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,500

We reiterate buy on KMB with a revised SOTP-based PT of Rs. 2,500, given growth /profitability is expected to be better than peers in FY26E. The bank is reasonably confident to sustain RoA over ~2% in near to medium term. We also expect its subsidiaries contribution to increase to consolidated earnings, as it gains scale and market share gradually going forward. The stock is trading at 2.3x/2.1x its FY2026E/FY2027E core BV estimates.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Kotak Mahindra Bank	2,143	4,26,146	19.1	16.9	2.3	2.1	13.0	13.0	2.1	2.1
ICICI Bank	1,335	9,43,583	14.8	12.7	2.3	2.0	16.9	16.6	2.3	2.3
Axis Bank	1,096	3,39,275	10.8	9.4	1.5	1.3	14.7	14.7	1.6	1.7

Source: Company; Mirae Asset Sharekhan Research

About company

Established in 1985, Kotak Mahindra Group is one of India's leading financial services conglomerates. KMB has a national footprint of 2,068 branches and 3,337 ATMs. The group offers a wide range of financial services that include commercial banking, stock broking, mutual funds, insurance, and investment banking. The group caters to the diverse financial needs of individuals and the corporate sector. The bank has a well-diversified pan-India presence (~32% in North, 31% in West, 29% in South, and 8% in Eastern India) and has one of the highest CASA ratios in the industry.

Investment theme

We believe KMB is an attractive business franchise over the medium to long term. The bank's subsidiaries are also shaping up well, and while at present, they are relatively small, we believe each one has a strong business model and is well on track to be a significant value contributor to the consolidated business in the long term.

Key Risks

Slower loan growth, higher credit cost, lower margins and slower growth in retail liabilities.

Additional Data

Key management personnel

Name	Designation
Ashok Vaswani	Managing Director and CEO
S. Ekambaram	Deputy MD
Devang Gheewala	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Uday Suresh	25.70
2	Life Insurance Corp of India	7.40
3	SBI Funds Management Ltd	5.77
4	HDFC Asset Management Co Ltd	2.69
5	Capital Group Cos Inc/The	2.26
6	Blackrock Inc	2.19
7	Invesco Ltd	2.03
8	Vanguard Group Inc/The	1.88
9	Sumitomo Mitsui Financial Group In	1.65
10	UTI Asset Management Co Ltd	1.53

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Chief Compliance Officer: Mr. Joby John Meledan; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.