

# Kotak Mahindra Bank Ltd. ₹1334

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Mar 22, 2019

## Company Background

Kotak Mahindra Bank Ltd is one of the fastest growing banks and among the most admired financial institutions in India. Bank offers transaction banking, operates lending verticals, manages IPOs and provides working capital loans. It was incorporated in the year 1985 with the name Kotak Capital Management Finance Ltd. In February 2003, the company was given the license to carry on banking business by the RBI. This approval created banking history since Kotak Mahindra Finance Ltd is the first NBFC in India to convert into a bank as Kotak Mahindra Bank Ltd. Kotak is one of the largest and most respected Wealth Management teams in India, providing the widest range of solutions to high net worth individuals, entrepreneurs, business families & employed professionals. As on 31st March 2018, Kotak Mahindra Bank had 1,388 branches spread across 700 locations and 2,199 ATMs. The bank has overseas subsidiaries with offices in Mauritius, London, Dubai, Singapore, New York & San Francisco. These subsidiaries are mainly engaged in investment advisory & investment management of funds, Equity & Debt Trading, management of GDR/FCCB issuances, broker-dealer activities and investments.

## Key Highlights

- ➔ Kotak Mahindra Bank announced a tie-up with C2FO for a risk-free solution to manage working capital more efficiently. The bank's partnership with C2FO adds additional layers of depth to meet the increasing working capital needs of businesses across the country.
- ➔ Kotak Mahindra Bank Ltd is the first private sector bank to join the platform of psbloansin59minutes.com. Kotak will offer loans up to Rs 1 cr to micro, small & medium enterprises (MSME) in India through this platform. MSME loan aspirants will now get the option to avail from both public sector and private sector banks (presently only Kotak) through this platform.
- ➔ Consolidated Interest Income rose by 12.57% to ₹ 2,51,310.8 million, non Interest Income also up by 17.34% to ₹ 1,36,822.3 million, Interest expenses moved up by 8.8% to ₹ 1,24,668.5 million and the net profit also improved by 24.2% to ₹ 61,471.4 million for FY18.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	1,89,964.1	2,11,760.9	2,38,007.1
Rev. growth (%)	61.69	11.47	12.39
EBITDA (INR mn)	1,28,947.7	1,50,115.1	1,67,377.2
Net profit (INR mn)	20,877.7	34,035.3	40,542.6
Shares outstanding (mn)	1,834.4	1,840.9	1,905.6
EPS (INR)	11.3	18.5	21.4
EPS growth (%)	(52.92)	64.13	15.65
P/E (x)	60.32	47.06	48.93
RONW (%)	10.97	13.23	12.55
ROCE (%)	0.00	0.00	0.00

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## Info Codes

Reuters	: KTKM.BO
Bloomberg	: KMB IN
NSE	: KOTAKBANK
BSE	: 500247

## Market Data

52 Wk Range (₹)	: 1002/1424
Shares in Issue (mn)	: 1,905.6
Market. Cap ( bn)	: 2,546
BSE 2 Wk Avg Vol	: 1,56,000

## Share Holding Pattern (%)

Promoters Holding	: 30.01
Public & Others	: 10.79
Corporate Holding	: 03.17
Foreign Institution	: 46.40
Institutions	: 09.63
Govt., Holding	: 00.00

## Investment Theme

Bank has continued to increase the product lines under the Consumer Assets business. During the FY18, it launched Superfast Home Loans for salaried customers. This facility is sanction loan within four hours. Salaried Home Loan disbursements in Q4FY18 had improved by 150% with the help of Superfast home loan. The existing online platform for instant loans for salaried & self-employed customers was further strengthened. Salaried Personal Loans sourced through digital channels contributed 32% by value of the total value of Salaried Personal Loans disbursed in Q4FY18. Frictionless payment options for credit cards-Contactless Cards for Signature Cards, Samsung Pay and Bharat QR were launched. It also launched Insta Credit for Working Capital Loans up to ₹1 crore.

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## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
<b>INCOME</b>					
Interest Income	1,63,841.8	1,76,989.3	8.0	1,97,485.0	11.6
Other Income	26,122.3	34,771.6	33.1	40,522.1	16.5
<b>EXPENDITURE</b>					
Interest Expended	94,838.1	95,727.8	0.9	1,02,168.1	6.7
Cost of Employees	28,169.7	27,685.3	(1.7)	29,502.3	6.6
Depreciation	2,873.8	2,906.6	1.1	3,026.9	4.1
Operating Expenses	19,280.3	20,541.3	6.5	24,557.5	19.6
Provision of Tax	10,361.2	18,003.1	73.8	20,806.0	15.6
Deferred Tax	(23.2)	(637.4)	2,647.4	533.2	(183.7)
Other Provisions	13,566.5	13,419.3	(1.1)	16,570.0	23.5
Extraordinary Items	20.0	79.6	298.0	300.5	277.5
Net Profit/Loss	20,877.7	34,035.3	63.0	40,542.6	19.1

### 4 Years Balance Sheet

(₹ mn)

Sheet as on 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17	Mar 18
<b>SOURCES OF FUNDS</b>	<b>10,60,760.6</b>	<b>19,23,857.6</b>	<b>21,47,358.9</b>	<b>26,50,672.4</b>
Equity Share Capital	3,861.8	9,171.9	9,204.5	9,528.2
Equity Application	30.0	34.1	18.6	21.7
Reserves and Surplus	1,37,549.1	2,30,418.7	2,66,956.2	3,65,288.3
Deposits	7,57,595.6	13,86,430.2	15,74,258.6	19,26,432.7
Borrowings	1,12,504.6	2,09,753.4	2,10,954.8	2,51,541.5
Other Liabilities and Provisions	49,219.5	88,049.3	85,966.2	97,860.0
<b>USES OF FUNDS</b>	<b>10,60,760.6</b>	<b>19,23,857.6</b>	<b>21,47,358.9</b>	<b>26,50,672.4</b>
Balances with RBI	39,283.0	69,034.3	74,924.2	89,085.0
Money at Call and Short Notice	23,340.6	39,762.8	1,50,795.8	1,07,116.0
Investments	2,86,591.1	5,12,602.2	4,50,741.9	6,45,623.5
Advances	6,61,607.1	11,86,653.0	13,60,821.3	16,97,179.2
Fixed Assets	12,067.1	15,515.9	15,376.3	15,271.6
Other Assets	37,871.7	1,00,289.4	94,699.4	96,397.1
<b>NOTE</b>				
Gross NPA	12,372.3	28,381.1	35,786.0	38,253.8
Net NPA	6,090.8	12,619.6	17,181.0	16,651.0
Contingent Liabilities	6,36,022.9	24,25,222.8	19,29,586.4	20,49,360.5
Dividend (%)	18.0	10.0	12.0	14.0
<b>SCALE</b>				
Number of Branches	684	1,333	1,369	1,388
Number of Employees	18,000	31,410	44,000	50,000

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 18	Jun18	Sep 18	Dec 18
<b>INCOME</b>				
Interest Income	53,233.7	54,797.0	58,109.0	62,503.3
Other Income	11,516.3	11,645.9	12,052.7	9,638.8
<b>EXPENDITURE</b>				
Interest Expended	27,436.2	28,968.0	31,218.0	33,112.5
Employees Cost	7,664.4	7,204.2	7,452.4	8,369.9
Other Expenses	9,469.9	9,945.4	10,541.6	11,275.6
Operating Profit	20,179.5	20,325.3	20,949.7	19,384.1
Provisions And Contingencies	3,069.1	4,696.3	3,538.0	(323.0)
Profit Before Tax	17,110.4	15,629.0	17,411.7	19,707.1
Tax	5,869.9	5,379.6	5,995.2	6,797.8
Net Profit For the Period	11,240.5	10,249.4	11,416.5	12,909.3

## 52 Week Index Relative Percentage Appreciation



Kotak vs SENSEX

## Risks Associated

- ➔ The rise in Retail & corporate NPA's is the single major issue, this issue is going through worldwide. Indian government allowing loan waiver of farmers, it will rise further NPAs.
- ➔ The recession is one of the major threats to the financial system of the nation. A traumatic shock of Economic crises & collapse of the several businesses can affect the banks.
- ➔ Competition from insurance companies, mutual fund companies and post offices can affect the business of Banks.

## Scope of Growth

- ➔ Increase in working population & growing disposable incomes will raise demand for banking services. Housing & personal finance are expected to remain key demand drivers. Rural banking is expected to witness growth in the future.
- ➔ The bank's interest income from investments depends upon some key factors like government policies and credit demand. If a bank had invested in G-Secs in a high-interest rate scenario, the book value of the investment would have appreciated significantly when interest rates fall from those high levels.
- ➔ Company actively seeks inorganic growth opportunities in the Indian financial services space. These opportunities can take various forms, including acquisitions, mergers, joint ventures, strategic investments, and asset purchases.
- ➔ Home Loans & Loan Against Property business grew by 24% to ₹ 32,429 crore and the Small business, Personal Loans & Credit Cards business grew by 45% to ₹ 25,189 crore during the year.
- ➔ Kotak Mahindra Asset Management Company, is one of the fastest growing Mutual Fund houses & among the top ten Fund Houses by Quarterly Average Asset Under Management (QAAUM) and continues to be the 7th largest Fund House in the country in terms of QAAUM.
- ➔ As of August 2018, total number of ATMs in India increased to 2,13,004 and it is expected to reach to 4,07,000 ATMs in 2021.

Kotak Bank and its subsidiaries offer a range of financial products and services to its customers. The key businesses are commercial banking, investment banking, stock broking, vehicle finance, advisory services, asset management, life insurance and general insurance. Bank, serves a customer base in more than 13 million customers covering across domestic individual and households, non-residents, small and medium business segments. The Bank continued its strategy to an expansion of its branch network. As of 31st March 2018, the Bank had 1,388 branches and 2,199 ATMs, covering 724 locations. 27 new branches commissioned during the year, 15 were in metro and 12 were in urban locations. 8 branches related to rural and semi-urban locations were closed. The Bank also relocated 72 branches across metro and semi-urban locations to give easier access and higher convenience to its customers. In 2018, it launched its Merchant Acquiring business, in this business Bank has installed 7,262 POS terminals and 2,160 Bharat QR decals, thereby facilitating 28.4 lakh transactions. It also launched Superfast Home Loans for salaried customers, which helps to sanction loan within four hours. During the year Bank acquired 99.49% of BSS Microfinance Ltd for a consideration of ₹ 139.2 crore. The remaining stake of 0.51% was acquired in March 2018 for a consideration of ₹ 0.5 crore and it is now a 100% subsidiary of the Bank. Acquired 26% equity stake held by Old Mutual Plc in Kotak Mahindra Life Insurance Company Ltd for a cash consideration of ₹ 1,292.70 crore. Acquisitions and launches will improve performance in the future.

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## Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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