Kotak Mahindra Bank Q4FY20

Financial Results & Highlights

Brief Company Introduction

Kotak Mahindra Bank is an Indian private sector bank headquartered in Mumbai, Maharashtra, India. It offers banking products and financial services for corporate and retail customers in the areas of personal finance, investment banking, life insurance, and wealth management. As of April 2019, it is the second largest Indian private sector bank by market capitalization.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	8294.07	7672.56	8.10%	8077.03	2.69%	32301.72	28547.24	13.15%
PBT	1677.81	2111	-20.52%	1944.07	-13.70%	7804.67	7385.79	5.67%
PAT	1266.6*	1407.8	-10.03%	1595.9	-20.63%	5947.18	4865.33	22.24%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	12084.71	13823.33	-12.58%	13542.43	-10.76%	50299.69	45903.36	9.58%
PBT	2674.46	2990.59	-10.57%	2889.47	-7.44%	11421.8	10575.72	8.00%
PAT	1951.82**	2038.22	-4.24%	2329.33	-16.21%	8607.08	7119.7	20.89%

*Contains Provision of Rs 1047 Cr. **Contains provision of Rs 1262 Cr.

Detailed Results:

1. The net standalone revenues rose 8% YoY in Q4.
2. Consolidated profit fell 12.5% YoY in Q4.
3. On the other hand, FY20 saw revenue growth of 13% YoY and 22% YoY in standalone terms. Consolidated revenues and profits grew 9.6% YoY and 21 % YoY respectively.
4. The consolidated net interest margin was 4.59% vs 4.24% a year ago.
5. Total advances grew 2.6% YoY while AUM was flat YoY.
6. The company maintained a consolidated CAR of 19.8% vs 17.9% a year ago.
7. Book value per share was at Rs 348.3 per share.
8. Total assets grew 12% YoY.
9. The company has an overall cash surplus of Rs 67,314 Cr out of which Rs 49,015 Cr are in Kotak Mahindra Bank.
10. At a standalone level, GNPAs was at 2.25% while net NPAs were at 0.71% on 31st March 2020.
11. Advances for standalone entity grew 6.8% YoY.
12. The CASA ratio was at 56.2% vs 52.5% a year ago.
13. The savings deposit base grew 31% YoY to over Rs 1 lakh crore. The average SA size also grew 21% YoY to Rs 85,656.
14. The current account base also grew 10.5% YoY to Rs 43,013 Cr. The average CA size also grew 17% YoY to Rs 33,699.
15. Costs of SA was at 5.23% vs 5.66% a year ago.

16. Total deposits including CDs grew 16% YoY to Rs 2,62,821 Cr.
17. ~44 lakh 811 accounts opened in FY20.
18. The bank maintained PCR of 69% in FY20.
19. The bank has made COVID provisioning of Rs 650 Cr. It is at 10% at account level.
20. In Kotak Mahindra Life Insurance, VNB margin was at 28.8%. The individual new business mix was as follows:
    1. Participating products: 5%
    2. Non-participating products: 39%
    3. ULIP: 5%
21. Claims settlement ratio was at 99.2%. The mix of new business channel was 44% for bancassurance and 56% for agency & others.
22. Gross written premium rose 26.6% YoY while gross individual premium grew 20.8% YoY.
23. Group premium grew 43.3% YoY. Policyholders' AUM grew 14.6% YoY.
24. Solvency ratio was at 2.9 times.
25. In Kotak Mahindra AMC, overall average AUM grew 25% YoY to Rs 1,73,394 Cr. Equity AUM grew 31% YoY and now constitutes 41.6% of total AUM.
26. Market share of the subsidiary grew to 6.9% (from 6.1%) and 6.1% (from 5.2%) in overall and equity terms respectively.
27. Kotak securities has a modest year with market share maintained at 9.1%.

Investor Conference Call Details:

1. The management has stated that the company is looking at lending based on 3 aspects which are sector, whether the company has high fixed costs and whether the company has high leverage.

2. The company added an average of 14,000 new customer accounts per day through its digital acquisition channel since the start of FY21.

3. The management sees a good opportunity to grow the non-credit risk business areas for the bank including advisory, securities, wealth management and asset management.

4. The other income for the bank grew 17% YoY to Rs 1489 Cr in standalone terms.

5. Around 26% of borrowers went for the Moratorium in April.

6. The bank has made significant efforts in online customer acquisition. It has extended 811 accounts into all channels including corporate salary, branches and others. The bank is also the first in India with Google Assistant integration where bank customers can ask for balances via Google Assistant.

7. The breakdown of the bank's lending divisions is as follows:

    1. Corporate & Business banking: Rs 84,855 Cr

    2. Commercial Vehicles/Construction Vehicles: Rs 19,253 Cr

    3. Agriculture: Rs 21,188 Cr

    4. Tractor Finance: Rs 7,569 Cr

    5. Home Loans: Rs 46,881 Cr

   6. Secured Working Capital: Rs 19,839 Cr
   7. PL, BL & Consumer Durables: Rs 9,754 Cr
   8. Credit Cards: Rs 4,701 Cr
   9. Others: Rs 5,708 Cr

8. In Corporate & Business Banking division, SME lending is around Rs 21,000 Cr. In the commercial vehicle/construction vehicles division, SME lending is at Rs 19,000 Cr. In the secured working capital division, almost all of the loans are in SMEs.
9. The management has stated that the bank shall remain cautious in lending without sovereign guarantee and it will step up on lending if sovereign guarantee is applied.
10. Savings growth in April and May so far has been positive YoY for the bank.
11. Despite dropping the savings rate twice in the recent past, the current rates are still greater than industry average which shows that there is good room for reduction in cost of savings accounts for the bank according to the management.
12. The bank shall remain aggressive in assessing lending targets and will be assessing them mainly on future potential rather than past track record since COVID-19 may have caused many irreversible changes in particular sectors.
13. The factors affecting VNB margin were the drop in interest rates, increase in expenses, change in channel mix and change in product mix.
14. The total exposure to real estate for the bank on standalone terms is around Rs 6,000 Cr while total exposure on consolidated terms is Rs 10,000 Cr.
15. The management has stated that the company is not targeting any particular spread or band of margin and is basically looking to operate at the optimal balance of risk to return.
16. The management has stated that the entire senior management of the company has opted for a voluntary 15% cut in salaries for the coming year.
17. The management expects the demand for office space to go down especially for the bank due to the coming into prevalence of working from home.
18. The management also believes that there will a significant increase in digital journeys for all processes and functions in the future. Thus spending on digital and technology is going to go up.
19. The management also expects business models to become more adaptive flexible to be able to respond better to unforeseen changes in the world as in the case of COVID-19.
20. The management admits that the unsecured channel is the area with most worry right now.
21. The management has observed that the barriers to entry into banking and financial services have essentially reduced in the past decade and more and more SFBs and more NBFCs have come up which has resulted in various execution issues and lots of differences in underwriting standards. Although the entry has been eased for players in the industry, exit still remains unclear. Thus the only visible exits are either a bank ceases to exist or gets acquired or consolidated with another player in the future.

22. The management admits that the average balance for 811 accounts is very small. The major draw for the bank here is to migrate the 811 account to full KYC account and convert the person to a regular customer.
23. The management has stated that the bank will continue to take term deposits but will focus on smaller tickets. The preferred strategy is to have TDs of up to Rs 1 Cr only here.
24. The management expects the entire unsecured segment including credit cards and unsecured loans to be in pain going forward. In secured loans, the management expects CV/CE segment to be in the most pain going forward.
25. In the home loan segment, the bank had been very aggressive in the past year and was focusing primarily on existing bank customers through the bank branches. The focus was particularly around large cities like Mumbai, Delhi, Bangalore, Ahmedabad, Pune, etc.
26. The management credit costs to be higher than at present going forward.
27. The management believe that going forward as risk becomes more concentrated due to industry consolidation, banking industry will have to get more responsible in terms of lending covenants and fiduciary responsibility of ratings agencies will be required to higher than before.
28. The management has stated that the bank will look at various productivity measures to assess cist saving avenues while continuing to invest in recovery infrastructure for retail since retail figures tend to shoot up in step fashion on recovery.

Analyst's View:

Kotak Mahindra Bank is the second-biggest private bank in the country by market capitalization. It has deservedly earned its stellar reputation over the years. The bank has performed very well in FY20 with more than 31% growth in deposits despite instituting two savings rate cuts in the year. The company has also managed to achieve savings deposit growth in April and May despite instituting the latest savings rate cut in April itself. It is a testament to the vision of the management that even in such trying times of COVID-19, the aim of the bank is to better its underwriting processes looking at future potential, institute cost savings and focus on digital and technology to stay agile and take advantage of upcoming opportunities in the banking space. It remains to be seen how the COVID-19 situation will unravel and what final impact it will have on the company's performance and the performance of the vulnerable but essential MSME sector. Nonetheless, given the bank's track record and the capability and vision of the management over the years, Kotak Mahindra Bank remains a pivotal banking stock for every Indian investor.

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