

Kotak Mahindra Bank Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	8125	8077	0.59%	8288	-1.97%	24098	24008	0.37%
PBT	2484	1944	27.78%	2929	-15.19%	7075	6127	15.47%
PAT	1854	1596	16.17%	2184	-15.11%	5282	4681	12.84%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	14835	13542	9.55%	13591	9.15%	40750	38215	6.63%
PBT	3455	2889	20%	3914	-11.73%	9805	8747	12.10%
PAT	2576	2329	11%	2933	-12.17%	7350	6655	10.44%

Detailed Results:

- The net standalone revenues were flat YoY in Q3. Consolidated revenue was up at an 9.55% gain YoY in Q3.
- Consolidated profit rose 11% YoY in Q3. Standalone Preprovision profit rose 29% YoY in Q3.
- On a standalone basis, NII grew 17% YoY. NIM was at 4.51% vs 4.69% a year ago.
- Standalone CASA was at 58.9% vs 53.7% a year ago.
- Avg Savings deposits rose 29% YoY. Avg current deposits rose 13% YoY.
- Advances were flat YoY at Rs 214,103 Cr vs Rs 216,774 Cr.
- Standalone CAR was at 23.6% with Tier I ratio at 23%.
- Standalone GNPA was at 2.26% and NNPA was at 0.5%. Proforma GNPA: 3.27%; NNPA: 1.24%.
- COVID-19 provisioning as on date was at Rs 1279 Cr.
- Standalone total assets grew 20% YoY.
- Average SA size rose 29% YoY while the average CA size rose 13% YoY in 9M FY21. Cost of SA was down 146 bps YoY to 3.81%.
- Consolidated CAR was at 24.9% with tier 1 capital at 24.3%.
- Consolidated NIM was flat YoY at 4.58% vs 4.66% last year.
- The book value per share was at Rs 412 per share.
- Overall NNPA for consolidated was at 0.53%
- AUM of Kotak Mahindra Life Insurance grew 21.7% YoY.
- Kotak securities saw market share shrink to 9.1% in 9M vs 10% last year.

18. Kotak AMC saw overall market share on AAUM rise to 7.3% vs 6.6% a year ago.

Investor Conference Call Details:

1. The management states that growth momentum in loans is expected to continue ahead. The management has stated that Kotak shall focus on secured lending and will remain cautious on unsecured lending.
2. Unsecured loans are at near 6% of total loans and around 40% of the incremental rise in proforma NPAs is from this segment.
3. CASA and term deposits make up for almost 92% of total deposits.
4. Restructuring requests from customers are expected to be low in Q4.
5. Collection efficiency on the secured portfolio has come back to pre-covid levels. In the unsecured portfolio, it is rising and is expected to come back to pre-covid levels soon.
6. Total ECLGS disbursement was around Rs 9400 Cr by Q3 and it has crossed Rs 9700 Cr in Jan.
7. The management has stated that it has given out ECLGS to 50-60% of accounts eligible for the scheme.
8. The management has stated that the required density of branches should be less with more coverage area for each branch. Thus it will be restrained when opening up new branches.
9. The management expects cost reductions to be sustainable and yields should remain high to maintain or expand margins from current levels.
10. The CV loan book remains stressed as 10-15% of the book is in buses that have yet to come back to pre-covid levels.
11. For borrowers where even one account turned 90+dpd, the entire outstanding balance (including other accounts) was considered as NPA. 3QFY21 Provisioning also includes interest reversal for the whole moratorium period (6 months), wherever applicable.
12. Mortgage segment saw its best ever month in Dec and momentum in this segment is expected to sustain. The focus in this segment will remain on salaried customers.
13. In the CV loan segment, utilization in the goods segment was near pre-covid level but operator economics were affected due to higher fuel prices. Collection efficiency is near pre-covid levels.
14. In the Agri customers segment, demand is rising and customers are reporting regular cashflows.
15. Disbursals have risen higher in the tractor finance segment as collections in the segment are at normal levels and volumes are expected to rise going forward.
16. 80% of the ECLGS was towards small consumer business and commercial business. The rest of the amount was towards the lower end of corporate.
17. In the Rs 0.1 mn to Rs 10 mn bucket in SA, KMB offers 4%, which is 75bps better than the top 3 private banks.
18. Digital uptake by consumers continued, led by mobile channels. As digital picks up, the approach towards branches would be refined. Other productivity measures, including work from home, are being implemented. As volumes increase, tech-related efficiencies will kick in.
19. The bank has a 5% market share in mobile banking in terms of the transaction value. Transaction volume/value is up 73/40% YoY.
20. PAT declined 20% YoY for Kotak Prime. PAT for Kotak Life was flat YoY and it rose 44% YoY for Kotak securities.
21. The PAT from AMC business was also flat YoY.
22. GNPA in Kotak Prime was 2.46% while, on a proforma basis, it was over 4%.
23. Q3 employee costs were better due to the absence of pension costs which were present in Q2 and Q3FY20.

24. Other expenses rose primarily due to an increase in ad and promotional activity expenses as well as a pick-up in collection/recovery related costs.

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 well in Q3FY21 with more than 29% growth in savings deposits and has gotten 17% YoY growth in NII despite flat YoY growth in advances. The company has done well to keep its books resilient and focus on expanding on the secured lending side while remaining cautious on the unsecured side. It has also seen a very good rise in the digital channels with more than 73% YoY rise in digital transactions and plans to use this consumer shift to keep its branch density low to be able to better compete with peers who have a much larger physical presence. It remains to be seen how the proforma NPAs will affect the bank going forward and whether the company will be able to better compete with other players with its low branch density plan. 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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