

Kotak Mahindra Bank Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	8288	7986	3.78%	7685	7.85%	15973	15931	0.26%
PBT	2929	2101	39.41%	1662	76.23%	4591	4183	9.75%
PAT	2184	1724	26.68%	1244	75.56%	3429	3085	11.15%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	13591	12543	8.36%	12323	10.29%	25915	24673	5.03%
PBT	3914	2945	32.90%	2435	60.74%	6350	5858	8.40%
PAT	2933	2399	22.26%	1840	59.40%	4774	4326	10.36%

Detailed Results:

- The net standalone revenues rose 4% YoY in Q2. Consolidated revenue was up at an 8.4% gain YoY in Q2.
- Consolidated profit rose 22% YoY in Q2 Standalone Preprovision profit rose 31% YoY in Q2.
- On a standalone basis, NII grew 16.8% YoY. NIM was at 4.52% vs 4.61% a year ago.
- Standalone CASA was at 57.1% vs 53.6% a year ago.
- Avg Savings deposits rose 25.7% YoY to Rs 1,08,990 Cr. Avg current deposits rose 6% YoY to Rs 40,454 Cr.
- Advances fell slightly YoY at Rs 204,845 Cr vs Rs 213,299 Cr.
- Standalone CAR was at 23.4% with Tier I ratio at 22.8%.
- Standalone GNPA was at 2.55% and NNPA was at 0.64%. Proforma GNPA: 2.70%; NNPA: 0.74.
- COVID-19 provisioning as of 30th Sep 2020 was at Rs 1279 Cr.
- Standalone total assets grew 18% YoY to Rs 3,74,765 Cr.
- Average SA size rose 32% YoY while the average CA size rose 10% YoY. Cost SA was down 150 bps YpY to 3.87%. LCR was >170%.
- Consolidated CAR was at 24.5% with tier 1 capital at 23.9%.
- Consolidated NIM was flat YoY at 4.58% vs 4.56% last year.
- The book value per share was at Rs 399 per share.
- Overall NNPA for consolidated was at 0.7%
- AUM of Kotak Mahindra Life Insurance grew 18.5% YoY to Rs 35,980 Cr.

17. Kotak securities saw market share shrink to 7.7% in H1 vs 9.4% last year.
18. Kotak AMC saw market share rise to 6.9% vs 6.6% a year ago.

Investor Conference Call Details:

1. The total provisioning on the credit count is now 177% of our total net NPS.
2. The bank has moved to the lower tax rate from Q2 onwards.
3. The distribution and syndication income showed a growth of 50% on a Y-o-Y basis and 19% on a QoQ basis.
4. General banking fees were down 15% YoY due to lower volumes in various segments.
5. The bank continues to see a surge in customers' usage of digital channels with a preference for mobile in Q2.
6. In mobile banking, Kotak has a 5.1% share of the mobile transaction value in the industry.
7. Digital payments saw an increase of 73% YoY and the average ticket size in both UPI and payment gateway transactions has increased Y-o-Y.
8. The bank launched 2 new credit card variants between September and October for the mass affluent segment and a secure credit card for customers who do not have a stable footprint.
9. Collections are coming back to normal and were aided with the increased means through digital transactions.
10. The bank also launched MyImage Card for customers who can apply for and download the images on their debit and credit cards.
11. The bank's agribusiness portfolio comprises SMEs involved in primary and secondary processing of agricultural commodities and is mostly based out of non-urban locations. This business has seen good growth due to good crop harvest and collections have been above normal levels.
12. The bank overall contributed 74% of the post-tax profits.
13. In the life insurance business, the gross written premium for the second quarter grew by 10% YoY and the single premium business grew by 15% YoY. The individual APE new business payments for the first half grew by 2% Y-o-Y against the private industry de-growth of 11%.
14. Digitization has been a big focus area for life insurance for increasing efficiency and enhancing customer experiences.
15. The broking industry saw record volumes for average cash turnover in Q2 at Rs 62,000 Cr per day vs Rs 35,000 Cr a year ago.
16. The daily options market turnover for retail broking has also risen 40-50% YoY.
17. Kotak Mahindra Capital Company saw many marquee transactions like QIPs for ICICI, HDFC, Mahindra Finance, and YES BANK, Phoenix Mills, IPOs for CAMS, etc.
18. The company has also been contracted for the restructuring of Motherson Sumi and subsidization of Tata Motor's passenger vehicle business.

19. The management states that the deposit rate cut was not for short-term financial gains but as part of a larger strategy for sustainable growth of earnings of the firm while preserving the deposit franchise.
20. The management has stated that consumer behaviour has not been affected too much by the rate cut and the attrition rate has been normal.
21. The management is confident about the asset quality of the company. It is looking to concentrate on urban advances as employees with lower salaries in urban areas have been the worst-hit financially from COVID-19. Thus the company has also dropped its unsecured credit card book and unsecured personal loan and business loan book by design.
22. The company will continue to spend money on building the franchise (mostly on digital) and taking cost on risk.
23. Kotak is currently at 2% to 2.5% of the total banking sector market share.
24. Emphasis on digital and tech has been the primary driver for the bank in expanding the customer base without significantly expanding the branch network.
25. The management maintains that the primary focus for the bank is on execution and to approach growth through the route of customer acquisition and engagement and selling.
26. In commercial vehicle and construction equipment, Sep collections are close to the pre-covid level.
27. In the unsecured retail business, collections are improving but they are far from the pre-covid level.
28. Overall collections for the bank are at Feb levels near 95%.

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 resiliently in Q2FY21 with more than 32% growth in savings deposits and has gotten 17% YoY growth in NII despite slightly lower advances. The company has done well to keep its books resilient and focus on the development of the liability side during the pandemic. 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 better compete with peers who have a much larger physical presence. It remains to be seen how the COVID-19 situation will unravel and what final impact will the end of the moratorium unravel for the company. 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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