INSTITUTIONAL RESEARCH

Kotak Mahindra Bank

Sweating a high-quality franchise; upgrade to BUY

Kotak Mahindra Bank (KMB) has underperformed the Bank Nifty by ~20% over the past few months on the back of three key developments: CEO transition, regulatory embargo on client acquisition through digital channels, and senior management attrition. Of these, we believe that the RBI-imposed embargo is the only material event that impacts forecasts - hence, we argue that the bank needs to disproportionately invest in restoring regulatory confidence, the most critical aspect that needs fixing. While investments in tech, and digital are likely to keep opex intensity elevated, we believe that KMB remains a high-quality franchise with adequate levers to sustain RoAs north of 2.3% (FY24: 2.5%). We upgrade to BUY (from ADD) with a revised SOTP-based TP of INR 2,025 (standalone bank at 2.3x Mar-26 ABVPS).

- **Digital onboarding and credit card embargo:** The RBI imposed an embargo on digital onboarding of new customers and new credit card issuances. Our forecasts build in a 9-12m resolution timeline for this embargo (FY25), given earlier regulatory precedents. While the management guided for an ~INR3-5bn impact on PBT, we believe the P&L impact is likely to be offset by lower acquisition costs during the period. We see this as an opportunity for KMB to capitalise on its existing customer base (250 mn existing 811 customer base) and enhance cross-sell.
- **Need for further improving deposit granularity:** Having built up its CASA ratio to >60% in FY22, KMB has lost significant ground since (FY24: 46%) as customers migrated to term deposits in a rising rate environment. The bank's ActivMoney proposition offers customers a better alternative to term deposits and keeps its cost of funds relatively under check. We argue that KMB needs to build more granularity in its deposit mix and reduce deposit concentration compared to its peers.
- **New sources of unsecured retail loans:** While KMB continues to target a mix of unsecured loans in the mid-teens (FY24: 11.8%), we believe that the ban on fresh credit card issuances is likely to impact growth in the PL portfolio also. However, the management highlighted its continued focus on growing other segments of unsecured retail, especially the MFI and BL segments.
- **Dislocated high-quality franchise; upgrade to BUY:** While the RBI-imposed embargo on KMB is likely to keep opex ratios elevated, we expect productivity and efficiency gains from recent quarters to plateau. With limited levers to incremental margin reflation, we believe RoAs in the current cycle have peaked. However, we believe that the current dislocation in the stock, which we opine to be temporary, is an attractive entry point into a high-quality franchise with sufficient levers to sustain its RoAs above 2.3%.

Financial Summary

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY25E	FY26E
NII	69.1	61.0	*13.2%*	65.5	*5.4%*	259.9	298.6	337.0
PPOP	54.6	46.5	*17.5%*	45.7	*19.6%*	195.9	225.1	257.5
PAT	41.3	35.0	*18.2%*	30.1	*37.5%*	137.8	152.4	170.9
EPS (INR)	20.6	17.4	*18.4%*	15.1	*36.2%*	69.3	76.6	86.0
ROAE (%)						15.3	14.6	14.3
ROAA (%)						2.5	2.4	2.3
ABVPS (INR)						464.2	537.1	619.4
P/ABV (x)						3.5	3.0	2.6
P/E (x)						23.4	21.2	18.9

Source: Company, HSIE Research

BUY

CMP *(as on 6 May 2024)*	**INR 1,624**
Target Price	**INR 2,025**
NIFTY	**22,443**

KEY CHANGES	**OLD**	**NEW**
Rating	ADD	BUY
Price Target	INR 2,100	INR 2,025
EPS %	FY25E	FY26E
	4.3%	5.4%

KEY STOCK DATA	
Bloomberg code	KMB IN
No. of Shares (mn)	1,988
MCap (INR bn) / ($ mn)	3,229/38,655
6m avg traded value (INR mn)	10,381
52 Week high / low	INR 2,064/1,544

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(9.1)	(6.7)	(15.8)
Relative (%)	(11.5)	(20.4)	(36.8)

SHAREHOLDING PATTERN (%)	**Dec-23**	**Mar-24**
Promoters	25.9	25.9
FIs & Local MFs	21.4	23.4
FPIs	39.7	37.6
Public & Others	12.9	13.1
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

Akshay Badlani
akshay.badlani@hdfcsec.com
+91-22-6171-7325

Annual Report Dashboard

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Concentration metrics										
% Share of Top 20 advances	13.3%	13.4%	10.6%	9.4%	8.7%	9.0%	7.7%	8.3%	8.0%	7.4%
% Share of Top 20 exposures	11.8%	12.7%	9.8%	9.8%	8.4%	7.4%	7.2%	9.4%	8.8%	8.0%
% Share of Top 20 depositors	17.4%	14.5%	11.9%	9.7%	13.4%	12.2%	9.9%	9.8%	8.9%	8.3%
Sector-wise Advances (% of sector advances)										
Priority Sector	35.1%	39.1%	42.4%	44.2%	40.4%	35.0%	33.3%	40.0%	45.7%	45.9%
Industrial credit	16.5%	20.0%	20.6%	23.8%	23.1%	24.3%	23.1%	41.6%	49.2%	57.3%
Credit for services	25.1%	36.0%	39.1%	42.4%	46.1%	43.9%	41.2%	39.6%	46.4%	55.9%
Agricultural credit	100.0%	100.0%	92.9%	92.3%	91.0%	94.4%	94.9%	95.7%	98.4%	98.6%
Personal loans	19.9%	17.6%	35.2%	35.7%	14.7%	2.5%	3.5%	3.0%	3.9%	2.7%
GNPA Mix %										
Sub standard	47.5%	59.5%	31.9%	64.0%	37.4%	37.2%	31.8%	46.6%	29.8%	27.8%
Doubtful 1	8.0%	10.2%	12.1%	11.9%	38.1%	31.5%	14.9%	19.6%	31.8%	20.5%
Doubtful 2	27.2%	1.7%	3.2%	16.7%	20.5%	23.8%	28.8%	11.2%	18.8%	33.6%
Doubtful 3	3.4%	1.6%	1.5%	0.4%	0.3%	1.6%	10.3%	11.7%	11.4%	13.7%
Loss	14.0%	27.0%	51.3%	7.0%	3.7%	5.8%	14.1%	10.9%	8.2%	4.4%
Bancassurance - % of Total Fee	16%	23%	13%	13%	13%	10%	8%	9%	8%	9%
PSLC Bought - % of previous year loans	NA	NA	NA	NA	5.7%	5.7%	7.6%	10.1%	5.4%	3.5%
PSLC Sold - % of previous year loans	NA	NA	NA	NA	9.0%	5.9%	5.7%	11.2%	24.4%	21.5%
Operational Risk										
Frauds reported (#)	NA	NA	114	126	268	376	643	894	899	706
Amount involved in frauds (INR mn)	NA	NA	449	1,115	567	141	5,796	6,564	1,696	724
Real Estate Exposure (% of Real Estate Exposure)										
Secured by residential mortgage	40%	34%	36%	35%	38%	42%	45%	50%	59%	60%
Individual housing loans	3%	3%	2%	1%	1%	1%	0%	0%	2%	2%
Secured by commercial mortgage	46%	53%	50%	51%	48%	46%	42%	36%	29%	31%
Exposure to NHBs and HFCs	11%	10%	12%	13%	13%	11%	13%	14%	10%	8%
LCR Disclosures										
LCR %	178%	172%	159%	146%	130%	120%	119%	121%	124%	122%
RSBD (% of total deposits on bank's BS)	NA	NA	49%	55%	52%	56%	55%	64%	61%	58%

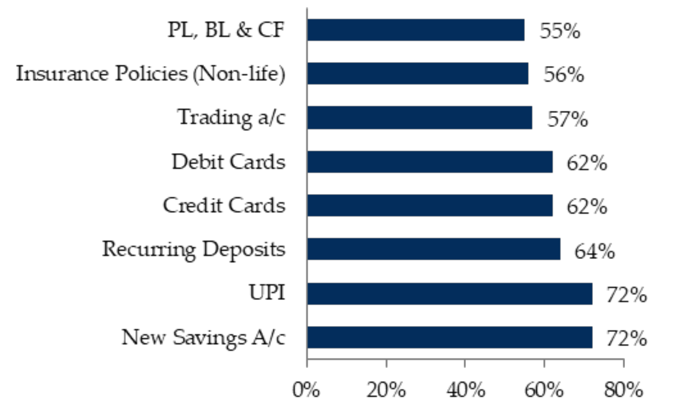
Source: Company, HSIE Research

Time to sweat the Kotak 811 channel; opex to stay elevated

Over the past five years, Kotak 811 has been a strong acquisition engine for the bank, primarily on the liability side of the balance sheet. Kotak 811 picked up its cross-sell activation during FY22 through products including credit cards, personal loans, consumer finance, insurance, and trading. About 72% of new saving accounts (SAs) originated in FY23 were opened via 811, indicating significant volume contribution on the liabilities side; however, value contribution continued to be minimal, given the younger demographic of the customer cohort and the lower ticket size. Although the regulatory embargo is likely to slow the momentum of the 811 channel in terms of new customer acquisition, we believe this offers KMB a golden opportunity to deepen its existing customer base and improve its cross-sell activation.

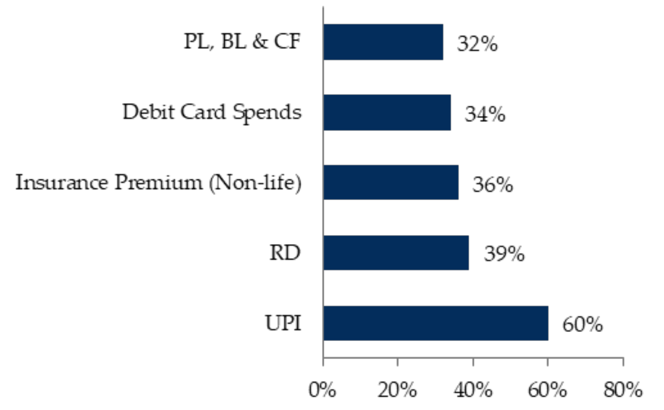
- **Investments in tech critical to improve IT framework:** KMB will have to keep investing across tech and IT governance alongside distribution to address the current deficiencies pointed out by the regulator. These investments shall keep the opex ratios elevated in the medium term. Operating leverage benefits in terms of productivity and efficiency are key to sustaining earnings with such elevated ratios.

Exhibit 1: Kotak 811 - volume contribution (FY23)



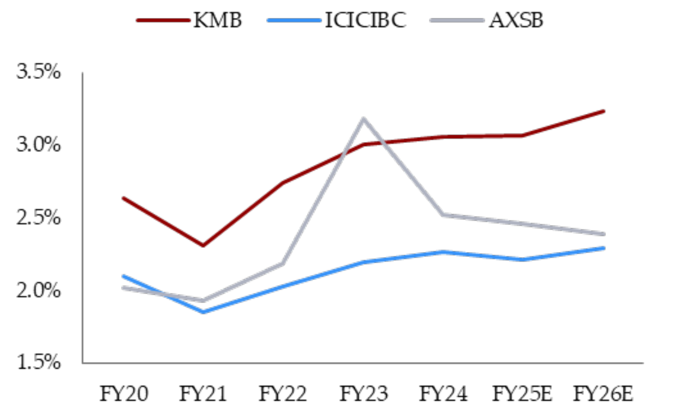
Source: Company, HSIE Research

Exhibit 2: Kotak 811 - value contribution (FY23)



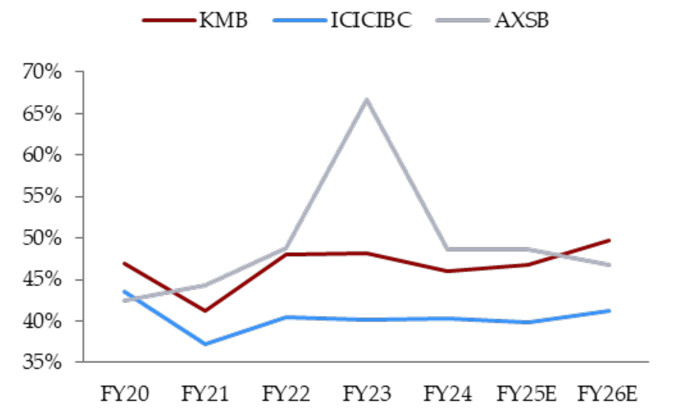
Source: Company, HSIE Research

Exhibit 3: Opex/average assets likely to stay elevated



Source: Company, HSIE Research

Exhibit 4: Cost/income to face upward pressure in FY26E



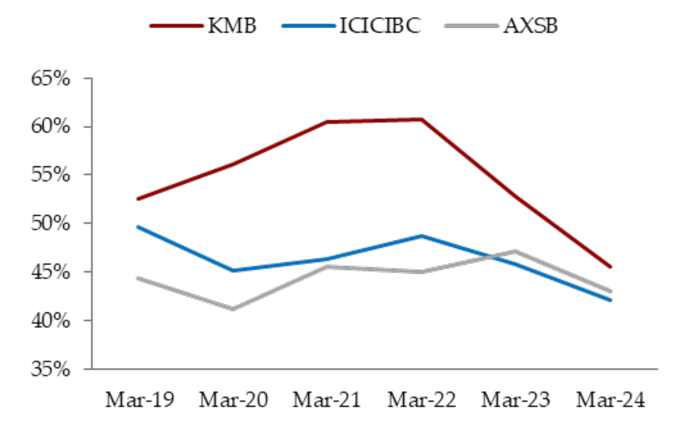
Source: Company, HSIE Research

Deposit mobilisation key to sustain growth

From the highs of >60% during Mar-22, KMB's CASA ratio has dipped to 46% over the past eight quarters, with customers migrating their balances into TDs in a rising interest rate environment. More importantly, the SA mix continues to drop despite the rising cost of SAs, only partly offset by the ActivMoney proposition, which offers a better alternative to term deposits while keeping funding costs under check. However, we believe that KMB needs to solve for deposit granularity and stickiness, given a relatively higher deposit concentration compared to its peers. We argue that KMB needs to sweat its deposit franchise better to sustain its higher loan growth trajectory. Going forward, we build in incrementally higher funding costs, as KMB walks the tightrope between quality of deposits and pace of deposit growth.

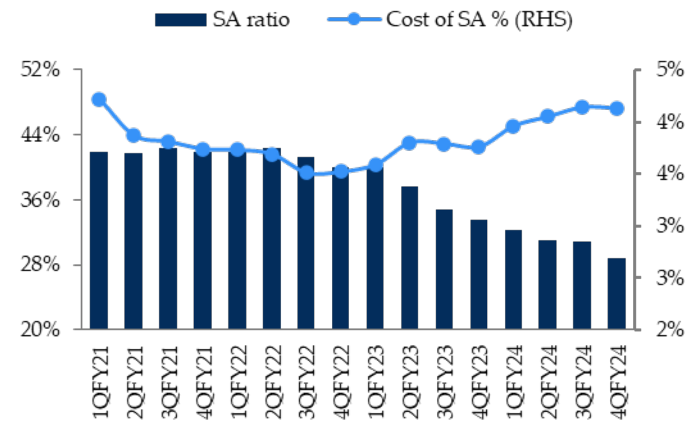
- **Deposit mix advantage continues to recede:** The bank has witnessed significant erosion in its CASA ratio at 46% as of Mar-24 (FY22: ~61%), concomitant with the rise in interest rates during the period, as the deposit mix advantage vis a vis its peers narrowed significantly over the past year. The cost of SA has also been rising, simultaneous with a deceleration in SA balances.

Exhibit 5: Losing CASA mix advantage



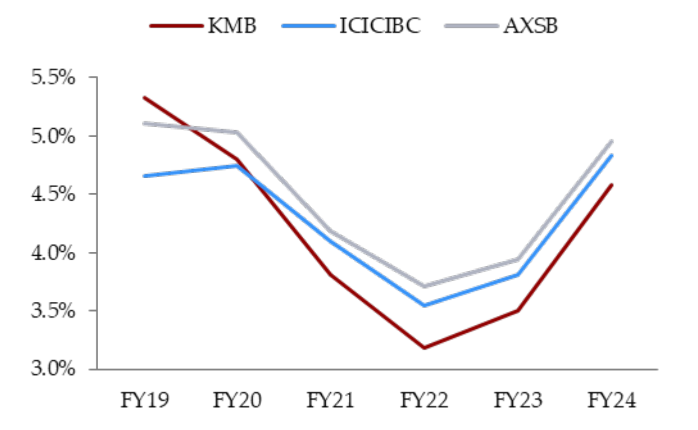
Source: Company, HSIE Research

Exhibit 6: Cost of SA rising with SA balance lagging



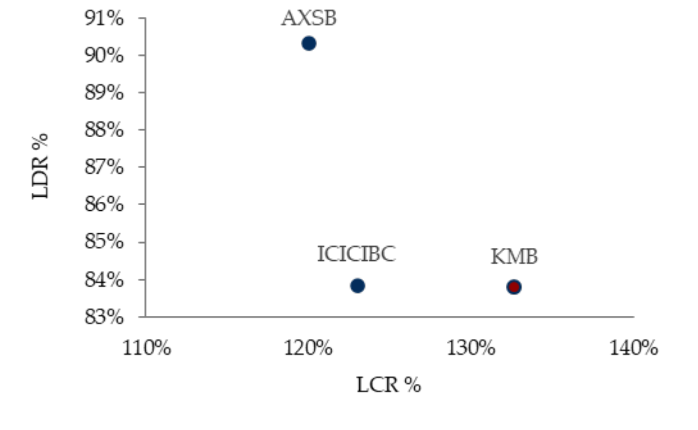
Source: Company, HSIE Research

Exhibit 7: CoF (calculated) converging with peers



Source: Company, HSIE Research

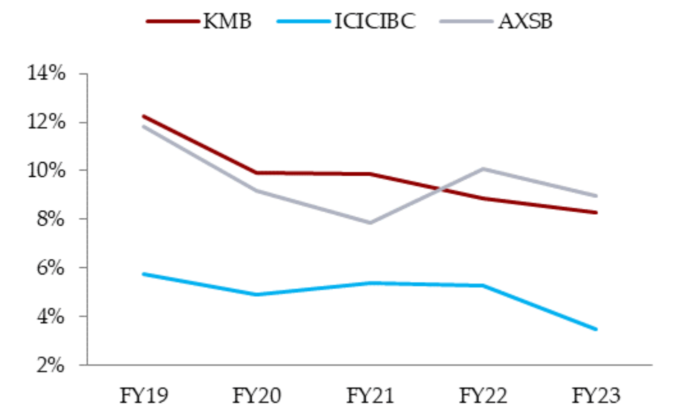
Exhibit 8: Comfortably placed with LDR and LCR



Source: Company, HSIE Research

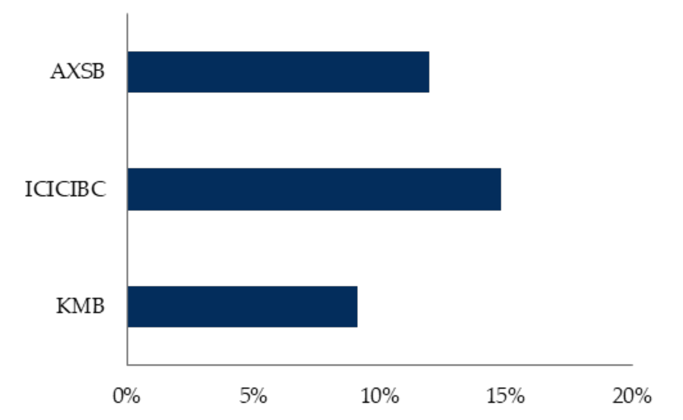
- **Need to solve for deposit granularity:** KMB has historically had a customer lineage comprising higher proportion of HNI and affluent customers. With endeavours like Kotak 811 and MFI, KMB has been foraying into the mass & mass-affluent segments. Although deposit concentration has been trending downwards, we believe there exists significant scope to build further granularity. Stable deposits (as % of total deposits) have been ranging 9-10% for KMB for the past ten quarters, considerably below the average range of peers; however, the RSBD /deposits are in line with peers, implying that KMB has a strong retail franchise but needs to cover ground in terms of cross-sell activation.

Exhibit 9: Top 20 Depositors concentration



Source: Company, HSIE Research

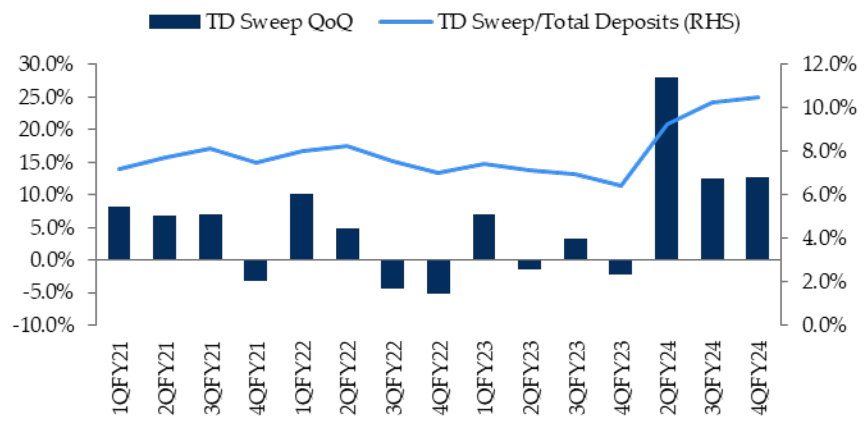
Exhibit 10 Stable deposits/total deposits Mar-24



Source: Company, HSIE Research

- **ActivMoney providing an alternative**: Rebranding the TD sweep deposit scheme (ActivMoney), KMB grew the book by ~102% during FY24 (FY21-23 CAGR: 5-7%), proving to be a widely-accepted product amongst customers. With only half of the customers opting to stay with the plan for more than six months, the effective cost of this deposit pool is range-bound at 5.15-5.25%. Although there is an internal cannibalisation of CASA deposits, ActivMoney offers a credible alternative to term deposits in a elevated-interest rate scenario, helping maintain its funding costs.

Exhibit 11: TD Sweep



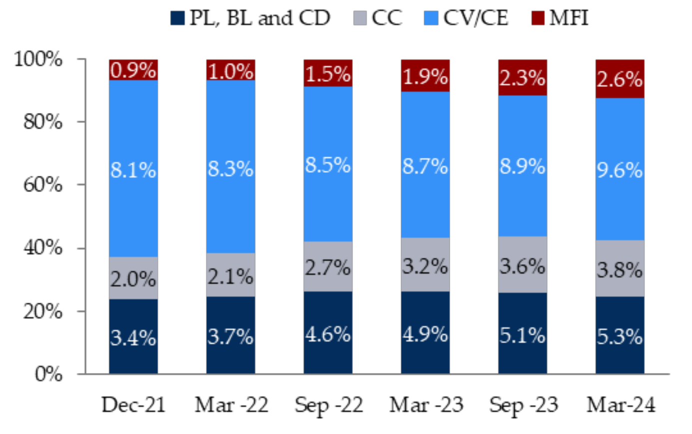
Source: Company, HSIE Research

Moderation in unsecured portfolio to impact blended yields

- **Change in outlook towards unsecured post-COVID:** In the run-up to the COVID pandemic, KMB used to adopt a cautious approach towards unsecured lending, often de-growing the book for multiple quarters. As the pandemic allowed lenders to flush out weaker hands, the underwriting in the subsequent period has proven to be better. Given its confidence in the existing unsecured portfolio, KMB grew its mix of unsecured retail to 11.8% as of Mar-24 (Dec-21: 6.3%). KMB has managed to maintain higher yields, compared to peers despite a lower/similar mix of unsecured compared to peers, showcasing better bargaining power with its customers. Given the embargo on fresh credit card issuances and the overlapping impact on personal loans, KMB is likely to focus on growing the business loans (BL) and MFI portfolios to maintain the overall blended yields.

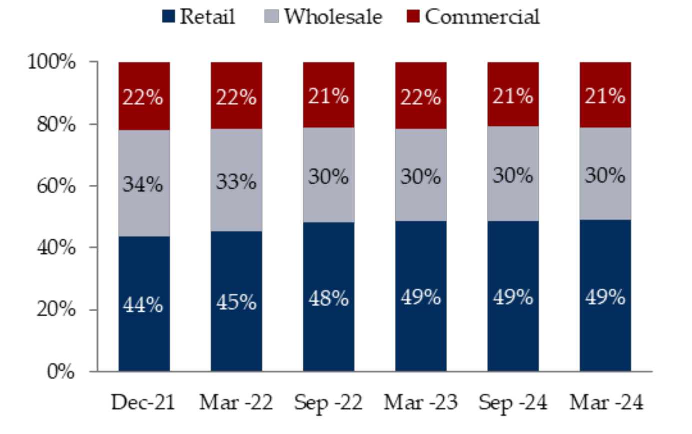
.

Exhibit 12: Growing unsecured & CV/CE mix



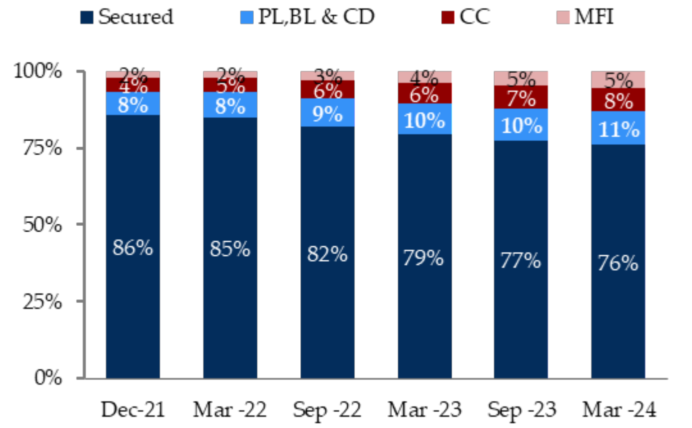
Source: Company, HSIE Research

Exhibit 13: Increasing retail asset class



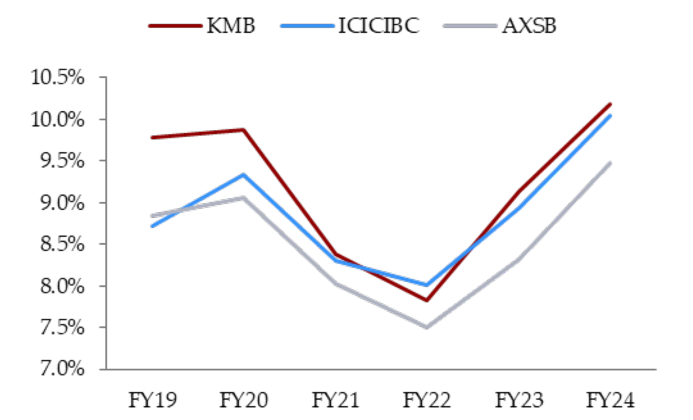
Source: Company, HSIE Research

Exhibit 14: Retail mix



Source: Company, HSIE Research

Exhibit 15: Yield on Advances (cal.) on the higher side



Source: Company, HSIE Research

- **Likely deceleration in credit card momentum:** KMB pivoted its credit card strategy post-COVID and made meaningful market share gains in terms of issuances and spends on the back of monthly issuance run rate of ~100-150k in recent times. The recent RBI-imposed embargo on fresh credit card issuances is likely to benefit larger peers, resulting in KMB having to cover considerable ground once the embargo is lifted. However, we believe the embargo is likely to emerge as a catalyst for KMB to sweat its existing customer base for higher spends and cross-sell opportunities. Despite the average ticket size per transaction of a Kotak customer being around the industry level of INR5k+, monthly spends per card are quite low compared to the industry, suggesting that KMB is still not a primary credit card for many of its customers.

Exhibit 16: Net monthly credit card issuances – KMB credit card momentum to break in medium term

('000)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
HDFCB	-53	53	283	234	356	-426	228	175	272	160	349	238
AXSB	-3	126	206	300	223	-293	206	895	128	212	146	209
SBICARD	74	179	194	202	183	171	352	293	194	177	201	137
ICICIBC	150	219	236	193	184	-72	70	310	115	282	279	157
KMB	-18	28	101	151	224	143	146	60	100	104	88	54
IIB	14	28	32	43	50	-33	46	52	57	46	67	53
RBK	38	7	121	74	77	61	46	58	68	64	77	51
IDFC	51	37	45	56	55	80	54	59	45	80	106	112
FB	5	4	14	22	33	33	40	33	34	27	62	15
AUBANK	2	10	18	22	24	25	23	39	36	31	41	43
Industry	**255**	**737**	**1,308**	**1,560**	**1,698**	**-340**	**1,162**	**1,372**	**1,126**	**1,445**	**1,629**	**1,299**

Source: RBI, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank

Exhibit 17: Significant room to imrove spends market share

	FY19	FY20	FY21	FY22	FY23	FY24
HDFCB	28.1	28.8	30.9	26.3	27.9	27.0
AXSB	10.2	10.4	8.4	8.6	9.4	11.9
SBICARD	17.0	17.9	19.4	19.1	18.2	17.8
ICICIBC	11.1	12.3	14.6	20.0	18.0	17.8
KMB	2.7	2.7	2.5	2.6	3.2	3.9
IIB	4.2	4.1	4.1	4.7	5.1	4.9
RBK	2.7	4.0	4.7	4.5	4.2	4.3

Source: RBI, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank

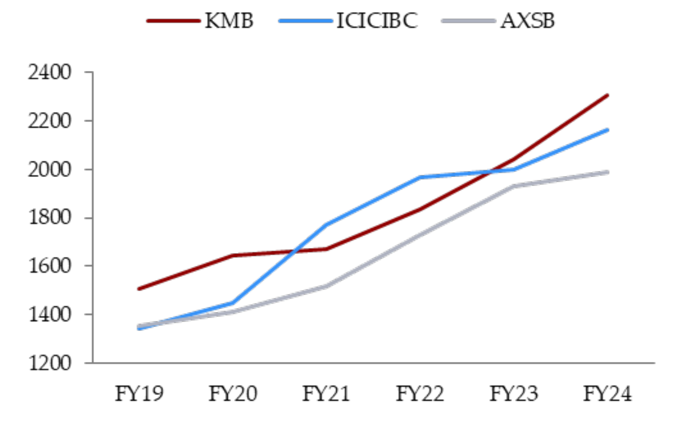
Exhibit 18: Opportunity to improve monthly spends per card (INR' 000)

	FY19	FY20	FY21	FY22	FY23	FY24
HDFCB	12.2	13.0	11.0	13.5	19.5	21.6
AXSB	9.9	9.8	6.2	8.6	10.6	13.8
SBICARD	11.8	11.6	9.1	12.1	14.2	15.3
ICICIBC	9.6	9.5	7.8	13.8	15.6	17.3
KMB	7.9	7.6	5.6	7.5	9.5	11.0
IIB	22.7	20.7	15.0	22.4	29.4	29.4
RBK	10.9	11.0	8.7	10.9	12.3	13.8
Industry	**11.9**	**11.6**	**8.8**	**12.0**	**15.0**	**16.3**

Source: RBI, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank

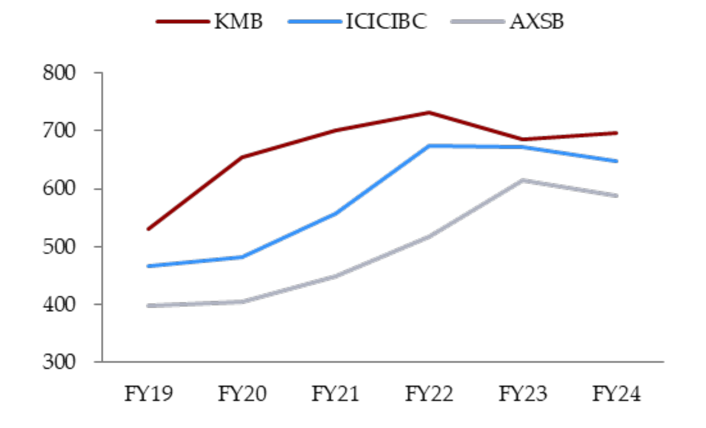
- **Early signs of better branch productivity:** KMB has improved its branch productivity in last 3-4 years owing to rapid customer acquisition Kotak811, investments in digital and pick up in cross-sell activities. However, SA/branch has started declining for most players and will continue to remain a challenge for KMB too in the medium term. The embargo comes in with an opportunity to the bank to improve on its productivity with existing customers.

Exhibit 19: Deposits/Branch improving (INR mn)



Source: Company, HSIE Research

Exhibit 20: SA/Branch industry-wide dilemma (INR mn)



Source: Company, HSIE Research

Exhibit 21: RoA Tree comparison – KMB's advantage in margins is offset by elevated operating cost

RoA Tree (%) - Avg Assets	KMB					ICICIBC					AXSB				
	FY20	FY21	FY22	FY23	FY24	FY20	FY21	FY22	FY23	FY24	FY20	FY21	FY22	FY23	FY24
Interest Income	8.0%	7.2%	6.7%	7.5%	8.4%	7.3%	6.8%	6.5%	7.3%	8.3%	7.3%	6.7%	6.2%	6.8%	7.8%
Interest Expenses	4.0%	3.1%	2.5%	2.8%	3.6%	4.0%	3.4%	2.9%	3.1%	4.0%	4.4%	3.6%	3.2%	3.4%	4.3%
Net interest income	**4.0%**	**4.1%**	**4.1%**	**4.7%**	**4.8%**	**3.2%**	**3.3%**	**3.6%**	**4.1%**	**4.3%**	**2.9%**	**3.1%**	**3.1%**	**3.4%**	**3.6%**
Other Income	1.6%	1.5%	1.6%	1.5%	1.9%	1.6%	1.6%	1.4%	1.3%	1.3%	1.8%	1.3%	1.4%	1.3%	1.6%
Total Income	**5.6%**	**5.6%**	**5.7%**	**6.2%**	**6.7%**	**4.8%**	**5.0%**	**5.0%**	**5.5%**	**5.6%**	**4.7%**	**4.4%**	**4.5%**	**4.8%**	**5.2%**
Employee Exp.	1.2%	1.0%	1.1%	1.2%	1.3%	0.8%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%	0.7%	0.7%	0.8%
Other Opex	1.5%	1.3%	1.6%	1.8%	1.8%	1.3%	1.2%	1.3%	1.4%	1.4%	1.4%	1.3%	1.5%	2.5%	1.7%
Total Opex	2.6%	2.3%	2.7%	3.0%	3.1%	2.1%	1.9%	2.0%	2.2%	2.3%	2.0%	1.9%	2.2%	3.2%	2.5%
PPOP	**3.0%**	**3.3%**	**3.0%**	**3.2%**	**3.6%**	**2.7%**	**3.1%**	**3.0%**	**3.3%**	**3.4%**	**2.7%**	**2.4%**	**2.3%**	**1.6%**	**2.7%**
Total Provisions	0.7%	0.8%	0.2%	0.1%	0.3%	1.4%	1.4%	0.7%	0.4%	0.2%	2.2%	1.5%	0.7%	0.2%	0.3%
PBT	**2.3%**	**2.5%**	**2.8%**	**3.1%**	**3.3%**	**1.4%**	**1.7%**	**2.3%**	**2.8%**	**3.4%**	**0.6%**	**0.9%**	**1.6%**	**1.4%**	**2.4%**
RoA	**1.8%**	**1.9%**	**2.1%**	**2.4%**	**2.5%**	**0.8%**	**1.4%**	**1.8%**	**2.1%**	**2.4%**	**0.2%**	**0.7%**	**1.2%**	**0.8%**	**1.8%**
Avg Assets/Avg Networth	7.4	6.6	6.0	5.9	6.1	9.2	8.8	8.3	8.1	7.9	11.3	10.2	10.0	10.4	10.1
RoE	**13.0%**	**12.4%**	**12.6%**	**14.0%**	**15.3%**	**7.1%**	**12.3%**	**14.7%**	**17.2%**	**18.6%**	**2.1%**	**7.1%**	**12.0%**	**8.0%**	**18.0%**

Source: Company, HSIE Research

Valuation and Recommendation

- **High-quality franchise likely to rebound:** While we believe that KMB is entering a testing phase and needs to take corrective actions to restore regulatory confidence with its IT compliance and architecture, we reiterate our conviction on the superior quality of the consolidated franchise. While investments in tech, and digital are likely to keep opex intensity elevated, we believe that KMB remains a high-quality franchise with adequate levers to sustain standalone RoAs north of 2.3% (FY24: 2.5%). More importantly, most of the bank's subsidiaries are market leaders in their respective businesses and cater to customer segments that neatly dovetail into the standalone bank's core competence. We upgrade to BUY (from ADD) with a revised SOTP-based TP of INR 2,025 (standalone bank at 2.3x Mar-26 ABVPS).

Exhibit 22: Sum-of-the-parts (SOTP) valuation

SOTP Valuation	Value (INR mn)	Per Share	Multiple
KMB (standalone, Mar-26 ABVPS)	2,826,839	1,422	2.3x P/ABV
Kotak Mahindra Prime	204,780	103	2x Mar-25 BVPS
Kotak Mahindra Investments	77,960	39	2x Mar-25 BVPS
Kotak Securities	220,680	111	15x FY25 EPS
Kotak Mahindra AMC	267,269	134	6% of Mar-25 AUM
Kotak Life Insurance	350,566	176	2.0x Mar-25 IEV
Kotak Mahindra Capital Company	34,830	18	15x FY25 EPS
Kotak Alternative Assets	19,082	10	4% of Mar-25 AUM
OffShore Funds	21,519	11	4% of Mar-25 AUM
Overall	**4,023,525**	**2,025**	

Exhibit 23: Change in estimates

(INR bn)	FY25E			FY26E		
	Old	New	Δ	Old	New	Δ
Net advances	4,184	4,363	4.3%	4,806	5,022	4.5%
NIM (%)	5.2	5.1	-10 bps	5.1	5.0	-3 bps
NII	290.3	298.6	2.9%	317.5	337.0	6.1%
PPOP	218.3	225.1	3.1%	244.5	257.5	5.3%
PAT	146.1	152.4	4.3%	162.1	170.9	5.4%
Adj. BVPS (INR)	529.4	537.1	1.5%	608.1	619.4	1.9%

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	268,403	270,388	342,506	457,988	540,836	608,748
Interest Expenses	115,006	102,209	126,988	198,057	242,220	271,740
Net Interest Income	**153,396**	**168,179**	**215,518**	**259,931**	**298,616**	**337,008**
Non-Interest income	54,592	63,544	70,830	102,731	124,196	144,806
Total income	207,988	231,723	286,348	362,663	422,812	481,813
Operating Expenses	85,841	111,213	137,867	166,789	197,675	224,273
Operating Profit	**122,147**	**120,510**	**148,481**	**195,874**	**225,136**	**257,540**
Provisions	29,117	6,897	4,570	15,737	18,399	25,627
PBT	93,030	113,613	143,911	180,137	206,738	231,913
Tax	23,382	27,886	34,516	42,321	54,372	60,993
PAT	**69,648**	**85,727**	**109,395**	**137,815**	**152,366**	**170,920**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Share capital	14,909	14,923	14,933	9,940	9,940	9,940
Reserves	622,382	709,638	819,664	957,248	1,105,638	1,272,581
Net worth	637,291	724,561	834,597	967,188	1,115,578	1,282,521
Deposits	**2,801,000**	**3,116,841**	**3,630,959**	**4,489,538**	**5,215,127**	**6,026,813**
Borrowings	236,506	259,670	234,162	283,681	322,089	367,827
Current Liab	160,088	192,893	198,298	263,165	248,532	286,273
Total Liabilities & Equity	**3,834,886**	**4,293,966**	**4,898,015**	**6,003,571**	**6,901,325**	**7,963,434**
Cash balance	396,265	429,238	325,420	527,884	697,478	897,545
Investments	1,050,992	1,005,801	1,214,033	1,554,038	1,630,462	1,804,734
Advances	**2,236,886**	**2,712,536**	**3,198,612**	**3,760,753**	**4,363,305**	**5,021,660**
Fixed assets	15,353	16,437	19,203	21,553	22,631	23,762
Other assets	135,390	130,261	141,343	139,343	187,451	215,732
Total Assets	**3,834,886**	**4,293,966**	**4,898,015**	**6,003,571**	**6,901,325**	**7,963,434**

Source: Company, HSIE Research

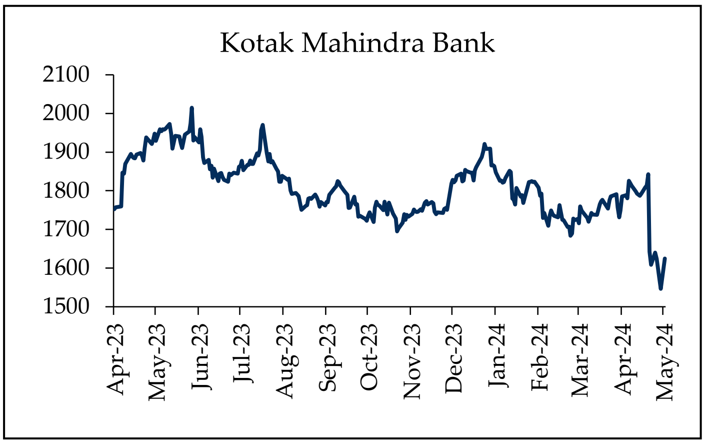
Key Ratios

	FY21	FY22	FY23	FY24	FY25E	FY26E
VALUATION RATIOS						
EPS (INR)	35	43	55	69	77	86
Earnings Growth (%)	17%	23%	28%	26%	11%	12%
BVPS	308	350	404	471	545	629
Adj. BVPS	295	342	398	464	537	619
ROAA (%)	1.9%	2.1%	2.4%	2.5%	2.4%	2.3%
ROAE (%)	12.4%	12.6%	14.0%	15.3%	14.6%	14.3%
P/E (x)	46	38	29	23	21	19
P/ABV (x)	5.5	4.8	4.1	3.5	3.0	2.6
P/PPOP (x)	26.4	26.8	21.7	16.5	14.3	12.5
PROFITABILITY (%)						
Yield on loans	8.4%	7.8%	9.1%	10.2%	10.1%	10.0%
Cost of Funds	3.8%	3.2%	3.5%	4.6%	4.7%	4.6%
Cost of Deposits	3.7%	3.2%	3.5%	4.7%	4.7%	4.6%
Spread	4.7%	4.6%	5.6%	5.5%	5.4%	5.5%
NIM	4.4%	4.5%	5.1%	5.2%	5.1%	5.0%

	FY21	FY22	FY23	FY24	FY25E	FY26E
OPERATING EFFICIENCY						
Cost to average assets	2.3%	2.7%	3.0%	3.1%	3.1%	3.0%
Cost-income	41.3%	48.0%	48.1%	46.0%	46.8%	46.5%
BALANCE SHEET STRUCTURE RATIOS						
Loan Growth (%)	1.8%	21.3%	17.9%	17.6%	16.0%	15.1%
Deposits Growth (%)	6.6%	11.3%	16.5%	23.6%	16.2%	15.6%
C/D ratio	79.9%	87.0%	88.1%	83.8%	83.7%	83.3%
Equity/Assets (%)	16.6%	16.9%	17.0%	16.1%	16.2%	16.1%
Equity/Loans (%)	28.5%	26.7%	26.1%	25.7%	25.6%	25.5%
CASA %	60.4%	60.7%	52.8%	45.5%	43.2%	41.1%
CRAR (%)	22.3%	22.3%	21.8%	20.6%	20.8%	20.7%
Tier I (%)	21.4%	21.4%	20.8%	19.2%	19.6%	19.7%
Asset quality						
Gross NPA	74,255	64,697	57,683	52,748	63,726	73,979
Net NPA	27,052	17,367	11,933	12,694	16,085	19,561
PCR	63.6%	73.2%	79.3%	75.9%	74.8%	73.6%
GNPA %	3.3%	2.4%	1.8%	1.4%	1.5%	1.5%
NNPA %	1.2%	0.6%	0.4%	0.3%	0.4%	0.4%
Slippages	2.5%	1.7%	1.3%	1.4%	1.4%	1.4%
Credit costs	0.8%	0.4%	0.2%	0.4%	0.4%	0.5%
ROAA Tree						
Net Interest Income	4.1%	4.1%	4.7%	4.8%	4.6%	4.5%
Non-Interest Income	1.5%	1.6%	1.5%	1.9%	1.9%	1.9%
Operating Cost	2.3%	2.7%	3.0%	3.1%	3.1%	3.0%
Provisions	0.8%	0.2%	0.1%	0.3%	0.3%	0.3%
Tax	0.6%	0.7%	0.8%	0.8%	0.8%	0.8%
ROAA	1.9%	2.1%	2.4%	2.5%	2.4%	2.3%
Leverage (x)	6.6	6.0	5.9	6.1	6.2	6.2
ROAE	12.4%	12.6%	14.0%	15.3%	14.6%	14.3%

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:
We, **Krishnan ASV, PGDM, Deepak Shinde, PGDM & Akshay Badlani, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.
Any holding in stock –YES
HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.
If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.
This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.
HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.
HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.
Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the Research team and all its activities are segregated from Research activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.
HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193
Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC Securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com