June 05, 2025 (Revised)

Kotak Mahindra Bank Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Infrastructure bonds	11,038.00	11,038.00	[ICRA]AAA (Stable); reaffirmed
Total	**11,038.00**	**11,038.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating continues to factor in Kotak Mahindra Bank Limited's (KMBL) strong capitalisation levels with the standalone common equity tier I (CET I) ratio and the capital-to-risk weighted assets ratio (CRAR) at 21.1% and 22.2%, respectively, as on March 31, 2025, supported by healthy internal capital accretion. In line with the industry, the bank saw a decline in the share of low-cost current and savings account (CASA) deposits in FY2025, though it remains healthy. With the lifting of the restrictions on digital onboarding by the Reserve Bank of India (RBI) in February 2025 (restrictions placed in April 2024), KMBL will be able to onboard new customers through online and mobile banking channels, thereby supporting granular deposit growth. However, given the declining interest rate scenario, attracting deposits will remain challenging and the bank's ability to do so would remain important for maintaining healthy margins and core profitability.

KMBL's gross non-performing advances (GNPAs) witnessed a slight uptick in FY2025 due to relatively higher slippages, especially in the unsecured loans segment such as credit cards, microfinance loans and personal loans. Slippages and loan loss provisions are expected to moderate in FY2026, but will remain higher than FY2024. Going forward, with the pressure on the operating profit amid declining rates, the ability to control fresh slippages, in the backdrop of the persisting stress in microfinance loans and overleveraged borrowers in the unsecured retail segments, would remain a monitorable for the asset quality. However, credit costs are expected to remain significantly lower in relation to the operating profit, given the overall strong asset quality indicators. Moreover, the bank is expected to generate healthy internal accruals.

The Stable outlook on the rating factors in the expectation that the bank will continue to maintain a steady credit profile, deriving strength from its established retail franchise, while keeping the solvency (net NPAs (NNPAs)/core equity), return on assets (RoA) and capital cushions better than the negative triggers.

Key rating drivers and their description

Credit strengths

Strong capitalisation supported by healthy internal capital generation – KMBL's standalone capital adequacy ratio remains strong with the CET I at 21.1% and CRAR at 22.2% as on March 31, 2025. The bank had last raised capital of Rs. 7,442.5 crore in FY2021 to meet the regulatory directions on promoter shareholding. KMBL has continued to maintain healthy capital accretion with the average return on equity (RoE) at 12-15% during FY2020-FY2025. In ICRA's view, the bank's capital position, coupled with healthy internal accruals, provides it with a strong buffer to support growth. However, any inorganic growth-driven capital consumption will remain monitorable.

At the Group level, the bank has subsidiaries in the lending, insurance, asset management and broking businesses. KMBL's capitalisation remains strong on a consolidated basis as well with a CET I ratio of 22.3% as on March 31, 2025. The subsidiaries are self-sufficient, in terms of capital requirement, and any capital support to them is expected to remain manageable in relation to the bank's overall profit and capital.

Strong deposit base – KMBL's deposit base grew modestly by 11.2% YoY as on March 31, 2025 (23.6% as on March 31, 2024) to Rs. 4.99 lakh crore (Rs. 4.49 lakh crore as on March 31, 2024), driven by growth in term deposits (16.3% YoY). The traction in term deposits, along with the RBI's ban on digital onboarding that led to slower build-up of CASA, resulted in a relative moderation in the overall share of CASA deposits in total deposits to 43.0% as on March 31, 2025 from 45.5% as on March 31, 2024, though it remains healthy. As KMBL's strong asset growth sustains, its high CASA base would help it maintain a competitive cost of funds compared to peers. The overall granularity of the deposit base remains satisfactory with CASA and term deposits (<Rs. 5 crore) accounting for 78% of the overall deposits as on March 31, 2025 compared to 79% as on March 31, 2024.

Profitability expected to remain strong despite expected pressure on margins – KMBL's net interest margin {NIM; as a percentage of average total assets (ATA)} moderated to 4.4% in FY2025 from 4.8% in FY2024, largely on account of the higher cost of funds and the lower share of retail unsecured advances. Non-interest income (excluding trading gains/losses) moderated to 1.7%[1] of ATA in FY2025 from 1.8% in FY2024 (1.8% in FY2023 as well as FY2022) on account of the RBI ban, resulting in nil credit card fee income from new customers. The operating profitability (excluding trading gains/losses) moderated with a core operating profit (before credit provisions) of 3.2%[2] of ATA in FY2025 vis-à-vis 3.5% in FY2024 (3.4% in FY2023, 3.2% in FY2022) on account of lower NIMs.

Additionally, the increase in credit costs to 0.5% of ATA in FY2025 from 0.3% in FY2024 (0.1% in FY2023, 0.2% in FY2022) led to a moderation in the RoA (excluding trading gains/losses) to 2.00% in FY2025 from 2.5% in FY2024. However, the bank's profitability was also supported by the one-off gain on account of the divestment of its 70% stake in its subsidiary, i.e. Kotak General Insurance Limited (KGI)[3]. Including the one-off gain, the RoA stood at 2.5% in FY2025. The NIMs and operating profitability are likely to remain under pressure in FY2026 amid the faster repricing of assets compared to liabilities in the declining rate environment. Despite a moderation, ICRA expects the bank's profitability levels to remain strong.

Credit challenges

Asset quality metrics remain monitorable – After the Covid-19 pandemic, as the operating environment improved, the gross fresh NPA generation rate witnessed a relative moderation to 1.5% and 1.6% of standard advances in FY2023 and FY2024, respectively, from 2.0-2.5% in FY2022 and FY2021. Thereafter, it increased marginally to 1.7% in FY2025 on account of the stress in unsecured loans. ICRA expects the slippage rate to remain between 1.2% and 1.8% in the near term, which shall result in steady headline asset quality metrics (GNPAs and NNPAs stood at 1.4% and 0.3%, respectively, as on March 31, 2025). The higher write off of unsecured loans helped contain the increase in GNPAs despite the rise in the slippage rate in FY2025. The overall overdue book (special mention accounts (SMA)-2) for larger exposures (>Rs. 5 crore) and the standard restructured book remained negligible as on March 31, 2025.

The share of the unsecured retail segment, as a percentage of net advances, declined to 10.5% as of March 2025 from 11.8% as of March 2024 on account of the embargo on the credit card segment (the bank could not issue new cards after April 2024) and lower disbursements in the micro-credit business. However, with the lifting of the embargo, the share of these loans is expected to increase. Sustaining the asset quality and credit costs in the backdrop of the persisting strain in the microfinance institution (MFI) industry and overleveraging of borrowers in the unsecured retail segment would remain a monitorable for the asset quality. Nevertheless, ICRA expects the robust operating profitability and capital cushions to remain a source of comfort with the solvency level likely to remain strong.

Environmental and social risks

While banks like KMBL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological,

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[1] Including the capital gain from stake sell of KGI, non-interest income stood at 2.3% of ATA in FY2025

[2] Including the capital gain from stake sell of KGI, operating profit stood at 3.8% of ATA in FY2025

[3] Renamed as Zurich Kotak General Insurance Limited (ZKGI) post stake sell

regulatory or customer behaviour changes, the same could translate into credit risks for banks. However, such risk is not material for KMBL as it benefits from adequate portfolio diversification. Further, the lending is typically short to medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as seen in other banks in the recent past. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. KMBL has been making the requisite investments to enhance its digital interface with its customers. Based on its satisfaction with the actions taken by the bank, the RBI lifted its embargo on KMBL's digital onboarding and issuance of new credit cards. While KMBL contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Liquidity position: Strong

KMBL's (consolidated Group level) daily average liquidity coverage ratio (LCR) stood at 135% in Q4 FY2025, which was well above the regulatory requirement of 100%. Similarly, the net stable funding ratio (NSFR) stood at 116%, which was higher than the regulatory ask of 100%. Besides this, the bank has excess statutory liquidity ratio (SLR) holdings above the regulatory level, which can be utilised to avail liquidity support from the RBI (through repo), apart from the RBI's marginal standing facility in case of urgent liquidity requirement.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise if there is a deterioration in the asset quality or capital position, leading to the weakening of the solvency profile with NNPA/core equity exceeding 15% on a sustained basis. Further, a sustained RoA of less than 1.0% and/or a decline in the capital cushion over the regulatory level for CET I to less than 4% on a continued basis will remain negative triggers. Material weakening in the bank's liability franchise, thereby impacting its resource profile, will also be a negative trigger.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[ICRA's Rating Methodology for Banks and Financial Institutions]
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of KMBL. However, in line with ICRA's consolidation approach, the standalone assessment of the bank factors in the ordinary and extraordinary support that it is expected to extend to its subsidiaries. In ICRA's view, KMBL's subsidiaries will largely remain self-sufficient in meeting their capital requirements in the near to medium term and the bank will continue to meet the regulatory capital requirements comfortably at the consolidated level.

About the company

KMBL is the flagship company of the Kotak Group. It commenced operations in 1986 as a bill discounting and leasing non-banking financial company (NBFC), Kotak Mahindra Finance Limited, which was converted into a bank in 2003. Effective April 1, 2015, ING Vysya Bank merged with KMBL. As on March 31, 2025, KMBL had a network of 2,148 branches (excluding GIFT and DIFC) and its net advances stood at Rs. 4,26,909 crore. It reported a profit after tax (PAT) of Rs. 16,450 crore in FY2025 against Rs. 13,782 crore in FY2024.

The Kotak Group is one of India's leading full services financial conglomerates with a significant presence in the securities and investment banking space. The Group is currently growing its banking, asset management and insurance businesses. It derives synergies from its various platforms, given their presence across the financial spectrum. Other than KMBL, the key subsidiaries of the Kotak Group include Kotak Mahindra Prime Limited (car financing; rated [ICRA]AAA (Stable)/A1+), Kotak Securities Limited (retail and institutional broking and portfolio management services; rated [ICRA]AAA (Stable)/A1+), Kotak Mahindra Investments Limited (commercial real estate lending and securities-based lending; rated [ICRA]AAA (Stable)/A1+), Kotak Mahindra Capital Company Limited (investment banking), Kotak Mahindra Life Insurance Company Limited (life insurance), and Kotak Mahindra Asset Management Company Limited (asset management business); rated [ICRA]AAA (Stable)/A1+. On a consolidated basis, the Kotak Group reported a PAT of Rs. 22,126 crore in FY2025 compared to Rs. 18,213 crore in FY2024.

Key financial indicators (standalone)

Kotak Mahindra Bank Limited	FY2024	FY2025
Total income*	35,906	43,027
Profit after tax	13,782	16,450^
Total assets (Rs. lakh crore)	6.00	6.94
CET I	19.2%	21.1%
CRAR	20.5%	22.2%
PAT / ATA	2.5%	2.5%
Gross NPAs	1.4%	1.4%
Net NPAs	0.3%	0.3%

Source: KMBL, ICRA Research; All calculations and ratios as per ICRA's calculations, including those in the table above
**Total income = Net interest income + Non-interest income; ^Including one-time gain on KGI divestment – excluding this, PAT would have been Rs. 13,720 crore; Amount in Rs. crore unless mentioned otherwise*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated	FY2026	FY2025		FY2024		FY2023	
		(Rs. crore)	June 05, 2025	Date	Rating	Date	Rating	Date	Rating
Infrastructure bonds	Long term	11,038	[ICRA]AAA (Stable)	Jun 06, 2024	[ICRA]AAA (Stable)	Jun 20, 2023	[ICRA]AAA (Stable)	Feb 10, 2023	[ICRA]AAA (Stable)
				May 03, 2024	[ICRA]AAA (Stable)			Sep 23, 2022	[ICRA]AAA (Stable)
								May 20, 2022	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Infrastructure bonds	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE237A08940	Infrastructure bonds	Mar 28, 2019	8.25%	Apr 28, 2026	150	[ICRA]AAA (Stable)
INE237A08957	Infrastructure bonds	Dec 01, 2022	7.63%	Dec 01, 2029	1,500	[ICRA]AAA (Stable)
INE237A08965	Infrastructure bonds	Mar 20, 2023	7.85%	Mar 20, 2030	300	[ICRA]AAA (Stable)
INE237A08973	Infrastructure bonds	Jun 23, 2023	7.55%	Jun 24, 2030	1,895	[ICRA]AAA (Stable)
INE237A08981	Infrastructure bonds	Feb 14, 2024	7.60%	Feb 14, 2031	1,000	[ICRA]AAA (Stable)
Unplaced	Infrastructure bonds	Yet to be placed			6,193	[ICRA]AAA (Stable)

Source: KMBL

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership^	Consolidation approach*
Kotak Mahindra Prime Limited	100.00%	Full consolidation
Kotak Mahindra Investments Limited	100.00%	Full consolidation
Kotak Securities Limited	100.00%	Full consolidation
Kotak Mahindra Capital Company Limited	100.00%	Full consolidation
Kotak Mahindra Life Insurance Company Limited	100.00%	Full consolidation
Kotak Mahindra Asset Management Company Limited	100.00%	Full consolidation
Kotak Mahindra Trustee Company Limited	100.00%	Full consolidation
Kotak Mahindra (International) Limited	100.00%	Full consolidation
Kotak Mahindra (UK) Limited	100.00%	Full consolidation
Kotak Mahindra INC	100.00%	Full consolidation
Kotak Alternate Asset Managers Limited (erstwhile known as Kotak Investment Advisors Limited)	100.00%	Full consolidation
Kotak Mahindra Trusteeship Services Limited	100.00%	Full consolidation
Kotak Infrastructure Debt Fund Limited	100.00%	Full consolidation
Kotak Mahindra Pension Fund Limited	100.00%	Full consolidation
Kotak Mahindra Financial Services Limited	100.00%	Full consolidation
Kotak Mahindra Asset Management (Singapore) PTE Limited	100.00%	Full consolidation
IVY Product Intermediaries Limited	100.00%	Full consolidation
BSS Microfinance Limited	100.00%	Full consolidation
Sonata Finance Private Limited	100.00%	Full consolidation
Infina Finance Private Limited	49.99%	Full consolidation
Phoenix ARC Private Limited	49.90%	Full consolidation
Zurich Kotak General Insurance (India) Limited	30.00%	Full consolidation

Source: KMBL;
^ Percentage of shareholding includes direct and indirect holdings through subsidiaries
**This refers to ICRA's policy that it follows while rating the bank and not the accounting policy that the bank follows.*
The consolidated financial statements of the group are prepared in accordance with Accounting Standard 21 – Consolidated Financial Statements and the investment in associates are accounted under the equity method in accordance with Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements.

Corrigendum:

Rationale dated June 05, 2025, has been revised with the following changes:

- Added a note below Annexure II: List of entities considered for consolidated analysis' given on Page no. 5, saying that 'Percentage of shareholding includes direct and indirect holdings through subsidiaries'.

ANALYST CONTACTS

Mr. Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Mr. Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Ms. Nikita Garg
+91 22 6114 3465
nikita.garg@icraindia.com

Mr. Sohil Mehta
+91 22 6114 3449
sohil.mehta@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches