June 06, 2024

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 19.2% and 20.5%, respectively, as on March 31, 2024, supported by the healthy internal capital accretion. Though the granularity of its deposit base has declined, it has largely been able to maintain it as well as the high share of low-cost current and savings account (CASA) deposits. Going forward, sustaining the growth momentum will entail a higher increase in deposits at competitive rates and will remain key for maintaining the current profitability levels. Also, the resolution of the Reserve Bank of India's (RBI) supervisory action to stop onboarding new customers through its online and mobile banking channels and barring it from issuing fresh credit cards will remain a monitorable for growth.

KMBL's gross non-performing advances (GNPA) continue to decline from the highs seen in FY2021 owing to the Covid-19 pandemic-induced pressures. The controlled fresh NPA generation rate and healthy recoveries have aided the improvement. Going forward, sustaining the NPA levels, in the backdrop of persisting high interest rates and geopolitical issues, would remain a monitorable for the asset quality. However, credit costs are projected to remain much lower in relation to the operating profitability, given the strong asset quality, and the Bank is expected to generate robust internal accruals. Accordingly, ICRA expects KMBL to maintain strong capital cushions and solvency along with healthy capital accretion, driving the Stable outlook on the rating.

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 19.2% and CRAR at 20.5% as on March 31, 2024. While a capital raise of Rs. 7,442.5 crore strengthened the capital cushions further in FY2021, the Bank has continued to maintain healthy capital accretion, with the average return on equity (RoE) at 10-15% during FY2019-FY2024. In ICRA's view, KMBL's capital position, coupled with healthy internal accruals, provides it with a strong buffer that will support growth. However, any inorganic-growth-driven capital consumption will remain a monitorable.

Further, 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 20.7% as on March 31, 2024. 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 CASA deposit base – KMBL's deposit base grew by 23.6% YoY as on March 31, 2024 (16.5% as on March 31, 2023) to Rs. 4.49 lakh crore (Rs. 3.63 lakh crore as on March 31, 2023), supported by the stronger growth in term deposits (~43% YoY). The robust traction in term deposits, along with the slower build-up of CASA, led to a relative moderation in the overall share of CASA deposits in total deposits to 45.5% as on March 31, 2024 from 52.8% as on March 31, 2023, though it remains healthy. As KMBL's strong asset growth sustains and the liquidity conditions tighten, 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 79% of the overall deposits as on March 31, 2024 compared to 82% as of March 31, 2023.

Profitability expected to remain strong despite elevated cost pressure – Despite the higher increase in the cost of average interest-bearings funds over average earnings assets, the net interest margin {NIM; as a percentage of average total assets (ATA)} remained range-bound at 4.8% in FY2024 (4.7% in FY2023). However, sustaining the same could be a challenge amid the tighter liquidity conditions. Non-interest income (excluding trading gains/losses) remained range-bound at 1.8% of ATA in FY2024 (1.8% in FY2023 as well as FY2022), supported by the growth in retail fees.

Further, the operating profitability remains healthy with a core operating profit (before credit provisions) of 3.5% of ATA in FY2024 (3.4% in FY2023, 3.2% in FY2022). This, along with KMBL's strong asset quality levels and recoveries, helped keep the credit cost at a lower level. The overall reported credit cost stood at 0.3% of ATA in FY2024 (0.1% in FY2023, 0.2% in FY2022). Accordingly, the Bank's return on assets (RoA) remained strong and was one of the highest in the sector at 2.5% in FY2024 (2.4% in FY2023, 2.1% in FY2022). Going forward, the sustainability of these profitability levels will remain dependent on KMBL's ability to grow the liability franchise.

Asset quality metrics remain satisfactory – Following the onset of the pandemic, the gross fresh NPA generation rate increased to the comparatively higher levels of 2.0-2.5% of standard advances during FY2021-FY2022. As the operating environment improved, the same witnessed a relative moderation to 1.5% in FY2023 and remained range-bound at 1.6% in FY2024. It is expected to remain between 1.2% and 1.8%, going forward. The headline asset quality metrics remained satisfactory with GNPAs (%) and net NPAs (NNPAs; %) at 1.4% and 0.3%, respectively, as on March 31, 2024. The overall improvement in the asset quality metrics was also supported by the meaningfully high recoveries and upgrades, which helped offset the impact of the slightly higher slippages. The overall overdue book (special mention accounts (SMA)-2) for larger exposures (>Rs. 5 crore) remained small and manageable at 0.05% of standard advances, while the standard restructured book remained limited at 0.10% of standard advances as on March 31, 2024.

The share of the unsecured retail book, primarily comprising personal loans, microloans and credit cards, inched up to 11.8% of total advances as on March 31, 2024 from 10.0% as on March 31, 2023. Sustaining the NPA levels, in the backdrop of the persisting high interest rates and geopolitical issues, could remain a monitorable for the asset quality. However, ICRA expects the robust operating profitability and capital cushions to remain a source of comfort with the solvency level likely to remain strong.

Credit challenges

Incremental deposit mobilisation at competitive rates will be a monitorable – The deposit base grew by ~24% YoY (overall deposits at Rs. 4.49 lakh crore as on March 31, 2024), whereas the loan book witnessed a comparatively lower YoY growth of ~18% as on March 31, 2024 (excluding credit substitutes). Sustaining the robust traction in advances will necessitate stronger deposit build-up over the near to medium term. While KMBL has managed to improve its deposit base, leading to the narrowing of the differential in the cost of funds with peer banks, its ability to do so in a tighter liquidity environment will remain critical for maintaining the cost advantage.

In relation to the recent regulatory action, as per ICRA's assessment, KMBL's credit profile remains unimpacted as the share of the credit card portfolio in its overall advances stood at ~4% as on March 31, 2024. Digital channels have, however, been a key avenue for new customer sourcing with Kotak (811) customers accounting for more than 40% of its customer base[1] (as on

[1] *% as per ICRA calculations from numbers available in FY2023 Annual report*

March 31, 2023). While the share of these customers in the Bank's deposits and revenue is limited, many of these customers represent a captive pool for future growth. Thus, the Bank's growth may be impacted till the regulator lifts the ban on digital onboarding. The regulatory ban may also increase the business sourcing cost in the near term, though the impact on profitability is unlikely to be material.

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, 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. KMBL has not faced any material lapse over the years. 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. While it 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 133% in Q4 FY2024, which was well above the regulatory requirement of 100%. Similarly, the net stable funding ratio (NSFR) stood at 119%, 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 sustained basis will remain negative triggers. A 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 ICRA's Rating Methodology on Consolidation
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 capital requirement of the key subsidiaries of the Group has been factored in. 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, 2024, KMBL had a network of 1,948 branches (excluding GIFT and DIFC) and its net advances stood at Rs. 3,76,075 crore. It reported a profit after tax (PAT) of Rs. 13,782 crore in FY2024 against a PAT of Rs. 10,939 crore in FY2023.

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), 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), Kotak Mahindra General Insurance Company Limited (general insurance)[2] and Kotak Mahindra Asset Management Company Limited (asset management business). On a consolidated basis, the Kotak Group reported a PAT of Rs. 18,213 crore in FY2024 compared to Rs. 14,925 crore in FY2023.

Key financial indicators (standalone)

Kotak Mahindra Bank Limited	FY2022	FY2023	FY2024
Total income	23,969	29,608	35,906
Profit after tax	8,573	10,939	13,782
Total assets (Rs. lakh crore)	4.29	4.90	6.00
CET I	21.5%	20.6%	19.2%*
CRAR	22.7%	21.8%	20.5%*
PAT / ATA	2.11%	2.38%	2.53%
Gross NPAs	2.34%	1.78%	1.39%
Net NPAs	0.64%	0.37%	0.34%

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; *Excluding profits*
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 rating (FY2025)					Chronology of rating history for the past 3 years				
		Type	Amount rated	Amount outstanding	Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
			(Rs. crore)	(Rs. crore)	Jun 06, 2024	May 03, 2024	Jun 20, 2023	Feb 10, 2023	Sep 23, 2022	May 20, 2022	May 24, 2021
1	Infrastructure bonds	Long term	11,038	4,845^	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

^ Balance yet to be placed

[2] *In February 2024, KMBL announced that it has entered into an agreement to sell its 70% stake in its general insurance business to Zurich Insurance Company Ltd, which is pending regulatory approvals*

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 General Insurance 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 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

Source: KMBL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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