

Unsecured Stress Ebbs; NIM Improvement Remains Key Monitorable!

Est. Vs. Actual for Q3FY26: NII – **INLINE**; PPOP – **MISS**; PAT – **INLINE**

Changes in Estimates post Q3FY26

FY26E/27E/FY28E (%): NII -1.3/-3.5/-3.6; PPOP -2.6/-4.5/-2.6; PAT -2.2/-6.8/-4.5

Recommendation Rationale

- Unsecured Book Stress Ease; Credit Costs to Continue to Taper:** In Q3, KMB witnessed an improvement in asset quality and a decline in credit costs (calc.) from 81bps in Q2 to 66bps in Q3, primarily aided by lower stress in the unsecured book. **The stress in the MFI and Personal Loans (PL) portfolio has declined QoQ, while that in the credit card portfolio has plateaued.** The management had pointed out stress build-up in the retail CV, and the portfolio is being monitored continuously. **The bank has tightened its underwriting and consciously curtailed disbursements in the wake of rising stress in the segment, and expects credit costs in this segment to plateau by Q4.** In the near term, the credit cost trend will continue to remain downward sloping until Q1FY27. However, credit costs will settle above pre-COVID levels due to the improving share of unsecured loans. The management also highlighted that the estimated impact of ECL transition is expected to be <2% of networth, and thus its implementation, even if in the draft form, would not be materially impactful.
- Loan Mix Shift towards Unsecured Remains Key Margin Improvement Driver:** In Q3, NIMs remained flat QoQ owing to deployment of short-term excess liquidity towards treasury assets, which resulted in a ~4 bps drag on NIMs. During the quarter, CoF declined by 16bps QoQ, led by healthy low-cost deposit mobilisation and continued TD repricing. Going ahead, the management indicated that the full impact of the Jun'25 rate cut will flow through to asset yields, though should be offset by the partial benefit of the CRR cut, continued TD repricing, albeit at a slower pace, and a seasonal uptick owing to the day convention visible in Q4. The deposit repricing is expected to continue, albeit at a slower pace upto Q1FY27. **Assuming no further policy rate cuts, the bank expects moderate improvement in NIMs in Q4 and a stable margin trajectory heading into FY27.** Hereon, meaningful improvement in margins will be led by the improving trajectory of unsecured mix in the portfolio.

Sector Outlook: Positive

Company Outlook: KMB is well-poised to deliver sustained, high-quality growth supported by improving asset quality trends in the unsecured book resulting in a steady decline in credit costs and a calibrated ramp-up in unsecured lending. With unsecured stress normalising and growth engines such as credit cards, PLs and MFI gaining traction, KMB is well-placed to sustain healthy 17% credit growth over FY26-28E while preserving profitability and balance sheet strength. NIMs are expected to inch upwards as unsecured lending growth gathers steam and TD repricing continues over the next couple of quarters. Thereon, NIM improvement will solely be a function of improving unsecured mix. Operational efficiency and use of tech-led initiatives should offset the higher opex as business volumes pick up. With these profitability drivers playing out, we expect KMB's RoA to improve to 2.1-2.2% over FY27-28E vs 1.9% in FY26.

Current Valuation: 2.5x Sep'27E ABV; **Earlier Valuation:** 2.6x FY27E ABV

Current TP: Rs 515/share; **Earlier TP:** Rs 515/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our coverage:

HDFC Bank (TP – Rs 1,190); ICICI Bank (TP – Rs 1,700)

Financial Performance:

- Operational Performance:** KMB's advances growth was healthy at 16/4% YoY/QoQ, with growth driven by Consumer Finance, which grew by 17/4% YoY/QoQ. Commercial Finance portfolio growth was muted, though improved sequentially to 3/4% YoY/QoQ, and Corporate/SME book growth was strong at 17/3% and 17/7% YoY/QoQ, respectively. Deposits growth was healthy at 15/3% YoY/QoQ, led by TDs (+17/4% YoY/QoQ), while CASA growth was muted (+12% YoY/ flat QoQ). CASA Ratio declined to 41.3% vs 42.3% QoQ. Activ Money growth was muted at 5% YoY and flattish QoQ.
- Financial Performance:** NII grew by 5/3% YoY/QoQ driven by healthy advances growth and steady NIMs during the quarter. NIMs stood at 4.54%, flat QoQ. Non-interest income growth was healthy at 8/10% YoY/QoQ, led by strong fee income growth. The impact of better-than-expected non-interest income growth was offset by higher Opex growth. Opex growth was at higher at 8/8% YoY/QoQ, led by higher employee expenses (+15/13% YoY/QoQ). **The bank made a provision of Rs 0.96 Bn towards the impact of revised labour laws.** C-I Ratio stood at 48.3% vs 47.2/46.8% YoY/QoQ. PPOP grew by 4/2% YoY/QoQ. Provisions came in lower-than-expected (+2/-15% YoY/QoQ). Credit costs (calc.) stood at 66bps vs 75/81bps YoY/QoQ.
- Asset quality:** Slippages remained steady QoQ, with a slippage ratio at 1.4%, flat QoQ. GNPA/NNPA declined sequentially and stood at 1.3/0.31% vs 1.39/0.32% QoQ.

Key Financials (Standalone)

(Rs Bn)	Q3FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	75.6	+3.5	+5.1	76.0	-0.5
PPOP	53.8	+2.1	+3.8	55.1	-2.3
Net Profit	34.5	+5.9	+4.3	34.6	-0.3
NNPA (%)	0.3	-1 bps	-10 bps	0.3	-1 bps
RoA (%)	1.9	+5 bps	-18 bps	1.9	+1 bps

Source: Company, Axis Securities Research

(CMP as of 23rd January, 2026)

CMP (Rs)	423
Upside /Downside (%)	22%
High/Low (Rs)	460/372
Market cap (Cr)	4,19,934
Avg. daily vol. (6m) Shrs.	41,14,947
No. of shares (Cr)	994.6

Shareholding (%)

	Jun-25	Sep-25	Dec-25
Promoter	25.9	25.9	25.9
FII	32.3	29.7	29.3
MFs / UTI	18.4	20.7	21.4
Others	23.4	23.7	23.4

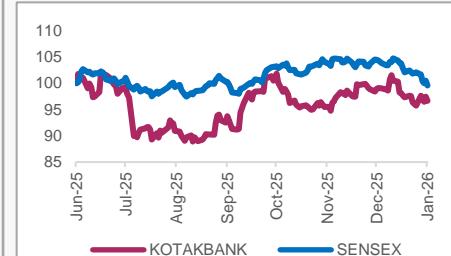
Financial & Valuations

Y/E Mar (Rs Bn)	FY26E	FY27E	FY28E
NII	301	354	416
PPOP	223	267	319
Net Profit	139	170	204
EPS (Rs)	14.0	17.1	20.5
ABV (Rs)	127.6	142.6	160.2
P/ABV (x)	3.3	3.0	2.6
RoA (%)	1.9	2.1	2.1
NNPA (%)	0.3	0.3	0.3

Change in Estimates (%)

Y/E Mar	FY26E	FY25E	FY28E
NII	-1.3	-3.5	-3.6
PPOP	-2.6	-4.5	-2.6
PAT	-2.2	-6.8	-4.5

Relative performance



Source: Ace Equity, Axis Securities Research

Results Gallery

[Q2FY26](#)

[Q1FY26](#)

[Q4FY25](#)

[Q3FY25](#)

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Key Takeaways (Contd.)

- **Improved Efficiency Keeping Cost Ratios in Check:** KMB's higher C-I Ratio at 48.3% reflected the impact of one-time employee cost adjustment due to revised labour laws and seasonally higher costs towards marketing and customer acquisition. Adjusting for the one-offs, employee cost growth would have been flat sequentially. Moving forward, Opex is expected to trend higher as business growth continues to improve in the PL and Credit card segment, alongside higher customer acquisition and distribution-led costs. However, **KMB will look to offset these pressures partially by leveraging investments in automation and digitisation, enabling improvement in operational efficiency. Resultantly, the management expects the C-A Ratio to trend downwards and range between 2.5-2.6% over the medium term.**
- **Focus on Deposit Granularity:** KMB's 3 levers to drive sustainable deposit growth rest on consumption-led, investment-led, and asset-led approaches. On the consumption side, the bank is leveraging customer spending patterns to offer liability products and create relevant banking opportunities. Secondly, in the investment-led approach, KMB is tapping into the shift from savers to investors to build a granular CASA franchise and ensure growth sustainability. The asset-led approach focuses on cross-selling deposit products to its lending relationships, particularly among NTB customers, while deepening engagement with ETB customers. The mass affluent and HNI customers continue to remain a key focus for CASA accretion.

KMB's wholesale business benefited from a strong presence across financial institutions. Moreover, the capital markets segment provides recurring deal flows, with transaction activity churning across clients, thereby ensuring consistency and visibility in CA Accretion. The bank has also seen continued traction from the SME segment contributing healthily to CA accretion. On the SA mobilisation, KMB continues to prioritize granularity. Conscious efforts to run down LIBOR-linked balances and build fixed rate retail focused SA book are underway. Furthermore, the 811 channel provides strong growth opportunities by sourcing smaller ticket sizes but a granular liability base.

- **Growth Remains Healthy; Readying to Press the Unsecured Growth Pedal:** KMB's advances growth remained strong at 16/4% YoY/QoQ, primarily driven by secured and corporate advances, while the unsecured segments' growth witnessed a marginal uptick (in absolute terms). **The bank remains committed to expanding its unsecured portfolio to mid-teens without compromising on asset quality. The credit card segment continues to be a key growth driver contributing to customer stickiness, better CASA retention, and deeper engagement.** KMB has revamped its credit card offerings with the launch of new propositions across customer segments. While Q3 witnessed muted credit card book growth, in line with broader industry trends, the bank continues to prioritize ramping up customer acquisition and improving card spends. Early traction in newly launched products has been encouraging, with strong spends behaviour being visible which gives the management the confidence that these initiatives will translate into visible strong growth over the next 1-2 quarters.

Disbursements in the directly originated PL portfolio were supported by strong traction among salaried customers through digital lending, with asset quality remaining healthy. The Standard Chartered (SCB) PL book, which was acquired continues to perform better than expected, even as its run-down has been faster than anticipated. However, the stronger organic growth has helped at offsetting the decline in the SCB book. In the MFI portfolio, the de-growth has been arrested, with disbursements improving and portfolio quality at origination remaining strong. The management expects Q4 MFI disbursement to remain healthy. **While the focus remains on ramping up growth in the unsecured book, KMB will continue to pursue steady growth in the secured retail and corporate portfolios. We expect KMB's overall credit growth to remain robust at ~17% CAGR over FY26-28E, supported by a gradual improvement in the unsecured portfolio mix.**

Outlook

We expect KMB to deliver healthy Advances/Deposit/NII/Earnings growth of 17/16/18/21% CAGR over FY26-28E. The bank remains well-positioned to improve margins, supported by accelerating growth in higher-yielding unsecured segments and lower deposit costs. However, adjusting for 9MFY26 NIMs and a slight delay in a meaningful pick-up in growth in the unsecured segments, we trim our NII estimates by 3-4%. Even as the bank continues to invest in franchise expansion, unsecured product scaling, and technology, opex growth is likely to remain in line with business growth, supported by improving efficiencies. Factoring in marginally higher opex as growth in credit card and MFI segments picks up and lower margins, we revise our EPS estimates marginally downwards by 4-7% over FY27-28E. We expect healthy RoA/RoE delivery of 2.1-2.2%/12-14% over FY27-28E.

Valuation & Recommendation

We value the bank's core book at 2.5x Sep'27E ABV (vs current valuation of 2.8x Sep'27E ABV on core book) and assign a value of Rs 136 to the subsidiaries, thereby arriving at a target price of Rs 515/share. **The TP implies an upside of 22% from the CMP. We maintain our BUY recommendation on the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the bank.
- Management focusing on growing the unsecured portfolio would support margins, but may come at the cost of challenges to asset quality

Change in Estimates (Rs Bn)

	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	301	354	416	305	367	432	-1.3	-3.5	-3.6
PBP	223	267	319	229	280	327	-2.6	-4.5	-2.6
Provisions	37	40	47	39	37	44	-4.1	7.9	7.8
PAT	139	170	204	143	183	214	-2.2	-6.8	-4.5

Source: Company, Axis Securities Research

KMB SOTP Valuation

	Valuation basis	Value per share
Kotak Mahindra Bank	2.5x Sep'27E ABV	378
Subsidiaries		
Kotak Mahindra Prime	1.8x Sep'27E BV	24
Kotak Mahindra Investments	2.0x Sep'27E BV	11
Kotak Securities	18x Sep'27E P/E	40
Kotak Mahindra AMC	27x Sep'27E EPS	39
Kotak Life	1.9x Sep'27E EV	48
KMCC - Investment Banking Business	12x Sep'27E P/E	8
Total Sub Value		170
Less: Holdco Discount @20%		34
Total Subs. Value (post discount)		136
Total Value		515
CMP		423
Upside (%)		22%

Source: Company, Axis Securities Research

Results Review (Standalone)

(Rs Bn)

Rs Bn	Q3FY26	Q3FY25	% YoY	Q2FY26	% QoQ	9MFY26	9MFY25	% YoY
Net Interest Income	76	72	5.1	73	3.5	221	211	5.1
Non-Interest Income	28	26	8.2	26	9.6	85	82	3.3
Operating expenses	50	46	8.3	46	8.4	144	138	4.9
<i>Staff Cost</i>	22	20	15.0	20	13.5	63	58	8.9
Pre-provision profits	54	52	3.8	53	2.1	162	155	4.4
Provisions and contingencies	8	8	1.9	9	-14.5	30	20	45.8
PBT	46	44	4.2	43	5.8	132	135	-1.9
Provision for Tax	11	11	3.9	11	5.3	33	41	-20.8
PAT	34	33	4.3	33	5.9	100	129	-22.6
Business Update								
Advances	4,807	4,138	16.1	4,627	3.9	4,807	4,138	16.1
Deposits	5,426	4,735	14.6	5,288	2.6	5,426	4,735	14.6
CASA Deposits	2,242	2,004	11.9	2,238	0.2	2,242	2,004	11.9
<i>CASA Ratio</i>	41.3	42.3	-101bps	42.3	-101bps	41.3	42.3	-101bps
CD Ratio	88.6	87.4	118bps	87.5	108bps	88.6	87.4	118bps
NIM	4.5	4.9	-39bps	4.5	0bps	4.6	5.0	-39bps
Cost-Income ratio (%)	48.3	47.2	105bps	46.8	150bps	47.1	47.0	105bps
Asset Quality								
Gross NPA (%)	1.3	1.5	-20bps	1.4	-9bps	1.3	1.5	-20bps
Net NPA (%)	0.3	0.4	-10bps	0.3	-1bps	0.3	0.4	-10bps
PCR (%)	76.3	73.2	314bps	77.0	-67bps	76.3	73.2	314bps
<i>Slippages</i>	16.1	16.6	-3.1	16.3	-1.5	50.5	48.9	-3.1
<i>Slippage Ratio (%)</i>	1.4	1.6	-27bps	1.4	-7bps	1.5	1.6	-16bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	283	301	354	416
Other Income	114	121	141	163
Total Income	398	422	495	579
Total Operating Expense	188	200	228	260
PPOP	210	223	267	319
Provisions & Contingencies	29	37	40	47
Exceptional items	35	0	0	0
PBT	216	185	227	272
Provision for Tax	51	46	57	68
PAT	165	139	170	204

Source: Company, Axis Securities Research

Balance Sheet

(Rs Bn)

Y/E March	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS				
Equity Share Capital	10	10	10	10
Reserves & Surplus	1,162	1,276	1,425	1,604
Net Worth	1,172	1,287	1,436	1,615
Deposits	4,991	5,769	6,695	7,774
Borrowings	484	264	322	464
Other Liabilities	289	310	358	417
Total Liabilities	6,936	7,630	8,812	10,270
APPLICATION OF FUNDS				
Cash & Bank Balance	658	564	587	682
Investments	1,819	1,901	2,206	2,562
Advances	4,269	4,956	5,777	6,745
Fixed & Other Assets	190	209	242	282
Total Assets	6,936	7,630	8,812	10,270

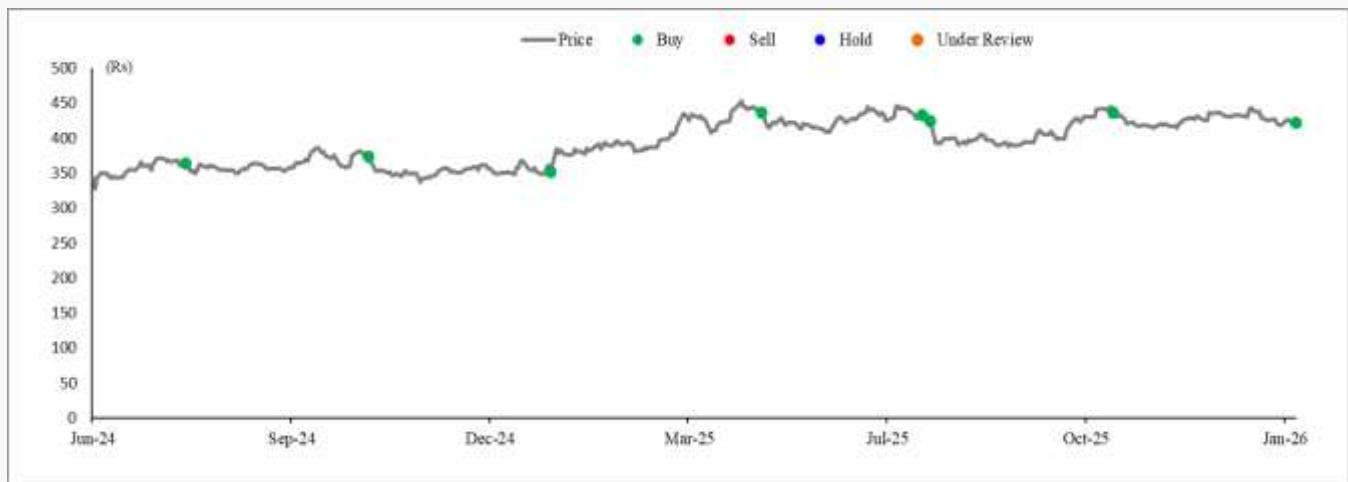
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	16.5	14.0	17.1	20.5
Earnings Growth (%)	19%	-15%	22%	20%
BVPS	117.9	129.4	144.4	162.4
Adj. BVPS	116.6	127.9	142.6	160.2
ROAA (%)	2.1	1.9	2.1	2.1
ROAE (%)	12.6	11.3	12.5	13.3
P/E (x)	25.6	30.2	24.7	20.6
P/ABV (x)	3.6	3.3	3.0	2.6
Dividend Yield (%)	0.6	0.5	0.6	0.7
PROFITABILITY				
NIM (%)	5.0	4.6	4.8	4.8
Cost-Income Ratio (%)	47.2	47.3	46.0	45.0
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	13.5	16.1	16.6	16.8
Deposit Growth (%)	11.2	15.6	16.1	16.1
C/D Ratio (%)	85.5	85.9	86.3	86.8
Equity/Assets (%)	16.9	16.9	16.3	15.7
Equity/Loans (%)	27.5	26.0	24.9	23.9
CAR (%)	22.1	21.3	19.8	19.1
Tier 1 CAR (%)	21.1	20.4	19.0	18.4
ASSET QUALITY				
Gross NPLs (%)	1.4	1.3	1.3	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3
Coverage Ratio (%)	78.1	76.0	76.0	76.0
Credit costs (%)	0.7	0.8	0.8	0.8
ROAA TREE				
Net Interest Income	4.4	4.1	4.3	4.4
Non-Interest Income	1.8	1.7	1.7	1.7
Operating Cost	2.9	2.7	2.8	2.7
Provisions	0.5	0.5	0.5	0.5
Tax	0.7	0.6	0.7	0.7
ROAA	2.1	1.9	2.1	2.1
Leverage (x)	6.0	5.9	6.0	6.3
ROAE	12.6	11.3	12.5	13.3

Source: Company, Axis Securities Research

Kotak Mahindra Bank Price Chart and Recommendation History



Date	Reco	TP	Research
22-Jul-24	BUY	408	Result Update
21-Oct-24	BUY	430	Result Update
20-Jan-25	BUY	428	Result Update
05-May-25	BUY	492	Result Update
22-Jul-25	BUY	505	AAA
28-Jul-25	BUY	500	Result Update
27-Oct-25	BUY	515	Result Update
27-Jan-26	BUY	515	Result Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
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