

May 03, 2024

Kotak Mahindra Bank Limited: Update on Material Event

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); outstanding
Total	11,038.00	11,038.00	

*Instrument details are provided in Annexure I

Rationale

Material Event

The Reserve Bank of India (RBI), vide its press release dated [April 24, 2024](#), directed Kotak Mahindra Bank Limited (KMBL) to stop onboarding new customers through its online and mobile banking channels and barred it from issuing fresh credit cards. The bank can, however, continue providing services to its existing customers, including its credit card customers. The release also highlighted the frequent and significant outages observed on KMBL's online and digital banking channels in the past two years. The most recent service disruption was observed on April 15, 2024, resulting in serious customer inconvenience.

As indicated by KMBL, it has taken concrete steps to adopt new technologies to strengthen its information technology system and will continue to work with the RBI to resolve the remaining issues at the earliest. The bank also reassured its existing customers of uninterrupted services across all segments and channels.

Impact of Material Event

As per ICRA's assessment, KMBL's credit profile remains unimpacted by these developments. The share of the credit card portfolio in its overall advances stood at ~4% as on December 31, 2023. Digital channels have, however, been a key avenue for new customer sourcing with Kotak (811) customers accounting for more than 40% of its customer base¹ (as on 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 can 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.

KMBL's (consolidated) daily average liquidity coverage ratio (LCR) stood at ~127% in Q3 FY2024, which is well above the regulatory requirement of 100%. The LCR has remained on a similar trajectory over the past few quarters despite the strong pickup in advances. Similarly, the net stable funding ratio stood at 118%, which was higher than the regulatory ask of 100%. Besides this, the bank has excess statutory liquidity ratio holdings vis-à-vis 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. KMBL's standalone capital adequacy ratio (excluding profits) remains strong with the CET-I at 17.9% and the CRAR at 19.0% as on December 31, 2023. ICRA will continue to monitor these developments and take appropriate rating action as more clarity emerges on the above matter.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

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

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 December 31, 2023, KMBL had a network of 1,869 branches (excluding GIFT and DIFC) and its net advances stood at Rs. 3,59,588 crore. It reported a profit after tax (PAT) of Rs. 9,648 crore in 9M FY2024 against a PAT of Rs. 7,444 crore in 9M 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) and Kotak Mahindra Asset Management Company Limited (asset management business). On a consolidated basis, the Kotak Group reported a PAT of Rs. 12,876 crore in 9M FY2024 compared to Rs. 10,359 crore in 9M FY2023.

Key financial indicators (standalone)

Kotak Mahindra Bank Limited	FY2022	FY2023	9M FY2023	9M FY2024
Total income	23,969	29,608	21,318	26,157
Profit after tax	8,573	10,939	7,444	9,648
Total assets (Rs. lakh crore)	4.29	4.90	4.65	5.48
CET I	21.5%	20.6%	18.6%*	17.9%*
CRAR	22.7%	21.8%	19.7%*	19.0%*
PAT / ATA	2.11%	2.38%	2.22%	2.48%
Gross NPAs	2.34%	1.78%	1.90%	1.73%
Net NPAs	0.64%	0.37%	0.43%	0.34%

Source: KMBL, ICRA Research; All calculations and ratios as per ICRA's calculations, including those in the table above
Total income is 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated	Amount outstanding	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
		(Rs. crore)	(Rs. crore)	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)

[^] Balance yet to be placed

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
Infina Finance Private Limited	49.99%	Full Consolidation
Phoenix ARC Private Limited	49.90%	Full Consolidation

Source: KMBL

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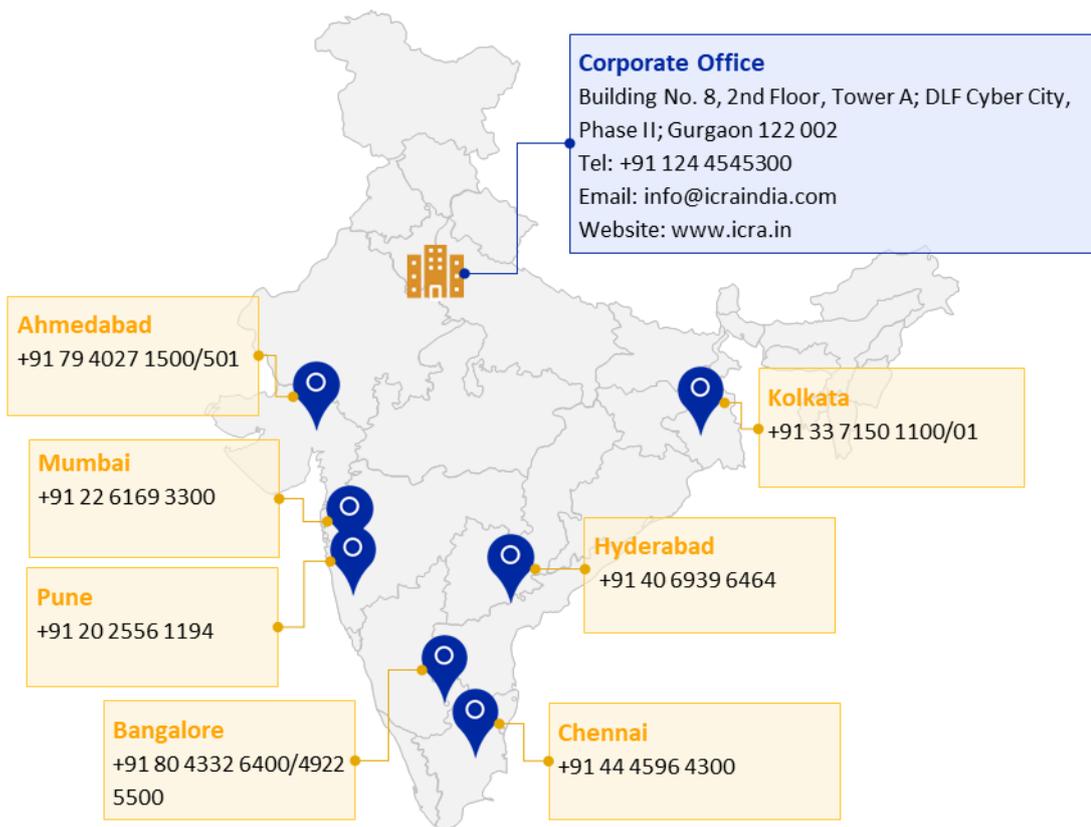
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