Twitter Thread by Dr. Investor

Dr. Investor
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Not related to Kotak Mahindra Bank

The answer is of course Mr. Nana Patekar.
It was a hilarious option ■
Thread follows. (2/n)

Kotak Mahindra Bank

Introduction:
Today our topic of discussion is Kotak Mahindra Bank.
Here we shall watch this company's business model , financials and valuation.

History:
Let's start with the history.
History of this company is very interesting.
(3/n)

As you may know,Mr. Uday Kotak is the managing director and he started this company, his family hails from a business family trading into cotton and multiple other businesses too.
For a short span of time,Mr. Uday Kotak actually worked with them as well but (4/n)

he didn't enjoy it to work with a lot of people from own family.
He completed his studies,he decided to start a financial services company.
You might wonder why he wanted to start such a thing.
Mr. Uday Kotak used to visit a brokerage office in Mumbai stock exchange (5/n)

(Bombay those days) with one of his professors.
He got interested in numbers and used to see how the market works and this is where he got the idea of financial consultancy.
Now as you know how he started it,let me explain how he started to earn.
(6/n)

At that time,if a big company wanted to borrow money, they would have to pay 17% interest rate and Mr Uday Kotak saw the opportunity here.
One of his classmates joined a TATA company named Nelco. Nelco had to borrow money for 90 days at 17% interest rate.
(7/n)

He offered money to Nelco at a slightly lower rate.
Even though they agreed,Mr. Uday Kotak didn't have the money to lend it to Nelco.
He approached his friends and family members and offered them to 12% interest rate instead of 6% offered by banks those days.
(8/n)

Thus he was able to raise money at 12% interest rate and offered it to Nelco at slightly less than 17%. And he started earnings.
He applied the same policy to many other companies and in the process,he met with Mr. Ananda Mahindra of Mahindra and Mahindra group.
(9/n)

For job purpose,Mr. Uday Kotak visited USA and observed that big banks like Goldman Sachs, JP Morgan used to use their family name into their compan.He realised the importance of this as people will only do business with you if they trust you.
The logic behind this is your (10/n)

family's reputation is at stake when you are borrowing money from people.
But in those days, none knew Kotak family and this is why he thought to incorporate Mahindra group into his Bank"s name.
Mr. Ananda Mahindra not only agreed but also invested into it (11/n)

wherefrom the name Kotak Mahindra Bank originates.But the point here to note is that they got the banking license only in 2003.
Before this,they started car loan financial services.Those days, Citibank offered car loans at a rate of 27% and business was very much profitable(12/n

Another problem people had to face those days is the time period of 7-8 months before they got their cars delivered.
Mr. Uday Kotak bought a lot of cars and then started financing people so that people can get quick loan at much lower rate and instant car delivery.
(13/n)

Thus he became the market leader in car finance.
While growing, they got the banking license and they also had several joint ventures like Ford for car finance or Goldman for investment banking.
One thing important here is that they never offered partnership to anyone while (14/n

forming these joint Ventures.
All were subsidiary companies and when any subsidiary lost interest in the process,Mr. Uday Kotak purchased it as a whole against a nominal price.
At this point of time,all their businesses are owned by Kotak Mahindra itself with no subsidiary.(15/n)

Management:
I mentioned earlier that Mr Uday Kotak is the MD and he takes only 3.2 crore salary out of 7204 crores of profit in assessment year 2020-21 which is exceptional regarding any big company anywhere in the world.
How can he take so less salary?
Because he has 26% (16/n)

shareholding in Kotak Mahindra Bank which is a very good sign for any company, exceptional again.
Another important point here is that Mr. Uday Kotak maintained his whole team for around last 30 years eg: Mr. Dipak Gupta,joint MD has been with him since 1992,Chief operation (17/n

officer of Prime also working for last 25 years. And this is too an exceptional sign for any big company.

Business model:
Let's talk about their business model.
They have multiple subsidiaries.
As you see the profit after tax (PAT) of their businesses,68% comes from Kotak(18/n)

Mahindra Bank. As a Bank its main earnings is from providing loans to corporate companies specially.30% of their loan is in corporate sectors.Their businesses grown specifically from 2009 when many of their subsidiary companies exited during 2008 financial crises and many big(19/

banks stopped providing loans to corporate companies.
They offered loans to these corporate companies at a much higher rate as no one else was interested to provide loan to corporate companies at that point of time.
Here they used 2 simple strategies.
1. Loans were offered (20/n)

for a very short period of time.
2. They provide loan only against security and collaterals to ensure safety like home loan.
Second category is consumer, means retail customers where it earns 36%.
This loan is of 2 types. First one is home loan consisting 20% of their book (21/n)

and rest 16% is personal and credit card loans.
Kotak Mahindra Bank is a very flexible Bank and they maintain risk aversion at the foremost.
So, overall their growth over the years is exceptional.
For example, this year, they almost stopped personal loans during coronavirus(22/n)

pandemic.
The last category is commercial which is 32% of their loan book which focus on rural and urban areas of India.
Out of this 32%,13% is agricultural,10% car loan and 9% financial banking loans.
They not only have loan income but also make money from fees and services(23/n

from which they earn 25-30% of total income.

Subsidiary companies:

1. Prime: it started in 1996 and contributing 8% of PAT.
Prime mainly deals with car loans.
2. Kotak Mahindra life insurance, contributing 7% of PAT.
3. General insurance- not profitable yet.
(24/n)

4. Kotak securities- contributing 6% of PAT.This segment is most profitable as maintenance cost is almost Nil and more people are into money marketing,share Market and mutual funds since last decade.But their broking services is not earning much as Kotak Mahindra Bank doesn't(25/

offer future and options in stock market like zerodha or angle brokerage.
5. Kotak Mahindra Asset management company which offers mutual funds and earn 4% of their PAT and this section is going to boom in future and earnings doubled in this financial year.
6. Kotak Mahindra(26/n

investments -3% of their PAT which focuses on real estate.
7. International business: providing 2% of their PAT and doing their businesses in countries like USA, UK and Singapore.
8. Kotak Mahindra capital and microfinance-2% of the PAT is earned from here.
Financials:
Let(27/n)

see some major indices.
1. CASA ratio: let's imagine,bank is borrowing money at 5%and providing loan at 10%,they have 5% margin. If they borrow money at 3%, the margin is 7%.
Here comes the importance of casa ratio where bank provide money to customers through current account(28/

and savings account at a minimum rate of 0-3%.
A Bank with higher CASA ratio always performs better and companies try to maintain it in a range of 25-30% .
Here again, Kotak Mahindra Bank is exceptional with a CASA ratio of 52%! Amazing!
In only 3 years, they have grown their(29/

CASA ratio from 36% to 52% and growing! Exceptional, isn't it?
But how their CASA ratio is increasing disproportionately despite global financial crises amid recession and coronavirus pandemic?
They offer 6% interest instead of 2.75 to 4% in different big banks.
Though they R(30/

bearing Rs 1000 crore extra to provide extra interest,but ultimately they are getting money at a very fast rate with lower payment.
2. Net interest margin: consistently at or above 4% over the years which denotes the spread between percentage of earning and percentage of (31/n)

borrowing. 4% is an exceptional stat again.
3.Non performing assets (NPA): though most of banks target it to keep below 2%(State Bank of India for example having NPA of 3.4%), Kotak Mahindra Bank has maintained this always under 0.4%. NPA stands for the money that can't be (32/n)

regained while providing loans for a period of 90 days of starting EMI. To counter it,banks make "provision".Despite very good recovery, Kotak Mahindra Bank has kept extra money as provision and always exceeds NPAs.
D cause is transparency of Kotak Mahindra Bank where each (33/n

bank doesn't show it's exact NPA s and doesn't provision it truly resulting in high divergence like HDFC Bank Ltd (the biggest Indian bank), Kotak Mahindra Bank is so transparent that it's divergence is ZERO which is again amazing and exceptional.
Income statement:
In last 5(34/n

years, bank's income has grown more than 20% .
Profit is increasing at a rate of 23%!
How profit is more than income?
Because they are lowering their cost continuously:
1. They have decreased their interest rate.
2. Though most banks gives you 3 months' time to start EMI but(35/n

Kotak Mahindra Bank start to take EMI from first month.
3. They have decreased their CRR from 4% to 3%.CRR stands for cash reserve ratio ie the money to be kept with governing body (RBI in this case).
How is Kotak Mahindra Bank as a share and future options?
Due to moratorium(34/

offered by government and supreme court , Kotak Mahindra Bank shares have come down drastically in last few months, it's future is a bit dubious as moratorium been extended for 2 years and here comes the fallacy that whether Indian banking system will survive after 2 years(35/n)

but according to capital adequacy ratio(CAR) which is very good in a range >= 10%, Kotak Mahindra Bank has 17% CAR which is again exceptional.

Thanks for your time.■

@dmuthuk Sir. Please have a look and rectify my faults. Thanks Sir and regards ■■

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