



# Kotak FinTech Investment Approach – An Opportunity In Adversity

1. Market Commentary

2. FinTech: Good time to ADD

3. Why Kotak?

- **Global equity markets recovery** largely supported by liquidity from various Govt/Central Banks through stimulus packages – India participated as well
- **Investor sentiment is turning buoyant in India on expectations of**
  - 1) economic activities normalizing as states unwind post lockdown,
  - 2) hopes of building immunity and increasing share of vaccination (~28% taken 1<sup>st</sup> dose)
  - 3) good start to monsoon season & improving PMI data in July'21.

Despite the period of severe 2<sup>nd</sup> wave COVID disruption in 1QFY22 the quarterly earnings have been relatively resilient with management commentary suggesting **improved earnings visibility from 2HFY22.**

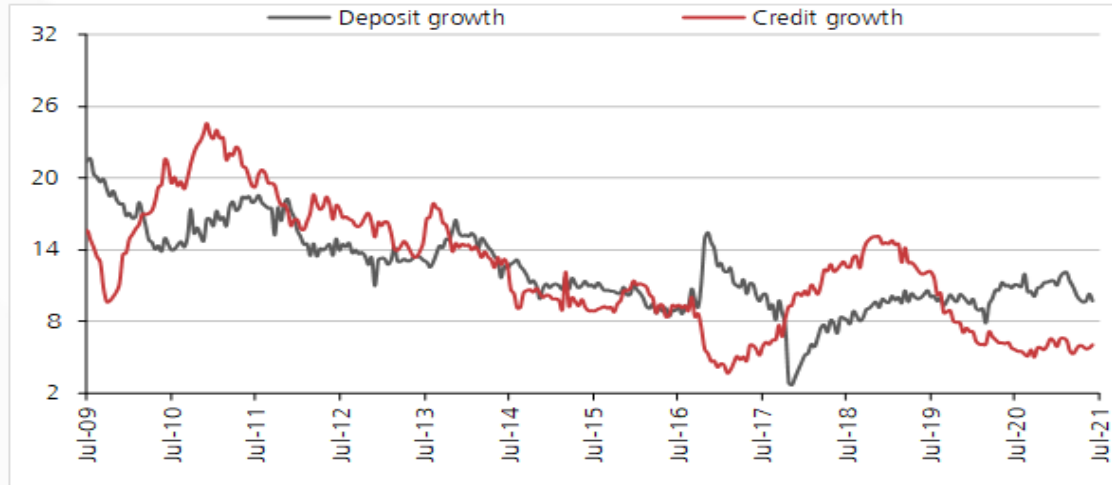
- **Risks of 3<sup>rd</sup> wave impacting the economy remain**, but 25%-plus earnings recovery in FY22E and by 15% in FY23E will drive markets.
- Indian economy usually does better in the second half of the financial year supported by multiple festivals which boost demand - **Our Kotak FinTech Investment Approach Portfolio is at present aligned to macro recovery through financials and secular opportunity in IT outsourcing/digitization.**

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# Banking Macro Near Trough Levels

## Credit growth rates near trough

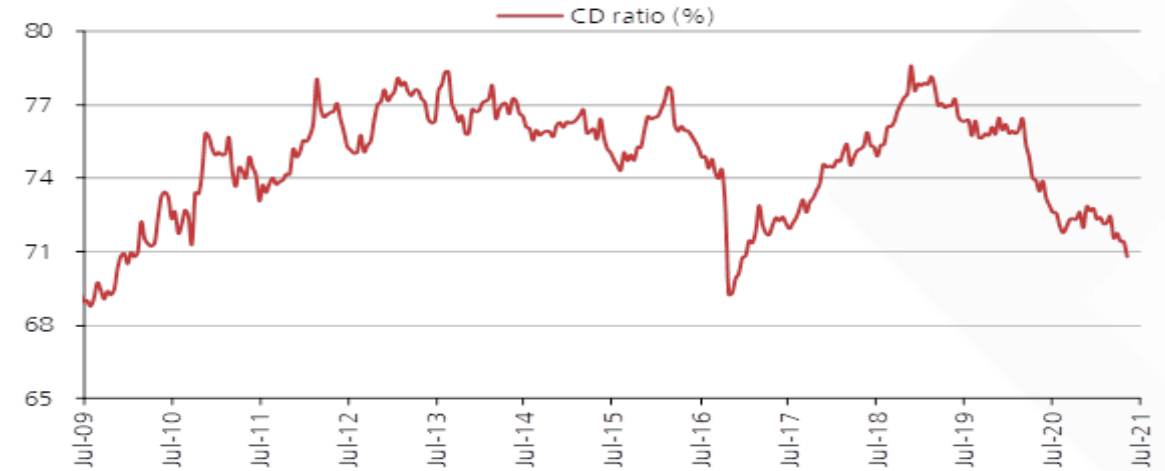
Loan growth stable around 6.5% yoy; deposit growth has moderated to 10.7% yoy  
System credit, deposit growth, on a fortnightly basis, July 2009 - July 2021 (%)



Source: RBI, Kotak Institutional Equities

## CD ratio remains low

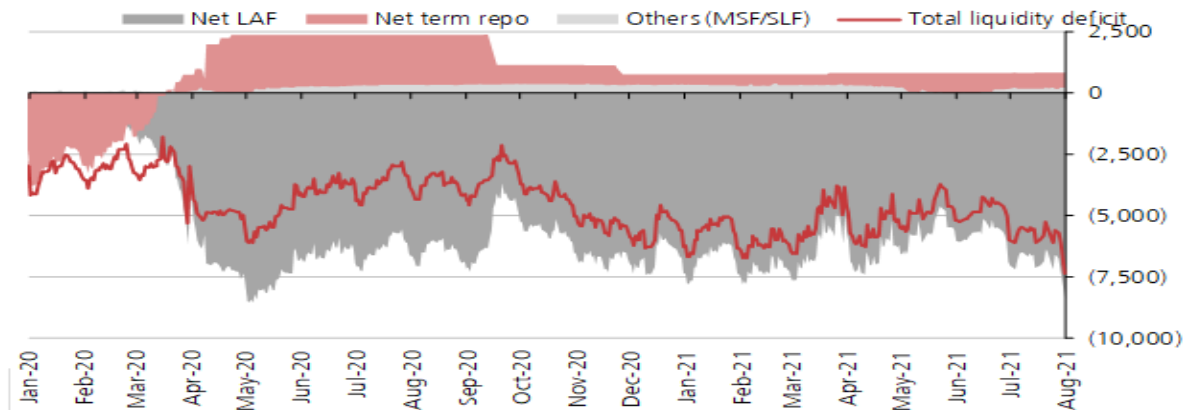
CD ratio remains low at 70%  
CD ratio, on a fortnightly basis, July 2009 - July 2021 (%)



Source: RBI, Kotak Institutional Equities

## Liquidity concerns behind

Liquidity remains adequately in surplus  
Systemic liquidity, March fiscal year-ends, January 2020 onwards (Rs bn)



Source: RBI, Kotak Institutional Equities

# Most Large Banks Seeing Improved Operating Metrics

## Banks well placed on Tier 1 & PCR vs GFC crisis

<b>Tier I ratio</b>									
March fiscal year-ends (%)									
<b>Tier I</b>	<b>2008</b>	<b>2011</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Axis	10.2	9.4	12.1	12.5	11.9	13.1	12.5	14.5	16.5
HDFC Bank	10.3	12.2	13.7	13.2	12.8	13.3	15.8	17.2	17.6
ICICI	11.8	13.2	12.8	13.1	14.4	15.9	15.1	14.7	18.1
Source: Company, Kotak Institutional Equities									
<b>PCR ratio of select banks</b>									
March fiscal year-ends (%)									
<b>PCR (%)</b>	<b>2008</b>	<b>2011</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Axis	49.8	74.1	66.7	56.9	57.0	51.6	62.1	69.0	72.4
HDFC Bank	67.1	82.5	73.9	69.9	68.7	69.8	71.4	72.0	69.8
ICICI	54.0	76.0	58.6	50.6	40.2	47.7	70.6	75.7	77.7
Source: Company, Kotak Institutional Equities									

## GNPLs & NNPLs are trending lower

<b>GNPL ratio of select banks</b>									
March fiscal year-ends (%)									
<b>GNPL (%)</b>	<b>2008</b>	<b>2011</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Axis	0.8	1.1	1.4	1.7	5.2	7.5	5.8	4.9	3.7
HDFC Bank	1.4	1.0	0.9	0.9	1.1	1.3	1.4	1.3	1.3
ICICI	3.3	4.3	3.7	5.7	8.5	9.5	7.0	5.8	5.1
Source: Company, Kotak Institutional Equities									
<b>NNPL ratio of select banks</b>									
March fiscal year-ends (%)									
<b>NNPL (%)</b>	<b>2008</b>	<b>2011</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Axis	0.4	0.3	0.5	0.7	2.3	3.8	2.3	1.6	1.1
HDFC Bank	0.5	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.4
ICICI	1.5	1.1	1.6	3.0	5.4	5.4	2.3	1.5	1.2
Source: Company, Kotak Institutional Equities									

# Digital Payments Are Increasing Rapidly



45%–50%

**Of e-retail GMV through cash on delivery**



~2.5X

**Increase in % of payments via UPI/wallets**



~40%

**Estimated CAGR of UPI/wallet payments over 2020–2025**

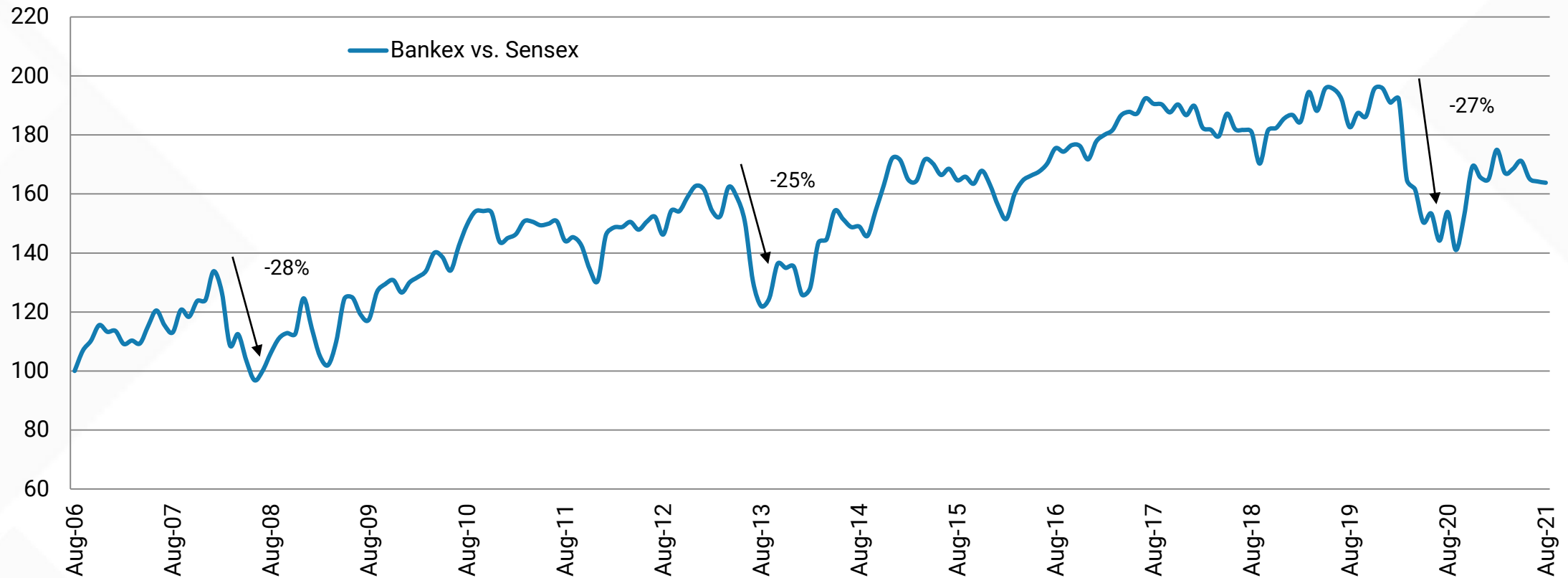


~3X

**% of products bought through EMI/credit schemes for electronics vs. other categories**

# Financials Underperformance – A Contra Opportunity

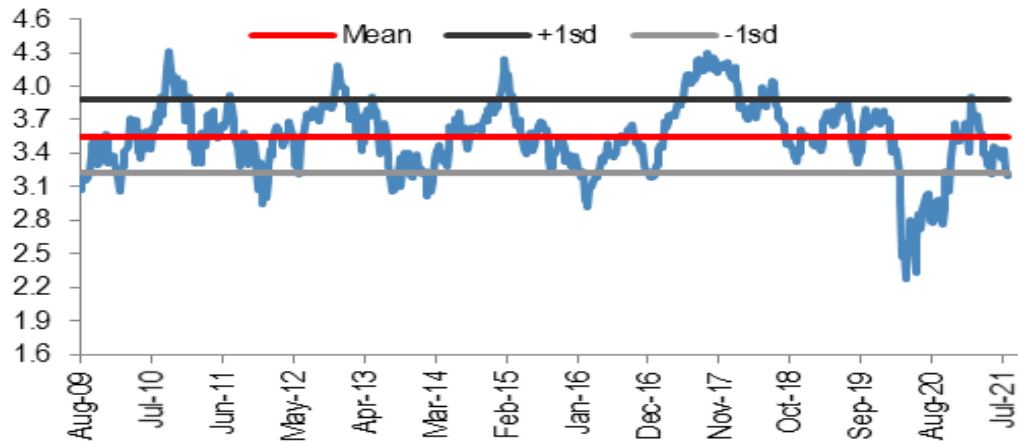
- India banks underperformed the country index similar to the under-performance seen during GFC in 2009 and the taper tantrum in 2013..... and recently during COVID-19.



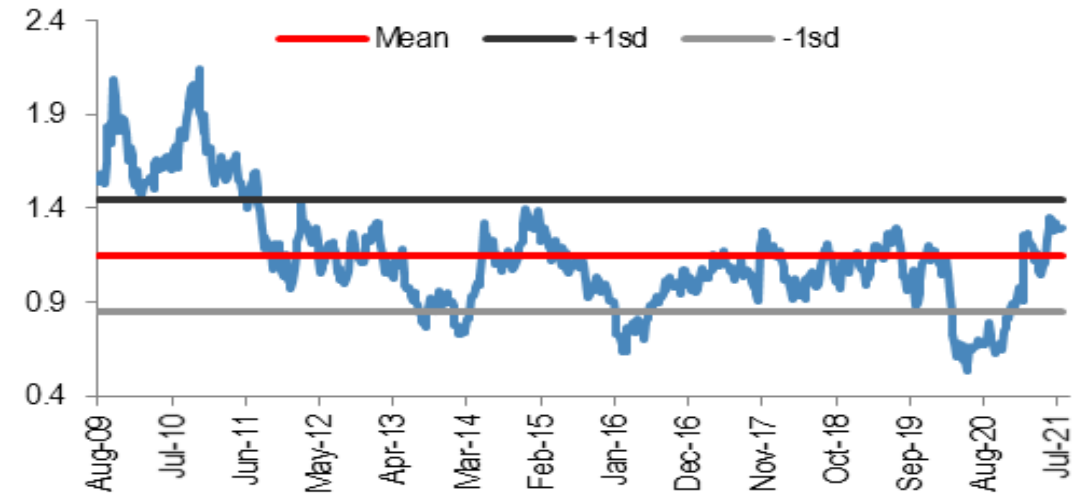


# Most Large Banks In Value Zone

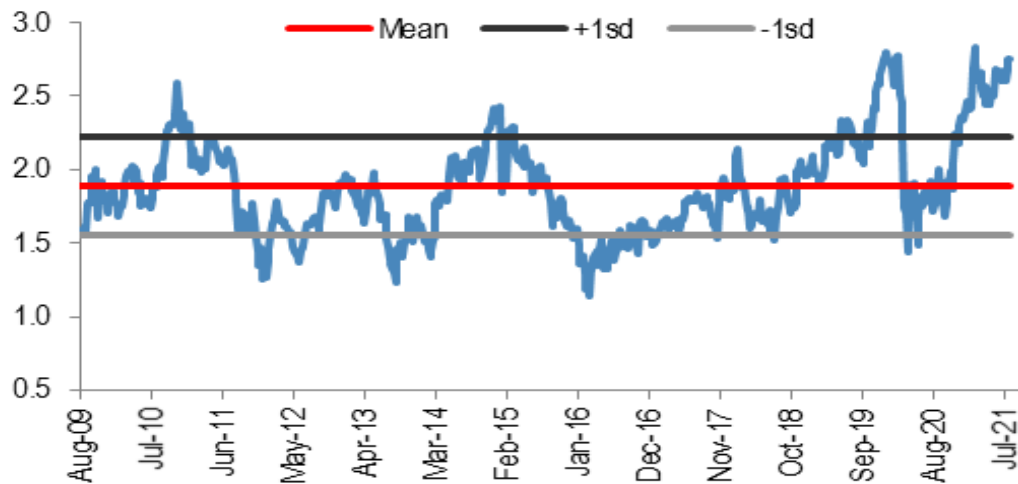
### HDFCB- 1 year forward P/B



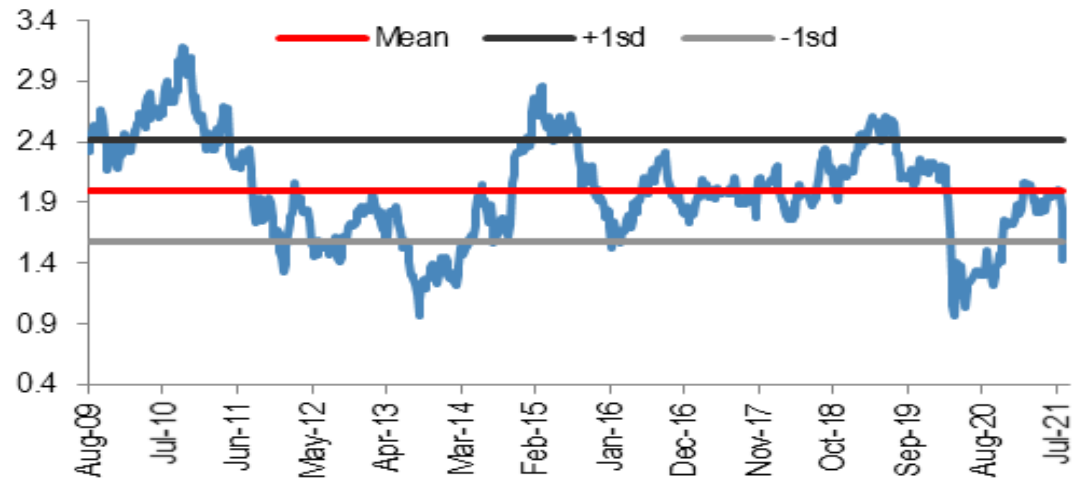
### SBI- 1 year forward P/B



### ICICIB- 1 year forward P/B

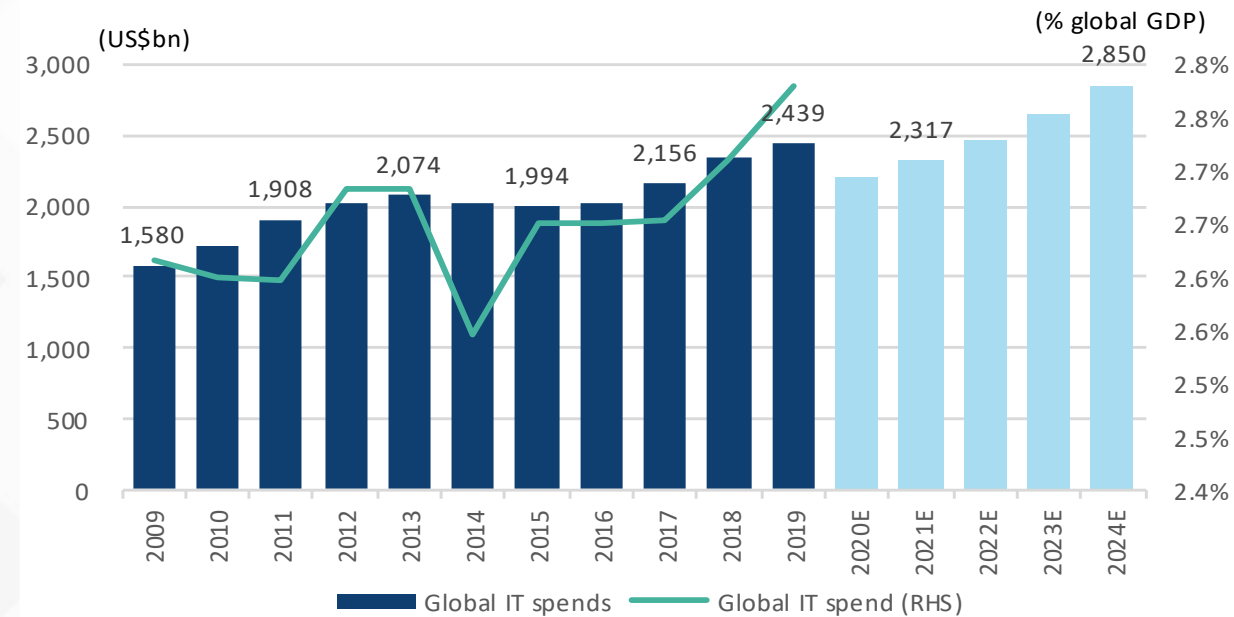


### Axis- 1 year forward P/B

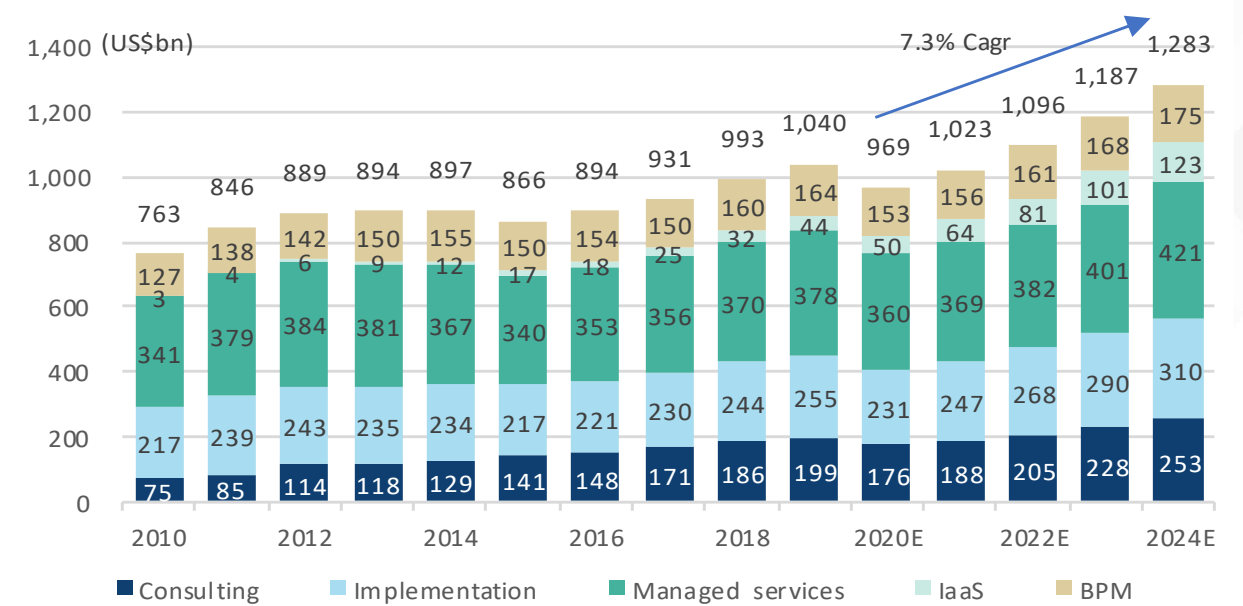


# IT Services Growth To Remain Strong

## Global IT spending has grown ahead of global GDP

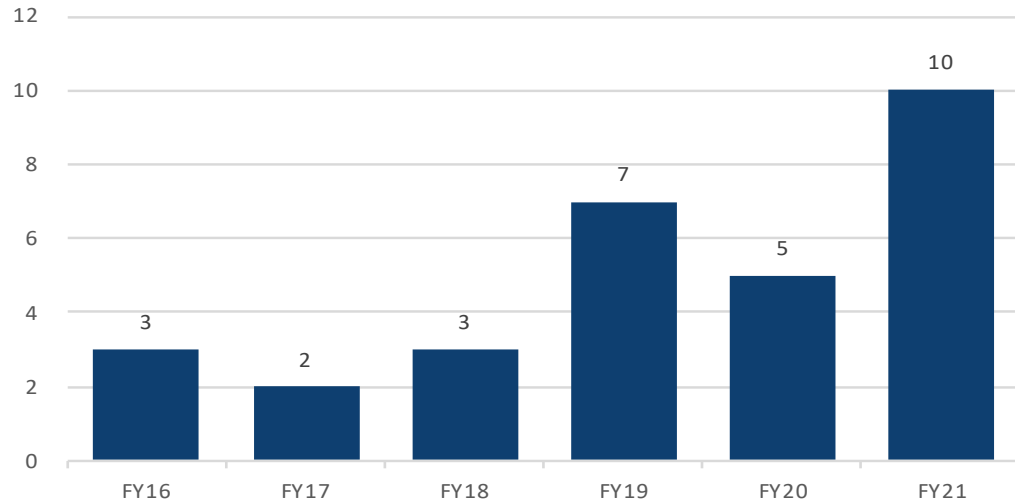


## IT services are expected to grow faster than IT spends of services spends

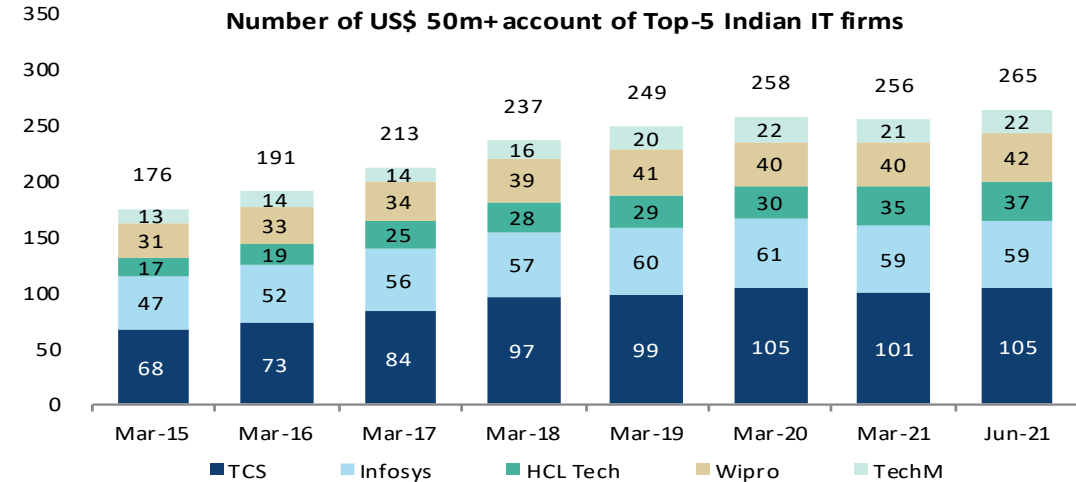


# Tier-1 Indian IT Firms To Gain Market Shares

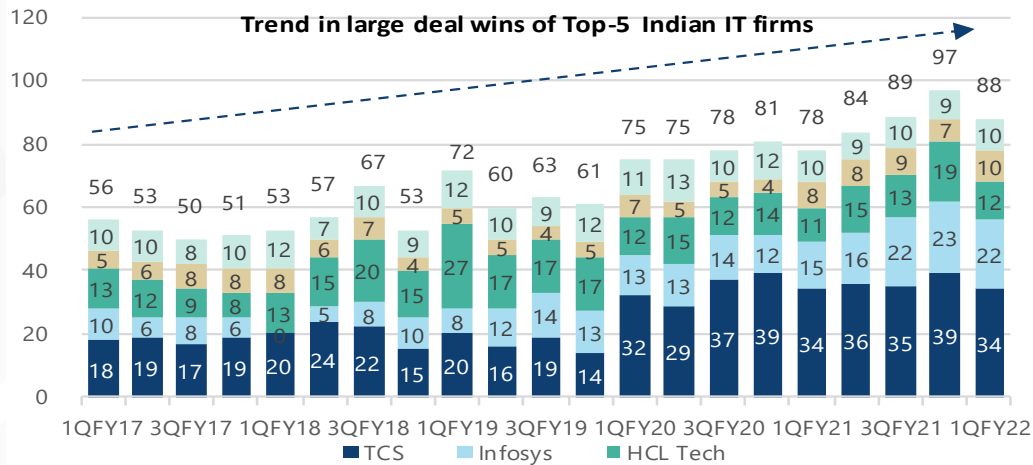
## Indian IT firms have stepped up M&A to fill digital



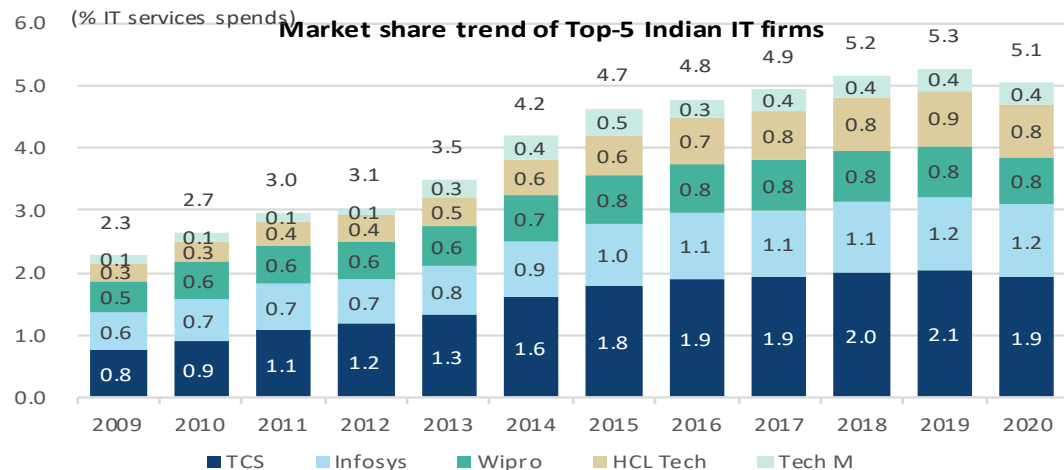
## Indian IT firms have stepped up client mining efforts



## Capability build up and client mining is driving large deals

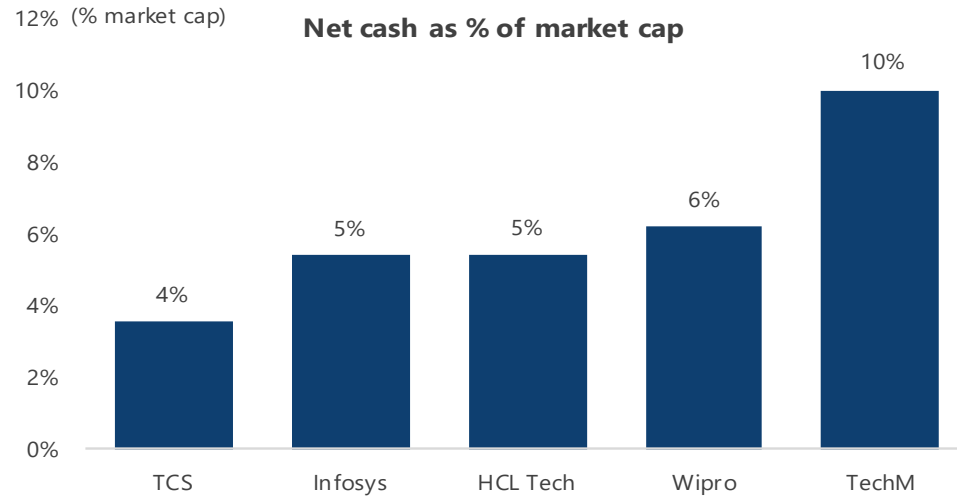


## ... which should drive further market share gains for them

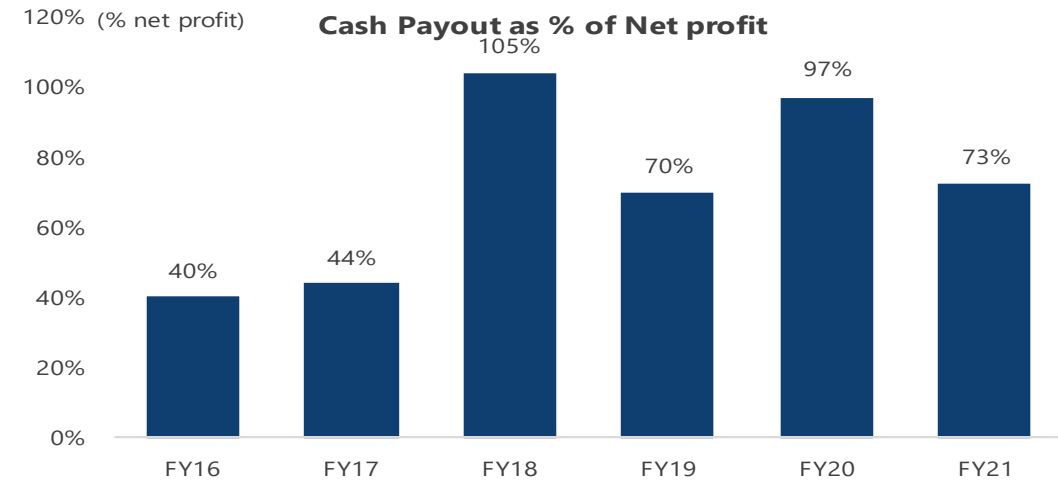


# IT Sector Is Trading At A Premium To Historical Averages But See Premiums Sustaining

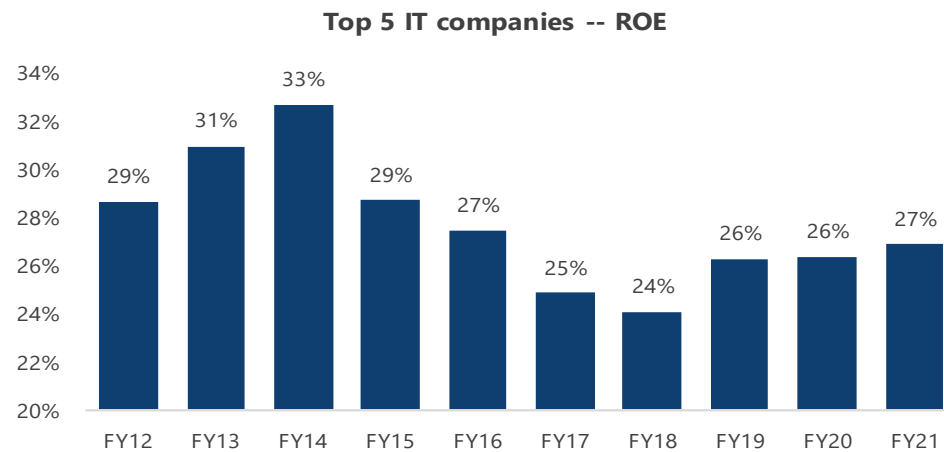
## IT firms' cash rich balance sheets...



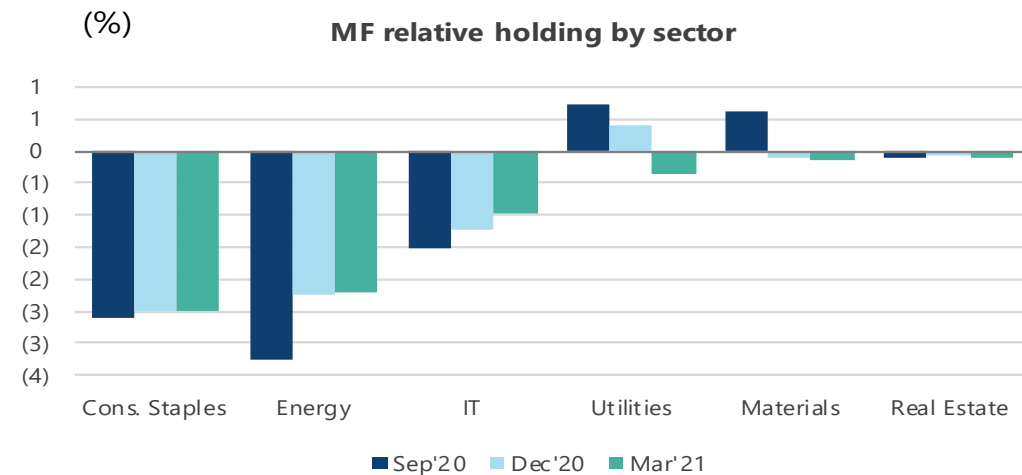
## ... high payouts...



## ... robust ROEs...



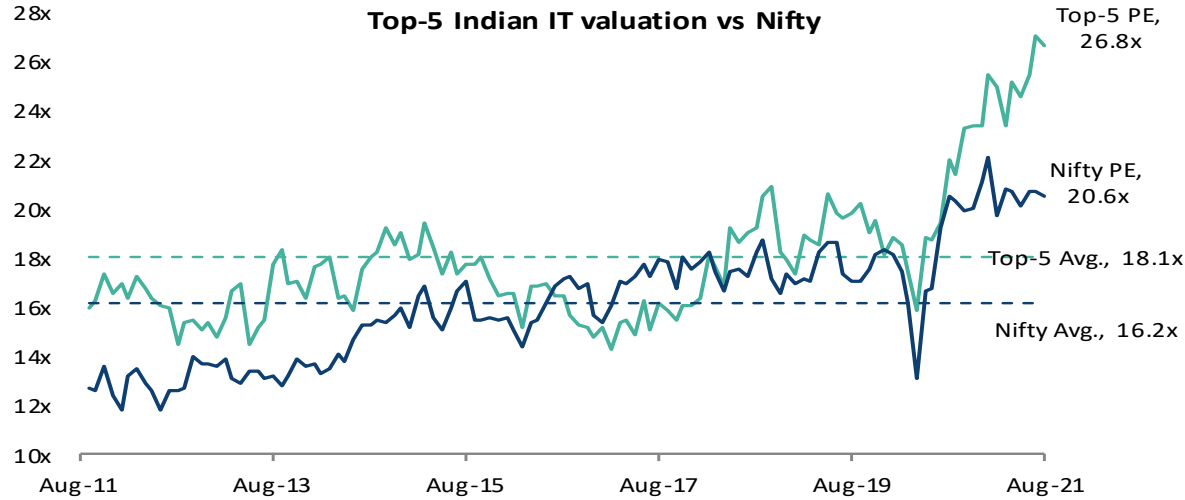
## ... MFs are still under-weight IT



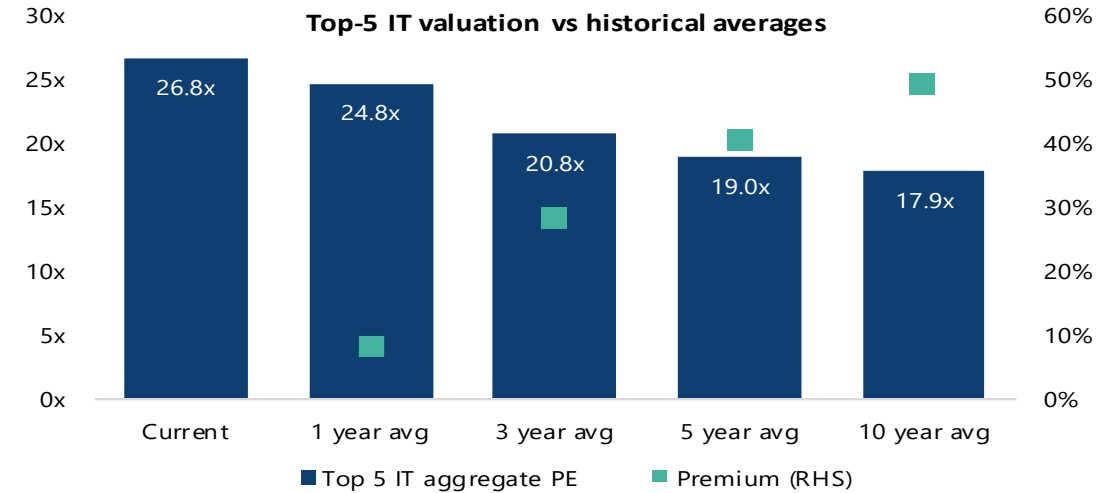
Source: Bloomberg, Jeffries, company data

# Strong Earnings Growth To Help Sustain Premium Valuations

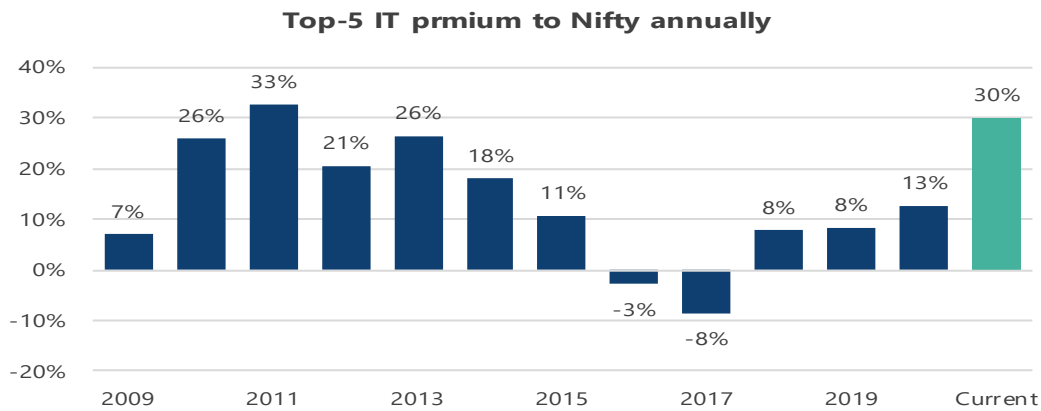
## Sector has rerated sharply over the past four years



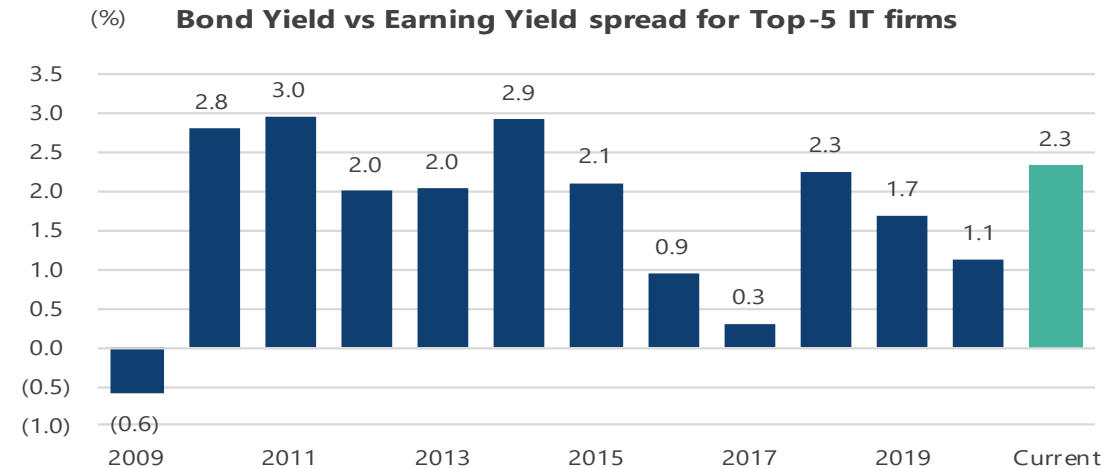
## Despite the sector trading at 30% premium to its 3-year avg...



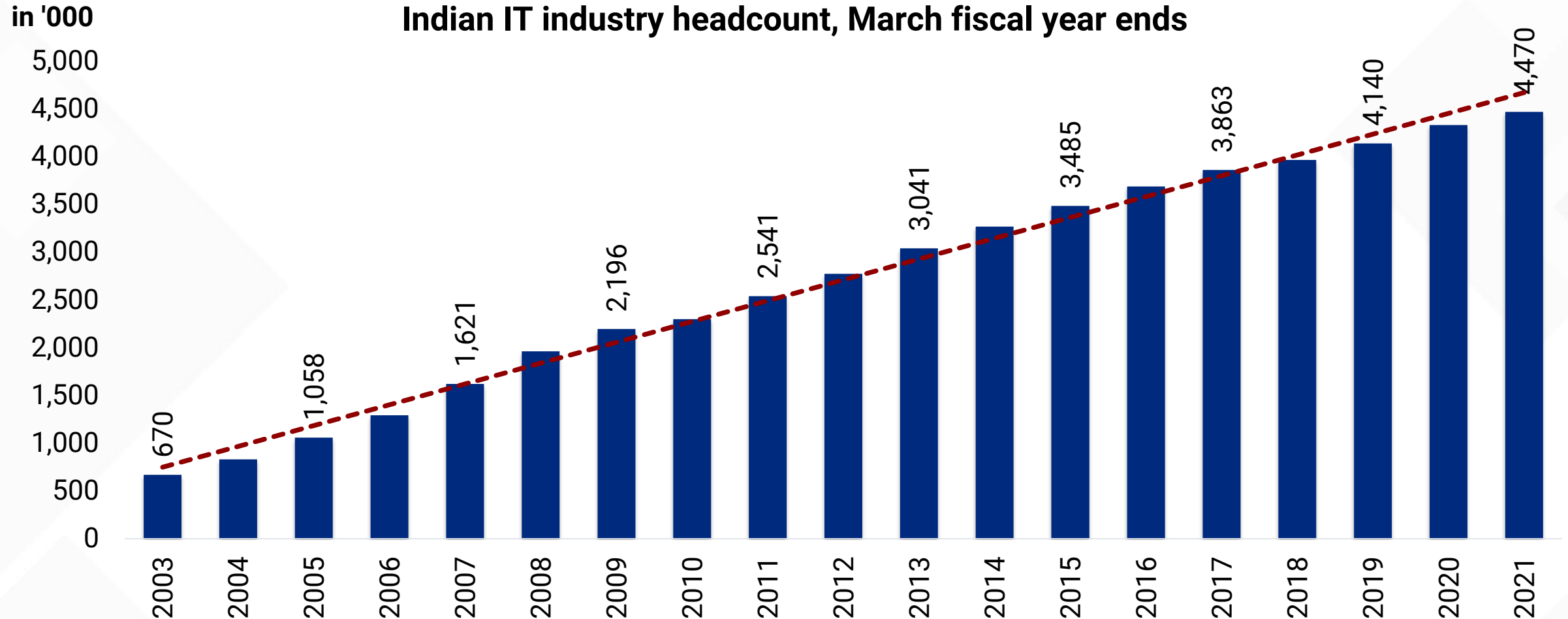
## ... their premium to Nifty can sustain



## Earnings yield differential to bond yields also at high levels



# IT Hiring Spree Continues...



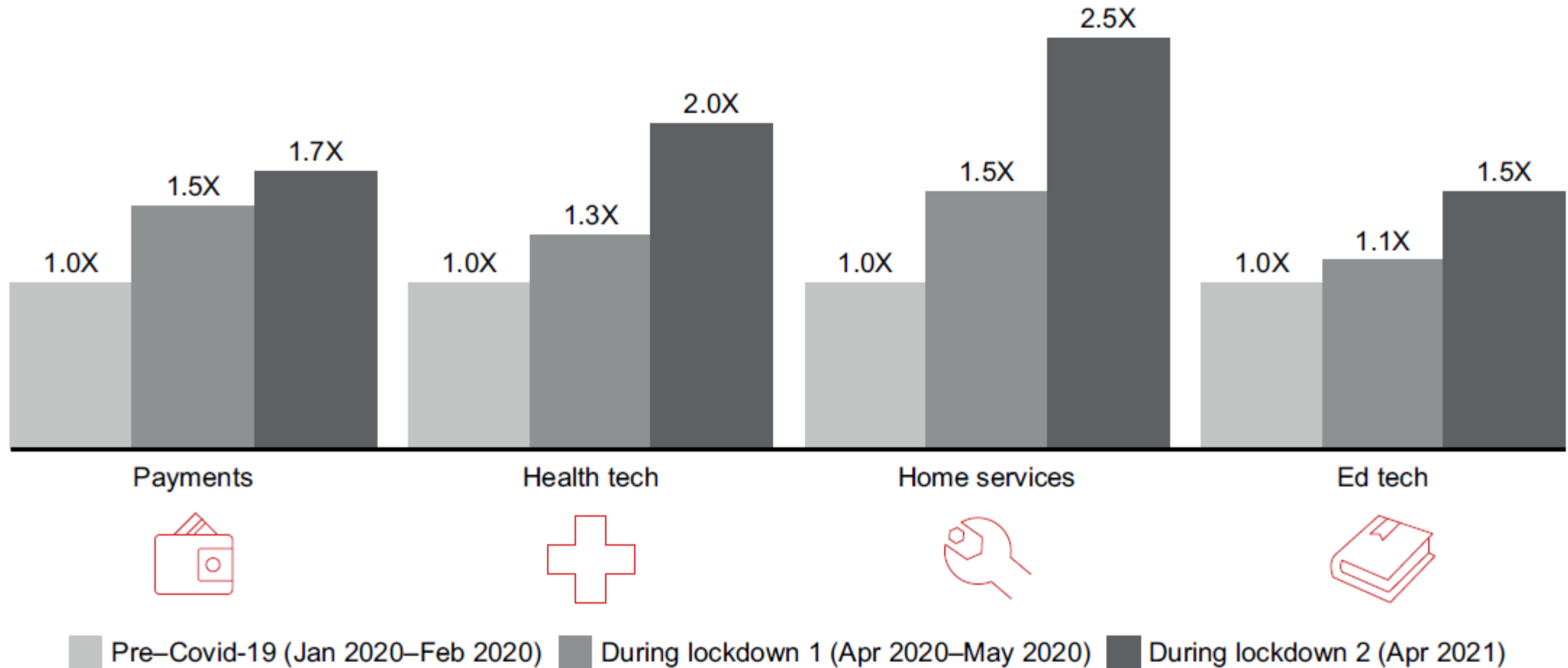
# IT Generally Amongst The Top Performing Sectors

	FY22YTD	FY21	FY20	FY19	FY18
RANK 1	NIFTY METAL	NIFTY METAL	NIFTY FMCG	NIFTY PRIVATE BANK	NIFTY REALTY
RANK 2	<b>NIFTY IT</b>	NIFTY AUTO	NIFTY INDIA CONSUMPTION	NIFTY BANK	NIFTY CONSUMER DURABLES
RANK 3	NIFTY HEALTHCARE INDEX	<b>NIFTY IT</b>	NIFTY MNC	<b>NIFTY IT</b>	NIFTY MNC
RANK 4	NIFTY COMMODITIES	NIFTY COMMODITIES	NIFTY HEALTHCARE INDEX	NIFTY ENERGY	NIFTY INDIA CONSUMPTION
RANK 5	NIFTY REALTY	NIFTY REALTY	<b>NIFTY IT</b>	NIFTY FINANCIAL SERVICES	<b>NIFTY IT</b>

	FY22YTD	FY21	FY20	FY19	FY18
RANK 1	45.1%	150.8%	-9.9%	26.5%	36.8%
RANK 2	<b>24.7%</b>	108.5%	-16.1%	25.4%	36.3%
RANK 3	22.9%	<b>102.6%</b>	-17.1%	<b>24.9%</b>	25.5%
RANK 4	20.0%	94.9%	-17.4%	24.7%	18.6%
RANK 5	19.2%	90.4%	<b>-18.3%</b>	22.9%	<b>16.9%</b>

# Sharp Increase In Monthly User Base For Digital Services During Pandemic

Monthly active users (indexed to base)



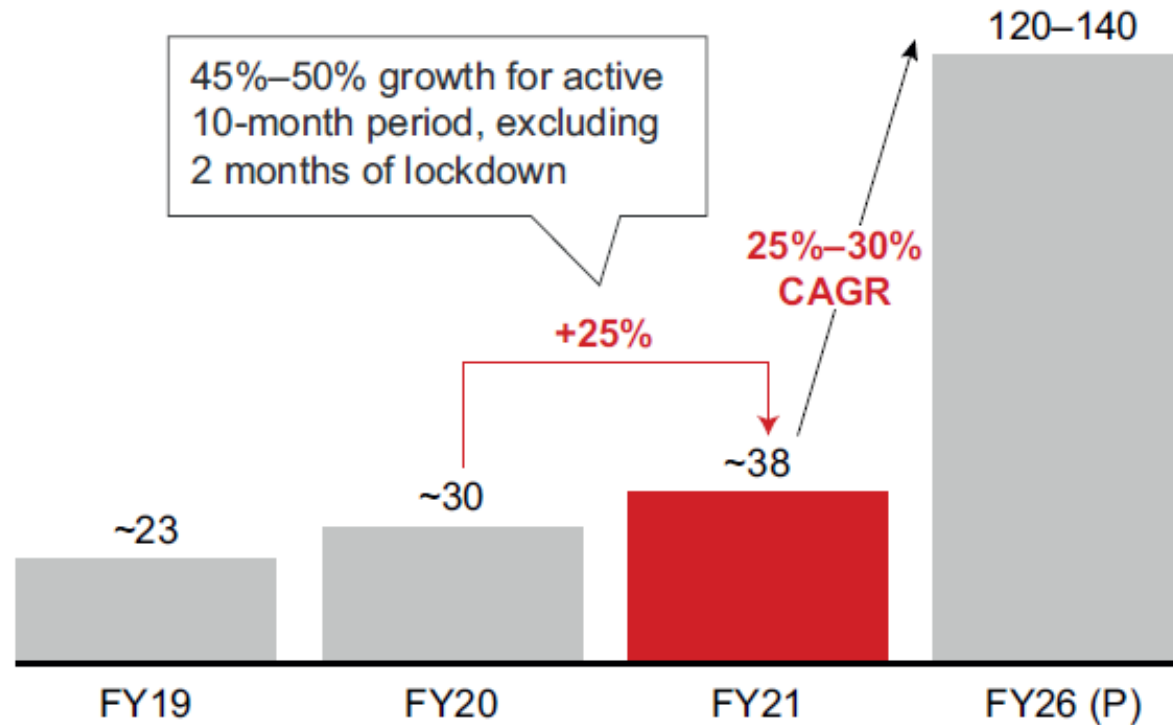
Note: Apr 2020–May 2020 and Apr 2021 monthly active users indexed to Jan 2020–Feb 2020 monthly active users (MAU)

Source: SimilarWeb; Bain analysis



# Covid-19 Has Led To A ~12-month Acceleration In E-retail Penetration In India

## India e-retail market (\$billion)




### Penetration %

	FY19	FY20	FY21	FY26 (P)
Overall	~2.8%	~3.5%	~4.6%	10%-11%
Ex-Grocery	~9.0%	11%-12%	19%-20%	26%-28%

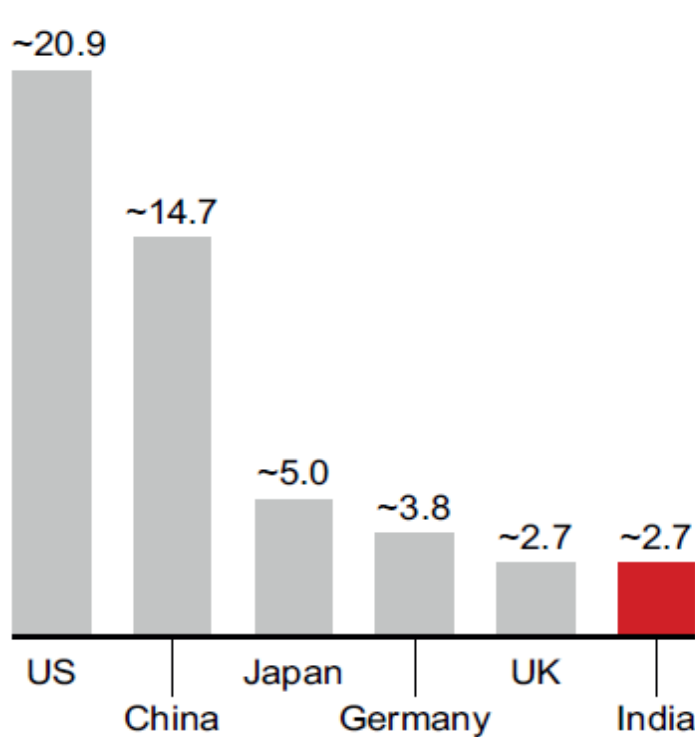


Note: CAGR: compound annual growth rate; fiscal year (FY) from April to March; e-retail overall penetration denotes e-retail market as % of total retail market; ex-grocery denotes total retail market excluding grocery category; ex-grocery penetration denotes ex-grocery e-retail market as % of total ex-grocery retail market; P: projected. Source: CRISIL; Forrester; Bain analysis

# India Has The Third-highest Number Of E-retail Shoppers (only behind China, the US)

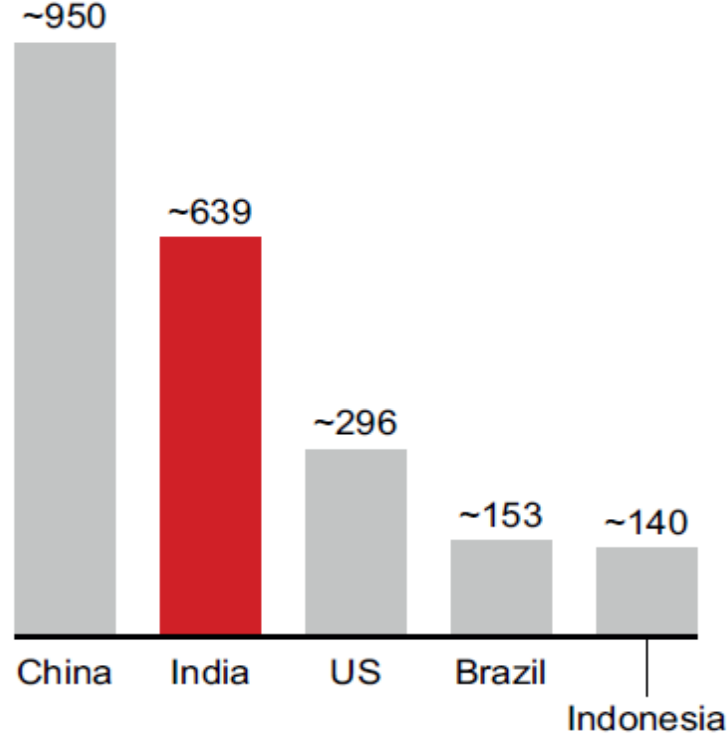
 **6<sup>th</sup>**  
**Largest economy**


Nominal GDP (\$trillion)  
(2020)



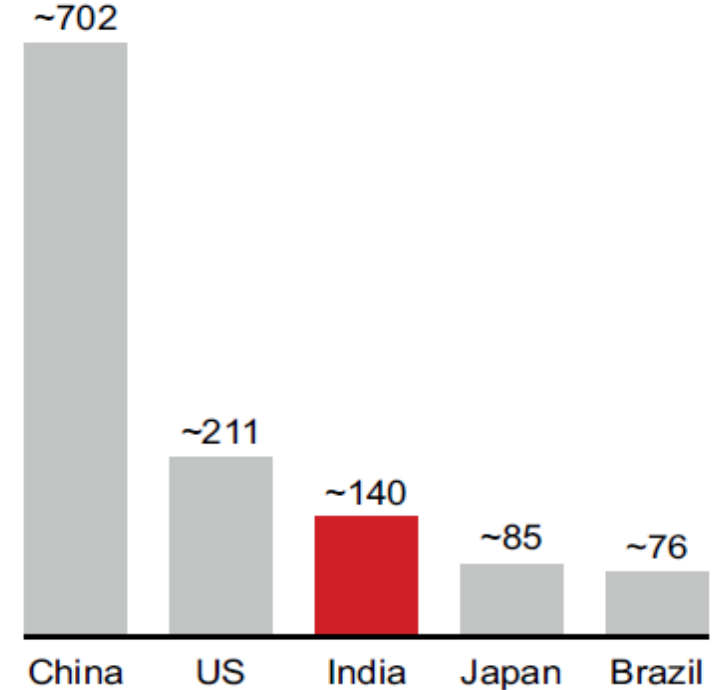
 **2<sup>nd</sup>**  
**Most Internet users**

Number of Internet users (million)  
(2020)



 **3<sup>rd</sup>**  
**Most e-retail shoppers**

Number of e-retail shoppers (million)  
(2020)



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## Portfolio Participating in 2 Key trends

### Financialisation of savings



- Online Transactions
- Fintech Biz
- Banks / NBFCs
- Life / General Insurance
- Capital market plays
- Asset Mgmt companies

### Digitization + IT Outsourcing

- IT Services Outsourcing
- Cloud Computing
- Internet of Things
- Artificial Intelligence
- Robotics
- Cyber Security



**Portfolio Focus = Strong franchises with healthy earnings growth + Reasonable Valuations**

# Kotak FinTech Investment Approach – Unique Portfolio Positioning



**Portfolio consists of ~20 stock concentrated portfolio holding quality Banks, NBFCs, Insurance (BFSI) and Technology stocks.**

- IT sector growth is relatively insulated from the Covid led disruption
- Banks/NBFCs & Insurance were impacted but worst is behind + recovery ahead.

## **Overall positioning**

- a. Quality portfolio, offers ~20% earnings CAGR over FY21-23E with 18-20% ROE as per Bloomberg estimates
  - IT portfolio stocks offer 20% EPS CAGR, 5% FCF with ROEs of 25%
  - BFSI stocks offer avg 25-30% earnings CAGR with RoEs of 15%

**Portfolio composition: Tech helps reduce volatility on the downside and Financials provide to make the most of post-COVID macro recovery**

# Kotak FinTech Investment Approach – Performance



As on 31<sup>st</sup> August 2021

Period	Absolute %				CAGR %		
	1 Month	3 Months	6 Months	1 Year	2 Year	3 Year	Since Inception
Kotak FinTech Investment Approach	9.5%	15.1%	23.2%	69.2%	29.3%	17.7%	19.3%
India FinTech Index	11.9%	19.8%	30.1%	85.7%	38.1%	24.5%	28.2%
Nifty 50	8.7%	9.9%	17.9%	50.5%	24.7%	13.6%	16.6%
Nifty Bank	5.3%	2.5%	4.7%	53.3%	15.2%	9.1%	12.6%
Nifty IT	13.4%	27.5%	42.3%	92.8%	46.9%	29.8%	34.5%

TWRR basis on aggregate net of all fees and expenses. Inception Date: March 2018

Past performance is no guarantee of future returns. The performance related information provided therein is not verified by SEBI.

# Kotak FinTech Investment Approach - Portfolio Structure



## Top 5 BFSI & Tech Holdings

### Top 5 BFSI

ICICI BANK LTD  
HDFC ASSET MANAGEMENT COMPANY LTD  
BAJAJ FINANCE LTD  
STATE BANK OF INDIA  
AXIS BANK LTD

### Top 5 Tech

WIPRO LTD  
TECH MAHINDRA LTD  
TATA CONSULTANCY SERVICES LTD  
HCL TECHNOLOGIES LTD  
INFOSYS LTD

### Market Cap In Crs

Median	386,701
Weighted Average	241,140

### Sector Allocation

(%)

INFORMATION TECHNOLOGY	52.2
BFSI	44.2
CASH & CASH EQUIVALENT	3.6
<b>Grand Total</b>	<b>100.0</b>

### Market Cap

(%)

LARGE CAP	82.6
MID CAP	7.9
SMALL CAP	5.9
CASH & CASH EQUIVALENT	3.6
<b>Grand Total</b>	<b>100.0</b>

## Core PMS Investment Team



### Mr. Anshul Saigal (Head PMS)

- Has spent close to 14 years with Kotak Portfolio Management Services.
- 20 years of industry experience including that in JP Morgan, ICICI Bank and Standard Chartered Bank.
- MBA (Finance), B.E (I.E).



### Mr. Ashish Jagnani

- With Kotak Mahindra AMC since November 2017
- Over 15 years of industry experience including that in UBS and Citigroup
- CA, Masters in Finance Management



### Mr. Biren Dalal

- Has spent close to 15 years with Kotak Portfolio Management and Alternate Assets
- 23 years of industry experience including that in Motilal Oswal and KRC shares and Securities.
- B.Com, C.A



### Mr. Aditya Joshi

- With Kotak Mahindra AMC since September 2016
- 13 years of industry experience of which the last 11 years he has served with the Kotak Group.
- B.E. (Mechanical), MBA (Finance), CFP, Chartered Financial Analyst, USA (CFA)



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Statutory Details: Portfolio Manager: Kotak Mahindra Asset Management Company Ltd. SEBI Reg No: INP000000837- Registered Office: 27 BKC, C-27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051, Principal Place of Business: 2nd Floor, 12 BKC, Plot No. C-12, 'G' Block, Bandra Kurla Complex, Bandra East, Mumbai – 400 051, India. Address of correspondence: 6th Floor Kotak Towers, Building No 21 Infinity Park, Off W. E. Highway, Gen A K. Vaidya Marg, Malad (E), Mumbai 400097. –

Contact details: 02266056825

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**Thank you**