

## Kotak Bank's Q1 Net Profit Drops as NPAs and Provisions Rise



Kotak Mahindra Bank reported a significant decline in its consolidated net profit for the first quarter of the current fiscal year, largely due to a combination of rising non-performing assets (NPAs) and elevated provisions. For the quarter ending June 30, 2025, the bank's consolidated net profit stood at ₹4,472 crore, a notable decrease from ₹7,448 crore in the same period last year. However, the previous year's figure included a substantial one-time gain of over ₹3,000 crore from the sale of a stake in its general insurance business. On a standalone basis, the bank's net profit saw a 7% year-on-year decline to ₹3,282 crore.

The bank attributed the dip in core profitability to several factors, including the impact of Reserve Bank of India (RBI) rate cuts on core income, slower fee income growth, and a sharp increase in provisions. Net interest income (NII), the core earnings metric, grew by 6% to ₹7,259 crore, supported by a healthy 14% growth in the loan book. However, this was offset by a contraction in the net interest margin (NIM), which slipped 37 basis points to 4.65%. According to Chief Financial Officer Devang Gheewala, the bank's income is highly sensitive to rate cuts, with over 60% of its assets linked to the repo rate, meaning policy rate reductions affect yields immediately while deposit rates take longer to adjust, thus pressuring margins.

Provisions for potential bad loans more than doubled year-on-year to ₹1,208 crore. A significant portion of these increased provisions was allocated for stress in the microfinance (MFI) segment and the retail commercial vehicle (CV) portfolio. Fresh slippages, or new additions to bad loans, rose to ₹1,812 crore from ₹1,358 crore a year earlier. This pushed the gross non-performing

assets (GNPA) ratio up to 1.48% from 1.39% in the previous quarter, while net NPAs also saw a slight increase to 0.34% from 0.31%.

MD and CEO Ashok Vaswani stated that "the provisions for MFI business have peaked," indicating an expectation of improvement in this segment. He added that disbursements in microfinance have resumed cautiously and are expected to accelerate in the latter half of the year. Deputy Managing Director Shanti Ekambaram noted that the stress in the retail CV portfolio primarily affects smaller operators, those with fleets under 10 vehicles, due to weak demand, pricing pressures, and delayed payments from government contracts. However, other retail loan segments, including home and personal loans, continue to perform well.

Despite the headwinds, Kotak's capital adequacy ratio remains robust at 23%, with a core capital buffer exceeding 21%. The bank aims to grow its loan book at 1.5 to 2 times the nominal Gross Domestic Product (GDP) growth of India, leveraging its strong balance sheet. The performance of the bank's subsidiaries, including Kotak Securities and the asset management and life insurance arms, also contributed positively to the group's overall profits.

As the bank moves forward, its focus will be on managing asset quality in stressed segments and navigating the interest rate environment to protect margins, while continuing to grow its overall loan book.