



Kotak Mahindra Bank

BSE SENSEX 18,759	S&P CNX 5,705	CMP: INR626	TP: INR500	Neutral								
Bloomberg Equity Shares (m)	KMB IN 740.7	Year End	Cons. PAT (INR m)	Cons. EPS (INR)	EPS Gr. (%)	P/E (x)	Cons. BV (INR)	P/BV (x)	P/ABV (x)	Cons RoE (%)	RoAA* (%)	Core RoE*
52-Week Range (INR)	652/418	3/11A	15,667	21.3	13.3	-	148.8	-	-	16.6	1.9	15.4
1,6,12 Rel.Perf.(%)	-3/-2/18	3/12A	18,322	24.7	16.3	25.3	174.2	3.6	3.6	15.4	1.9	15.4
M.Cap. (INR b)	463.4	3/13E	20,662	27.9	12.8	22.4	201.3	3.1	3.2	14.9	1.6	14.7
M.Cap. (USD b)	8.6	3/14E	24,624	33.2	19.2	18.8	233.5	2.7	2.7	15.3	1.6	15.2

* For Standalone Bank

Kotak Mahindra Bank's (KMB) 2QFY13 consolidated PAT grew 16% YoY and 13% QoQ to INR5.0b (4% above est) driven by higher than expected profitability in Kotak Prime and Kotak Securities. Profits for the standalone bank were in line with estimates. Margins and asset quality (excl. stressed assets) remained stable QoQ.

- Lending business:** (a) Profitability of the lending business was higher than expected (8% above est.) led by strong profit growth in Kotak Prime (b) Consolidated loan growth moderated but remained healthy at 7% QoQ and 21% YoY (c) Margins remained stable QoQ at 4.7% (d) GNPA's (incl. stressed assets) for the standalone bank increased 8% QoQ as the bank acquired a stressed asset portfolio from a NBFC worth INR490m. KMB recovered INR70m out of this and has fully provided for the rest. PCR improved to 54% v/s 50% in 1QFY13.
- Capital Market business:** KSEC reported PAT of INR400m, up 38%YoY and 74% QoQ led by strong improvement in the cash delivery volumes during the quarter and booking of gains on proprietary trading which boosted revenues (up 17% QoQ). Market share remained stable QoQ at 2.5%.
- Asset Management business:** PAT from asset management business grew by 50% YoY and 71% QoQ to INR120m (23% below est.) due to losses in the AMC business. AUMs increased 11% YoY and 8% QoQ to INR559b.
- Valuation and view:** Moderation in growth, expected increase in credit costs (45bp v/s 14bp in FY12) and higher base of FY12 can put pressure on profitability of lending business. Profits in capital market businesses picked up but may not sustain due to stiff competition. Stock trades at 2.7x FY14E cons. BV. **Neutral.**

KMB Group: Earnings Trends

	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Kotak Bank (Standalone)	2,520	2,600	2,760	2,970	2,820	2,800	3,171	3,260	10,850	12,051
Kotak Prime	940	900	1,040	970	940	1,140	1,150	1,172	3,849	4,402
Kotak Mah. Investments	30	30	30	60	40	160	50	54	153	304
Lending Business	3,490	3,530	3,830	4,000	3,800	4,100	4,371	4,486	14,852	16,757
YoY Growth (%)	29.3	33.7	34.7	17.5	8.9	16.1	14.1	12.1	28.0	12.8
Kotak Securities	230	290	240	500	230	400	327	350	1,260	1,306
Kotak Mah. Capital Co.	10	-40	40	50	60	40	56	68	60	224
Capital Market Business	240	250	280	550	290	440	382	418	1,320	1,530
YoY Growth (%)	-55.8	-57.7	-48.4	-16.9	20.8	76.0	36.5	-24.0	-43.5	15.9
Intl. Subsidiaries	-30	-70	-40	30	-50	80	30	40	-110	100
Kotak Mah. AMC & Trustee Co.	90	70	30	30	40	-50	50	80	220	120
Kotak Investment Advisors	110	80	70	100	80	90	100	105	360	375
Asset Management Business	170	80	60	160	70	120	180	225	470	595
YoY Growth (%)	-52.0	-60.7	-71.3	-34.7	-58.8	50.0	200.0	40.6	-53.4	26.6
Consol. PAT excluding Kotak Life	3,900	3,860	4,170	4,710	4,160	4,660	4,934	5,129	16,642	18,882
YoY Growth (%)	8.4	12.4	16.0	9.2	6.7	20.7	18.3	8.9	11.3	13.5
Kotak OM Life Insurance	460	530	470	570	320	470	541	700	2,030	2,030
Consolidation Adjust.	-200	-60	-10	-70	-50	-110	-50	-40	-349	-250
Consol. PAT Including Kotak Life	4,160	4,330	4,630	5,210	4,430	5,020	5,424	5,788	18,322	20,662
YoY Growth (%)	26.9	18.9	20.7	6.2	6.5	15.9	17.2	11.1	16.9	12.8

Source: MOSL

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Investors are advised to refer through disclosures made at the end of the Research Report.

Earnings Snapshot (INR m)

	Business	2Q FY13	1Q FY13	QoQ Gr. (%)	2Q FY12	YoY Gr. (%)
Kotak Mahindra Bank (Standalone)	Banking Business	2,800	2,820	-1	2,600	8
Kotak Mahindra Prime	Auto loans, debt capital markets	1,140	940	21	900	27
Kotak Mahindra Investments	Primarily LAS	160	40	300	30	433
Lending Business		4,100	3,800	8	3,530	16
Kotak Mahindra Capital Company	Investment banking	40	60	NA	-40	NA
Kotak Securities	Broking and distribution	400	230	74	290	38
Capital Market Business		440	290	52	250	76
International subsidiaries	Asset Mgt and IB	80	-50	NA	-70	NA
Kotak Mahindra AMC & Trustee Co	Mutual funds management	-50	40	NA	70	NA
Kotak Investment Advisors	Alternate asset management	90	80	13	80	13
Asset Management Business		120	70	71	80	50
Kotak Life Insurance		470	320	47	530	-11
Consol. PAT		5,130	4,480	15	4,390	17
Consolidation Adjust.		-108	-45		-64	
Reported PAT		5,022	4,435	13	4,326	16

Lending business: Loan growth moderates (v/s historical trends) but remains healthy; margins remains stable

Consolidated loan book grew 21% YoY and 7% QoQ to INR612b driven by healthy growth in the standalone book, while car loans grew at a slower pace during the quarter. For the standalone bank, growth was mainly driven by the corporate, business banking and agri segments. In line with management's cautious approach towards the CV segment, the CV book remained largely stable with a marginal 2% QoQ increase. Reported consolidated margins remained stable QoQ at 4.7%.

Consolidated loan growth moderated to 21% YoY (INR m)

	2QFY13	2QFY12	YoY %	1QFY13	QoQ %
Comm. Vehicles	81,830	73,510	11.3	80,150	2.1
Car Loans (Prime)	117,480	98,580	19.2	111,610	5.3
Personal Loans	21,410	15,010	42.6	20,000	7.1
Home loans	92,860	75,280	23.4	87,570	6.0
Corp Banking	156,780	147,450	6.3	143,830	9.0
Business Banking	45,710	27,980	63.4	38,400	19.0
Agri	64,190	42,480	51.1	61,080	5.1
Others	32,290	25,520	26.5	27,850	15.9
Total Loans	612,550	505,810	21.1	570,490	7.4
Inv. / Treasury Assets	239,900	183,470	30.8	232,190	3.3

Source: Company, MOSL

Sequential growth driven by business and corporate banking segments

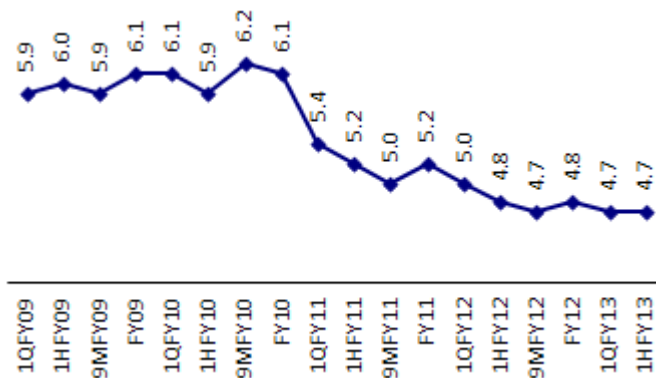
Trend in lending business profitability - With pickup in profitability of securities business, share of lending business in overall profitability declined QoQ; but remained high (INR m)

	FY10				FY11				FY12				FY13	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Total Lending Profits	1,003	1,741	1,980	2,679	2,699	2,640	2,843	3,406	3,490	3,530	3,830	4,000	3,800	4,100
YoY Gr. (%)	45	92	96	73	121	52	44	27	29	34	35	17	9	16
QoQ Gr. (%)	-4	42	14	35	1	-2	8	20	2	1	8	4	-5	8
Share in Cons. Profit (%)	73	56	59	65	77	74	74	68	80	80	83	76	85	80

Source: Company, MOSL

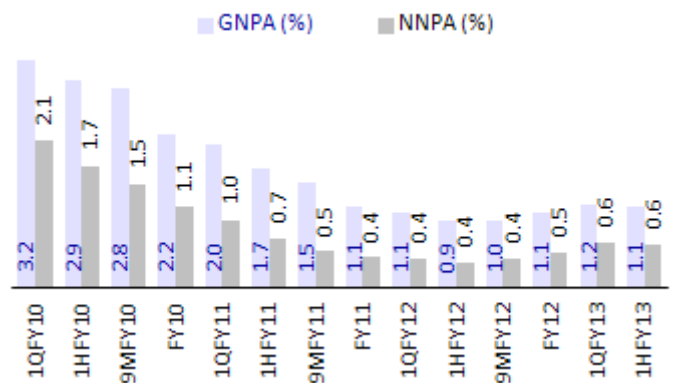
Margins remain stable QoQ (%)

Margins remain stable QoQ. Management has maintained its guidance of 4.5%+ margins for FY13.



Asset quality (ex-stressed assets) improves marginally

Asset quality (incl. stressed assets) deteriorated as the bank acquired a small stressed asset portfolio during the quarter, barring which the asset quality improved marginally.



Source: Company, MOSL

Banking: Loan growth moderated but remains healthy

Kotak Bank standalone PAT grew 8% YoY and remained flat on a QoQ basis at ~INR2.8b (in line with est.). NII grew at a healthy pace by 25% YoY and 5% QoQ on the back of strong loan growth and stable margins. Loan growth moderated to 22% YoY as compared with earlier trends of 30%+ YoY growth for past few quarters, in line with management's cautious stance given the uncertain macro environment. Loan growth remained healthy in the business banking (+64% YoY and 19% QoQ), corporate (+8% QoQ and 5% YoY) and agri (+51% YoY and 5% QoQ) segments. The management has maintained its guidance of 20%+ asset growth in the current fiscal.

Deposit mobilization remains healthy

Deposit mobilization remained healthy during the quarter (+25% YoY and 9% QoQ) resulting into moderation in CD Ratio to 100% v/s 101.6% in 1QFY13 and 102.6% in 2QFY12. Healthy traction in SA deposits continued as it grew by 66% YoY and 7% QoQ. CA deposits grew by 10% YoY and 16% QoQ. CASA ratio increased marginally to 27.1% from 26.6% in the previous quarter. During the quarter, the bank added 23 branches taking the total number to 389. Guidance of reaching a network of 500 branches in CY13 maintained.

Acquisition of stressed assets portfolio led to increase in GNPA

GNPAs (incl. stressed assets) increased 8% QoQ as the bank acquired an INR490m worth stressed asset portfolio (secured home loan portfolio) during the quarter. Of which, it recovered INR70m and the rest has been fully provided for. This resulted into the increase in GNPA and provisioning expenses on a QoQ basis. Net restructured loans stood at just INR80m (2bp of overall loans).

Kotak Mahindra Bank (SA) Quarterly Performance									(INR Million)	
Y/E March	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	13,298	14,646	16,410	17,448	18,158	19,237	19,766	20,378	61,802	77,539
Interest Expense	7,619	8,592	9,895	10,571	10,945	11,656	11,889	12,112	36,677	46,602
Net Interest Income	5,678	6,055	6,515	6,877	7,213	7,581	7,877	8,266	25,125	30,937
% Change (Y-o-Y)	17.1	11.3	14.0	21.7	27.0	25.2	20.9	20.2	19.8	23.1
Other Income	2,287	2,125	2,820	2,542	2,411	2,508	2,890	2,942	9,773	10,751
Net Income	7,965	8,180	9,334	9,420	9,625	10,089	10,767	11,207	34,898	41,688
% Change (Y-o-Y)	23.0	19.7	26.7	15.9	20.8	23.3	15.4	19.0	21.3	19.5
Operating Expenses	4,105	4,379	4,898	4,966	5,141	5,267	5,679	5,950	18,348	22,036
Operating Profit	3,861	3,800	4,436	4,453	4,484	4,822	5,089	5,258	16,550	19,652
% Change (Y-o-Y)	21.6	16.3	41.0	21.0	16.1	26.9	14.7	18.1	24.9	18.7
Other Provisions	221	-24	307	46	341	706	425	522	551	1,995
Profit before Tax	3,640	3,824	4,129	4,407	4,142	4,116	4,664	4,735	15,999	17,657
Tax Provisions	1,119	1,224	1,368	1,438	1,318	1,312	1,492	1,484	5,149	5,606
Net Profit	2,520	2,600	2,761	2,969	2,824	2,804	3,171	3,252	10,850	12,051
% Change (Y-o-Y)	33.3	33.5	47.0	19.4	12.1	7.8	14.9	9.5	32.6	11.1
Int Exp/Int Income Ratio (%)	57.3	58.7	60.3	60.6	60.3	60.6	60.1	59.4	59.3	60.1
Cost to Income Ratio (%)	51.5	53.5	52.5	52.7	53.4	52.2	52.7	53.1	52.6	52.9
Tax Rate (%)	30.8	32.0	33.1	32.6	31.8	31.9	32.0	31.3	32.2	31.8

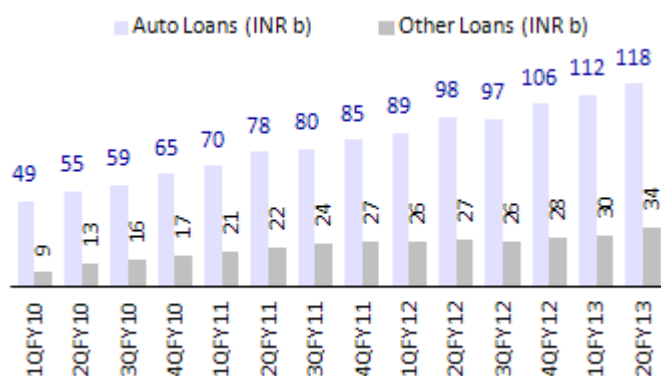
E: MOSL Estimates, Quarterly numbers vary from full year number due to difference in reporting

Kotak Prime - Strong growth in non-car segment; healthy asset quality; profitability improves

Kotak Prime's total income grew 30% YoY and 8% QoQ to INR5.5b driven by strong asset growth. During the quarter, Kotak Prime's loan book grew 21% YoY and 7.5% QoQ to INR151.7b, driven by strong growth in its non-car portfolio. While the car loan portfolio grew by 20% YoY and 5% QoQ, other loans grew much faster by 25% YoY and 15% QoQ. Strong asset growth, healthy traction in fee based income and stable asset quality led to improvement in Kotak Prime's profitability during the quarter. As a result, PAT grew strongly by 27% YoY and 21% QoQ to INR1.14b. Net NPAs increased marginally to 0.2% v/s 0.1% in 1QFY13. CAR remained healthy at 15.8%.

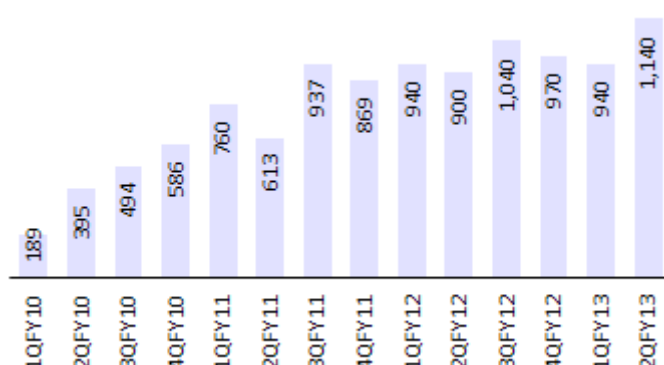
KMPL: Loan gr. remains healthy at 21% YoY and 8% QoQ

Auto loans were up 5% QoQ and 20% YoY, while other loans grew 15% QoQ and 25% YoY



PAT grew strongly by 27% YoY and 21% QoQ (INR m)

Strong asset growth coupled with higher fee income during the quarter led to strong profitability for Kotak Prime



Source: Company, MOSL

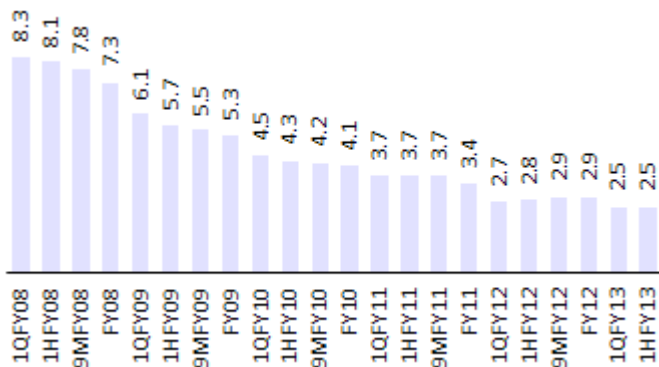
Capital market business: Securities broking business boosts profitability

In 2QFY13, profits from capital market related businesses grew sharply by 76% YoY and 52% QoQ (44% above estimates) led by strong uptick in securities broking business. KSEC's revenues increased 2% YoY and sharply by 17% QoQ to INR1.55b led by improvement in cash market delivery volumes coupled with certain proprietary gains booked during the quarter.

PBT margins improved to 31.6% from 25.6% in the quarter gone by. Tax rate was lower at 18.4% v/s 34.3% in 1QFY13 resulting into PAT of INR400m, up 38%YoY and 74% QoQ. Average daily volumes remained largely stable QoQ at ~INR33b. KSEC's market share too remained stable QoQ at 2.5%. Investment Banking reported PAT of INR40m v/s INR60m in 1QFY13 and a net loss of INR40m in 2QFY12.

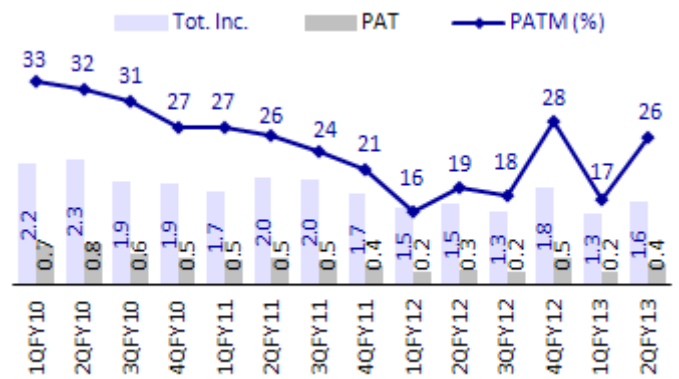
K-Sec market share remained stable QoQ (%)

KSEC's market share remained stable in line with sequentially stable ADV's



K-Sec earnings trend (INR b)

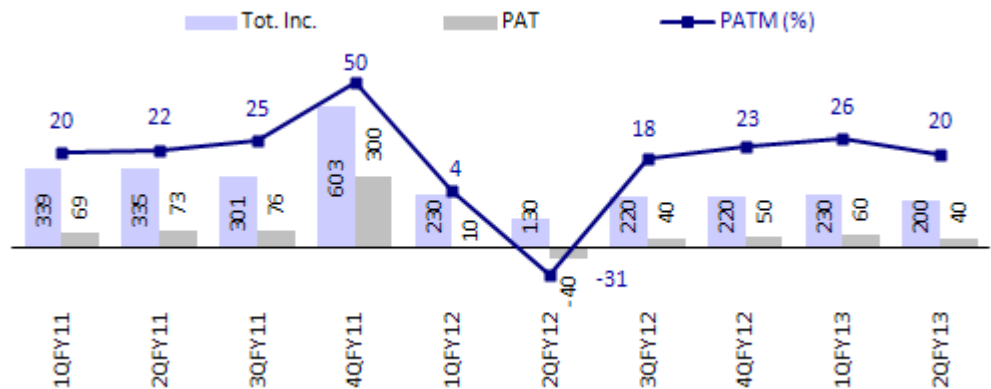
Higher traction in cash delivery volumes and proprietary gains boosted profitability in the securities business



Source: Company, MOSL

Investment banking earnings trend (INR m)

Investment Banking reported PAT of INR40m v/s INR60m in 1QFY13 and a net loss of INR40m in 2QFY12.



Source: Company, MOSL

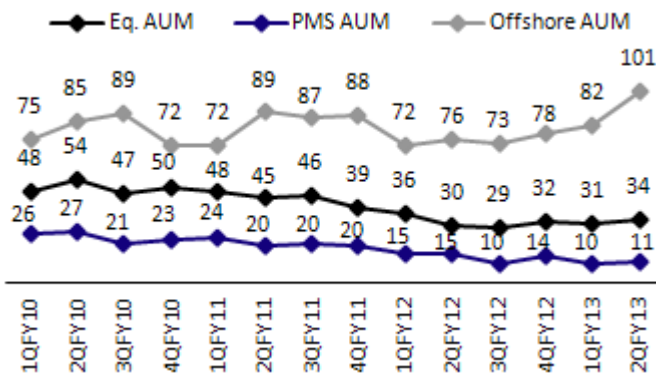
Asset Management: AMC reports loss driven by upfronting of distribution costs

During the quarter, profitability of the AMC business remained under pressure due to losses in the AMC business. PAT from overall asset management business grew by 50% YoY and 71% QoQ to INR120m (23% below estimates). AMC business reported a net loss of INR50m as the company upfronted certain distribution costs to acquire relatively more remunerative debt fund business.

The management expects to achieve breakeven on this portfolio in next six months through earning higher asset management fees. Importantly, international subsidiaries reported PAT of INR80m as against a net loss of INR50m in 1QFY13 and INR70m in 2QFY12. Overall AUMs increased 11% YoY and 8% QoQ to INR559b. Strong sequential increase was seen in AUMs under off-shore funds (+33% YoY and 22% QoQ). Domestic MF AUMs grew by 7% YoY and 10% QoQ to INR313b. Notably, debt AUMs grew by ~11% both on a YoY as well as on a QoQ basis to INR268b, while equity AUMs declined 5% YoY, though up 8% QoQ to INR34b.

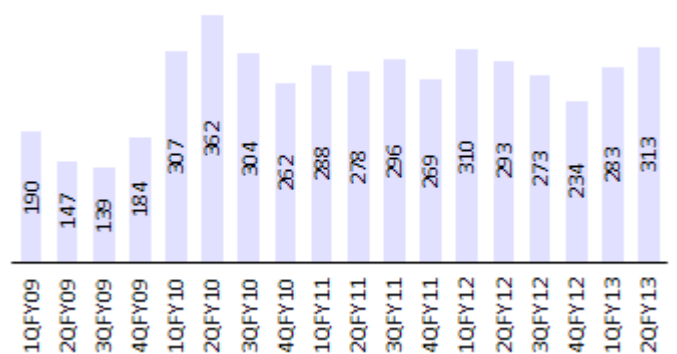
Sharp increase witnessed in offshore AUMs (INR b)

Equity AUM under MF increased to INR34b v/s INR31b in 1QFY13; Offshore AUMs too increased sharply to INR101b v/s INR82b in 1QFY13



MF AUMs increase QoQ led by spike in debt AUMs (INR b)

Debt AUMs grew to INR268b from INR242b in 1QFY13 contributing ~88% of the incremental AUMs during the quarter.



Source: Company, MOSL

Life Insurance: Premium income declines 8% YoY; PAT down 11% YoY

Kotak Life's gross premium income increased 36% QoQ, though down 8% YoY to INR6.2b. The YoY decline in premium income could be attributed to a steep 73% YoY decline in single premium income, while the individual regular and the group premium put together grew by 18% YoY and 68% QoQ. Life insurance business reported PAT of INR470m v/s INR320m and INR530m in 1QFY13 and 2QFY12 respectively. AUM of the life insurance business grew by 20% YoY and 6% QoQ to INR97.8b.

Trend in segment-wise profitability

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Total lending profits	2,699	2,640	2,843	3,406	3,490	3,530	3,830	4,000	3,800	4,100
QoQ Growth (%)	1	-2	8	20	2	1	8	4	-5	8
YoY Growth (%)	121	52	44	27	29	34	35	17	9	16
% Share to total profits	76	74	74	68	80	80	83	76	85	80
Capital market related business	543	591	543	662	240	250	280	550	290	440
QoQ Growth (%)	-15	9	-8	22	-64	4	12	96	-47	52
YoY Growth (%)	-31	-26	-11	3	-56	-58	-48	-17	21	76
% Share to total profits	15	17	14	13	6	6	6	10	6	9
AMC Businesses	355	204	209	245	170	80	60	160	70	120
QoQ Growth (%)	-1	-43	3	17	-31	-53	-25	167	-56	71
YoY Growth (%)	-29	-59	-63	-31	-52	-61	-71	-35	-59	50
% Share to total profits	10	6	5	5	4	2	1	3	2	2
Kotak Mah. Old Mutual Life Insur.	-69	134	236	712	460	530	470	570	320	470
QoQ Growth (%)	-116	-295	76	202	-35	15	-11	21	-44	47
YoY Growth (%)	-723	208	22	60	-766	294	99	-20	-30	-11
% Share to total profits	-2	4	6	14	11	12	10	11	7	9
Consolidated PAT	3,528	3,568	3,830	5,025	4,360	4,390	4,640	5,280	4,480	5,130
QoQ Growth (%)	-14	1	7	31	-13	1	6	14	-15	15
YoY Growth (%)	40	16	14	22	24	23	21	5	3	17
% Share to total profits	100	100	100	100	100	100	100	100	100	100
Total consolidated PAT ex Life	3,597	3,433	3,594	4,313	3,900	3,860	4,170	4,710	4,160	4,660
QoQ Growth (%)	-2	-5	5	20	-10	-1	8	13	-12	12
YoY Growth (%)	43	13	14	17	8	12	16	9	7	21
% Share to total profits	102	96	94	86	89	88	90	89	93	91

Source: Company, MOSL

KOTAK MAHINDRA: Highlights of result conference call**Asset growth - Will continue to grow in a controlled manner**

- As indicated in the previous quarter, the bank grew its loanbook at a slower pace. The management mentioned that though since the previous quarter, the sentiments have turned and the economy has been able to avert the worst risks, fundamentals continue to remain weak.
- The management has maintained its guidance of loan growth of 20%+ for FY13 and will continue to grow based on its risk return matrix.
- CV and CE segments continue to remain weak, while the growth in the rural and semi urban focus markets remains healthy.

Liabilities - Traction in savings likely to continue

- KMB continues to expand its branch network at a steady and maintains its guidance of reaching a branch network of 500 branches by CY13.
- While the traction in SA acquisitions has seen some moderation it remains healthy and the bank is not willing to offer rates in excess of 6% to acquire SA balances.

Asset quality - Not overtly worried but remain cautious

- The management continued to remain cautious on the asset quality in the CV and CE segment and exposures which have linkages to the infrastructure sector.
- Currently, the asset quality in the non-CV / CE portfolio remains largely stable and the management is not unduly worried. However, remains watchful of the macroeconomic developments and the overall portfolio asset quality.
- The management indicated that they have adequately provided for the large media account (in both 1Q and 2QFY13), which fell into NPA category in 1QFY13.

Other highlights

- The management has maintained its margin guidance of ~4.5%.
- The management remains hopeful of taking the cost to income ratio below 50% mark by next year.
- Total outstanding stressed assets portfolio acquired and provided for stood at INR4b. The embedded value of the same would be much higher.

Valuation and view

- While the management indicated that the business sentiments seem to be changing post the slew of measures taken by the government, it remains cautious and maintains its loan growth guidance, which it toned down in 1QFY13. Slower growth and continuing asset quality risks (in absence of any change in the macroeconomic fundamentals) and higher base of FY12 (on the back of healthy recoveries and just 15bp credit cost) can put pressure on lending business profitability.
- Though the securities business witnessed some improvement in its revenues and profitability, sustainability of the same remains questionable. Sluggishness in profitability of capital market and asset mgmt business is likely to persist over next few quarters due to heightened competition, structural issues related to industry and regulatory changes. Overall, we expect profit growth to be muted at 15% CAGR over FY12-14 vs 40% over FY09-12.
- We expect consolidated EPS of INR28 in FY13 and INR33 in FY14 and consolidated BV of INR201 and INR234 in FY13 and FY14 respectively. KMB's RoA is likely to decline from 1.9% in FY12 to ~1.6% over FY13/14 and higher capitalization (Tier I ratio of ~15%) will keep RoEs subdued at ~15% over FY13/14. On a consolidated basis too, KMB is expected to report RoE's of ~15% over FY12-14.
- Stock trades at 3.1x and 2.7x FY13E and FY14E consolidated BV and 22x FY13E and 19x FY14E consolidated EPS. On back of rich valuations, we maintain our **Neutral** rating with SOTP based target price of INR500.

KMB Group: Earnings Estimates (INR Million)

	Business	FY10	FY11	FY12	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	5,611	8,182	10,850	12,051	14,365
Kotak Mahindra Prime	Auto loans, debt capital markets	1,664	3,179	3,849	4,402	5,293
Kotak Mahindra Investments	Primarily LAS	347	240	153	304	341
Lending Business		7,622	11,600	14,852	16,757	20,000
International subsidiaries	Asset management and inv. banking	799	509	-110	100	125
Kotak Mahindra AMC & Trustee Co	Mutual funds management	725	173	220	120	270
Kotak Investment Advisors	Alternate asset management	398	327	360	375	425
Asset Management Business		1,921	1,009	470	595	820
Kotak Securities	Broking and distribution	2,601	1,819	1,260	1,306	1,445
Kotak Mahindra Capital Company	Investment banking	239	519	60	224	273
Capital Market Business		2,840	2,338	1,320	1,530	1,719
Consol. PAT excluding Kotak Life		12,382	14,948	16,642	18,882	22,540
YoY Growth (%)		89	21	11	13	19
Kotak OM Life Insurance	Life insurance	692	1,014	2,030	2,030	2,335
Consolidation Adjust.		-4	-294	-349	-250	-250
Consol. PAT Including Kotak Life		13,070	15,667	18,322	20,662	24,624
YoY Growth (%)		100	20	17	13	19

Source: MOSL

Kotak Group Earnings Snapshot (% of total)

	Business	FY10	FY11	FY12E	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	43	52	59	58	58
Kotak Mahindra Prime	Auto loans, debt capital markets	13	20	21	21	21
Kotak Mahindra Investments	Primarily LAS	3	2	1	1	1
Lending Business		58	74	81	81	81
International subsidiaries	Asset management and inv. banking	6	3	-1	0	1
Kotak Mahindra AMC & Trustee Co	Mutual funds management	6	1	1	1	1
Kotak Investment Advisors	Alternate asset management	3	2	2	2	2
Asset Management Business		15	6	3	3	3
Kotak Securities	Broking and distribution	20	12	7	6	6
Kotak Mahindra Capital Company	Investment banking	2	3	0	1	1
Capital Market Business		22	15	7	7	7
Consol. PAT excluding Kotak Life		95	95	91	91	92
Kotak OM Life Insurance	Life insurance	5	6	11	10	9
Consol. PAT Including Kotak Life		100	100	100	100	100

Source: MOSL

Kotak Mahindra: SOTP Valuation (FY14-based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	311.3	5.8	420	84	
Kotak Mahindra Bank	253.2	4.7	342	68	2.5x FY14E Core NW, ~1.6% RoA and ~14% Core RoE
Kotak Prime (Car and other loans)	54.8	1.0	74	15	2x FY14E Net Worth, ~20% Core RoE
Kotak Investment Company (LAS)	3.3	0.1	5	1	1x FY14E Net Worth
Asset Management Business	25.6	0.5	35	7	
Domestic Mutual Fund	12.9	0.2	17	3	4% of FY14E Avg. AUM of INR323b
Alternative Assets	7.3	0.1	7	1	12% of FY14E AUM of INR60b
Offshore Funds	5.4	0.1	10	2	5% of FY14E AUM of USD2b
Capital Markets related Business	20.8	0.4	28	6	
Kotak Securities	17.3	0.3	23	5	12x FY14E Earnings
Kotak Investment Banking (KMCC)	3.5	0.1	5	1	1x FY14E Free Network
Kotak Life Insurance	13.4	0.3	18	4	15x FY14E NBAP, APE CAGR of ~15% in FY12-14
Target Value	371.1	6.9	501	100	Implied 2.2x PBV and 15x PE FY14; ROE of 15.3%
Current value / market price	463.4	8.6	626		
Upside (%)	-19.9		-19.9		

Source: MOSL

Financials and Valuation

Income Statement (Standalone)					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	30,651	32,556	41,898	61,802	77,539	89,927
Interest Expense	15,466	13,975	20,922	36,677	46,602	52,496
Net Interest Income	15,185	18,581	20,976	25,125	30,937	37,431
Change (%)	23.9	22.4	12.9	19.8	23.1	21.0
Non Interest Income	2,736	6,282	7,805	9,773	10,751	12,862
Net Income	17,922	24,864	28,781	34,898	41,688	50,294
Change (%)	6.1	38.7	15.8	21.3	19.5	20.6
Operating Expenses	11,964	11,894	15,533	18,348	22,036	25,763
Pre Provision Profits	5,958	12,970	13,248	16,550	19,652	24,531
Change (%)	-11.1	117.7	2.1	24.9	18.7	24.8
Provisions (excl tax)	1,697	4,859	1,371	551	1,995	3,406
PBT	4,261	8,111	11,877	15,999	17,657	21,126
Tax	1,500	2,500	3,695	5,149	5,606	6,760
Tax Rate (%)	35.2	30.8	31.1	32.2	31.8	32.0
Standalone PAT	2,761	5,611	8,182	10,850	12,051	14,365
Change (%)	-6.1	103.2	45.8	32.6	11.1	19.2
Consolidated PAT	6,524	13,070	15,667	18,322	20,662	24,624
Change (%)	-34.2	100.3	19.9	16.9	12.8	19.2
Equity Dividend (Incl tax)	278	297	462	517	604	720
Core PPP (Standalone)*	5,650	10,375	11,083	14,445	17,152	21,581
Change (%)	15.0	83.6	6.8	30.3	18.7	25.8

*Core PPP is (NII+Fee income-Opex)

Balance Sheet (Standalone)					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	3,457	3,481	3,684	3,703	3,703	3,703
Reserves & Surplus	34,679	41,370	64,280	75,756	87,203	100,848
Net Worth	38,136	44,851	67,965	79,459	90,906	104,551
Deposits	156,440	238,865	292,610	385,365	500,975	616,199
Change (%)	-4.7	52.7	22.5	31.7	30.0	23.0
of which CASA Dep	51,181	74,631	87,905	124,024	154,102	191,863
Change (%)	9.6	45.8	17.8	41.1	24.3	24.5
Borrowings	67,340	61,405	117,239	165,955	183,075	218,939
Other Liabilities & Prov.	25,202	29,242	30,693	25,885	31,016	37,210
Total Liabilities	287,119	374,363	508,507	656,665	805,972	976,899
Current Assets	11,407	23,003	24,710	26,346	44,541	52,246
Investments	91,102	125,127	171,214	215,668	248,018	285,221
Change (%)	-0.3	37.3	36.8	26.0	15.0	15.0
Loans	166,253	207,751	293,293	390,792	484,582	605,728
Change (%)	6.9	25.0	41.2	33.2	24.0	25.0
Fixed Assets	2,134	4,276	4,256	4,500	4,632	4,665
Other Assets	16,223	14,207	15,033	19,359	24,199	29,039
Total Assets	287,119	374,363	508,507	656,665	805,972	976,899

Asset Quality (Standalone) (Excl. acquired NPA)					(%)	
GNPA (INR m)	4,475	4,983	3,618	4,778	6,263	9,712
NNPA (INR m)	2,055	2,572	1,461	2,243	3,432	4,939
GNPA Ratio	2.65	2.37	1.22	1.21	1.28	1.59
NNPA Ratio	1.24	1.24	0.50	0.57	0.71	0.82
PCR (Incl acquired NPA)	42.4	53.1	65.0	61.4	55.0	55.0
PCR (Excl acquired NPA)	54.1	48.4	59.6	53.0	45.2	49.1

E: MOSL Estimates

Financials and Valuation

Ratios (Standalone)

Y/E March	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	11.7	11.0	10.4	11.4	11.5	11.0
Avg. Yield on loans	15.5	13.5	12.8	14.2	13.7	13.0
Avg. Yield on Investments	6.1	6.7	6.5	6.8	7.4	7.2
Avg. Cost-Int. Bear. Liab.	6.9	5.3	5.9	7.6	7.5	6.9
Avg. Cost of Deposits	6.8	5.0	5.6	7.4	7.3	6.7
Interest Spread	4.7	5.6	4.5	3.8	3.9	4.1
Net Interest Margin	5.8	6.3	5.2	4.6	4.6	4.6

Profitability Ratios (%)

Consolidated ROE	10.6	18.1	16.6	15.4	14.9	15.3
Standalone Core RoE	8.2	14.6	15.4	15.4	14.7	15.2
Standalone RoA	1.0	1.7	1.9	1.9	1.6	1.6
Int. Expense/Int.Income	50.5	42.9	49.9	59.3	60.1	58.4
Non Int. Inc./Net Income	15.3	25.3	27.1	28.0	25.8	25.6

Asset-Liability Profile (%)

Loans/Deposit Ratio	106.3	87.0	100.2	101.4	96.7	98.3
Loans/(Deposits+Borrowings)	74.3	69.2	71.6	70.9	70.8	72.5
CASA Ratio	32.7	31.2	30.0	32.2	30.8	31.1
Investment/Deposit Ratio	58.2	52.4	58.5	56.0	49.5	46.3
Invest/(Deposits+Borrowings)	40.7	41.7	41.8	39.1	36.3	34.2
CAR	20.0	18.3	19.9	17.5	17.2	16.4
Tier 1	16.1	15.4	18.0	15.7	15.4	14.7

Valuation

Book Value (INR)	55.2	64.4	92.2	107.3	122.7	141.2
BV Growth (%)	7.6	16.8	43.2	16.3	14.4	15.0
AP/BV (x)				4.7	4.0	3.3
Consol BV (INR)	94.3	113.6	148.8	174.2	201.3	233.5
BV Growth (%)	11.7	20.4	30.9	17.1	15.5	16.0
Price-Consol BV (x)				3.6	3.1	2.7
Adjusted BV (INR)*	48.6	57.5	86.5	100.9	115.3	132.4
AP/ABV (x)				5.0	4.2	3.5
Adjusted Consol BV	92.3	111.0	147.4	172.1	198.0	228.9
Price-Consol ABV (x)				3.6	3.2	2.7
Standalone EPS (Rs)	3.7	7.7	10.5	14.2	15.7	18.7
EPS Growth (%)	-6.9	105.8	36.4	35.3	10.8	19.2
Price-Earnings (x)				35.6	31.1	24.9
Consol EPS (INR)	9.4	18.8	21.3	24.7	27.9	33.2
Con. EPS Growth (%)	-34.4	98.9	13.3	16.3	12.8	19.2
Price-Concol EPS (x)				25.3	22.4	18.8
Dividend Per Share (INR)	0.4	0.4	0.5	0.6	0.7	0.8
Dividend Yield (%)				0.1	0.1	0.1

E: MOSL Estimates

* For Investments in Subs and NPA, All nos are standalone unless specified

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