

Kotak Mahindra Bank



BSE Sensex 19,576	S&P CNX 5,944
Bloomberg	KMB IN
Equity Shares (m)	766.6
M.Cap. (INR b)/(USD b)	554/10.3
52-Week Range (INR)	726/525
1,6,12 Rel.Perf.(%)	7/14/10

Financials & Valuation (INR b)

Y/E March	2013	2014E	2015E
NII	32.1	40.8	50.0
OP	21.6	28.2	34.4
NP	13.6	16.5	20.0
NIM (%)	4.6	4.6	4.6
EPS (INR)	29.5	35.3	41.8
EPS Gr. (%)	19.4	19.4	18.6
Cons. BV. (INR)	203	237	278
Cons. ROE (%)	15.7	16.0	16.2
ROA (%)	1.8	1.8	1.7
Payout (%)	2.8	2.9	2.9

Valuations

P/E(X) (Cons.)	24.5	20.5	17.3
P/BV (X) (Cons.)	3.6	3.0	2.6
P/ABV (X) (Cons.)	3.6	3.1	2.7
Div. Yield (%)	0.1	0.1	0.1

CMP: INR723
TP: INR740
Neutral

Kotak Mahindra Bank's (KMB) 4QFY13 consolidated PAT grew ~28% YoY and ~15% QoQ to INR6.7b driven by healthy performance in the banking business. Bank's (standalone) PAT grew ~47% YoY and ~21% QoQ to INR3.6b (17% above est), led by strong core operating performance.

- **Key positive surprises:** (a) ex run-down of corporate loans, consolidated loans grew 27% YoY and 6% QoQ, (b) standalone cost to income ratio declined to 48% v/s 52% in 9MFY13, (c) stable asset quality (ex stress assets) QoQ, and (d) consolidated NIMs up 10bp QoQ to 4.7% (FY13 v/s 9M).
- **Other highlights:** (a) savings account quarterly addition remains healthy at INR6-7b, (b) added 30 branches in the quarter v/s the previous run rate of 15-20 a quarter, (c) capital market related business adj PAT stood at INR470m (v/s INR550m in 4QFY12), (d) K Sec market share declined 10bp QoQ to 2.5% and (e) Avg domestic AUM declined 3% QoQ to INR313b.
- **Guidance for FY14:** a) loan growth in the range of 20-30% depending on the economic scenario, (b) cost to income ratio at less than 50%, (c) NIM ~4.5% (4.7% in FY13), (d) credit cost of 40-50bp in FY14 v/s 40bp in FY13 and (e) more positive on profits from asset recovery division in FY14 v/s FY13.

Valuation and view: Asset quality is holding on well despite higher stress seen in the CV and CE portfolio. Lower share of term/project loans in corporate segment and relatively lower stress sector exposure is also helping KMB to report better asset quality performance. KMB's standalone RoA is likely to decline from 1.9% in FY12 to ~1.7% over FY14E/15E. Higher capitalization will keep RoE subdued at ~15% over FY14E/15E. On a consolidated basis, KMB is expected to report RoE of ~16% over FY13-15E. Valuations rich, we maintain **Neutral**.

KMB Group: Earnings Trends

	(INR Million)									
	FY12				FY13				FY12	FY13
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Kotak Bank (Standalone)	2,520	2,600	2,761	2,969	2,824	2,804	3,617	4,362	10,850	13,607
Kotak Prime	940	900	1,040	970	940	1,140	1,050	1,190	3,849	4,310
Kotak Mah. Investments	30	30	30	60	40	160	80	50	153	328
Lending Business	3,490	3,530	3,831	3,999	3,804	4,104	4,747	5,602	14,852	18,246
YoY Growth (%)	28.3	33.7	34.7	17.4	9.0	16.3	23.9	40.1	28.0	22.9
Kotak Securities	230	290	240	500	230	400	380	130	1,260	1,140
Kotak Mah. Capital Co.	10	-40	40	50	60	40	20	40	60	170
Capital Market Business	240	250	280	550	290	440	400	170	1,320	1,310
YoY Growth (%)	-55.8	-57.7	-48.4	-16.9	20.8	76.0	42.9	-69.1	-43.5	-0.8
Intl. Subsidiaries	-30	-70	-40	30	-50	80	50	-10	-110	60
Kotak Mah. AMC & Trustee Co.	90	70	30	30	40	-50	110	20	220	119
Kotak Investment Advisors	110	80	70	100	80	90	60	80	360	310
Asset Management Business	170	80	60	160	70	120	220	90	470	489
YoY Growth (%)	-52.0	-60.7	-71.3	-34.7	-58.8	50.0	266.7	-43.8	-53.4	4.0
Consol. PAT excluding Kotak Life	3,900	3,860	4,171	4,709	4,164	4,664	5,367	5,862	16,642	20,044
YoY Growth (%)	7.8	12.4	16.0	9.2	6.8	20.8	28.7	24.5	11.3	20.4
Kotak OM Life Insurance	460	530	470	570	320	470	530	580	2,030	1,900
Consolidation Adjust.	-200	-60	-10	-70	-50	-110	-130	220	-349	-60
Consol. PAT Including Kotak Life	4,160	4,330	4,631	5,209	4,434	5,024	5,767	6,662	18,322	21,885
YoY Growth (%)	26.1	18.9	20.7	6.2	6.6	16.0	24.5	27.9	16.9	19.4

Source: MOSL

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Earnings Snapshot (INR m)

	Business	4Q FY13	3Q FY13	QoQ Gr. (%)	4Q FY12	YoY Gr. (%)
Kotak Mahindra Bank (Standalone)	Banking Business	4,362	3,617	21	2,969	47
Kotak Mahindra Prime	Auto loans, debt capital markets	1,190	1,050	13	970	23
Kotak Mahindra Investments	Primarily LAS	50	80	-38	60	-17
Lending Business		5,602	4,747	18	3,999	40
Kotak Mahindra Capital Company	Investment banking	40	20	100	50	-20
Kotak Securities	Broking and distribution	430	380	13	500	-14
Capital Market Business		470	400	18	550	-15
International subsidiaries	Asset Mgt and IB	-10	50	NA	30	NA
Kotak Mahindra AMC & Trustee Co	Mutual funds management	20	110	NA	30	-33
Kotak Investment Advisors	Alternate asset management	80	60	33	100	-20
Asset Management Business		90	220	-59	160	-44
Kotak Life Insurance		580	530	9	570	2
Consol. PAT		6,442	5,897	9	5,279	22
Consolidation Adjust.		214	-125		-70	
Reported PAT		6,656	5,772	15	5,209	28

Lending business: strong core operating performance

- Profitability of the lending business was higher-than-expected (13% above est), led by strong profit growth in standalone banking operation (17% above est).
- Better-than-expected loan growth, strong control over opex and stable asset quality led to 7%, 12% and 17% higher than est NII, operating profit and PAT for KMB standalone.
- Kotak Mahindra Prime Ltd (KMPL) PAT stood at INR1.2b (v/s est of INR1.1b). KMPL loan growth remains healthy at 27% YoY and 6% QoQ. NNPA's remain under control at ~20bp.
- Loan growth (flat QoQ and up 25% YoY) moderated during the quarter led by run-down of short term corporate loans (down 20% QoQ and +18% YoY), adjusted for which loans grew 27% YoY and 6% QoQ. Growth remained strong across segments and was also supported by acquisition of Barclays Bank's personal loans portfolio ~INR6-7b during the quarter.
- SA deposits grew 10% QoQ and 44% YoY, while CA deposits grew 14% QoQ and 4% YoY. Overall CASA (excluding float) grew 12% QoQ and 20% YoY to INR149b. As a proportion to overall deposit, CASA stood at 29.2%. Since deregulation of SA deposits, SA almost doubled and its share in overall deposits increased to 14% v/s 10% in 3QFY12.
- GNPA's (ex stressed assets) for the standalone bank were flat QoQ and NNPA's percentage remained stable at ~60bp. PCR (as per RBI definition) improved to 68% v/s 66% in 3QFY13. Consolidated GNPA's (ex stressed assets) were also flat QoQ and NNPA's percentage stood at ~50bp.
- Net restructured standard loans stood at just INR107m (2bp of overall loans).
- During the quarter, bank added 30 branches, thus taking the total number to 437. Guidance of reaching a network of 500 branches in CY13 was maintained.

Kotak Mahindra Bank (SA) Quarterly Performance

(INR Million)

Y/E March	FY12				FY13				FY12	FY13
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	13,298	14,646	16,410	17,448	18,158	19,237	20,946	22,084	61,802	80,425
Interest Expense	7,619	8,592	9,895	10,571	10,945	11,656	12,717	13,050	36,677	48,368
Net Interest Income	5,678	6,055	6,515	6,877	7,213	7,581	8,229	9,034	25,125	32,057
% Change (Y-o-Y)	17.1	11.3	14.0	21.7	27.0	25.2	26.3	31.4	19.8	27.6
Other Income	2,287	2,125	2,820	2,542	2,411	2,508	3,049	3,639	9,773	11,607
Net Income	7,965	8,180	9,334	9,420	9,625	10,089	11,277	12,673	34,898	43,663
% Change (Y-o-Y)	23.0	19.7	26.7	15.9	20.8	23.3	20.8	34.5	21.3	25.1
Operating Expenses	4,105	4,379	4,898	4,966	5,141	5,267	5,551	6,139	18,348	22,097
Operating Profit	3,861	3,800	4,436	4,453	4,484	4,822	5,726	6,534	16,550	21,566
% Change (Y-o-Y)	21.6	16.3	41.0	21.0	16.1	26.9	29.1	46.7	24.9	30.3
Other Provisions	221	-24	307	46	341	706	424	374	551	1,846
Profit before Tax	3,640	3,824	4,129	4,407	4,142	4,116	5,303	6,160	15,999	19,721
Tax Provisions	1,119	1,224	1,368	1,438	1,318	1,312	1,686	1,798	5,149	6,113
Net Profit	2,520	2,600	2,761	2,969	2,824	2,804	3,617	4,362	10,850	13,607
% Change (Y-o-Y)	33.3	33.5	47.0	19.4	12.1	7.8	31.0	46.9	32.6	25.4
Loan growth (%)	39.5	40.9	37.7	33.2	30.9	21.7	26.3	24.0	33.2	24.0
Cost to Income Ratio (%)	51.5	53.5	52.5	52.7	53.4	52.2	49.2	48.4	52.6	50.6
Tax Rate (%)	30.8	32.0	33.1	32.6	31.8	31.9	31.8	29.2	32.2	31.0

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

Trend in lending business profitability - Share of lending improves further (INR m)

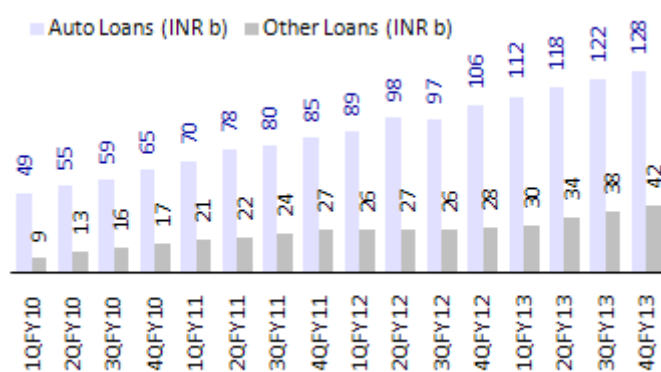
	FY10				FY11				FY12				FY13			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Total Lending Profits	1,222	1,741	1,980	2,679	2,721	2,640	2,843	3,406	3,490	3,530	3,831	3,999	3,804	4,104	4,747	5,602
YoY Gr. (%)	22	92	96	73	123	52	44	27	28	34	35	17	9	16	24	40
QoQ Gr. (%)	-21	42	14	35	2	-3	8	20	2	1	9	4	-5	8	16	18
Share in Cons. Profit (%)	48	56	59	65	77	74	74	68	80	80	83	76	85	80	80	87

Source: Company, MOSL

Strong loan growth (cons.) ex-CV and corporate sell down

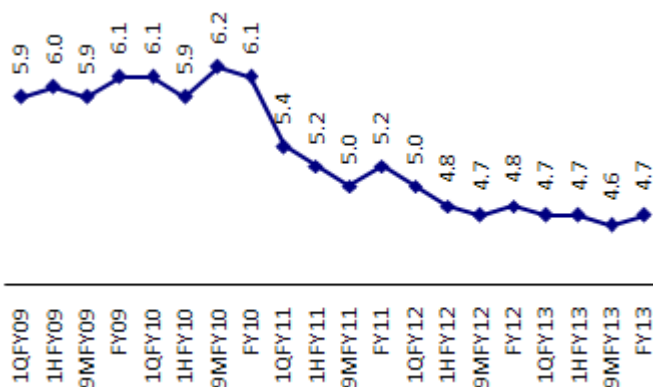
(INR m)	FY13	FY12	YoY	FY13	QoQ
	4Q	4Q	(%)	4Q	(%)
Comm. Vehicles	78,050	77,980	0	80,710	-3
Car Loans (Prime)	127,500	106,000	20	122,170	4
Personal Loans	30,540	18,680	63	24,200	26
Home loans	103,290	83,330	24	98,690	5
Corp Banking	145,350	123,210	18	182,910	-21
Business Banking	52,170	35,150	48	50,240	4
Agri	83,560	57,140	46	73,100	14
Others	42,120	29,950	41	38,190	10
Total Loans	662,580	531,440	25	670,210	-1
Inv. / Treasury Assets	313,400	232,610	35	287,380	9

KMPL: Loan growth remains healthy at 27% YoY and 6% QoQ

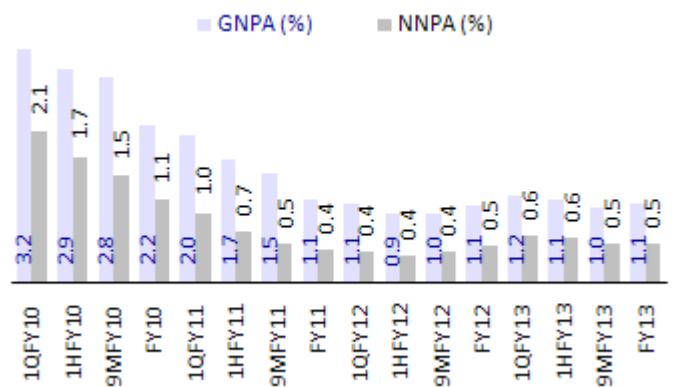


Source: Company, MOSL

Margins improve QoQ (%)



Asset quality (ex-stressed assets) remains healthy

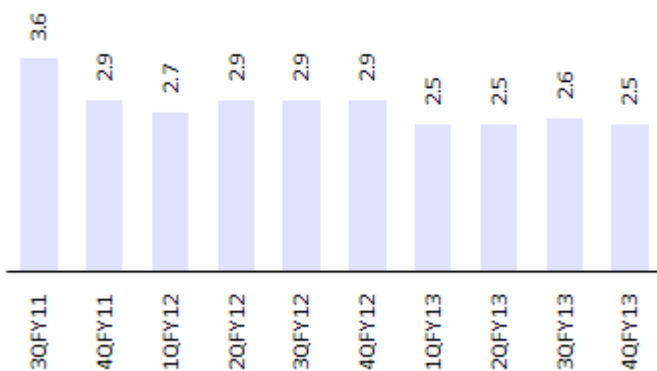


Source: Company, MOSL

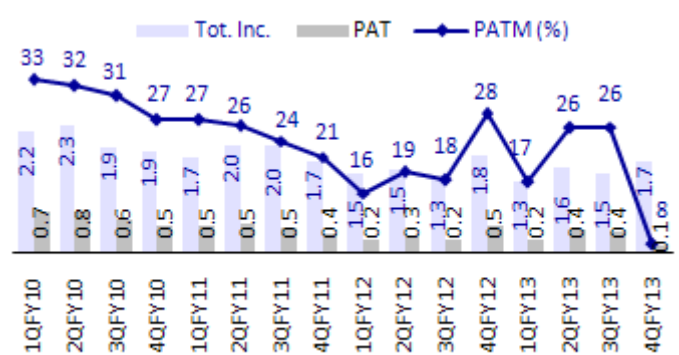
Other businesses

- In 4QFY13, profits from capital market related businesses stood at INR470m v/s INR400m a quarter ago and INR550m a year ago. On a lower base, K Sec reported PAT of INR130m. On back of internal restructuring, K Sec divested stake in a subsidiary to the parent and on valuation it reported a loss of INR300m, adjusted for which K Sec PAT stood at INR430m.
- K Sec's revenue increased 14% QoQ but was down 7% YoY to INR1.66b. PBT margin stood at 23% and adjusted margin at 41% v/s 39% in the quarter gone by and 35% in 9MFY13.
- K Sec's market share decreased 10bp QoQ to 2.5%. Investment banking reported PAT of INR40m v/s INR20m in 3QFY13 and INR50m in 4QFY12.
- Overall AUMs increased 21% YoY but was down 2% QoQ to INR552b. Domestic mutual funds' AUMs grew by 31% YoY but were down 6% QoQ to INR303b. Notably, debt AUMs grew by ~42% YoY but was down 7% on a QoQ basis. Domestic equity AUMs declined 2% QoQ but were up ~10% YoY to INR39b.
- Kotak Life's gross premium income was flat YoY to INR11b. Life insurance business reported PAT of INR580m v/s INR530m in 3QFY13 and INR570m in 4QFY12. AUMs of the life insurance business grew by 10% YoY and 3% QoQ to INR105b.

K-Sec: Market share declines QoQ (%)

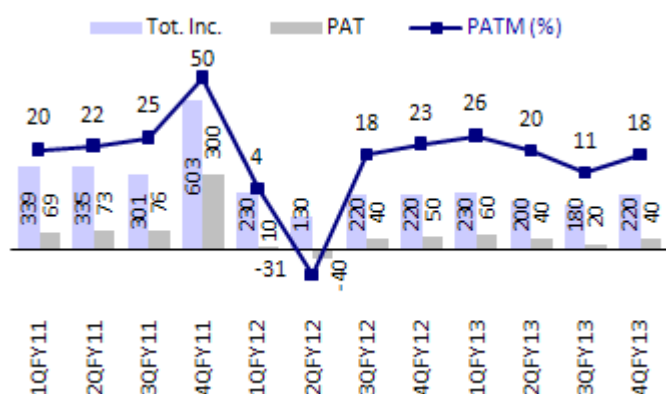


K-Sec: Earnings trend (INR b)

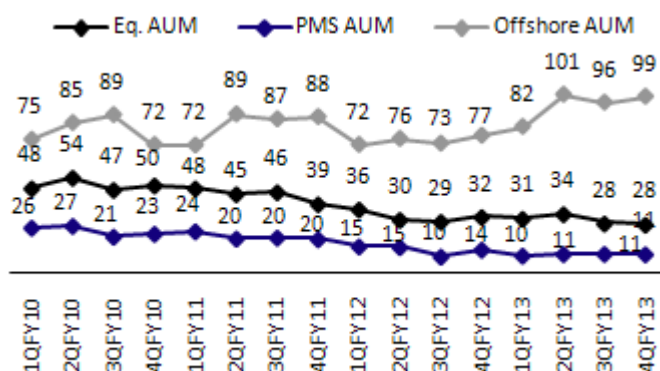


Source: Company, MOSL

Investment Banking: Earnings trend (INR m)



Asset Management: Marginal decline in AUM (INR b)



Source: Company, MOSL

Share of lending business in overall profitability increases further to 87%

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Total lending profits	2,640	2,843	3,406	3,490	3,530	3,831	3,999	3,804	4,104	4,747	5,602
QoQ Growth (%)	-3	8	20	2	1	9	4	-5	8	16	18
YoY Growth (%)	52	44	27	28	34	35	17	9	16	24	40
% Share to total profits	74	74	68	80	80	83	76	85	80	80	87
Capital market related business	591	543	662	240	250	280	550	290	440	400	170
QoQ Growth (%)	9	-8	22	-64	4	12	96	-47	52	-9	-58
YoY Growth (%)	-26	-11	3	-56	-58	-48	-17	21	76	43	-69
% Share to total profits	17	14	13	6	6	6	10	6	9	7	3
AMC Businesses	204	209	245	170	80	60	160	70	120	220	90
QoQ Growth (%)	-43	3	17	-31	-53	-25	167	-56	71	83	-59
YoY Growth (%)	-59	-63	-31	-52	-61	-71	-35	-59	50	267	-44
% Share to total profits	6	5	5	4	2	1	3	2	2	4	1
Kotak Mah. Old Mutual Life Insur.	134	236	712	460	530	470	570	320	470	530	580
QoQ Growth (%)	-295	76	202	-35	15	-11	21	-44	47	13	9
YoY Growth (%)	208	22	60	-766	294	99	-20	-30	-11	13	2
% Share to total profits	4	6	14	11	12	10	11	7	9	9	9
Consolidated PAT	3,568	3,830	5,025	4,360	4,390	4,641	5,279	4,484	5,134	5,897	6,442
QoQ Growth (%)	1	7	31	-13	1	6	14	-15	14	15	9
YoY Growth (%)	16	14	22	23	23	21	5	3	17	27	22
% Share to total profits	100	100	100	100	100	100	100	100	100	100	100
Total consolidated PAT ex Life	3,433	3,594	4,313	3,900	3,860	4,171	4,709	4,164	4,664	5,367	5,862
QoQ Growth (%)	-5	5	20	-10	-1	8	13	-12	12	15	9
YoY Growth (%)	13	14	17	8	12	16	9	7	21	29	24
% Share to total profits	96	94	86	89	88	90	89	93	91	91	91

Earnings call highlights

Lending businesses

- Guidance for FY14: a) expect loan growth in the range of 20-30% depending on the economic scenario, (b) expect cost to income ratio at less than 50%, (c) NIM ~4.5% (4.7% in FY13), (d) credit cost of 40-50bp in FY14 v/s 40bp in FY13 and (e) more positive on profits from asset recovery division in FY14 v/s FY13.
- Higher credit cost guidance keeping in mind a) expected higher stress on mid level companies, b) conscious on CV and CE business and c) some dilution in retail credit quality.

- KMPL spreads compressed 35-40bp on car financing; however, towards later part of the year spreads improved.
- Gained market share, especially in lower value cars. Added 26 new locations in the year which helped to improve market share. LTV remains stable YoY.
- In mortgage loans, contribution from LAP is 40%. Currently, mortgage loans are 15% of overall loans and do not see it going beyond 20% in the near term.
- Reached priority sector loans of 36-37% in FY13.
- Expects to roll out ~60 branches in FY14. For SA account, focusing mass affluent segment and digitalization for customer acquisition.
- Retail assets delinquency remains low. Focusing on SEMP and cross sell for customer acquisitions.
- Currently, no. 1 tractor financing bank in the country.

Other highlights

- In 4QFY13, internal restructuring of investment led to INR300m of loss in K Sec. At the consolidated level there is no impact of this internal restructuring.
- Five-year requirement to bring down promoter holding to 20%. Management has three routes available for the same -- primary, secondary and acquisition. Preference will be primary, inorganic and secondary. Optimal route will be to dilute only for value creation. Inorganic, however, will be very conscious for the same.

Valuation and view

Asset quality is holding on well despite higher stress seen in the CV and CE portfolio. Other retail products are showing better-than-factored performance in LGDs. Lower share of term/project loans in the corporate segment and relatively lower stress sector exposure is also helping KMB to report better asset quality in corporate segment. We expect margins to remain stable due to recent capital raising of INR13b; net of capital raising benefit, margin expected to decline 10bp YoY in FY14E.

With an improvement in volumes and tight control over costs, we expect capital market business performance to improve compared to the recent past. We expect KMB to report consolidated EPS of INR35 in FY14E and INR42 in FY15E and consolidated BV of INR237 and INR278 in FY14E and FY15E. KMB's standalone RoA is likely to decline from 1.9% in FY12 to ~1.7% over FY14E/15E. Higher capitalization (Tier I ratio of ~15%) will keep RoE subdued at ~15% over FY14E/15E. On a consolidated basis too, KMB is expected to report RoE of ~16% over FY13-15E. Stock trades at 3x and 2.6x FY14E and FY15E consolidated BV and 20x FY14E and 17x FY15E consolidated EPS. On the back of rich valuations, we maintain a **Neutral** rating, with SOTP-based FY15E target price of INR740.

NIM upgrade leading to PAT upgrade (INR b)

	Old		Revised		Changes (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Interest Income	38.0	46.3	40.8	50.0	7.3	7.9
Other Income	13.5	15.3	13.8	15.9	2.6	4.0
Total Income	51.4	61.6	54.6	65.8	6.1	6.9
Operating Expenses	25.7	30.1	26.3	31.4	2.4	4.4
Operating Profits	25.7	31.5	28.2	34.4	9.9	9.3
Provisions	3.5	4.5	3.6	4.5	2.3	1.1
PBT	22.2	27.0	24.6	29.9	11.1	10.7
Tax	7.0	8.6	8.1	9.9	15.3	14.9
Standalone PAT	15.1	18.4	16.5	20.0	9.1	8.8
Consolidated PAT	25.4	30.2	26.1	31.0	2.8	2.5
Margins (%)	4.5	4.5	4.6	4.6		
SA RoA (%)	1.7	1.7	1.8	1.7		
Core RoE (%)	15.8	16.5	15.6	15.5		

Source: Company, MOSL

We upgrade consolidated earning by ~3% (INR b)

	Old		Revised		Changes (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Kotak Mahindra Bank (Standalone)	15.12	18.40	16.50	20.01	9.1	8.8
Kotak Mahindra Prime	5.25	6.15	4.99	5.84	-4.8	-5.0
Kotak Mahindra Investments	0.45	0.54	0.39	0.47		
Lending Business	20.81	25.08	21.88	26.32	5.1	4.9
International subsidiaries	0.15	0.18	0.09	0.11		
Kotak Mahindra AMC & Trustee Co	0.23	0.24	0.16	0.20		
Kotak Investment Advisors	0.38	0.43	0.36	0.41		
Asset Management Business	0.75	0.84	0.60	0.72	-20.3	-13.8
Kotak Securities	1.54	1.57	1.55	1.58		
Kotak Mahindra Capital Company	0.23	0.28	0.20	0.24		
Capital Market Business	1.77	1.85	1.75	1.83	-0.9	-1.1
Consol. PAT excluding Kotak Life	23.34	27.77	24.23	28.87	3.9	4.0
Kotak OM Life Insurance	2.33	2.68	2.09	2.30		
Consolidation Adjust.	-0.25	-0.25	-0.20	-0.20		
Consol. PAT Including Kotak Life	25.42	30.21	26.12	30.97	2.8	2.5

Source: Company, MOSL

Kotak Mahindra: SOTP Valuation (FY15-based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	502.9	9.2	656	89	
Kotak Mahindra Bank	416.9	7.7	544	73	3x FY15E Core NW, ~1.7% RoA and ~16% Core RoE
Kotak Prime (Car and other loans)	82.1	1.5	107	14	2.5x FY15E Net Worth, ~20% Core RoE
Kotak Investment Company (LAS)	3.9	0.1	5	1	1x FY15E Net Worth
Asset Management Business	27.2	0.5	35	5	
Domestic Mutual Fund	13.8	0.3	18	2	4% of FY15E Avg. AUM of INR345b
Alternative Assets	8.0	0.1	7	1	12% of FY15E AUM of INR67b
Offshore Funds	5.4	0.1	10	1	5% of FY15E AUM of ~USD2b
Capital Markets related Business	22.6	0.4	29	4	
Kotak Securities	19.0	0.3	25	3	12x FY15E Earnings
Kotak Investment Banking (KMCC)	3.6	0.1	5	1	1x FY15E Free Network
Kotak Life Insurance	15.5	0.3	20	3	15x FY15E NBAP, APE CAGR of ~15% in FY12-15
Target Value	568.1	10.4	741	100	Implied 2.65x PBV and 17x PE FY15; ROE of 16%
Current value / market price	549.7	10.1	717		
Upside (%)	3.4		3.4		

Source: MOSL

KMB Group: Earnings Estimates (INR m)

	Business	FY10	FY11	FY12	FY13	FY14E	FY15E
Kotak Mahindra Bank (Standalone)	Banking Business	5,611	8,182	10,850	13,607	16,497	20,010
Kotak Mahindra Prime	Auto loans, debt capital markets	1,664	3,179	3,849	4,310	4,993	5,842
Kotak Mahindra Investments	Primarily LAS	347	240	153	328	390	469
Lending Business		7,622	11,600	14,852	18,246	21,880	26,321
International subsidiaries	Asset management and inv. banking	799	509	-110	60	85	110
Kotak Mahindra AMC & Trustee Co	Mutual funds management	725	173	220	119	155	204
Kotak Investment Advisors	Alternate asset management	398	327	360	310	360	410
Asset Management Business		1,921	1,009	470	489	600	724
Kotak Securities	Broking and distribution	2,601	1,819	1,260	1,140	1,551	1,584
Kotak Mahindra Capital Company	Investment banking	239	519	60	170	203	244
Capital Market Business		2,840	2,338	1,320	1,310	1,754	1,828
Consol. PAT excluding Kotak Life		12,382	14,948	16,642	20,044	24,234	28,872
YoY Growth (%)		89	21	11	20	21	19
Kotak OM Life Insurance	Life insurance	692	1,014	2,030	1,900	2,090	2,299
Consolidation Adjust.		-4	-294	-349	-60	-200	-200
Consol. PAT Including Kotak Life		13,070	15,667	18,322	21,885	26,124	30,971
YoY Growth (%)		100	20	17	19	19	19

Source: MOSL

Kotak Group Earnings Snapshot (% of total)

	Business	FY10	FY11	FY12	FY13	FY14E	FY15E
Kotak Mahindra Bank (Standalone)	Banking Business	43	52	59	62	63	65
Kotak Mahindra Prime	Auto loans, debt capital markets	13	20	21	20	19	19
Kotak Mahindra Investments	Primarily LAS	3	2	1	2	1	2
Lending Business		58	74	81	83	84	85
International subsidiaries	Asset management and inv. banking	6	3	-1	0	0	0
Kotak Mahindra AMC & Trustee Co	Mutual funds management	6	1	1	1	1	1
Kotak Investment Advisors	Alternate asset management	3	2	2	1	1	1
Asset Management Business		15	6	3	2	2	2
Kotak Securities	Broking and distribution	20	12	7	5	6	5
Kotak Mahindra Capital Company	Investment banking	2	3	0	1	1	1
Capital Market Business		22	15	7	6	7	6
Consol. PAT excluding Kotak Life		95	95	91	92	93	93
Kotak OM Life Insurance	Life insurance	5	6	11	9	8	7
Consol. PAT Including Kotak Life		100	100	100	100	100	100

Source: MOSL

Financials: Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)		Dividend Yield (%) #
				FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15	
ICICIBC*	Buy	1,130	24.2	83	97	11.2	9.2	520	584	1.78	1.54	1.66	1.68	15.0	15.7	1.5
HDFCB	Neutral	681	30.0	37	46	18.5	14.8	180	216	3.77	3.16	1.99	2.03	22.2	23.3	0.6
AXSB	Buy	1,474	12.8	134	160	11.0	9.2	816	949	1.81	1.55	1.71	1.74	17.6	18.0	1.1
KMB*	Neutral	723	10.3	35	42	20.5	17.3	237	278	3.05	2.60	1.76	1.74	15.6	15.5	0.1
YES	Buy	498	3.3	46	56	10.9	8.8	199	244	2.50	2.04	1.52	1.60	25.3	25.4	0.8
IIB	Buy	468	4.5	26	33	17.7	14.3	164	191	2.86	2.46	1.70	1.73	17.3	18.5	0.5
VYSB	Buy	596	1.7	43	50	13.8	12.0	328	370	1.82	1.61	1.13	1.11	13.9	14.2	0.7
FB	Buy	447	1.4	54	60	8.3	7.5	414	462	1.08	0.97	1.21	1.15	13.7	13.7	2.0
J&KKB	Buy	1,327	1.2	236	264	5.6	5.0	1,196	1,399	1.11	0.95	1.51	1.44	21.3	20.4	2.5
SIB	Buy	24	0.6	4.0	4.6	5.9	5.2	25	28	0.97	0.85	1.05	1.03	17.6	17.5	2.5
Private Aggregate			90.0			14.5	12.1			2.38	2.07					
SBIN (cons)*	Buy	2,217	28.1	319	367	6.6	5.7	2,048	2,349	1.03	0.89	1.00	0.99	16.3	16.5	1.6
PNB	Buy	746	4.9	170	208	4.4	3.6	1,039	1,210	0.72	0.62	1.11	1.18	17.6	18.5	2.9
BOI	Neutral	327	3.6	53	58	6.2	5.6	409	458	0.80	0.71	0.68	0.65	13.6	13.4	2.1
BOB	Neutral	699	5.5	116	139	6.0	5.0	815	933	0.86	0.75	0.89	0.91	15.2	15.9	2.4
CBK	Buy	395	3.2	73	87	5.4	4.5	570	638	0.69	0.62	0.73	0.77	13.4	14.4	2.8
UNBK	Buy	240	2.7	43	52	5.6	4.6	289	327	0.83	0.73	0.79	0.83	15.8	16.9	3.3
IOB	Neutral	62	0.9	14	16	4.6	4.0	152	163	0.41	0.38	0.40	0.40	9.2	9.8	7.2
OBC	Buy	256	1.4	55	66	4.7	3.9	456	507	0.56	0.50	0.74	0.78	12.6	13.7	3.1
INBK	Buy	163	1.3	41	47	4.0	3.5	274	310	0.60	0.53	0.99	0.99	15.3	15.7	4.6
CRPBB	Neutral	376	1.0	95	111	4.0	3.4	704	789	0.53	0.48	0.73	0.74	14.2	14.8	5.4
ANDB	Buy	92	0.9	25	30	3.7	3.1	169	191	0.54	0.48	0.87	0.89	15.4	16.4	6.0
IDBI	Neutral	89	2.1	17	21	5.2	4.3	162	178	0.55	0.50	0.70	0.73	11.1	12.1	3.9
DBNK	Neutral	91	0.6	26	30	3.4	3.0	168	195	0.54	0.47	0.82	0.81	16.9	16.7	3.3
Public Aggregate			56.3			6.5	5.5			0.88	0.78					
HDFC*	Buy	855	24.3	36	43	16.8	13.0	126	146	4.83	3.83	2.77	2.80	28.6	29.1	1.3
LICHF	Buy	241	2.3	24	30	9.9	8.1	149	173	1.61	1.39	1.46	1.43	17.5	18.4	1.5
DEWH	Buy	177	0.4	44	55	4.1	3.2	217	268	0.81	0.66	1.37	1.38	21.4	22.4	2.0
IDFC	Buy	151	4.2	14	16	10.9	9.2	92	104	1.51	1.35	2.78	2.77	16.5	17.2	1.5
RECL	Buy	218	4.0	44	52	4.9	4.2	208	244	1.05	0.89	3.22	3.23	23.0	23.0	3.4
POWF	Buy	191	4.7	38	46	4.9	4.2	207	239	0.92	0.80	3.00	3.02	19.8	20.4	3.1
SHTF	Buy	759	3.2	80	93	9.5	8.2	393	474	1.93	1.60	2.79	2.74	21.1	20.2	0.9
MMFS	Buy	232	2.4	19	22	12.5	10.5	93	109	2.50	2.13	3.62	3.51	21.6	21.9	1.2
NBFC Aggregate			45.4			11.3	9.6			2.14	1.86					

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Div Yield based on FY12 declared dividend

Financials and Valuation

Income Statement (Standalone)					(INR Million)	
Y/E March	2010	2011	2012	2013	2014E	2015E
Interest Income	32,556	41,898	61,802	80,425	98,276	118,236
Interest Expense	13,975	20,922	36,677	48,368	57,523	68,279
Net Interest Income	18,581	20,976	25,125	32,057	40,753	49,957
Change (%)	22.4	12.9	19.8	27.6	27.1	22.6
Non Interest Income	6,282	7,805	9,773	11,607	13,818	15,872
Net Income	24,864	28,781	34,898	43,663	54,571	65,829
Change (%)	38.7	15.8	21.3	25.1	25.0	20.6
Operating Expenses	11,894	15,533	18,348	22,097	26,343	31,418
Pre Provision Profits	12,970	13,248	16,550	21,566	28,228	34,411
Change (%)	117.7	2.1	24.9	30.3	30.9	21.9
Provisions (excl tax)	4,859	1,371	551	1,846	3,606	4,545
PBT	8,111	11,877	15,999	19,721	24,622	29,865
Tax	2,500	3,695	5,149	6,113	8,125	9,856
Tax Rate (%)	30.8	31.1	32.2	31.0	33.0	33.0
Standalone PAT	5,611	8,182	10,850	13,607	16,497	20,010
Change (%)	103.2	45.8	32.6	25.4	21.2	21.3
Consolidated PAT	13,070	15,667	18,322	21,885	26,124	30,971
Change (%)	100.3	19.9	16.9	19.4	19.4	18.6
Equity Dividend (Incl tax)	297	462	517	615	764	906
Core PPP (Standalone)*	10,375	11,083	14,445	18,816	25,028	31,211
Change (%)	83.6	6.8	30.3	30.3	33.0	24.7

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

Balance Sheet (Standalone)					(INR Million)	
Y/E March	2010	2011	2012	2013	2014E	2015E
Equity Share Capital	3,481	3,684	3,703	3,733	3,833	3,833
Reserves & Surplus	41,370	64,280	75,756	90,737	119,329	138,433
Net Worth	44,851	67,965	79,459	94,470	123,162	142,266
Deposits	238,865	292,610	385,365	510,288	632,757	797,274
Change (%)	52.7	22.5	31.7	32.4	24.0	26.0
of which CASA Dep	74,631	87,905	124,024	149,180	187,910	233,585
Change (%)	45.8	17.8	41.1	20.3	26.0	24.3
Borrowings	61,405	117,239	165,955	204,106	244,176	291,960
Other Liabilities & Prov.	29,242	30,693	25,885	28,073	33,712	40,503
Total Liabilities	374,363	508,507	656,665	836,937	1,033,807	1,272,003
Current Assets	23,003	24,710	26,346	36,892	51,513	65,224
Investments	125,127	171,214	215,668	288,734	346,481	415,777
Change (%)	37.3	36.8	26.0	33.9	20.0	20.0
Loans	207,751	293,293	390,792	484,690	605,862	757,328
Change (%)	25.0	41.2	33.2	24.0	25.0	25.0
Fixed Assets	4,276	4,256	4,500	4,644	4,677	4,609
Other Assets	14,207	15,033	19,359	21,977	25,274	29,065
Total Assets	374,363	508,507	656,665	836,937	1,033,807	1,272,003

Asset Quality (Standalone) (Excl. acquired NPA)					(%)	
GNPA (INR m)	4,983	3,618	4,778	6,358	9,825	13,931
NNPA (INR m)	2,572	1,461	2,243	3,114	4,653	6,356
GNPA Ratio	2.37	1.22	1.21	1.30	1.61	1.82
NNPA Ratio	1.24	0.50	0.57	0.64	0.77	0.84
PCR (Incl acquired NPA)	53.1	65.0	61.4	58.9	57.5	57.5
PCR (Excl acquired NPA)	48.4	59.6	53.0	51.0	52.6	54.4

E: MOSL Estimates

Financials and Valuation

Ratios (Standalone)

Y/E March	2010	2011	2012	2013	2014E	2015E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	11.0	10.4	11.4	11.5	11.2	11.0
Avg. Yield on loans	13.5	12.8	14.2	14.0	13.7	13.2
Avg. Yield on Investments	6.7	6.5	6.8	7.4	7.4	7.4
Avg. Cost-Int. Bear. Liab.	5.3	5.9	7.6	7.6	7.2	6.9
Avg. Cost of Deposits	5.0	5.6	7.4	7.5	6.9	6.6
Interest Spread	5.6	4.5	3.8	3.8	4.0	4.0
Net Interest Margin	6.3	5.2	4.6	4.6	4.6	4.6

Profitability Ratios (%)

Consolidated RoE	18.1	16.6	15.4	15.7	16.0	16.2
Standalone Core RoE	14.6	15.4	15.4	16.3	15.6	15.5
Standalone RoA	1.7	1.9	1.9	1.8	1.8	1.7
Int. Expense/Int.Income	42.9	49.9	59.3	60.1	58.5	57.7
Non Int. Inc./Net Income	25.3	27.1	28.0	26.6	25.3	24.1

Asset-Liability Profile (%)

Loans/Deposit Ratio	87.0	100.2	101.4	95.0	95.7	95.0
Loans/(Deposits+Borrowings)	69.2	71.6	70.9	67.8	69.1	69.5
CASA Ratio	31.2	30.0	32.2	29.2	29.7	29.3
Investment/Deposit Ratio	52.4	58.5	56.0	56.6	54.8	52.1
Invest/(Deposits+Borrowings)	41.7	41.8	39.1	40.4	39.5	38.2
CAR	18.3	19.9	17.5	16.3	17.4	16.4
Tier 1	15.4	18.0	15.7	14.7	15.9	15.0

Valuation

Book Value (INR)	64.4	92.2	107.3	126.5	160.7	185.6
BV Growth (%)	16.8	43.2	16.3	17.9	27.0	15.5
AP/BV (x)			5.5	4.5	3.4	3.0
Consol BV (INR)	113.6	148.8	174.2	202.9	237.1	277.7
BV Growth (%)	20.4	30.9	17.1	16.5	16.9	17.1
Price-Consol BV (x)			4.2	3.6	3.0	2.6
Adjusted BV (INR)*	57.5	86.5	100.9	119.4	152.4	175.9
AP/ABV (x)			5.8	4.8	3.6	3.1
Adjusted Consol BV	111.0	147.4	172.1	199.9	232.7	271.7
Price-Consol ABV (x)			4.2	3.6	3.1	2.7
Standalone EPS (INR)	7.7	10.5	14.2	17.7	20.8	25.3
EPS Growth (%)	105.8	36.4	35.3	24.6	18.1	21.3
Price-Earnings (x)			41.6	32.5	26.4	21.8
Consol EPS (INR)	18.8	21.3	24.7	29.5	35.3	41.8
Con. EPS Growth (%)	98.9	13.3	16.3	19.4	19.4	18.6
Price-Concol EPS (x)			29.2	24.5	20.5	17.3
Dividend Per Share (INR)	0.4	0.5	0.6	0.7	0.9	1.0
Dividend Yield (%)			0.1	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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