

RESULTS REVIEW
Share Data

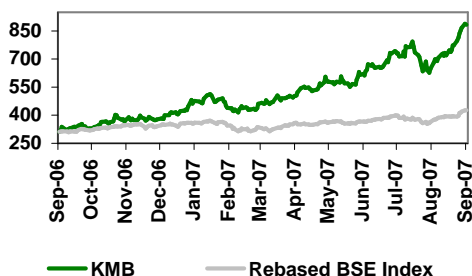
Market Cap	Rs. 288.3 bn
Price	Rs. 883.25
BSE Sensex	16,899.54
Reuters	KTKM.BO
Bloomberg	KMB IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 898.95 / 308
Shares Outstanding	326.4 mn

Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	6.5	9.7
+/- (%)	50.5%	48.8%
PER (x)	135.5x	91.0x
P / PPP (x)	55.9x	34.3x
P / ABV (x)	9.3x	8.4x

Shareholding Pattern (%)

Promoter	56
FII's	21
Institutions	6
Public & Others	17

Relative Performance

Kotak Mahindra Bank
Hold
Well diversified growth

Kotak Mahindra Bank reported solid 1Q'07 numbers with net profit increasing by 39.7% yoy to Rs. 1.5 bn on consolidated basis. Total revenue increased 79.3% yoy to Rs. 13.9 bn on a consolidated basis with advances increasing by 56% to Rs. 166.2 bn. On the liability side, deposits showed a robust growth of 121.2% yoy to Rs. 131.2 bn. Kotak's NIM remains healthy at 5.1%. During the quarter, the Bank added 18 new bank branches and is targeting to take the total number to 200 by June 2008. The Bank is also planning to raise capital by issue of 17 mn new equity shares, which will help the Bank to fuel its aggressive expansion plans.

The Bank, with its integrated business model, is well set to exploit the growing Indian economy. We continue to remain positive on the Bank based on its strong growth, high NIM, and huge potential from insurance and investment banking business. However, the stock seems to be fully valued at the current price and therefore we maintain our Hold rating.

Result Highlights
Kotak Mahindra Bank – standalone

Kotak Mahindra Bank's standalone net profit grew by a robust 99.4% yoy to Rs. 476.8 mn. Net interest income increased 77.6% yoy to Rs. 2.1 bn on account of rise in advances by almost 60% to Rs. 116.1 bn. On the

Key Figures (Standalone)

Year to March	1Q'07	1Q'08	YoY %	FY06	FY07	YoY %
(Figures in Rs mn, except per share data)						
Net Interest Income	1,194	2,120	77.6%	3,800	6,549	72.3%
Total Net Income	1,758	3,014	71.5%	5,980	9,385	56.9%
Pre-Prov Operating Profit	519	954	84.0%	2,106	3,258	54.7%
Net Profit	239	476.8	99.4%	1,182	1,414	19.6%
Cost / Net Interest Income (%)	70.5%	68.3%	-	64.8%	65.3%	-
Net Interest Margin*	5.30%	5.10%	-	5.10%	5.20%	-
NPA ratio*	0.26%	0.29%	-	0.21%	0.17%	-

Per Share Data (Rs.)

PPP per share	1.6	2.9	83.1%	6.8	10.0	46.6%
EPS	0.7	1.5	98.4%	3.8	4.3	13.3%
Adj. Book value per share	27.4	52.4	91.4%	28.0	50.9	82.1%
PER (x)	-	-	-	231.1x	204.0x	-
P/ABV (x)	-	-	-	31.6x	17.3x	-

* Consolidated basis

liability side deposits grew by 78.3% yoy to Rs. 136.3 bn. The Bank's CASA ratio improved 6pts yoy to 22%. We expect the CASA ratio to improve further as the Bank is planning to add another 77 branches in next one year. Operating expenses increased by 66.2% yoy to Rs. 2.1 bn primarily on account of increase in employee expenses by 85.5% to Rs. 1.1 bn. The Bank's standalone NIM remained healthy at 4.5%.

Market share of 8.3% in securities business

Kotak Investment Advisors Limited – stock broking

Kotak securities total income remained relatively flat at Rs. 2.1 bn. However, net profit decreased by 10.2% on account of increasing competition in broking business. The Company's AUM under Portfolio Management Services (PMS) increased 25.5% yoy to Rs. 26.2 bn. Kotak generated approximately 8.3% of total average market daily volumes.

No. 1 in IPOs and QIPs offering in India

Kotak Mahindra Capital Company – investment banking

Kotak Mahindra Capital Company's (KMCC) total income increased 20.1% yoy to Rs. 531.1 mn and net profit increased 48% to Rs. 191.7 mn. These numbers exclude the trading and principal business which was earlier a part of KMCC. During the quarter, KMCC was rated no. 1 in India with Rs. 114 bn and Rs. 36 bn in IPOs and QIPs offerings respectively. The Company was the global coordinator and Book Running Lead Manager (BRLM) of DLF IPO with issue size of Rs. 92 bn. Its revenues will be booked in the next quarter.

Insurance business is growing significantly

Kotak Mahindra Old Mutual Life Insurance – life insurance

Kotak life insurance premium grew by 65.9% yoy to Rs. 2.1 bn which comprises of Rs. 905 mn renewal premium, Rs. 82 mn single premium, and Rs. 1.1 bn first year regular premium. During the quarter, number of life insured increased by 85K to 8.6 mn.

Kotak Mahindra Asset Management Company – asset management

On the asset management side Kotak's total AUM increased 56.8% yoy to Rs. 172.5 bn. Recently, Kotak has launched Kotak Global Emerging Market Fund and it has 58 branches and satellite offices serving over

527K investors. Total income of asset management increased 8.6% yoy to Rs. 147.9 mn; however profit was relatively flat at Rs. 33.7 mn.

Kotak Mahindra Prime – car finance, other lending

Kotak Prime total income increased 51.6% yoy to Rs. 1.5 bn and net profit increased 22.8% to Rs. 137.2 mn. As of June 30, 2007, auto advances increased 21% yoy to Rs. 36 bn.

Prospects

Equity offering to fuel further growth

Kotak is planning to issue 17 mn equity shares (around 5% of share capital) either in domestic or international market for medium term capital requirement. This will allow the Bank to fuel its aggressive expansion plans and meet its capital adequacy ratio.

Expanding branches

Kotak continues to invest in its infrastructure and distribution reach. During the quarter, the Bank added 18 new branches, taking the total number to 123. It has huge untapped market in tier II cities and plans to target 200 branches by the middle of FY08. This will boost the distribution side of the business and ensure strong growth in fee based income. Further, increase in CASA balances would improve the Bank's NIM.

Outlook

The present economic scenario offers immense opportunities for Kotak to grow in scale and reach along with value creation. We foresee commercial banking and life insurance businesses to be the future growth driver. The Bank, with its integrated business model, would be able to take advantage of this growth in the coming years. We remain positive due to the Bank's high NIM, huge advances growth, diverse product base, and cross selling of financial products.

We have valued Kotak on sum-of-the-parts valuation on account of substantial benefits coming from subsidiaries. We have valued the banking business at Rs. 366 based on a target FY09E P/BV multiple of

Planning to issue 17 mn equity shares

Targeting 200 branches by mid 2007

Slowdown in capital markets remains the major risk

3.5x and the different subsidiaries at Rs. 591 FY09E. We maintain our Hold rating on the stock with a target price of Rs. 957.

Key risks to our rating are slowdown in capital market activity, significant deterioration in asset quality, and competition in security & wealth management business.

Income Statement					Key Ratios				
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E	FY09E		FY06	FY07	FY08E	FY09E
Interest Income	7,189	13,541	22,329	36,369	Per share data (Rs.)				
Interest Expense	3,389	6,992	13,021	21,688	Shares outstanding (mn)	309.3	326.4	343.4	343.4
Net Interest Income	3,800	6,549	9,308	14,681	Basic EPS	3.8	4.3	6.5	9.7
YoY Growth (%)	68.5%	72.3%	42.1%	57.7%	Diluted EPS	3.8	4.3	6.5	9.7
Other Income	2,181	2,837	4,255	6,382	Book value per share	28.0	50.9	95.0	104.7
Total Net Income	5,980	9,385	13,563	21,063	Adj. book value per share	28.0	50.9	95.0	104.7
YoY Growth (%)	67.1%	56.9%	44.5%	55.3%	Valuation ratios (x)				
Operating Expense	3,875	6,127	8,138	12,217	P/PPP	129.7x	88.5x	55.9x	34.3x
Pre-Provisioning Profit	2,106	3,258	5,425	8,847	P/E	231.1x	204.0x	135.5x	91.0x
Provisions and Contingencies	370	1,226	2,227	4,086	P/B	31.6x	17.3x	9.3x	8.4x
Profit Before Tax	1,736	2,032	3,198	4,760	P/ABV	31.6x	17.3x	9.3x	8.4x
Tax	554	619	959	1,428	Performance ratio (%)				
Net Profit	1,182	1,414	2,239	3,332	Return on avg. assets	1.4%	0.9%	0.8%	0.8%
YoY Growth (%)	39.3%	19.6%	58.4%	48.8%	Return on avg. net worth	14.6%	11.2%	9.1%	9.7%
Balance Sheet					Balance Sheet ratios (%)				
(Rs mn, as on March 31)	FY06	FY07	FY08E	FY09E	Advances to deposits	96.7%	99.3%	99.9%	99.3%
Cash and balances with RBI	5,925	12,960	42,857	46,994	Borrowings to advances	25.3%	46.7%	45.0%	43.0%
Investments	28,555	68,620	97,362	167,719	Investments to assets	28.1%	34.5%	28.9%	31.3%
YoY Growth (%)	56.3%	140.3%	41.9%	72.3%	Investments to deposits	43.5%	62.4%	53.0%	55.0%
Advances	63,483	109,241	183,524	302,815	Net Worth to assets	8.5%	8.3%	9.7%	6.7%
YoY Growth (%)	58.0%	72.1%	68.0%	65.0%	Productivity ratio (Rs. mn)				
Fixed Assets (Net)	1,052	1,411	1,839	2,410	Opt. expense per employee	0.6	0.6	0.5	0.5
Other Assets	2,740	6,923	11,022	15,247	Net profit per employee	0.2	0.1	0.1	0.1
Total Assets	101,755	199,154	336,604	535,186	Asset per employee	15.2	18.4	20.1	21.3
Deposits	65,659	110,001	183,702	304,945	Operating ratios (%)				
YoY Growth (%)	52.7%	67.5%	67.0%	66.0%	Operating cost to net income	64.8%	65.3%	60.0%	58.0%
Borrowings	16,092	50,998	82,586	130,211	Operating cost to avg. assets	4.6%	4.1%	3.0%	2.8%
YoY Growth (%)	78.4%	216.9%	61.9%	57.7%					
Other Liabilities & Provisions	11,358	21,537	37,689	64,071					
Total Liabilities	93,109	182,535	303,976	499,226					
Share Capital	3,093	3,262	3,432	3,432					
Reserves & Surplus	5,553	13,358	29,196	32,529					
Total Equity & Liabilities	101,755	199,154	336,604	535,186					

Source: Bank data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Bank

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