

Kotak Mahindra Bank (KOTMAH)

Rs 764

WHAT'S CHANGED...

PRICE TARGET	Unchanged
EPS (FY11E)	Rs 21.8
EPS (FY12E)	Rs 27.7
RATING.....	Unchanged

Going's good for bank, subsidiaries sprawling...

The standalone bank reported PAT far ahead of our estimates at Rs 186.9 crore (107% YoY) against our estimate of Rs 159 crore. Even the NII surged 24% YoY to Rs 508.2 crore. On a consolidated basis, PAT grew 27% YoY to Rs 327 crore but sequentially declined by 21.7%. The performance of other capital market subsidiaries continued to suffer, losing market share sequentially. We expect the banking business to grow at 25% CAGR over FY10-12E delivering an RoE of 18-19%.

Loan growth boosts NII, raises FY11E targets...

Strong traction in advances, growing 35% YoY and 11.6% QoQ to Rs 23,185 crore was supported by incremental growth in mortgage and corporate loans. Growth in corporate loans continued to dominate with a 62% YoY jump, an increase of Rs 1848 crore. Of this, about Rs 400 crore went to the telecom sector, the one off spurt most banks are witnessing. On the other hand, deposits grew 38% YoY and 0.7% QoQ. NII grew 24% YoY with NIM at 5.7%, declining from 6.1%. The shifting credit mix from the personal loan book to low yielding corporate and mortgage had led to a dip in margin. We expect NIMs to remain in the 5.5-5.6% range during the next couple of years.

Subsidiaries performance – a drag on overall profitability

The securities business continued to lose market share (3.7% in Q1FY11 vs. 4.5% in Q1FY10) from the unorganised sector. Average daily turnover stood at Rs 4000 crore vs. Rs 3,600 crore in Q4FY10. AUM of Kotak AMC declined from Rs 307 billion in Q1FY10 to Rs 285 billion Q1FY11 mainly on liquid funds withdrawal as equity AUM has marginally dipped from Rs 48 billion to Rs 45 billion. However, regulatory pressures led to significant slump in PAT at Rs 74 crore, down from Rs 139 crore over same period.

Valuation

Strength in the banking business has resulted in 50% of the valuation of the stock price coming from the same (2.5x FY12E ABV). With the AMC and insurance businesses under regulatory scanner and the broking business losing market share, we have revised their multiples lower and arrived at an SOTP target of Rs 831 with an **ADD** rating on the stock

Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr. (%)
NII	508.2	475.4	409.0	526.0	24.3	-3.4
Other Income	137.1	180.0	126.9	251.5	8.0	-45.5
Total Income	645.3	655.4	535.9	777.5	20.4	-17.0
PPP	315.4	347.4	284.3	435.6	10.9	-27.6
PAT	186.9	159.0	90.3	202.5	107.0	-7.7

Source: Company, ICICIdirect.com Research

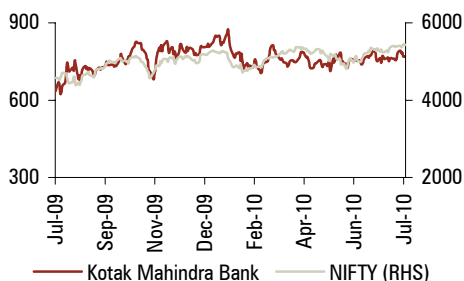
Rating matrix	
Rating	: Add
Target	: Rs 831
Target Period	: 12 months
Potential Upside	: 9%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	1518	1858	2169	2586
PPP	595	1297	1510	1852
PAT	276	561	793	1009

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	276.1	561.1	793.6	1009.7
EPS (Rs)	8.0	16.1	21.8	27.7
% Growth	-6.3	101.8	35.1	27.2
P/E (x)	95.7	47.4	35.1	27.6
Price / Book (x)	7.7	6.4	4.8	4.3
ABV (Rs)	99.3	118.5	158.1	176.4
Price / Adj Book (x)	7.4	6.3	4.8	4.3
GNPA%	4.1	3.7	3.7	3.8
NNPA%	2.4	1.7	1.2	1.0
RoNA (%)	1.0	1.7	1.9	2.0
RoE (%)	7.5	13.5	15.0	15.7

Stock data	
Market Capitalisation	Rs 26598 crore
GNPA (Q1FY11)	Rs 514 crore
NNPA (Q1FY11)	Rs 228 crore
NIM (Q1FY11)	5.7%
52 week H/L	879/615
Equity capital	Rs 348 Crore
Face value	Rs.10
MF Holding (%)	6.4%
FII Holding (%)	25.9%

Price movement



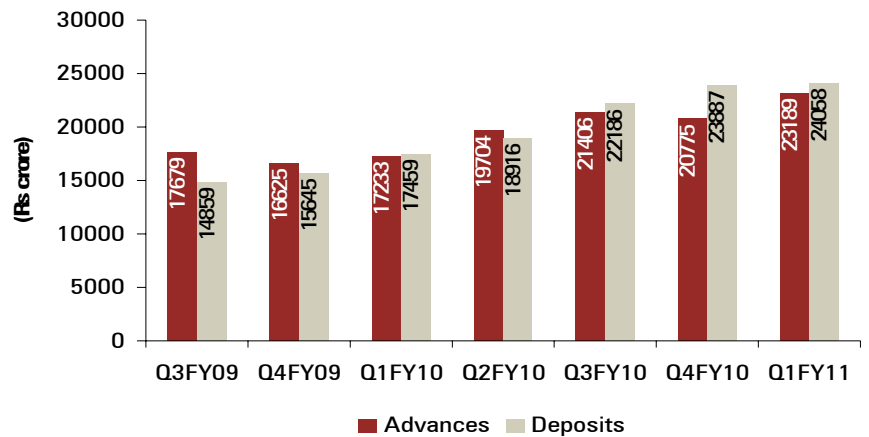
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Business has witnessed strong growth in this quarter as advances grew 35% YoY while deposits grew 38% YoY. The standalone NIMs declined to 5.7% in Q1FY11E from 6.1% while the CASA ratio stood at 28% in the quarter

Exhibit 2: Trend in core business encouraging


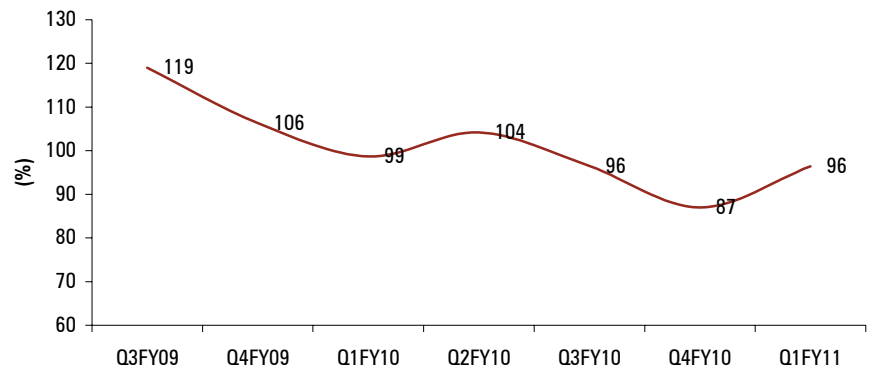
Source: Company, ICICIdirect.com Research

Exhibit 3: Corporate & mortgage loans steal the show

	Q1FY10	Q4FY10	Q1FY11	Y-o-Y(%)	Q-o-Q(%)
CVs and construction eqmt.	3231.4	3,694	4,030	24.7	9.1
Personal Loans	1917.7	1,315	1,170	-39.0	-11.1
Home loans	3252.3	4,712	5,247	61.3	11.4
Corporate banking	5124.0	6,476	8,324	62.5	28.5
Agricultural finance	2123.3	3,089	2,925	37.7	-5.3
Others	1584.1	1,490	1,493	-5.7	0.2
Total	17232.8	20,775	23,189	34.6	11.6

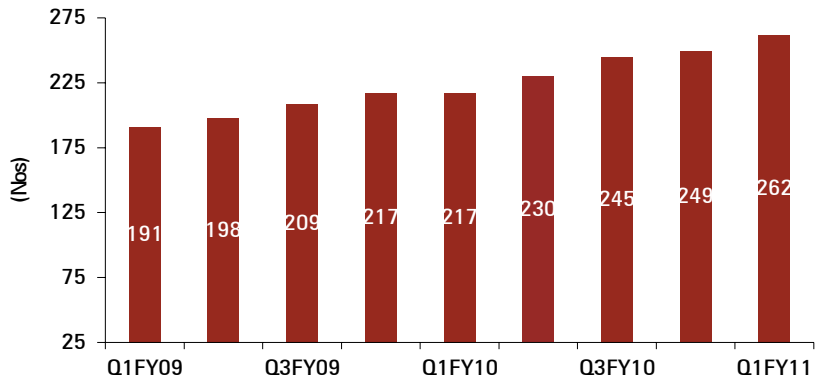
Source: Company, ICICIdirect.com Research

Within the corporate sector, incremental 3G loans are about Rs 400 crore

Exhibit 4: Trend in credit deposit


Source: Company, ICICIdirect.com Research

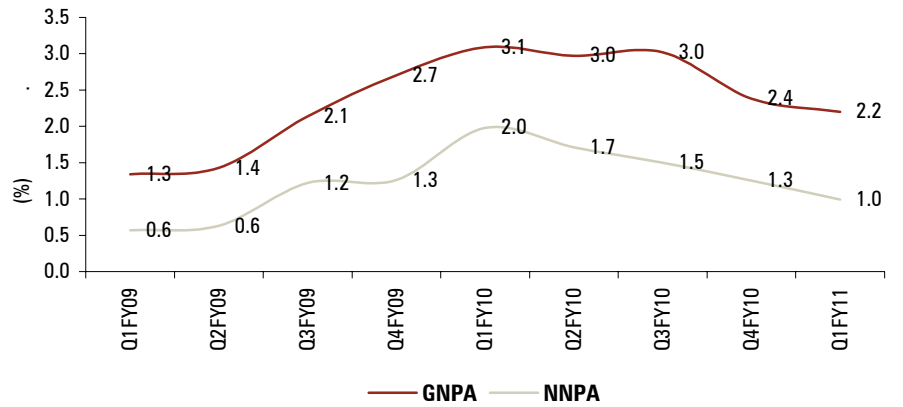
Exhibit 5: Trend in retail branch expansion



Source: Company, ICICIdirect.com Research

The number of branches increased to 262 from 249 last quarter. The increase in network will lead to accretion of CASA and fee income generated through cross-selling of third-party products. The bank has maintained its plan to increase the tally of its branches to 320 by FY11 and 500 by December 2012

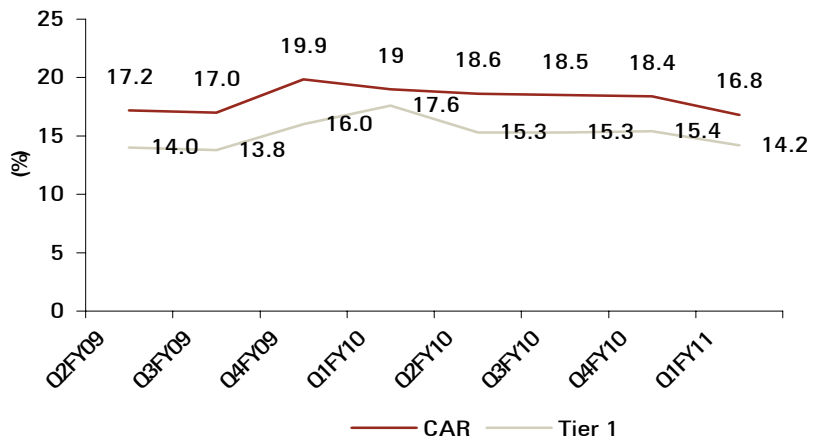
Exhibit 6: Asset quality improvement back on track



Source: Company, ICICIdirect.com Research

There has been an increase in GNPA of Rs 15 crore to Rs 514 crore sequentially but this is not alarming

Exhibit 7: High CAR to enable bank to grow, going forward

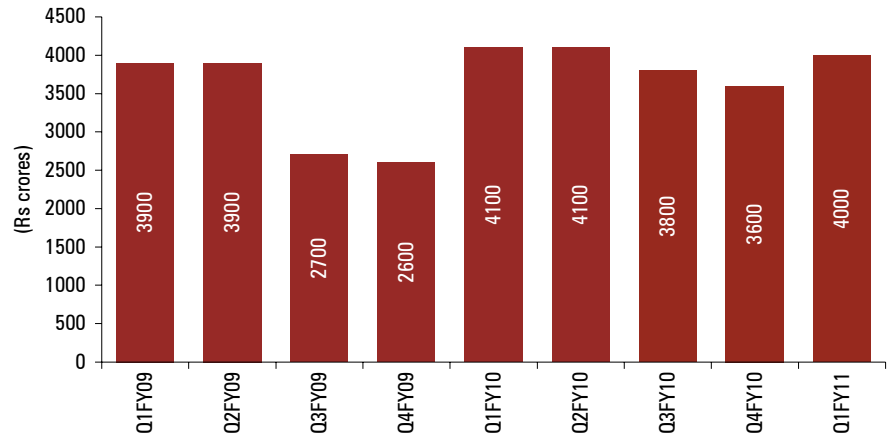


Source: Company, ICICIdirect.com Research

Kotak Bank has announced a preferential issue of 1.64 crore shares, at Rs 833 per share to Sumitomo Mitsui Banking Corporation, Japan. This is subject to shareholders and other necessary regulatory approvals

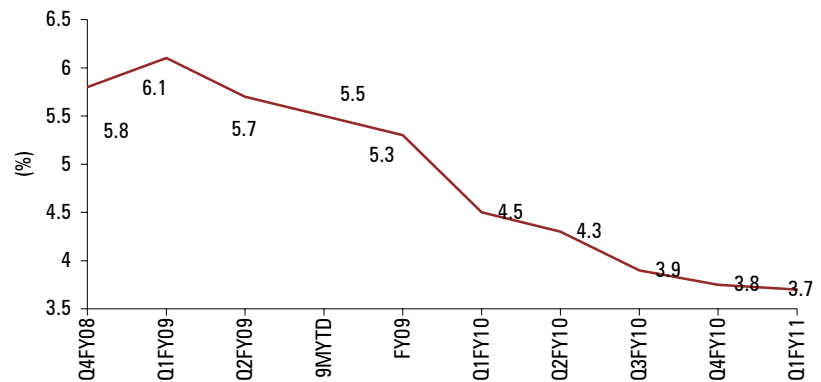
Subsidiaries performance muted....

Exhibit 8: Average daily turnover between Rs 3000 to 4000 crore



Source: Company, ICICIdirect.com Research

Exhibit 9: Broking market share on continuous decline



Source: Company, ICICIdirect.com Research

An increasing shift in the trading pattern towards the options segment, where almost all domestic organised players have a low presence, is detrimental to market share

The AUM in the portfolio management services was Rs 23 billion as of Q1FY11, maintained sequentially

Kotak Securities has a network of over 1,210 offices (own and franchisees) and more than 5,75,000 secondary market customers

An increasing shift in the trading pattern towards the options segment, where almost all domestic organised players have a low presence, is detrimental to market share. During Q1FY11, about 84% of daily volume was in the futures and options segment resulting in market share erosion and dip in yields across players.

The asset management business saw a sharp erosion in its AUM from Rs 34,800 crore (equity AUM of Rs 4,900 crore) to Rs 28,500 crore (equity AUM of Rs 4,500 crore). Asset managed by the group increased to Rs 48,000 crore from Rs 45,800 crore a year earlier.

As of Q1FY11, Kotak Mahindra Prime's (KMP) advances book stood at Rs 9,052 crore as against Rs 5,804 crore in Q4FY09. The net NPA for the cars stood at 0.3% in Q1FY11 as against 0.037% in Q4FY10 and 0.6% in Q1FY10.

Kotak Mahindra Old Mutual Life Insurance (Kotak Life) reported a better growth of 29% y-o-y in gross premium income to Rs.557 crore from Rs.433 crore whereas new business premium grew 57% y-o-y to Rs.227.5 from Rs.144.5 crore. However, It reported a loss of 6.9 crore in Q1FY11 against PAT of Rs.1.1 in Q1FY10 crore due to cap on charges and other regulatory pressures.

Exhibit 10: Profitability by verticals

PAT (Rs crore)	Q1FY11	Q1FY10	YOY (%)	Q4FY10	QoQ (%)
Kotak Bank	186.9	90.3	107.0	202.5	-7.7
Kotak Securities	47.4	74.3	-36.2	50.8	-6.7
Kotak Mahindra Capital	6.9	4.8	43.3	13.3	-0.5
Kotak Prime	76.0	18.9	302.1	58.6	29.7
Kotak AMC & Trust	8.9	15.3	-41.5	14.8	-39.7
International Subsidiaries	15.6	23.1	-32.3	15.4	1.5
Kotak Investment advisors	10.8	11.8	-7.9	7.0	54.9
Kotak Mahindra Investments	7.6	13.0	-41.8	6.8	11.2
Kotak Mahindra Old Mutual	-6.9	1.1	NA	44.4	NA
Total (net off equity affiliates/minority)	327.7	257.3	27.4	418.6	-21.7

Source: Company, ICICIdirect.com Research

Valuation

Strength in the banking business has resulted in 50% of the valuation of the stock price coming from the same (2.5x FY12E ABV). With the AMC and insurance businesses under regulatory scanner and the broking business losing market share, we have revised their multiples lower and arrived at an SOTP target of Rs 831 with an **ADD** rating on the stock

Exhibit 11: Valuation matrix

Company	Basis of valuation	FY12E
KMB	2.5x FY12E ABV	441
Kotak Life	13x NBAP at 13% margin	65
Kotak Mahindra Prime	1.5x FY12E net-worth	80
Kotak Mahindra Capital	15x FY12E PAT	17
Kotak Securities	14x FY12E PAT	148
Kotak AMC/	4% to 6% of FY12E AUM based on asset class	48
Alternate Assets	8% of FY12E AUM	32
Value per share of KMB		831

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	325	FY10	1741.1	33.1	9.8	1.7	0.7	12.6
		Target	373	FY11E	2872.0	54.6	6.0	1.4	1.0	18.7
Mcaps (Rs Cr)	17092	Upside (%)	14.8	FY12E	3367.6	55.7	5.8	1.2	0.9	18.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	711	FY10	3058.3	83.7	8.5	2.1	1.2	21.9
		Target	765	FY11E	3683.2	100.8	7.1	1.7	1.2	21.9
Mcaps (Rs Cr)	25989	Upside (%)	7.6	FY12E	4373.2	119.6	5.9	1.4	1.2	21.1
Dena Bank										
Idirect Code	DENBAN	CMP	93	FY10	511.3	17.8	5.2	1.4	1.0	21.4
		Target	107	FY11E	621.0	18.2	5.1	1.1	1.0	20.3
Mcaps (Rs Cr)	2667	Upside (%)	15.1	FY12E	746.0	21.8	4.3	1.0	1.0	19.5
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	99	FY10	707.0	13.0	7.6	1.0	0.6	9.6
		Target	105	FY11E	964.1	17.7	5.6	1.1	0.7	12.8
Mcaps (Rs Cr)	5394	Upside (%)	6.1	FY12E	1224.4	22.5	4.4	0.9	0.8	15.2
IDBI Bank										
Idirect Code	IDBI	CMP	117	FY10	1031.1	8.8	13.4	#DIV/0!	0.5	13.2
		Target	141	FY11E	1226.8	12.8	9.1	#DIV/0!	0.5	11.9
Mcaps (Rs Cr)	8481	Upside (%)	20.5	FY12E	1490.4	15.6	7.5	#DIV/0!	0.5	11.5
OBC										
Idirect Code	ORIBAN	CMP	332	FY10	1134.7	45.3	7.3	1.1	0.9	14.5
		Target	424	FY11E	1359.4	54.3	6.1	1.0	0.9	15.4
Mcaps (Rs Cr)	8318	Upside (%)	27.7	FY12E	1650.5	65.9	5.0	0.8	0.9	16.2
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1047	FY10	3905.4	123.9	8.5	2.0	1.4	23.9
		Target	1064	FY11E	4593.7	145.7	7.2	1.7	1.4	23.5
Mcaps (Rs Cr)	33012	Upside (%)	1.6	FY12E	5361.0	170.0	6.2	1.5	1.4	24.0
SBI										
Idirect Code	STABAN	CMP	2340	FY10	91.7	144.4	16.2	2.7	0.9	14.8
		Target	2556	FY11E	84.7	120.2	19.5	2.0	0.8	10.7
Mcaps (Rs Cr)	148563	Upside (%)	9.2	FY12E	115.4	163.7	14.3	1.8	0.9	11.9
Union Bank of India										
Idirect Code	UNIBAN	CMP	312	FY10	2170.1	43.0	7.3	42.7	1.2	22.6
		Target	343	FY11E	2540.8	50.3	6.2	215.9	1.2	22.2
Mcaps (Rs Cr)	15760	Upside (%)	9.9	FY12E	3033.9	60.1	5.2	268.2	1.2	22.0
Axis Bank										
Idirect Code	UTIBAN	CMP	1248	FY10	2514.5	62.1	20.1	3.2	1.7	19.2
		Target	1302	FY11E	3177.3	78.4	15.9	2.8	1.4	18.3
Mcaps (Rs Cr)	50566	Upside (%)	4.3	FY12E	4053.8	100.1	12.5	2.4	1.4	19.9
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	170	FY10	23.3	3.6	46.8	2.7	0.3	5.4
		Target	190	FY11E	61.3	7.2	23.6	1.8	0.6	9.5
Mcaps (Rs Cr)	1090	Upside (%)	11.8	FY12E	99.8	11.7	14.5	1.7	0.7	11.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	1970	FY10	2948.7	64.4	30.6	4.3	1.5	16.3
		Target	2151	FY11E	3837.2	83.8	23.5	3.8	1.6	16.8
Mcaps (Rs Cr)	90187	Upside (%)	9.2	FY12E	4946.3	108.1	18.2	3.4	1.7	19.1
Kotak Bank										
Idirect Code	KOTMAH	CMP	770	FY10	464.2	13.4	57.3	6.7	1.5	11.5
		Target	831	FY11E	548.4	15.9	48.5	6.6	1.4	12.9
Mcaps (Rs Cr)	26772	Upside (%)	7.9	FY12E	743.4	21.5	35.8	5.8	1.7	16.2
South Indian bank										
Idirect Code	SOUINO	CMP	163	FY10	233.7	20.7	7.9	1.3	1.1	17.9
		Target	179	FY11E	272.5	24.1	6.8	11.8	1.0	17.4
Mcaps (Rs Cr)	1842	Upside (%)	9.8	FY12E	335.6	29.7	5.5	10.0	1.0	18.6
Yes Bank										
Idirect Code	YESBAN	CMP	275	FY10	477.7	14.1	19.6	3.0	1.6	20.3
		Target	316	FY11E	675.8	19.9	13.8	2.6	1.6	19.9
Mcaps (Rs Cr)	8258	Upside (%)	14.9	FY12E	884.8	26.0	10.6	2.1	1.5	21.7

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	168	FY 09	848.0	6.5	25.7	3.5	2.8	14.3
		Target	200	FY10	1062.1	8.2	20.5	3.1	3.2	15.9
Mcap (Rs Cr)	21751	Upside (%)	19.0	FY11E	1326.8	9.1	18.4	2.3	3.4	14.7
LICHF										
Idirect Code	LICHF	CMP	1045	FY 09	530.9	62.5	16.7	3.8	2.0	25.2
		Target	981	FY10	703.8	73.3	14.3	3.2	2.0	25.1
Mcap (Rs Cr)	9922	Upside (%)	-6.1	FY11E	865.9	90.2	11.6	2.6	2.0	24.1
Rel Cap										
Idirect Code	RELCAP	CMP	765	FY10	434.6	17.7	43.3	2.5	2.4	5.7
		Target	800	FY11E	771.3	31.3	24.4	2.2	4.0	9.5
Mcap (Rs Cr)	18791	Upside (%)	4.6	FY12E	761.9	31.0	24.7	2.1	3.5	8.7

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	517	FY10	244.9	30.5	16.9	1.7	5.3	11.2
		Target	455	FY11E	268.1	33.6	15.4	1.6	4.0	11.3
Mcap (Rs Cr)	3881	Upside (%)	-12.0	FY12E	288.2	36.1	14.3	1.4	3.7	11.1
India Infoline										
Idirect Code	INDINF	CMP	98	FY10	234.3	8.3	11.9	1.6	9.0	14.6
		Target	111	FY11E	244.8	8.6	11.3	1.5	7.5	14.5
Mcap (Rs Cr)	2793	Upside (%)	13.3	FY12E	242.8	8.6	11.4	1.3	7.1	13.1
MOFSL										
Idirect Code	MOTOSW	CMP	170	FY 09	93.4	6.3	27.0	3.0	6.6	11.8
		Target	203	FY10	174.3	11.9	14.3	2.6	10.5	19.0
Mcap (Rs Cr)	2430	Upside (%)	19.4	FY11E	203.4	13.9	12.2	2.2	10.6	18.3

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