

KOTAK MAHINDRA BANK



Financing business going strong; few one-offs suppress earnings

Kotak Mahindra Bank (KMB) reported consolidated PAT (excluding life insurance) of INR 3.5 bn in Q2FY11 - growth of 19% Y-o-Y and 5% Q-o-Q. Profits were lower than our expectation, primarily due to MTM hit on liquid funds (accounting change proposed by regulator in AMC), higher provisioning (on commercial real estate) in Kotak Mahindra Prime and muted profits in investment banking. Key positives during the quarter have been robust advance growth and NPLs coming off significantly; these were, however, partially offset by marginal decline in NIMs. Consolidated advances grew 40% Y-o-Y (14% Q-o-Q) to INR 375 bn, with growth broad-based across segments. NIMs (consolidated) came off 10bps Q-o-Q to 5.6% (over and above 50bps decline in Q1FY11). Consolidated gross NPLs (excluding stressed assets) declined to 1.69% (from 2.02% in Q1FY11). While provisioning coverage was inched up 5% points to meet RBI's 70% diktat, credit cost was lower.

- **Banking business** profits grew 55% Y-o-Y (4% Q-o-Q) to INR 1.95 bn, driven by strong advance growth of 35% and decline in LLP of 41% Y-o-Y.
- **Kotak Mahindra Prime** reported 19% Q-o-Q decline in PAT, to INR 613 mn, due to higher provisions of INR 80 mn (on commercial real estate). Advances continued to be strong and were up 10% Q-o-Q (46% Y-o-Y) at INR 100 bn.
- **Kotak Securities** reported 9% Q-o-Q growth in profits, at INR 517 mn. Average daily trading volume inched up 15% Q-o-Q and market share was sustained at 3.7%. Profitability of investment banking remained subdued at INR 73 mn.
- **Domestic AMC** business reported loss of INR 39 mn as it has taken a one-time MTM hit on liquid funds due to accounting change proposed by the regulator. The company has witnessed some strong flows in **offshore funds** (AUMs rose to USD 2 bn); however, upfront cost in raising these funds hit profitability.

Outlook and valuations: Positive; maintain 'BUY'

The bank has surprised positively in terms of advance growth and asset quality in H1FY11. We are revising our advance growth estimate upwards to 35-40% for FY11-12. NIMs in the immediate term will be supported by equity infusion from Sumitomo. We, however, believe structural shift in portfolio mix and increased funding cost could pressurize NIMs. The macro environment for KMB is becoming more conducive with buoyant capital market activities and favourable credit cycle. The stock is currently trading at 2.7x FY12E book and 18.4x FY12E earnings (excluding life insurance). Our SOTP fair value stands at INR 540 per share for FY12E. We believe upsides to our fair value could flow from securities and investment banking related earnings. Stressed asset portfolio also carries a huge embedded value. We maintain **'BUY/Sector Performer'** on the stock.

Financials

Year to March	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10	FY11E
Net int. inc. (INR mn)	8,432	6,796	24.1	7,924	6.4	25,456	30,611
PAT (INR mn)	3,507	2,956	18.6	3,346	4.8	12,308	15,146
EPS (INR)	10.8	4.9	118.8	9.0	19.9	17.7	20.6
BV per share (INR)						113.0	147.6
Price/Earnings (x)*						25.8	22.1
Price/ BV (x)*						4.0	3.1

* adj for insurance

October 20, 2010

Reuters: KTKM.BO Bloomberg: KMB IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 502
52-week range (INR)	:	530 / 336
Share in issue (mn)	:	696.3
M cap (INR bn/USD mn)	:	368 / 8,291
Avg. Daily Vol. BSE/NSE ('000):	:	1,802.6

SHARE HOLDING PATTERN (%)

Promoters*	:	45.8
MFs, FIs & Banks	:	6.2
FIIIs	:	25.0
Others	:	23.0
* Promoters pledged shares (% of share in issue)	:	NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	6.7	2.4	1.1
3 months	27.5	11.9	20.1
12 months	22.8	17.2	32.2

Kunal Shah

+91 22 4040 7579

kunal.shah@edelcap.com

Nilesh Parikh

+91 22 4063 5470

nilesh.parikh@edelcap.com

Vivek Verma

+91 22 4040 7576

vivek.verma@edelcap.com

Table 1: Business-wise profitability

Year to March	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY09	FY10	Growth (%)
Kotak Mahindra Bank (Standalone)	1,947	1,259	54.6	1,869	4.2	2,761	5,611	103.2
Kotak Mahindra Prime	613	395	55.3	760	(19.3)	1,570	1,664	6.0
Kotak Mahindra Capital Company	73	41	NA	69	5.6	128	239	86.3
Kotak Securities	517	759	(31.8)	474	9.2	1,065	2,601	144.3
International subsidiaries	123	208	(41.1)	157	(21.8)	243	818	236.8
Kotak Mahindra AMC & Trustee Co	(24)	195	(112.4)	89	(127.2)	161	725	349.2
Kotak Mahindra Advisors	105	95	10.7	108	(3.0)	480	398	(17.3)
Kotak Mahindra Investments	80	87	(8.4)	76	5.7	137	347	152.6
Others	(1)	1	NA	1	NA	4	(19)	(573.2)
Total consolidated profit after tax	3,433	3,040	12.9	3,603	(4.7)	6,550	12,382	89.0
Equity Affiliates	0	0	NA	0	NA	34	0	NA
Minority interest and other adjustments	73	(85)	NA	(257)	NA	(204)	(4)	NA
PAT (excluding life insurance)	3,507	2,956	18.6	3,346	4.8	6,381	12,378	94.0
Kotak OM Life Insurance	134	44	208.3	(69)	(294.5)	143	692	382.7
PAT (after minority interest / adjustments)	3,641	2,999	21.4	3,277	11.1	6,524	13,070	100.3

Source: Company

■ Business overview

Banking: Robust advance growth; NIMs come off marginally

- KMB surprised on advance growth in Q2FY11, growing 14% Q-o-Q and 35% Y-o-Y, to INR 265 bn; moreover, this growth was broad-based across segments. However, NIMs (calculated) came off marginally by 10bps, to 5.5%, primarily due to lag in repricing of liabilities and assets and increased proportion of low yielding corporate and secured retail loans. Net interest income, therefore, grew only 25% Y-o-Y to INR 5.4 bn, despite robust asset growth.
- Asset quality continued to surprise on the positive; gross NPLs (excluding stressed assets) came off to 1.82% in Q2FY11 from 2.2% in Q1FY11, primarily due to strong growth in advances and lower retail NPL formation. The bank has also shored up its provisioning coverage (including technical write-off) by 5% points, to 70%, to meet RBI's mandatory requirement by September 2010. Despite this, credit cost came off to 80bps (from more than 1% in Q1FY11).
- CASA ratio (period end), excluding IPO floats, inched up 110bps to 28.8% in Q2FY11; the proportion of low-cost sweep deposits (not clubbed with reported CASA) was estimated at 7%.
- KMB reported non-interest income of INR 1.4 bn (28% Y-o-Y growth) in Q2FY11; it includes fee income of ~INR 800 mn (15% Y-o-Y growth). Management indicated that transaction based fee income is in good shape, but regulatory norms have affected third-party distribution income.
- The bank added only five branches during the quarter, taking the total tally to 262 branches. It plans to further increase it to 320 by FY11 and to 500 by FY12.
- KMB inched up its loan growth target to 35-40% for FY12 (from earlier guidance of 30%). The structural shift in product portfolio towards corporate and secured retail loans will continue to exert some pressure on NIMs. However, equity infusion from Sumitomo Mitsui Banking Corp. will support NIMs in the coming quarters. We are building in advance growth of 34% CAGR over FY10-12E. Accretion to NPLs is slowing down and we expect gross NPLs to decline further. With provisioning coverage reaching RBI's mandatory requirement of 70%, credit cost is expected to be lower in coming quarters. We expect the banking business to grow its profitability at 34% CAGR over FY10-12E.

Table 2: Commercial banking - Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Net interest income	5,438	4,365	24.6	5,082	7.0	18,581
Pre-provisioning profits	3,268	2,442	33.8	3,153	3.6	13,010
Provisions	455	773	(41.1)	561	(18.9)	4,899
PBT	2,812	1,670	68.5	2,592	8.5	8,111
Tax	865	411	110.8	723	19.6	2,500
PAT	1,947	1,259	54.6	1,869	4.2	5,611
Advances	265,066	197,045	34.5	231,886	14.3	207,750
Deposits	282,870	189,162	49.5	240,578	17.6	238,865
Total assets	404,418	288,336	40.3	388,016	4.2	337,750

Source: Company

Kotak Mahindra Prime: Higher provisioning dents profitability

- Bucking the trend of surprising on earnings since the past four quarters, Kotak Mahindra Prime reported 19% Q-o-Q decline in profits in Q2FY11 to INR 613 mn. This was mainly due to higher provisioning of INR 80 mn (particularly relating to commercial real estate). Moreover, in Q1FY11 it booked fee income from debt market activity of INR 200 mn, which was negligible in this quarter.
- Credit offtake in auto financing, however, continued to be strong and auto advances grew 10% Q-o-Q (41% Y-o-Y) to INR 77.9 bn. Overall, advances (including LAS, commercial real estate, etc.) in Kotak Mahindra Prime grew 10% Q-o-Q (46% Y-o-Y) to INR 100 bn.
- The management indicated that NIMs were sustained in the auto financing business.
- We expect the growth momentum in auto advances to continue and provisioning to be relatively lower. We expect auto financing to report profit CAGR of 39% over FY10-12E.

Table 3: Kotak Mahindra Prime – Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Total income	3,158	2,401	31.5	2,999	5.3	9,921
PBT	956	614	55.7	1,152	(17.0)	2,589
PAT	613	395	55.2	760	(19.3)	1,664
Auto advances	77,881	55,317	40.8	70,644	10.2	65,418

Source: Company

Kotak Securities: Volumes inch up; earnings gain traction

- Kotak Securities reported 9% Q-o-Q growth in profits, to INR 517 mn, led by revenue growth of INR 14%. Average daily trading volume inched up 15% Q-o-Q to INR 46 bn (from INR 36 bn in Q4FY10). Market share was sustained at 3.7% in Q2FY11.
- We expect industry-wide trading volumes to grow marginally through FY11 and FY12. Kotak Securities should be able to maintain its market share at ~4%, though commission yields may remain under pressure (due to increased proportion of options volume). We expect profits to remain more or less flat over FY10-12E.

Table 4: Kotak Securities – Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Revenues	1,980	2,345	(15.6)	1,744	13.5	8,379
PBT	774	1,161	(33.3)	674	14.8	4,039
PAT	517	759	(31.9)	474	9.1	2,601
PAT margin (%)	26.1	32.4		27.2		31.0
Avg daily volumes (INR bn)	46	41	12.2	40	15.0	39
Branches	1,281	962		1,210		1,113
Customers	603,000	525,598		575,000		557,000

Source: Company

Investment banking: Subdued once again

- Profitability of the investment banking business was once again subdued in Q2FY11 at INR 73 mn.
- It was involved in public offerings of Adani Enterprises (INR 40 bn), IDFC (INR 34 bn), SKS Microfinance (INR 16 bn), Gujarat Pipavav (INR 6 bn) etc. However, the management indicated that revenues from some of these deals will flow in H2FY11.
- Management sounded confident on the franchise and brand it has developed in the business and expects to improve profitability significantly over the coming years.

Table 5: Kotak Mahindra Capital Company – Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Total income	335	222	50.9	339	(1.2)	1,014
PBT	110	59	86.4	98	12.2	346
PAT	73	41	78.0	69	5.8	239

Source: Company

Asset management: MTM hit on liquid funds suppresses earnings

- Domestic asset management business reported loss of INR 39 mn as it has taken a one-time MTM hit on liquid funds (more than 90 days) due to the change in accounting proposed by the regulator w.e.f. from August 1, 2010. Instead of transmitting the loss to investors via negative NAVs, the company has incurred loss in its own book. Domestic MF AUMs remained flat Q-o-Q at INR 284 bn.
- The company has witnessed some strong flows in offshore funds, and AUMs advised/managed in the international book rose to USD 2 bn (from USD 1.6 bn in Q1FY11). However, upfront cost in raising these funds hit the overall profitability of international subsidiaries.

Table 6: Domestic asset management business - Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Revenues	192	510	(62.4)	375	(48.8)	1,755
PBT	(39)	295	(113.2)	130	(130.0)	1,096
PAT	(24)	195	(112.3)	89	(127.0)	724
Branches	82	82		82		82
AUMs	284,000	362,000	(21.5)	285,000	(0.4)	348,000
- equity AUMs	44,000	54,000	(18.5)	45,000	(2.2)	49,000
% of equity AUMs	15.5	14.9		15.8		14.1

Source: Company

Life insurance: Cost cutting underway

- The life insurance business reported profits of INR 134 mn, reflecting the benefit of strong renewal premium build-up and decline in operating expenses.
- Weighted new business premium (WGRP) grew 25% Y-o-Y to INR 2.8 bn; renewal premium formed 57% of gross written premium.
- Management reduced operating expenses by 20% Q-o-Q.
- Going forward, management will focus on increasing the proportion of traditional policies (up to 30%) in its product mix to maintain profitability post regulator imposed restriction on ULIP pricing.
- At end of Q2FY11, AUM stood at INR 76 bn, up 49% Y-o-Y and 11% Q-o-Q.
- Number of branches stood at 214 (Q1FY11 - 214, Q2FY10 - 203), reflecting a halt in the pace of branch expansion.

Table 7: Kotak Life Insurance - Key metrics

(INR mn)	Q2FY11	Q2FY10	Growth (%)	Q1FY11	Growth (%)	FY10
Gross premium inc. (INR mn)	7,348	5,859	25.4	5,577	31.8	28,680
Profit (INR mn)	134	44	204.5	(69)	NA	692
Branches	214	203		214		214
Individual insurance						
- Individual policies	1,110,038	955,951	16.1	1,088,926	1.9	1,081,268
- Individual sum assured (bn)	384	289	32.9	356	7.9	344
group insurance						
- group policies	702	589	19.2	681	3.1	656
- group sum assured (bn)	751	458	64.0	675	11.3	571

Source: Company

- **Outlook and valuations: Positive; maintain 'BUY'**

The bank has surprised positively in terms of advance growth and asset quality in H1FY11. We are inching up our advance growth estimate to 35-40% for FY11-12 (against 30-35% earlier). NIMs in the immediate term will be supported by equity infusion from Sumitomo Mitsui Banking. We, however, believe that structural shift in portfolio mix towards corporate and secured retail lending and increase in funding cost could pressurize NIMs. The bank has met RBI's requirement of 70% provisioning coverage, and credit cost going forward will be relatively lower. The macro environment for KMB is becoming more conducive with buoyant capital market activities and favourable credit cycle. The stock is currently trading at 2.7x FY12E book and 18.4x FY12E earnings (excluding life insurance). Our SOTP fair value for the stock stands at INR 540 per share for FY12E. Considering the buoyancy in capital market activities, we believe upsides to our fair value could flow from securities and investment banking related earnings. Stressed asset portfolio also carries a huge embedded value as recoverability is a significant multiple of the carrying value. We maintain 'BUY' on the stock and rate it 'Sector Performer' on relative returns.

Table 8: SOTP valuations

FY12E	Method	AUMs / earnings / book	Multiple (x)	Value of business (INR mn)	Kotak Bank's holding	Value (INR mn)	Value per share (INR)
Bank	PABV	72,654	3.0	219,414	100	219,414	299
Prime	PABV	15,972	3.0	48,554	100	48,554	66
Life insurance	Appraisal value	1,300		37,500	74	27,750	38
Securities / Invt banking	PE	3,679	18.0	66,360	100	66,360	90
MF/Offshore AUMs/PE	% of AUM	587,435	5.7	33,596	100	33,596	46
Total				405,424		395,674	540

Source: Company, Edelweiss research

Financial snapshot**(INR mn)**

Year to March	Q2FY11	Q2FY10	% Change	Q1FY11	% Change	FY10	FY11E	FY12E
Interest income	14,493	11,060	31.0	13,157	10.2	45,422	54,654	66,288
Interest exp	6,060	4,264	42.1	5,233	15.8	19,966	24,043	29,160
Net interest income	8,432	6,796	24.1	7,924	6.4	25,456	30,611	37,128
Non interest income	9,470	7,728	22.5	5,974	58.5	19,364	18,705	20,454
Non interest expenses	12,317	9,517	29.4	8,587	43.4	21,037	23,746	26,783
Pre-provision profit	5,586	5,007	11.6	5,311	5.2	23,783	25,571	30,800
Provisions	474	806	(41.1)	553	(14.2)	5,643	2,464	2,817
Profit before tax	5,111	4,201	21.7	4,759	7.4	18,141	23,107	27,983
Tax	1,580	1,272	24.2	1,511	4.6	5,797	7,661	9,277
Core profit	3,531	2,929	20.6	3,248	8.7	12,343	15,446	18,706
Minorities/affiliates	(24)	27	NA	98	NA	(35)	(300)	(200)
Attributable PAT	3,507	2,956	18.6	3,346	4.8	12,308	15,146	18,506

Ratios (%)

NII/GII (%)	58.2	61.4		60.2		56.0	56.0	56.0
Cost/income (%)	68.8	65.5		61.8		46.9	48.1	46.5
Provisions / PPOP	8.5	16.1		10.4		23.7	9.6	9.1
Tax rate (%)	30.9	30.3		31.7		32.0	33.2	33.2

■ Company Description

KMB is India's leading full services financial conglomerate, dominating the securities and investment banking space. It is currently focused on growing its banking, asset management, and insurance businesses. It began operations in 1986 as a bill discounting and leasing NBFC under Kotak Mahindra Finance and converted itself into a bank in 2003. The group has a widespread presence across 370 cities and services close to 5.6 mn customer accounts. Kotak Securities has a network of over 1000 offices, KMB has 267 branches, and Kotak Life has 214 branches. The group has a decent platform to cross-sell its products, given its presence in the financial spectrum. Kotak Securities has ~4% market share in overall market volumes and is one of the prominent domestic investment bankers. Amongst commercial banks, KMB is still at a nascent stage with ~0.7% share in advances and ~0.5 % share in deposits. It is developing its presence in the asset management and insurance businesses, where it has 3-5% market share.

■ Investment Theme

KMB has been conservative in lending through the whole of FY09, focusing more on asset quality, margins and being liquid (capital adequacy of 20%). Moreover, volatile capital market conditions led to depressed earnings in securities, IB and asset management businesses in FY09. However, business outlook is getting more favourable for KMB considering improving macro environment, higher activity levels in capital markets and increasing inflows into asset management. Also, asset quality and business growth outlook is looking better in the banking business (CV segment already showing signs of improvement and pace of incremental slippages slowing down in unsecured portfolio). We believe KMB is a better play on capital market revival, given its strong franchise, leadership positioning and quality management.

■ Key Risks

Our base case scenario of revival in macro environment in H2FY10, if deferred beyond anticipation, could adversely affect our growth assumptions, and hence, valuations.

We believe intense competition from global and local players in equity markets may pose a major challenge to KMB in maintaining its market share and leadership position.

Loss of key personnel could disrupt the company's operations and client relationships.

Our numbers build in the expansion in branch network, and therefore, improvement in the low cost deposit franchise. Delay in execution of these plans and higher than anticipated deterioration in asset quality could impact our earnings estimates.

Financial Statements

Income statement (consolidated excluding insurance)

(INR mn)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Interest income	35,906	42,238	45,422	54,654	66,288
Interest expended	18,802	22,010	19,966	24,043	29,160
Net interest income	17,104	20,228	25,456	30,611	37,128
Non interest income	21,793	13,051	19,364	18,705	20,454
- Fee & forex income	17,347	11,122	14,285	15,077	16,844
- Misc. income	4,314	1,869	4,989	3,549	3,530
- Investment profits	132	60	90	80	80
Net revenue	38,898	33,279	44,821	49,317	57,583
Operating expense	21,120	21,030	21,037	23,746	26,783
- Employee exp	9,838	8,819	8,976	10,436	12,025
- Other opex	11,283	12,211	12,061	13,309	14,758
Preprovision profit	17,777	12,249	23,783	25,571	30,800
Provisions	2,924	2,162	5,643	2,464	2,817
Profit before tax	14,853	10,087	18,141	23,107	27,983
Provision for tax	4,468	3,523	5,797	7,661	9,277
Profit After Tax	10,385	6,564	12,343	15,446	18,706
Extraordinaries	(49)	(86)	(35)	(300)	(200)
Reported PAT	10,336	6,478	12,308	15,146	18,506
Diluted EPS (INR)	15.0	9.4	17.7	20.6	25.2
Dividend per share (INR)	0.8	0.7	1.4	1.9	2.4
Dividend payout (%)	2.9	4.4	4.7	4.7	4.8

Growth ratios (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
NII growth	78.4	18.3	25.8	20.3	21.3
Fees growth	56.7	(35.9)	28.4	5.5	11.7
Opex growth	59.7	(0.4)	-	12.9	12.8
PPP growth	81.7	(31.1)	94.2	7.5	20.4
Provisions growth	120.4	(26.0)	161.0	(56.3)	14.3
Net profit growth	79.8	(36.5)	90.0	23.1	22.2

Balance sheet (consolidated excluding insurance)**(INR mn)**

As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Equity capital	3,447	3,457	3,481	3,670	3,670
Reserves & surplus	57,299	63,492	75,222	104,659	122,279
Net worth	60,745	66,949	78,704	108,329	125,949
Deposits	136,919	138,227	169,328	211,660	261,675
Borrowings	127,728	110,629	135,559	167,359	216,285
Other liabilities	52,892	74,790	81,372	108,416	135,409
Total liabilities	378,285	390,595	464,963	595,764	739,318
Loans	219,847	224,981	281,136	385,651	502,429
Investments	103,754	114,129	125,542	138,096	151,906
Cash and equivalents	28,481	24,882	25,448	29,373	32,116
Fixed assets	3,330	4,000	4,865	5,672	6,612
Other Assets	22,873	22,603	27,971	36,971	46,255
Total assets	378,285	390,595	464,963	595,764	739,318
Book value per share (INR)	88.1	96.8	113.0	147.6	171.6

RoE decomposition (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Net interest income/assets	5.3	5.3	6.0	5.8	5.6
Fees/Assets	6.7	3.4	4.6	3.5	3.1
Net revenues/assets	12.1	8.7	10.6	9.4	8.7
Operating expense/assets	6.6	5.5	5.0	4.5	4.0
Provisions/assets	0.9	0.6	1.3	0.5	0.4
Taxes/assets	1.4	0.9	1.4	1.5	1.4
Total costs/assets	8.8	7.0	7.7	6.5	5.9
ROA	3.2	1.7	2.9	2.9	2.8
Equity/assets	14.7	16.8	17.2	17.8	17.7
ROAE	21.9	10.3	16.9	16.5	16.0

Valuation parameters

Year to March	FY08	FY09	FY10	FY11E	FY12E
Diluted EPS (INR)	15.0	9.4	17.7	20.6	25.2
Y-o-Y growth (%)	68.2	(37.5)	88.7	16.7	22.2
Book value per share (INR)	88.1	96.8	113.0	147.6	171.6
Adjusted book value per share (INR)	85.3	92.8	109.4	145.6	169.8
Diluted PE (x)	33.5	53.5	28.4	24.3	19.9
Price/ BV (x)	5.7	5.2	4.4	3.4	2.9
Price/ ABV (x)	5.9	5.4	4.6	3.4	3.0
Dividend yield (%)	0.1	0.1	0.3	0.4	0.5
Price/Earnings (x)*	31.2	50.0	26.5	22.7	18.4
Price/ BV (x)*	5.3	4.8	4.1	3.2	2.7

*adjusted for insurance



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SO	H	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SO	L	Federal Bank	BUY	SO	M
HDFC	HOLD	SU	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	H
Infrastructure Development Finance Co Ltd	HOLD	SU	M	ING Vysya	BUY	SP	H
Karnataka Bank	BUY	SO	L	Kotak Mahindra Bank	BUY	SP	L
LIC Housing Finance	BUY	SP	M	Manappuram General Finance	HOLD	SU	M
Oriental Bank Of Commerce	BUY	SU	H	Power Finance Corp	BUY	SO	L
Punjab National Bank	BUY	SO	L	Reliance Capital	HOLD	SP	M
Rural Electrification Corporation	BUY	SO	L	Shriram City Union Finance	BUY	SP	H
South Indian Bank	BUY	SO	H	SREI Infrastructure Finance	UNDER REVIEW	SO	L
State Bank of India	BUY	SP	L	Syndicate Bank	BUY	SP	H
Union Bank Of India	BUY	SO	L	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



Edelweiss Securities Limited, 14th Floor, Express Towers, Nariman Point, Mumbai – 400 021.
Board: (91-22) 2286 4400, Email: research@edelcap.com

Vikas Khemani Head Institutional Equities vikas.khemani@edelcap.com +91 22 2286 4206
Nischal Maheshwari Head Research nischal.maheshwari@edelcap.com +91 22 6623 3411

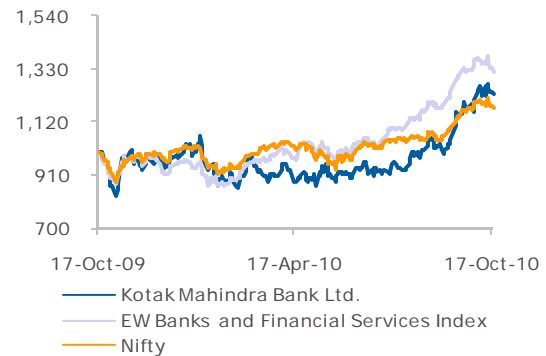
Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Manappuram General Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Syndicate Bank, SREI Infrastructure Finance, Union Bank Of India, ING Vysya, Yes Bank

Kotak Mahindra Bank



EW Indices



Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	116	45	12	176
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	110	53	13	

Recent Research

Date	Company	Title	Price (INR)	Recos
20-Oct-10	Yes Bank	Growth unlimited; Result Update	352	Buy
19-Oct-10	HDFC Bank	Marching on; Result Update	2,369	Hold
19-Oct-10	Manappuram General Finance	Growth strong; valuations fair; Result Update	139	Hold

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