



## Kotak Mahindra Bank

BSE SENSEX 19,047  
S&P CNX 5,712

**Rs419**

**Neutral**

Bloomberg KMB IN  
Equity Shares (m) 729.1  
52-Week Range 530/350  
1,6,12 Rel.Perf.(%) -3/1/-13  
M.Cap. (Rs b) 305.5  
M.Cap. (US\$ b) 6.7

YEAR	NET INCOME	PAT	EPS	EPS	P/E	BY	P/BY	P/ABY	ROAA	ROAE
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(RS)	(X)	(X)	(%)	(%)
3/10A	49,017	12,402	17.8	88.1	23.5	113.6	3.7	3.8	2.7	17.9
3/11E	52,118	14,198	19.5	9.3	21.5	149.7	2.8	2.8	2.3	15.6
3/12E	57,009	16,978	23.3	19.6	18.0	174.1	2.4	2.4	2.1	14.8
3/13E	69,163	20,394	28.0	20.1	15.0	202.6	2.1	2.1	2.0	15.3

Net Income and PAT Consolidated Ex life Insurance

Kotak Mahindra Bank's consolidated PAT for 3QFY11 grew 5% QoQ and 16% YoY to Rs3.6b (in line with our estimate). Excluding life insurance business profits, PAT grew 3% QoQ and 15% YoY to Rs3.6b.

### Lending business

- Lending business' consolidated profit grew 44% YoY and 8% QoQ to Rs2.8b (in line with our estimate). However, standalone PAT fell 4% QoQ and 32% YoY to Rs1,879m (9% lower than our estimate), led by higher than expected opex. Standalone opex grew 18% QoQ, 43% YoY and C/I ratio increased to 57% from 52% a quarter earlier.
- Consolidated reported 3QFY11 NIM was 5.4% v/s 5.6% a quarter earlier and 6.2% a year earlier. While 5.4% NIM includes capital raising impact of ~20bp, it does not include recovery of interest on large-ticket accounts in KMPL.
- For KMPL (NBFC; car financing business), PAT grew 53% QoQ and 89% YoY to Rs937m, led by one large-ticket recovery during the quarter.
- Consolidated loans grew 7% QoQ and 37% YoY to Rs400b, led by strong growth in CV, home and agri loans. Corporate loans grew 5% QoQ and 30% YoY.

### Other businesses

- Capital market related business (broking and IB) reported 8% QoQ and 10% YoY decline in profit to Rs466m (14% lower than our estimate). K-Sec's PAT declined 10% QoQ and 21% YoY due to 50bp YoY decline in market share, adverse volume mix for the industry, and intense competition leading to high opex.
- For investment banking (KMCC), while deal flows remain strong, pressure on profitability persists. PAT remained stable QoQ on a lower base.
- Asset management: Total AUM stood at Rs510b v/s Rs497b a quarter ago. AMC business profit declined 63% YoY (+3% QoQ) on the back of 30% YoY decline in AUM coupled with persistent pressure on profitability.

**Valuation and view:** We expect earnings CAGR (ex insurance) of 18% over FY10-13 and estimate EPS at Rs19.5 for FY11, Rs23.3 for FY12 and Rs28 for FY13. BV would be Rs150 in FY11, Rs174 in FY12 and Rs203 in FY13. The stock trades at 2.4x FY12E BV and 18x FY12E EPS (adjusted for value of insurance business). Maintain **Neutral**.

### EARNINGS SNAPSHOT (RS M)

Business		3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
		FY11	FY11	Gr %	FY10	Gr %	FY11	FY10	Gr %
Kotak Mahindra Bank (Standalone)	Banking Business	1,879	1,947	-4	1,424	32	5,695	3,586	59
Kotak Mahindra Prime	Auto loans, debt capital markets	937	613	53	494	89	2,310	1,078	114
Kotak Mahindra Investments	Primarily LAS	28	80	-65	61	-55	183	278	-34
<b>Lending Business</b>		<b>2,843</b>	<b>2,640</b>	<b>8</b>	<b>1,980</b>	<b>44</b>	<b>8,188</b>	<b>4,943</b>	<b>66</b>
Kotak Mahindra Capital Company	Investment banking	76	73	4	16	NA	219	105	108
Kotak Securities	Broking and distribution	466	517	-10	592	-21	1,458	2,093	-30
<b>Capital Market Business</b>		<b>543</b>	<b>591</b>	<b>-8</b>	<b>608</b>	<b>-11</b>	<b>1,676</b>	<b>2,199</b>	<b>-24</b>
International subsidiaries	Asset Mgt and IB	82	123	-33	226	-64	361	665	-46
Kotak Mahindra AMC & Trustee Co	Mutual funds management	72	-24	NA	229	-68	137	577	-76
Kotak Investment Advisors	Alternate asset management	54	105	-48	115	-53	268	327	-18
<b>Asset Management Business</b>		<b>209</b>	<b>204</b>	<b>3</b>	<b>569</b>	<b>-63</b>	<b>767</b>	<b>1,568</b>	<b>-51</b>
Kotak Life Insurance		236	134	76	193	NA	301	248	22
<b>Consol. PAT</b>		<b>3,836</b>	<b>3,641</b>	<b>5</b>	<b>3,314</b>	<b>16</b>	<b>10,754</b>	<b>8,885</b>	<b>21</b>
Consolidation Adjust.		5	72		-35		-179	-73	

### Lending business: consolidated loans up 37% YoY

Consolidated loans grew 7% QoQ and 37% YoY, largely driven by home loans (+63% YoY, +11% QoQ), corporate loans (+30% YoY, +5% QoQ), CV loans (+48% YoY, +12% QoQ) and agri loans (+6% QoQ, +27% YoY). Risk appetite for personal loans is improving, with the book growing 6% QoQ though down 18% YoY.

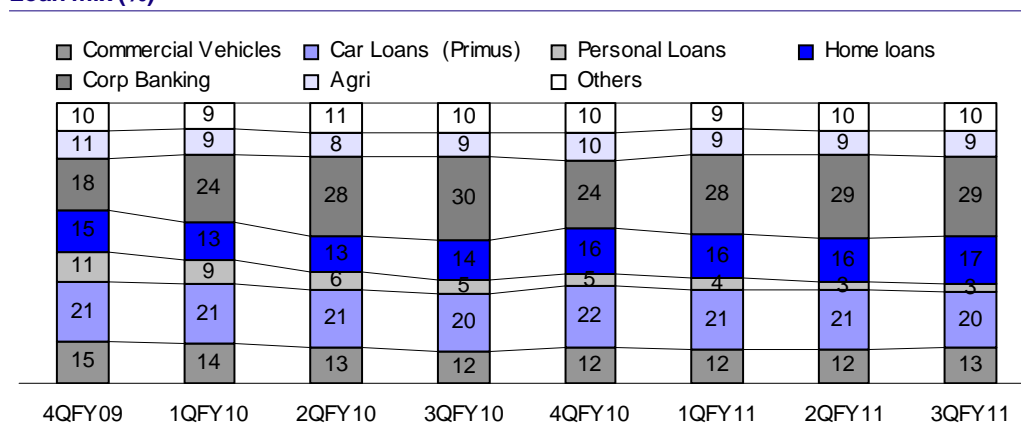
#### Consolidated asset book (Rs m)

	3QFY11	3QFY10	YoY Gr %	2QFY11	QoQ Gr %
Commercial Vehicles	50,586	34,246	47.7	45,362	11.5
Car Loans (Primus)	79,935	58,859	35.8	78,465	1.9
Personal Loans	12,268	14,924	-17.8	11,593	5.8
Home loans	66,261	40,745	62.6	59,832	10.7
Corp Banking	115,940	89,346	29.8	110,389	5.0
Agri	37,528	24,973	50.3	33,283	12.8
Others	38,445	30,278	27.0	36,225	6.1
<b>Total Loans</b>	<b>400,963</b>	<b>293,371</b>	<b>36.7</b>	<b>375,149</b>	<b>6.9</b>
<b>Invt / Treasury Assets</b>	<b>157,690</b>	<b>127,161</b>	<b>24.0</b>	<b>148,729</b>	<b>6.0</b>

Source: Company/MOSL

*Corporate, auto, home and CV loans driving growth*

#### Loan mix (%)



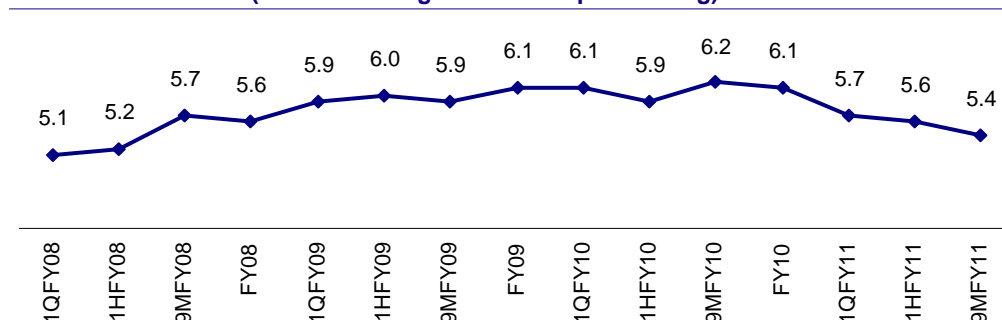
*Loan book profile changing in favor of safer loans*

Source: Company/MOSL

### Margin contraction higher than expected

Consolidated reported NIM was 5.4% v/s 5.6% a quarter ago and 6.2% a year ago. While reported NIM of 5.4% includes capital raising impact of ~20bp, it does not include the recovery of interest on the large-ticket account in KMPL. Increasing proportion of secured loans and rise in cost of funds is leading to moderation in margins. Cost of funds has increased 82bp (calculated) QoQ.

#### NIM declined to 5.4% (5.2% excluding benefit of capital raising)



*Increased proportion of secured loans and higher cost of funds lead to moderation in NIM*

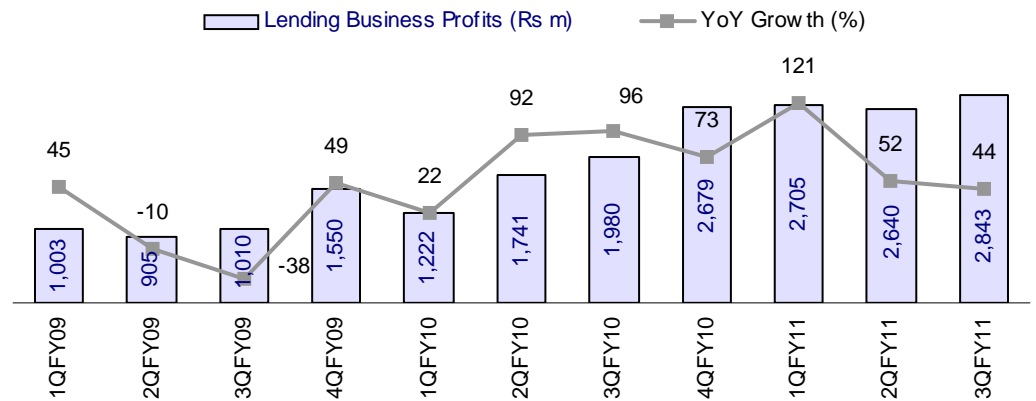
Source: Company/MOSL

**KMPL driving sequential growth in lending business profit**

Profit from lending business (Kotak Bank standalone, Kotak Prime and Kotak Investment) increased 44% YoY and 8% QoQ. We attribute this to (a) strong loan growth of 37% YoY, (b) sharp drop in credit cost, and (c) one-off NPA recovery during the quarter. On a QoQ basis, standalone bank PAT declined 4% (despite capital raising benefit), as opex increased sharply and MTM provisions took a toll on earnings.

**Lending business profit grew 44% YoY on a lower base**

*KMPL driving sequential growth in lending business profit*



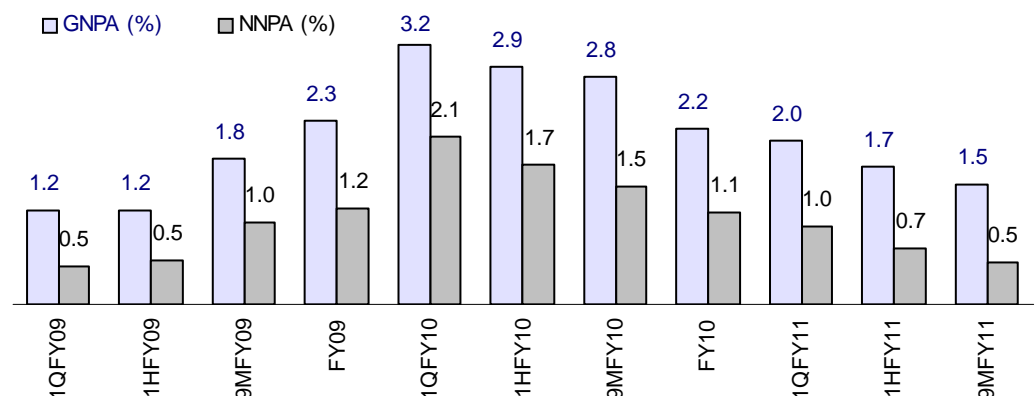
Source: Company/MOSL

**Asset quality improves further QoQ**

In absolute terms, consolidated GNPA (excluding stress assets) declined ~6% QoQ and coverage ratio excluding technical write-offs increased to 68% (v/s 63% a quarter ago). Consolidated GNPA ratio (excluding stress assets) decreased to 1.5% from 1.7% in 2QFY11. NNPA ratio decreased to 0.5% from 0.7% a quarter ago. Management attributed the impressive asset quality performance to fall in incremental slippages and higher recoveries and upgradations.

**NPA trends excluding acquired stressed assets**

*Decline in GNPA and NNPA ratio led by lower slippages; bank (standalone) PCR increases to 72% from 70% a quarter ago*



Source: Company/MOSL

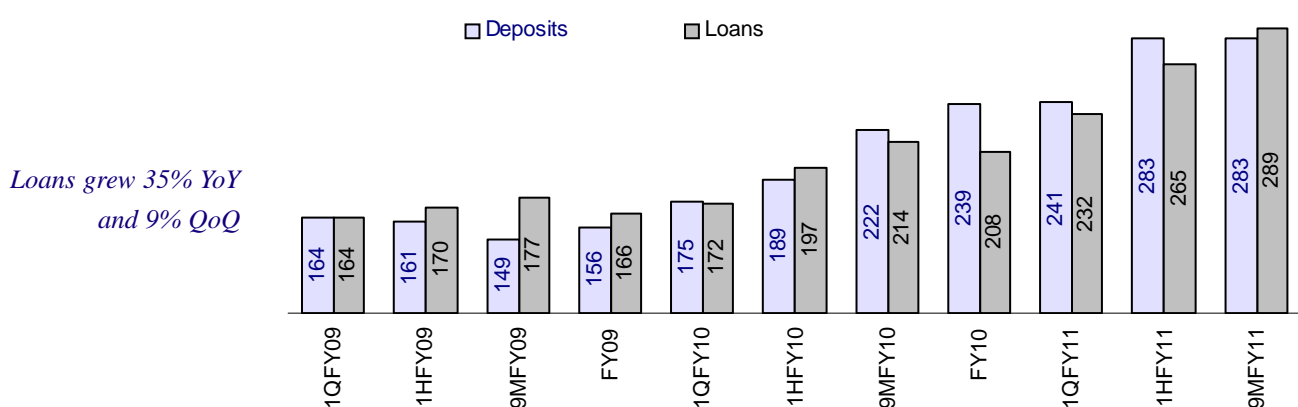
### Banking: higher opex and pressure on margins taking a toll on profitability

Kotak Bank's standalone profit increased 32% YoY (down 4% QoQ) in 3QFY11. Banking PAT was ~9% lower than estimated, as (1) opex grew sharply QoQ, (2) margins were lower than expected, and (3) the bank has booked higher MTM losses of Rs225m+ during the quarter. Margins have declined ~20bp despite capital raising. Sharp rise in opex was due to (1) higher brand building expenditure (for 25 years of completion), (2) opening of 30 branches, and (3) mid-year increments to senior managers during the quarter.

### Business growth remains strong

Loans grew 9% QoQ and 35% YoY to Rs288b. Corporate loans were up 5% QoQ and 23% YoY. Mortgages, CV loans and agri loans remain the key drivers of the standalone loan book. Deposits grew 28% YoY (flat QoQ) to Rs283b. 2QFY11 included one-off float money of Rs12b, adjusted for which deposits grew 5% QoQ. Core CASA ratio declined to 28% v/s 28.8% a quarter ago. Treasury assets increased 12% YoY and 3% QoQ to Rs143b.

#### Loan, deposit movement (Rs b)



Source: Company/MOSL

### Asset quality has improved further

Kotak Bank's standalone GNPA excluding stress assets remained flat QoQ in absolute terms. Including stress assets, calculated coverage ratio was 68% (v/s 66% a quarter ago) and reported coverage ratio (including technical write-offs) stood at 72% (v/s 70% a quarter ago). As the bank has already reached 70% PCR and net slippages are lower, we expect credit cost to remain low.

### Other highlights

- Tier-I CAR at ~18.2% remains one of the best.
- Branch network expanded to 297 from 267 a quarter ago. The management is targeting to scale up branch network to 320 by the end of FY11 and 500 by the end of FY13.

### Kotak Prime: extraordinary income leading to higher than expected profit

Kotak Prime's total income grew 22% QoQ and 51% YoY to Rs3.84b in 3QFY11. The sharp increase in income is attributed to one-off recoveries under KMPL. According to

## KOTAK MAHINDRA BANK: QUARTERLY PERFORMANCE (STANDALONE)

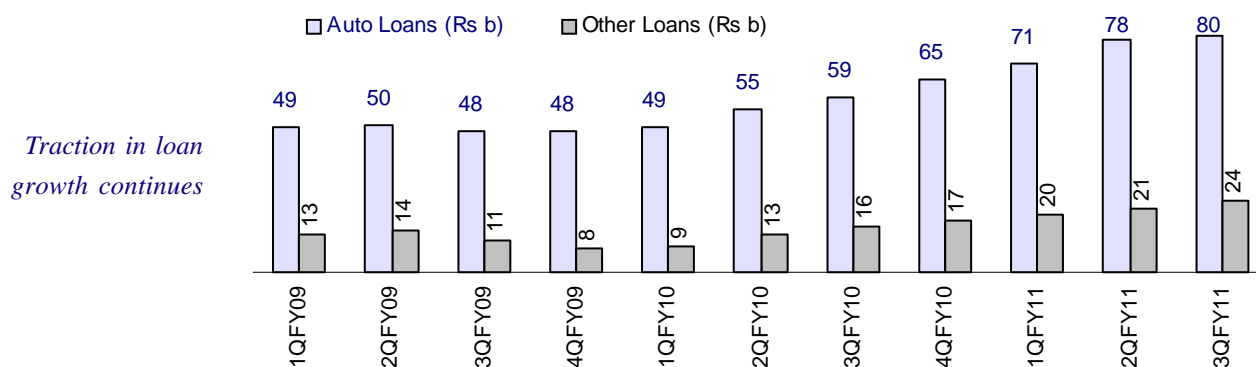
(RS MILLION)

	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	7,673	7,751	8,324	8,808	9,208	10,147	11,354	12,700	32,556	43,409
Interest Expense	3,583	3,387	3,458	3,547	4,126	4,709	5,639	6,987	13,975	21,461
<b>Net Interest Income</b>	<b>4,090</b>	<b>4,365</b>	<b>4,867</b>	<b>5,260</b>	<b>5,082</b>	<b>5,438</b>	<b>5,715</b>	<b>5,713</b>	<b>18,581</b>	<b>21,948</b>
% Change (Y-o-Y)	16.0	19.4	27.2	25.9	24.3	24.6	17.4	8.6	22.4	18.1
Other Income	1,266	1,090	1,448	2,515	1,371	1,393	1,653	1,686	6,282	6,103
<b>Net Income</b>	<b>5,356</b>	<b>5,455</b>	<b>6,314</b>	<b>7,775</b>	<b>6,453</b>	<b>6,832</b>	<b>7,368</b>	<b>7,399</b>	<b>24,864</b>	<b>28,052</b>
% Change (Y-o-Y)	23.0	28.0	28.5	45.9	20.5	25.2	16.7	-4.8	38.7	12.8
Operating Expenses	2,516	3,013	2,945	3,419	3,299	3,564	4,221	4,086	11,894	15,170
<b>Operating Profit</b>	<b>2,840</b>	<b>2,442</b>	<b>3,369</b>	<b>4,356</b>	<b>3,153</b>	<b>3,268</b>	<b>3,147</b>	<b>3,313</b>	<b>12,970</b>	<b>12,881</b>
% Change (Y-o-Y)	129.8	117.1	70.6	69.9	11.0	33.8	-6.6	-23.9	117.7	-0.7
Other Provisions	1,571	773	1,277	1,276	561	455	427	293	4,859	1,735
<b>Profit Before Tax</b>	<b>1,269</b>	<b>1,670</b>	<b>2,092</b>	<b>3,080</b>	<b>2,592</b>	<b>2,812</b>	<b>2,721</b>	<b>3,020</b>	<b>8,111</b>	<b>11,146</b>
Tax Provisions	366	411	669	1,055	723	865	842	913	2,500	3,344
<b>Net Profit</b>	<b>903</b>	<b>1,259</b>	<b>1,424</b>	<b>2,025</b>	<b>1,869</b>	<b>1,947</b>	<b>1,879</b>	<b>2,107</b>	<b>5,611</b>	<b>7,802</b>
% Change (Y-o-Y)	65.6	163.0	100.2	97.4	107.0	54.6	31.9	4.1	103.2	39.0
Int Exp/Int Income Ratio (%)	46.7	43.7	41.5	40.3	44.8	46.4	49.7	55.0	42.9	49.4
Cost to Income Ratio (%)	47.0	55.2	46.6	44.0	51.1	52.2	57.3	55.2	47.8	54.1
Tax Rate (%)	28.8	24.6	32.0	34.3	27.9	30.8	30.9	30.2	30.8	30.0

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

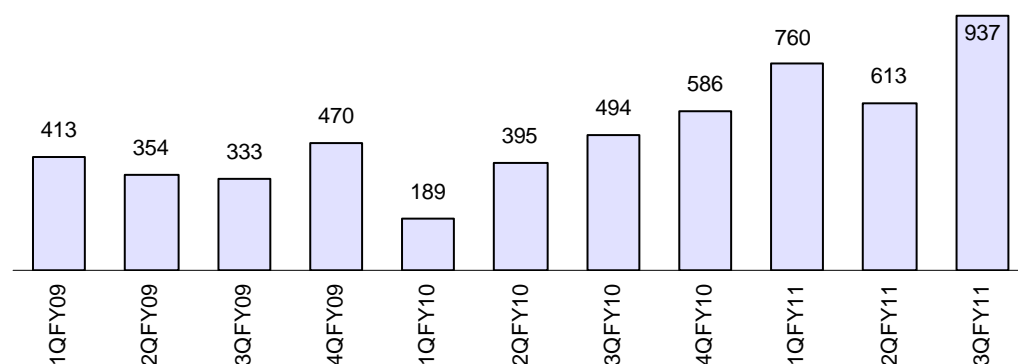
the management, spreads have started compressing QoQ. Auto loans were up 36% YoY and 2% QoQ at Rs79.9b. Other loans were up 15% QoQ and 57% YoY to Rs24.5b. Overall loans grew 5% QoQ and 40% YoY to Rs104b. Net NPAs on car finance improved QoQ to 0.23% v/s 0.27% (0.45% in 3QFY10).

## Trend in loans for KMPL



## Trend in PAT (Rs m)

*One-off profits leading to strong profitability QoQ*

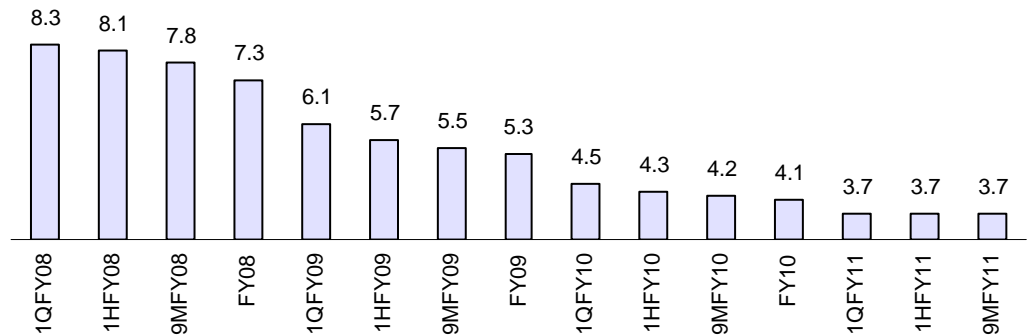


Source: Company/MOSL

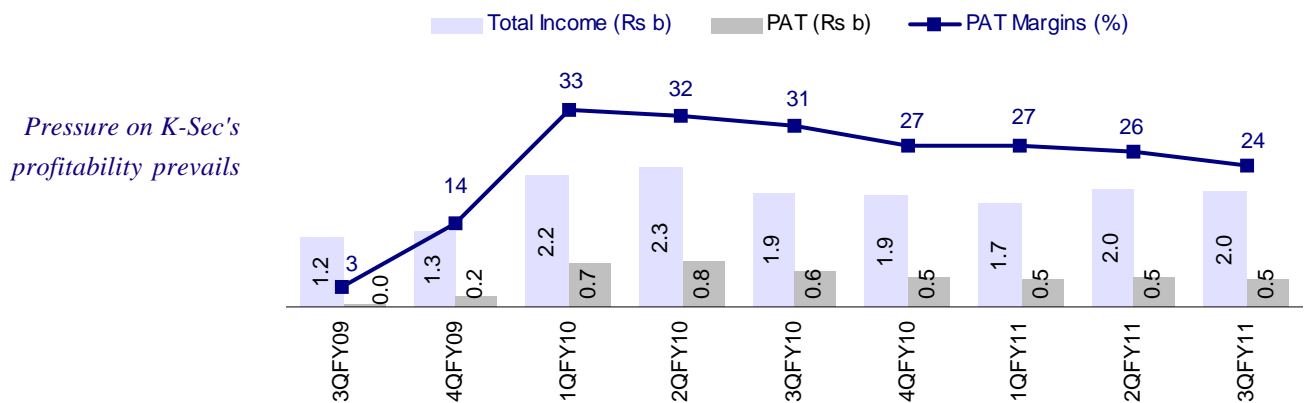
**Capital market business: disappointment continues**

Kotak Securities' 3QFY11 PAT declined 21% YoY and 10% QoQ to Rs466m. Market share (9M v/s 1H) remained steady at 3.7% (drop of ~50bp YoY). While volumes increased, fall in yields (due to adverse mix) and increased competition kept PAT margins under pressure. For investment banking (KMCC), while deal flows remain strong, pressure on profitability persists. PAT remained stable QoQ on a lower base.

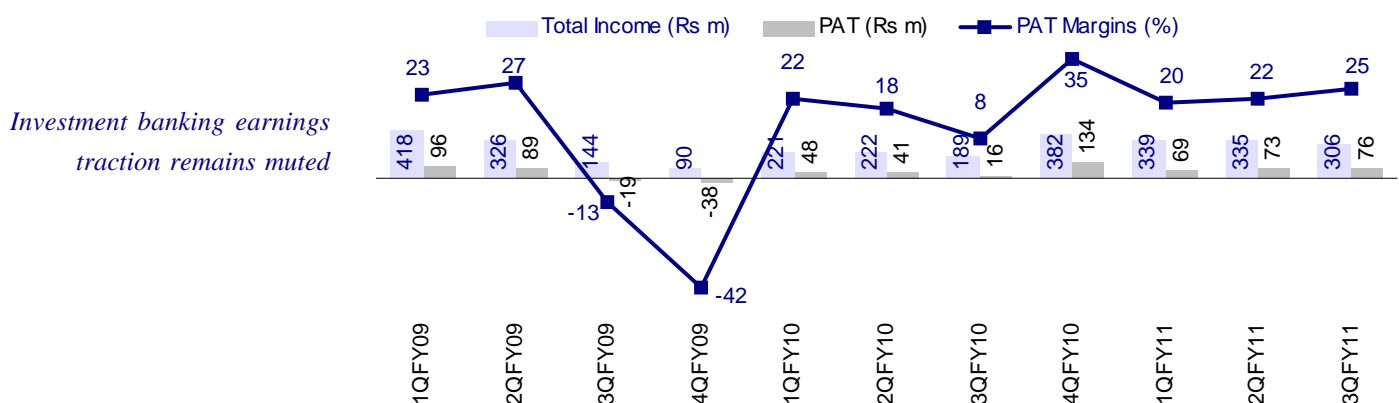
**K-Sec: market share decline arrested (%)**



**K-Sec: earnings trend**



**KMCC: earnings trend**



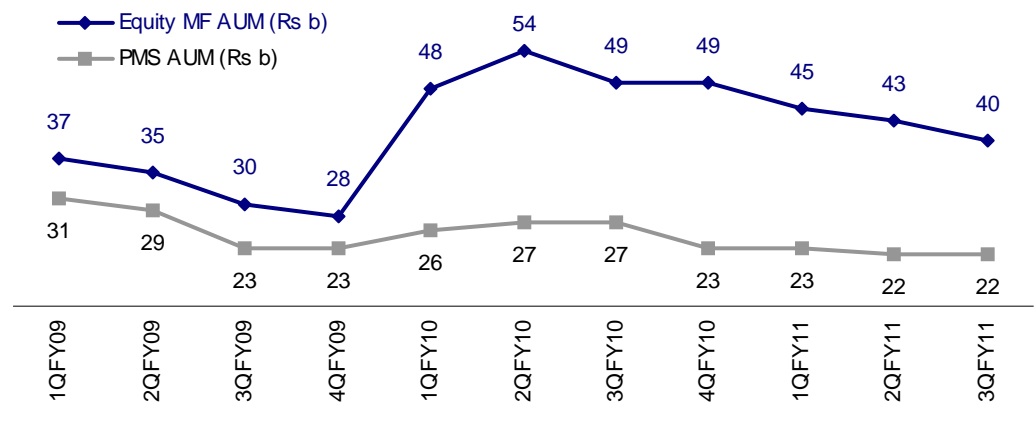
Source: Company/MOSL

**Asset management: profitability remains under pressure**

Overall, AUM remained largely flat QoQ and YoY at Rs510b. However, on a YoY basis, domestic AUM declined 30% YoY to Rs276b and remained stable QoQ. Profitability of

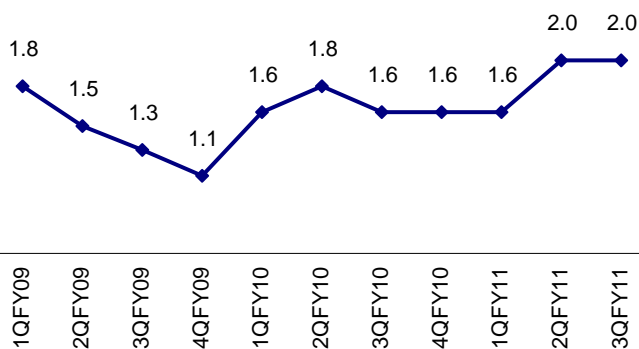
AMC business remains under pressure, with overall profit of Rs209m v/s our expectation of Rs310m. AMC business profit declined 63% YoY, as growth remains under pressure and profitability declined due to increased competition. International subsidiaries also reported decline in profits to Rs82m from Rs123m a quarter ago and Rs226m a year ago.

**Domestic equity AUM largely stable QoQ (Rs b)**

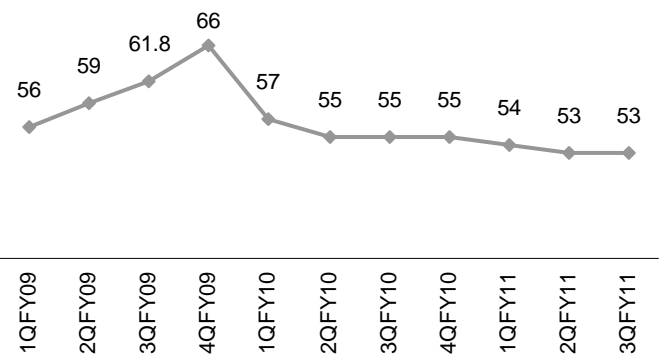


Source: Company/MOSL

**Offshore AUM stable QoQ (US\$ b)**



**Alternative assets stable QoQ (Rs b)**



Source: Company/MOSL

**Life insurance: gross premium declines 15% QoQ and YoY; PAT at Rs236m**

Kotak Life Insurance premium income declined 15% QoQ and YoY to Rs6.1b in 3QFY11. First year regular premium declined ~40% QoQ and YoY to Rs1.6b. Renewal to total premium ratio improved to 69% v/s 58% a quarter ago and 52% a year ago. Life insurance reported PAT of Rs236m v/s Rs134m a quarter ago and Rs193m in 3QFY10. With the recent regulatory changes, concerns on profitability prevail. AUM increased to Rs78b from Rs57b a year ago and Rs76b a quarter ago.

**Trend in segment-wise profitability**

Proportion of lending business profitability in overall business continues to be high at ~75%. Share of capital market and asset management business continues to head downward and contribution of life insurance business remains volatile. On the back of competitive pressures, the share of capital market and asset management will remain tepid. Strong growth in lending business will continue to drive overall growth.

## Trend in segment-wise profitability

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
<b>Total lending profits</b>	<b>1,003</b>	<b>905</b>	<b>1,010</b>	<b>1,550</b>	<b>1,222</b>	<b>1,741</b>	<b>1,980</b>	<b>2,679</b>	<b>2,705</b>	<b>2,640</b>	<b>2,843</b>
QoQ Growth (%)	-4	-10	12	53	-21	42	14	35	1	-2	8
YoY Growth (%)	45	-10	-38	49	22	92	96	73	121	52	44
% Share to total profits	73	55	73	68	48	56	59	65	77	74	74
<b>Capital market related business</b>	<b>531</b>	<b>499</b>	<b>21</b>	<b>142</b>	<b>791</b>	<b>800</b>	<b>608</b>	<b>641</b>	<b>543</b>	<b>591</b>	<b>543</b>
QoQ Growth (%)	-58	-6	-96	586	458	1	-24	6	-15	9	-8
YoY Growth (%)	-34	-66	-99	-89	49	60	2835	352	-31	-26	-11
% Share to total profits	39	30	1	6	31	26	18	16	15	17	14
<b>AMC Businesses</b>	<b>232</b>	<b>184</b>	<b>266</b>	<b>202</b>	<b>501</b>	<b>499</b>	<b>569</b>	<b>357</b>	<b>355</b>	<b>204</b>	<b>209</b>
QoQ Growth (%)	1	-21	45	-24	148	-1	14	-37	-1	-43	3
YoY Growth (%)	114	92	-37	-12	116	171	114	77	-29	-59	-63
% Share to total profits	17	11	19	9	20	16	17	9	10	6	5
<b>Kotak Mah. Old Mutual Life Insur.</b>	<b>-398</b>	<b>51</b>	<b>94</b>	<b>397</b>	<b>11</b>	<b>44</b>	<b>193</b>	<b>444</b>	<b>-69</b>	<b>134</b>	<b>236</b>
QoQ Growth (%)	-2439	-113	84	324	-97	293	343	130	-116	-295	76
YoY Growth (%)	118	-124	-159	2233	-103	-14	107	12	-723	208	22
% Share to total profits	-29	3	7	17	0	1	6	11	-2	4	6
<b>Others</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>1</b>	<b>-1</b>	<b>-1</b>
<b>Consolidated PAT</b>	<b>1,372</b>	<b>1,639</b>	<b>1,391</b>	<b>2,291</b>	<b>2,524</b>	<b>3,082</b>	<b>3,348</b>	<b>4,120</b>	<b>3,534</b>	<b>3,568</b>	<b>3,830</b>
QoQ Growth (%)	-46	19	-15	65	10	22	9	23	-14	1	7
YoY Growth (%)	-4	-31	-61	-10	84	88	141	80	40	16	14
% Share to total profits	100	100	100	100	100	100	100	100	100	100	100
<b>Total consolidated PAT ex Life</b>	<b>1,770</b>	<b>1,588</b>	<b>1,297</b>	<b>1,895</b>	<b>2,513</b>	<b>3,039</b>	<b>3,154</b>	<b>3,676</b>	<b>3,603</b>	<b>3,433</b>	<b>3,594</b>
QoQ Growth (%)	-30	-10	-18	46	33	21	4	17	-2	-5	5
YoY Growth (%)	10	-39	-65	-25	42	91	143	94	43	13	14
% Share to total profits	129	97	93	83	100	99	94	89	102	96	94

Source: Company/MOSL

## Valuation and view

We expect earnings CAGR (ex insurance) of 18% over FY10-13 and estimate EPS at Rs19.5 for FY11, Rs23.3 for FY12 and Rs28 for FY13. BV would be Rs150 in FY11, Rs174 in FY12 and Rs203 in FY13. On the back of higher capitalization, we expect RoE to be ~15% in the next two years. The stock trades at 2.4x FY12E BV and 18x FY12E EPS (adjusted for value of insurance business). Maintain **Neutral**.

## KOTAK GROUP EARNINGS SNAPSHOT (RS M)

	BUSINESS	FY09	FY10	FY11E	FY12E	FY13E
Kotak Mahindra Bank (Standalone)	Banking Business	2,761	5,611	7,802	9,317	11,561
Kotak Mahindra Prime	Auto loans, debt capital markets	1,570	1,664	2,891	3,239	3,765
Kotak Mahindra Investments	Primarily LAS	137	347	245	458	537
<b>Lending Business</b>		<b>4,468</b>	<b>7,622</b>	<b>10,939</b>	<b>13,013</b>	<b>15,863</b>
International subsidiaries	Asset management and inv. banking	243	818	444	661	745
Kotak Mahindra AMC & Trustee Co	Mutual funds management	161	725	245	172	178
Kotak Investment Advisors	Alternate asset management	480	398	369	494	543
<b>Asset Management Business</b>		<b>885</b>	<b>1,940</b>	<b>1,057</b>	<b>1,327</b>	<b>1,466</b>
Kotak Securities	Broking and distribution	1,065	2,601	1,903	2,281	2,644
Kotak Mahindra Capital Company	Investment banking	128	239	299	356	420
<b>Capital Market Business</b>		<b>1,193</b>	<b>2,840</b>	<b>2,202</b>	<b>2,638</b>	<b>3,064</b>
Others		4	-19	0	0	0
<b>Consol. PAT excluding Kotak Life</b>		<b>6,546</b>	<b>12,402</b>	<b>14,198</b>	<b>16,978</b>	<b>20,394</b>
YoY Growth (%)		-37	89	14	20	20
<b>Kotak OM Life Insurance</b>	Life insurance	<b>143</b>	<b>692</b>	<b>600</b>	<b>720</b>	<b>864</b>
Consolidation Adjust.		-165	-24	-144	-173	-207
<b>Consol. PAT Including Kotak Life</b>		<b>6,524</b>	<b>13,070</b>	<b>14,654</b>	<b>17,525</b>	<b>21,050</b>
YoY Growth (%)		-34	100	12	20	20

Source: Company/MOSL



## Profit contribution segment wise

## KOTAK GROUP EARNINGS SNAPSHOT (RS M)

	BUSINESS	FY09	FY10E	FY11E	FY12E	FY13E
Kotak Mahindra Bank (Standalone)	Banking Business	42	43	53	53	55
Kotak Mahindra Prime	Auto loans, debt capital markets	24	13	20	18	18
Kotak Mahindra Investments	Primarily LAS	2	3	2	3	3
<b>Lending Business</b>		<b>68</b>	<b>58</b>	<b>75</b>	<b>74</b>	<b>75</b>
International subsidiaries	Asset management and inv. banking	4	6	3	4	4
Kotak Mahindra AMC & Trustee Co	Mutual funds management	2	6	2	1	1
Kotak Investment Advisors	Alternate asset management	7	3	3	3	3
<b>Asset Management Business</b>		<b>14</b>	<b>15</b>	<b>7</b>	<b>8</b>	<b>7</b>
Kotak Securities	Broking and distribution	16	20	13	13	13
Kotak Mahindra Capital Company	Investment banking	2	2	2	2	2
<b>Capital Market Business</b>		<b>18</b>	<b>22</b>	<b>15</b>	<b>15</b>	<b>15</b>
Others		0	0	0	0	0
<b>Consol. PAT excluding Kotak Life</b>		<b>100</b>	<b>95</b>	<b>97</b>	<b>97</b>	<b>97</b>
<b>Kotak OM Life Insurance</b>	Life insurance	<b>2</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Consol. PAT Including Kotak Life</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Kotak Mahindra: SOTP Valuation (FY12-based)

	VALUE (RS B)	VALUE (US\$ B)	RS PER SHARE	% TO TOTAL	RATIONALE
<b>Lending Business</b>	<b>252.5</b>	<b>5.5</b>	<b>346</b>	<b>77</b>	
Kotak Mahindra Bank	214.8	4.7	295	65	3x FY12E Core NW, ~1.6% RoA and ~14% Core RoE
Kotak Prime (Car and other loans)	34.7	0.8	48	11	2x FY12E Net Worth, 20% RoE
Kotak Investment Company (LAS)	3.0	0.1	4	1	1x FY12E Net Worth, 16% RoE
<b>Asset Management Business</b>	<b>23.3</b>	<b>0.5</b>	<b>32</b>	<b>7</b>	
Domestic Mutual Fund	10.4	0.2	14	3	3.3% of FY12E AUM of Rs318
Offshore Funds	4.7	0.1	6	1	5% of FY12E AUM of US\$2b
Alternative Assets	8.2	0.2	11	2	12% of FY12E AUM of Rs68b
<b>Capital Markets related Business</b>	<b>35.3</b>	<b>0.8</b>	<b>48</b>	<b>11</b>	
Kotak Securities	27.4	0.6	38	8	12x FY12E EPS
Kotak Investment Banking (KMCC)	7.9	0.2	11	2	2.5x FY12E Free Network
<b>Kotak Life Insurance</b>	<b>18.7</b>	<b>0.4</b>	<b>26</b>	<b>6</b>	15x FY12E NBAP, APE CAGR of ~10% in FY10-13
<b>Target Value</b>	<b>329.8</b>	<b>7.2</b>	<b>452</b>	<b>100</b>	
Current value / market price	305.5	6.7	419		
<b>Upside (%)</b>	<b>8.0</b>	<b>0.2</b>	<b>8.0</b>		

Source: MOSL

## Financials and Valuation

**KOTAK MAHINDRA BANK (STAND ALONE)****INCOME STATEMENT (STANDALONE)****(RS MILLION)**

<b>Y/E MARCH</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Interest Income	30,651	32,556	43,409	57,495	72,212
Interest Expended	15,466	13,975	21,461	30,684	38,407
<b>Net Interest Income</b>	<b>15,185</b>	<b>18,581</b>	<b>21,948</b>	<b>26,811</b>	<b>33,805</b>
<i>Change (%)</i>	<i>23.9</i>	<i>22.4</i>	<i>18.1</i>	<i>22.2</i>	<i>26.1</i>
Other Income	2,736	6,282	6,103	7,679	9,027
<b>Net Income</b>	<b>17,922</b>	<b>24,864</b>	<b>28,052</b>	<b>34,490</b>	<b>42,832</b>
<i>Change (%)</i>	<i>6.1</i>	<i>38.7</i>	<i>12.8</i>	<i>23.0</i>	<i>24.2</i>
Operating Expenses	11,964	11,894	15,170	18,559	22,644
<b>Operating Income</b>	<b>5,958</b>	<b>12,970</b>	<b>12,881</b>	<b>15,931</b>	<b>20,188</b>
<i>Change (%)</i>	<i>-11.1</i>	<i>117.7</i>	<i>-0.7</i>	<i>23.7</i>	<i>26.7</i>
Other Provisions	1,697	4,859	1,735	2,230	3,187
<b>PBT</b>	<b>4,261</b>	<b>8,111</b>	<b>11,146</b>	<b>13,701</b>	<b>17,001</b>
Tax	1,500	2,500	3,344	4,384	5,440
<i>Tax Rate (%)</i>	<i>35.2</i>	<i>30.8</i>	<i>30.0</i>	<i>32.0</i>	<i>32.0</i>
<b>PAT</b>	<b>2,761</b>	<b>5,611</b>	<b>7,802</b>	<b>9,317</b>	<b>11,561</b>
<i>Change (%)</i>	<i>-6.1</i>	<i>103.2</i>	<i>39.0</i>	<i>19.4</i>	<i>24.1</i>
Proposed Dividend	242	296	365	438	547
<b>PPP</b>	<b>6,811</b>	<b>12,448</b>	<b>12,631</b>	<b>15,631</b>	<b>19,888</b>
<i>Change (%)</i>	<i>4.0</i>	<i>82.8</i>	<i>1.5</i>	<i>23.7</i>	<i>27.2</i>

**BALANCE SHEET (STANDALONE)****(RS MILLION)**

<b>Y/E MARCH</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
Capital	3,457	3,481	3,646	3,646	3,646
Reserves & Surplus	34,679	41,370	62,325	71,129	82,050
<b>Net Worth</b>	<b>38,136</b>	<b>44,851</b>	<b>65,971</b>	<b>74,776</b>	<b>85,697</b>
<b>Deposits</b>	<b>156,440</b>	<b>238,865</b>	<b>322,467</b>	<b>419,207</b>	<b>524,009</b>
<i>Change (%)</i>	<i>-4.7</i>	<i>52.7</i>	<i>35.0</i>	<i>30.0</i>	<i>25.0</i>
<b>CASA Deposits</b>	<b>51,181</b>	<b>74,631</b>	<b>99,517</b>	<b>127,766</b>	<b>164,088</b>
Borrowings	67,340	61,405	101,373	120,440	143,221
Other Liabilities & Prov.	25,202	29,242	25,440	31,787	39,659
<b>Total Liabilities</b>	<b>287,119</b>	<b>374,363</b>	<b>515,252</b>	<b>646,210</b>	<b>792,586</b>
Current Assets	11,407	23,003	32,477	38,883	46,912
Investments	91,102	125,127	156,408	187,690	225,228
<i>Change (%)</i>	<i>-0.3</i>	<i>37.3</i>	<i>25.0</i>	<i>20.0</i>	<i>20.0</i>
<b>Loans</b>	<b>166,253</b>	<b>207,751</b>	<b>306,432</b>	<b>398,362</b>	<b>497,952</b>
<i>Change (%)</i>	<i>6.9</i>	<i>25.0</i>	<i>47.5</i>	<i>30.0</i>	<i>25.0</i>
Net Fixed Assets	2,134	4,276	4,307	4,086	3,584
Other Assets	16,223	14,207	15,628	17,190	18,909
<b>Total Assets</b>	<b>287,119</b>	<b>374,363</b>	<b>515,252</b>	<b>646,210</b>	<b>792,586</b>

*E: MOSL Estimates*

## Financials and Valuation

**KOTAK MAHINDRA BANK (STAND ALONE)  
RATIOS (STANDALONE)**

<b>Y/E MARCH</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
<b>Spreads Analysis (%)</b>					
Avg. Yield - Earning Assets	12.0	11.0	10.8	10.9	10.9
Avg. Cost-Int. Bear. Liab.	6.9	5.3	5.9	6.4	6.4
Interest Spread	5.1	5.6	4.9	4.5	4.6
Net Interest Margin	6.0	6.3	5.5	5.1	5.1
<b>Profitability Ratios (%)</b>					
RoE	7.5	13.5	14.1	13.2	14.4
Core RoE	8.2	14.6	14.9	13.9	15.0
RoA	1.0	1.7	1.8	1.6	1.6
Int. Expended/Int. Earned	50.5	42.9	49.4	53.4	53.2
Other Inc./Net Income	15.3	25.3	21.8	22.3	21.1
<b>Efficiency Ratios (%)</b>					
Op. Exps./Net Income	66.8	47.8	54.1	53.8	52.9
Empl. Cost/Op. Exps.	48.8	49.1	48.1	47.2	46.4
Busi. per Empl. (Rs m)	41.7	48.1	63.3	85.1	108.2
NP per Empl. (Rs lac)	3.6	7.0	9.2	11.0	13.6
<b>Asset-Liability Profile (%)</b>					
Adv./Deposit Ratio	106.3	87.0	95.0	95.0	95.0
Invest./Deposit Ratio	58.2	52.4	48.5	44.8	43.0
G-Sec/Invest. Ratio	89.5	77.4	88.1	86.3	85.9
Gross NPAs to Adv.	2.7	2.4	1.8	1.6	1.7
Net NPAs to Adv.	1.2	1.2	0.6	0.4	0.4
CAR	20.0	18.4	19.3	17.5	16.3
<i>Tier 1</i>	<i>16.1</i>	<i>15.0</i>	<i>17.1</i>	<i>15.5</i>	<i>14.6</i>
<b>VALUATION</b>					
Book Value (Rs)	50.5	59.9	86.1	98.2	113.2
Price-BV (x)	9.9	8.4	5.8	5.1	4.4
Adjusted BV (Rs)	48.6	57.5	84.6	96.8	111.2
Price-ABV (x)	10.3	8.7	5.9	5.2	4.5
EPS (Rs)	4.0	8.1	10.7	12.8	15.9
EPS Growth (%)	-6.3	101.8	32.8	19.4	24.1
Price-Earnings (x)	125.2	62.0	46.7	39.1	31.5
OPS (Rs)	8.6	18.6	17.7	21.8	27.7
OPS Growth (%)	-11.3	116.2	-5.2	23.7	26.7
Price-OP (x)	58.0	26.8	28.3	22.9	18.1

E: MOSL Estimates

## Financials and Valuation

## Kotak Mahindra Bank (consolidated)

## INCOME STATEMENT - Ex LIFE INSURANCE (CONS.)

(RS MILLION)

Y/E MARCH	2009	2010	2011E	2012E	2013E
Interest Income	43,666	46,012	63,322	82,146	109,283
Interest Expended	19,924	17,729	27,609	41,031	57,521
<b>Net Interest Income</b>	<b>23,742</b>	<b>28,283</b>	<b>35,714</b>	<b>41,115</b>	<b>51,762</b>
<i>Change (%)</i>	<i>29.6</i>	<i>19.1</i>	<i>26.3</i>	<i>15.1</i>	<i>25.9</i>
Other Income	6,303	20,734	16,404	15,893	17,401
<b>Net Income</b>	<b>30,045</b>	<b>49,017</b>	<b>52,118</b>	<b>57,009</b>	<b>69,163</b>
<i>Change (%)</i>	<i>-25.8</i>	<i>63.1</i>	<i>6.3</i>	<i>9.4</i>	<i>21.3</i>
Operating Expenses	17,434	25,668	26,957	26,087	32,505
<b>Operating Income</b>	<b>12,611</b>	<b>23,350</b>	<b>25,161</b>	<b>30,922</b>	<b>36,658</b>
<i>Change (%)</i>	<i>-31.6</i>	<i>85.2</i>	<i>7.8</i>	<i>22.9</i>	<i>18.6</i>
Other Provisions	2,612	5,107	4,827	5,710	6,241
<b>PBT</b>	<b>9,999</b>	<b>18,242</b>	<b>20,334</b>	<b>25,212</b>	<b>30,417</b>
Tax	3,635	5,755	6,100	8,196	9,861
<i>Tax Rate (%)</i>	<i>36.4</i>	<i>31.5</i>	<i>30.0</i>	<i>32.5</i>	<i>32.4</i>
<b>PAT</b>	<b>6,364</b>	<b>12,487</b>	<b>14,234</b>	<b>17,016</b>	<b>20,556</b>
Less: Consolidation Adjustments	182	-86	-36	-38	-162
<b>Consol. PAT ex Life Insurance</b>	<b>6,546</b>	<b>12,402</b>	<b>14,198</b>	<b>16,978</b>	<b>20,394</b>
<i>Change (%)</i>	<i>-37.5</i>	<i>89.5</i>	<i>14.5</i>	<i>19.6</i>	<i>20.1</i>
<b>Profits from Insurance Business</b>	<b>143</b>	<b>692</b>	<b>600</b>	<b>720</b>	<b>864</b>
<i>Change (%)</i>	<i>-120.0</i>	<i>382.6</i>	<i>-13.3</i>	<i>20.0</i>	<i>20.0</i>
<b>Consol. PAT cum Life Insurance</b>	<b>6,689</b>	<b>13,094</b>	<b>14,798</b>	<b>17,698</b>	<b>21,258</b>
<i>Change (%)</i>	<i>-31.4</i>	<i>95.7</i>	<i>13.0</i>	<i>19.6</i>	<i>20.1</i>
Add / Less: Min. Int. - Associate Profit	-3	-204	-144	-173	-207
<b>Consol. PAT post minority</b>	<b>6,686</b>	<b>12,890</b>	<b>14,654</b>	<b>17,525</b>	<b>21,050</b>
<i>Change (%)</i>	<i>-33.6</i>	<i>92.8</i>	<i>13.7</i>	<i>19.6</i>	<i>20.1</i>
Proposed Dividend	278	297	365	437	547

## CONSOLIDATED BALANCE SHEET

(RS MILLION)

Y/E MARCH	2009	2010	2011E	2012E	2013E
Capital	3,457	3,481	3,645	3,645	3,645
Reserves & Surplus	61,769	75,628	105,527	123,288	144,084
<b>Net Worth</b>	<b>65,225</b>	<b>79,109</b>	<b>109,172</b>	<b>126,934</b>	<b>147,729</b>
<b>Deposits</b>	<b>138,218</b>	<b>218,192</b>	<b>289,104</b>	<b>419,201</b>	<b>586,881</b>
<i>Change (%)</i>	<i>0.9</i>	<i>57.9</i>	<i>32.5</i>	<i>45.0</i>	<i>40.0</i>
Borrowings	119,790	138,857	173,017	219,599	268,609
Other Liabilities & Prov.	79,104	114,990	150,174	166,528	180,242
<b>Total Liabilities</b>	<b>402,338</b>	<b>551,148</b>	<b>721,467</b>	<b>932,261</b>	<b>1,183,462</b>
Current Assets	14,375	25,068	25,691	42,452	63,888
Investments	133,130	194,848	233,817	303,963	395,151
<i>Change (%)</i>	<i>5.9</i>	<i>46.4</i>	<i>20.0</i>	<i>30.0</i>	<i>30.0</i>
<b>Loans</b>	<b>224,976</b>	<b>297,243</b>	<b>424,717</b>	<b>545,305</b>	<b>680,627</b>
<i>Change (%)</i>	<i>2.3</i>	<i>32.1</i>	<i>42.9</i>	<i>28.4</i>	<i>24.8</i>
Net Fixed Assets	3,383	6,104	6,568	6,801	6,681
Other Assets	26,474	27,885	30,674	33,741	37,115
<b>Total Assets</b>	<b>402,338</b>	<b>551,148</b>	<b>721,467</b>	<b>932,261</b>	<b>1,183,462</b>

E: MOSL Estimates

## Financials and Valuation

**RATIOS**

<b>Y/E MARCH</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
<b>Spreads Analysis (%)</b>					
Avg. Yield - Earning Assets	12.1	10.7	10.9	10.8	11.3
Avg. Cost-Int. Bear. Liab.	7.5	5.8	6.7	7.5	7.7
Interest Spread	4.6	5.0	4.2	3.4	3.6
Net Interest Margin	6.6	6.6	6.2	5.4	5.4
<b>Profitability Ratios (%)</b>					
RoE	10.8	17.9	15.6	14.8	15.3
RoA	1.7	2.7	2.3	2.1	2.0
Int. Expended/Int. Earned	45.6	38.5	43.6	49.9	52.6
Other Inc./Net Income	21.0	42.3	31.5	27.9	25.2
<b>Efficiency Ratios (%)</b>					
Op. Exps./Net Income	58.0	52.4	51.7	45.8	47.0
Empl. Cost/Op. Exps.	30.2	21.5	25.0	26.2	25.8
Busi. per Empl. (Rs m)	18.9	22.0	30.7	38.1	46.1
NP per Empl. (Rs lac)	3.4	6.5	8.4	8.3	8.8
<b>Asset-Liability Profile (%)</b>					
Adv./Deposit Ratio	162.8	136.2	146.9	130.1	116.0
Invest./Deposit Ratio	96.3	89.3	80.9	72.5	67.3
G-Sec/Invest. Ratio	67.5	54.4	54.4	54.4	54.4
Gross NPAs (Incl acquired NPA)	3.5	3.0	2.0	1.7	1.4
Net NPAs (Including acquired NPA)	1.2	1.1	0.4	0.4	0.3
CAR	22.5	19.3	18.0	20.0	17.5
<b>VALUATION</b>					
Book Value (Rs)	94.3	113.6	149.7	174.1	202.6
Price-BV (x)	4.4	3.7	2.8	2.4	2.1
Adjusted BV (Rs)	90.1	109.5	147.3	171.7	200.1
Price-ABV (x)	4.7	3.8	2.8	2.4	2.1
EPS (Rs) (Ex Insurance)	9.5	17.8	19.5	23.3	28.0
EPS Growth (%)	-37.7	88.1	9.3	19.6	20.1
Price-Earnings (x)	44.3	23.5	21.5	18.0	15.0
OPS (Rs)	18.2	33.5	34.5	42.4	50.3
OPS Growth (%)	-31.8	83.8	2.9	22.9	18.6
Price-OP (x)	23.0	12.5	12.1	9.9	8.3

E: MOSL Estimates



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

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**Disclosure of Interest Statement**

**Kotak Mahindra Bank**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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