

KOTAK MAHINDRA BANK

Beat on growth and non-interest income

India Equity Research | Banking and Financial Services



Kotak Mahindra Bank reported a consolidated PAT, excluding life insurance, of INR5.2bn, up 26% YoY, 15% QoQ. Our expectation was INR4.8bn. The vector driving the outperformance has been the bank's non-interest income at INR3bn (up 22% QoQ) drawing strength from increasing CEB income. Key highlights: 1) robust advance growth clocked by both the bank and Kotak Prime at 26%/30% YoY after a soft last quarter and 2) a 11.6% QoQ (31% YTD) SA growth to 13% of deposits. Steady asset quality led to reduced provisions, down 40% QoQ. Profitability in securities, investment management and investment banking businesses were broadly in line with estimates. Adjusted for subsidiaries, the bank is trading at rich valuations of 3.3x FY14E P/ABV. We, therefore, maintain 'REDUCE'.

- Banking business earnings at INR3.6bn sprung a surprise on the back of non-interest income. Advance growth picked up, primarily led by agriculture (49% YoY), mortgages (24% YoY), business banking (47% YoY) and large/mid corporate (21% YoY). CV loans came off marginally by 1% QoQ as management continues to be cautious. NIMs were steady at 4.6% leading to NII growth of 26% YoY.
- After a muted Q2, auto financing business (Kotak Prime) reported a healthy growth driven by auto advances (up 26% YoY). PAT of INR1.05bn, however, came in flat YoY due to one-time MTM hit (in high teens) which it expects to recoup.
- Securities business reported earnings of INR380mn (up 58% YoY, (-) 5% QoQ). Market share clocked a small increase QoQ to 2.6% but still down 30bps YoY.
- Mutual Fund business clocked PAT of INR110mn (loss of INR10mn in H1FY13).

This report also contains Q3FY13/Q2FY13 earning concall highlights

Outlook and valuations: Expensive; maintain 'REDUCE'

After having painted a cautious picture on loan growth in H1FY13, the momentum accelerated in Q3FY13 and guidance was increased to ~25% as the government is taking concrete policy actions which should soon reflect in the real economy. Financing business, which generates RoE of ~15%, continues to be a key driver of earnings/valuations, but bank is trading at rich valuations of 3.3x FY14E P/ABV. Maintain 'REDUCE/Sector Underperformer' with SOTP of INR599.

Financials		(INR mn)						
Year to March	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12	FY13E	FY14E
Net int. inc.	12,315	9,997	23.2	11,607	6.1	35,232	41,639	49,681
PAT	5,242	4,160	26.0	4,552	15.2	16,304	18,893	22,138
EPS (INR)	7.8	6.3	24.0	6.7	15.5	22.0	25.5	29.9
BV per share (INR)						180.4	204.4	232.6
Price/Earnings (x)*						27.3	23.5	19.9
Price/BV (x)*						3.3	2.9	2.6

*adj for insurance

EDELWEISS 4D RATINGS	
Absolute Rating	REDUCE
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: KTKM.BO, B: KMB IN)

CMP	: INR 641
Target Price	: INR 599
52-week range (INR)	: 677 / 473
Share in issue (mn)	: 744.8
M cap (INR bn/USD mn)	: 477 / 8,869
Avg. Daily Vol.BSE/NSE('000)	: 889.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	45.2	45.2	45.2
MF's, FI's & BK's	3.9	3.9	4.5
FII's	29.8	29.8	28.6
others	21.2	21.2	21.7
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(5.3)	3.0	10.6
3 months	0.1	6.5	4.7
12 months	33.2	24.5	22.7

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Table 1: Business-wise profitability

Year to March	Q313	Q312	Growth (%)	Q213	Growth (%)	FY12
Kotak Mahindra Bank (Standalone)	3,620	2,760	31.2	2,800	29.3	10,850
Kotak Mahindra Prime	1,050	1,040	1.0	1,140	(7.9)	3,850
Kotak Mahindra Capital Company	20	40	(50.0)	42	(52.4)	60
Kotak Securities	380	240	58.3	400	(5.0)	1,260
Kotak Mahindra AMC & Trustee Co	110	30	266.7	(50)	(320.0)	220
Kotak Mahindra Advisors	60	70	(14.3)	90	(33.3)	360
Kotak Mahindra Investments	80	30	166.7	160	(50.0)	150
Others	0	0	NA	0	NA	0
Total consolidated profit after tax	5,370	4,170	28.8	4,662	15.2	16,640
Equity affiliates/Minority int & others	(130)	(10)	1,200.0	(110)	18.2	(340)
PAT (excluding life insurance)	5,240	4,160	26.0	4,552	15.1	16,300
Kotak Life Insurance	530	470	12.8	470	12.8	2,030
PAT	5,770	4,630	24.6	5,022	14.9	18,330

Source: Company

Business overview

Banking: Advance growth picks up; non-interest income contributes to divergence

- Bank's (standalone) reported profit of INR3.6bn (up 31% YoY, 29% QoQ) – came materially above our expectation of INR2.9bn with non-interest income explaining a major chunk of the divergence. This was on the strength of robust CEB income even while treasury income came in line with historical trends.
- Advance growth picked up by 26% YoY to INR502bn primarily led by agri (49% YoY), mortgages (24% YoY), business banking (47% YoY) and large/mid corporate (21% YoY). CV loans came off marginally by 1% QoQ, as management continues to be cautious.
- NIMs were steady at 4.6% leading to NII growth of 26% YoY to INR8.2bn.
- Provisioning came in at a low of 37bps (vis-à-vis 67bps in Q2FY13) as asset quality came in steady (GNPA declined QoQ from 1.33% to 1.2%). This is a relief, post a relatively higher provision seen in Q2FY13 as the bank provided for 100% on an acquired stressed asset portfolio in home loan segment of INR 420 mn which was entirely treated as NPL.
- Restructured asset pool continues to hold the negligible mark of 0.02% of advances
- Liability franchise of the bank continues to strengthen: momentum in saving deposit mobilization continued, growing further by 11% QoQ (50% YoY and 31% YTD). Current account weakness continued with 9% YoY keeping CASA at 26%. CASA and TDs below INR50mn constitutes 54.7% of total deposits
- The growth focus being on collateralised products or high quality working capital corporate lending lends comfort on asset quality being maintained at superior level. We are building in credit costs of 40-50bps for FY13-FY15E.
- Growth in treasury/investments at 20% QoQ as the bank has started taking measured risk on treasury side since October which is working well till now. Risks taken commensurate with returns.
- Management, in the last quarter, had guided for a moderation in advance growth to 20% plus in FY13 (against previous guidance of 25-30%) with the negative list of sectors being infrastructure and related sectors. However, seeing some concrete steps taken by

the government and better risk adjusted returns options available the guidance is upped to 25% YoY.

- Management had earlier stated that there is substantial scope to tone down costs in the bank and would like to bring down cost to income from sub 50% levels now to high 40s.
- The bank added 18 branches in Q2FY13 to take the total network tally to 407. Management remains confident of taking the number to 500 by calendar end 2013.
- We are building in an advance CAGR of 15-16% over FY13-15 and expect NIMs to come off to ~4.4% in FY13-15E, leading to profitability at 18% CAGR over FY13-15E.

Table 2: Commercial banking – Key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
Net interest income	8,229	6,515	26.3	7,581	8.5	25,125
Pre-provisioning profits	5,726	4,436	29.1	4,822	18.7	16,550
Provisions	424	307	37.9	706	(40.0)	551
PBT	5,303	4,129	28.4	4,116	28.8	15,999
Tax	1,686	1,368	23.2	1,312	28.5	5,149
PAT	3,617	2,761	31.0	2,804	29.0	10,851
Advances	502,450	397,700	26.3	454,250	10.6	390,790
Deposits	515,240	383,850	34.2	454,630	13.3	385,370
Total assets	675,980	542,930	24.5	635,020	6.5	606,460

Source: Company

Kotak Mahindra Prime: Growth outperforms

- Auto financing business (Kotak Prime) showcased robust loan growth of 30% YoY. The growth is driven by car finance up 26% YoY and now forms 76% of the total loans with CRE, LAS etc. contributing the rest.
- PAT of INR1.05bn, however, came in flat YoY due to one- time MTM hit (amount in high teens) which it expects to recoup.
- We expect the growth momentum in auto advances to continue. However, NIMs are likely to compress, reflecting increased competition. On the back of a loan book CAGR of ~18% for FY13-15E we expect a PAT CAGR of 8-10%.

Table 3: Kotak Mahindra Prime – Key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
PBT	1,580	1,520	3.9	1,700	(7.1)	5,700
PAT	1,050	1,040	1.0	1,140	(7.9)	3,850
Auto advances	122,370	97,370	25.7	117,560	4.1	105,770

Source: Company

Kotak Securities: Volumes show QoQ growth with a marginal uptick in market share

- Securities business reported earnings of INR380mn (up 58% YoY and down 5% QoQ). Average daily trading volumes rose 10% QoQ to INR36.7bn and market share increased marginally to 2.6%.
- While, as per the management, green shoots are being seen in the securities business with pickup in flows and volumes we expect the industry-wide trading volume to remain weak at least through FY13 and early FY14E and commission yields to be under pressure (due to an increased portion of options volume and competition). We also expect profit to remain at the current run-rate for FY13E.

Table 4: Kotak securities – Key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
Revenues	1,460	1,340	9.0	1,550	(5.8)	6,100
PBT	570	370	54.1	590	(3.4)	1,910
PAT	380	240	58.3	400	(5.0)	1,260
PAT margin (%)	26.0	17.9	45.3	25.8	0.9	20.7
Avg daily volumes (INR bn)	37	42	(11.7)	33	9.9	40
Branches	1,358	1,416	(4.10)	1,346	0.9	1,365
Customers	800,000	730,317	9.54	790,000	1.27	750,000

Source: Company

Investment banking: Muted profitability

- Investment banking reported a profit of INR20mn. During the quarter, it managed the IPO of Bharti Infratel, CARE Ratings, PC Jewellers and QIP of Mahindra Finance amongst other deals.

Table 5: Kotak Mahindra Capital Company – Key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
Total income	1,800	220	718.2	200	800.0	790
PBT	30	60	(50.0)	60	(50.0)	90
PAT	20	40	(50.0)	40	(50.0)	60

Source: Company

Asset management: AUMs come in flattish at INR323bn, up 7% YoY

- Domestic AUMs grew 7% YoY/5% QoQ.
- As highlighted in previous quarter, benefit of front-loading of distribution fees flowed in terms of management fees and revenues went up 52% YoY. After many muted quarters of earnings performance, it reported decent earnings of INR 110 mn in Q3FY13.

Table 6: Domestic asset management business - key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
Revenues	410	270	51.9	230	78.3	1,250
PBT	130	40	225.0	(50)	(360.0)	310
PAT	110	30	266.7	(50)	(320.0)	220
Branches	79	84		79		83
AUMs	323,810	302,000	7.2	308,660	4.9	307,660

Source: Company

Life insurance: Weighted new business premium was flat QoQ/YoY

- Life insurance business profit increased by 13% YoY and QoQ to INR530mn.
- Weighted new business premium (WNRP) remained flat YoY as well as QoQ, leading to proportion of renewal premium coming down again to ~60% of gross written premium.
- Going forward, the management will focus on increasing proportion of traditional policies (up to 40-45%) in its product mix to maintain profitability post the regulator's restriction on ULIP pricing. Management expects industry-wide premium to grow at 10% and Kotak to grow at faster clip than the industry average.

Table 7: Kotak Life Insurance – Key metrics

(INR mn)	Q3FY13	Q3FY12	Growth (%)	Q2FY13	Growth (%)	FY12
Gross premium inc. (INR mn)	5,950	6,390	(6.9)	6,200	(4.0)	29,370
Profit (INR mn)	530	470	12.8	470	12.8	2,030

Source: Company

Table 8: SOTP valuations (FY14E)

	Method	AUMs / earnings /	Multiple (x)	Value of business (INR mn)	Kotak Bank's holding	Value (INR mn)	Value per share
Bank	PABV	100,122	3.0	300,365	100	300,365	410
Prime	PABV	25,823	2.0	51,646	100	51,646	70
Life insurance	Appraisal value			42,040	74	31,109	42
Securities / Invt banking	PE	2,050	13.0	26,648	100	26,648	36
MF/Offshore AUMs/PE	% of AUM	601,961	5.0	29,813	100	29,813	41
Total				450,512		439,581	599

Source: Edelweiss research

Financial snapshot**(INR mn)**

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Interest income	28,115	22,228	26.5	26,098	7.7	78,911	102,668	122,766
Interest exp	15,799	12,231	29.2	14,491	9.0	43,982	61,029	73,084
Net int. inc. (INR mn)	12,315	9,997	23.2	11,607	6.1	34,928	41,639	49,681
Non interest income	9,045	4,273	111.7	9,663	(6.4)	23,942	21,230	23,265
Non interest expenses	12,817	7,416	72.8	13,751	(6.8)	36,461	31,799	36,068
Pre-provision profit	8,544	6,854	24.7	7,519	13.6	22,409	31,070	36,878
Provisions	589	452	30.3	614	(4.0)	1,396	2,333	3,316
Profit before tax	7,955	6,402	24.3	6,905	15.2	21,014	28,737	33,563
Tax	2,489	2,083	19.5	2,192	13.6	6,689	9,344	10,874
Core profit	5,465	4,318	26.6	4,713	16.0	14,325	19,393	22,688
Minorities/affiliates	(224)	(158)	NA	(162)	NA	(417)	(500)	(550)
Attributable PAT	5,242	4,160	26.0	4,552	15.2	13,908	18,893	22,138

Ratios

NII/GII (%)	43.8	45.0		44.5		44.3	40.6	40.5
Cost/income (%)	60.0	52.0		64.6		61.9	50.6	49.4
Provisions / PPOP	6.9	6.6		8.2		6.2	7.5	9.0
Tax rate (%)	31.3	32.5		31.7		31.8	32.5	32.4

Key highlights of Q3FY13 concall takeaways

- Feeling that government is taking concrete actions on ground. As per the bank, markets are much ahead of the real economy and hopefully real economy should catch up similar to that seen in 2009.
 - **After guiding for 20% plus in H1FY13, loan growth guidance increased to 25% as seen in Q3 results as well.**
 - **2 sectors witnessing deterioration – Commercial vehicles and construction equipment.** Has consciously de-grown this segment due to emerging stress. NPL levels in this segment have gone up though nothing reflected on consolidated book basis due to minimal stress in other product categories.
 - In corporate banking, focus is on transaction oriented working capital loans. Still not out there giving project loans.
 - Focused on growing business banking and agri – gives adequate margin for risk taken and has behaved extremely well in this cycle. Within agri, it is towards mid and rural India.
 - Growth in treasury/investments – started taking measured risk on treasury side since October and is working well till now. Risks taken are commensurate with the return.
- Some shift towards higher end corporate segment which has led to some pressure on NIMs at 4.5-4.6%.
- Pick up in volume and flows in January for equity as well fixed income segment – encouraging capital market environment.
- Kotak Mahindra Prime profitability impacted by one time hit which it expects to recoup going forward – MTM in investments in high teens.
- **Distress asset division has very minimal impact on non-interest income in this fiscal –** INR 700 mn out of INR 8 bn of non-interest income in 9MFY13. It is almost half of what was booked in FY12.
- **Treasury profits – INR 250-300 mn;** not too different than what was booked in Q2FY13; delta in other income is mainly due to core fee income (commission, exchange & brokerage).

Outlook

- In terms of growth, looking at places which are under penetrated. Now would like to grow loans at ~25%.
- **Will cross 500 branches by CY13 and are very much on track.**
- Cost to income to sustain below 50% mark.

Relevant datapoints

- AFS portfolio – 26%

Kotak Mahindra Bank – Q2FY13 concall takeaways

Significant change in government posture and action since July which is a major plus point. While sentiments have improved, fundamentals at ground level have not improved dramatically.

Key highlights

- **With respect to liability franchise:** Saving deposits have grown 63% and sweep deposits by more than 50%. Challenge has been to grow current deposit, though it has picked up in Q2FY13. It is adding 50k new customer per month on liability side. It is focused on making more progress in deepening of a customer account.
- While growth has moderated for the near term, there are **multiple levers in place for RoE improvement:** 1) operating leverage benefit - cost to income to come off from current levels; 2) mining enough on fee income pot; 3) subsidiaries have bombed out for a long period of time and any improvement in capital market sentiments will boost profitability in these subsidiaries; 4) will look for opportunities to be sweat out higher Tier 1 ratio in a better manner if conditions improve.
- Has **acquired stress portfolio in home loan segment from another financial institution** –bought this portfolio for INR 490 mn and has recovered INR 70 mn in Q2FY13. Hence, has considered INR 420 mn as NPL and entirely provided for it in Q2FY13. Like any other stressed assets, it would like to breakeven in this portfolio in 15-18 months timeframe.
- **Deccan Chronicle** has already been classified as NPL in Q1FY13 itself and is now adequately/appropriately provided for (**besides provisioning in Q1FY13, it has made provisions in Q2FY13**).
- With respect to asset quality, it has seen some softness in CE/CV portfolio connected to infrastructure or mining companies. Else on corporate side, has not seen any significant stress in any of the portfolio.
- **Kotak Securities** reported better earnings due to momentum gained in capital markets in September – good increase in cash volumes and delivery based volumes, hence contribution to topline has gone up. Some element of proprietary trading profits as well.
- Within debt funds, long term debt funds (income funds) are relatively more sticky than liquid funds and then it has spend aggressively in tapping this via higher distribution fees –despite front loading distribution fees, benefit would flow from it in terms of management fees and it would break even in 6 months.
- **Kotak Life Insurance:** has become a tax paying entity this year onwards.

Outlook

- Will sustain advance growth at 20% plus.
- On track to achieve 500 branches by CY13.

Relevant datapoints

- Stressed asset portfolio (net of provision) is INR 4 bn. Embedded value is significantly higher.
- Agri finance includes tractors, processing units, agro based industry, warehousing company etc

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 375plus cities. KMB has 400+ branches. The group has a decent platform to cross-sell its products, given its presence in the financial spectrum. Kotak Securities has ~2.5% 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 ~0.75% 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

The operating performance in financing business has been strong with a robust advance growth and consistently low credit costs. We expect the advance growth to moderate to 15-17% over FY13-15E and NIMs to be under pressure due to the recent savings bank deregulation and focus on quality corporate segment. While it has limited exposure to some of the stressed segments, we believe credit costs are closer to bottoming out. Earnings of capital market related businesses are reeling under pressure due to increased fragmentation and expense build up.

Key Risks

Growth momentum continues to be buoyant.

Asset quality continues to be under control and credit cost increase remains capped.

Traction in auto financing business continues.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
Credit growth	17.1	17.0	16.0	17.0
Deposit growth	13.4	15.0	14.0	17.0
CRR	4.8	4.3	4.3	4.3
SLR	24.0	23.0	23.0	23.0
G-sec yield	8.5	7.8	7.4	7.5
Company				
Yield on advances	14.2	13.9	13.4	12.9
Cost of funds	7.0	7.3	7.2	7.0
Credit growth	33.7	24.7	22.5	22.6
Deposit growth	31.7	24.6	21.3	22.1
CASA	32.2	29.0	30.0	31.0
Slippages	1.2	1.1	1.3	1.3
Average daily trading volumes	40,340	36,621	43,061	51,701
Commission yields	2.0	2.0	2.0	2.0
PMS AUMs	32,864	39,437	47,325	56,790
Financial advisory & transaction fee	600	991	1,173	1,356
Operating margin	48.1	17.1	38.3	41.4
Advance growth	23.5	18.7	18.8	18.9
Yield on advances	14.8	14.3	14.4	14.1
Cost of funds	8.8	9.0	9.2	9.5
Gross NPLs	1.0	1.2	1.3	1.5
AUM growth	12.0	7.0	15.0	12.0
Management fees	0.4	0.4	0.4	0.3

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Interest income	82,120	102,668	122,766	145,722
Interest expended	46,888	61,029	73,084	88,022
Net interest income	35,232	41,639	49,681	57,700
Non interest income	18,754	21,230	23,265	25,933
- Fee & forex income	12,824	15,041	17,345	19,811
- Misc. income	5,850	6,090	5,830	6,032
- Investment profits	80	100	90	90
Net revenue	53,986	62,869	72,946	83,633
Operating expense	28,199	31,799	36,068	41,465
- Employee exp	11,700	13,613	15,949	18,995
- Other opex	16,499	18,186	20,119	22,470
Preprovision profit	25,788	31,070	36,878	42,168
Provisions	862	2,333	3,316	3,563
Profit before tax	24,926	28,737	33,563	38,605
Provision for tax	8,122	9,344	10,874	12,502
Profit After Tax	16,304	18,893	22,138	25,553
Diluted EPS (INR)	22.0	25.5	29.9	34.5
Dividend per share (INR)	2.6	3.0	3.5	4.1
Dividend payout (%)	5.9	5.8	5.8	5.9

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
NII growth	17.0	18.2	19.3	16.1
Fees growth	(63.6)	17.3	15.3	14.2
Opex growth	(15.5)	12.8	13.4	15.0
PPP growth	(30.0)	20.5	18.7	14.3
Provisions growth	(46.2)	170.8	42.1	7.4
Net profit	(29.5)	15.9	17.2	15.4

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	3,703	3,703	3,703	3,703	
Reserves & surplus	129,906	147,703	168,550	192,586	
Net worth	133,610	151,407	172,254	196,289	
Deposits	274,139	341,440	414,166	505,614	
Borrowings	178,938	196,832	226,357	260,311	
Other liabilities	159,006	201,676	242,337	292,689	
Total liabilities	745,693	891,355	1,055,114	1,254,903	
Loans	528,837	660,613	809,786	993,221	
Investments	151,906	167,097	183,806	202,187	
Cash and equivalents	27,489	26,748	25,716	24,830	
Fixed assets	7,249	7,500	7,540	7,373	
Other Assets	30,212	29,398	28,265	27,292	
Total assets	745,693	891,355	1,055,114	1,254,903	

RoE decomposition (%)					
Year to March	FY12	FY13E	FY14E	FY15E	
Net interest income/assets	5.3	5.1	5.1	5.0	
Fees/Assets	2.8	2.6	2.4	2.3	
Investment profits/Assets	-	-	-	-	
Net revenues/assets	8.1	7.8	7.6	7.3	
Operating expense/assets	4.2	3.9	3.7	3.6	
Provisions/assets	0.1	0.3	0.3	0.3	
Taxes/assets	1.2	1.2	1.1	1.1	
Total costs/assets	5.6	5.4	5.2	5.0	
ROA	2.5	2.4	2.3	2.3	
Equity/assets	18.8	17.6	16.8	16.1	
ROAE (%)	13.4	13.6	14.0	14.2	

Valuation parameters					
Year to March	FY12	FY13E	FY14E	FY15E	
Diluted EPS (INR)	22.0	25.5	29.9	34.5	
Y-o-Y growth (%)	(29.9)	15.9	17.2	15.4	
Book value per share (INR)	180.4	204.4	232.6	265.0	
Adjusted book value per share	178.1	202.9	230.5	262.2	
Diluted PE (x)	29.1	25.1	21.4	18.6	
Price/ Adj. BV (x)	3.6	3.2	2.8	2.4	
Dividend yield (%)	0.4	0.5	0.5	0.6	
Price/Earnings (x)*	27.3	23.5	19.9	17.3	
Price/ BV (x)*	3.3	2.9	2.6	2.3	

*Adjusted for insurance

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Kotak Mahindra Bank	8,888	25.1	21.4	3.2	2.8	13.6	14.0
Allahabad Bank	1,696	5.2	4.3	0.9	0.8	16.9	17.9
Axis Bank	11,086	11.8	9.7	2.2	1.9	20.1	20.6
Bank of Baroda	6,671	7.1	5.8	1.2	1.1	17.8	18.7
Federal Bank	1,605	10.0	8.6	1.4	1.3	14.3	14.8
HDFC Bank	28,834	23.2	18.3	4.4	3.7	20.4	21.7
ICICI Bank	25,061	17.1	15.0	2.6	2.3	12.5	12.9
Indian Overseas Bank	1,258	6.4	4.7	0.8	0.7	9.5	11.9
IndusInd Bank	4,062	20.8	16.3	3.0	2.6	17.5	16.6
ING Vysya	1,633	14.3	11.2	2.0	1.7	14.4	16.2
Karnataka Bank	613	9.3	8.0	1.3	1.2	13.0	13.7
Oriental Bank Of Commerce	1,806	5.9	4.8	0.9	0.8	14.0	15.1
Punjab National Bank	5,572	6.2	5.1	1.3	1.0	16.9	17.9
South Indian Bank	699	0.8	0.6	0.2	0.1	24.9	25.2
State Bank of India	30,802	11.3	10.1	2.1	1.8	16.3	16.0
Union Bank Of India	2,682	8.0	6.7	1.1	1.0	15.6	16.7
Yes Bank	3,389	13.8	10.9	3.1	2.5	24.9	25.2
Median	-	10.0	8.6	1.4	1.3	16.3	16.6
AVERAGE	-	11.5	9.5	1.9	1.6	16.6	17.4

Source: Edelweiss research

Additional Data

Directors Data

Shankar Acharya	Chairman	Uday Kotak	Executive Vice Chairman & MD
Asim Ghosh	Director	C Jayaram	Joint Managing Director
Dipak Gupta	Joint Managing Director	Sudipto Mundle	Director
Prakash Apte	Director	Amit Desai	Director
N P Sarda	Director		

Auditors - S B Billimoria & Co

Holding – Top10

	Perc. Holding		Perc. Holding
Capital Research And Management	5.0	Sumitomo Mitsui Banking Corp	4.4
Europacific Growth Fund	4.2	Melany Holdings Ltd	1.8
Madison Holding Ltd	1.8	Vanguard Group Inc	1.6
Matthews International Capital	1.5	Ashmore Emm Llc	1.3
Life Insurance Corp Of India	1.2	Genesis Asset Managers Ltd	1.1

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
01 Feb 2012	Vontobel Funds Inc	Buy	11677400	490.00
01 Feb 2012	Melany Holdings Ltd	Sell	8750000	490.00
01 Feb 2012	Madison Holding Ltd	Sell	8750000	490.00
26 Mar 2012	The Genesis Group Trust For Employee Benefit Plan	Buy	6600000	530.00
26 Mar 2012	The Geneses Emerging Markets Investments Company	Buy	7076915	530.00
26 Mar 2012	Melany Holdings Ltd	Sell	13267095	530.00
26 Mar 2012	Madison Holding Ltd	Sell	13267095	530.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Feb 2012	Mr. Dipak Gupta	Sell	15182.00
09 Feb 2012	Mr. Manish Kothari	Sell	17637.00
17 Feb 2012	Mohan Narayan Sheno	Sell	15000.00
17 Feb 2012	Gaurang Shah	Sell	15000.00

**in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	M
IndusInd Bank	BUY	SP	L	Infrastructure Development Finance Co Ltd	BUY	SO	L
ING Vysya	BUY	SO	L	Karnataka Bank	BUY	SO	M
Kotak Mahindra Bank	REDUCE	SU	M	LIC Housing Finance	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SO	M
Multi Commodity Exchange of India	BUY	SO	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	BUY	SO	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	HOLD	SU	M	Reliance Capital	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	HOLD	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	BUY	SO	M	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
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
Underweight (UW)	Sector return < 0.75 x Nifty return



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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, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Mahindra & Mahindra Financial Services, Muthoot 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, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
21-Jan-13	HDFC	Defying competition, individual loan growth robust; <i>Result Update</i>	812	Hold
18-Jan-13	HDFC Bank	Headline intact; core below trend; <i>Result Update</i>	663	Hold
18-Jan-13	MMFS	Modest quarter; healthy outlook; <i>Result Update</i>	1119	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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