

January 22, 2013

Kotak Mahindra Bank (KOTMAH)

₹ 641

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 581 to ₹ 620
EPS (FY13E).....	Changed from ₹ 16.6 to ₹ 17.2
EPS (FY14E).....	Changed from ₹ 20.6 to ₹ 21.4
RATING.....	Changed from Sell to Hold

Surprises Street; bank's back on front seat...

Kotak Mahindra Bank (KMB) surprised on all fronts delivering standalone PAT of ₹ 361 crore & consolidated PAT of ₹ 586 crore beating our & Street estimates by a wide 10-15%. Strong performance was boosted by robust NII of ₹ 823 crore, surging 26% YoY, and higher other income at ₹ 305 crore at standalone level. MTM reversal on investments & income from distressed assets (₹ 70 crore vs. double the same in Q3FY12) led to higher other income. Asset quality was stable with GNPA, NNPA ratio at 1.46%, 0.64%, respectively. Restructured assets constitute miniscule ₹ 9.2 crore. Consolidated PAT was mainly (63%) contributed by bank but other subsidiaries also performed stably with Kotak Mahindra Prime (₹ 105 crore), Kotak Life Insurance (₹ 53 crore) & Kotak Securities (₹ 38 crore). Kotak AMC did well too (₹ 11 crore PAT). We have revised our FY13E credit & deposit growth to 27% & 31.8%, respectively. PAT expected to rise at 20.7% CAGR (earlier 18.5%) in FY12-14E. Recommend HOLD.

Business growth robust and higher margins stay...

Standalone bank advances grew 26% YoY to ₹ 50245 crore while deposits grew a whopping 33.2% to ₹ 51524 crore. The incremental saving deposits mobilisation has been strong at ₹ 690 crore in Q3FY13 vs. ₹ 386 crore in Q2FY13 to ₹ 6616 crore. However, CASA ratio declined to 25.9% mainly due to a sharp rise of 37% in term deposits to fund credit growth. Even incremental loans grew on large corporates. Hence, NIM dipped 10 bps to 4.6% QoQ. We revised credit growth at 25.7% CAGR over FY12-14E and expect calculated NIM to range at 4.3-4.4%.

Outlook stable...

Bank's endeavour to maintain steady growth with caution on commercial vehicles & construction equipment segment provides visibility on growth with stable asset quality & marginal dip in NIM expected. C/I ratio is on declining trend (49% now) and guidance remains on lower side as most costs are frontloaded in capacity additions & benefits are gradually flowing now. C/D ratio is coming down to sub 100%.

Valuations rich but result signals outperformance continuing...

Bank's strong profitability and higher margins help it to maintain rich valuations. We have revised profitability and also bank valuation at 3.3x FY14E ABV. Its stressed assets ratio (NNPA + RA) remains <1% of total credit on a consistent basis. RoE of ~15% and RoA of 1.7% expected to be maintained. We recommend **HOLD** with revised SOTP TP of ₹ 620.

Exhibit 1: Financial Performance

₹ Crore	Q3FY13	Q3FY13E	Q3FY12	Q2FY13	YoY Gr. (%)	QoQ Gr. (%)
NII	822.9	755.4	651.5	758.1	26.3	8.5
Other Income	304.9	239.7	282.0	250.8	8.1	21.6
PPP	572.6	477.6	443.6	482.2	29.1	18.7
PAT	361.7	287.4	276.1	280.4	31.0	29.0

Source: Company Quarterly Presentation, ICICIdirect.com Research

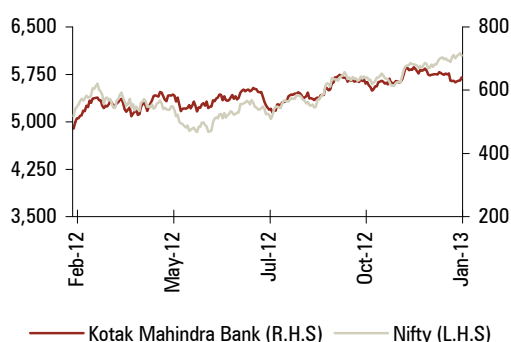
Rating matrix	
Rating	: Hold
Target	: ₹ 620
Target Period	: 12 months
Potential Upside	: -3%

Key Financials				
₹ Crore	FY11	FY12	FY13E	FY14E
NII	2,098	2,512	3,137	3,759
PPP	1,325	1,655	2,076	2,548
PAT	818	1,085	1,277	1,582

Valuation summary				
	FY11	FY12	FY13E	FY14E
Net Profit (₹ crore)	818.2	1085.1	1277.0	1581.6
EPS (₹)	11.1	14.6	17.2	21.4
% Growth	37.8	31.9	17.7	23.9
P/E (x)	57.7	43.8	37.2	30.0
Price / Book (x)	7.2	6.2	5.4	4.7
Price / Adj Book (x)	7.1	6.1	5.3	4.6
GNPA%	2.1	1.6	1.6	1.5
NNPA%	0.7	0.6	0.7	0.7
RoNA (%)	1.9	1.9	1.7	1.7
RoE (%)	14.5	14.7	15.0	16.0

Stock data	
Market Capitalisation	₹ 47595 crore
GNPA (Q3FY13)	₹ 740 crore
NNPA (Q3FY13)	₹ 323 crore
NIM (Q3FY13)	4.6%
52 week H/L	677/473
Equity capital	₹ 372 Crore
Face value	₹ 5
DII Holding (%)	3.6
FII Holding (%)	30.4

Price movement



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Exhibit 2: Assumption Table

Particulars	FY11	FY12	FY13E	FY14E
Credit growth (%)	41.2	33.2	27.0	24.4
Deposit growth (%)	22.5	31.7	31.8	26.9
CASA ratio (%)	30.0	32.2	30.0	30.5
NIM calculated (%)	5.0	4.5	4.4	4.3
Cost to income ratio (%)	54.0	52.6	51.1	49.9
GNPA (₹ crore)	603	614	783	950
NNPA (₹ crore)	211	237	336	417
Slippage ratio (%)	1.0	1.0	1.1	1.0
Credit cost (%)	0.34	0.19	0.38	0.29

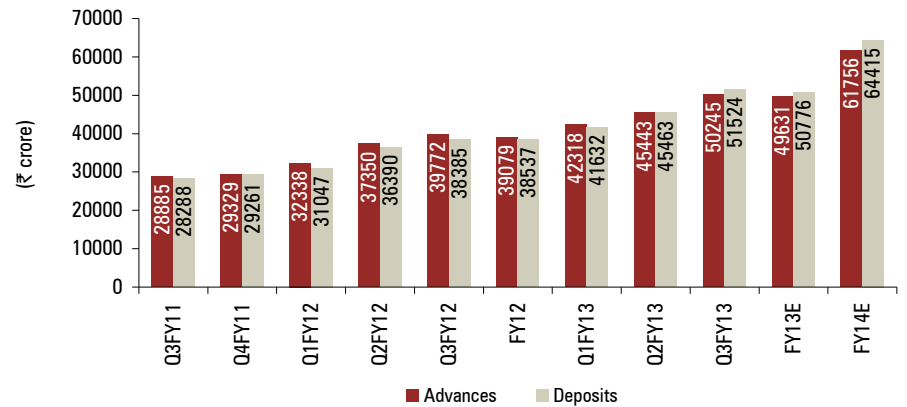
Source: Company, ICICIdirect.com Research

Exhibit 3: Profitability performance at consolidated level

PAT (₹ crore)	Q3FY12	Q3FY13	YOY (%)	Q2FY13	QoQ (%)
Kotak Bank	276.1	362.0	31.1	280.0	29.3
Kotak Securities	24.0	38.0	58.3	40.0	-5.0
Kotak Mahindra Capital	4.0	2.0	-50.0	4.0	-50.0
Kotak Prime	104.0	105.0	1.0	114.0	-7.9
Kotak AMC & Trust	3.0	11.0	266.7	-5.0	-320.0
International Subsidiaries	-4.0	5.0	-225.0	8.0	-37.5
Kotak Investment advisors	7.0	6.0	-14.3	9.0	-33.3
Kotak Mahindra Investments	3.0	8.0	166.7	16.0	-50.0
Kotak Mahindra Old Mutual	47.0	53.0	12.8	47.0	12.8
Total (net off equity affiliates/minority)	433.0	577.0	33.3	443.0	30.2

Source: Company quarterly earnings update, ICICIdirect.com Research

Exhibit 4: Credit, deposits growth momentum to be maintained



Source: Company quarterly earnings update, ICICIdirect.com Research

Exhibit 5: Corporate credit picks up pace

₹ crore	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Rise Q-o-Q	Proportion (%)	Growth yoy (%)
CVs and construction eqmt.	7798	8015	8183	8071	-112	16.1	7.0
Personal Loans	1868	1990	2121	2399	278	4.8	42.0
Home loans	8333	8757	9286	9869	583	19.6	24.4
Corporate banking	10942	12841	13868	16325	2457	32.5	5.4
Agricultural finance	5714	6108	6419	7310	891	14.5	49.4
Others	4424	4607	5566	6271	705	12.5	182.4
Total	39079	42318	45443	50245	4802	100.0	26.3

Source: Company quarterly earnings update, ICICIdirect.com Research

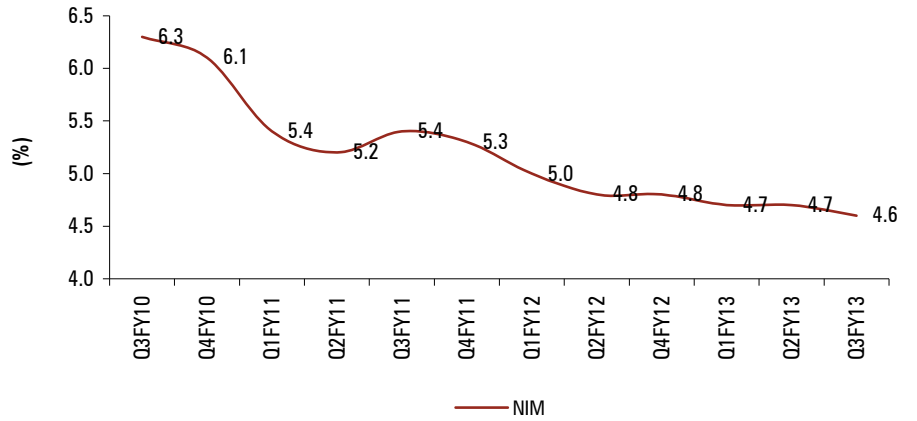
We have revised our estimates from 24.2% CAGR to 25.7% CAGR in credit to ₹ 61756 crore over FY12-14E.

After banking, Kotak Prime (₹ 105 crore PAT), Kotak Life Insurance (₹ 53 crore PAT) and Kotak Securities (₹ 38 crore) remained key contributors in consolidated profit of ₹ 577 crore

Advances grew 26% YoY to ₹ 50254 crore (up by ₹ 4700 crore QoQ). Disbursements were made across segments except CVs and with higher thrust continuing on corporate book (up by ₹ 2500 crore QoQ)

Exhibit 6: NIM stabilising at 4.7% levels; to remain in range of 4.5-4.7%

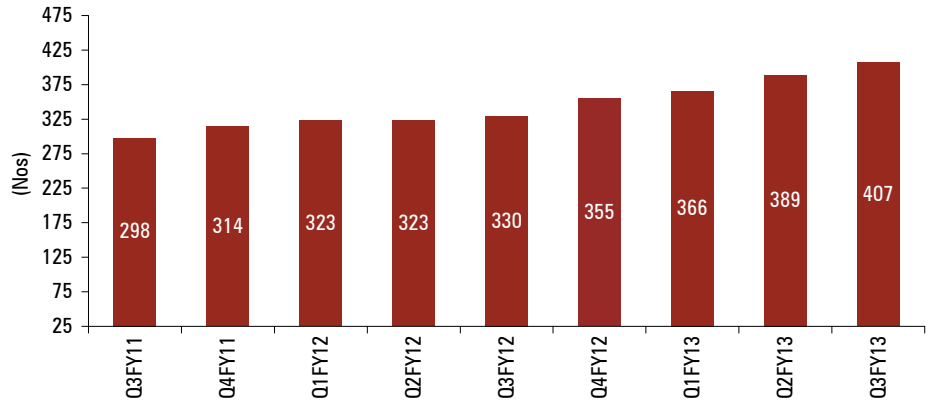
The management has guided the NIM will remain in the range of 4.5-4.7%



Source: Company quarterly earnings update, ICICIdirect.com Research

Exhibit 7: Branch network at 407 in Q3FY13

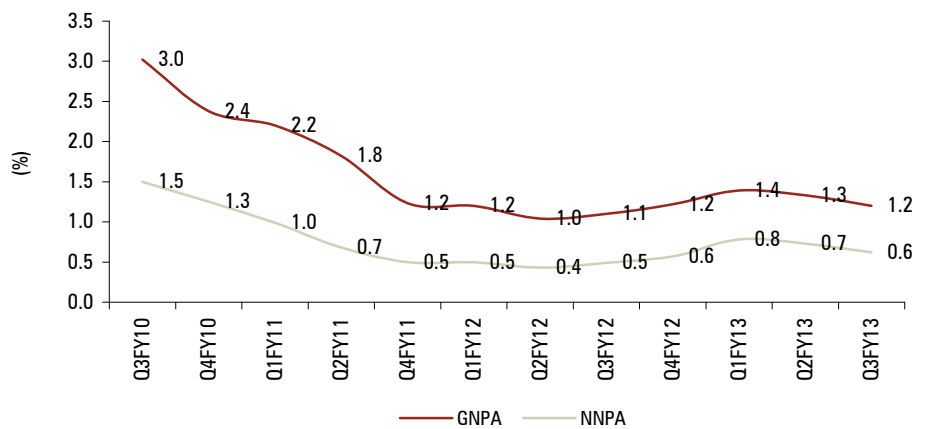
The bank aims to reach 500 branches by CY13E



Source: Company quarterly earnings update, ICICIdirect.com Research

Exhibit 8: NPA levels comfortable

Considering high retail exposure (45%) and majorly working capital corporate loan, we believe stress on asset quality will be limited. CV and CE segment are majorly seen as cautious



Source: Company quarterly earnings update, ICICIdirect.com Research

Subsidiaries performance stable

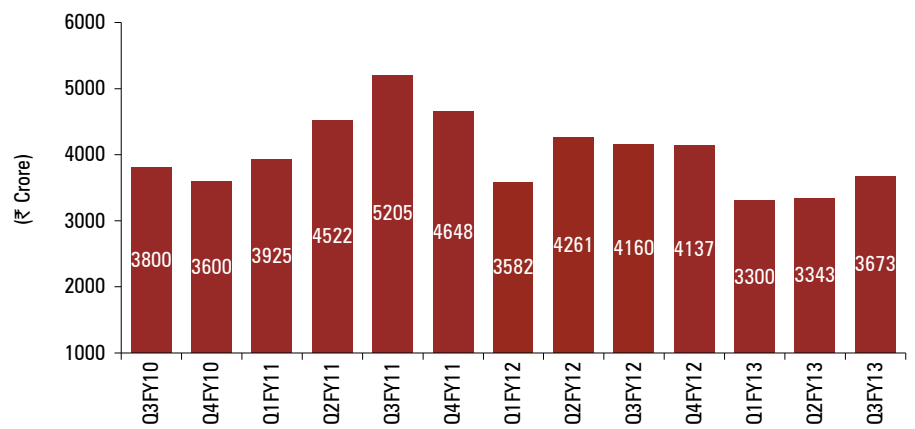
Exhibit 9: Kotak Mahindra Prime profits lower QoQ

₹ Crore	Q3FY13	Q2FY13	Q3FY12	YoY Gr. (%)	QoQ Gr. (%)
PBT	244.0	225.0	231.0	5.6	8.4
PAT	158.0	170.0	152.0	3.9	-7.1
Loans	105.0	114.0	104.0	1.0	-7.9
-car loans in same	16042.0	15173.0	12379.0	29.6	5.7
CAR (%)	12237.0	11756.0	9737.0	-	-
ROA (%)	15.8	15.8	16.8	-	-
NET NPA -cars (%)	240.0	280.0	300.0	-	-

Source: Company quarterly earnings update, ICICIdirect.com Research

There was competitive pressure from large PSU banks on vehicle loans. Kotak Prime expects car loans to grow around 20% in near term as slowdown is being seen

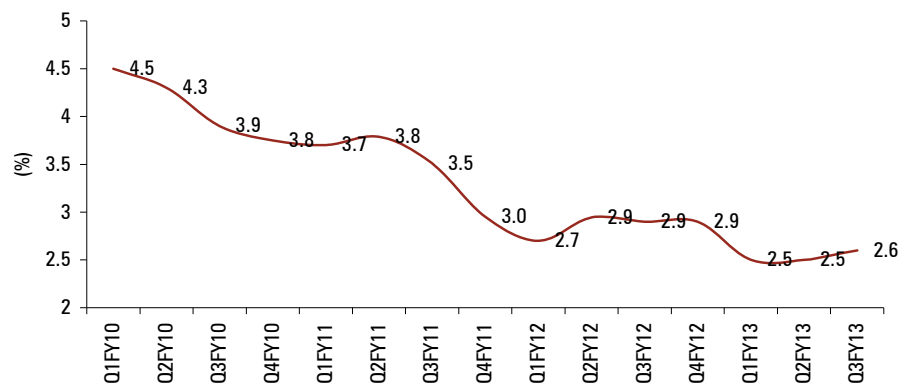
Exhibit 10: Average daily turnover trend



Source: Company quarterly earnings update, ICICIdirect.com Research

The market share of Kotak Securities improved from 2.5% to 2.6% QoQ. Profits of ₹ 38 crore were made in Q3FY13

Exhibit 11: Broking market share trend



Source: Company quarterly earnings update, ICICIdirect.com Research

Exhibit 12: Life insurance business witnesses healthy profitability

Premium (₹ crore)	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Renewal	413.0	588.0	319.0	396.0	359.0
Indvl Regular group	97.0	184.0	58.0	96.0	96.0
Single	57.0	155.0	63.0	107.0	90.0
FYP	72.0	184.0	17.0	21.0	50.0
APE	226.0	523.0	138.0	224.0	236.0
AUM	161.2	357.4	122.7	205.1	191.0
Solvency Ratio (%)	8284.0	9724.0	9823.0	9783.0	10143.0
PAT	3.0	3.1	3.0	2.9	2.9
	47.0	57.0	32.0	47.0	53.0

Source: Company quarterly earnings update, ICICIdirect.com Research

Valuation

The bank's strong profitability and higher margins help it maintain rich valuations. We have revised profitability and also bank valuation at 3.3x FY14EABV. Its stressed assets ratio (NNPA + restructured assets) remains <1% of total credit on a consistent basis. RoE of ~15% and RoA of 1.7% are expected to be maintained. We recommend **HOLD** on the stock with revised SOTP target price of ₹ 620.

Exhibit 13: Valuation

Company	Basis of valuation	Value / share
KMB	3.3x FY14E ABV	453
Kotak Life	EV + 14x FY14E NBAP at 14% margin	40
Kotak Mahindra Prime	1.8x FY14E net-worth	71
Kotak Mahindra Capital	15x FY14E PAT	8
Kotak Securities	12x FY14E PAT	29
Kotak AUM	4% to 8% of FY14E AUM based on asset class	20
Value per share of KMB		620

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement (Standalone)

	₹ Crore			
(Year-end March)	FY11	FY12	FY13E	FY14E
Interest Earned	4189.8	6180.2	7822.5	9525.8
Interest Expended	2092.2	3667.7	4685.9	5766.5
Net Interest Income	2,097.6	2512.5	3136.6	3759.2
growth (%)	12.9	19.8	24.8	19.9
Non Interest Income	780.5	977.3	1110.9	1327.3
Net Income	2,878.1	3489.8	4247.4	5086.6
Operating expense	1553.3	1834.8	2171.4	2538.2
Gross profit	1324.8	1655.0	2076.0	2548.4
Provisions	137.1	55.1	198.1	222.5
Taxes	369.5	514.9	600.9	744.3
Net Profit	818.2	1085.1	1277.0	1581.6
growth (%)	2.1	24.9	25.4	22.8
EPS	11.1	14.6	17.2	21.4

Source: Company, ICICIdirect.com Research

Key ratios (Standalone)

(Year-end March)	FY11	FY12	FY13E	FY14E
Valuation				
No. of Equity Shares	73.7	74.1	74.1	74.1
EPS (₹)	11.1	14.6	17.2	21.4
BV (₹)	92.2	107.3	123.2	143.0
BV-ADJ (₹)	89.4	104.1	118.6	137.3
P/E	57.7	43.8	37.2	30.0
P/BV	7.2	6.2	5.4	4.7
P/ABV	7.1	6.1	5.3	4.6
Yields & Margins (%)				
Yield on avg earning assets	10.0	11.1	10.7	10.4
Avg. cost on funds	5.7	7.4	7.3	7.2
Net Interest Margins	5.0	4.5	4.4	4.3
Avg. Cost of Deposits	5.6	7.4	7.2	7.1
Yield on average advances	12.8	14.2	14.0	13.7
Quality and Efficiency (%)				
Cost / Total net income	54.0	52.6	51.1	49.9
Credit/Deposit ratio	100.2	101.4	97.7	95.9
GNPA	2.1	1.6	1.6	1.5
NNPA	0.7	0.6	0.7	0.7
ROE	14.5	14.7	15.0	16.0
ROA	1.9	1.9	1.7	1.7

Source: Company, ICICIdirect.com Research

Balance sheet (Standalone)

	₹ Crore			
(Year-end March)	FY11	FY12	FY13E	FY14E
Sources of Funds				
Capital	368.4	370.3	370.3	370.3
ESOPS	36.9	34.8	34.8	34.8
Reserves and Surplus	6428.0	7575.6	8752.9	10219.7
Networth	6833.4	7980.8	9158.1	10624.9
Deposits	29261.0	38536.5	50775.8	64414.8
Borrowings	11723.9	16595.5	19582.7	22590.6
Other Liabilities & Provisions	3032.4	2553.7	3076.4	3230.2
Total	50,850.7	65666.5	82593.1	100860.5
Applications of Funds				
Fixed Assets	425.6	450.0	480.4	517.3
Investments	17121.4	21566.8	26954.9	31889.2
Advances	29329.3	39079.2	49630.6	61755.6
Other Assets	1503.3	1935.9	2298.3	2589.7
Cash with RBI & call money	2471.0	2634.6	3228.8	4108.8
Total	50,850.7	65666.5	82593.1	100860.5

Source: Company, ICICIdirect.com Research

Growth ratios (Standalone)

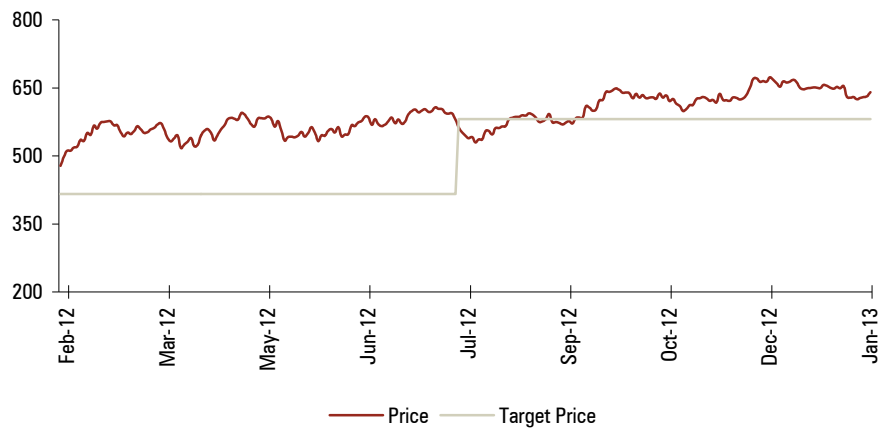
(Year-end March)	FY11	FY12	FY13E	FY14E
(% growth)				
Total assets	35.8	29.1	25.8	22.1
Advances	41.2	33.2	27.0	24.4
Deposits	22.5	31.7	31.8	26.9
Total Income	28.0	44.0	24.8	21.5
Net interest income	12.9	19.8	24.8	19.9
Operating expenses	30.6	18.1	18.3	16.9
Operating profit	2.1	24.9	25.4	22.8
Net profit	45.8	32.6	17.7	23.9
Book value	51.5	16.9	14.8	16.1
EPS	37.8	31.9	17.7	23.9

Source: Company, ICICIdirect.com Research

Company Description

Kotak Mahindra Bank is the fast growing new generation private sector bank. It was formerly known as Kotak Mahindra Finance (KMFL). It was promoted in 1985 by Uday S Kotak and Sidney A Pinto along with Kotak & Company under the name Kotak Capital Management Finance. The promoters were joined by Harish Mahindra and Anand Mahindra of Mahindra & Mahindra in 1986 and the company was renamed Kotak Mahindra Finance. Kotak Mahindra Finance started as a finance company and was later converted into a bank in 2002. The company has established itself as one of India's leading financial institutions with a range of services encompassing corporate finance, capital market financing, asset reconstruction, commercial vehicle finance, consumer finance, car finance, investment banking, mutual funds and life insurance. In 2008, the standalone bank contributed 29.6% (₹ 293 crore) to consolidated profits of ₹ 990.6 crore, which has improved to 59.2% (₹ 1085 crore) contribution in total profits of ₹ 1833 crore for FY12.

Exhibit 15: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 16: Recent Releases

Date	Event	CMP	Target Price	Rating
20-Jul-12	Q1FY13 Result Update	580	581	Hold
28-Sep-12	Banking Industry Update	645	581	Hold
8-Oct-12	Q2FY13 Result Preview	638	581	Hold
26-Oct-12	Q2FY13 Result Update	626	581	Hold
21-Dec-12	Banking Industry Update	662	581	Hold
8-Jan-13	Q3FY13 Result Preview	650	581	Sell

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Bank of India (BANIND)	373	287	Hold	21,345	46.6	40.9	48.2	8.0	9.1	7.7	1.3	1.4	1.3	0.7	0.6	0.6	14.0	10.8	11.9
Bank of Baroda (BANBAR)	871	860	Hold	31,847	121.4	130.5	152.6	7.2	6.7	5.7	1.5	1.3	1.1	1.2	1.1	1.1	20.6	18.1	18.1
Dena Bank (DENBAN)	117	140	Buy	3,907	22.9	27.4	32.1	5.1	4.3	3.7	1.1	0.9	0.8	1.0	1.0	1.0	19.7	19.6	19.3
Indian Overseas Bank (INDOVE)	85	79	Hold	6,707	13.2	11.3	13.3	6.4	7.5	6.4	0.8	0.8	0.8	0.5	0.5	0.5	11.1	9.3	9.7
IDBI Bank (IDBI)	110	98	Sell	14,041	15.9	15.8	18.0	6.9	6.9	6.1	1.1	1.0	1.0	0.7	0.7	0.7	13.4	11.1	11.6
Punjab National Bank (PUNBAN)	882	930	Hold	29,878	154.0	137.3	160.2	5.7	6.4	5.5	1.4	1.4	1.1	1.2	1.0	1.0	19.8	16.1	15.9
State Bank of India (STABAN)	2,464	2,700	Buy	165,379	174.5	195.5	217.3	14.1	12.6	11.3	2.4	2.1	1.9	0.9	0.9	0.9	15.7	14.7	14.2
Syndicate Bank (SYNBN)	140	140	Hold	8,014	21.8	27.0	29.8	6.4	5.2	4.7	1.2	1.0	1.0	0.8	0.9	0.9	16.3	17.7	17.3
Axis Bank (UTIBAN)	1,393	1,445	Hold	59,485	102.9	105.2	127.2	13.5	13.2	11.0	2.6	2.0	1.7	1.6	1.6	1.6	20.3	17.3	16.2
City Union Bank (CITUNI)	61	60	Hold	2,147	6.9	6.1	7.0	8.9	10.1	8.8	2.1	1.9	1.6	1.7	1.6	1.6	24.9	21.5	19.5
Development Credit Bank (DCB)	48	65	Buy	1,162	2.3	3.7	5.0	21.1	12.9	9.6	1.5	1.3	1.2	0.7	1.0	1.1	8.1	10.7	12.5
Federal Bank (FEDBAN)	504	520	Hold	8,614	45.4	52.4	61.0	11.1	9.6	8.3	1.6	1.5	1.4	1.4	1.4	1.4	14.4	15.2	16.2
HDFC Bank (HDFBAN)	654	650	Hold	154,780	22.0	28.4	36.0	29.7	23.0	18.2	5.2	4.5	3.9	1.7	1.8	2.0	18.7	20.7	22.8
Jammu & Kashmir Bank(JAMKAS)	1,301	1,600	Buy	6,305	165.6	215.7	259.1	7.9	6.0	5.0	1.6	1.3	1.1	1.5	1.6	1.6	21.2	23.3	23.3
Kotak Mahindra Bank (KOTMAH)	641	620	Hold	47,595	14.6	17.2	21.4	43.0	36.5	29.5	6.0	5.3	4.5	1.9	1.7	1.7	14.7	15.0	16.0
South Indian Bank (SOUINO)	28	30	Hold	3,752	3.5	3.6	4.6	7.9	7.9	6.1	1.6	1.4	1.2	1.1	1.1	1.1	21.6	20.8	19.7
Yes Bank (YESBAN)	509	550	Hold	17,666	27.7	32.5	42.0	18.4	15.6	12.1	3.9	2.6	2.2	1.5	1.6	1.5	23.1	20.5	19.3

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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