

Kotak Mahindra Bank Ltd.

Sustained growth ahead

Outlook

Robust finance business, healthy asset quality and incremental improvement in capital market business are key triggers to drive the growth further. Strong loan growth outlook, resilient net interest margins, aggressive branch expansion strategy, focus on building quality liability franchise, best-in-class risk adjusted returns, well capitalized and integrated financial market based business model are key value drivers to provide fillip to earnings. At a CMP of Rs 652 the stock is trading at 3.2x and 2.8x its FY13 and FY14 P/B and we recommend a HOLD on the stock

Key Takeaways

- Kotak Mahindra Bank's financing businesses earnings grew by 22.7% QoQ contributing 79% to consolidated PAT. Standalone Banks NII grew by 26.3% YoY and 8.5% on QoQ to Rs 823 crore led by the robust loan growth and steady NIMs.
- Deposits grew by 34.2% YoY to Rs 51,524 crore whereas advances grew by 26.3% YoY to Rs 50,245 crore. While CASA deposits comprised 26% of all deposits as compared to 32.2% in FY12. Savings deposit rose to 49.5% YoY and stood at Rs 6,616 crore aided by the banks new policy of giving interest of 6% p.a. on deposits of more than Rs 1 lakh since 1st November'11.
- Broadly, asset quality has been stable as gross NPAs and Net NPAs declined during the quarter to 1.5% & 0.6% respectively with the provision coverage ratio for the bank stands at 56.4% excluding write offs. Restructured assets pool continues to hold the negligible mark of 0.02% of advances. The management continues to see some pressure on CV/CE portfolio with regard to asset quality.
- Cost to income ratio declined by 298 bps QoQ to 49% on the back stronger revenue growth, improving productivity and focus on cost. Other operating expenses increased moderately by 11% yoy & 3% qoq to Rs 292 crore. However the management has guided for a sub 50% cost to income ratio in the next one year, which will support earning growth and RoE improvement. The bank added 18 branches during the quarter. Going ahead, the bank expects to take the number of branches to 500 by FY13 from the current 407 branches.
- Consolidated income for Q3FY13 was higher by 26.5% YoY and stood at Rs 2,811.5 crore as against Rs 2,222.8 crore in Q3FY12. Earnings were higher by 25.6% YoY to Rs 585.8 crore on the back of notable performance by subsidiaries.

Recommendation (Rs)

CMP	652
Rating	HOLD

Index Details

Sensex	19,924
Nifty	6,019
Industry	Banks

Scrip Details

Mkt Cap (Rs cr)	48,518
Eq Shares O/s (Cr)	74.3
Avg Vol (Lakhs)	1.5
52 Week H/L	677/475
Dividend Yield (%)	0.1
Face Value (Rs)	5.0

Latest shareholding pattern (%)

Promoters	45.1
Indian Institutions	3.6
FII's	30.4
Public	20.9
Total	100.0

Stock performance (%)

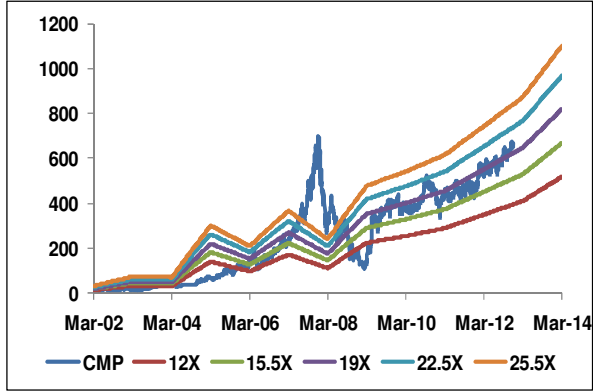
	1m	3m	6m
Kotak bank	-0.8	3.8	16.7
Nifty	3.5	6.4	18.3
BSE - Bank	2.4	9.1	22.8

Quarterly Result Update

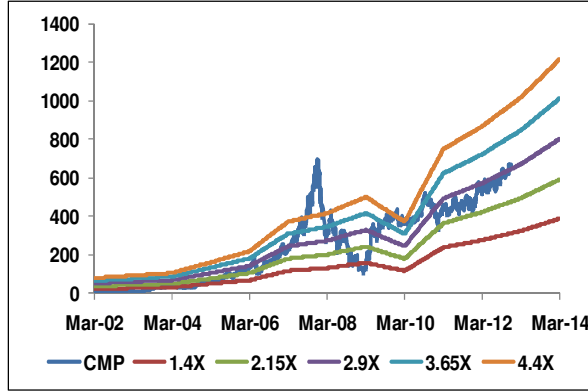
Description	Q3FY13	Q3FY12	% Chg.	Q3FY13	Q2FY13	% Chg.	FY201203	FY201103	% Chg.
Interest Earned	2811.5	2222.8	26.5	2811.5	2609.8	7.7	8470.4	5973.1	41.8
Interest on Advances	2139.3	1742.4	22.8	2139.3	1990.0	7.5	6551.9	4542.5	44.2
% of Total Int. Earned	76.1	78.4	-	76.1	76.3	-	77.4	76.0	-
Interest on Balances with RBI	25.6	10.6	141.9	25.6	29.4	-12.9	41.1	23.1	78.0
<i>% of Total Int. Earned</i>	<i>0.9</i>	<i>0.5</i>	<i>-</i>	<i>0.9</i>	<i>1.1</i>	<i>-</i>	<i>0.5</i>	<i>0.4</i>	<i>-</i>
Income From Investments	636.6	462.7	37.6	636.6	581.5	9.5	1840.5	1355.2	35.8
<i>% of Total Int. Earned</i>	<i>22.6</i>	<i>20.8</i>	<i>-</i>	<i>22.6</i>	<i>22.3</i>	<i>-</i>	<i>21.7</i>	<i>22.7</i>	<i>-</i>
Others	10.0	7.1	41.1	10.0	8.9	12.4	36.8	52.3	-29.6
<i>% of Total Int. Earned</i>	<i>0.4</i>	<i>0.3</i>	<i>-</i>	<i>0.4</i>	<i>0.3</i>	<i>-</i>	<i>0.4</i>	<i>0.9</i>	<i>-</i>
Other Income	1345.7	900.5	49.4	1345.7	1426.0	-5.6	4467.0	5024.3	-11.1
Total Income	4157.1	3123.3	33.1	4157.1	4035.8	3.0	12937.4	10997.4	17.6
Interest Expended	1579.9	1223.1	29.2	1579.9	1449.1	9.0	4542.0	2668.2	70.2
Operating Expenses	1683.6	1180.4	42.6	1683.6	1800.0	-6.5	5640.2	5934.2	-5.0
<i>Payment to provisions for Empl</i>	<i>439.4</i>	<i>411.6</i>	<i>6.8</i>	<i>439.4</i>	<i>420.4</i>	<i>4.5</i>	<i>1601.5</i>	<i>1522.3</i>	<i>5.2</i>
% of Opt. Expenses	26.1	34.9	-	26.1	23.4	-	28.4	25.7	-
Other Opt. Expenses	1244.2	768.8	61.8	1244.2	1379.6	-9.8	4038.7	4411.8	-8.5
<i>% of Opt. Expenses</i>	<i>73.9</i>	<i>65.1</i>	<i>-</i>	<i>73.9</i>	<i>76.6</i>	<i>-</i>	<i>71.6</i>	<i>74.3</i>	<i>-</i>
Total Expenses	1683.6	1180.4	42.6	1683.6	1800.0	-6.5	5640.2	5934.2	-5.0
Operating Profit before prov. & c	893.6	719.8	24.1	893.6	786.7	13.6	2755.2	2395.0	15.0
% of Total Int. Earned	31.8	32.4	-	31.8	30.1	-	32.5	40.1	-
Provisions and Contingencies	58.9	45.2	30.3	58.9	61.4	-4.1	98.7	147.6	-33.1
PBT	834.7	674.6	23.7	834.7	725.3	15.1	2656.5	2247.4	18.2
% of Total Int. Earned	29.7	30.3	-	29.7	27.8	-	31.4	37.6	-
<i>Tax</i>	<i>248.9</i>	<i>208.3</i>	<i>19.5</i>	<i>248.9</i>	<i>219.2</i>	<i>13.5</i>	<i>806.0</i>	<i>678.2</i>	<i>18.9</i>
PAT	585.8	466.2	25.6	585.8	506.1	15.7	1850.5	1569.2	17.9
% of Total Int. Earned	20.8	21.0	-	20.8	19.4	-	21.8	26.3	-
Paid up equity share capital	372.1	369.8	0.6	372.1	371.7	0.1	370.3	368.4	0.5
EPS (Rs.)	7.8	6.3	24.0	7.8	6.8	14.7	24.7	21.3	16.3
<i>Capital Adequacy Ratio</i>	<i>0.0</i>	<i>17.5</i>	<i>0.0</i>	<i>0.0</i>	<i>16.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>
NII	1231.5	999.7	23.2	1231.5	1160.7	6.1	3928.5	3304.9	18.9
<i>NIM</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Gross NPA	824.1	678.0	21.5	824.1	830.0	-0.7	699.7	712.0	-1.7
% of Gross NPA	1.2	1.3	-5.0	1.2	1.4	-20.0	1.3	1.7	-40.0
Net NPA	364.8	246.5	48.0	364.8	383.3	-4.8	273.4	242.7	12.7
% of Net NPA	0.5	0.5	7.0	0.5	0.6	-10.0	0.5	0.6	-8.0
ROA(%)	0.5	0.5	-1.0	0.5	0.5	0.0	2.2	2.4	-19.0

Quarterly Result Update

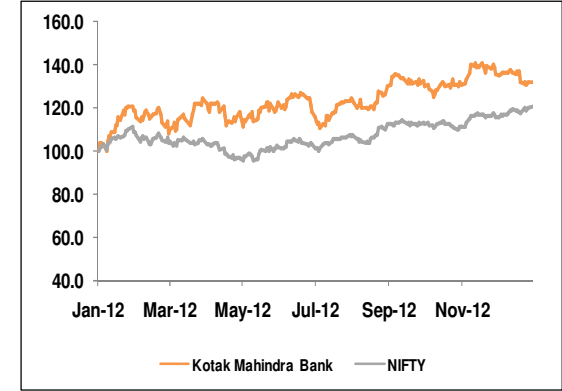
P/E Bands



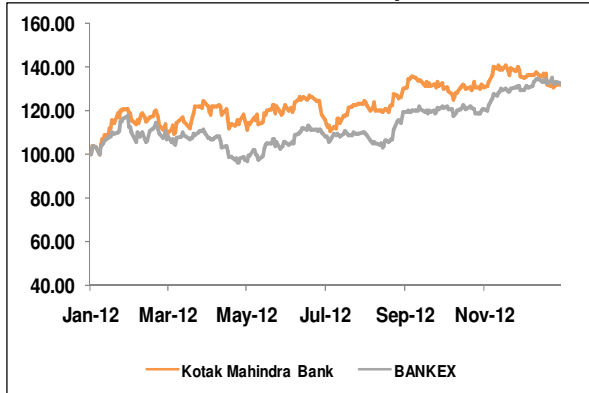
P/B Bands



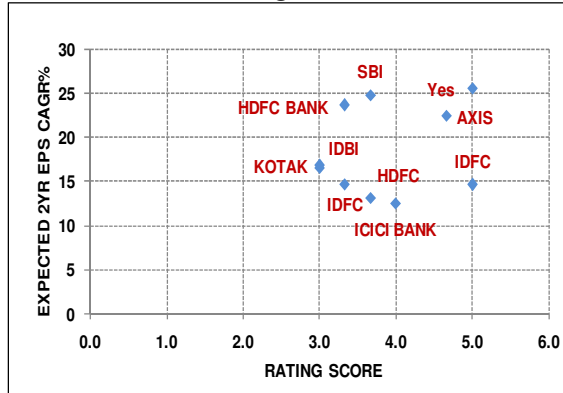
Nifty Comparison



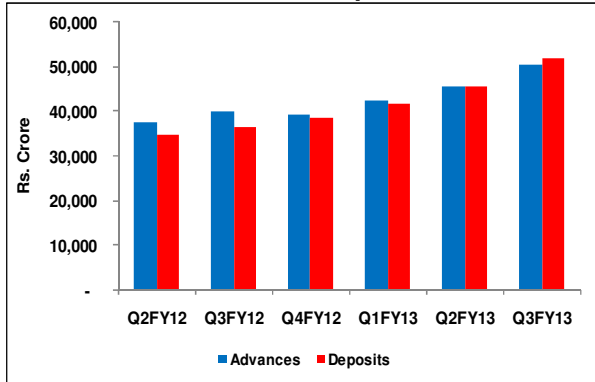
BSE-Bankex Comparison



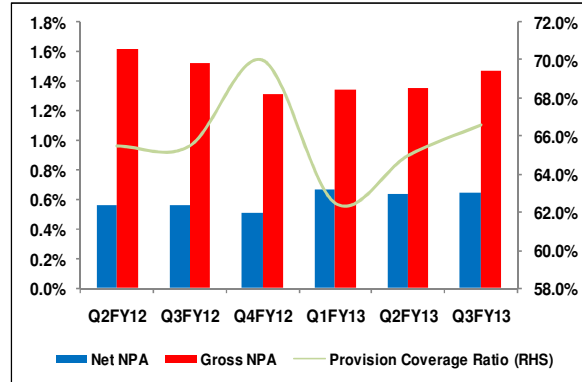
Rating



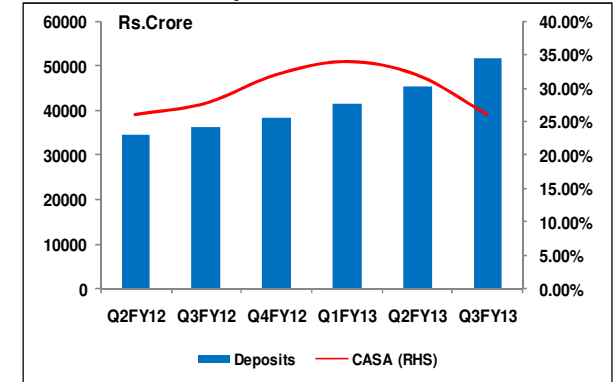
Advances & Deposits



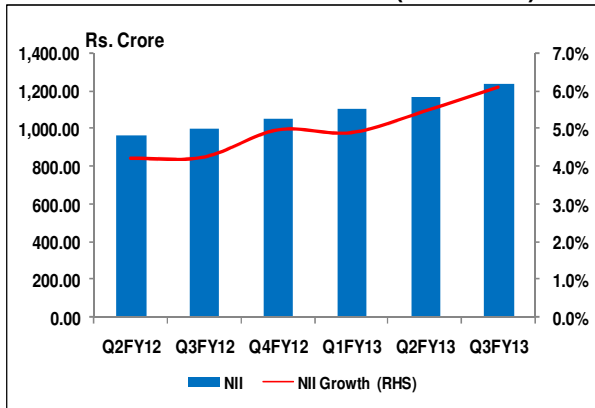
Net NPA, Gross NPA & PCR Ratio



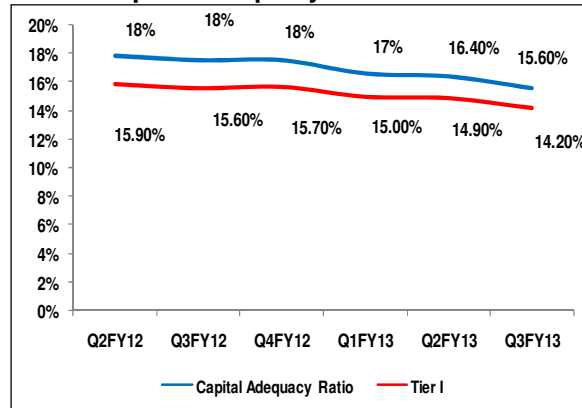
Deposits & CASA



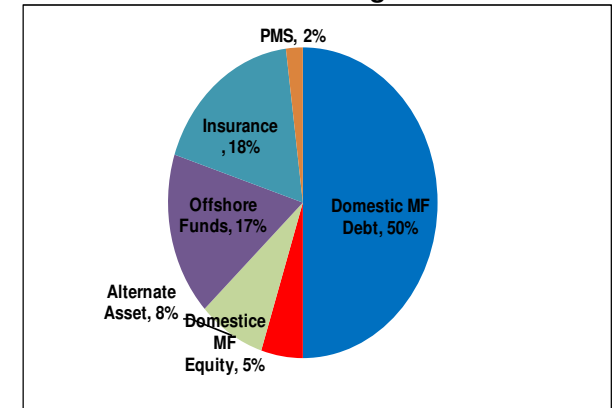
Net Interest Income & NII (Growth %)



Capital Adequacy Ratio & Tier I



Assets Management



Ventura Securities Limited

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

This report is neither an offer nor a solicitation to purchase or sell securities. The information and views expressed herein are believed to be reliable, but no responsibility (or liability) is accepted for errors of fact or opinion. Writers and contributors may be trading in or have positions in the securities mentioned in their articles. Neither Ventura Securities Limited nor any of the contributors accepts any liability arising out of the above information/articles. Reproduction in whole or in part without written permission is prohibited. This report is for private circulation.