

May 19, 2010

Kotak Mahindra Bank (KOTMAH)

Rs 747

Rating matrix

Rating	: Buy
Target	: Rs 831
Target Period	: 12-15 months
Potential Upside	: 11%

Trailing 4 quarters growth (Rs Crore)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
NII	408.9	436.4	486.6	526.0
PPP	284.3	244.2	336.8	435.5
PAT	90.3	125.9	142.3	202.4

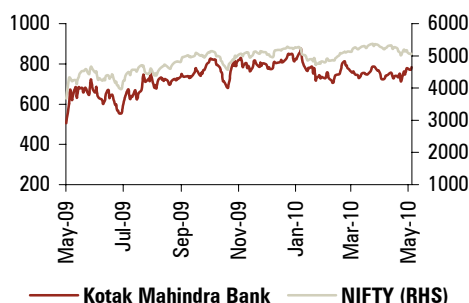
Valuation summary

Year to March 31	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	275.8	464.2	548.4	743.4
EPS (Rs)	8.0	13.4	15.9	21.5
% Growth	-6.4	68.3	18.1	35.6
P/E (x)	91.1	54.1	45.8	33.8
Price / Book (x)	7.3	6.5	6.3	5.5
Price / Adj Book (x)	7.0	6.3	6.2	5.5
GNPA%	4.4	4.2	4.1	4.0
NNPA%	2.4	1.7	1.2	0.8
RoNA (%)	1.0	1.5	1.4	1.7
RoE (%)	7.5	11.5	12.9	16.2

Stock data

Market Capitalisation	Rs 25973 crore
GNPA (FY10)	Rs 498 crore
NNPA (FY10)	Rs 257 crore
NIM (Q4FY10)	6.3 %
52 week H/L	Rs 879 /529
Equity capital	Rs 340 crore
Face value	Rs.10
DII Holding (%)	28.6
FII Holding (%)	4.9

Price movement



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WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 734 to Rs 831
EPS (FY11E)	Changed from Rs 13.4 to Rs 15.9
EPS (FY12E)	Rs 21.5
RATING.....	Changed from Reduce to Buy

All-round performance, stock split announced...

Kotak Mahindra Bank (KMB) declared an excellent set of Q4FY10 results as consolidated PAT grew 98.7% YoY to Rs 419 crore. On a standalone basis, the banking vertical reported a 97% YoY jump in PAT of Rs 202.4 crore (I-direct estimate- Rs 146.2 crore) on higher-than-expected growth in the core business and robust non interest income. The performance of other capital markets businesses was in line with expectations.

Banking operations gaining momentum

The standalone bank witnessed good traction in core operations as advances grew 25% YoY. This is indicative of the fact that the bank is coming back to the growth track. Growth in corporate loans continued to dominate asset growth that grew 134% YoY. NII grew 37% YoY. On the other hand, deposits grew 37% YoY. Non interest income showed robust growth of 119% YoY that aided profitability growth of 97%. On asset quality, earlier run down on the retail loan portfolio helped reduce GNPA by 23% QoQ. GNPA and NNPA stood at 2.38% and 1.25%, respectively, in Q4FY10.

Capital markets business: Competition a key concern going ahead

Though operational matrices have shown YoY growth for the capital market linked business, the securities business of Kotak continues to face market share pressure (3.75% in Q4FY10 vs. 3.9% in Q3FY10) from the unorganised sector. Average daily turnover stood at Rs 3,600 crore vs. Rs 3,800 crore in Q3FY10 in spite of overall market volumes growing QoQ. The PAT for the securities and investment banking businesses grew by -19% QoQ and -16% QoQ, respectively.

Valuation

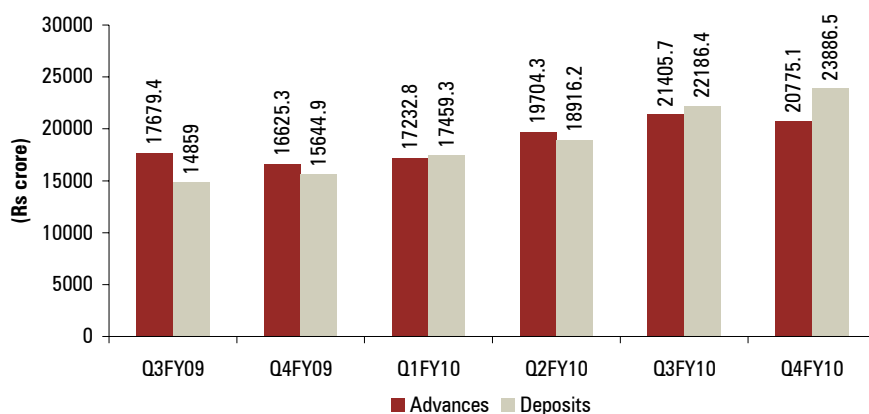
We have revised our multiples for the banking business keeping in view the growth emanating from there. On the other hand, we believe competition in the securities and investment banking will keep market share under pressure. We believe this will put a cap on valuations. We have revised our SOTP target to Rs 831 with a **BUY** rating on the stock. The company has also announced 5:1 stock split.

Exhibit 1: Key Financials

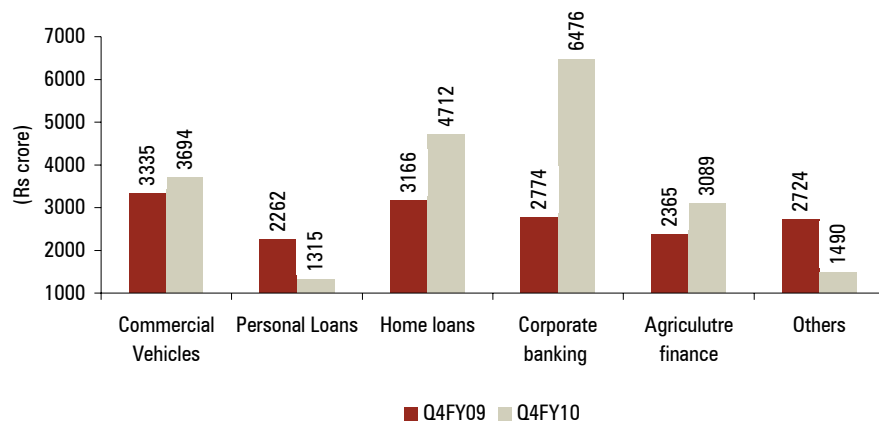
	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr. (%)
NII	526.0	520.9	418.0	486.7	25.8	8.1
Other Income	251.5	155.0	115.1	144.8	118.6	73.7
Total Income	777.5	675.9	533.1	631.4	45.9	23.1
PPP	435.6	358.2	256.5	336.9	69.8	29.3
PAT	202.5	146.2	102.6	142.4	97.4	42.2

Source: Company, ICICIdirect.com Research

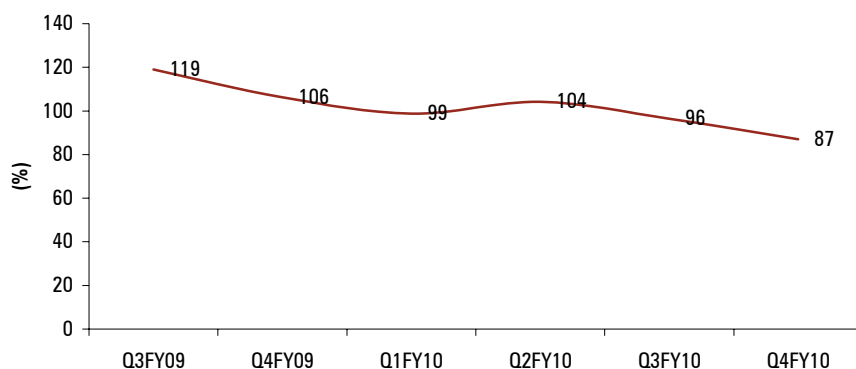
The core business has shown reasonable growth in this quarter as advances grew by 25% YoY while deposits grew by 37% YoY. The standalone NIMs stood at 6.3% for Q4FY10 while CASA ratio stood at 31% in the quarter.

Exhibit 2: Trend in core business encouraging

Source: Company, ICICIdirect.com Research

Exhibit 3: Share of various verticals in the loan book, corporate banking all the way

Source: Company, ICICIdirect.com Research

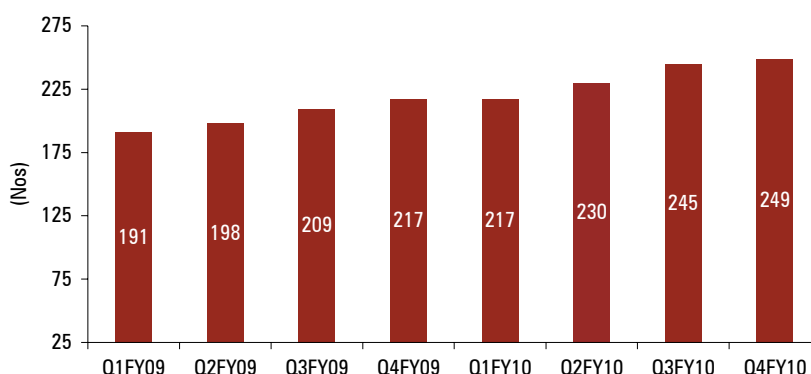
Exhibit 4: Trend in credit deposit

Source: Company, ICICIdirect.com Research

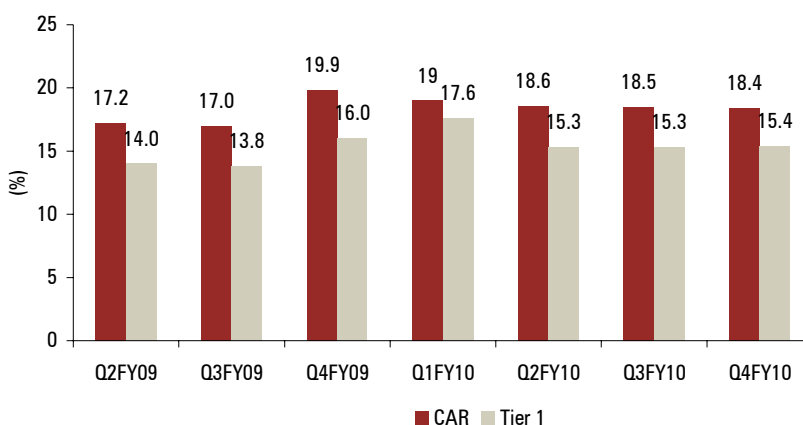
The corporate book has contributed almost entirely to growth in the loan book. The bank has purposely reduced exposure to the retail sector so as to keep NPAs in check

The corporate loan book has grown by 134% YoY and now forms 31% of the total loan book. We believe this will put some pressure on margins but within the corporate segment majority of loans would be for working capital needs

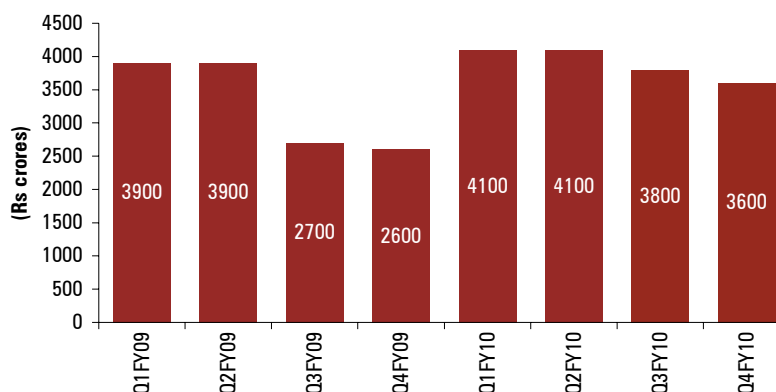
Currently, the number of branches stands at 249. The increase in network will lead to accretion of CASA and fee income generated through cross selling of third-party products. The bank is also planning to increase the tally of its branches to 320 by FY11 and 500 by December 2012

Exhibit 5: Trend in retail branch expansion

Source: Company, ICICIdirect.com Research

Exhibit 6: High CAR to enable bank to grow, going forward

Source: Company, ICICIdirect.com Research

Exhibit 7: Trend in average daily turnover

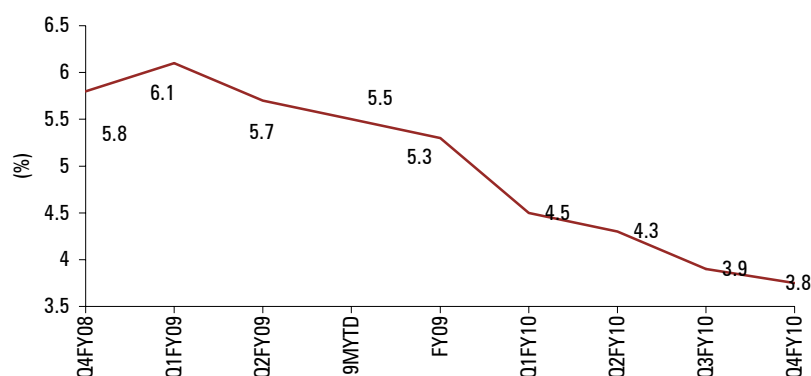
Source: Company, ICICIdirect.com Research

The average daily turnover has declined sequentially to Rs 3,600 crore vs. Rs 3,800 crore in Q3FY10. Coupled with a fall in market share, this can mainly be attributed to rising competition from the unorganised segment and increased participation from proprietary firms in the capital markets. Also, an increasing shift in the trading pattern towards the options segment, where almost all organised players have a low presence, is detrimental to market share

The AUM in the portfolio management services was Rs 23 billion as of Q4FY10. It has declined sequentially

Kotak Securities has a network of over 1,113 offices (own and franchisees) and has more than 5,57,000 secondary market customers

Exhibit 8: Broking market share on continuous decline



Source: Company, ICICIdirect.com Research

Other Business highlights

Kotak Mahindra Capital (investment banking arm) reported a PAT of Rs 13.4 crore in Q4FY10 vs. a loss of Rs 3.8 crore in Q4FY09 as fund raising activity in the primary markets has gained momentum. The vertical reported a topline of Rs 38.2 crore in Q4FY10 vs. Rs 9 crore in Q4FY09. We expect this segment to be buoyant on account of foreseen capital raising plans of Corporate India

- As of Q4FY10, Kotak Mahindra Prime's (KMP) advances book stood at Rs 8,311 crore as against Rs 5,571 crore in Q4FY09. The PAT for KMP stood at Rs 58.6 crore in Q4FY10. The net NPA for the segment stood at 0.37% in Q4FY10 as against 0.045% in Q3FY10

- On the asset management side the AUM of the domestic business stood at Rs 34,800 crore (equity AUM of Rs 4,900 crore). On the alternate asset management side, the India dedicated AUM stood at \$1.2 billion whereas the international AUM stood at \$1.6 billion

Exhibit 9: Profitability by vertical

PAT (Rs crore)	Q4FY10	Q4FY09	YOY (%)	Q3FY10	QoQ (%)
Kotak Bank	202.5	102.6	97.4	142.4	42.2
Kotak Securities	50.8	18.0	182.2	59.2	-14.2
Kotak Mahindra Capital	13.3	-3.8	-	1.6	7.4
Kotak Prime	58.6	47.0	24.7	49.4	18.5
Kotak AMC & Trust	14.8	8.2	80.5	22.9	-35.2
International Subsidiaries	15.4	1.9	710.5	22.6	-31.7
Kotak Investment advisors	7.0	10.2	-31.4	11.5	-38.9
Kotak Mahindra Investments	6.8	5.5	23.6	6.1	10.9
Kotak Mahindra Old Mutual	44.4	39.7	11.8	19.3	129.7
Total (net off equity affiliates/minority)	418.6	210.7	98.7	331.4	26.3

Source: Company, ICICIdirect.com Research

Exhibit 10: Valuation matrix

Company	Basis of valuation	FY12E
KMB	2.5x FY12E ABV	332
Kotak Life	13x NBAP at 13% margin	143
Kotak Mahindra Prime	1.5x FY12E net-worth	80
Kotak Mahindra Capital	15x FY12E PAT	17
Kotak Securities	15x FY12E PAT	167
Kotak AMC/	4% to 6% of FY12E AUM based on asset class	68
Alternate Assets	8% of FY12E AUM	24
Value per share of KMB		831

Source: Company, ICICIdirect.com Research

We have revised our target from Rs 734 to Rs 831 on account of robust growth in the banking vertical. We have also rolled over the valuations to FY12E. We believe that any gain in market share in the securities business will provide a further fillip to valuations

ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	324	FY10	1741.1	33.1	9.8	1.6	0.7	12.4
		Target	330	FY11E	2156.0	41.0	7.9	1.5	0.7	14.2
Mcap (Rs Cr)	17039	Upside (%)	1.9	FY12E	2961.3	49.0	6.6	1.2	0.8	16.5
Bank of Baroda					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	691	FY10	3058.3	83.7	8.1	1.8	1.0	21.5
		Target	722	FY11E	3710.5	101.5	6.7	1.5	1.1	21.4
Mcap (Rs Cr)	24783	Upside (%)	4.5	FY12E	4580.7	125.3	5.4	1.2	1.2	21.5
Dena Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	90	FY10	511.3	17.8	5.0	1.2	1.3	21.4
		Target	91	FY11E	619.2	16.0	5.6	1.1	1.1	20.0
Mcap (Rs Cr)	2581	Upside (%)	1.1	FY12E	768.2	15.8	5.7	1.0	1.0	18.2
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	93	FY10	1292.7	13.0	7.2	1.0	0.6	9.9
		Target	90	FY11E	891.5	16.4	5.7	1.0	0.6	12.0
Mcap (Rs Cr)	5067	Upside (%)	-3.2	FY12E	1248.1	22.9	4.1	0.9	0.8	14.9
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	111	FY10	1031.1	14.2	7.8	1.1	0.5	13.2
		Target	141	FY11E	1210.1	15.2	7.3	1.0	0.5	13.1
Mcap (Rs Cr)	8046	Upside (%)	27.0	FY12E	1513.0	19.0	5.8	0.9	0.5	13.9
OBC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	324	FY10	1134.7	45.3	7.2	1.1	0.9	14.6
		Target	423	FY11E	1465.0	58.5	5.5	0.9	0.9	16.6
Mcap (Rs Cr)	8117	Upside (%)	30.6	FY12E	1767.9	70.6	4.6	0.8	1.0	17.2
Punjab National Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1006	FY10	3905.4	123.9	8.1	1.9	1.4	24.0
		Target	1014	FY11E	4607.8	146.1	6.9	1.8	1.4	24.7
Mcap (Rs Cr)	31719	Upside (%)	0.8	FY12E	5336.4	169.2	5.9	1.6	1.4	26.2
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	2210	FY 09	91.2	143.7	15.4	2.7	1.1	17.1
		Target	2251	FY10	91.4	144.0	15.3	2.7	0.9	15.1
Mcap (Rs Cr)	140309	Upside (%)	1.9	FY11E	106.8	151.6	14.6	2.0	0.9	14.2
Union Bank of India					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	296	FY10	2074.9	41.1	7.2	1.5	1.2	21.6
		Target	343	FY11E	2547.3	50.4	5.9	1.3	1.2	22.0
Mcap (Rs Cr)	14951	Upside (%)	15.9	FY12E	3027.7	59.9	4.9	1.0	1.2	21.4
Axis Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1204	FY10	2514.5	62.1	19.4	3.1	1.7	19.2
		Target	1302	FY11E	3129.7	76.5	15.7	2.6	1.6	17.5
Mcap (Rs Cr)	48783	Upside (%)	8.1	FY12E	4133.3	101.1	11.9	2.2	1.7	19.2
Dhanlaxmi Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	147	FY10	23.4	3.6	40.3	2.4	0.3	5.4
		Target	170	FY11E	66.7	7.8	18.8	1.6	0.7	10.3
Mcap (Rs Cr)	942	Upside (%)	15.6	FY12E	104.3	12.3	12.0	1.4	0.7	11.5
HDFC Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	1872	FY10	2948.7	64.4	29.1	4.1	0.3	20.3
		Target	2151	FY11E	3972.3	87.6	21.4	3.7	0.3	17.6
Mcap (Rs Cr)	85700	Upside (%)	14.9	FY12E	5051.4	111.4	16.8	3.2	0.3	20.0
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	747	FY10	464.2	13.4	54.1	6.3	1.5	11.5
		Target	831	FY11E	548.4	15.9	45.8	6.2	1.4	12.9
Mcap (Rs Cr)	25973	Upside (%)	11.2	FY12E	743.4	21.5	33.8	5.5	1.7	16.2
South Indian bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	152	FY10	233.7	20.7	7.3	1.3	1.1	18.0
		Target	150	FY11E	277.9	24.6	6.2	1.1	1.0	17.8
Mcap (Rs Cr)	1718	Upside (%)	-1.3	FY12E	346.6	30.7	5.0	1.0	1.0	19.1
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	265	FY10	477.7	14.1	18.8	3.0	1.6	20.3
		Target	316	FY11E	666.4	19.6	13.5	2.6	1.5	20.2
Mcap (Rs Cr)	7957	Upside (%)	19.2	FY12E	890.6	26.2	10.1	2.2	1.4	22.7

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	157	FY 09	848.0	6.5	24.0	3.3	2.8	14.3
		Target	200	FY10	1062.1	8.2	19.1	2.9	3.2	15.9
Mcap (Rs Cr)	20327	Upside (%)	27.4	FY11E	1326.8	9.1	17.3	2.1	3.4	14.6
LICHF										
Idirect Code	LICHF	CMP	958	FY 09	532.4	62.6	14.7	3.4	2.0	25.3
		Target	1013	FY10	662.5	69.0	13.3	2.9	2.0	23.8
Mcap (Rs Cr)	8735	Upside (%)	5.7	FY11E	849.1	88.5	10.4	2.3	2.1	24.0
Rel Cap										
Idirect Code	RELCAP	CMP	636	FY 09	1069.2	43.4	14.6	2.1	6.2	15.1
		Target	800	FY10	578.6	23.5	27.1	2.0	3.0	7.5
Mcap (Rs Cr)	15622	Upside (%)	25.8	FY11E	905.9	36.8	17.3	1.8	4.3	11.0

Brokerage firms

Edelweiss Capital					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	EDECAP	CMP	397	FY10	255.3	32.0	12.4	1.3	6.7	11.5
		Target	494	FY11E	323.7	40.6	9.8	1.1	6.4	13.2
Mcap (Rs Cr)	2980	Upside (%)	24.4	FY12E	351.5	44.1	9.0	1.0	5.6	12.9
India Infoline					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	INDINF	CMP	101	FY10	234.3	8.3	12.2	1.7	9.0	14.6
		Target	111	FY11E	239.6	8.5	11.9	1.5	7.4	14.2
Mcap (Rs Cr)	2879	Upside (%)	9.9	FY12E	242.8	8.6	11.8	1.4	7.1	13.1
MOFSL					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Idirect Code	MOTOSW	CMP	166	FY 09	93.4	6.3	26.3	3.0	6.6	11.8
		Target	203	FY10	174.3	11.9	14.0	2.6	10.5	19.0
Mcap (Rs Cr)	2373	Upside (%)	22.3	FY11E	203.4	13.9	11.9	2.1	10.6	18.3

RATING RATIONALE

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