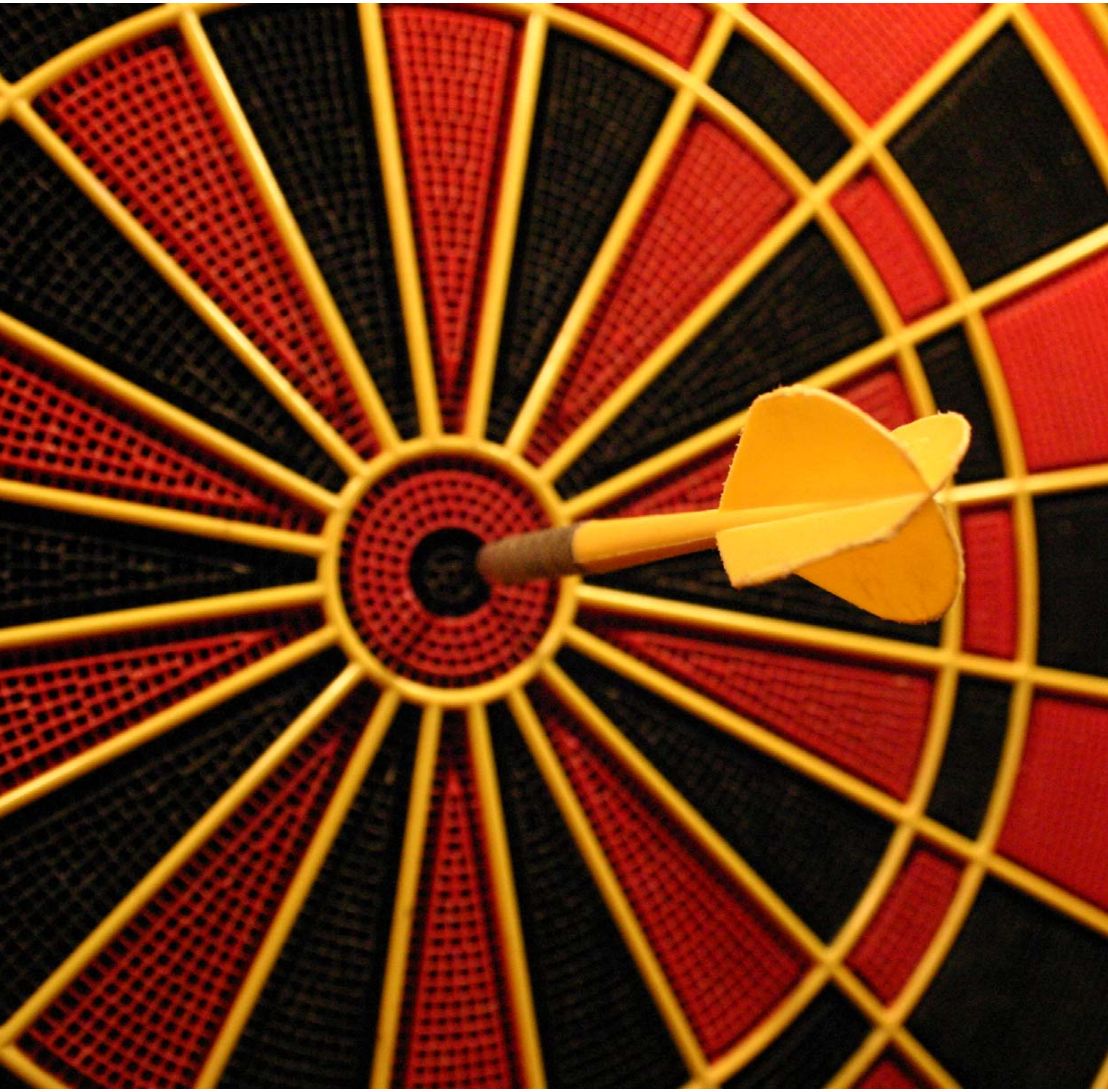
Initiating Coverage
SECTOR: BANKING AND FINANCE

Kotak Mahindra Bank



Bullseye!!

Manish Karwa (MKarwa@MotilalOswal.com) +91 22 3982 5409

Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com) +91 22 3982 5426

Contents

Kotak Mahindra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 18,603	KMB IN
	REUTERS CODE
S&P CNX: 5,561	KTKM.BO

Y/E MARCH	2007	2008E	2009E	2010E
NII (Rs b)	10.5	15.6	21.7	29.8
OP (Rs b)	9.7	16.1	22.5	31.3
NP (Rs b)	5.8	10.1	14.4	20.2
EPS (Rs)	17.8	29.5	41.8	58.8
EPS Growth (%)	47.2	65.5	41.6	40.7
BV/Share (Rs)	99.1	167.8	205.8	260.5
P/E (x)	60.9	36.8	26.0	18.5
P/BV (x)	11.0	6.5	5.3	4.2
ABV (Rs)	98.5	166.8	204.7	259.4
P/ABV (x)	11.0	6.5	5.3	4.2
RoE (%)	21.2	23.4	23.5	27.1
RoA (%)	2.5	2.9	3.0	3.1

Consolidated

KEY FINANCIALS	
Shares Outstanding (m)	344.0
Market Cap. (Rs b)	373.7
Market Cap. (US$b)	9.5
Past 2 yrs NII Growth (%)	53.0
Past 2 yrs NP Growth (%)	68.5
Dividend Payout (%)	11.7
Dividend Yield (%)	-
P/E to Growth (x)	0.8

STOCK DATA	
52-W High/Low Range (Rs)	1,165/365
Major Shareholders (as of September 2007)	(%)
Promoters	55.4
Domestic Institutions	5.2
Foreign	24.2
Public	15.2
Average Daily Turnover	
Volume ('000 shares)	805.6
Value (Rs million)	524.1
1/6/12 Month Rel. Performance (%)	24/60/153
1/6/12 Month Abs. Performance (%)	29/89/189

21 November 2007 — **Buy**

Initiating Coverage — Rs1,086

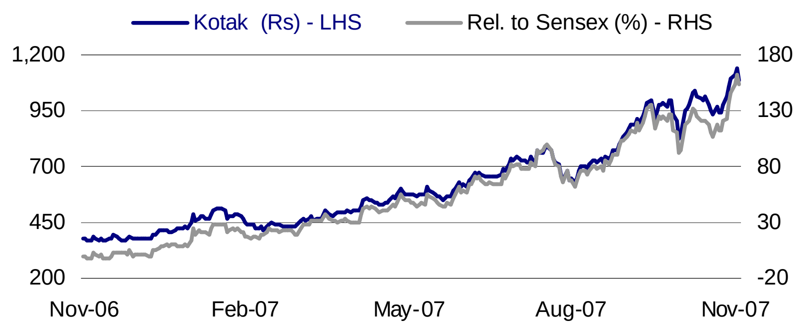
Strong play on financial services: India's macro economic indicators portend supernormal growth in financial services. Kotak Mahindra Bank (KMB) together with its subsidiaries has a presence across financial services – lending, broking, investment banking, life insurance, asset management, and proprietary investments. Given its integrated business model, an established brand and quality management, KMB is in a sweet spot to benefit from the buoyancy in the sector.

Established leadership in broking and investment banking: The Kotak Mahindra Group (Kotak) has an established leadership in the broking and investment banking (IB) businesses in India. Deep retail reach, an established brand, and a strong hold in both the retail and institutional segments would help Kotak to maintain leadership in broking. Its strong corporate relationships and ability to generate robust retail/HNI subscriptions in IPOs would ensure strong IB deal flow.

Lending, asset management and insurance – value creators: Kotak is aggressively building up its banking franchise, with focus on affluent customers and retail services. Its asset management business should see exponential growth. Though its insurance business has been losing market share, we expect better utilization of Kotak's distribution strength to change this.

Deserves premium valuations: Strong net worth, an integrated business model, quality top management and a shareholder-return-centric approach make Kotak the best financial services play in India. We believe KMB deserves premium valuations, given the strong growth expected across its businesses, fast traction in earnings, and quality management. We initiate coverage with a **Buy** rating. Our SOTP-based target price of Rs1,363 indicates an upside of 26%.

STOCK PERFORMANCE (1 YEAR)



Strong play on financial services

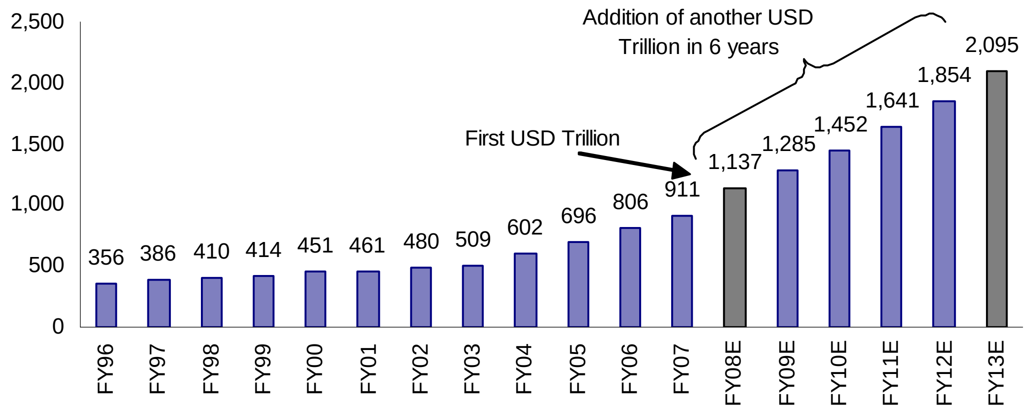
India's macro economic indicators portend supernormal growth in financial services. Kotak Mahindra Bank (KMB) together with its subsidiaries has a presence across financial services – lending, broking, investment banking, life insurance, asset management, and proprietary investments. Given its integrated business model, an established brand and quality management, KMB is in a sweet spot to benefit from the buoyancy in the sector.

Macro economic indicators portend buoyancy in financial services…

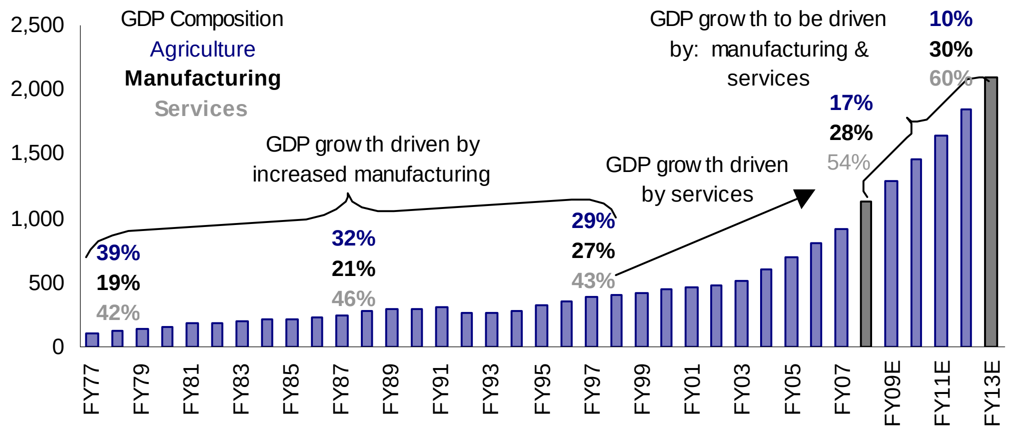
We expect India's GDP to double to US$2t in six years…

We believe that India's GDP would double to US$2t over the next six years, driven by accelerated growth in manufacturing and services. Changing demographics in favor of a younger population in India, rising disposable incomes and changing mindset of people in favor of consumption would be the key drivers of GDP growth, going forward.

EXPECT INDIA'S GDP TO DOUBLE TO US$2T IN SIX YEARS…

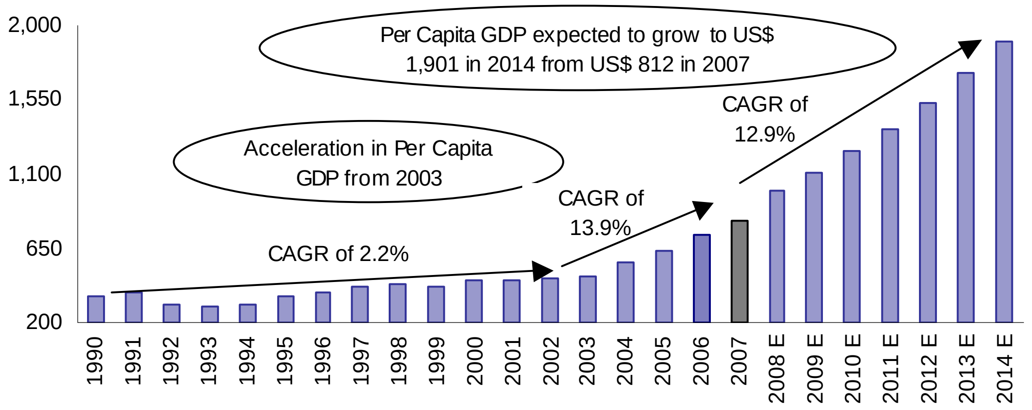


… DRIVEN BY MANUFACTURING AND SERVICES



Source: Motilal Oswal Securities

PER CAPITA GDP (AND THUS, DISPOSABLE INCOME) TO WITNESS ROBUST GROWTH



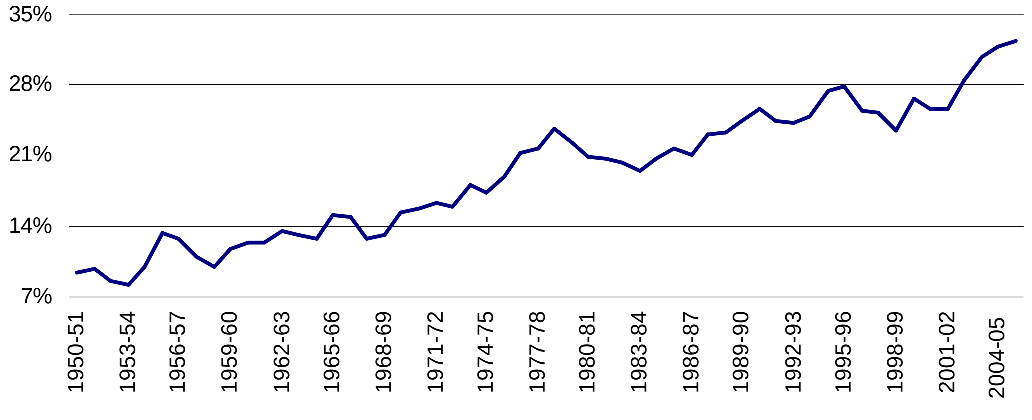
Source: Motilal Oswal Securities

…and the savings rate would increase in tandem with stronger GDP growth…

Increasing savings rate = higher investible surplus

The savings rate in India has been increasing since independence and has crossed 32% in FY07. The savings rate has accelerated significantly over last 4-5 years in tandem with stronger growth in GDP. Higher GDP growth and increasing savings rate would lead to higher investible surplus, which would further drive economic activity.

OVERALL SAVINGS RATE CONTINUES TO RISE

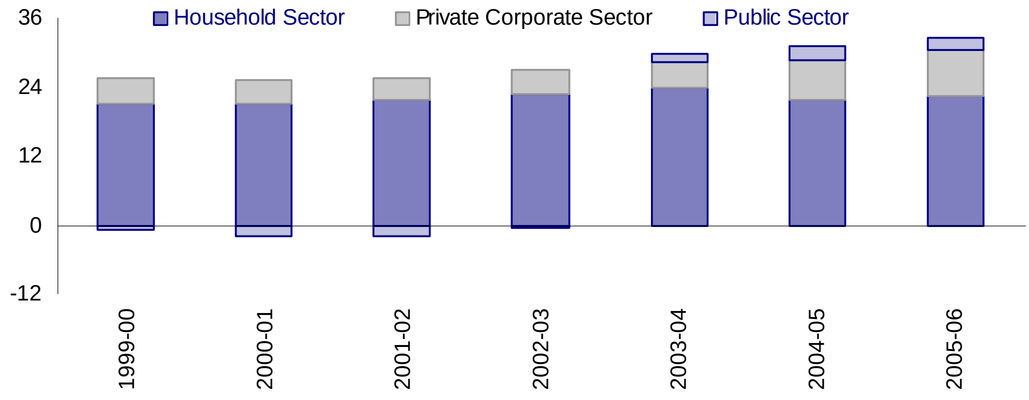


Source: RBI

…translating into higher investible surplus

Corporate savings have also increased significantly in the recent past. As these savings get converted into investments (organic or inorganic), economic expansion would receive further impetus.

CORPORATE SAVINGS HAVE ALSO SEEN A SIGNIFICANT RISE, LATELY



Source: RBI

Bank deposits still constitute more than half of household savings

Given the low penetration of insurance, MFs and equity, the growth opportunity in these businesses is immense

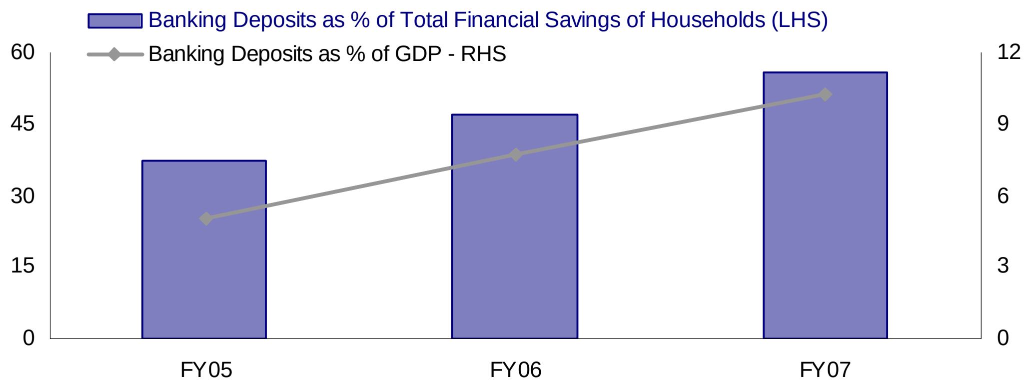
Most of India's household savings is locked in bank deposits and government securities. Despite faster growth over the last couple of years, the penetration of insurance, mutual funds and equity remains dismal. As financial literacy improves, regulations become simplified, and marketing efforts by financial services companies intensify, we believe that insurance, mutual funds and equities would gain traction. We see supernormal growth in India's financial services industry over the next couple of years.

MFS, EQUITIES GAINING TRACTION BUT DEPOSITS DOMINATE HOUSEHOLD SAVINGS

	FY05	FY06	FY07
Total Value (Rs t)	4.3	6.0	7.6
% of GDP	*13.9*	*16.7*	*18.4*
Composition			
Shares and Debentures	**1.4**	**1.4**	**1.5**
Mutual Funds	**0.4**	**3.6**	**4.8**
Claims on Goverments	24.5	14.6	5.2
Currency	8.5	8.7	8.6
Provident and Pension Funds	13	10.5	9.2
Insurance Funds	15.7	14.2	15
Deposits	**37.2**	**47.1**	**55.7**
Total	**100.0**	**100.0**	**100.0**

Source: RBI

BANK DEPOSITS DOMINATE HOUSEHOLD SAVINGS



Source: RBI

…and Kotak would be a key beneficiary

Kotak has a presence across all wings of the financial services sector…

The Kotak Mahindra Group (KMB together with its subsidiaries) is emerging as a financial powerhouse in India. Its business pans across lending, broking, investment banking, insurance, and asset management (including mutual fund, portfolio management, private equity, real estate fund). It has diverse product offerings, an experienced and capable top management with proven track record, a vast distribution reach, a strengthening brand name, and strong net worth. The group is making strong progress on its defined strategy of becoming an integrated player providing services and products (domestic and global) to both domestic and overseas customers.

While Kotak has established leadership in the broking and investment banking businesses, it is a relatively small player in banking, insurance and asset management. Its strategy for growth in each business has been:

- To extend and deepen its reach by opening more and more delivery channels/branches
- To enforce the brand name, *Kotak*
- To carve a niche customer base in each business domain, with an opportunity to cross-sell
- To win customer loyalty through efficient and quality service

Strong hold in both the retail and corporate segments

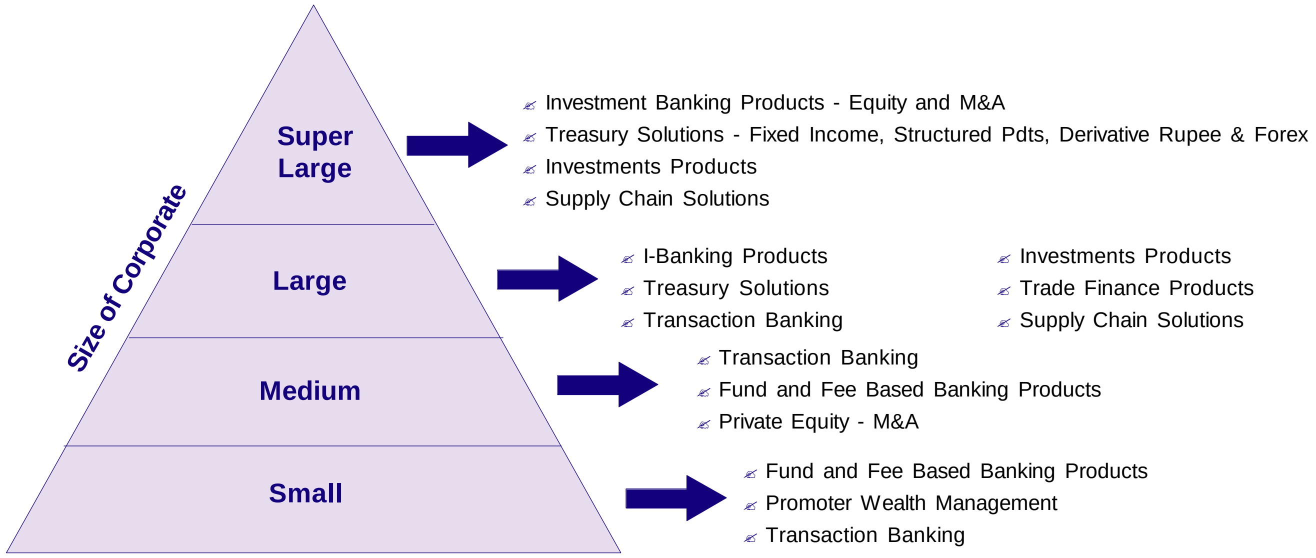
…with a strong franchise in both the retail and corporate segments

Kotak has a strong franchise in both the retail and corporate segments, which provides it significant business synergies. While strong corporate relationships help it to gain access to high networth individual (HNI) clients, the influence that it has amongst a large base of affluent retail clients strengthens its corporate relationships.

Retail – focus on the 'haves': We believe its keen focus on affluent retail customers (metro/urban regions) and the capability to provide all financial services (including wealth management services) in-house distinguishes KMB from most of its peers. Economic growth and stronger growth in corporate profitability would increase the population of affluent and HNI customers, driving up demand for wealth management services in India. Its strong HNI clientele would help strengthen corporate relationships.

Corporate – operating in niches: In the corporate segment, KMB follows an integrated approach, given the expertise and scale built by the group in various financial services domains over the years. It has a unique basket of products for each customer segment. For large companies, its focus is on fee-based & specialized products to enhance customer profitability. For SMEs, its focus is on providing comprehensive banking solutions to key industry verticals. It offers SME promoters wealth management services and advisory services (M&A, private equity, etc.) in the SME's growth / transition phase.

KOTAK: TARGETED AND FOCUSED STRATEGY



Source: Company/Motilal Oswal Securities

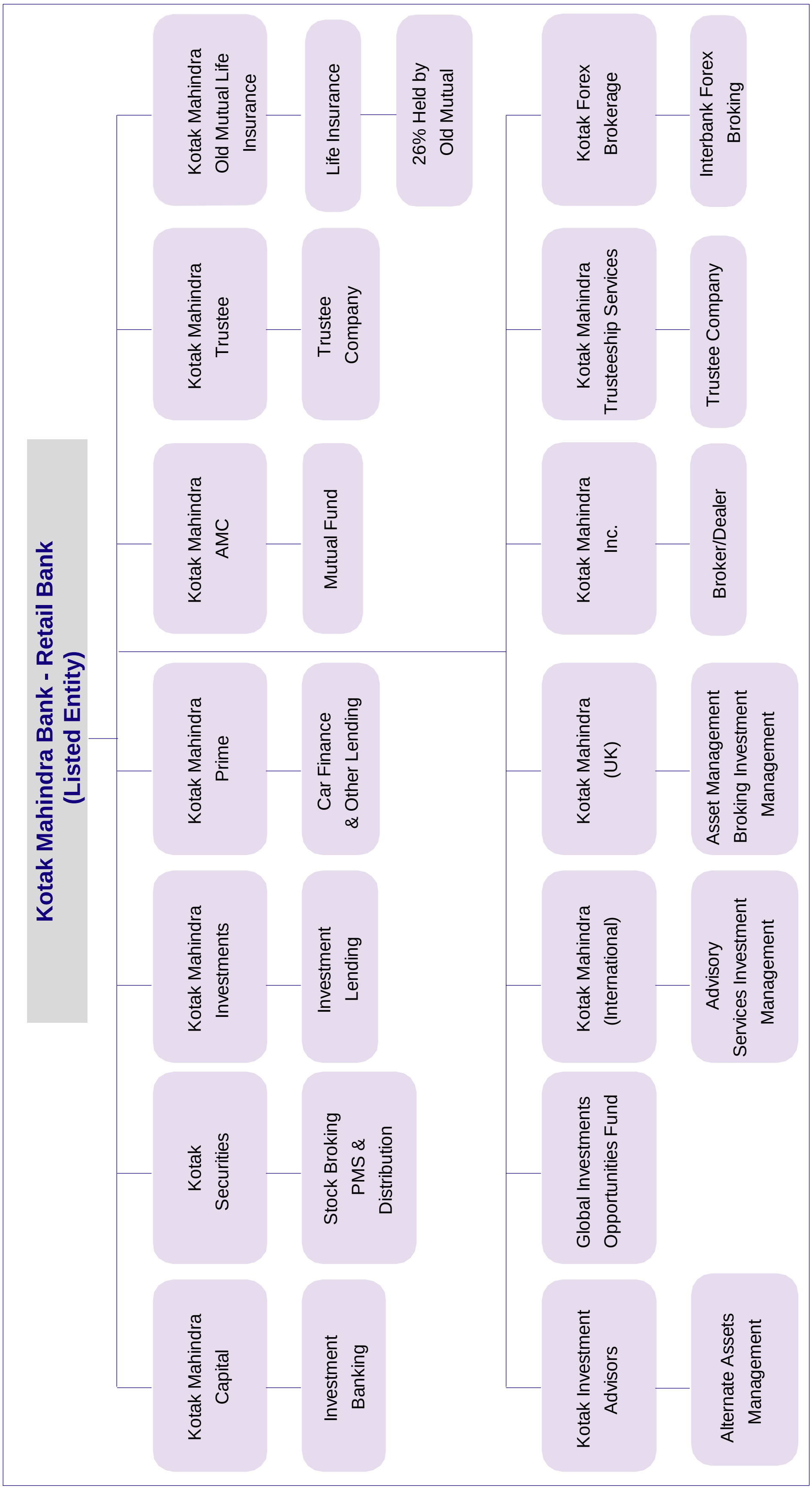
KMB – the relationship channel for the group

Going forward, we believe that the capital markets related revenue streams of broking and investment banking would continue their growth traction. Lending and asset management would also enjoy equally important pieces of the group's revenue and profit pies. The profitability of the life insurance business is a crystal ball exercise at this point, as is the case for most private players in the industry.

Investing in KMB gives an all-in-one opportunity to benefit from the robust growth visible in financial services

We believe that Kotak would be able to successfully leverage its expertise in various financial services domains to tap group synergies for cross-selling products and services, with the bank providing the "relationship channel" for the group. Kotak's integrated business model is unique and investing in KMB gives an all-in-one opportunity to benefit from the robust growth visible in financial services.

KOTAK MAHINDRA GR OUP



Established leadership in broking and investment banking

The Kotak Mahindra Group (Kotak) has an established leadership in the broking and investment banking (IB) businesses in India. Strong research capabilities, deep retail reach, an established brand name, and a strong hold in both the retail and institutional segments would help Kotak to maintain its leadership in broking. Its deep entrenched domestic corporate relationships and ability to generate robust retail/HNI subscriptions in IPOs would ensure strong IB deal flow.

Value/share of KMB:	Rs323
Rs b	111.1
US$b	2.8
% of SOTP Value:	24

Kotak Securities – the broking arm

Kotak conducts its broking business through Kotak Securities (K-Sec). K-Sec is one of the leaders in the broking business, with a market share of 9% in FY07. Both its retail and institutional broking businesses are strong and expanding. Its former JV partner Goldman Sach's exit in May 2006 has not led to any significant impact on K-Sec's overall market share. We believe that Kotak's established brand, a strong retail customer network, backing of the bank's strong net worth, support from the group NBFCs, and K-Sec's credited research capabilities would remain the key differentiators.

Kotak conducts its broking business through K-Sec, which has a market share of 9%

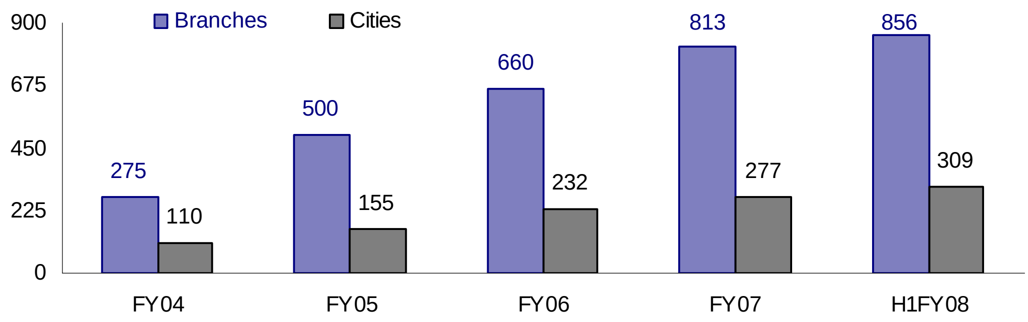
K-Sec houses part of the group's asset management business through a PMS portfolio of Rs35b (fees for ~60% of this portfolio are profit-linked). To further enhance profitability, K-Sec has recently begun distribution of mutual funds (all companies) and insurance products (Kotak Life) through its branch network. The business is cash rich, with about Rs8.5b lying as net cash equivalents (as at March 2007). While fortunes of this business are directly linked to capital markets (and can therefore be volatile), we believe that K-Sec is one of the best players to bet on in the Indian brokerage industry.

Extensive retail reach

Most of its broking volumes come from retail customers

About 2/3rd of K-Sec's broking volumes come from its retail customers. K-Sec has focused on expanding its retail customer reach by investing in an extensive branch network. Its branch network has expanded to 850+ and active customer base has increased to 320,000+.

K-SEC: EXPANDING BRANCH NETWORK



Source: Company

Established brand name

K-Sec is widely recognized as one of the best broking houses in India…

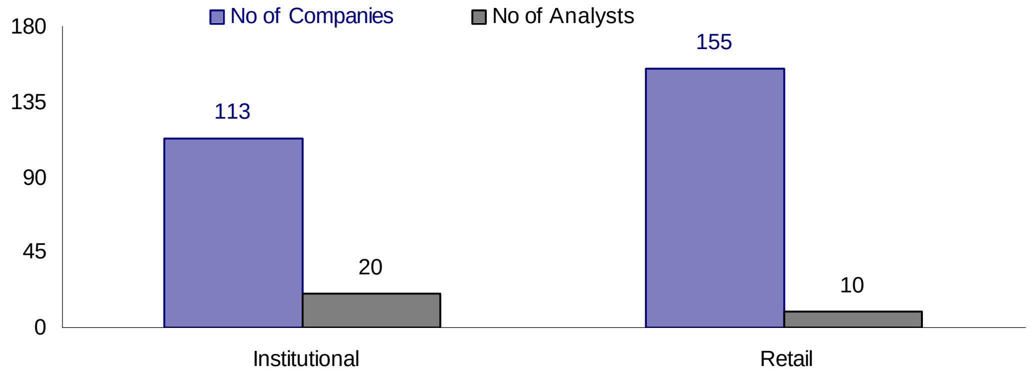
Kotak has established its brand name in the broking business through quality service and strong research capabilities. K-Sec has been awarded "Best Local Broker in India" by Asiamoney in 2006 and 2007, and by Finance Asia in 2005 and 2006. We believe that its strong brand name would enable Kotak to reap economies of scale in the coming years.

Proven research capabilities

…and has a wide research coverage

We believe research capabilities would be the key differentiator in the broking industry; with the advent of technology, trade execution has ceased to be a primary distinguisher. K-Sec has two different research set-ups for retail and institutional clients. Its research coverage is wide and expanding, with 113 companies covered by the institutional desk and 155 companies covered by the retail desk, currently.

K-SEC: WIDE RESEARCH COVERAGE



Source: Company

Backing of group NBFCs' lending business

It enjoys the support of group NBFCs, which provide loans against securities to its customers

Kotak provides loans against securities (LAS) to its customers through group NBFCs – Kotak Mahindra Investment Limited and Kotak Mahindra Prime Limited. Kotak's combined LAS loan book stood at Rs9b as of March 2007. The management follows strict credit appraisal, control and monitoring processes, and has been able to keep default rates low. The management is not very aggressive on growing this portfolio considering the inherent default risks involved. However, given the group's strong net worth, we believe that Kotak is in a position to be one of the leaders in this segment.

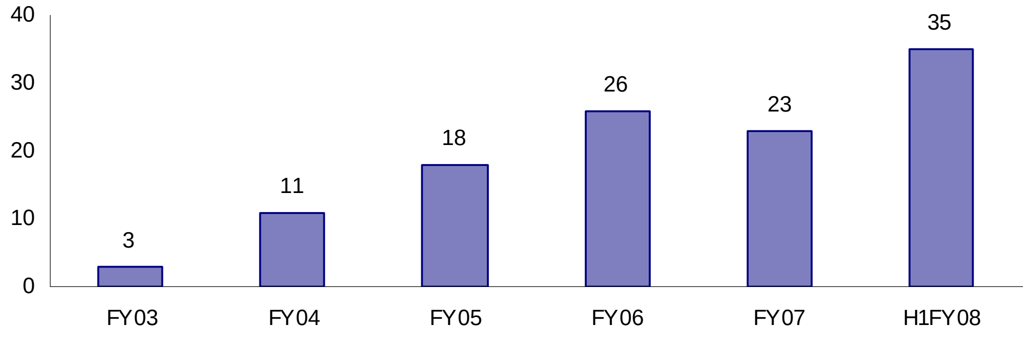
PMS growing fast

K-Sec manages funds of Rs35b under its PMS

K-Sec manages funds of Rs35b under its PMS as of September 2007, of which about 60% carry a profit sharing arrangement. KMB's focused customer class of HNIs, mass affluent in the metros, and Kotak IB's strong corporate/management relationships have opened up immense cross-selling opportunities for K-Sec. Assets managed under its PMS have grown at a CAGR of 66% over FY03-07 through rapid customer account addition and timely addition of innovative products. K-Sec has been awarded 'Best Provider of

Equity Portfolio Management – Equities' by Euromoney Private Banking Poll 2007. We expect the assets managed under K-Sec's PMS to grow at a CAGR of 40% to Rs63b by FY10.

K-SEC: GROWING ASSETS MANAGED UNDER PMS (RS B)



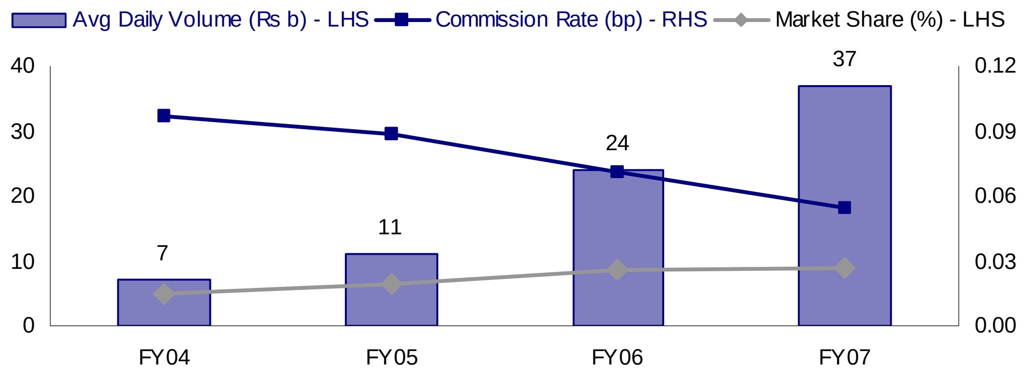
Source: Company

Kotak's strength in retail broking acts as a catalyst for its growth in IPO advisory business, as getting retail and HNI subscription for IPOs (especially for large ones) is a tough task. Kotak is in a unique spot, as very few Indian brokers with strong retail franchise have equally strong investment banking teams.

We expect earnings CAGR of 30% over FY07-10

K-Sec has been able to increase its market share consistently over the last five years, though commission rates have come under pressure. The management reiterates that there has been no significant impact on account of Goldman Sachs' exit in May 2006.

K-SEC: GAINING MARKET SHARE; HOWEVER, COMMISSION RATES DECLINING



Source: Company

We note that broking revenues are uncertain, being directly linked to market turnover, which is volatile and difficult to predict. However, we believe that it is safe to assume market turnover growth of 20-25% over the next couple of years, as:

1. Strong GDP growth would ensure sustenance of long-term bull run in Indian capital markets, though intermittent hiccups are possible.
2. Institutional investors (both foreign and domestic) continue to invest heavily in Indian equities.
3. Retail investments in equities and mutual funds continue to be minimal. Growing savings rate with fast growing GDP and deepening of financial awareness would lead to strong equity inflows from the retail segment.

The data points supporting our belief have been summarized in appendix-I.

We have factored in a decline in K-Sec's market share from 9% in FY07 to 8% in FY10, as we expect competition to intensify with the entry of more foreign players, rapid business ramp-up by existing large Indian brokers through capital raising, branch expansion, technology ramp-up, etc, and the entry of new players like Reliance Money.

We estimate 25% CAGR in K-Sec's broking revenues over the next three years. We have assumed:

- Market volume growth of 90% in FY08, followed by 25% growth in FY09 and 20% growth in FY10
- Decline in Kotak's market share to 8% by FY10
- A 5% decline per year in commission rates

However, we expect strong traction in fee income, as PMS continues to grow at a rapid pace and as distribution income kicks in from FY08. The cash surplus (Rs8.5b of net cash on the balance sheet as on March 2007) nature of the company and profits of Rs3.6-5.5b over the next three years would enable K-Sec to continue witnessing strong traction in its interest income as well as trading and arbitrage income. We expect K-Sec's fee income growth to remain strong at 33% CAGR over the next three years.

We expect K-Sec's earnings to grow at a CAGR of 30% to Rs5.6b in FY10

We expect realization of operational efficiencies, economies of scale and stronger traction in fee income to enable K-Sec to post 30% CAGR in earnings over the next three years to Rs5.6b in FY10.

K-SEC: FINANCIAL SNAPSHOT (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Broking Income	4,371	5,098	7,909	9,060	9,994
YoY Growth (%)	*83*	*17*	*55*	*15*	*10*
Fee Income	834	1,090	1,497	1,989	2,554
YoY Growth (%)	*118*	*31*	*37*	*33*	*28*
Interest Income	490	1,268	1,775	2,307	3,000
YoY Growth (%)		*159*	*40*	*30*	*30*
Other Income	511	883	1,060	1,378	1,791
YoY Growth (%)		*73*	*20*	*30*	*30*
Total Revenue	**6,207**	**8,339**	**12,240**	**14,734**	**17,338**
YoY Growth (%)		*34*	*47*	*20*	*18*
PBT	3,205	3,651	5,503	6,883	8,413
PBT Margin (%)	*52*	*44*	*45*	*47*	*49*
PAT	2,155	2,557	3,632	4,543	5,553
YoY Growth (%)	*104*	*19*	*42*	*25*	*22*
Broking Market Share (%)	8.5	9.0	8.5	8.2	8.0
Average Daily Volume for K-Sec (Rs b)	24.4	37.2	66.8	80.5	94.2
YoY Growth (%)	*130*	*52*	*79*	*21*	*17*
PMS AUM (Rs b)	26	23	40	50	63

Source: Company/Motilal Oswal Securities

Valuation

We value K-Sec at Rs111b (20x FY10E PAT), implying a value of Rs323/share of KMB.

Value/share of KMB:	Rs128
✍ Rs b	44.2
✍ US$b	1.1
% of SOTP Value:	9

Kotak Mahindra Capital Company – the IB arm

Kotak carries on its investment banking (IB) business through Kotak Mahindra Capital Company (KMCC). The group bought the 25% stake held by Goldman Sachs in KMCC in May 2006 by paying a consideration of Rs2.1b. KMCC has a strong presence in managing equity issuances and advising on M&A transactions, and has benefited largely from the boom in IB activity in India. The company de-merged its principal and trading investments division (including primary dealership) in March 2007 (to free up surplus capital) and now primarily operates as a full service investment bank, offering advisory and transactional services. The primary dealership business is merged with the treasury function of the bank and it led to addition of Rs2b to KMB's net worth.

Kotak carries on its IB business through KMCC…

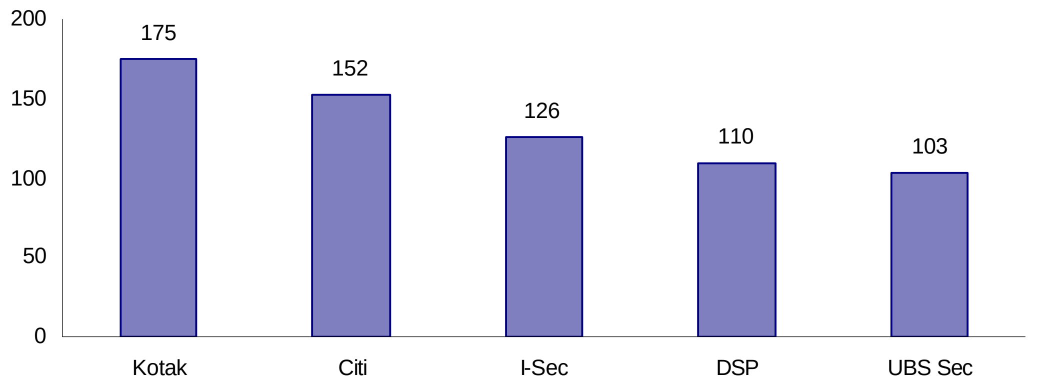
Kotak's proximity to Indian corporate houses and its ability to offer a complete product offering (advisory, financing as well as distribution) are its key strengths. While revenues as well as profitability of the IB business tend to be lumpy, we believe India would continue to witness strong traction in equity offerings and M&As (outbound, inbound as well as within India).

Proven credentials

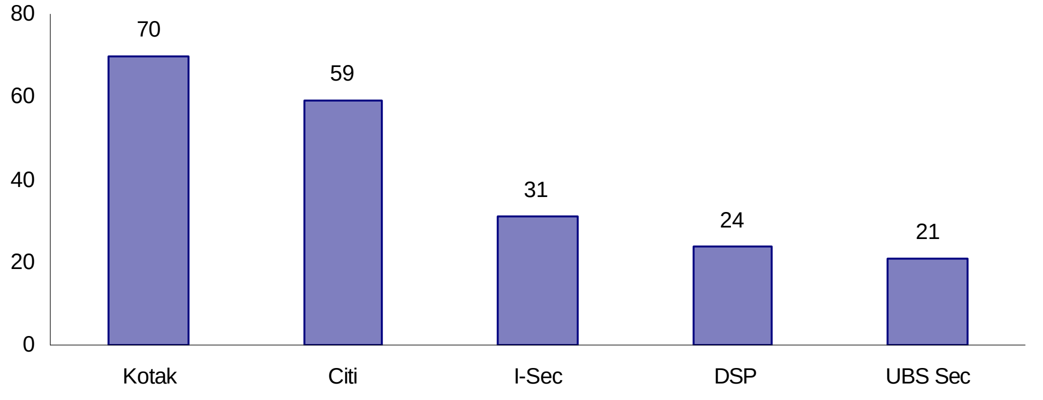
…which has emerged as the top player in IPOs and QIPs in 1HFY08

KMCC has topped league tables for equity offerings in India for seven of the nine years since 1999. It has been one of the key domestic lead managers in recent capital raisings (though IPOs/QIPs) viz. DLF, Powergrid Corporation of India, IDFC, Maytas Infrastructure, Puravankara, Central Bank of India, etc. It has emerged as the No 1 player in IPOs and QIPs in 1HFY08.

KMCC: LEADER IN BOTH IPOs AND... (RS B)



... QIPs IN 1HFY08 (RS B)



Source: Company

Retail reach – key differentiator

Kotak's strong retail reach differentiates it from other investment banks

Kotak's strong retail reach and distribution strength gives it a cutting edge amongst the Indian investment bankers for IPOs. With 50% of net issue subscription meant for non-institutional investors, a dominant retail player has become a necessity for any Indian equity issue. Most of the foreign houses lack strong retail reach in India and only a few strong retail brokers offer strong investment banking services. Kotak's deep entrenched relationships amongst HNIs as well as retail investors differentiate it from peers and would help it to maintain a strong foothold in the issue management business.

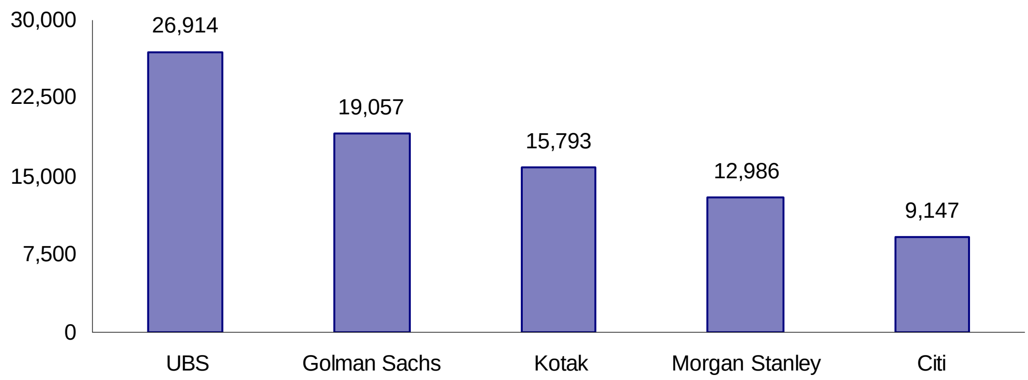
M&As – gaining share

KMCC also features amongst the top-5 in the M&A space

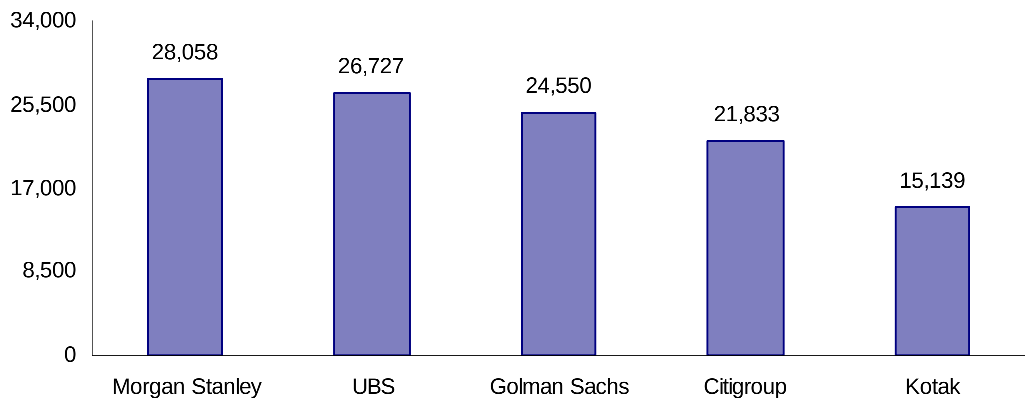
Though this space is dominated by foreign houses, KMCC has been able to increase its M&A deal count and volumes over the last three years. It has emerged as the No 3 player (the only Indian player) in India Announced Deals and the No 5 player in Asia (ex-Japan) Announced Deals in 1HCY07.

KMCC: THE ONLY HOME-GROWN ENTITY AMONGST THE TOP-5 IN THE M&A SPACE

INDIA ANNOUNCED DEALS (US$M)



ASIA (EX JAPAN) ANNOUNCED DEALS (US$M)



Source: Company

KMCC: RECENT M&A DEALS

DATE	DEAL	KOTAK'S ROLE	AMOUNT (RS B)
Feb-07	Vodafone acquiring Hutch	Financial Advisor	537.1
Feb-07	Demutualisation of BSE - Sale of 51% to Deutsche Bourse, SGX and others	Exclusive Financial Advisor	20.3
Feb-07	Acquisition of Minority Interest in Ushodaya Enterprises by Blackstone	Exclusive Joint Advisor	11.0
Mar-07	Acquisition of Punjab Tractors by M&M	Exclusive Advisor	14.4
Apr-07	Divestment of 80% stake in Anchor to Matsushita	Exclusive Financial Advisor	20.0
Jun-07	JV between SREI and BNP Paribas for Equipment Financing Business	Exclusive Advisor	7.8
Aug-07	Sale of Controlling Stake by Gokaldas to Blackstone and Manager to Offer	Exclusive Advisor	6.6

Source: Company/Motilal Oswal Securities

Kotak's established presence in the IB business for over 15 years (more than a year post Goldman's exit), relationships with Indian corporate houses, and strong credentials of managing large deals should lead to stronger traction in this business. The management is now also focusing on building strong relationships with global financial sponsors to enhance its acceptance amongst global players. KMCC has been an advisor to three of the recent domestic investments by Blackstone. It has also advised on the private placement of Apollo Hospital Enterprises shares to APAX partners for US$104m.

Goldman's exit – some benefits, some losses

In May 2006, Kotak bought 25% stake held by Goldman Sachs in KMCC for a consideration of Rs2.1b. Post Goldman's exit, Kotak has been able to give higher thrust to mid-size companies in India. During the JV period, Kotak was mainly aiming at large ticket transactions and overlooking the equally vibrant mid-size companies.

Kotak has maintained its strong foothold in inbound transactions and transactions within India; there has been no slowdown in deal flows post the exit of Goldman. However, it is in a disadvantageous position in large inbound deals by large MNCs, where Goldman's stronger relationships put Kotak on the back foot.

Future is bright; expect core earnings CAGR of 66%

The IB business is directly linked to the economic activity and corporate performance in a country. We believe that the Indian economy is set to double over the next six years from US$1t to US$2t. Indian companies are looking at scaling up and going global. M&A deals and equity issuances have been on a strong trajectory over the last couple of years in India (refer appendix-II for details). We see no reason for a slowdown in the deals for the next couple of years considering the structural uptrend in the economy. Kotak, with its proven credentials, is a sweet spot to benefit from the growth.

We expect recurring earnings CAGR of 66% over the next three years for KMCC

Post de-merger of its principal and trading investments division (including primary dealership) in March 2007, KMCC is purely an investment bank. Its revenues and profits would be highly lumpy and unpredictable. Excluding the discontinuing operations, KMCC registered a PAT of Rs479m in FY07. The company has clocked a PAT of Rs684m in 1HFY08. It has a strong deal pipeline currently, which should ensure strong traction in earnings over the next two years. We expect recurring earnings CAGR of 66% over the next three years for KMCC.

KMCC: FINANCIAL SNAPSHOT

	FY06	FY07	FY08E	FY09E	FY10E
Fee Income	960	894	2,632	3,346	4,240
YoY Growth (%)		*-6.9*	*194.6*	*27.1*	*26.7*
Interest Income	396	899	200	250	325
Other Income	187	260	250	250	250
Total Revenues	**1,542**	**2,052**	**3,082**	**3,846**	**4,815**
YoY Growth (%)		*33.0*	*50.2*	*24.8*	*25.2*
Pre Exceptional PBT	765	939	2,049	2,600	3,298
PBT Margin (%)	*49.6*	*45.8*	*66.5*	*67.6*	*68.5*
Exceptional Treasury Profits	1,057	0	0	0	0
Reported PBT	**1,822**	**939**	**2,049**	**2,600**	**3,298**
Pre Exceptional PAT	**566**	**679**	**1,373**	**1,742**	**2,210**
YoY Growth (%)		*20.0*	*102.2*	*26.9*	*26.8*
Reported PAT	**1,622**	**679**	**1,373**	**1,742**	**2,210**
PAT from Continuing Operations	**374**	**479**	**1,373**	**1,742**	**2,210**
YoY Growth (%)		*28.1*	*186.7*	*26.9*	*26.8*

Source: Company/Motilal Oswal Securities

Valuation

We value KMCC at Rs44b (20x FY10E PAT), implying a value of Rs128/share of KMB.

Lending, asset management and insurance – value creators

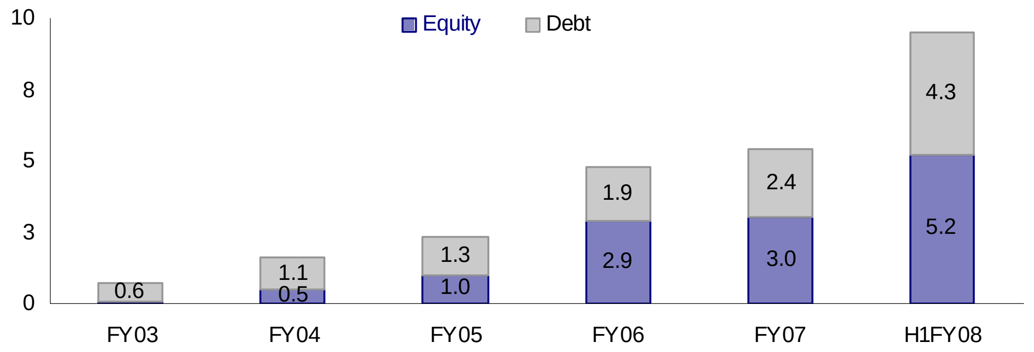
Kotak is aggressively building up its banking franchise, with focus on affluent customers and retail services. Its asset management business (offshore funds, alternative assets, domestic mutual fund and PMS) should see exponential growth. Though its insurance business has been losing market share, we expect better utilization of Kotak's distribution strength to change this. We believe these businesses would create significant value.

Value/share of KMB:	Rs171
Rs b	58.9
US$b	1.5
% of SOTP Value:	13

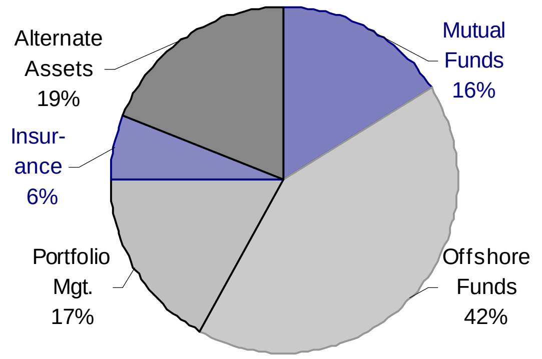
Asset management business – the next big thing

Kotak runs its asset management business through Kotak Mahindra AMC (mutual fund), Kotak Investment Advisors (alternative assets), Kotak Mahindra (UK) and other international subsidiaries (offshore India dedicated funds), and Kotak Securities (PMS). Kotak's AUM (managed/advised including insurance) has grown at a CAGR of 67% (equity growing at over 120%) during FY03-07 to US$5.4b. As at September 2007, the group's AUM stood at US$9.5b. Including insurance, Kotak's equity AUM has increased to US$5.2b as of September 2007. Kotak is keenly focusing on offshore funds as well as alternative assets and sees exponential growth in both these areas.

KOTAK: STRONG TRACTION IN AUM OVER THE LAST FIVE YEARS



KOTAK: BREAK-UP OF EQUITY AUM (US$5.2B; SEPTEMBER 2007)



Source: Company/Motilal Oswal Securities

In the asset management business, Kotak's main focus areas are offshore funds and alternative assets

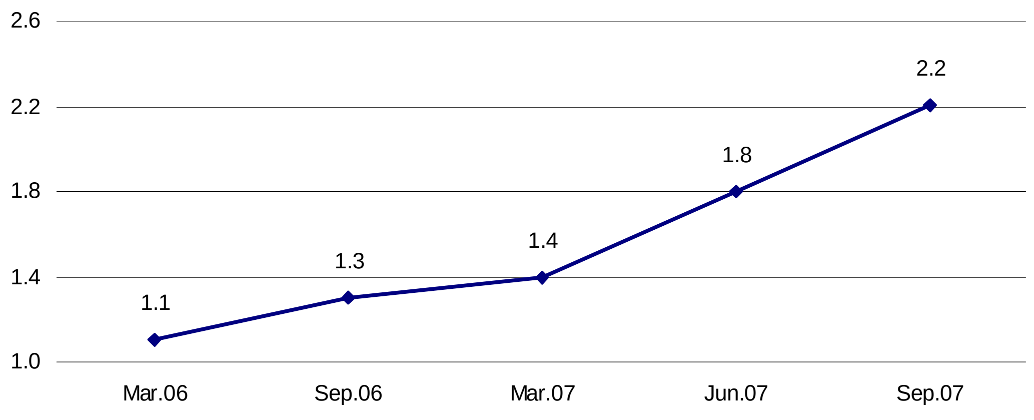
Offshore funds (US$2.2b as at September 2007) – exponential growth ahead

Kotak has set up branches in UK, Dubai, Australia and Singapore to raise India dedicated offshore funds. These are open/close ended traded mutual funds (long only) offered to global investors. These funds are managed/advised by Kotak Mahindra (UK) Limited and other international subsidiaries. The investment management activity is carried out by a 'research and investment' team established in the Dubai branch.

The equity assets managed/advised under these schemes stood at US$2.2b as of September 2007. Kotak believes that it has created strong operational platforms in these countries to further increase its offerings. It plans to increase global footprint and offer customized products for each of the geographies – eg it would launch a Sharia compliant fund for the UAE region. It has entered into distribution agreements with local banks and other agencies overseas to market investment products locally.

The current client base for these funds continues to be HNIs and institutions given the lower brand recognition of Kotak in foreign countries. However, the management aims to tap overseas retail investors by further deepening its distribution network abroad. It intends to grow this business exponentially over the next couple of years considering the strong demand for Indian equities and Kotak's strength in domestic fund management. We expect Kotak's offshore AUMs to grow to US$6.4b by FY10.

KOTAK: GROWING OFFSHORE AUM (US$B)



Source: Company/Motilal Oswal Securities

Alternative assets (US$920m as at September 2007) – strong traction to sustain

Kotak has ramped up its alternative assets management business over the last couple of years. It has a corpus of ~US$1b, currently. The management expects AUM to double in the next 12-18 months. These funds typically carry a 2-20 fee structure, and can be significantly profitable over the next 7-9 years. We expect Kotak's alternative AUM to increase to US$3b by FY10.

KOTAK: ALTERNATIVE AUM (SEPTEMBER 2007)

	FOCUS AREAS	CORPUS (USD M)	REMARKS
India Growth Funds	Not Specific	170	67%
Kotak Indian Real Estate Fund - I	Indian Real Estate and allied sectors	100	75%
Kotak Alternative Opportunities (India) Fund	Indian Real Estate, infrastructure and allied sectors	400	Closed in July 07
Kotak Indian Real Estate Fund Ltd.	Offshore Fund	200	-
Kotak India Venture Fund	Biotechnoly and Life Sciences	50	25
Total		**920**	

Source: Company/Motilal Oswal Securities

Immense intangible benefits

We believe Kotak's keen focus on asset management offers immense intangible benefits through cross-selling opportunities. Its aggressive international foray would strengthen its brand name overseas. Investment of the funds raised in various Indian companies (small to large, listed as well as unlisted) would help forge strong relationships for its other businesses like banking, promoters' wealth management, investment banking services, etc. We believe Kotak is emerging as a one-stop financial services shop for newly set up/ emerging/small Indian corporate. Broking revenues from the asset management entities would predominantly flow to K-Sec and KMB would provide custodial services and cash management services for these funds.

Domestic mutual fund – yet to gain size

Its domestic mutual fund is yet to gain size

Kotak Mutual Fund's AUMs have doubled in the last 18 months to Rs197b as at September 2007. However, the equity component remains low at ~Rs34b (17% of total AUMs). Kotak Mutual Fund's reach is limited at 68 branches and an investor base of 570,600. It continues to be one of the smallest domestic mutual funds in terms of equity AUM. We expect total AUMs to grow at a CAGR of 52% over FY07-10 to reach Rs429b by FY10 while equity AUMs would continue to be low at less than 20%.

Valuation

We value alternative assets under management at 15% of FY10E AUMs, offshore funds at 8% of FY10E and Kotak MF at 5% of FY10E AUMs. We have valued the PMS business as part of K-Sec and insurance AUMs in Kotak Old Mutual Life Insurance. We arrive at a valuation of Rs59b for Kotak's asset management business (alternative assets, offshore funds and domestic mutual funds).

Lending – that's how it began

Kotak began operations as a trade finance company in 1986 and was predominantly engaged in consumer lending. Over the years, as the group began expanding its financial services offerings, the share of profits from the lending business has declined. While broking and IB would continue to account for a large share of the group's profits, we expect the profit contribution of the lending business to improve substantially. Kotak carries out its lending business through three entities, each focusing on a niche segment.

1. **Kotak Mahindra Bank (the parent bank):** Clear focus on retail business
2. **Kotak Mahindra Prime (100% subsidiary):** Vehicle finance, small ticket personal loans and loans against securities
3. **Kotal Mahindra Investment (100% subsidiary):** Loans against securities

Value/share of KMB:	Rs468
Rs b	160.9
US$b	4.1
% of SOTP Value:	34

Kotak Mahindra Bank (KMB) – a niche retail bank

KMB began operations four years ago. It was one of the two institutions awarded a license to operate as a bank in 2002 (the other being Yes Bank). Till then, Kotak operated as a non-banking finance company (NBFC) with interests in consumer loans, broking, IB, and asset management. It converted to a bank in 2003 to increase its source of revenues and lower its funding costs.

We believe that KMB is set to emerge as a strong retail bank

We believe that KMB is set to emerge as a strong retail bank, focusing on HNIs, affluent and mass affluent classes, and with a presence in all retail assets (except vehicle loans and loans against shares). Despite being a young and small bank, KMB would continue to show strong growth in business and profitability mainly on account of the group's strong relationships and cross-selling opportunities derived from its IB, broking, insurance and asset management businesses.

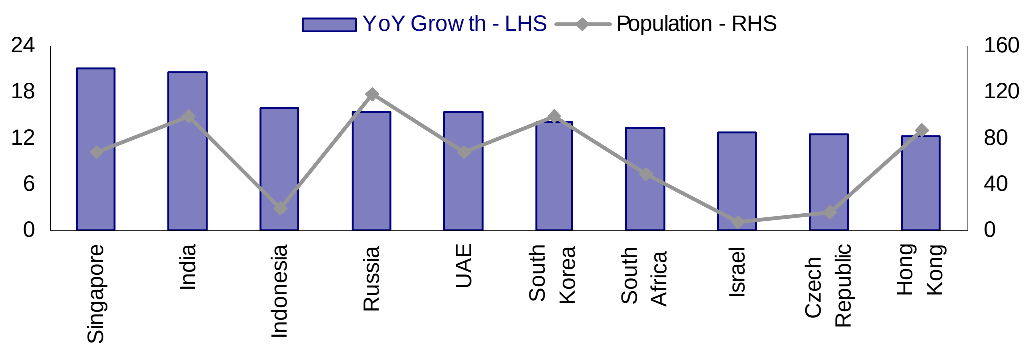
HNIs and affluent households – the target customers

It has been targeting HNIs and affluent households as its customers…

A relatively young bank, KMB has limited branch reach (133 branches as of September 2007). It intends to remain a metro/urban-centric bank, focusing on HNIs and affluent households for its liability business. Its areas of focus for the regulatory requirements of rural and semi-urban presence would be Western India, NCR/Punjab, and Haryana regions – where profitable opportunities are larger and the bank's brand name is reasonably established.

KMB focuses on convenience banking and value added services for its customers. We believe that the urban/metro population would be a significant beneficiary of the next trillion-dollar addition to the GDP over the next six years. Wealth management would occupy a key role in 'next age' banking in India. Globally, the HNI population grew 8.3% in 2006 to 9.5m and India emerged as one of leading nations in the growth of HNIs.

INDIA HAS A LARGE AND GROWING HNI POPULATION



Source: World Wealth Report 2007

Wealth management – a key focus area

…and is focusing on wealth management

KMB also has a wealth management unit within itself, which focuses on HNIs. The group's scale and reach, coupled with a strong brand has enabled the bank to scale up its wealth management unit. Kotak is currently the wealth manager/advisor to over 3,700 families and around 30% of the top-300 wealthy families in India. It is present in 14 cities, with about 110 relationship managers. With strong economic prospects forecasted, we believe that wealth management should grow at a much stronger pace.

According to NCAER, about 250,000 households in India have investible assets of over Rs10m each, aggregating to ~Rs4,500b. NCAER further projects that by 2009, India would have 400,000 households with investible assets of over Rs10m each. We believe wealth management offers a huge and highly profitable opportunity and very few Indian banks are currently focusing on this segment. We expect Kotak to remain a dominant player in this business, given its established relationships and synergies arising out of its IB and asset management businesses.

RAPID GROWTH IN AFFLUENT INDIANS (INCOME IN RS '000 PA AND HOUSEHOLDS IN '000)

		NUMBER OF HOUSEHOLDS			CAGR (%)	
CLASSIFICATION	INCOME CLASS	2001-02	2005-06*	2009-10*	2002-10	2006-10
Deprived	<90	135,378	132,250	114,394	-2.1	-3.6
Aspirers	90 - 200	41,262	53,276	75,304	7.8	9.0
Seekers	200 - 500	9,034	13,813	22,268	11.9	12.7
Strivers	500 - 1,000	1,712	3,212	6,173	17.4	17.7
Near Rich	1,000 - 2,000	546	1,122	2,373	20.2	20.6
Clear Rich	2,000 - 5,000	201	454	1,037	22.8	22.9
Sheer Rich	5,000 - 10,000	40	103	255	26.1	25.4
Super Rich	>10,000	20	53	141	27.7	27.7
Total		**188,193**	**204,283**	**221,945**	**2.1**	**2.1**

Kotak's customer class

** Estimates* *Source: NCAER*

Retail advances – the growth driver

Retail advances would drive loan growth for the bank

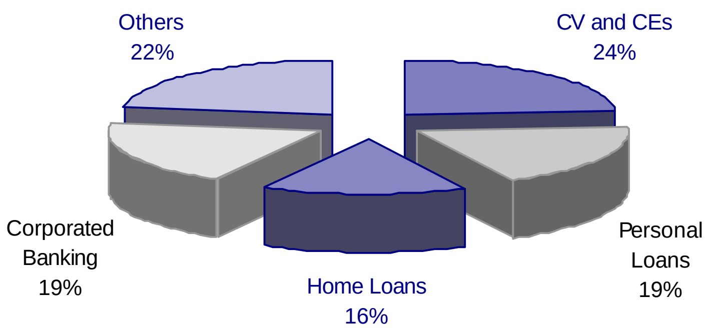
As an NBFC, Kotak's lending business comprised of commercial vehicle (CV) loans, personal loans, and loans against securities; it offered car loans through two joint ventures with Ford. As a bank, KMB has maintained its focus on retail loans – they represent almost 80% of its loan book as at September 2007. The loan mix has, however, changed. CV loans, which constituted almost 60% of the loan book earlier, constitute just 24% of KMB's loan book as at September 2007. Also, as an NBFC, Kotak did not offer home loans – these constitute 16% of KMB's loan book as at September 2007. The management intends to continue focusing on the retail segment, with home loans and personal loans being the key growth drivers.

KMB: CHANGING ASSET MIX (%)

	MAR-03	SEP-04	SEP-05	SEP-06	SEPT-07	% GAIN/LOSS
Commercial Vehicles	57	53	38	26	24	-33
Personal Loans	15	15	16	17	19	4
Home Loans	0	8	13	16	16	16
Corporate Banking	17	15	20	23	19	2
Others	11	9	12	19	22	11
Total Advances	**100**	**100**	**100**	**100**	**100**	

Source: Company/Motilal Oswal Securities

KMB: BREAK-UP OF ADVANCES (RS129B; SEPTEMBER 2007)



Source: Company/Motilal Oswal Securities

KMB is a relatively small player in banking, with less than 1% market share in system loans. However, it follows a stringent credit sanctioning and monitoring process, enabling it to earn higher risk adjusted returns from avenues such as personal loans. The management claims that the credit loss in this segment has been contained at ~1%, despite the higher perceived risk. It asserts that these are essentially unsecured business loans given to self-employed professionals/traders and sees large growth ahead.

Corporate segment – focus on niche services and sell down of loans

In the corporate segment, KMB is following an integrated approach, given the expertise and scale built by the group in various financial services domains over the years. Though this approach, the bank intends to increase "mind share" and "wallet share". It would offer a unique basket of products for each customer segment. Kotak intends to levererage its expertise in various financial services domains to tap group synergies for cross-selling, with the bank providing the "relationship channel" for the group.

For large companies, KMB would offer fee-based and specialized products, with a prime focus on customer profitability. For SMEs, the focus would be on key industry verticals, providing them with comprehensive banking solutions. The bank's wealth management unit would also focus on SME promoter wealth management. The group units could focus on advisory services in the SME's growth/transition phase.

KMB aims to be a major player in debt capital markets for corporate loans. It intends to aggressively build up quality corporate credit and sell it to debt investors. The management believes that stronger traction in FMP products has created a strong market for debt paper and churning the corporate credit portfolio is a cost and capital efficient way to earn spreads (which are more in the nature of annuity fees), without keeping the loans on the balance sheet.

Expanding branch network to aid CASA growth

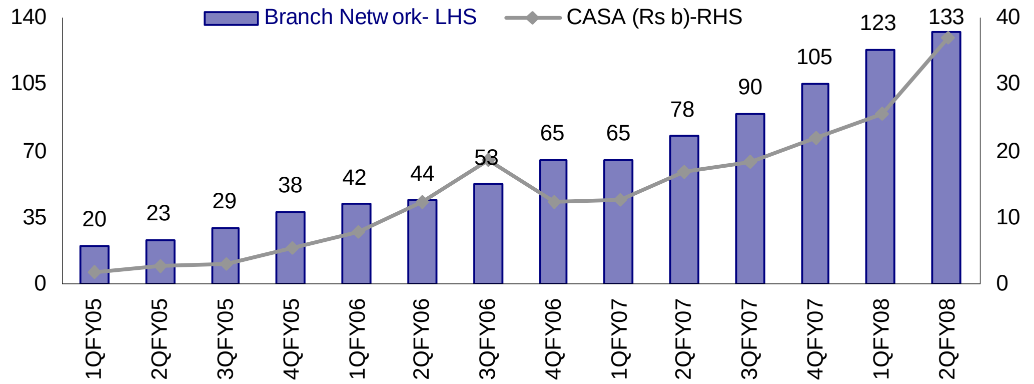
KMB has been adding branches steadily…

KMB has been adding branches at a steady pace. As of September 2007, it had 133 branches and the bank plans to have 200 branches by mid-FY08. Given its focus on HNIs and affluent households, KMB is opening more branches in high income cities like Mumbai, Delhi, Bangalore, Ahmadabad and Pune.

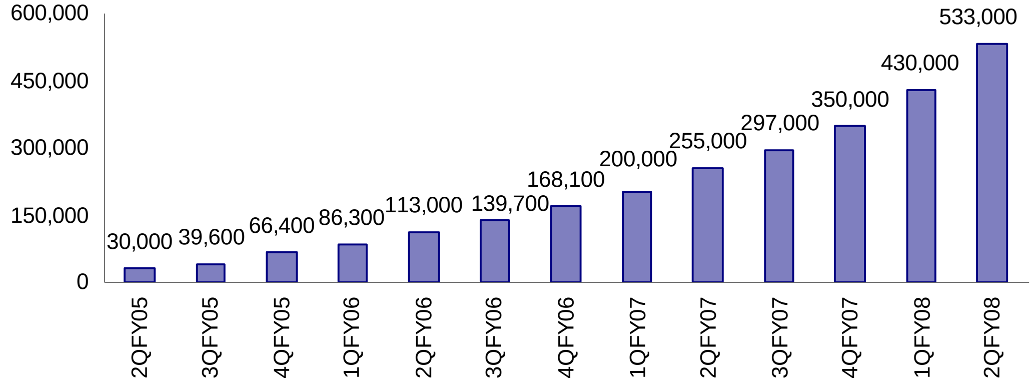
…which is aiding growth in its CASA deposits

Branch expansion has aided growth in KMB's CASA deposits. Its CASA ratio has increased significantly over the last three years and stood at 22% as at March 2007 and 26% as at September 2007. The management targets a CASA ratio of 40% in the mid-term.

KMB: GROWING BRANCH NETWORK, CASA DEPOSITS

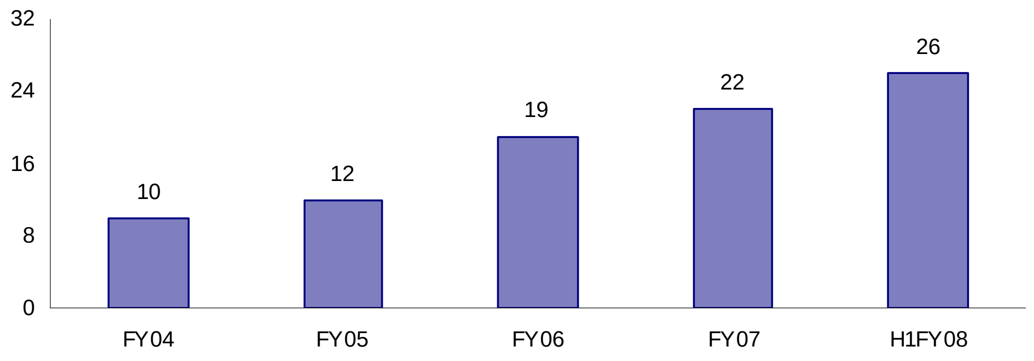


KMB: GROWING DEPOSIT ACCOUNTS



Source: Company/Motilal Oswal Securities

KMB: INCREASING CASA RATIO (EXCLUDING IPO MONIES) - %



Source: Company/Motilal Oswal Securities

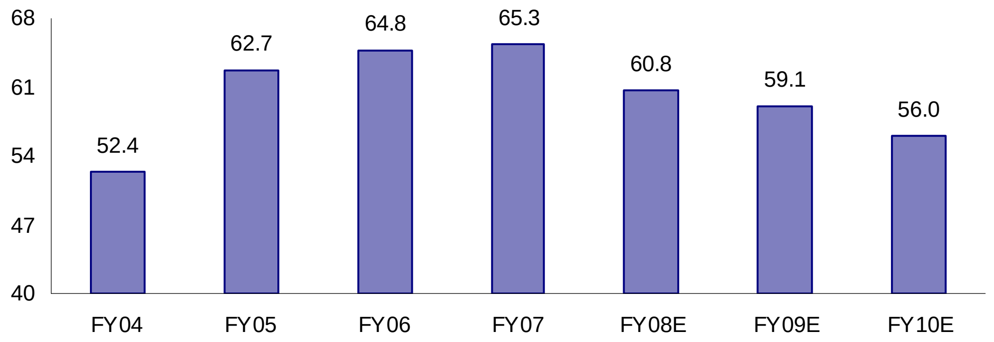
Branch additions have resulted in high CASA growth over the last couple of years. Also, KMB's average balance per customer is relatively high, given that its branches are predominantly in high income regions. The key challenge for the bank would be to keep building CASA at a strong pace in order to contain costs and keep its margins intact. KMB has the advantage of expanding at a time when the economy is on an upturn and income levels continue to be high, which should result in higher CASA balances. We expect the bank's low-cost deposits to increase to 30% by FY09 and 32% by FY10.

Operating leverage to start kicking in now

As more and more branches break even, we expect a decline in cost to income ratio

We expect KMB to continue expanding reach over the next 2-3 years, resulting in its cost/income ratio remaining high compared to the industry. The management intends to have about 200 branches by mid-FY08. Currently, about half of KMB's branches are less than 18 months old. Given that it takes 18-24 months for a branch to break even, as we move ahead, a larger number of branches would start contributing to earnings, resulting in lower cost/income ratio. However, cost/income ratio would remain higher than the industry. The bank's ambition to grow fast would mean higher employee addition. We expect KMB's employee expenses to rise at a CAGR of about 44% over FY07-10. Though cost/income ratio is likely to be still high at 56% in FY10, it would have declined from 65% in FY07.

KMB: COST TO INCOME RATIO TO DECLINE (%)



Source: Company/Motilal Oswal Securities

Fee income growth to continue, aided by wealth management focus

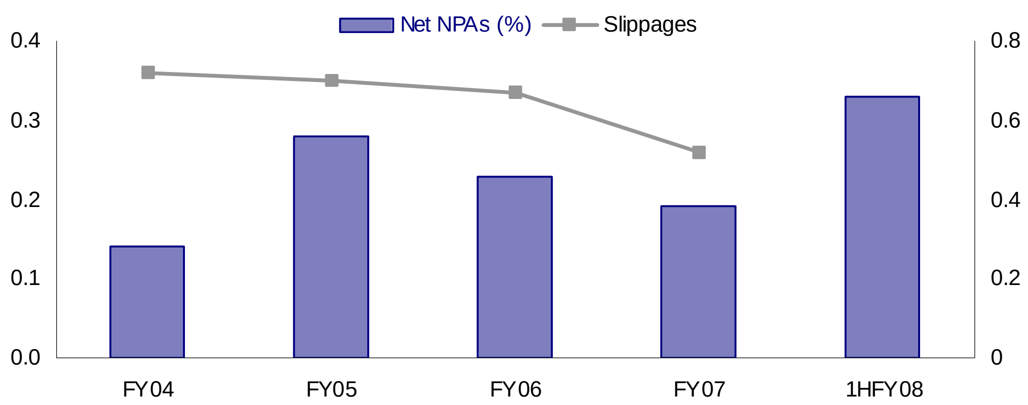
KMB has been building up its wealth management team and products rapidly over the last couple of years. This has resulted in upward traction in fee income. As at March 2007, the bank was managing wealth for over 3,000 HNIs, with presence in 14 cities and over 110 relationship managers.

Forex, derivative and other treasury products for the corporates would also see strong traction going forward. We expect continued strength in core fee income. While we expect core fees to grow at about 30% CAGR during FY07-10, overall non-interest income growth would be 50% per year (aided by stronger traction in recoveries from NPAs purchased, treasury and derivatives income).

Asset quality is amongst the best in the system

Though KMB's loan book comprises of riskier asset classes like CV loans and personal loans, its asset quality has remained amongst the best in the system. This has been a result of effective risk management and credit appraisal processes at the bank. The management asserts that its credit sanction, control and monitoring systems are very strong and it does not see any major weakening of credit portfolio, going forward. Its gross NPA ratio in FY07 was just 0.5%, with net NPA ratio of <0.2% (excluding acquired NPAs). Slippages for FY03-06 have been ~70bp, which have reduced to 52bp in FY07. Being conservative, we have factored in a slippage of 75bp, going forward.

KMB: LOW NPAS, DECLINING SLIPPAGES



Source: Company/Motilal Oswal Securities

Strong asset quality has enabled the bank to maintain low provisioning levels; LLP charges averaged 24bp of average loans in FY04-07. We have built in higher LLP charges for FY08-10 at ~40bp.

Stressed asset book – a hidden jewel

KMB buys distress/non-performing assets of other banks/NBFCs at a large (80-90%) discount to the total outstanding amount and services/recovers these bad loans. As at September 2007, the book value of such assets was Rs5b while the total outstanding amount against these assets is close to Rs32b. Currently, this business is eating into the bank's profits, given the NPA provision requirements on these assets. However, the management expects the current portfolio of these assets to yield a profit of Rs5-10b over the next 2-3 years and intends to further consolidate its presence in this business.

The business involves big execution risk; nevertheless, considering the enhanced legal system support for recovery of NPAs, improving economic conditions across industries in India, and sharp rise in prices of real estate, which is usually the collateral could yield windfall gains in the next 12-24 months. We have factored in a profit of Rs4.5b over next three years from the resolution of these stressed assets.

Earnings to grow at a CAGR of 77% over the next three years

We expect KMB to grow its PAT at a CAGR of 77% over FY07-10 to Rs7.8b

KMB has been able to report NIMs of 5-5.1% (highest in the industry) for several quarters on account of higher yields on its advances, despite a lower CASA ratio (26% as of September 2007). The bank enjoys IPO float monies on an ongoing basis due to its relationship with KMCC, which has consistently enabled it to contain its cost of funds. KMB has been active in debt capital markets over the last couple of quarters to sell off corporate loans and enjoy spreads (1-1.5%) without making the balance sheet heavy. We expect margins to expand in FY08 on account of its capital raising of Rs16.2b during 2HFY08 (at a price of Rs950/share). However, we expect some moderation in margins, going forward (10-20bp), as the balance sheet growth remains strong. The sustained increase in its CASA ratio (CASA deposits have grown at a CAGR of 135%+ over the last 3-4 years) would enable the bank to improve its liability side and thus lower funding costs. Strong traction in NII and other income coupled with realization of operating leverage should enable KMB to grow its PAT at a CAGR of 77% over FY07-10 to Rs7.8b.

We value the bank (standalone) at Rs468/share

We expect KMB to maintain high RoAs of 1.2-1.6% over next three years and RoE to improve to 18% (20% based on adjusted net worth) by FY10. We value KMB at Rs161b (4x FY10E net worth adjusted for investments in subsidiaries), translating into a value of Rs468/share. On a P/E basis, this translates to 20.6x FY10E earnings.

Value/share of KMB:	Rs78
Rs b	26.9
US$b	0.7
% of SOTP Value:	6

Kotak Mahindra Prime – a niche NBFC

Kotak conducts its car finance business through Kotak Mahindra Prime (KMP). The company is predominantly involved in providing loans to retail customers of passenger cars and multi-utility vehicles, and inventory and term funding to car dealers. In FY07, KMP has also ventured into the retail personal loans (<Rs0.2m), overdraft against securities and other retail lending to improve RoA and better utilize capital. It has also entered the debt capital market segment and carried out securitization transactions.

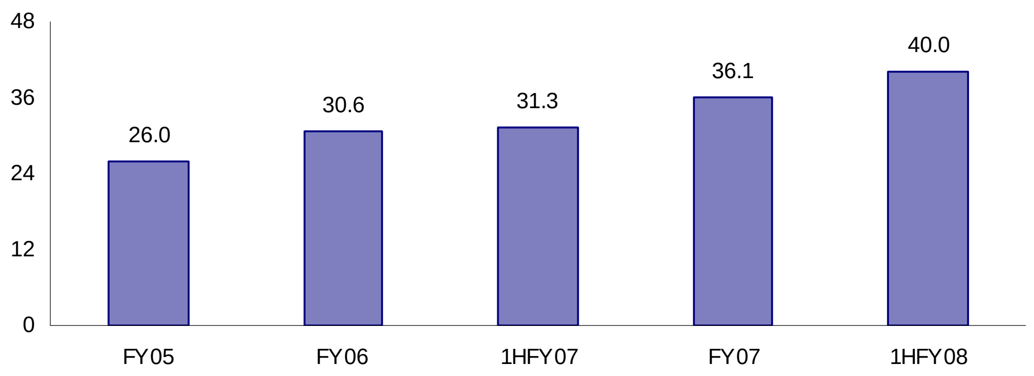
Key strengths

KMP has carved out a niche for itself in the car finance business, focusing on distribution and relationship management across manufacturers, dealers, channel partners and customers. It is focusing on fee-based income and has put in place dedicated infrastructure to offer value-added services to customers and leverage the group's large existing customer database. The management believes that customer knowledge, easy accessibility through its wide network of branches, and a firm commitment to deliver superior customer service would be the key drivers for the company's performance.

Financials and prospects

KMP's car finance portfolio grew 18% in FY07 to Rs36b and 28% YoY in 1HFY08 to Rs40b. It has also built up other loans portfolio of Rs7.8b (including Rs1.8b of personal loans and LAS of Rs2.9b) as at March 2007, which grew to Rs8b as at September 2007.

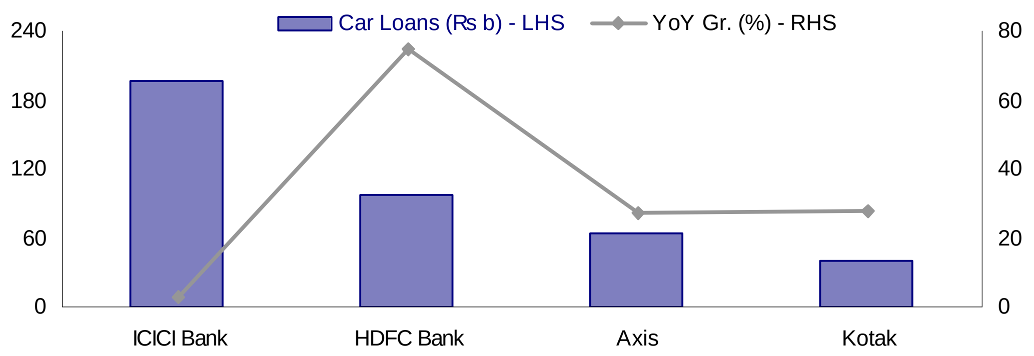
KMP: GROWING CAR FINANCE PORTFOLIO (RS B)



Source: Company/Motilal Oswal Securities

KMP continues be a small player in the car finance market, which is dominated by ICICI Bank, HDFC Bank and Axis Bank. While the leader, ICICI Bank's market share has declined over the last one year, HDFC Bank, Axis Bank and KMP have been able to increase their market share.

KMP: A RELATIVELY SMALL PLAYER (SEPTEMBER 2007)



Source: Company/Motilal Oswal Securities

KMP has been able to significantly improve its profitability over the last couple of years. Its NII grew 25%, with overall loan book growth of 19% in FY07. Profits grew 175% during the year to Rs573m, on higher spreads and strict cost control. KMP has been able to maintain a superior quality car finance portfolio, with credit loss ratio contained at 0.25-0.35% over the last three years. It has a strong net worth of Rs5.6b (leveraged 6.5x) as of March 2007 and continues to enjoy the highest rating from rating agencies.

KMP's profits for 1HFY08 grew 49% YoY to Rs330m on account of better spreads and higher asset growth. We expect car finance to grow at 21% CAGR for KMP over the next three years and other loans to grow at 40% CAGR. The faster growth in personal loans (average yields of 20-25%) would improve the overall yields and margins for the company. We have factored in higher loan losses going forward on account of faster growth in unsecured lending. We expect blended RoAs to remain high at 2-2.5% and estimate earnings growth at 36% CAGR over the next three years.

KMP: FINANCIAL SNAPSHOT (RS MILLION)

	FY06	FY07	FY08E	FY09E	FY10E
Balance Sheet					
Net Worth	**5,004**	**5,573**	**6,407**	**7,528**	**8,957**
Loan Funds	30,663	35,933	46,713	57,924	71,826
Other Liabilities	1,445	2,387	2,983	3,729	4,661
Total Liabilities	37,111	43,892	56,103	69,181	85,444
Loans	34,304	40,929	53,564	66,049	80,907
Other Assets	2,807	2,963	2,540	3,132	4,537
Total Assets	**37,111**	**43,892**	**56,103**	**69,181**	**85,444**
Earnings Statement					
NII	1,440	1,788	2,338	3,055	3,805
YoY Growth (%)		*24.2*	*30.7*	*30.7*	*24.5*
Other Income	92	217	230	288	359
Total Revenues	**1,532**	**2,005**	**2,568**	**3,343**	**4,165**
Operating Profits	415	1,032	1,549	2,126	2,717
YoY Growth (%)		*148.5*	*50.1*	*37.2*	*27.8*
PAT	209	573	848	1,136	1,447
YoY Growth (%)		*174.6*	*47.9*	*33.9*	*27.4*
RoE (%)	4.3	10.8	14.2	16.3	17.6
RoA (%)	0.6	1.4	1.9	2.3	2.5

E: MOSL Estimates *Source: Motilal Oswal Securities*

Valuation

We value Kotak Prime at 3x FY10E net worth to arrive at a valuation of Rs27b, implying a value of Rs78/share for KMB.

Value/share of KMB:	Rs175
Rs b	60.1
US$b	1.5
% of SOTP Value:	13

Om Kotak Life Insurance (OKLI)

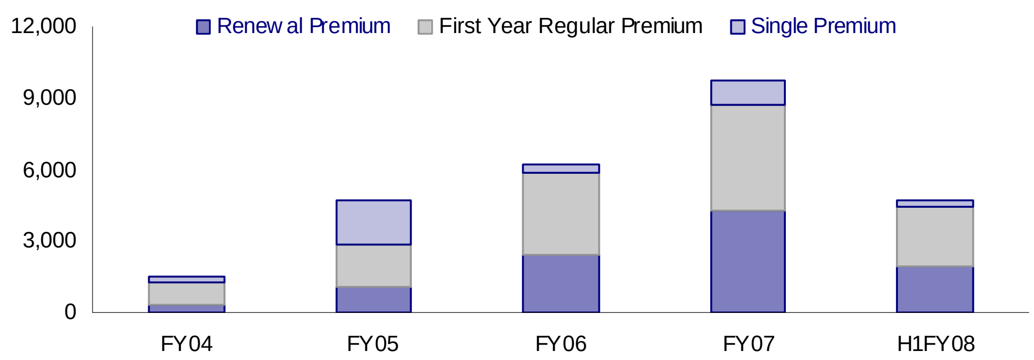
Kotak entered the life insurance business in FY01 jointly with Old Mutual. Kotak owns 74% stake in this JV while the balance is held by Old Mutual. OKLI has been one of the slow growing players in the industry but the management asserts that it seeks to achieve a balanced mix of underlying profitability, efficiency of capital utilization and topline growth. Over the last 2-3 years, OKLI has significantly reduced the proportion of single premium, while its regular first year premium (FYP) has grown at 75%+ CAGR over the last three years. OKLI's average value per policy continues to be one of the highest – in line with Kotak's focus on affluent customers. The management is working towards improving its industry rankings and retail penetration. It aspires to be amongst the top-5 private insurance players in India by FY10.

In the life insurance business, Kotak is focusing on profitable growth

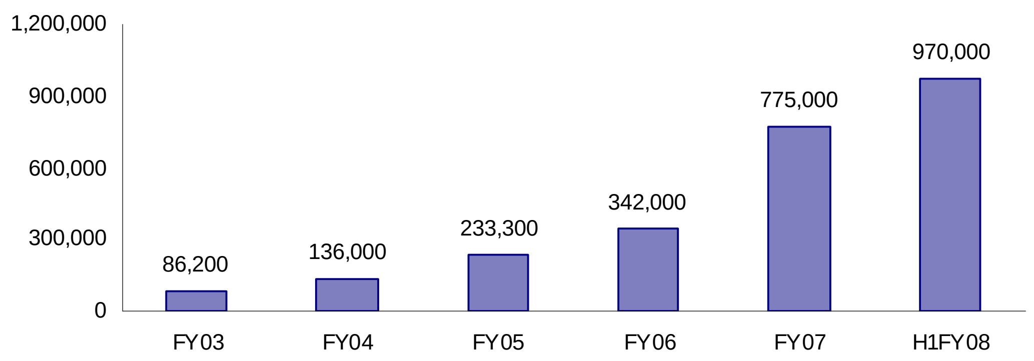
Focus on profitable business

The management intends to achieve the right mix of topline growth, capital consumption and underlying profitability in the life insurance business. Over the last couple of years, OKLI is focusing on faster growth in regular first year premium (FYP) and the proportion of single premium has declined significantly. Its regular FYP has grown at 75%+ CAGR over the last three years. Its FYP based on annualized premium (APE) has grown at a CAGR of 75%+ in FY04-07.

OKLI: FOCUSING MORE ON REGULAR PREMIUM (RS M)

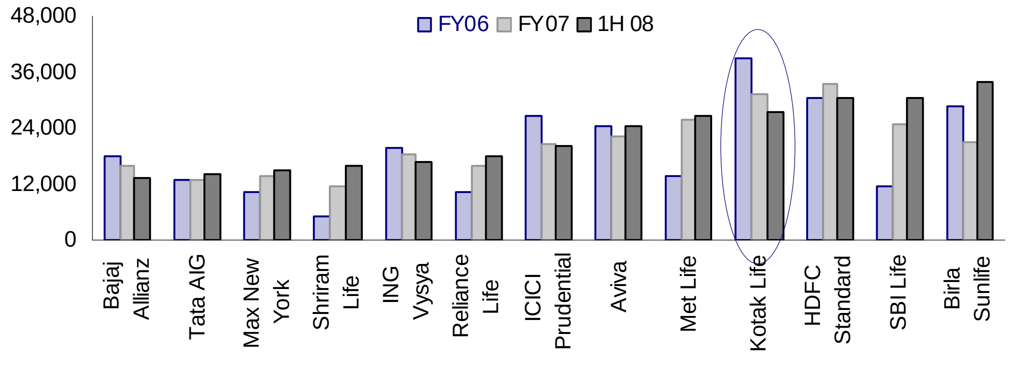


OKLI: HIGH GROWTH IN NUMBER OF LIVES INSURED (NOS.)



Source: Company/Motilal Oswal Securities

OKLI: AVERAGE TICKET SIZE AMONGST THE HIGHEST (RS)



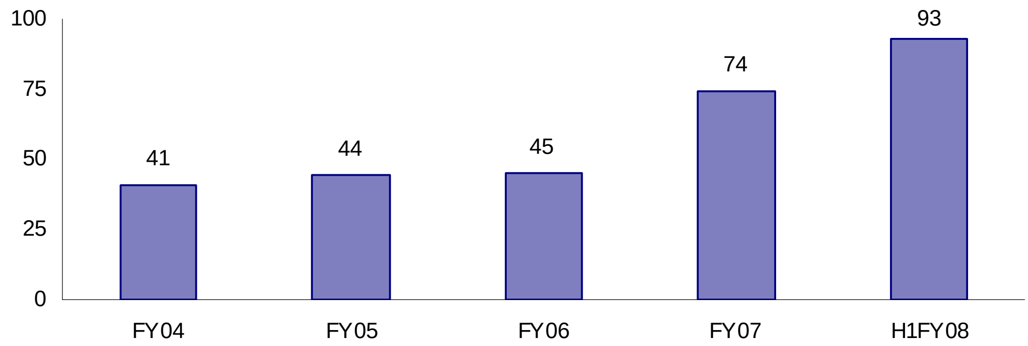
Source: Company/Motilal Oswal Securities

Growing distribution network

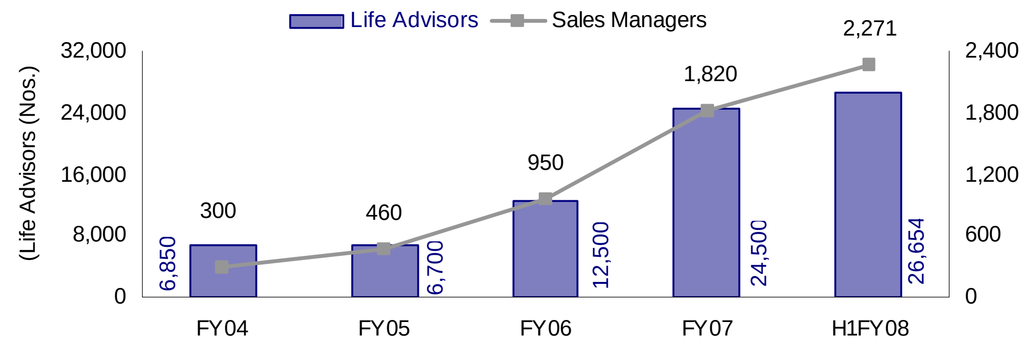
It is expanding its distribution network…

OKLI has accelerated the expansion of its branch network, agency force and other distribution channels to improve its market share and industry ranking. It launched a new advertising campaign "*Zindgi Se Ek Kadam Aagey*" in FY07 to improve its brand visibility. K-Sec as well as other group companies would be selling OKLI's products, going forward. OKLI is building a strong bancassurance model together with KMB, which in the long term would be a significant source of revenues.

OKLI: BRANCHES HAVE DOUBLED IN THE LAST 18 MONTHS…



… AS HAS THE SALES FORCE



Source: Company/Motilal Oswal Securities

Significant cross-selling opportunities

...and intends to make the most of cross-selling opportunities to grow

Kotak is leveraging on its existing group customers to grow its insurance business. While bancassurance remains a key focus area, it has already started distributing OKLI products through K-Sec offices. KMB and K-Sec together have about 1,000 distribution outlets; less than 20% of these currently distribute OKLI's products. Together, the bank and the broking arm have about 0.8m customer accounts, which are growing at over 50% per year. Though OKLI's individual distribution strength is much lower than its peers, cross-selling opportunities would enable OKLI to maintain strong traction.

OKLI: RELATIVELY WEAK DISTRIBUTION

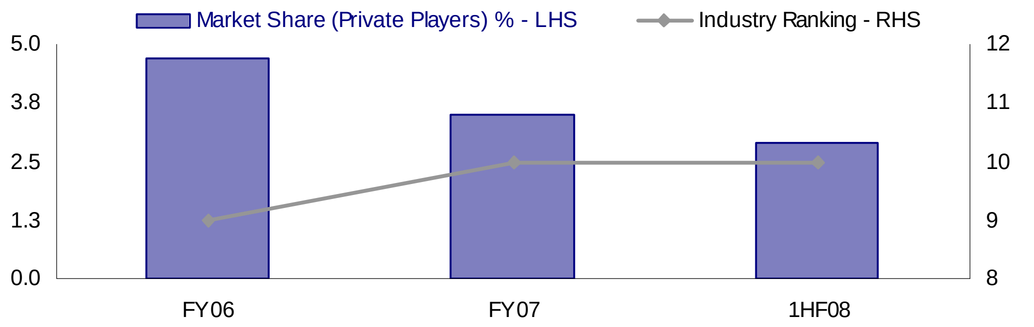
	BRANCHES		AGENTS ('000)	
	FY06	FY07	FY06	FY07
ICICI Prudential	177	583	72	234
Bajaj Allianz	NA	876	NA	213
HDFC Std Life	169	276	33	74
Reliance Life Insurance	153	217	20	106
OKLI	45	74	13	25

Source: Company/Motilal Oswal Securities

Market share declining

While OKLI has maintained 60-70% YoY growth in APE over the last two years, faster growth by new players like Reliance Life and established players like Bajaj Allianz and SBI Life has led to a decline in OKLI's market share over the years. OKLI's market share amongst private players (FYP; APE-based) has reduced to 2.9% (YTD September 2007). OKLI remains one of the smallest life insurance companies in India despite being one of the oldest private sector players.

OKLI: DECLINING MARKET SHARE



Source: Company/Motilal Oswal Securities

Valuation

We expect OKLI's first year premium income (based on APE) to grow at 51% CAGR over the next three years. We have assumed higher NBAP margins of 21% (v/s our assumption of 18-20% for other insurance companies) given the management's stated focus on profitability. We value OKLI at 20x FY10E NBAP of Rs4.1b to arrive at a valuation of Rs81.3b. This translates into a value of Rs60b for KMB's 74% stake or Rs175/share of KMB.

Deserves premium valuations

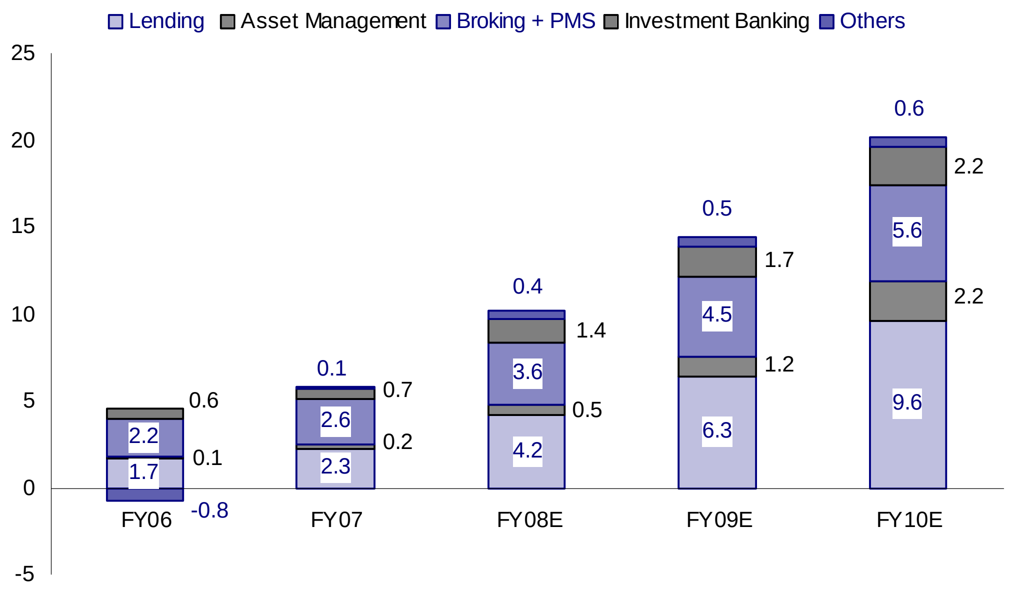
Strong net worth, an integrated business model, quality top management and a shareholder-return-centric approach make Kotak the best financial services play in India. We believe that KMB deserves premium valuations, given the strong growth expected across its businesses, fast traction in earnings, and quality management. We initiate coverage with a Buy rating. Our SOTP-based target price of Rs1,363 indicates an upside of 26%.

Initiating coverage with a target price of Rs1,363 – 26% upside

We initiate coverage on the stock with a Buy rating

We believe that the Kotak Mahindra Group is all set to emerge as a financial powerhouse in India. We expect KMB's consolidated profits excluding life insurance to grow at a CAGR of 51% over the next three years to Rs20b in FY10. Earnings from the lending business, and asset management would maintain strong traction over the next couple of years. The share of lending business in profits would increase from 40% in FY07 to 48% in FY10, while the share of broking and investment banking (K-Sec & KMCC) would decline from 56% in FY07 to 39% in FY10.

PROGRESSION IN CONSOLIDATED EARNINGS (RS B)



Source: Company/Motilal Oswal Securities

Our SOTP-based target price of Rs1,363 implies an upside of 26%

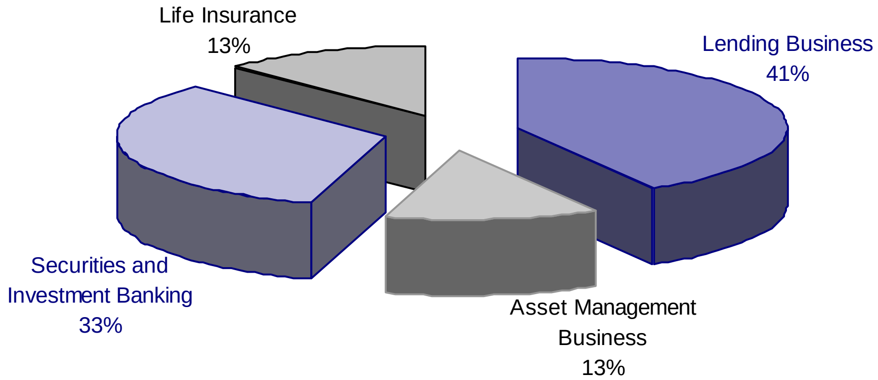
We have valued KMB on SOTP basis to arrive at a price target of Rs1,363 – an upside of 26% from current levels. We initiate coverage on the stock with a **Buy** rating. On a consolidated basis, the stock trades at 15.5x FY10E earnings adjusted for value of life insurance.

SOTP-BASED VALUATION (FY10E)

	VALUE RS B	VALUE US$B	PER SH. RS	% OF TOTAL	RATIONALE
Kotak Securities	111.1	2.8	323	24	20x FY10E PAT
Kotak Investment Banking (KMCC)	44.2	1.1	128	9	20x FY10E PAT
Kotak Asset Management Business	**58.9**	**1.5**	**171**	**13**	
Domestic Mutual Fund	21.4	0.5	62	5	5% of FY10E AUM of Rs429b
Offshore Funds	19.9	0.5	58	4	8% of FY10E AUM of Rs249b
Alternative Assets	17.6	0.4	51	4	15% of FY10E AUM of Rs117b
Kotak Mahindra Bank (Standalone)	160.9	4.1	468	34	4x FY10E net worth excluding investments in subs (21x FY10E PAT)
Kotak Prime (Vehicle and Personal Loans)	26.9	0.7	78	6	3x FY10E Net Worth
Kotak Investment Company (LAS)	6.8	0.2	20	1	3x FY10E Net Worth
Kotak Life Insurance	60.1	1.5	175	13	20x FY10E NBAP, APE CAGR of 52% over FY07-10E
Target Value	**468.9**	**11.9**	**1,363**	**100**	
Current Valuations	373.7	9.5	1,086		
Upside (%)	*25.5*	*25.5*	*25.5*		

Source: Motilal Oswal Securities

BREAK-UP OF TOTAL VALUE (US$12B)



Source: Company/Motilal Oswal Securities

Key concerns

Uncertainly in profits due to dominance of capital markets related businesses

While we expect Kotak's dependence on capital markets related activities – broking and IB to decline, these businesses contribute about 40% of our consolidated profit estimates and 36% of our target value. The revenues and profitability of these businesses are highly volatile as they are high operating leverage businesses. Though we believe that continued traction in economic activity in India would ensure that both these businesses flourish, any downturn in the economy would severely impact these businesses and their valuations.

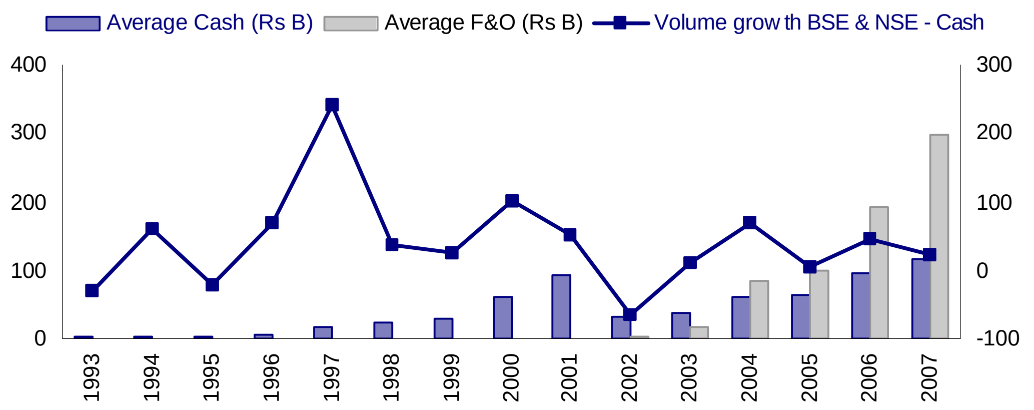
Tough competition in each business segment

While Kotak's integrated business model is unique, it faces intense competition in each of its businesses. Indian brokerages are strengthening themselves by raising capital and expanding aggressively and new players like Reliance Money are employing penetrative pricing. Even global players are increasing their presence in India. In banking, Kotak faces tough competition from all new private sector banks and foreign banks operating in India. The life insurance and asset management businesses are getting crowded, with the entry of new Indian and global players with strong financial muscle, brand name, and/or retail reach.

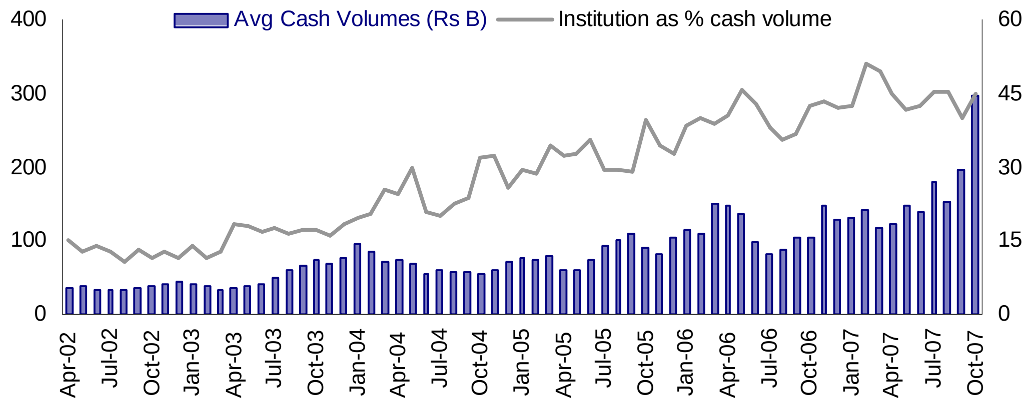
However, we believe the opportunities in each of these business segments are so large that all the efficient players would see strong traction, going forward. In our view, Kotak has all the ingredients to fight the competition – strong net worth, experienced and quality management, established brand name in most businesses, as well as strong retail and corporate relationships.

Appendix I: Broking industry has a bright future

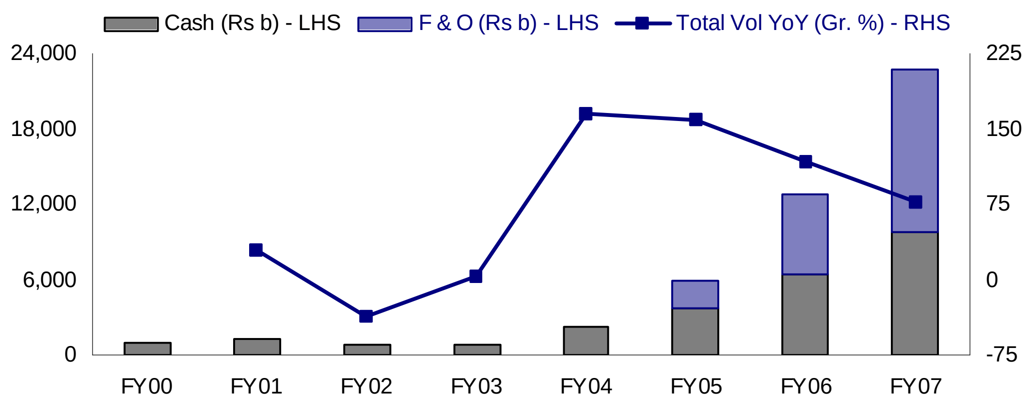
STRONG GROWTH IN MARKET TURNOVER



INSTITUTIONAL INVESTORS' SHARE INCREASING



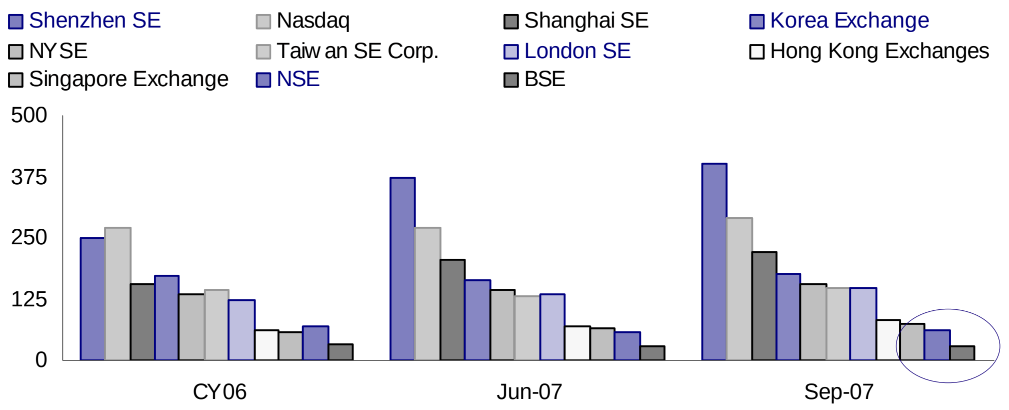
STRONG FII VOLUMES



Source: Motilal Oswal Securities

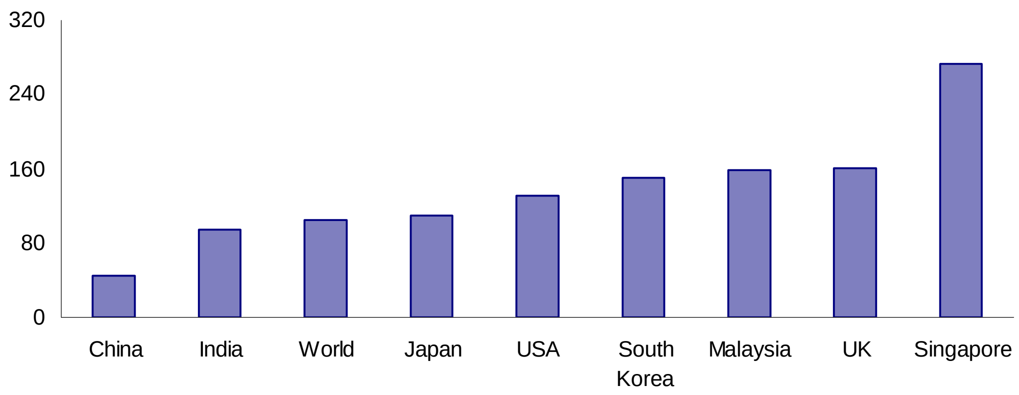
Appendix I: Broking industry has bright future (Contd..)

MARKET TURNOVER VELOCITY - LOWEST AMONGST PEERS

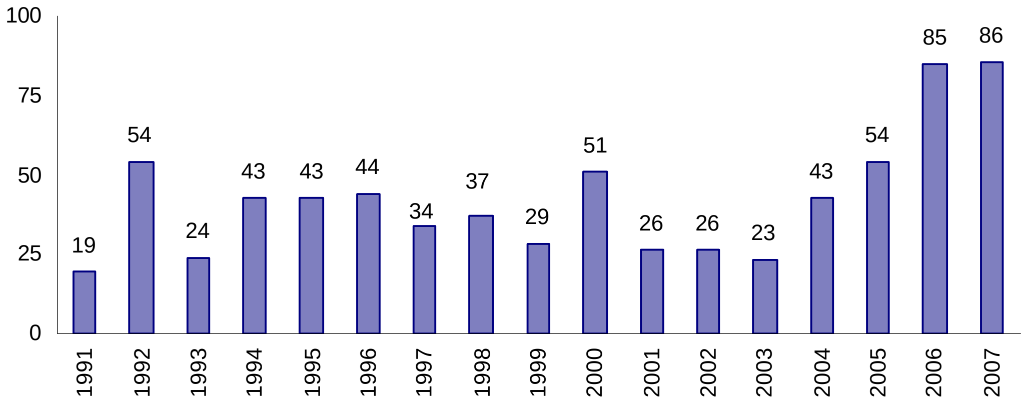


Source: World Federation of Exchnages

MCAP TO GDP RATIO - ONE OF THE LOWEST (%)



MCAP TO GDP RATIO (INDIA) - PROGRESSION OVER THE YEARS (%)



Source: Bloomberg

Appendix II: Investment banking growing fast in India

INCREASING INVESTMENT BANKING ACTIVITY

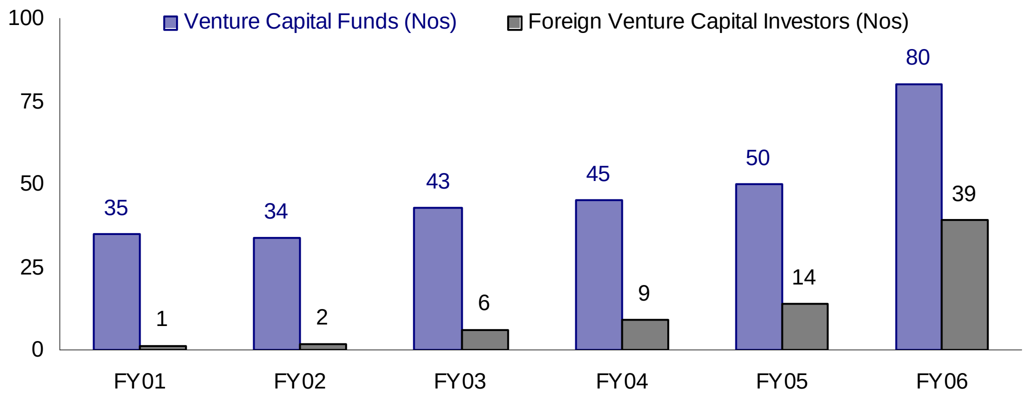
	FY02	FY03	FY04	FY05	FY06
Domestic Offerings (Rs b)					
IPO and Follow On Offerings	49.8	14.1	27.2	96.4	169.4
Rights	7.1	4.7	10.1	34.4	42.2
Sub Total	**56.9**	**18.8**	**37.2**	**130.8**	**211.5**
International Offerings (US$m)					
ADR/GDR	477.0	600.0	459.0	613.0	2,552.0

Source: RBI

(US$B)	CY04	CY05	CY06	9MCY07
Mergers and Acquisition				
Total Volume of Transactions	9.7	36.6	38.8	45.1
Equity and Equity Linked				
Total Volume (Primary Market)	8.9	14.1	18.8	7.0
Issues	42.0	144.0	209.0	102.0
Private Equity				
Total Transaction Volume	1.7	2.2	7.5	8.9
Number of Transactions	67.0	148.0	302.0	256.0

Source: Bloomberg/Industry

VENTURE CAPITAL INVESTORS - INCREASING



Source: SEBI

INCOME STATEMENT (STANDALONE)					(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Interest Income	7,189	13,541	22,957	33,391	47,380
Interest Expended	3,389	6,992	11,942	17,732	25,383
Net Interest Income	**3,800**	**6,549**	**11,015**	**15,659**	**21,998**
Change (%)	*68.5*	*72.3*	*68.2*	*42.2*	*40.5*
Other Income	2,181	2,837	4,647	6,799	9,582
Net Income	**5,980**	**9,385**	**15,662**	**22,458**	**31,579**
Change (%)	*67.1*	*56.9*	*66.9*	*43.4*	*40.6*
Operating Expenses	3,875	6,127	9,518	13,272	17,675
Operating Income	**2,106**	**3,258**	**6,144**	**9,185**	**13,905**
Change (%)	*57.9*	*54.7*	*88.6*	*49.5*	*51.4*
Other Provisions	370	1,226	1,560	1,960	2,410
PBT	**1,736**	**2,032**	**4,584**	**7,225**	**11,495**
Tax	554	619	1,513	2,312	3,678
Tax Rate (%)	*31.9*	*30.4*	*33.0*	*32.0*	*32.0*
PAT	**1,182**	**1,414**	**3,071**	**4,913**	**7,816**
Change (%)	*39.4*	*19.6*	*117.2*	*60.0*	*59.1*
Proposed Dividend	186	228	413	688	1,032

BALANCE SHEET (STANDALONE)					(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Capital	3,093	3,262	3,440	3,440	3,440
Reserves & Surplus	5,435	13,073	31,712	35,937	42,721
Net Worth	**8,527**	**16,335**	**35,152**	**39,377**	**46,161**
Deposits	**65,659**	**110,001**	**165,001**	**250,802**	**363,663**
Change (%)	*52.7*	*67.5*	*50.0*	*52.0*	*45.0*
Borrowings	18,492	57,253	71,566	96,614	130,429
Other Liabilities & Prov.	9,072	15,566	23,206	30,083	39,023
Total Liabilities	**101,757**	**199,154**	**294,925**	**416,876**	**579,275**
Current Assets	**5,925**	**12,960**	**20,128**	**31,197**	**43,168**
Investments	28,555	68,620	96,068	129,691	168,598
Change (%)	*56.3*	*140.3*	*40.0*	*35.0*	*30.0*
Advances	63,485	109,241	169,323	245,518	356,002
Change (%)	*58.0*	*72.1*	*55.0*	*45.0*	*45.0*
Net Fixed Assets	**1,052**	**1,411**	**1,791**	**2,092**	**2,292**
Other Assets	2,740	6,923	7,616	8,377	9,215
Total Assets	**101,757**	**199,154**	**294,925**	**416,876**	**579,275**

ASSUMPTIONS					(%)
Deposit Growth	52.7	67.5	50.0	52.0	45.0
Advances Growth	58.0	72.1	55.0	45.0	45.0
Investments Growth	56.3	140.3	40.0	35.0	30.0
Dividend	6.0	7.0	12.0	20.0	30.0

E: MOSt Estimates

RATIOS (STANDALONE)

Y/E MARCH	2006	2007	2008E	2009E	2010E
Spreads Analysis (%)					
Avg. Yield - Earning Assets	9.0	9.4	9.7	9.7	9.8
Avg. Cost-Int. Bear. Liab.	4.9	5.6	5.9	6.1	6.0
Interest Spread	4.0	3.9	3.8	3.7	3.8
Net Interest Margin	4.8	4.6	4.7	4.6	4.6
Profitability Ratios (%)					
RoE	14.7	11.4	11.9	13.2	18.3
RoA	1.4	0.9	1.2	1.4	1.6
Int. Expended/Int.Earned	47.1	51.6	52.0	53.1	53.6
Other Inc./Net Income	36.5	30.2	29.7	30.3	30.3
Efficiency Ratios (%)					
Op. Exps./Net Income	64.8	65.3	60.8	59.1	56.0
Empl. Cost/Op. Exps.	44.2	47.8	50.3	49.3	49.3
Busi. per Empl. (Rs m)	29.5	38.7	42.6	49.2	57.6
NP per Empl. (Rs lac)	3.3	3.1	4.7	5.8	7.4
Asset-Liability Profile (%)					
Adv./Deposit Ratio	96.7	99.3	102.6	97.9	97.9
Invest./Deposit Ratio	43.5	62.4	58.2	51.7	46.4
G-Sec/Invest. Ratio	83.1	85.5	85.5	85.5	85.5
Gross NPAs to Adv.	0.6	0.5	0.7	0.9	1.1
Net NPAs to Adv.	0.2	0.1	0.4	0.6	0.7
CAR	11.3	13.5	14.5	12.5	11.5
Tier 1	*8.1*	*8.8*	*11.0*	*9.0*	*8.0*

VALUATION *

Book Value (Rs)	27.6	50.1	102.2	114.5	134.2
Price-BV (x)	6.9	3.8	1.9	1.7	1.4
Adjusted BV (Rs)	27.3	49.8	100.9	111.8	129.4
Price-ABV (x)	7.0	3.8	1.9	1.7	1.5
EPS (Rs)	3.8	4.3	8.9	14.3	22.7
EPS Growth (%)	-	13.4	106.0	60.0	59.1
Price-Earnings (x)	50.1	44.1	21.4	13.4	8.4
OPS (Rs)	6.8	10.0	17.9	26.7	40.4
OPS Growth (%)	-37.0	46.7	78.8	49.5	51.4
Price-OP (x)	28.1	19.2	10.7	7.2	4.7

*E: MOSt Estimates; * Adjusted for subsidiary valuations*

INCOME STATEMENT - EX LIFE INSURANCE (CONSOLIDATED)					(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Interest Income	12,157	20,241	31,854	44,514	61,035
Interest Expended	5,196	9,771	16,244	22,833	31,279
Net Interest Income	**6,961**	**10,470**	**15,610**	**21,680**	**29,755**
Change (%)	*55.6*	*50.4*	*49.1*	*38.9*	*37.2*
Other Income	12,375	16,249	26,256	35,137	46,194
Net Income	**19,337**	**26,719**	**41,866**	**56,817**	**75,949**
Change (%)	*76.9*	*38.2*	*56.7*	*35.7*	*33.7*
Operating Expenses	12,342	16,975	25,782	34,343	44,627
Operating Income	**6,995**	**9,744**	**16,084**	**22,474**	**31,323**
Change (%)	*93.4*	*39.3*	*65.1*	*39.7*	*39.4*
Other Provisions	512	1,525	1,800	2,200	2,800
PBT	**6,482**	**8,219**	**14,284**	**20,274**	**28,523**
Tax	2,130	2,542	4,285	6,082	8,557
Tax Rate (%)	*32.9*	*30.9*	*30.0*	*30.0*	*30.0*
Recurring PAT	**4,352**	**5,677**	**9,998**	**14,192**	**19,966**
Add / Less: Minority interest - Associate Profit	-608	138	150	180	250
Recurring Consolidated PAT	**3,745**	**5,814**	**10,148**	**14,372**	**20,216**
Change (%)	*82.8*	*55.3*	*74.5*	*41.6*	*40.7*
Proposed Dividend	230	228	413	688	1,032

CONSOLIDATED BALANCE SHEET - EX LIFE INSURANCE (CONSOLIDATED)					(RS MILLION)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Capital	3,093	3,262	3,440	3,440	3,440
Reserves & Surplus	19,378	29,069	54,271	67,370	86,171
Net Worth	**22,471**	**32,330**	**57,711**	**70,810**	**89,611**
Deposits	**56,167**	**96,610**	**144,915**	**220,270**	**319,392**
Change (%)	*46.5*	*72.0*	*50.0*	*52.0*	*45.0*
Borrowings	70,893	121,240	169,736	220,657	304,507
Other Liabilities & Prov.	30,143	36,128	39,560	43,390	47,674
Total Liabilities	**179,674**	**286,308**	**411,922**	**555,128**	**761,184**
Current Assets	**10,676**	**21,425**	**33,609**	**40,036**	**56,825**
Investments	50,487	91,285	127,799	172,528	232,913
Change (%)	*86.6*	*80.8*	*40.0*	*35.0*	*35.0*
Advances	104,199	155,734	229,824	319,199	445,303
Change (%)	*45.9*	*49.5*	*47.6*	*38.9*	*39.5*
Net Fixed Assets	**1,754**	**2,353**	**2,853**	**2,853**	**2,553**
Other Assets	12,557	15,510	17,837	20,512	23,589
Total Assets	**179,673**	**286,308**	**411,922**	**555,128**	**761,184**

ASSUMPTIONS					(%)
Deposit Growth	46.5	72.0	50.0	52.0	45.0
Advances Growth	45.9	49.5	47.6	38.9	39.5
Investments Growth	86.6	80.8	40.0	35.0	35.0
Dividend	5.0	7.0	12.0	20.0	30.0

E: MOSt Estimates

RATIOS - EX LIFE INSURANCE (CONSOLIDATED)

Y/E MARCH	2006	2007	2008E	2009E	2010E
Spreads Analysis (%)					
Avg. Yield - Earning Assets	9.0	9.4	9.8	9.7	9.7
Avg. Cost-Int. Bear. Liab.	5.0	5.7	6.1	6.0	5.9
Interest Spread	4.0	3.7	3.7	3.7	3.9
Net Interest Margin	5.2	4.9	4.8	4.7	4.7
Profitability Ratios (%)					
RoE	24.1	21.2	23.4	23.5	27.1
RoA	2.6	2.5	2.9	3.0	3.1
Int. Expended/Int.Earned	42.7	48.3	51.0	51.3	51.2
Other Inc./Net Income	64.0	60.8	62.7	61.8	60.8
Efficiency Ratios (%)					
Op. Exps./Net Income	63.8	63.5	61.6	60.4	58.8
Empl. Cost/Op. Exps.	25.5	28.2	29.2	28.9	27.7
Busi. per Empl. (Rs m)	20.2	19.1	19.6	21.8	26.1
NP per Empl. (Rs lac)	5.5	4.5	6.0	6.6	7.9
Asset-Liability Profile (%)					
Adv./Deposit Ratio	185.5	161.2	158.6	144.9	139.4
Invest./Deposit Ratio	89.9	94.5	88.2	78.3	72.9
G-Sec/Invest. Ratio	55.1	67.2	67.2	67.2	67.2
Gross NPAs to Adv.	0.4	0.5	0.8	1.0	1.3
Net NPAs to Adv.	0.2	0.2	0.2	0.2	0.1
CAR	11.3	12.0	17.5	15.5	12.5
Tier 1	*8.1*	*8.8*	*14.0*	*12.0*	*9.0*

VALUATION

Book Value (Rs)	72.7	99.1	167.8	205.8	260.5
Price-BV (x)	15.0	11.0	6.5	5.3	4.2
Adjusted BV (Rs)	72.1	98.5	166.8	204.7	259.4
Price-ABV (x)	15.1	11.0	6.5	5.3	4.2
EPS (Rs)	12.1	17.8	29.5	41.8	58.8
EPS Growth (%)	-	47.2	65.5	41.6	40.7
Price-Earnings (x)	89.7	60.9	36.8	26.0	18.5
OPS (Rs)	22.6	29.9	46.8	65.3	91.1
OPS Growth (%)	-22.9	32.1	56.5	39.7	39.4
Price-OP (x)	48.0	36.4	23.2	16.6	11.9

E: MOSt Estimates

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

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

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