



# Kotak Mahindra Bank

BSE SENSEX 18,759	S&P CNX 5,705	CMP: INR626	TP: INR500	Neutral								
Bloomberg Equity Shares (m)	KMB IN 740.7	<b>Year</b>	<b>Cons. PAT</b>	<b>Cons. EPS</b>	<b>EPS</b>	<b>P/E</b>	<b>Cons. BV</b>	<b>P/BV</b>	<b>P/ABV</b>	<b>Cons RoE</b>	<b>RoAA*</b>	<b>Core RoE*</b>
52-Week Range (INR)	652/418	<b>End</b>	<b>(INR m)</b>	<b>(INR)</b>	<b>Gr. (%)</b>	<b>(x)</b>	<b>(INR)</b>	<b>(x)</b>	<b>(x)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
1,6,12 Rel.Perf.(%)	-3/-2/18	3/11A	15,667	21.3	13.3	-	148.8	-	-	16.6	1.9	15.4
M.Cap. (INR b)	463.4	3/12A	18,322	24.7	16.3	25.3	174.2	3.6	3.6	15.4	1.9	15.4
M.Cap. (USD b)	8.6	3/13E	20,662	27.9	12.8	22.4	201.3	3.1	3.2	14.9	1.6	14.7
		3/14E	24,624	33.2	19.2	18.8	233.5	2.7	2.7	15.3	1.6	15.2

\* For Standalone Bank

Kotak Mahindra Bank's (KMB) 2QFY13 consolidated PAT grew 16% YoY and 13% QoQ to INR5.0b (4% above est) driven by higher than expected profitability in Kotak Prime and Kotak Securities. Profits for the standalone bank were in line with estimates. Margins and asset quality (excl. stressed assets) remained stable QoQ.

- **Lending business:** (a) Profitability of the lending business was higher than expected (8% above est.) led by strong profit growth in Kotak Prime (b) Consolidated loan growth moderated but remained healthy at 7% QoQ and 21% YoY (c) Margins remained stable QoQ at 4.7% (d) GNPA's (incl. stressed assets) for the standalone bank increased 8% QoQ as the bank acquired a stressed asset portfolio from a NBFC worth INR490m. KMB recovered INR70m out of this and has fully provided for the rest. PCR improved to 54% v/s 50% in 1QFY13.
- **Capital Market business:** KSEC reported PAT of INR400m, up 38%YoY and 74% QoQ led by strong improvement in the cash delivery volumes during the quarter and booking of gains on proprietary trading which boosted revenues (up 17% QoQ). Market share remained stable QoQ at 2.5%.
- **Asset Management business:** PAT from asset management business grew by 50% YoY and 71% QoQ to INR120m (23% below est.) due to losses in the AMC business. AUMs increased 11% YoY and 8% QoQ to INR559b.
- **Valuation and view:** Moderation in growth, expected increase in credit costs (45bp v/s 14bp in FY12) and higher base of FY12 can put pressure on profitability of lending business. Profits in capital market businesses picked up but may not sustain due to stiff competition. Stock trades at 2.7x FY14E cons. BV. **Neutral.**

## KMB Group: Earnings Trends

	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Kotak Bank (Standalone)	2,520	2,600	2,760	2,970	2,820	2,800	3,171	3,260	10,850	12,051
Kotak Prime	940	900	1,040	970	940	1,140	1,150	1,172	3,849	4,402
Kotak Mah. Investments	30	30	30	60	40	160	50	54	153	304
<b>Lending Business</b>	<b>3,490</b>	<b>3,530</b>	<b>3,830</b>	<b>4,000</b>	<b>3,800</b>	<b>4,100</b>	<b>4,371</b>	<b>4,486</b>	<b>14,852</b>	<b>16,757</b>
YoY Growth (%)	29.3	33.7	34.7	17.5	8.9	16.1	14.1	12.1	28.0	12.8
Kotak Securities	230	290	240	500	230	400	327	350	1,260	1,306
Kotak Mah. Capital Co.	10	-40	40	50	60	40	56	68	60	224
<b>Capital Market Business</b>	<b>240</b>	<b>250</b>	<b>280</b>	<b>550</b>	<b>290</b>	<b>440</b>	<b>382</b>	<b>418</b>	<b>1,320</b>	<b>1,530</b>
YoY Growth (%)	-55.8	-57.7	-48.4	-16.9	20.8	76.0	36.5	-24.0	-43.5	15.9
Intl. Subsidiaries	-30	-70	-40	30	-50	80	30	40	-110	100
Kotak Mah. AMC & Trustee Co.	90	70	30	30	40	-50	50	80	220	120
Kotak Investment Advisors	110	80	70	100	80	90	100	105	360	375
<b>Asset Management Business</b>	<b>170</b>	<b>80</b>	<b>60</b>	<b>160</b>	<b>70</b>	<b>120</b>	<b>180</b>	<b>225</b>	<b>470</b>	<b>595</b>
YoY Growth (%)	-52.0	-60.7	-71.3	-34.7	-58.8	50.0	200.0	40.6	-53.4	26.6
<b>Consol. PAT excluding Kotak Life</b>	<b>3,900</b>	<b>3,860</b>	<b>4,170</b>	<b>4,710</b>	<b>4,160</b>	<b>4,660</b>	<b>4,934</b>	<b>5,129</b>	<b>16,642</b>	<b>18,882</b>
YoY Growth (%)	8.4	12.4	16.0	9.2	6.7	20.7	18.3	8.9	11.3	13.5
Kotak OM Life Insurance	460	530	470	570	320	470	541	700	2,030	2,030
Consolidation Adjust.	-200	-60	-10	-70	-50	-110	-50	-40	-349	-250
<b>Consol. PAT Including Kotak Life</b>	<b>4,160</b>	<b>4,330</b>	<b>4,630</b>	<b>5,210</b>	<b>4,430</b>	<b>5,020</b>	<b>5,424</b>	<b>5,788</b>	<b>18,322</b>	<b>20,662</b>
YoY Growth (%)	26.9	18.9	20.7	6.2	6.5	15.9	17.2	11.1	16.9	12.8

Source: MOSL

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Investors are advised to refer through disclosures made at the end of the Research Report.

## Earnings Snapshot (INR m)

	Business	2Q FY13	1Q FY13	QoQ Gr. (%)	2Q FY12	YoY Gr. (%)
Kotak Mahindra Bank (Standalone)	Banking Business	2,800	2,820	-1	2,600	8
Kotak Mahindra Prime	Auto loans, debt capital markets	1,140	940	21	900	27
Kotak Mahindra Investments	Primarily LAS	160	40	300	30	433
<b>Lending Business</b>		<b>4,100</b>	<b>3,800</b>	<b>8</b>	<b>3,530</b>	<b>16</b>
Kotak Mahindra Capital Company	Investment banking	40	60	NA	-40	NA
Kotak Securities	Broking and distribution	400	230	74	290	38
<b>Capital Market Business</b>		<b>440</b>	<b>290</b>	<b>52</b>	<b>250</b>	<b>76</b>
International subsidiaries	Asset Mgt and IB	80	-50	NA	-70	NA
Kotak Mahindra AMC & Trustee Co	Mutual funds management	-50	40	NA	70	NA
Kotak Investment Advisors	Alternate asset management	90	80	13	80	13
<b>Asset Management Business</b>		<b>120</b>	<b>70</b>	<b>71</b>	<b>80</b>	<b>50</b>
Kotak Life Insurance		470	320	47	530	-11
<b>Consol. PAT</b>		<b>5,130</b>	<b>4,480</b>	<b>15</b>	<b>4,390</b>	<b>17</b>
Consolidation Adjust.		-108	-45		-64	
<b>Reported PAT</b>		<b>5,022</b>	<b>4,435</b>	<b>13</b>	<b>4,326</b>	<b>16</b>

### Lending business: Loan growth moderates (v/s historical trends) but remains healthy; margins remains stable

Consolidated loan book grew 21% YoY and 7% QoQ to INR612b driven by healthy growth in the standalone book, while car loans grew at a slower pace during the quarter. For the standalone bank, growth was mainly driven by the corporate, business banking and agri segments. In line with management's cautious approach towards the CV segment, the CV book remained largely stable with a marginal 2% QoQ increase. Reported consolidated margins remained stable QoQ at 4.7%.

### Consolidated loan growth moderated to 21% YoY (INR m)

	2QFY13	2QFY12	YoY %	1QFY13	QoQ %
Comm. Vehicles	81,830	73,510	11.3	80,150	2.1
Car Loans (Prime)	117,480	98,580	19.2	111,610	5.3
Personal Loans	21,410	15,010	42.6	20,000	7.1
Home loans	92,860	75,280	23.4	87,570	6.0
Corp Banking	156,780	147,450	6.3	143,830	9.0
Business Banking	45,710	27,980	63.4	38,400	19.0
Agri	64,190	42,480	51.1	61,080	5.1
Others	32,290	25,520	26.5	27,850	15.9
<b>Total Loans</b>	<b>612,550</b>	<b>505,810</b>	<b>21.1</b>	<b>570,490</b>	<b>7.4</b>
<b>Inv. / Treasury Assets</b>	<b>239,900</b>	<b>183,470</b>	<b>30.8</b>	<b>232,190</b>	<b>3.3</b>

Source: Company, MOSL

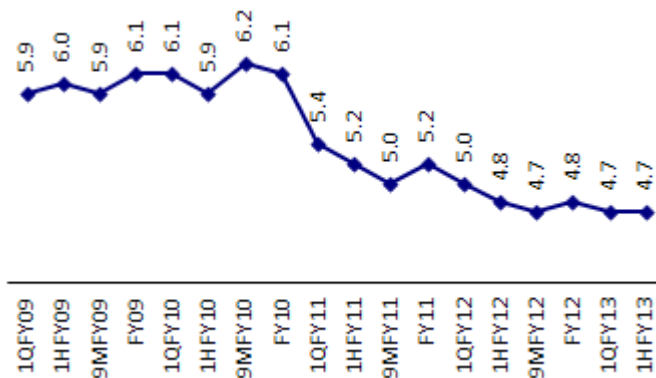
### Trend in lending business profitability - With pickup in profitability of securities business, share of lending business in overall profitability declined QoQ; but remained high (INR m)

	FY10				FY11				FY12				FY13	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>Total Lending Profits</b>	<b>1,003</b>	<b>1,741</b>	<b>1,980</b>	<b>2,679</b>	<b>2,699</b>	<b>2,640</b>	<b>2,843</b>	<b>3,406</b>	<b>3,490</b>	<b>3,530</b>	<b>3,830</b>	<b>4,000</b>	<b>3,800</b>	<b>4,100</b>
YoY Gr. (%)	45	92	96	73	121	52	44	27	29	34	35	17	9	16
QoQ Gr. (%)	-4	42	14	35	1	-2	8	20	2	1	8	4	-5	8
<b>Share in Cons. Profit (%)</b>	<b>73</b>	<b>56</b>	<b>59</b>	<b>65</b>	<b>77</b>	<b>74</b>	<b>74</b>	<b>68</b>	<b>80</b>	<b>80</b>	<b>83</b>	<b>76</b>	<b>85</b>	<b>80</b>

Source: Company, MOSL

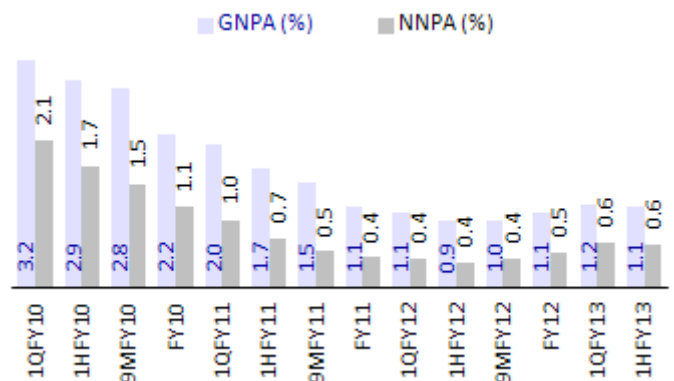
**Margins remain stable QoQ (%)**

Margins remain stable QoQ. Management has maintained its guidance of 4.5%+ margins for FY13.



**Asset quality (ex-stressed assets) improves marginally**

Asset quality (incl. stressed assets) deteriorated as the bank acquired a small stressed asset portfolio during the quarter, barring which the asset quality improved marginally.



Source: Company, MOSL

**Banking: Loan growth moderated but remains healthy**

Kotak Bank standalone PAT grew 8% YoY and remained flat on a QoQ basis at ~INR2.8b (in line with est.). NII grew at a healthy pace by 25% YoY and 5% QoQ on the back of strong loan growth and stable margins. Loan growth moderated to 22% YoY as compared with earlier trends of 30%+ YoY growth for past few quarters, in line with management's cautious stance given the uncertain macro environment. Loan growth remained healthy in the business banking (+64% YoY and 19% QoQ), corporate (+8% QoQ and 5% YoY) and agri (+51% YoY and 5% QoQ) segments. The management has maintained its guidance of 20%+ asset growth in the current fiscal.

**Deposit mobilization remains healthy**

Deposit mobilization remained healthy during the quarter (+25% YoY and 9% QoQ) resulting into moderation in CD Ratio to 100% v/s 101.6% in 1QFY13 and 102.6% in 2QFY12. Healthy traction in SA deposits continued as it grew by 66% YoY and 7% QoQ. CA deposits grew by 10% YoY and 16% QoQ. CASA ratio increased marginally to 27.1% from 26.6% in the previous quarter. During the quarter, the bank added 23 branches taking the total number to 389. Guidance of reaching a network of 500 branches in CY13 maintained.

**Acquisition of stressed assets portfolio led to increase in GNPA**

GNPAs (incl. stressed assets) increased 8% QoQ as the bank acquired an INR490m worth stressed asset portfolio (secured home loan portfolio) during the quarter. Of which, it recovered INR70m and the rest has been fully provided for. This resulted into the increase in GNPA and provisioning expenses on a QoQ basis. Net restructured loans stood at just INR80m (2bp of overall loans).

Kotak Mahindra Bank (SA) Quarterly Performance									(INR Million)	
Y/E March	FY12				FY13				FY12	FY13E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Interest Income	13,298	14,646	16,410	17,448	18,158	19,237	19,766	20,378	61,802	77,539
Interest Expense	7,619	8,592	9,895	10,571	10,945	11,656	11,889	12,112	36,677	46,602
Net Interest Income	5,678	6,055	6,515	6,877	7,213	7,581	7,877	8,266	25,125	30,937
% Change (Y-o-Y)	17.1	11.3	14.0	21.7	27.0	25.2	20.9	20.2	19.8	23.1
Other Income	2,287	2,125	2,820	2,542	2,411	2,508	2,890	2,942	9,773	10,751
Net Income	7,965	8,180	9,334	9,420	9,625	10,089	10,767	11,207	34,898	41,688
% Change (Y-o-Y)	23.0	19.7	26.7	15.9	20.8	23.3	15.4	19.0	21.3	19.5
Operating Expenses	4,105	4,379	4,898	4,966	5,141	5,267	5,679	5,950	18,348	22,036
Operating Profit	3,861	3,800	4,436	4,453	4,484	4,822	5,089	5,258	16,550	19,652
% Change (Y-o-Y)	21.6	16.3	41.0	21.0	16.1	26.9	14.7	18.1	24.9	18.7
Other Provisions	221	-24	307	46	341	706	425	522	551	1,995
Profit before Tax	3,640	3,824	4,129	4,407	4,142	4,116	4,664	4,735	15,999	17,657
Tax Provisions	1,119	1,224	1,368	1,438	1,318	1,312	1,492	1,484	5,149	5,606
Net Profit	2,520	2,600	2,761	2,969	2,824	2,804	3,171	3,252	10,850	12,051
% Change (Y-o-Y)	33.3	33.5	47.0	19.4	12.1	7.8	14.9	9.5	32.6	11.1
Int Exp/Int Income Ratio (%)	57.3	58.7	60.3	60.6	60.3	60.6	60.1	59.4	59.3	60.1
Cost to Income Ratio (%)	51.5	53.5	52.5	52.7	53.4	52.2	52.7	53.1	52.6	52.9
Tax Rate (%)	30.8	32.0	33.1	32.6	31.8	31.9	32.0	31.3	32.2	31.8

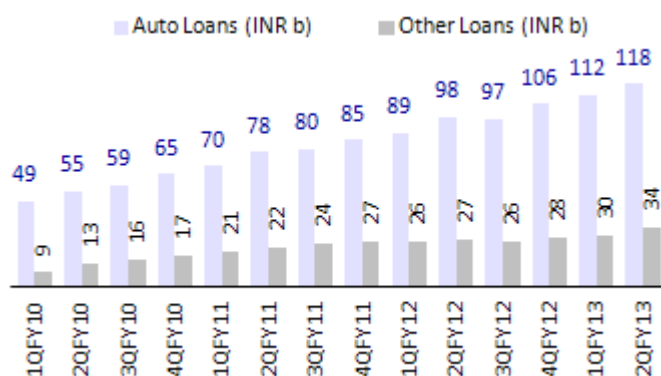
E: MOSL Estimates, Quarterly numbers vary from full year number due to difference in reporting

### Kotak Prime - Strong growth in non-car segment; healthy asset quality; profitability improves

Kotak Prime's total income grew 30% YoY and 8% QoQ to INR5.5b driven by strong asset growth. During the quarter, Kotak Prime's loan book grew 21% YoY and 7.5% QoQ to INR151.7b, driven by strong growth in its non-car portfolio. While the car loan portfolio grew by 20% YoY and 5% QoQ, other loans grew much faster by 25% YoY and 15% QoQ. Strong asset growth, healthy traction in fee based income and stable asset quality led to improvement in Kotak Prime's profitability during the quarter. As a result, PAT grew strongly by 27% YoY and 21% QoQ to INR1.14b. Net NPAs increased marginally to 0.2% v/s 0.1% in 1QFY13. CAR remained healthy at 15.8%.

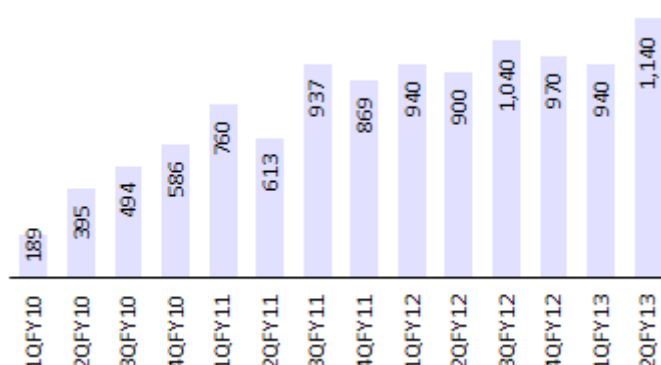
#### KMPL: Loan gr. remains healthy at 21% YoY and 8% QoQ

Auto loans were up 5% QoQ and 20% YoY, while other loans grew 15% QoQ and 25% YoY



#### PAT grew strongly by 27% YoY and 21% QoQ (INR m)

Strong asset growth coupled with higher fee income during the quarter led to strong profitability for Kotak Prime



Source: Company, MOSL

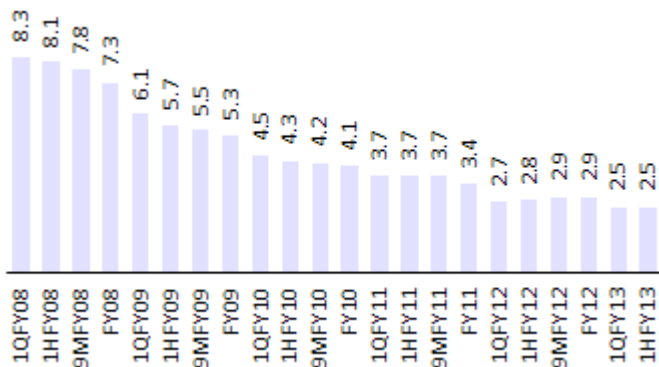
**Capital market business: Securities broking business boosts profitability**

In 2QFY13, profits from capital market related businesses grew sharply by 76% YoY and 52% QoQ (44% above estimates) led by strong uptick in securities broking business. KSEC's revenues increased 2% YoY and sharply by 17% QoQ to INR1.55b led by improvement in cash market delivery volumes coupled with certain proprietary gains booked during the quarter.

PBT margins improved to 31.6% from 25.6% in the quarter gone by. Tax rate was lower at 18.4% v/s 34.3% in 1QFY13 resulting into PAT of INR400m, up 38%YoY and 74% QoQ. Average daily volumes remained largely stable QoQ at ~INR33b. KSEC's market share too remained stable QoQ at 2.5%. Investment Banking reported PAT of INR40m v/s INR60m in 1QFY13 and a net loss of INR40m in 2QFY12.

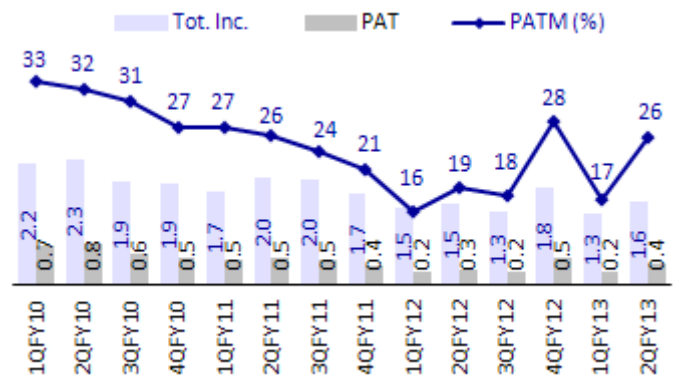
**K-Sec market share remained stable QoQ (%)**

KSEC's market share remained stable in line with sequentially stable ADV's



**K-Sec earnings trend (INR b)**

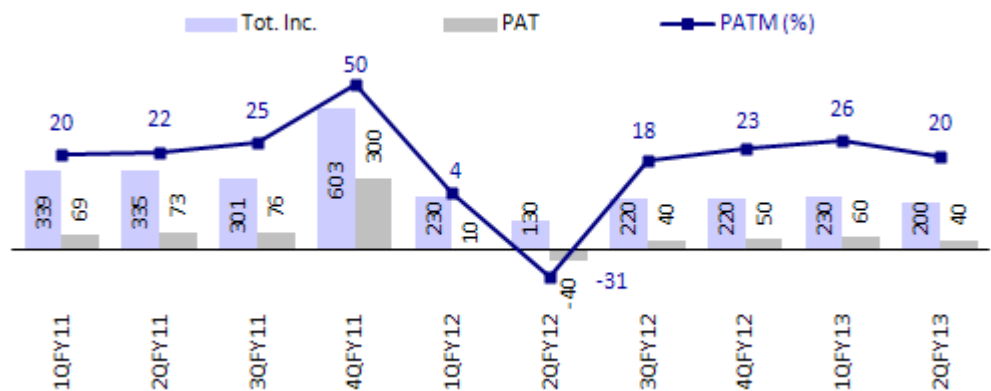
Higher traction in cash delivery volumes and proprietary gains boosted profitability in the securities business



Source: Company, MOSL

**Investment banking earnings trend (INR m)**

Investment Banking reported PAT of INR40m v/s INR60m in 1QFY13 and a net loss of INR40m in 2QFY12.



Source: Company, MOSL

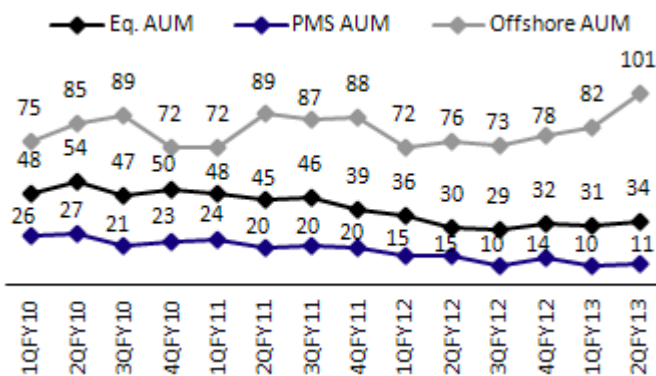
**Asset Management: AMC reports loss driven by upfronting of distribution costs**

During the quarter, profitability of the AMC business remained under pressure due to losses in the AMC business. PAT from overall asset management business grew by 50% YoY and 71% QoQ to INR120m (23% below estimates). AMC business reported a net loss of INR50m as the company upfronted certain distribution costs to acquire relatively more remunerative debt fund business.

The management expects to achieve breakeven on this portfolio in next six months through earning higher asset management fees. Importantly, international subsidiaries reported PAT of INR80m as against a net loss of INR50m in 1QFY13 and INR70m in 2QFY12. Overall AUMs increased 11% YoY and 8% QoQ to INR559b. Strong sequential increase was seen in AUMs under off-shore funds (+33% YoY and 22% QoQ). Domestic MF AUMs grew by 7% YoY and 10% QoQ to INR313b. Notably, debt AUMs grew by ~11% both on a YoY as well as on a QoQ basis to INR268b, while equity AUMs declined 5% YoY, though up 8% QoQ to INR34b.

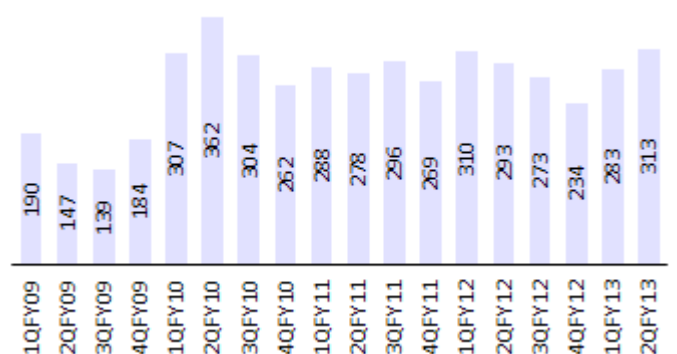
**Sharp increase witnessed in offshore AUMs (INR b)**

Equity AUM under MF increased to INR34b v/s INR31b in 1QFY13; Offshore AUMs too increased sharply to INR101b v/s INR82b in 1QFY13



**MF AUMs increase QoQ led by spike in debt AUMs (INR b)**

Debt AUMs grew to INR268b from INR242b in 1QFY13 contributing ~88% of the incremental AUMs during the quarter.



Source: Company, MOSL

**Life Insurance: Premium income declines 8% YoY; PAT down 11% YoY**

Kotak Life's gross premium income increased 36% QoQ, though down 8% YoY to INR6.2b. The YoY decline in premium income could be attributed to a steep 73% YoY decline in single premium income, while the individual regular and the group premium put together grew by 18% YoY and 68% QoQ. Life insurance business reported PAT of INR470m v/s INR320m and INR530m in 1QFY13 and 2QFY12 respectively. AUM of the life insurance business grew by 20% YoY and 6% QoQ to INR97.8b.

**Trend in segment-wise profitability**

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
<b>Total lending profits</b>	<b>2,699</b>	<b>2,640</b>	<b>2,843</b>	<b>3,406</b>	<b>3,490</b>	<b>3,530</b>	<b>3,830</b>	<b>4,000</b>	<b>3,800</b>	<b>4,100</b>
QoQ Growth (%)	1	-2	8	20	2	1	8	4	-5	8
YoY Growth (%)	121	52	44	27	29	34	35	17	9	16
% Share to total profits	76	74	74	68	80	80	83	76	85	80
<b>Capital market related business</b>	<b>543</b>	<b>591</b>	<b>543</b>	<b>662</b>	<b>240</b>	<b>250</b>	<b>280</b>	<b>550</b>	<b>290</b>	<b>440</b>
QoQ Growth (%)	-15	9	-8	22	-64	4	12	96	-47	52
YoY Growth (%)	-31	-26	-11	3	-56	-58	-48	-17	21	76
% Share to total profits	15	17	14	13	6	6	6	10	6	9
<b>AMC Businesses</b>	<b>355</b>	<b>204</b>	<b>209</b>	<b>245</b>	<b>170</b>	<b>80</b>	<b>60</b>	<b>160</b>	<b>70</b>	<b>120</b>
QoQ Growth (%)	-1	-43	3	17	-31	-53	-25	167	-56	71
YoY Growth (%)	-29	-59	-63	-31	-52	-61	-71	-35	-59	50
% Share to total profits	10	6	5	5	4	2	1	3	2	2
<b>Kotak Mah. Old Mutual Life Insur.</b>	<b>-69</b>	<b>134</b>	<b>236</b>	<b>712</b>	<b>460</b>	<b>530</b>	<b>470</b>	<b>570</b>	<b>320</b>	<b>470</b>
QoQ Growth (%)	-116	-295	76	202	-35	15	-11	21	-44	47
YoY Growth (%)	-723	208	22	60	-766	294	99	-20	-30	-11
% Share to total profits	-2	4	6	14	11	12	10	11	7	9
<b>Consolidated PAT</b>	<b>3,528</b>	<b>3,568</b>	<b>3,830</b>	<b>5,025</b>	<b>4,360</b>	<b>4,390</b>	<b>4,640</b>	<b>5,280</b>	<b>4,480</b>	<b>5,130</b>
QoQ Growth (%)	-14	1	7	31	-13	1	6	14	-15	15
YoY Growth (%)	40	16	14	22	24	23	21	5	3	17
% Share to total profits	100	100	100	100	100	100	100	100	100	100
<b>Total consolidated PAT ex Life</b>	<b>3,597</b>	<b>3,433</b>	<b>3,594</b>	<b>4,313</b>	<b>3,900</b>	<b>3,860</b>	<b>4,170</b>	<b>4,710</b>	<b>4,160</b>	<b>4,660</b>
QoQ Growth (%)	-2	-5	5	20	-10	-1	8	13	-12	12
YoY Growth (%)	43	13	14	17	8	12	16	9	7	21
% Share to total profits	102	96	94	86	89	88	90	89	93	91

Source: Company, MOSL

**KOTAK MAHINDRA: Highlights of result conference call****Asset growth - Will continue to grow in a controlled manner**

- As indicated in the previous quarter, the bank grew its loanbook at a slower pace. The management mentioned that though since the previous quarter, the sentiments have turned and the economy has been able to avert the worst risks, fundamentals continue to remain weak.
- The management has maintained its guidance of loan growth of 20%+ for FY13 and will continue to grow based on its risk return matrix.
- CV and CE segments continue to remain weak, while the growth in the rural and semi urban focus markets remains healthy.

**Liabilities - Traction in savings likely to continue**

- KMB continues to expand its branch network at a steady and maintains its guidance of reaching a branch network of 500 branches by CY13.
- While the traction in SA acquisitions has seen some moderation it remains healthy and the bank is not willing to offer rates in excess of 6% to acquire SA balances.

### Asset quality - Not overtly worried but remain cautious

- The management continued to remain cautious on the asset quality in the CV and CE segment and exposures which have linkages to the infrastructure sector.
- Currently, the asset quality in the non-CV / CE portfolio remains largely stable and the management is not unduly worried. However, remains watchful of the macroeconomic developments and the overall portfolio asset quality.
- The management indicated that they have adequately provided for the large media account (in both 1Q and 2QFY13), which fell into NPA category in 1QFY13.

### Other highlights

- The management has maintained its margin guidance of ~4.5%.
- The management remains hopeful of taking the cost to income ratio below 50% mark by next year.
- Total outstanding stressed assets portfolio acquired and provided for stood at INR4b. The embedded value of the same would be much higher.

### Valuation and view

- While the management indicated that the business sentiments seem to be changing post the slew of measures taken by the government, it remains cautious and maintains its loan growth guidance, which it toned down in 1QFY13. Slower growth and continuing asset quality risks (in absence of any change in the macroeconomic fundamentals) and higher base of FY12 (on the back of healthy recoveries and just 15bp credit cost) can put pressure on lending business profitability.
- Though the securities business witnessed some improvement in its revenues and profitability, sustainability of the same remains questionable. Sluggishness in profitability of capital market and asset mgmt business is likely to persist over next few quarters due to heightened competition, structural issues related to industry and regulatory changes. Overall, we expect profit growth to be muted at 15% CAGR over FY12-14 vs 40% over FY09-12.
- We expect consolidated EPS of INR28 in FY13 and INR33 in FY14 and consolidated BV of INR201 and INR234 in FY13 and FY14 respectively. KMB's RoA is likely to decline from 1.9% in FY12 to ~1.6% over FY13/14 and higher capitalization (Tier I ratio of ~15%) will keep RoEs subdued at ~15% over FY13/14. On a consolidated basis too, KMB is expected to report RoE's of ~15% over FY12-14.
- Stock trades at 3.1x and 2.7x FY13E and FY14E consolidated BV and 22x FY13E and 19x FY14E consolidated EPS. On back of rich valuations, we maintain our **Neutral** rating with SOTP based target price of INR500.



**KMB Group: Earnings Estimates (INR Million)**

	Business	FY10	FY11	FY12	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	5,611	8,182	10,850	12,051	14,365
Kotak Mahindra Prime	Auto loans, debt capital markets	1,664	3,179	3,849	4,402	5,293
Kotak Mahindra Investments	Primarily LAS	347	240	153	304	341
<b>Lending Business</b>		<b>7,622</b>	<b>11,600</b>	<b>14,852</b>	<b>16,757</b>	<b>20,000</b>
International subsidiaries	Asset management and inv. banking	799	509	-110	100	125
Kotak Mahindra AMC & Trustee Co	Mutual funds management	725	173	220	120	270
Kotak Investment Advisors	Alternate asset management	398	327	360	375	425
<b>Asset Management Business</b>		<b>1,921</b>	<b>1,009</b>	<b>470</b>	<b>595</b>	<b>820</b>
Kotak Securities	Broking and distribution	2,601	1,819	1,260	1,306	1,445
Kotak Mahindra Capital Company	Investment banking	239	519	60	224	273
<b>Capital Market Business</b>		<b>2,840</b>	<b>2,338</b>	<b>1,320</b>	<b>1,530</b>	<b>1,719</b>
<b>Consol. PAT excluding Kotak Life</b>		<b>12,382</b>	<b>14,948</b>	<b>16,642</b>	<b>18,882</b>	<b>22,540</b>
YoY Growth (%)		89	21	11	13	19
Kotak OM Life Insurance	Life insurance	692	1,014	2,030	2,030	2,335
Consolidation Adjust.		-4	-294	-349	-250	-250
<b>Consol. PAT Including Kotak Life</b>		<b>13,070</b>	<b>15,667</b>	<b>18,322</b>	<b>20,662</b>	<b>24,624</b>
YoY Growth (%)		100	20	17	13	19

Source: MOSL

**Kotak Group Earnings Snapshot (% of total)**

	Business	FY10	FY11	FY12E	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	43	52	59	58	58
Kotak Mahindra Prime	Auto loans, debt capital markets	13	20	21	21	21
Kotak Mahindra Investments	Primarily LAS	3	2	1	1	1
<b>Lending Business</b>		<b>58</b>	<b>74</b>	<b>81</b>	<b>81</b>	<b>81</b>
International subsidiaries	Asset management and inv. banking	6	3	-1	0	1
Kotak Mahindra AMC & Trustee Co	Mutual funds management	6	1	1	1	1
Kotak Investment Advisors	Alternate asset management	3	2	2	2	2
<b>Asset Management Business</b>		<b>15</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>3</b>
Kotak Securities	Broking and distribution	20	12	7	6	6
Kotak Mahindra Capital Company	Investment banking	2	3	0	1	1
<b>Capital Market Business</b>		<b>22</b>	<b>15</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Consol. PAT excluding Kotak Life</b>		<b>95</b>	<b>95</b>	<b>91</b>	<b>91</b>	<b>92</b>
Kotak OM Life Insurance	Life insurance	5	6	11	10	9
<b>Consol. PAT Including Kotak Life</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MOSL

**Kotak Mahindra: SOTP Valuation (FY14-based)**

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
<b>Lending Business</b>	<b>311.3</b>	<b>5.8</b>	<b>420</b>	<b>84</b>	
Kotak Mahindra Bank	253.2	4.7	342	68	2.5x FY14E Core NW, ~1.6% RoA and ~14% Core RoE
Kotak Prime (Car and other loans)	54.8	1.0	74	15	2x FY14E Net Worth, ~20% Core RoE
Kotak Investment Company (LAS)	3.3	0.1	5	1	1x FY14E Net Worth
<b>Asset Management Business</b>	<b>25.6</b>	<b>0.5</b>	<b>35</b>	<b>7</b>	
Domestic Mutual Fund	12.9	0.2	17	3	4% of FY14E Avg. AUM of INR323b
Alternative Assets	7.3	0.1	7	1	12% of FY14E AUM of INR60b
Offshore Funds	5.4	0.1	10	2	5% of FY14E AUM of USD2b
<b>Capital Markets related Business</b>	<b>20.8</b>	<b>0.4</b>	<b>28</b>	<b>6</b>	
Kotak Securities	17.3	0.3	23	5	12x FY14E Earnings
Kotak Investment Banking (KMCC)	3.5	0.1	5	1	1x FY14E Free Network
<b>Kotak Life Insurance</b>	<b>13.4</b>	<b>0.3</b>	<b>18</b>	<b>4</b>	15x FY14E NBAP, APE CAGR of ~15% in FY12-14
<b>Target Value</b>	<b>371.1</b>	<b>6.9</b>	<b>501</b>	<b>100</b>	<b>Implied 2.2x PBV and 15x PE FY14; ROE of 15.3%</b>
Current value / market price	463.4	8.6	626		
<b>Upside (%)</b>	<b>-19.9</b>		<b>-19.9</b>		

Source: MOSL

## Financials and Valuation

Income Statement (Standalone)					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	30,651	32,556	41,898	61,802	77,539	89,927
Interest Expense	15,466	13,975	20,922	36,677	46,602	52,496
<b>Net Interest Income</b>	<b>15,185</b>	<b>18,581</b>	<b>20,976</b>	<b>25,125</b>	<b>30,937</b>	<b>37,431</b>
Change (%)	23.9	22.4	12.9	19.8	23.1	21.0
Non Interest Income	2,736	6,282	7,805	9,773	10,751	12,862
<b>Net Income</b>	<b>17,922</b>	<b>24,864</b>	<b>28,781</b>	<b>34,898</b>	<b>41,688</b>	<b>50,294</b>
Change (%)	6.1	38.7	15.8	21.3	19.5	20.6
Operating Expenses	11,964	11,894	15,533	18,348	22,036	25,763
<b>Pre Provision Profits</b>	<b>5,958</b>	<b>12,970</b>	<b>13,248</b>	<b>16,550</b>	<b>19,652</b>	<b>24,531</b>
Change (%)	-11.1	117.7	2.1	24.9	18.7	24.8
Provisions (excl tax)	1,697	4,859	1,371	551	1,995	3,406
<b>PBT</b>	<b>4,261</b>	<b>8,111</b>	<b>11,877</b>	<b>15,999</b>	<b>17,657</b>	<b>21,126</b>
Tax	1,500	2,500	3,695	5,149	5,606	6,760
Tax Rate (%)	35.2	30.8	31.1	32.2	31.8	32.0
<b>Standalone PAT</b>	<b>2,761</b>	<b>5,611</b>	<b>8,182</b>	<b>10,850</b>	<b>12,051</b>	<b>14,365</b>
Change (%)	-6.1	103.2	45.8	32.6	11.1	19.2
<b>Consolidated PAT</b>	<b>6,524</b>	<b>13,070</b>	<b>15,667</b>	<b>18,322</b>	<b>20,662</b>	<b>24,624</b>
Change (%)	-34.2	100.3	19.9	16.9	12.8	19.2
<b>Equity Dividend (Incl tax)</b>	<b>278</b>	<b>297</b>	<b>462</b>	<b>517</b>	<b>604</b>	<b>720</b>
<b>Core PPP (Standalone)*</b>	<b>5,650</b>	<b>10,375</b>	<b>11,083</b>	<b>14,445</b>	<b>17,152</b>	<b>21,581</b>
Change (%)	15.0	83.6	6.8	30.3	18.7	25.8

\*Core PPP is (NII+Fee income-Opex)

Balance Sheet (Standalone)					(INR Million)	
Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	3,457	3,481	3,684	3,703	3,703	3,703
Reserves & Surplus	34,679	41,370	64,280	75,756	87,203	100,848
<b>Net Worth</b>	<b>38,136</b>	<b>44,851</b>	<b>67,965</b>	<b>79,459</b>	<b>90,906</b>	<b>104,551</b>
<b>Deposits</b>	<b>156,440</b>	<b>238,865</b>	<b>292,610</b>	<b>385,365</b>	<b>500,975</b>	<b>616,199</b>
Change (%)	-4.7	52.7	22.5	31.7	30.0	23.0
<b>of which CASA Dep</b>	<b>51,181</b>	<b>74,631</b>	<b>87,905</b>	<b>124,024</b>	<b>154,102</b>	<b>191,863</b>
Change (%)	9.6	45.8	17.8	41.1	24.3	24.5
Borrowings	67,340	61,405	117,239	165,955	183,075	218,939
Other Liabilities & Prov.	25,202	29,242	30,693	25,885	31,016	37,210
<b>Total Liabilities</b>	<b>287,119</b>	<b>374,363</b>	<b>508,507</b>	<b>656,665</b>	<b>805,972</b>	<b>976,899</b>
Current Assets	11,407	23,003	24,710	26,346	44,541	52,246
<b>Investments</b>	<b>91,102</b>	<b>125,127</b>	<b>171,214</b>	<b>215,668</b>	<b>248,018</b>	<b>285,221</b>
Change (%)	-0.3	37.3	36.8	26.0	15.0	15.0
<b>Loans</b>	<b>166,253</b>	<b>207,751</b>	<b>293,293</b>	<b>390,792</b>	<b>484,582</b>	<b>605,728</b>
Change (%)	6.9	25.0	41.2	33.2	24.0	25.0
Fixed Assets	2,134	4,276	4,256	4,500	4,632	4,665
Other Assets	16,223	14,207	15,033	19,359	24,199	29,039
<b>Total Assets</b>	<b>287,119</b>	<b>374,363</b>	<b>508,507</b>	<b>656,665</b>	<b>805,972</b>	<b>976,899</b>

Asset Quality (Standalone) (Excl. acquired NPA)					(%)	
GNPA (INR m)	4,475	4,983	3,618	4,778	6,263	9,712
NNPA (INR m)	2,055	2,572	1,461	2,243	3,432	4,939
GNPA Ratio	2.65	2.37	1.22	1.21	1.28	1.59
NNPA Ratio	1.24	1.24	0.50	0.57	0.71	0.82
PCR (Incl acquired NPA)	42.4	53.1	65.0	61.4	55.0	55.0
PCR (Excl acquired NPA)	54.1	48.4	59.6	53.0	45.2	49.1

E: MOSL Estimates

## Financials and Valuation

<b>Ratios (Standalone)</b>						
<b>Y/E March</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>
<b>Spreads Analysis (%)</b>						
Avg. Yield-Earning Assets	11.7	11.0	10.4	11.4	11.5	11.0
Avg. Yield on loans	15.5	13.5	12.8	14.2	13.7	13.0
Avg. Yield on Investments	6.1	6.7	6.5	6.8	7.4	7.2
Avg. Cost-Int. Bear. Liab.	6.9	5.3	5.9	7.6	7.5	6.9
Avg. Cost of Deposits	6.8	5.0	5.6	7.4	7.3	6.7
Interest Spread	4.7	5.6	4.5	3.8	3.9	4.1
Net Interest Margin	5.8	6.3	5.2	4.6	4.6	4.6
<b>Profitability Ratios (%)</b>						
Consolidated ROE	10.6	18.1	16.6	15.4	14.9	15.3
Standalone Core RoE	8.2	14.6	15.4	15.4	14.7	15.2
Standalone RoA	1.0	1.7	1.9	1.9	1.6	1.6
Int. Expense/Int.Income	50.5	42.9	49.9	59.3	60.1	58.4
Non Int. Inc./Net Income	15.3	25.3	27.1	28.0	25.8	25.6
<b>Asset-Liability Profile (%)</b>						
Loans/Deposit Ratio	106.3	87.0	100.2	101.4	96.7	98.3
Loans/(Deposits+Borrowings)	74.3	69.2	71.6	70.9	70.8	72.5
CASA Ratio	32.7	31.2	30.0	32.2	30.8	31.1
Investment/Deposit Ratio	58.2	52.4	58.5	56.0	49.5	46.3
Invest/(Deposits+Borrowings)	40.7	41.7	41.8	39.1	36.3	34.2
CAR	20.0	18.3	19.9	17.5	17.2	16.4
Tier 1	16.1	15.4	18.0	15.7	15.4	14.7
<b>Valuation</b>						
Book Value (INR)	55.2	64.4	92.2	107.3	122.7	141.2
BV Growth (%)	7.6	16.8	43.2	16.3	14.4	15.0
<b>AP/BV (x)</b>				<b>4.7</b>	<b>4.0</b>	<b>3.3</b>
Consol BV (INR)	94.3	113.6	148.8	174.2	201.3	233.5
BV Growth (%)	11.7	20.4	30.9	17.1	15.5	16.0
<b>Price-Consol BV (x)</b>				<b>3.6</b>	<b>3.1</b>	<b>2.7</b>
Adjusted BV (INR)*	48.6	57.5	86.5	100.9	115.3	132.4
AP/ABV (x)				5.0	4.2	3.5
Adjusted Consol BV	92.3	111.0	147.4	172.1	198.0	228.9
<b>Price-Consol ABV (x)</b>				<b>3.6</b>	<b>3.2</b>	<b>2.7</b>
Standalone EPS (Rs)	3.7	7.7	10.5	14.2	15.7	18.7
EPS Growth (%)	-6.9	105.8	36.4	35.3	10.8	19.2
<b>Price-Earnings (x)</b>				<b>35.6</b>	<b>31.1</b>	<b>24.9</b>
Consol EPS (INR)	9.4	18.8	21.3	24.7	27.9	33.2
Con. EPS Growth (%)	-34.4	98.9	13.3	16.3	12.8	19.2
<b>Price-Concol EPS (x)</b>				<b>25.3</b>	<b>22.4</b>	<b>18.8</b>
Dividend Per Share (INR)	0.4	0.4	0.5	0.6	0.7	0.8
<b>Dividend Yield (%)</b>				<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

E: MOSL Estimates

\* For Investments in Subs and NPA, All nos are standalone unless specified

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