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Rating	Accumulate
Price	Rs422
Target Price	Rs485
Implied Upside	14.9%
Sensex	18,211

(Prices as on May 05, 2011)
Trading data

Market Cap. (Rs bn)	310.9
Shares o/s (m)	736.8
3M Avg. Daily value (Rs m)	594.3

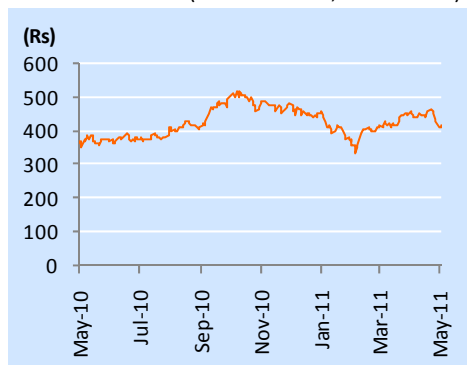
Major shareholders

Promoters	45.57%
Foreign	25.40%
Domestic Inst.	5.44%
Public & Other	23.59%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.4)	(14.6)	13.2
Relative	0.1	(1.2)	6.6

Price Performance (RIC: KTKM.BO, BB: KMB IN)



Source: Bloomberg

■ **Provision write-back boosts bottom-line; asset quality improves:** Kotak Mahindra Bank (KMB) reported consolidated PAT of Rs4.9bn, up 17.4% YoY and 28.1% QoQ and standalone PAT of Rs2.5bn, up 22.8% YoY and 32.4% QoQ; both higher than our estimates. For standalone banking operations, net interest income (NII) grew by healthy 18.2% YoY and 8.8% QoQ, driven by strong 41.2% YoY advances growth. Deposits grew by 22.5% YoY and 3.4% QoQ. Notably, CASA ratio improved to 30.0% from 27.8% in the previous quarter. Reported consolidated NIM improved by 20bps QoQ to 5.6%. However, adjusting for the impact of strong recovery from an NPA account in Kotak Mahindra Prime in Q3FY11, margins remained flattish at ~5.6% on a QoQ basis. Non-interest income increased by 15.7% QoQ on account of a strong 85.9% QoQ increase in income from treasury operations. On account of higher recoveries during the quarter, (~Rs1.0bn) the bank enjoyed a provision write-back of Rs72m, which boosted bank's profitability. Negligible slippages, coupled with higher recoveries during the quarter, resulted into a steep 18.9% QoQ decline in gross NPAs. Provision coverage declined to 65.0% from 68.4% in Q3FY11. However, with technical write-offs, it declined to 70% from 72% last quarter.

■ **Strong comeback in IB business; other capital market related businesses remain weak:** Strong bounce back was seen in the IB business, with revenues nearly doubling on a QoQ basis, while profit for the quarter alone was 37% higher than the profit recorded during the 9MFY11 period. Kotak Prime continues to grow strongly and maintains healthy profitability. In the life insurance business, although the gross premium growth seems to be affected by the new ULIP guidelines, the profitability improves, both on a YoY as well as on a QoQ basis. Securities business suffered due to sequentially lower volumes and margin pressures, while higher promotion expenses affected the profitability of the asset management business.

Key financials (Y/e March) (Cons)	2010	2011E	2012E	2013E
Net interest income (Rs m)	28,283	35,069	37,245	45,439
Growth (%)	19.1	24.0	6.2	22.0
Operating profit (Rs m)	24,136	23,950	34,575	38,043
PAT (Rs m)	13,070	15,667	18,498	22,303
EPS (Rs)	17.7	21.3	25.1	30.3
Growth (%)	100.3	19.9	18.1	20.6
Net DPS (Rs)	0.4	0.5	0.8	1.0

Source: Company Data; PL Research

Profitability & Valuation (Cons)	2010	2011E	2012E	2013E
NIM (%)*	5.4	5.1	4.8	5.0
RoAE (%)	18.5	16.9	15.8	16.7
RoAA (%)	2.8	2.6	2.4	2.8
P / BV (x)	4.1	2.7	2.4	2.1
P / ABV (x)	4.1	2.7	2.4	2.1
PE (x)	22.2	18.5	15.7	13.0
Net dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company Data; PL Research

* Calculated on average assets

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- **Valuation and Outlook:** KMB continues to perform well in its lending operations. Sequentially stable margin was one of the key positives during the quarter. However, margin pressures are likely to emerge as the rising cost of funds catches up, with yields remaining largely capped due to bank's focus on expanding corporate loan book. Nevertheless, this augurs well in terms of lower provisioning requirement for the bank. Moreover, the bank has been performing exceedingly well on the asset quality front and we do not expect any negative surprises, given its lower restructured portfolio. Consequently, we believe KMB is a safer bet in the current environment. We have revised our earnings estimates downwards for the standalone banking business by 2.9% and 11.8% for FY12E and FY13E, respectively. We maintain our '**Accumulate**' rating, with a revised price target of Rs485.

Exhibit 1: Q4FY11 Result Overview – Consolidated (Rs m)

Y/e March	Q4FY11	Q4FY10	YoY Gr. (%)	Q3FY11	FY11	FY10	YoY Gr. (%)
Interest Income	17,227	12,478	38.1	16,538	61,414	46,012	33.5
Interest Expended	7,744	4,639	66.9	7,309	26,345	17,729	48.6
Net Interest Income	9,483	7,839	21.0	9,229	35,069	28,283	24.0
Non-Interest Income	13,051	16,976	(23.1)	10,147	48,223	53,847	(10.4)
Treasury	466	546	(14.7)	67	164	197	(16.7)
CEB	3,340	3,199	4.4	3,017	12,832	12,837	(0.0)
Net total Income	22,534	24,815	(9.2)	19,376	83,292	82,130	1.4
Operating Expenses	15,489	17,405	(11.0)	13,417	59,342	57,994	2.3
Employee	4,005	3,599	11.3	3,967	15,223	12,610	20.7
Policy holders reserves	7,177	9,730	(26.2)	5,370	28,086	31,189	(9.9)
Other operating expenses	4,307	4,075	5.7	4,080	16,032	14,196	12.9
Operating profit	7,046	7,410	(4.9)	5,959	23,950	24,136	(0.8)
Provisions	(86)	1,218	(107.0)	534	1,476	5,107	(71.1)
Profit before tax	7,131	6,192	15.2	5,425	22,474	19,029	18.1
Tax	2,077	1,933	7.4	1,615	6,782	5,755	17.8
<i>Effective Tax Rate (%)</i>	<i>29.1</i>	<i>31.2</i>		<i>29.8</i>	<i>30.2</i>	<i>30.2</i>	
Profit After Tax (before minority int.)	5,055	4,259	18.7	3,810	15,692	13,274	18.2
Less: Share of minority interest	185	115	60.3	61	264	180	46.4
Add: Share in profit of associates	44	42	4.9	87	239	(24)	NM
Profit After Tax (after minority int.)	4,914	4,186	17.4	3,836	15,667	13,070	19.9
Asset Quality							
Gross NPAs	7,120	9,167	(22.3)	8,637	7,120	9,167	(22.3)
<i>% Gross NPAs</i>	<i>1.71</i>	<i>3.04</i>		<i>2.12</i>	<i>1.71</i>	<i>3.04</i>	
Net NPAs	2,427	4,408	(45.0)	2,747	2,427	4,408	(45.0)
<i>% Net NPAs</i>	<i>0.59</i>	<i>1.48</i>		<i>0.69</i>	<i>0.59</i>	<i>1.48</i>	
<i>Provision Coverage (%)</i>	<i>65.9</i>	<i>51.9</i>		<i>68.2</i>	<i>65.9</i>	<i>51.9</i>	
<i>% Gross NPAs - excl. stressed assets</i>	<i>1.13</i>	<i>2.16</i>		<i>1.49</i>	<i>1.13</i>	<i>2.16</i>	
<i>% Net NPAs - excl. stressed assets</i>	<i>0.43</i>	<i>1.14</i>		<i>0.51</i>	<i>0.43</i>	<i>1.14</i>	
Capital Adequacy (%)							
<i>CAR</i>	<i>19.5</i>	<i>19.3</i>		<i>18.7</i>	<i>19.5</i>	<i>19.3</i>	
<i>Tier 1</i>	<i>18.1</i>	<i>17.3</i>		<i>16.5</i>	<i>18.1</i>	<i>17.3</i>	
<i>NIM – Reported (%)</i>	<i>5.60</i>	<i>6.10</i>		<i>5.40</i>	<i>5.60</i>	<i>6.10</i>	
Balance Sheet Items							
Deposits	273,130	218,192	25.2	261,966	273,130	218,192	25.2
Advances	412,421	297,242	38.7	400,963	412,421	297,242	38.7
Investments	182,791	147,624	23.8	157,690	182,791	147,624	23.8
Total Assets	595,212	444,866	33.8	558,653	595,212	444,866	33.8

Source: Company Data, PL Research

Exhibit 2: Q4FY11 Result Overview – Standalone (Rs m)

Y/e March	Q4FY11	Q4FY10	YoY Gr. (%)	Q3FY11	FY11	FY10	YoY Gr. (%)
Interest Income	12,326	8,808	40.0	11,354	43,036	32,556	32.2
Interest Expense	6,111	3,547	72.3	5,639	20,585	13,975	47.3
Net Interest Income	6,216	5,261	18.2	5,715	22,451	18,581	20.8
Non-Interest Income	1,913	2,515	(23.9)	1,653	6,330	6,282	0.8
Treasury	1,065	1,019	4.5	573	3,048	3,675	(17.0)
CEB	848	1,496	(43.3)	1,081	3,282	2,608	25.9
Net total Income	8,129	7,776	4.5	7,368	28,781	24,864	15.8
Operating Expenses	4,449	3,419	30.1	4,221	15,533	11,894	30.6
Employee	2,183	1,740	25.5	1,985	7,511	5,558	35.1
Other operating expenses	2,266	1,680	34.9	2,236	8,022	6,336	26.6
Operating profit	3,680	4,356	(15.5)	3,147	13,248	12,970	2.1
Core operating profits	2,615	3,337	(21.6)	2,575	10,200	9,295	9.7
Provisions	(72)	1,276	(105.6)	427	1,371	4,859	(71.8)
Profit before tax	3,751	3,080	21.8	2,721	11,877	8,111	46.4
Tax	1,264	1,055	19.8	842	3,695	2,500	47.8
<i>Effective Tax Rate (%)</i>	<i>33.7</i>	<i>34.3</i>		<i>30.9</i>	<i>31.1</i>	<i>30.8</i>	
Net Profit After Tax	2,487	2,025	22.8	1,879	8,182	5,611	45.8
Asset Quality							
Gross NPAs	6,035	7,673	(21.4)	7,442	6,035	7,673	(21.4)
<i>% Gross NPAs</i>	<i>2.03</i>	<i>3.62</i>		<i>2.53</i>	<i>2.03</i>	<i>3.62</i>	
Net NPAs	2,112	3,602	(41.4)	2,353	2,112	3,602	(41.4)
<i>% Net NPAs</i>	<i>0.72</i>	<i>1.72</i>		<i>0.81</i>	<i>0.72</i>	<i>1.72</i>	
<i>Provision Coverage (%)</i>	<i>65.0</i>	<i>53.1</i>		<i>68.4</i>	<i>65.0</i>	<i>53.1</i>	
Capital Adequacy (%)							
<i>CAR</i>	<i>19.9</i>	<i>18.4</i>		<i>18.7</i>	<i>19.9</i>	<i>18.4</i>	
<i>Tier 1</i>	<i>18.0</i>	<i>15.4</i>		<i>16.5</i>	<i>18.0</i>	<i>15.4</i>	
<i>NIM – Calculated (%)</i>	<i>5.29</i>	<i>6.24</i>		<i>5.47</i>	<i>5.34</i>	<i>6.30</i>	
Balance Sheet Items							
Deposits	292,610	238,865	22.5	282,880	292,610	238,865	22.5
CASA	87,905	74,631	17.8	78,682	87,905	74,631	17.8
<i>CASA (%)</i>	<i>30.0</i>	<i>31.2</i>		<i>27.8</i>	<i>30.0</i>	<i>31.2</i>	
Advances	293,293	207,751	41.2	288,850	293,293	207,751	41.2
Investments	171,214	140,750	21.6	142,867	171,214	140,750	21.6
Total Assets	508,507	332,877	52.8	431,717	508,507	332,877	52.8

Source: Company Data, PL Research

Exhibit 3: Trend in performance of Kotak Mahindra Bank and its key subsidiaries (Rs m)

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Kotak Bank (Standalone)						
NII	4,867	5,260	5,082	5,438	5,715	6,216
<i>% y-o-y growth</i>	<i>27.2</i>	<i>25.8</i>	<i>24.3</i>	<i>24.6</i>	<i>17.4</i>	<i>18.2</i>
PAT	1,424	2,025	1,869	1,947	1,879	2,487
<i>% y-o-y growth</i>	<i>100.2</i>	<i>97.4</i>	<i>107.0</i>	<i>54.6</i>	<i>31.9</i>	<i>22.8</i>
Remarks	Healthy operating performance; provision write back boosts bottom-line; asset quality improves					
Kotak Mahindra Prime						
Revenues	2,546	2,735	2,999	3,158	3,840	3,651
<i>% y-o-y growth</i>	<i>7.8</i>	<i>7.4</i>	<i>33.9</i>	<i>31.5</i>	<i>50.8</i>	<i>33.5</i>
PAT	494	586	760	613	937	869
<i>% y-o-y growth</i>	<i>48.5</i>	<i>24.7</i>	<i>302.1</i>	<i>55.2</i>	<i>89.5</i>	<i>48.3</i>
Advances - Auto (Rs bn)	60	65	71	78	79	85
Advances - Others (Rs bn)	14	18	20	22	25	27
Remarks	Overall loan growth remains healthy; For FY11 profits nearly double on a YoY basis					
Kotak Mahindra Old Mutual Life Insurance						
Gross Premium	7,116	11,371	5,577	7,348	6,108	10,721
<i>% y-o-y growth</i>	<i>39.1</i>	<i>25.5</i>	<i>28.7</i>	<i>25.4</i>	<i>(14.2)</i>	<i>(5.7)</i>
PAT	193	444	(69)	134	236	712
<i>% y-o-y growth</i>	<i>105.6</i>	<i>11.8</i>	<i>(727.3)</i>	<i>204.5</i>	<i>22.1</i>	<i>60.4</i>
Remarks	Although gross premium declined by 5.7% YoY, profitability improved considerably as PAT grew by 60% YoY and nearly trebled on a QoQ basis					
Kotak Mahindra Capital Company						
Revenues	189	382	339	335	301	603
<i>% y-o-y growth</i>	<i>31.3</i>	<i>324.4</i>	<i>53.4</i>	<i>50.9</i>	<i>59.3</i>	<i>57.9</i>
PAT	16	134	69	73	76	300
<i>% y-o-y growth</i>	<i>(184.2)</i>	<i>(452.6)</i>	<i>42.9</i>	<i>78.0</i>	<i>375.0</i>	<i>123.9</i>
Remarks	Strong bounce back seen in the IB business with revenues nearly doubling QoQ; meanwhile Q4 PAT was 37% higher than 9MFY11 PAT					

Source: Company Data, PL Research

Exhibit 4: Trend in performance of Kotak Mahindra Bank and its key subsidiaries (Rs m)

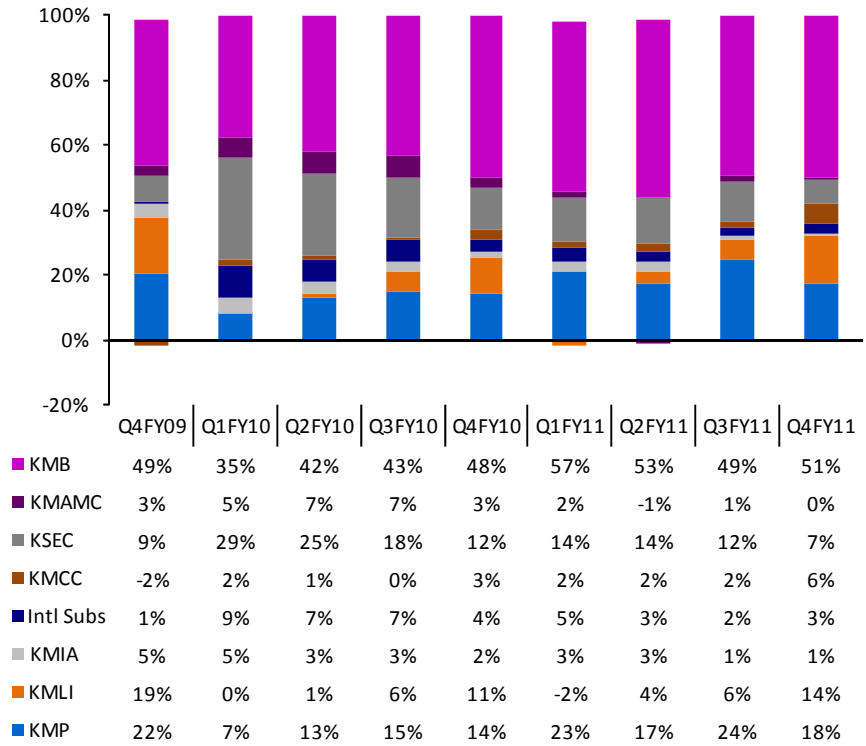
Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Kotak Securities						
Revenues	1,927	1,872	1,744	1,980	1,957	1,694
<i>% y-o-y growth</i>	<i>84.4</i>	<i>(4.1)</i>	<i>(21.9)</i>	<i>(15.6)</i>	<i>1.6</i>	<i>(9.5)</i>
PAT	592	508	474	517	466	362
<i>% y-o-y growth</i>	<i>1,380.0</i>	<i>182.2</i>	<i>(36.2)</i>	<i>(31.9)</i>	<i>(21.3)</i>	<i>(28.7)</i>
Average Daily Volumes (Rs bn)	38	36	40	46	52	46
<i>Market Share (%)</i>	<i>4.2</i>	<i>4.1</i>	<i>3.7</i>	<i>3.7</i>	<i>3.7</i>	<i>3.4</i>
Remarks	Securities business continues to remain under pressure in line with the industry trend as volumes, revenues and PAT declined by 11%, 13% and 22% on a QoQ basis respectively					
Kotak Mahindra AMC						
Revenues	507	395	375	166	239	301
<i>% y-o-y growth</i>	<i>96.5</i>	<i>55.5</i>	<i>0.5</i>	<i>(65.5)</i>	<i>(52.9)</i>	<i>(23.8)</i>
PAT	229	130	74	(40)	56	16
<i>% y-o-y growth</i>	<i>281.7</i>	<i>83.1</i>	<i>(46.8)</i>	<i>(120.5)</i>	<i>(75.5)</i>	<i>(87.7)</i>
AUM (Rs bn)	414	373	285	284	276	323
- Equity	54	50	45	44	40	38
- Debt	360	323	240	240	236	285
Remarks	Profitability in asset management business deteriorated due to higher promotion expenses during the quarter. As a result of which, despite 26% QoQ increase in revenues, PAT declined by 71% QoQ					
Kotak Investment Advisors Limited (KIAL)						
Revenues	245	244	248	221	231	261
<i>% y-o-y growth</i>	<i>(16.9)</i>	<i>(18.4)</i>	<i>(2.7)</i>	<i>(10.5)</i>	<i>(5.7)</i>	<i>7.0</i>
PAT	115	71	108	106	54	59
<i>% y-o-y growth</i>	<i>(13.8)</i>	<i>(30.4)</i>	<i>(8.2)</i>	<i>11.6</i>	<i>(52.9)</i>	<i>(16.9)</i>
Commitments (Rs bn)	55	1	54	53	53	50
Remarks	Revenues as well as profits remained largely flattish on a sequential basis					
International Subsidiaries						
AUM (Rs bn)	1.6	1.6	1.6	2.0	2.0	2.0
<i>% y-o-y growth</i>	<i>23.1</i>	<i>45.5</i>	<i>-</i>	<i>11.1</i>	<i>25.0</i>	<i>25.0</i>
PAT	226	153	157	123	82	150
<i>% y-o-y growth</i>	<i>204.9</i>	<i>705.3</i>	<i>(32.0)</i>	<i>(40.9)</i>	<i>(63.7)</i>	<i>(2.0)</i>
Remarks	AUMs remain flat QoQ; while profits nearly doubled on a QoQ basis due to absence of promotional expenses incurred in the previous quarter					

Source: Company Data, PL Research

Exhibit 5: Trend in Consolidated PAT contribution by various subsidiaries

The lending business continues to remain the dominant contributor to the consolidated bottom-line. In line with the historical trend, profitability of the life insurance business improved during last quarter and hence its contribution has increased QoQ.

Given the headwinds in the capital market and asset management businesses, contribution from the securities and the asset management businesses has steadily declined over a period of time. As a result of the strong comeback made by the IB business, its contribution to consolidated bottom-line improved considerably after remaining fairly stagnant for past 4-5 quarters.



Source: Company Data, PL Research

Exhibit 6: SOTP Valuation

Subsidiaries		Basis (Rs bn)		Multiple	KMB Rs. Per share		% of SOTP	
		FY12E	FY13E		FY12E	FY13E	FY12E	FY13E
Kotak Securities - KSEC	Earnings	2.1	2.5	13.0	37	44	9%	9%
KMCC - KMCC	Earnings	0.2	0.2	13.0	3	4	1%	1%
Kotak AMC - KAMC	AUMs	271.4	325.7	5.0%	18	22	4%	5%
Pvt Equity - KMIA	AUMs	66.5	79.8	8.0%	7	9	2%	2%
Kotak Prime - KMP	ABV	15.0	18.0	2.5	51	61	12%	13%
Investments - KMI	ABV	2.7	3.2	1.5	5	7	1%	1%
International Subs	Earnings	0.4	0.5	13.0	8	9	2%	2%
Kotak UK - Kotak UK	Earnings	0.2	0.2	13.0	3	4	1%	1%
Kotak OM Life - KMLI*	App Value	34.3	41.1	-	29	35	7%	7%
Value of subsidiaries per share					163	195		
KM Bank	ABV **	69.7	79.1	2.7	255	290	61%	60%
SOTP - target price					418	485	100%	100%

Source: PL Research

* post 15% holding company discount for its life insurance venture

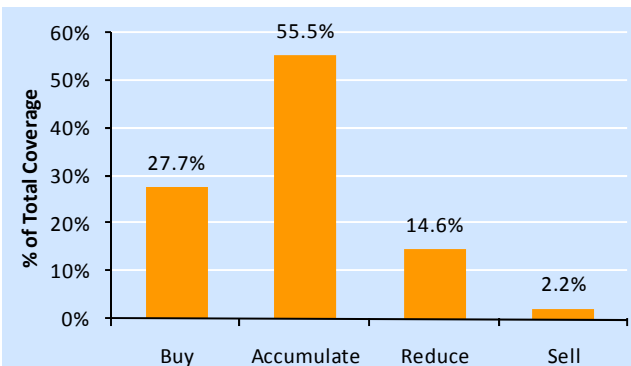
** ABV - reduced by Rs 6 per share for investments in subsidiaries and outstanding NNPA's

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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