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Rating	Accumulate
Price	Rs502
Target Price	Rs516
Implied Upside	2.8%
Sensex	19,872

(Prices as on October 20, 2010)

Trading data

Market Cap. (Rs bn)	349.3
Shares o/s (m)	696.3
3M Avg. Daily value (Rs m)	935.8

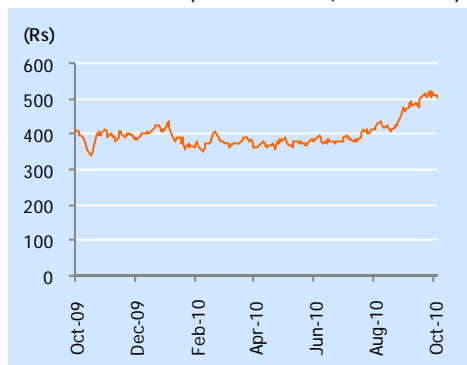
Major shareholders

Promoters	45.79%
Foreign	25.03%
Domestic Inst.	6.23%
Public & Other	22.95%

Stock Performance

(%)	1M	6M	12M
Absolute	5.7	37.2	22.2
Relative	5.8	14.4	21.8

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



Source: Bloomberg

■ **Healthy business growth, steady operating performance:** Kotak Mahindra Bank (KMB) reported consolidated PAT of Rs3.6bn, up 22.7% YoY and 13.6% QoQ and standalone PAT of Rs1.9bn, up 54.6% YoY and 4.2% QoQ. This was tad below our as well as street expectations. Consolidated advances grew by healthy 40.1% YoY and 13.8% QoQ led by a sharp sequential increase (19.7% QoQ) in corporate advances followed by strong traction in mortgages (up 68.5% YoY and 12.9% QoQ), CV and construction equipment (up 35.5% YoY and 12.6% QoQ). However, personal loan book continued to de-grow by recording 32.4% YoY and 2.8% QoQ. Deposits grew strongly by 49.5% YoY and 17.6% QoQ. Notably, CASA deposits grew much faster by 35.5% QoQ resulting in a sharp over 420bps QoQ improvement in CASA ratio to 31.9%. NIM remained largely stable QoQ at 5.6%. Provisioning expenses were down 14% QoQ lower as no material incremental slippages occurred during the quarter. Asset quality improved as GNPA's declined by 3.5% QoQ. Provision coverage improved further to 66.3% from 60.4% in Q1FY11 and with technical write offs it stood in excess of 70%.

■ **One time provisions affect subsidiary profits:** The asset management business reported a net loss of Rs40mn on account of onetime MTM hit through P&L pertaining to the investments held by the company in liquid funds. Kotak Mahindra Prime had a strong quarter in terms of disbursals; however, a onetime non auto related provision restricted bottomline growth. Insurance business reported strong set of numbers on the back of larger volumes before the revised ULIP guidelines took effect. Investment banking business outlook has improved.

■ **Outlook & revision:** Kotak Bank continues to perform well in its lending operations. Although Q2FY11 subsidiary performance was affected by certain one off items, the outlook for most of its subsidiaries (except for insurance where some uncertainty remains) remains positive. We are revising our consolidated earnings (ex-insurance) estimates upwards by ~6.0% for FY11 and FY12 each primarily on account of ~9.0% increase in our estimates for the standalone banking business on the back of continued growth momentum and lower provisions. Consequently, we revise our SOTP price target to Rs516. We maintain our 'Accumulate' rating on the stock.

Key financials (Y/e March)	2009	2010	2011E	2012E
Net interest income (Rs m)	23,742	28,283	29,970	35,966
Growth (%)	29.6	19.1	6.0	20.0
Operating profit (Rs m)	12,774	24,136	27,572	33,769
PAT (Rs m)	6,527	13,274	16,967	20,406
EPS (Rs)	19.1	38.1	49.0	61.6
Growth (%)	(38.4)	99.7	28.8	25.6
Net DPS (Rs)	0.4	0.4	0.8	1.1

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
NIM (%)	5.4	5.4	5.3	5.2
RoAE (%)	10.7	18.8	21.5	22.6
RoAA (%)	1.6	2.9	3.1	3.1
P / BV (x)	5.3	4.6	3.8	3.2
P / ABV (x)	5.3	4.6	3.8	3.2
PE (x)	53.0	26.4	20.4	16.9
Net dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company Data; PL Research

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**Q2FY11 Result Overview (Consolidated) (Rs m)**

Y/e March	Q2FY11	Q2FY10	YoY	Q1FY11	H1FY11	H1FY10	YoY
Interest Income	14,493	11,060	31.0	13,157	27,649	21,687	27.5
Interest Expended	6,060	4,264	42.1	5,233	11,293	8,641	30.7
Net Interest Income	8,432	6,796	24.1	7,924	16,356	13,046	25.4
Non-Interest Income	14,917	12,059	23.7	10,109	25,026	24,814	0.9
Treasury	508	103	393.3	0	51	10	393.3
CEB	3,213	3,463	(7.2)	3,262	6,475	6,462	0.2
Net total Income	23,349	18,855	23.8	18,032	41,382	37,860	9.3
Operating Expenses	17,664	13,828	27.7	12,772	30,436	27,200	11.9
Employee	3,732	3,061	21.9	3,519	7,251	5,888	23.2
Policy holders reserves	9,928	7,220	37.5	5,612	15,539	14,827	
Other operating expenses	4,004	3,547	12.9	3,642	7,646	6,485	17.9
Operating profit	5,685	5,027	13.1	5,260	10,945	10,660	2.7
Provisions	474	796	(40.4)	553	1,027	2,633	(61.0)
Profit before tax	5,210	4,231	23.1	4,707	9,918	8,027	23.6
Tax	1,580	1,272	24.2	1,511	3,090	2,342	32.0
Net Profit after tax (before minority int)	3,631	2,959	22.7	3,197	6,827	5,685	20.1
Less: Share of minority interest	35	11		(18)	17	14	
Add: Share in profit of associates	45	50		62	108	(100)	
Net Profit after tax (after minority int)	3,641	2,998	21.5	3,277	6,918	5,571	24.2
Asset Quality							
Gross NPA's	9,043	8,914	1.4	10,716	9,043	8,914	1.4
<i>Gross NPA's % of advances</i>	<i>2.37</i>	<i>3.68</i>		<i>3.94</i>	<i>2.37</i>	<i>3.68</i>	
Net NPA's	3,320	5,614	(40.9)	6,403	3,320	5,614	(40.9)
<i>Net NPA's % of advances</i>	<i>0.88</i>	<i>2.35</i>		<i>2.39</i>	<i>0.88</i>	<i>2.35</i>	
Provision Coverage	63.3	37.0		40.2	63.3	37.0	
Capital Adequacy							
<i>CAR</i>	<i>17.2</i>	<i>20.7</i>		<i>16.9</i>	<i>17.2</i>	<i>20.7</i>	
<i>Tier 1</i>	<i>15.7</i>	<i>18.3</i>		<i>15.2</i>	<i>15.7</i>	<i>18.3</i>	
<i>NIM - reported</i>	<i>5.60</i>	<i>5.90</i>		<i>5.70</i>	<i>5.60</i>	<i>6.00</i>	
Balance Sheet Items							
Deposits	264,095	169,148	56.1	222,875	264,095	169,148	56.1
Advances	375,149	267,721	40.1	329,782	375,149	267,721	40.1
Investments	148,729	100,560	47.9	163,736	148,729	100,560	47.9
Total Assets	523,878	368,281	42.2	493,518	523,878	368,281	42.2

Source: Company Data, PL Research



Q2FY11 Result Overview (Standalone) (Rs m)

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
Interest Income	10,147	7,751	30.9	9,208	19,355	15,425	25.5
Interest on Advances	7,761	5,904	31.5	6,940	14,702	12,001	22.5
Income on investments	2,345	1,845	27.1	2,255	4,600	3,417	34.6
Bal with RBI & others	41	3	31.5	13	54	6	22.5
Interest Expense	4,709	3,387	39.0	4,126	8,835	6,970	26.8
Net Interest Income	5,438	4,365	24.6	5,082	10,520	8,454	24.4
Non-Interest Income	1,393	1,137	22.5	1,371	2,764	2,406	14.9
Net total Income	6,832	5,502	24.2	6,453	13,284	10,861	22.3
Operating Expenses	3,564	3,013	18.3	3,299	6,863	5,529	24.1
Employee	1,687	1,280	31.8	1,656	3,344	2,492	34.2
Other operating expenses	1,877	1,733	8.3	1,643	3,520	3,037	15.9
Operating profit	3,268	2,489	31.3	3,153	6,421	5,332	20.4
Core operating profits	2,204	1,813	21.6	2,090	5,010	3,740	34.0
Provisions	455	819	(44.4)	561	1,016	2,393	(57.5)
Profit before tax	2,812	1,670	68.5	2,592	5,405	2,938	83.9
Tax	865	411	110.8	723	1,589	776	104.7
Net Profit after tax	1,947	1,259	54.6	1,869	3,816	2,162	76.5
Asset Quality							
Gross NPA's	7,511	8,675	(13.4)	7,782	7,511	8,675	(13.4)
<i>Gross NPA's % of customer assets</i>	<i>2.78</i>	<i>4.33</i>		<i>3.29</i>	<i>2.78</i>	<i>4.33</i>	
Net NPA's	2,530	5,157	(50.9)	3,082	2,530	5,157	(50.9)
<i>Net NPA's % of customer assets</i>	<i>0.95</i>	<i>2.62</i>		<i>1.33</i>	<i>0.95</i>	<i>2.62</i>	
Provision Coverage	66.3	40.6		60.4	66.3	40.6	
Capital Adequacy							
<i>CAR</i>	<i>19.4</i>	<i>19.2</i>		<i>16.8</i>	<i>19.4</i>	<i>19.2</i>	
<i>Tier 1</i>	<i>17.2</i>	<i>16.9</i>		<i>14.2</i>	<i>17.2</i>	<i>16.9</i>	
<i>NIM - calculated</i>	<i>5.49</i>	<i>5.84</i>		<i>5.64</i>	<i>5.31</i>	<i>5.66</i>	
Balance Sheet Items							
Deposits	282,870	189,162	49.5	240,578	282,870	189,162	49.5
CASA	90,179	54,565	65.3	66,573	90,179	54,565	65.3
<i>CASA (%)</i>	<i>31.9</i>	<i>28.8</i>		<i>27.7</i>	<i>31.9</i>	<i>28.8</i>	
Advances	265,066	197,044	34.5	231,886	265,066	197,044	34.5
Investments	139,352	112,168	24.2	156,130	139,352	112,168	24.2
Total Assets	404,418	309,212	30.8	388,016	404,418	309,212	30.8

Source: Company Data, PL Research



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

Y/e March	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Kotak Bank (Standalone)						
NII	4,090	4,365	4,867	5,260	5,082	5,438
<i>% y-o-y growth</i>	<i>16.0</i>	<i>19.4</i>	<i>27.2</i>	<i>25.8</i>	<i>24.3</i>	<i>24.6</i>
PAT	903	1,259	1,424	2,025	1,869	1,947
<i>% y-o-y growth</i>	<i>65.6</i>	<i>163.0</i>	<i>100.2</i>	<i>97.4</i>	<i>107.0</i>	<i>54.6</i>
Remarks	Healthy operating performance and lower credit costs boosted bottomline					
Kotak Mahindra Prime						
Revenues	2,239	2,401	2,546	2,735	2,999	3,158
<i>% y-o-y growth</i>	<i>(5.7)</i>	<i>(5.5)</i>	<i>7.8</i>	<i>7.4</i>	<i>33.9</i>	<i>31.5</i>
PAT	189	395	494	586	760	613
<i>% y-o-y growth</i>	<i>(54.2)</i>	<i>11.6</i>	<i>48.5</i>	<i>24.7</i>	<i>302.1</i>	<i>55.2</i>
Advances - Auto (Rs bn)	49	55	60	65	71	78
Advances - Others (Rs bn)	9	13	14	18	20	22
Remarks	Healthy growth trend in auto advances continues, but one time non auto related provisions marred bottomline growth					
Kotak Mahindra Old Mutual Life Insurance						
Gross Premium	4,334	5,859	7,116	11,371	5,577	7,348
<i>% y-o-y growth</i>	<i>8.3</i>	<i>11.5</i>	<i>39.1</i>	<i>25.5</i>	<i>28.7</i>	<i>25.4</i>
PAT	11	44	193	444	(69)	134
<i>% y-o-y growth</i>	<i>(102.8)</i>	<i>(13.7)</i>	<i>105.6</i>	<i>11.8</i>	<i>(727.3)</i>	<i>204.5</i>
Remarks	Strong sequential premium growth before revised ULIP guidelines took effect; however outlook for second half remains hazy					
Kotak Mahindra Capital Company						
Revenues	221	222	189	382	339	335
<i>% y-o-y growth</i>	<i>(47.1)</i>	<i>(31.9)</i>	<i>31.3</i>	<i>324.4</i>	<i>53.4</i>	<i>50.9</i>
PAT	48	41	2	134	69	73
<i>% y-o-y growth</i>	<i>(49.7)</i>	<i>(53.9)</i>	<i>(108.3)</i>	<i>(452.6)</i>	<i>42.9</i>	<i>78.0</i>
Remarks	Industry outlook has improved and deal pipeline remains strong; could see some spill over of revenues in the coming quarters					

Source: Company Data, PL Research



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

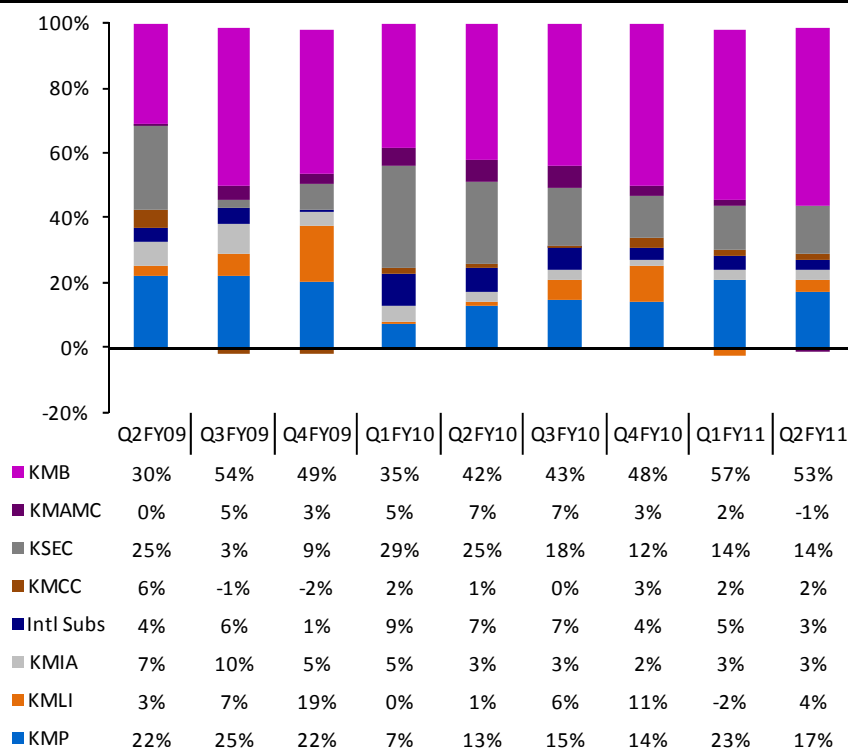
Y/e March	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Kotak Securities						
Revenues	2,234	2,345	1,927	1,872	1,744	1,980
<i>% y-o-y growth</i>	<i>10.4</i>	<i>7.7</i>	<i>84.4</i>	<i>(4.1)</i>	<i>(21.9)</i>	<i>(15.6)</i>
PAT	743	759	592	508	474	517
<i>% y-o-y growth</i>	<i>70.8</i>	<i>85.1</i>	<i>1,380.0</i>	<i>182.2</i>	<i>(36.2)</i>	<i>(31.9)</i>
Average Daily Volumes (Rs bn)	41	41	38	36	40	46
<i>Market Share (%)</i>	<i>4.5</i>	<i>4.4</i>	<i>4.2</i>	<i>4.1</i>	<i>3.7</i>	<i>3.7</i>
Remarks	Sharp sequential increase (15.0% QoQ) in ADVs, market share stabilizes; but second half likely to witness some volatility					
Kotak Mahindra AMC						
Revenues	373	481	507	395	375	166
<i>% y-o-y growth</i>	<i>79.3</i>	<i>126.9</i>	<i>96.5</i>	<i>55.5</i>	<i>0.5</i>	<i>(65.5)</i>
PAT	139	195	229	130	74	(40)
<i>% y-o-y growth</i>	<i>1,058.3</i>	<i>2,691.4</i>	<i>281.7</i>	<i>83.1</i>	<i>(46.8)</i>	<i>(120.5)</i>
AUM (Rs bn)	307	362	414	348	285	284
- Equity	48	54	54	49	45	44
- Debt	259	308	360	299	240	240
Remarks	AUM's remain flat QoQ; one time MTM provision pertaining to investments held in liquid funds has resulted in net loss for the quarter					
Kotak Investment Advisors Limited (KIAL)						
Revenues	255	247	245	244	248	221
<i>% y-o-y growth</i>	<i>(9.6)</i>	<i>(9.2)</i>	<i>(16.9)</i>	<i>(18.4)</i>	<i>(2.7)</i>	<i>(10.5)</i>
PAT	118	95	115	71	108	106
<i>% y-o-y growth</i>	<i>(9.5)</i>	<i>(18.1)</i>	<i>(13.8)</i>	<i>(30.4)</i>	<i>(8.2)</i>	<i>11.6</i>
Commitments (Rs bn)	55	55	55	1	54	53
Remarks	Revenues remain largely stagnant over the past few quarters, however profitability improves sequentially					
International Subsidiaries						
AUM (Rs bn)	1.6	1.8	1.6	1.6	1.6	2.0
<i>% y-o-y growth</i>	<i>(11.1)</i>	<i>20.0</i>	<i>23.1</i>	<i>45.5</i>	-	<i>11.1</i>
PAT	231	208	226	153	157	123
<i>% y-o-y growth</i>	<i>159.3</i>	<i>235.5</i>	<i>204.9</i>	<i>705.3</i>	<i>(32.0)</i>	<i>(40.9)</i>
Remarks	AUMs increase by 11.1% YoY and 25.0% QoQ, however lower bond related contributions resulted in lower bottomline					

Source: Company Data, PL Research

Trend in Consolidated PAT contribution by various subsidiaries

Proportion of the lending business to consolidated profits continued to rise from 35% in Q1FY10 to 57% in Q1FY11 and 53% in Q2FY11. We expect the lending business to contribute 60-65% to bank's consolidated bottom-line in the medium term.

Contribution of various subsidiaries towards consolidated bottomline remains largely stable sequentially except for life insurance biz, which continues to remain volatile and asset management biz, which reported a loss this quarter.



Source: Company Data, PL Research

SOTP Valuation

Subsidiaries		Basis (Rs bn)		Multiple	KMB Rs. Per share		% of SOTP	
		FY12E	FY13E		FY12E	FY13E	FY12E	FY13E
Kotak Securities - KSEC	Earnings	3.2	3.8	15.0	65	78	14%	14%
KMCC - KMCC	Earnings	0.4	0.5	15.0	8	10	2%	2%
Kotak AMC - KAMC	AUMs	271.4	325.7	4.0%	15	18	3%	3%
Pvt Equity - KMIA	AUMs	80.6	96.7	8.0%	9	11	2%	2%
Kotak Prime - KMP	ABV	14.8	17.8	2.5	51	61	11%	11%
Investments - KMI	ABV	3.1	3.7	1.5	6	8	1%	1%
International Subs	Earnings	0.6	0.8	15.0	13	16	3%	3%
Kotak UK - Kotak UK	Earnings	0.2	0.3	15.0	5	6	1%	1%
Kotak OM Life - KMLI*	App Value	30.8	37.2	-	27	32	6%	6%
Value of subsidiaries per share					199	239		
KM Bank	ABV **	71.4	82.9	2.8	275	319	58%	57%
SOTP - target price					474	558	100%	100%

Source: PL Research

12 month forward price target based on average of FY12E & FY13E price targets above

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

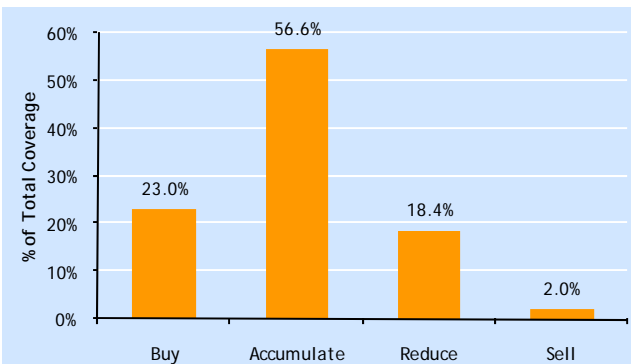
** ABV - reduced by Rs 6 per share for investments in subsidiaries and outstanding NNPA's

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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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