



Kotak Mahindra Bank

BSE SENSEX 16,546	S&P CNX 5,000	CMP: INR535	TP: INR500	Neutral
Bloomberg	KMB IN			
Equity Shares (m)	740.7			
52-Week Range	603/405			
1,6,12 Rel.Perf.(%)	5/13/36			
M.Cap. (INR b)	396.3			
M.Cap. (USD b)	7.5			

* For standalone Bank

Kotak Mahindra Bank's 4QFY12 consolidated PAT (after minority interest) grew 6% YoY and 13% QoQ to INR5.2b. In 4QFY12, profitability of non-lending business improved; as a result, share of lending business in overall profitability declined to 76% v/s 83% a quarter ago. **Key highlights:**

- **Profitability of lending business remained healthy** at INR4b (+4% QoQ, +17% YoY) led by (a) strong loan growth (+29% YoY, though flat QoQ), (b) 10bp QoQ improvement in margin, and (c) superior asset quality performance.
- **Strong traction in SA continues:** CASA deposits grew 41% YoY and 17% QoQ led by robust growth in both savings (+52% YoY, 14% QoQ) and current deposits (+35% YoY, 19% QoQ). Post deregulation of savings deposit rates, the share of savings accounts in overall deposits increased to 13.1% from 9.8% in 1HFY12. CASA ratio improved 450bp QoQ to 32.2%.
- **Capital market related** business profit improved significantly by 96% QoQ to INR550m (albeit down 17% YoY).
- **Asset management** profit improved QoQ to INR160m (INR60m in 3QFY12 and INR245m in 4QFY11). AUM (ex insurance AUM) stood at INR363b v/s INR404b a quarter ago.
- **Life insurance business** profit improved to INR570m v/s INR470m in 3QFY12. For FY12, PAT stood at INR2b v/s INR1b for FY11.

Valuation and view: Growth in lending business is likely to remain strong led by increased focus and continued buoyancy in retail loans. While in 4QFY12, profitability of capital market related business improved, it was helped by some one-off opportunities. In our view, pressure on profitability in capital market related business will persist over next few quarters led by heightened competition across the sector. On a consolidated basis, KMB is expected to report RoE of 15%+ over FY13-14.

KMB Group: Earnings Trends

(INR Million)

	FY11				FY12				FY11	FY12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Kotak Bank (Standalone)	1,869	1,947	1,879	2,487	2,520	2,600	2,760	2,970	8,182	10,851
Kotak Prime	760	613	937	869	940	900	1,040	970	3,179	3,848
Kotak Mah. Investments	70	80	28	50	30	30	30	60	243	126
Lending Business	2,699	2,640	2,843	3,406	3,490	3,530	3,830	4,000	11,603	14,824
Intl. Subsidiaries	157	123	82	150	-30	-70	-40	30	509	-110
Kotak Mah. AMC & Trustee Co.	89	-24	72	36	90	70	30	30	173	220
Kotak Investment Advisors	108	105	54	59	110	80	70	100	327	360
Asset Management Business	355	204	209	245	170	80	60	160	1,009	470
Kotak Securities	474	517	466	362	230	290	240	500	1,819	1,260
Kotak Mah. Capital Co.	69	73	76	300	10	-40	40	50	519	60
Capital Market Business	543	591	543	662	240	250	280	550	2,338	1,320
Consol. PAT excluding Kotak Life	3,597	3,434	3,595	4,313	3,900	3,860	4,170	4,710	14,950	16,614
Kotak OM Life Insurance	-69	134	236	712	460	530	470	570	1,014	2,030
Consol. PAT Including Kotak Life	3,528	3,568	3,830	5,025	4,360	4,390	4,640	5,280	15,667	18,322
YoY Growth (%)	39.8	15.7	14.4	22.0	23.6	23.1	21.1	5.1	19.9	16.9

Source: MOSL

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Lending business: Reported margins improved 10bp QoQ

Consolidate PAT for lending business grew 17% YoY and 4% QoQ to INR4b, of which standalone PAT for banking business grew 19% YoY and ~8% QoQ to ~INR3b. Strong YoY PAT growth was driven by (1) strong consolidated loan growth (up 33% YoY) and (2) stable asset quality resulting into lower credit costs. Reported consolidated margins improved 10bp QoQ to 4.8% largely led by benefits of higher CASA float during the quarter. While incremental CASA deposits in absolute terms for 4QFY12 stood at INR17.9b, overall deposits increased by just INR1.5b implying a sharp decline in term deposits (INR16.4b). This coupled with fall in low yielding corporate loans (-15% QoQ) would have led to improvement in margin, in our view.

Loan growth moderates QoQ; Asset quality stable

On a YoY basis standalone bank loan book grew 33% YoY to INR391b, and the consolidated loan book grew 29% YoY to INR531b. Sequential moderation in growth was led by decline in corporate banking book (declined 17% QoQ in standalone book and 15% QoQ on consolidated book). However ex-corporate loan growth was robust (~8% both on a standalone and on a consolidated basis) driven by strong growth in the agri segment, personal loan and home loan segments.

Standalone bank reported GNPA in absolute terms remained stable QoQ and in percentage terms stood at 1.56%(up 4bp QoQ). GNPA in % terms (excluding stressed assets) stood at 1.2% vs. 1.1% a quarter ago. Consolidated GNPA (ex stress assets) ratio increased 15bp QoQ to 1.1%. Provision coverage ratio (including technical write offs) for the standalone bank stood healthy at ~70% levels. KMPL (NBFC car financing business) PAT grew 12% YoY but declined 7% QoQ to INR970m. KMPL loans grew 8% QoQ and 20% YoY to INR134b.

Consolidated loan book: non corporate loan growth remain strong (INR m)

	4QFY12	4QFY11	YoY Gr %	3QFY12	QoQ Gr %
Commercial Vehicles	77,980	62,511	24.7	75,400	3.4
Car Loans (Primus)	106,000	85,502	24.0	97,710	8.5
Personal Loans	18,680	13,068	42.9	16,890	10.6
Home loans	83,330	68,765	21.2	79,350	5.0
Corp Banking	141,680	109,160	29.8	166,970	-15.1
Agri	57,140	42,196	35.4	48,940	16.8
Others	46,630	31,210	49.4	43,200	7.9
Total Loans	531,440	412,412	28.9	528,460	0.6
Invt / Treasury Assets	232,610	182,791	27.3	199,020	16.9

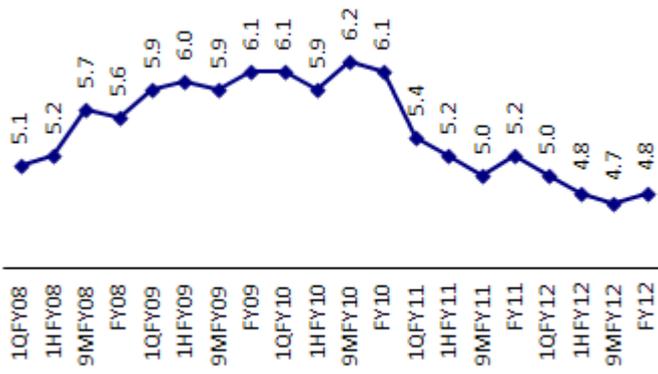
Source: Company/MOSL

Trend in lending business profitability

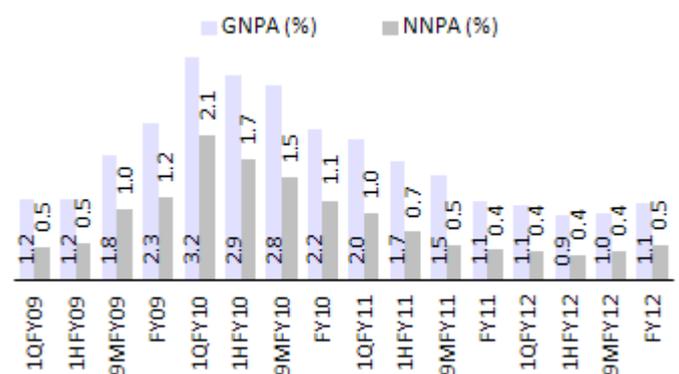
	FY09				FY10				FY11				FY12			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Total Lending Profits (INR m)	1,003	905	1,010	1,550	1,222	1,741	1,980	2,679	2,699	2,640	2,843	3,406	3,490	3,530	3,830	4,000
YoY Gr. (%)	45	-10	-38	49	22	92	96	73	121	52	44	27	29	34	35	17
QoQ Gr. (%)	-4	-10	12	53	-21	42	14	35	1	-2	8	20	2	1	8	4
Share in Consolidated Profit (%)	73	55	73	68	48	56	59	65	77	74	74	68	80	80	83	76

Source: Company/MOSL

Margins improve QoQ (%)



Asset Quality performance remains strong



Source: Company/MOSL

Margins improved 10bp QoQ led by strong CASA growth coupled with fall in low yielding corporate loans

Consolidated GNPA (ex stress assets) ratio increased 15bp QoQ to 1.1%

Banking: Lower credit cost and healthy loan growth driving profitability

Kotak Bank standalone PAT grew 19% YoY and 8% QoQ to ~INR3b. Strong YoY PAT growth was driven by (1) Strong loan growth (+33% YoY) and (2) stable asset quality resulting into lower credit costs. Standalone bank loans grew 33% YoY (though declined 2% QoQ) to INR391b. Strong YoY growth in loans was driven by personal loan (up 43% YoY and 11% QoQ), agri loan (up 35% YoY and 17% QoQ) and home loan (up 21% YoY and 5% QoQ) segments. However corporate banking book declined ~17% QoQ (though on a YoY basis growth remained strong at 37.5%) dragging overall loan growth lower. The management has guided for loan growth of 25-30% for FY13.

Strong traction in Savings account deposits

KMB (standalone)'s deposits grew 32% YoY (flat QoQ) to INR385b. Importantly CASA deposits grew 41% YoY and 17% QoQ led by robust growth in both savings (+51% YoY and 14% QoQ) and current deposits (+35% YoY and 19% QoQ). Post deregulation of savings deposit rates, the share of savings accounts in overall deposits increased to 13.1% from 9.8% in 1HFY12. CASA ratio improved 450bp QoQ and 650bp since 1HFY12 to 32.2%. During the quarter, the bank added 25 branches taking the total number of branches to 355. KMB plans to achieve a branch network of 500 branches by CY13.

Non-interest income declines QoQ; Asset quality remains healthy

Non-interest income declined 10% QoQ (+2% YoY) to INR2.5b dragging overall profitability down. Standalone bank reported GNPA in absolute terms remained stable QoQ and as a in percentage terms stood at 1.56%(up 4bp QoQ). GNPA in % terms (excluding stressed assets) stood at 1.2% vs. 1.1% a quarter ago. Provision coverage ratio (including technical write offs) for the standalone bank stood healthy at ~70% levels. Net restructured loan stood at just INR300m (8bp of overall loans).

Kotak Mahindra Bank (SA) Quarterly Performance

(INR Million)

Y/E March	FY11				FY12				FY11	FY12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	8,974	10,147	11,354	11,979	13,298	14,646	16,410	17,448	41,898	61,802
Interest Expense	4,126	4,709	5,639	6,327	7,619	8,592	9,895	10,571	20,922	36,677
Net Interest Income	4,848	5,438	5,715	5,652	5,678	6,055	6,515	6,877	20,976	25,125
% Change (Y-o-Y)	18.5	24.6	17.4	7.4	17.1	11.3	14.0	21.7	12.9	19.8
Other Income	1,626	1,393	1,653	2,476	2,287	2,125	2,820	2,542	7,805	9,773
Net Income	6,474	6,832	7,368	8,129	7,965	8,180	9,334	9,420	28,781	34,898
% Change (Y-o-Y)	20.9	24.2	18.3	4.5	23.0	19.7	26.7	15.9	15.8	21.3
Operating Expenses	3,299	3,564	4,221	4,449	4,105	4,379	4,898	4,966	15,533	18,348
Operating Profit	3,175	3,268	3,147	3,680	3,861	3,800	4,436	4,453	13,248	16,550
% Change (Y-o-Y)	11.8	31.3	-4.2	-15.5	21.6	16.3	41.0	21.0	2.1	24.9
Other Provisions	561	455	427	-72	221	-24	307	46	1,371	551
Profit before Tax	2,614	2,812	2,721	3,751	3,640	3,824	4,129	4,407	11,877	15,999
Tax Provisions	723	865	842	1,264	1,119	1,224	1,368	1,438	3,695	5,149
Net Profit	1,891	1,947	1,879	2,487	2,520	2,600	2,761	2,969	8,182	10,851
% Change (Y-o-Y)	109.4	54.6	31.9	22.8	33.3	33.5	47.0	19.4	45.8	32.6
Int Exp/Int Income Ratio (%)	46.0	46.4	49.7	52.8	57.3	58.7	60.3	60.6	49.9	59.3
Cost to Income Ratio (%)	51.0	52.2	57.3	54.7	51.5	53.5	52.5	52.7	54.0	52.6
Tax Rate (%)	27.7	30.8	30.9	33.7	30.8	32.0	33.1	32.6	31.1	32.2

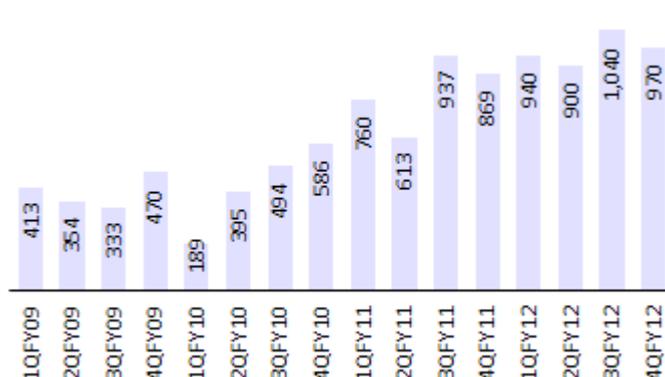
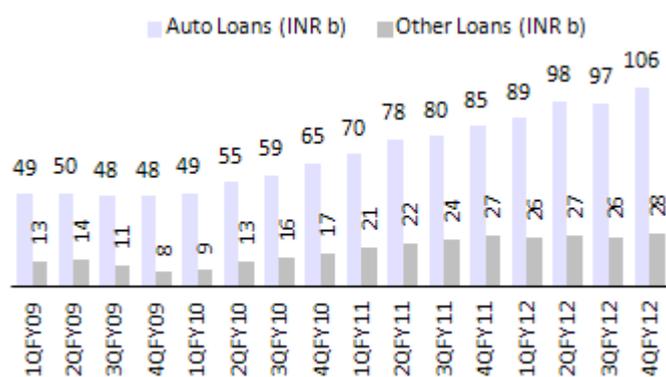
E: MOSL Estimates, Quarterly numbers vary from full year number due to difference in reporting

Kotak Prime - Steady growth

Kotak Prime's total income grew 29% YoY (flat QoQ) to INR4.7b in 4QFY12. KMPL PAT grew 12% YoY (declined 7% QoQ) to INR970m. For FY12 PAT stood at INR3.8b (up 21% YoY). Auto loans were up 9% QoQ and 25% YoY to INR106b. Other loans grew 6% both on a QoQ and on a YoY basis. Overall loans grew 20% YoY and 8% QoQ to INR134b. Net NPAs on car finance remained stable QoQ at 0.2%. CAR remained healthy at 16.3%.

KMPL: Loan book gr. remains healthy

PAT growth moderates (INR m)



Source: Company/MOSL

Growth in auto loans remains strong
(+9% QoQ and 25% YoY)

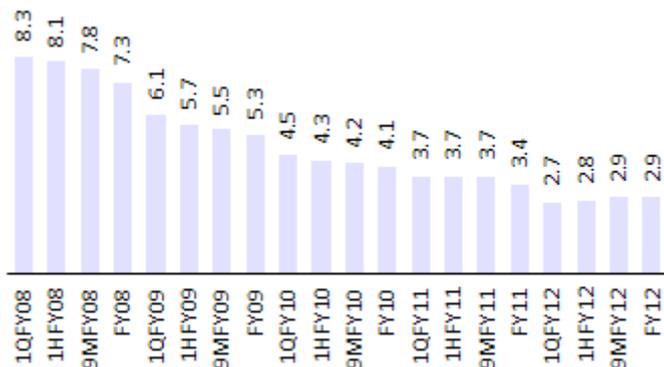
FY12 PAT grew 21% YoY

Capital market business: Profitability improves QoQ

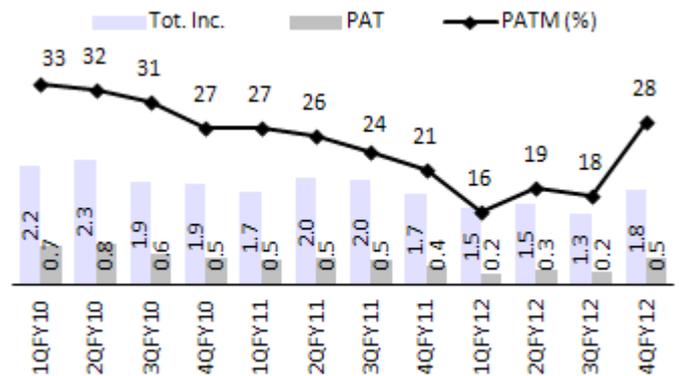
K-Sec PAT grew 38% YoY and 108% QoQ to INR500m. The growth in profitability was driven by higher cash volumes in earlier part of the quarter and few one-off opportunities to earn fee income (quantum not disclosed) on account of tax free bond issuance by IFCs. Average daily volumes declined to INR40.3b for FY12 as against INR41.6b in 9MFY12 and INR46.5b in FY11. KSEC's market share remained stable at

2.9% on a sequential basis. However for FY12 K-Sec market share declined to 2.9% vs. 3.4% in FY11. Investment Banking reported PAT of INR50m vs. INR40m in 3QFY12 and INR300m in 4QFY11. For FY12 profitability in capital market related business remained under pressure and stood at INR1.3b vs. INR2.3b in FY11 (down 44% YoY).

K-Sec market share remains stable QoQ (%)



K-Sec earnings trend (INR b)



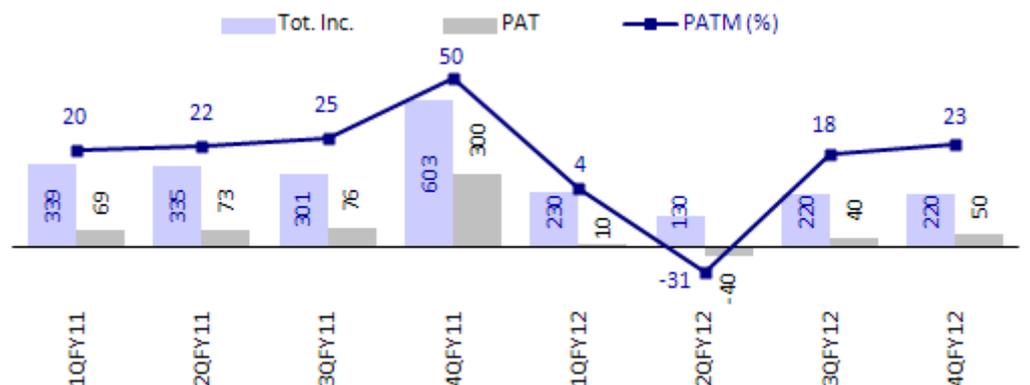
Source: Company/MOSL

While K-sec's market share remained stable on a QoQ basis, it declined to 2.9% for FY12 v/s 3.4% in FY11

PAT grew 38% YoY on account of higher cash volumes in earlier part of the quarter and few one-off opportunities to earn fee income

Investment banking earnings trend (INR m)

Investment Banking reported PAT of INR50m v/s INR40m in 3QFY12 and INR300m in 4QFY11



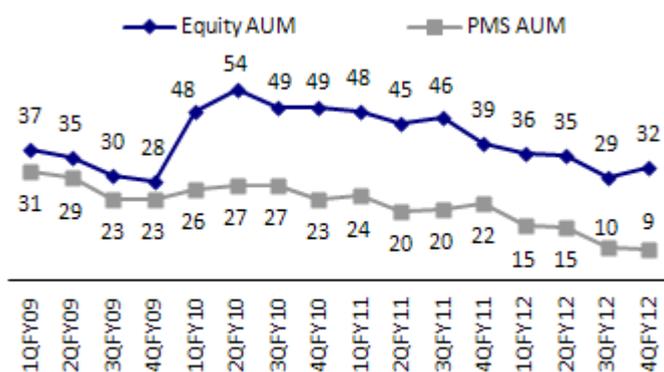
Source: Company/MOSL

Asset management profitability improves QoQ

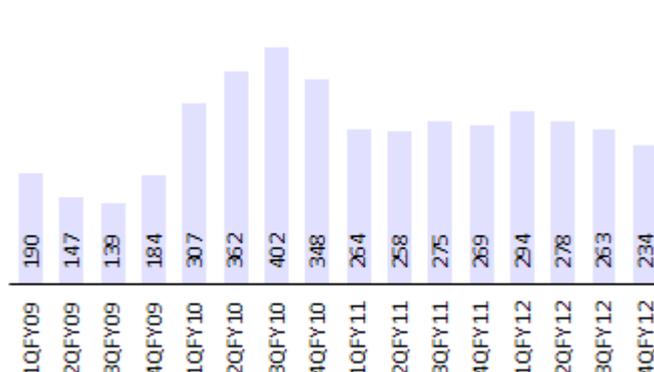
Overall AUMs declined QoQ to INR363b v/s INR404b in 3QFY12 and INR405b in 4QFY11. Of which AUM under off-shore funds increased to INR78b vs. INR73b in 3QFY12 whereas alternative assets AUM declined to INR50.6b as against INR58.4b. Equity AUM under MF increased to INR32.2b as against INR29.2b in 3QFY12, however remained much lower than INR39.1b reported in 4QFY11.

PAT from the asset management business stood at INR160m v/s INR60m in 3QFY12 and INR245m in 4QFY11. Kotak investment advisors remained a key contributor for asset management business and PAT for 4QFY12 stood at INR100m vs. INR70m in 3QFY12 and INR59m in 4QFY11. For FY12, PAT in asset management business declined sharply by 54% YoY to INR470m.

Domestic equity AUMs improves QoQ (INR b)



MF AUMs declines QoQ (INR b)



Source: Company/MOSL

Equity AUM under MF increased to INR32.2b v/s INR29.2b in 3QFY12, however remained much lower than INR39.1b reported in 4QFY11

The QoQ declining trend in MF AUMs has continued during FY12

Life Insurance: PAT stood at INR2b for FY12 vs INR1b in FY11

Kotak Life Insurance gross premium income increased 3.6% YoY (up 1.7x QoQ - led by seasonal factors) to INR11.1b in 4QFY12. For FY12 gross premium was flattish at INR29.3b. First year regular premium improved 22% YoY to INR3.4b. Renewal to total premium ratio improved to 52.9% v/s 50.9% a year ago (but down from 64.6% a quarter ago). Life insurance reported PAT of INR570m v/s INR470m a quarter ago and INR712m in 4QFY11. For FY12, PAT of life insurance business increased 2x from ~INR1b in FY11 to INR2b in FY12. AUM of life insurance business improved 17%+ both on a QoQ and on a YoY basis to INR97.2b.

Trend in segment-wise profitability

	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12
Total lending profits	1,980	2,679	2,699	2,640	2,843	3,406	3,490	3,530	3,830	4,000
QoQ Growth (%)	14	35	1	-2	8	20	2	1	8	4
YoY Growth (%)	96	73	121	52	44	27	29	34	35	17
% Share to total profits	59	65	76	74	74	68	80	80	83	76
Capital market related business	608	641	543	591	543	662	240	250	280	550
QoQ Growth (%)	-24	6	-15	9	-8	22	-64	4	12	96
YoY Growth (%)	2835	352	-31	-26	-11	3	-56	-58	-48	-17
% Share to total profits	18	16	15	17	14	13	6	6	6	10
AMC Businesses	569	357	355	204	209	245	170	80	60	160
QoQ Growth (%)	14	-37	-1	-43	3	17	-31	-53	-25	167
YoY Growth (%)	114	77	-29	-59	-63	-31	-52	-61	-71	-35
% Share to total profits	17	9	10	6	5	5	4	2	1	3
Kotak Mah. Old Mutual Life Insur.	193	444	-69	134	236	712	460	530	470	570
QoQ Growth (%)	343	130	-116	-295	76	202	-35	15	-11	21
YoY Growth (%)	107	12	-723	208	22	60	-766	294	99	-20
% Share to total profits	6	11	-2	4	6	14	11	12	10	11
Others	-1	-2	1	-1	-1	0	0	0	0	0
Consolidated PAT	3,348	4,120	3,528	3,568	3,830	5,025	4,360	4,390	4,640	5,280
QoQ Growth (%)	9	23	-14	1	7	31	-13	1	6	14
YoY Growth (%)	141	80	40	16	14	22	24	23	21	5
% Share to total profits	100	100	100	100	100	100	100	100	100	100
Total consolidated PAT ex Life	3,154	3,676	3,597	3,433	3,594	4,313	3,900	3,860	4,170	4,710
QoQ Growth (%)	4	17	-2	-5	5	20	-10	-1	8	13
YoY Growth (%)	143	94	43	13	14	17	8	12	16	9
% Share to total profits	94	89	102	96	94	86	89	88	90	89

Source: Company/MOSL

Valuation and view

Growth is likely to remain strong led by increased focus and continued buoyancy in retail loans. We expect the bank to report 25% CAGR in loan growth over FY12/14, management guidance of loan growth of 25-30% for FY13. Cost to income ratio for the bank is expected to remain at 53%+ led by aggressive branch expansion and higher focus on retail segment.

While in 4QFY12, profitability of capital market related business improved, it was helped by some one-off opportunities and thereby trend needs to be watched. In our view pressure on profitability will persist over next few quarters led by heightened competition across the sector. Lending business will continue to drive profitability and we expect its contribution to remain high at 75%+. We expect consolidated earnings CAGR of ~16% over FY12/14 and expect the bank to report consolidated EPS of INR29 in FY13 and INR33 in FY14 and consolidated BV of INR202 and INR234 in FY13 and FY14 respectively.

Kotak bank, RoA is likely to be superior at 1.5%+ over FY13/14, however, higher capitalization (Core Tier I ratio of 15.5%+) will keep core RoEs subdued at 14.5%+ over FY13/14. On a Consolidated basis, KMB is expected to report ROE of 15%+ over FY12-14. Stock trades at 2.7x and 2.4x FY13E and FY14E consolidated BV and 19.4x FY13E and 16.7x FY14E consolidated EPS. On back of rich valuation we continue to maintain **Neutral** with FY14 SOTP based target price of INR500.

Earnings Snapshot (INR m)

	Business	4Q FY12	3Q FY12	QoQ Gr %	4Q FY11	YoY Gr %	FY12	FY11	YoY Gr %
Kotak Mahindra Bank (Standalone)	Banking Business	2,970	2,760	8	2,487	19	10,850	8,182	33
Kotak Mahindra Prime	Auto loans, debt capital markets	970	1,040	-7	869	12	3,850	3,179	21
Kotak Mahindra Investments	Primarily LAS	60	30	100	50	20	150	228	-34
Lending Business		4,000	3,830	4	3,406	17	14,850	11,588	28
Kotak Mahindra Capital Company	Investment banking	50	40	25	300	-83	60	519	-88
Kotak Securities	Broking and distribution	500	240	108	362	38	1,260	1,819	-31
Capital Market Business		550	280	96	662	-17	1,320	2,338	-44
International subsidiaries	Asset Mgt and IB	30	-40	-175	150	-80	-110	512	-122
Kotak Mahindra AMC & Trustee Co	Mutual funds management	30	30	NA	36	-16	220	173	27
Kotak Investment Advisors	Alternate asset management	100	70	43	59	69	360	327	10
Asset Management Business		160	60	167	245	-35	470	1,012	-54
Kotak Life Insurance		570	470	21	712	-20	2,030	1,014	100
Consol. PAT		5,280	4,640	14	5,025	5	18,670	15,951	17
Consolidation Adjust.		-71	-14		-111		-348	-284	
Reported PAT		5,209	4,626	13	4,914	6	18,322	15,667	17

KMB Group: Earnings Estimates (INR Million)

	Business	FY10	FY11	FY12	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	5,611	8,182	10,851	11,939	14,137
Kotak Mahindra Prime	Auto loans, debt capital markets	1,664	3,179	3,848	4,284	4,818
Kotak Mahindra Investments	Primarily LAS	347	243	126	141	145
Lending Business		7,622	11,603	14,824	16,364	19,100
International subsidiaries	Asset management and inv. banking	799	509	-110	100	100
Kotak Mahindra AMC & Trustee Co	Mutual funds management	725	173	220	358	389
Kotak Investment Advisors	Alternate asset management	398	327	360	410	460
Asset Management Business		1,921	1,009	470	868	949
Kotak Securities	Broking and distribution	2,601	1,819	1,260	1,389	1,518
Kotak Mahindra Capital Company	Investment banking	239	519	60	165	207
Capital Market Business		2,840	2,338	1,320	1,554	1,725
Consol. PAT excluding Kotak Life		12,382	14,950	16,614	18,786	21,774
YoY Growth (%)		89	21	11	13	16
Kotak OM Life Insurance	Life insurance	692	1,014	2,030	2,538	3,045
Consolidation Adjust.		-4	-296	-321	-150	-150
Consol. PAT Including Kotak Life		13,070	15,667	18,322	21,174	24,669
YoY Growth (%)		100	20	17	16	17

Source: MOSL

Kotak Group Earnings Snapshot (% to total)

	Business	FY10	FY11	FY12	FY13E	FY14E
Kotak Mahindra Bank (Standalone)	Banking Business	43	52	59	56	57
Kotak Mahindra Prime	Auto loans, debt capital markets	13	20	21	20	20
Kotak Mahindra Investments	Primarily LAS	3	2	1	1	1
Lending Business		58	74	81	77	77
International subsidiaries	Asset management and inv. banking	6	3	-1	0	0
Kotak Mahindra AMC & Trustee Co	Mutual funds management	6	1	1	2	2
Kotak Investment Advisors	Alternate asset management	3	2	2	2	2
Asset Management Business		15	6	3	4	4
Kotak Securities	Broking and distribution	20	12	7	7	6
Kotak Mahindra Capital Company	Investment banking	2	3	0	1	1
Capital Market Business		22	15	7	7	7
Consol. PAT excluding Kotak Life		95	95	91	89	88
Kotak OM Life Insurance	Life insurance	5	6	11	12	12
Consol. PAT Including Kotak Life		100	100	100	100	100

Source: MOSL

Kotak Mahindra: SOTP Valuation (FY14-based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
Lending Business	308.8	5.8	417	84	
Kotak Mahindra Bank	252.3	4.7	341	68	2.5x FY14E Core NW, ~1.6% RoA and ~15% Core RoE
Kotak Prime (Car and other loans)	53.6	1.0	72	15	2x FY14E Net Worth, ~20% Core RoE
Kotak Investment Company (LAS)	3.0	0.1	4	1	1x FY14E Net Worth
Asset Management Business	25.6	0.5	35	7	
Domestic Mutual Fund	13.0	0.2	18	4	3.5% of FY14E Avg. AUM of INR372b
Offshore Funds	8.7	0.2	5	1	5% of FY14E AUM of US\$1.5b
Alternative Assets	3.8	0.1	12	2	12% of FY14E AUM of INR77b
Capital Markets related Business	21.6	0.4	29	6	
Kotak Securities	18.2	0.3	25	5	12x FY14E EPS
Kotak Investment Banking (KMCC)	3.3	0.1	5	1	1x FY14E Free Network
Kotak Life Insurance	13.4	0.3	18	4	15x FY14E NBAP, APE CAGR of ~15% in FY12-14
Target Value	369.4	6.9	499	100	Implied 2.1x PBV and 15x PE FY14; ROE of 15.3%
Current value / market price	396.3	7.5	535		
Upside (%)	-6.8		-6.8		

Source: MOSL

Financials and Valuation

Income Statement (Standalone)						(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E	2014E
Interest Income	25,354	30,651	32,556	41,898	61,802	75,808	91,145
Interest Expense	13,096	15,466	13,975	20,922	36,677	45,421	53,984
Net Interest Income	12,258	15,185	18,581	20,976	25,125	30,387	37,160
Change (%)	97.8	23.9	22.4	12.9	19.8	20.9	22.3
Non Interest Income	4,635	2,736	6,282	7,805	9,773	11,331	13,061
Net Income	16,893	17,922	24,864	28,781	34,898	41,719	50,221
Change (%)	80.0	6.1	38.7	15.8	21.3	19.5	20.4
Operating Expenses	10,194	11,964	11,894	15,533	18,348	21,572	25,371
Pre Provision Profits	6,699	5,958	12,970	13,248	16,550	20,146	24,850
Change (%)	105.6	-11.1	117.7	2.1	24.9	21.7	23.3
Provisions (excl tax)	2,721	1,697	4,859	1,371	551	2,589	4,061
PBT	3,978	4,261	8,111	11,877	15,999	17,557	20,789
Tax	1,038	1,500	2,500	3,695	5,149	5,618	6,653
Tax Rate (%)	26.1	35.2	30.8	31.1	32.2	32.0	32.0
Standalone PAT	2,939	2,761	5,611	8,182	10,851	11,939	14,137
Change (%)	107.9	-6.1	103.2	45.8	32.6	10.0	18.4
Consolidated PAT	9,912	6,524	13,070	15,667	18,322	21,174	24,669
Change (%)	89.2	-34.2	100.3	19.9	16.9	15.6	16.5
Equity Dividend (Incl tax)	282	283	277	412	520	619	722
Core PPP (Standalone)*	4,913	5,650	10,375	11,083	14,095	17,596	22,300
Change (%)	61.0	15.0	83.6	6.8	27.2	24.8	26.7

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

Balance Sheet (Standalone)						(INR Million)	
Y/E March	2008	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	3,447	3,457	3,481	3,684	3,703	3,703	3,703
Reserves & Surplus	31,908	34,679	41,370	64,280	75,756	87,076	100,491
Net Worth	35,355	38,136	44,851	67,965	79,459	90,779	104,194
Deposits	164,236	156,440	238,865	292,610	385,365	500,975	631,228
Change (%)	49.3	-4.7	52.7	22.5	31.7	30.0	26.0
of which CASA Dep	46,699	51,181	74,631	87,905	124,020	157,773	196,084
Change (%)	55.9	9.6	45.8	17.8	41.1	27.2	24.3
Borrowings	59,015	67,340	61,405	117,239	165,955	198,741	234,795
Other Liabilities & Prov.	24,517	25,202	29,242	30,693	25,885	31,005	37,170
Total Liabilities	283,124	287,119	374,363	508,507	656,665	821,501	1,007,387
Current Assets	21,495	11,407	23,003	24,710	26,346	45,693	51,929
Investments	91,420	91,102	125,127	171,214	215,668	258,802	310,562
Change (%)	33.2	-0.3	37.3	36.8	26.0	20.0	20.0
Loans	155,522	166,253	207,751	293,293	390,792	488,490	610,613
Change (%)	42.4	6.9	25.0	41.2	33.2	25.0	25.0
Fixed Assets	2,102	2,134	4,276	4,256	4,500	4,317	4,034
Other Assets	12,584	16,223	14,207	15,033	19,359	24,199	30,249
Total Assets	283,124	287,119	374,363	508,507	656,665	821,501	1,007,387

Asset Quality (Standalone) (Excl. acquired NPA)						(%)	
GNPA (INR m)	1,500	4,475	4,983	3,618	4,792	7,354	10,520
NNPA (INR m)	573	2,055	2,572	1,461	1,949	2,736	3,960
GNPA Ratio	0.96	2.65	2.37	1.22	1.22	1.49	1.70
NNPA Ratio	0.37	1.24	1.24	0.50	0.50	0.56	0.65
PCR (Incl acquired NPA)	39.0	42.4	53.1	65.0	61.3	65.0	65.0
PCR (Excl acquired NPA)	61.8	54.1	48.4	59.6	59.3	62.8	62.4

E: MOSL Estimates

Financials and Valuation

Ratios (Standalone)

Y/E March	2008	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)							
Avg. Yield-Earning Assets	11.1	11.7	11.0	10.4	11.4	11.1	10.8
Avg. Yield on Loans	13.6	15.5	13.5	12.8	14.2	13.5	13.0
Avg. Yield on Investments	8.9	6.1	6.7	6.5	6.8	6.9	6.9
Avg. Cost-Int. Bear. Liab.	6.7	6.9	5.3	5.9	7.6	7.3	6.9
Avg. Cost of Deposits	7.0	6.8	5.0	5.6	7.4	7.1	6.7
Interest Spread	4.4	4.7	5.6	4.5	3.8	3.8	3.9
Net Interest Margin	5.4	5.8	6.3	5.2	4.6	4.4	4.4

Profitability Ratios (%)

Consolidated ROE	21.9	10.6	18.1	16.6	15.4	15.2	15.3
Standalone Core RoE	12.7	8.2	14.6	15.4	15.4	14.6	15.0
Standalone RoA	1.2	1.0	1.7	1.9	1.9	1.6	1.5
Int. Expense/Int.Income	51.7	50.5	42.9	49.9	59.3	59.9	59.2
Non Int. Inc./Net Income	27.4	15.3	25.3	27.1	28.0	27.2	26.0

Efficiency Ratios (%)

Cost/Income*	67.5	67.9	53.4	58.4	56.6	55.1	53.2
Empl. Cost/Op. Exps.	50.9	48.8	49.1	50.5	47.5	48.5	49.5
Busi. per Empl. (Rs m)	44.4	38.6	56.9	71.0	83.9	88.0	90.3
NP per Empl. (Rs lac)	0.4	0.3	0.7	1.0	1.2	1.1	1.0

* ex treasury

Asset-Liability Profile (%)

Loans/Deposit Ratio	94.7	106.3	87.0	100.2	101.4	97.5	96.7
Loans/(Deposits+Borrowings)	69.7	74.3	69.2	71.6	70.9	69.8	70.5
CASA Ratio	28.4	32.7	31.2	30.0	32.2	31.5	31.1
Investment/Deposit Ratio	55.7	58.2	52.4	58.5	56.0	51.7	49.2
Invest/(Deposits+Borrowings)	40.9	40.7	41.7	41.8	39.1	37.0	35.9
CAR		20.0	18.3	19.9	17.5	16.8	15.8
Tier 1		16.1	15.4	18.0	15.7	15.1	14.2

Valuation

Book Value (INR)	51.3	55.2	64.4	92.2	107.3	122.6	140.7
BV Growth (%)	104.8	7.6	16.8	43.2	16.3	14.2	14.8
AP/BV (x)				4.5	3.9	3.2	2.7
Consol BV (INR)	84.5	94.3	113.6	148.8	174.2	201.9	234.3
BV Growth (%)	70.5	11.7	20.4	30.9	17.1	15.9	16.0
Price-Consol BV (x)				3.6	3.1	2.6	2.3
Adjusted BV (INR)*	46.3	48.6	57.5	86.5	101.1	115.7	132.8
AP/ABV (x)				4.8	4.1	3.4	2.8
Adjusted Consol BV	83.9	92.3	111.0	147.4	172.3	199.3	230.5
Price-Consol ABV (x)				3.6	3.1	2.7	2.3
Standalone EPS (Rs)	4.0	3.7	7.7	10.5	13.9	15.2	18.0
EPS Growth (%)	92.9	-6.9	105.8	36.4	32.7	9.5	18.3
Price-Earnings (x)				39.3	29.9	26.1	20.9
Consol EPS (INR)	14.4	9.4	18.8	21.3	24.7	28.6	33.3
Con. EPS Growth (%)	79.1	-34.4	98.9	13.3	16.3	15.6	16.5
Price-Concol EPS (x)				25.2	21.6	18.7	16.1
Dividend Per Share (INR)	0.4	0.4	0.4	0.5	0.6	0.7	0.8
Dividend Yield (%)				0.1	0.1	0.1	0.2

E: MOSL Estimates

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

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