

May 11, 2010

Rating	BUY
Price	Rs745
Target Price	Rs907
Implied Upside	21.7%
Sensex	17,142

(Prices as on May 11, 2010)

### Trading Data

Market Cap. (Rs bn)	259.4
Shares o/s (m)	348.1
Free Float	51.77%
3M Avg. Daily Vol ('000)	872.7
3M Avg. Daily Value (Rs m)	657.8

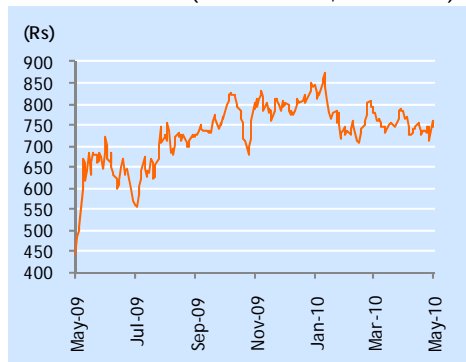
### Major Shareholders

Promoters	48.23%
Foreign	28.56%
Domestic Inst.	4.98%
Public & Others	18.23%

### Stock Performance

(%)	1M	6M	12M
Absolute	(4.9)	(8.3)	68.8
Relative	(0.5)	(10.0)	22.1

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



Source: Bloomberg

■ **Strong set of numbers, healthy operating performance:** Kotak Bank reported consolidated PAT of Rs4.2bn, up 98.7% YoY and 26.3% QoQ and standalone PAT of Rs2.0bn, up 97.4% YoY and 42.2% QoQ. Consolidated advances grew by 32.1% YoY, but remained largely flattish QoQ. A sharp sequential increase (23.7% QoQ) in agri advances was on account of meeting the year end priority sector targets. However, this was partially set off by a 19.5% QoQ decline in the corporate book. Deposits grew by 52.7% YoY and 7.7% QoQ, CASA ratio improved to 31.2% from 28.4% in Q3FY10. The net interest margin remained above 6% as the bank benefitted due to availability of capital and higher risk adjusted returns. Staff expenses spiked up 31.2% QoQ to make up for the shortfall in the payments of annual incentives. Provisioning expenses remained flat sequentially as the bank has netted off the recoveries from stressed assets against the credit costs. Asset quality improved (GNPAs down 17.2% QoQ) as the bank sold off majority of the stressed assets during the quarter. Provision coverage improved to 53.1% from 49.6% in Q3FY10.

■ **Apart from banking, insurance, auto finance, and investment banking businesses boosted consolidated bottom-line:** The life insurance business recorded a PAT of Rs444m, up 12% YoY but 130% QoQ. Kotak Mahindra Capital Company reported PAT of Rs134m vs Rs2m in Q3FY10 on account of higher numbers of deals closed during the quarter. Kotak Mahindra Prime too posted good set of numbers, with an 18.5% QoQ increase in PAT to Rs586m, as the total AUMs grew by 11.6% QoQ. Kotak Securities recorded a 14.2% QoQ decline in PAT to Rs508m as average daily volumes fell to Rs36bn v/s Rs38bn in Q3FY10 leading to loss in market share. Asset management business recorded a 22% and 43% QoQ decline in the revenues and PAT respectively as the AUMs declined by 16% QoQ.

■ **Valuations are at bottom cycle RoEs, decent upside possible:** On a consolidated basis, the stock is trading at 11.2x FY12E EPS, 2.2x FY12E BV and 2.3x FY12E ABV (excluding insurance value of Rs87). Incrementally lending business will contribute 60-65% of earnings with no restructuring risk. The IB business, which is lagging in performance, may show a dramatic turnaround in FY11 & FY12, when we will witness many PSU bank FPOs and IPOs from life insurance companies. Consolidated RoEs are likely to improve to 21% by FY12E from 10.7% in FY09 which could re-rate the stock. We have revised our FY11 and FY12 estimates upwards by 5.3% and 4.2% respectively on account of 16.8% and 10.0% revision in standalone bank estimates. Hence, we maintain our 'BUY' rating, with a price target of Rs907 at which it will trade at 3.1x FY12E CABV. Re-emergence of risk aversion in global equities remains the key risk.

Key financials (Rs m)	FY09	FY10	FY11E	FY12E
Net interest income	23,742	28,283	29,637	35,380
<i>Growth (%)</i>	<i>29.6</i>	<i>19.1</i>	<i>4.8</i>	<i>19.4</i>
Operating profit	12,774	24,136	28,538	34,138
PAT	6,527	13,274	16,232	20,354
EPS (Rs)	19.1	33.6	47.0	58.9
<i>Growth (%)</i>	<i>(38.4)</i>	<i>76.1</i>	<i>39.9</i>	<i>25.4</i>
Net DPS (Rs)	1.2	1.8	2.3	2.9

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
NIM (%)	5.4	5.3	5.2	5.0
RoAE (%)	10.7	16.7	20.0	21.3
RoAA (%)	1.6	2.6	2.8	2.9
P / BV (x)	3.5	3.1	2.6	2.2
P / ABV (x)	3.6	3.2	2.7	2.3
PE (x)	34.9	17.5	14.0	11.2
Net dividend yield (%)	0.2	0.2	0.3	0.4

Source: Company Data; PL Research

Abhijit Majumder  
AbhijitMajumder@PLIndia.com  
+91-22-6632 2236

Umang Shah  
UmangShah@PLIndia.com  
+91-22-6632 2242



Q4FY10 Result Overview (Consolidated)

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Interest Income	12,478	11,045	13.0	11,847	46,012	43,666	5.4
Interest on Advances	9,587	8,932	7.3	9,044	35,264	35,055	0.6
Income on investments	2,737	1,993	37.3	2,653	10,185	7,596	34.1
Bal with RBI & others	153	119	7.3	150	562	1,015	0.6
Interest Expended	4,639	4,768	(2.7)	4,449	17,729	19,924	(11.0)
<b>Net Interest Income</b>	<b>7,839</b>	<b>6,276</b>	<b>24.9</b>	<b>7,398</b>	<b>28,283</b>	<b>23,742</b>	<b>19.1</b>
Non-Interest Income	16,976	11,277	50.5	12,224	53,847	28,140	91.4
Treasury	546	13	-	520	1,971	(1,487)	-
CEB	3,199	2,124	50.6	3,176	12,837	10,341	24.1
Insurance premium	11,374	8,977	26.7	7,059	28,493	23,071	23.5
Other Income (includes ins. revln.)	1,856	162	-	1,938	12,320	(5,123)	-
<b>Net total Income</b>	<b>24,815</b>	<b>17,553</b>	<b>41.4</b>	<b>19,622</b>	<b>82,130</b>	<b>51,881</b>	<b>58.3</b>
Operating Expenses	17,405	12,958	34.3	13,390	57,994	39,108	48.3
Employee	3,599	2,608	38.0	3,123	12,610	11,925	5.7
Policy holders reserves	9,730	6,709		6,632	31,189	11,395	
Other operating expenses	4,075	3,641	11.9	3,635	14,196	15,788	(10.1)
<b>Operating profit</b>	<b>7,410</b>	<b>4,595</b>	<b>61.3</b>	<b>6,232</b>	<b>24,136</b>	<b>12,774</b>	<b>89.0</b>
Provisions	1,218	1,292	(5.7)	1,423	5,107	2,612	95.6
<b>Profit before tax</b>	<b>6,192</b>	<b>3,303</b>	<b>87.5</b>	<b>4,810</b>	<b>19,029</b>	<b>10,162</b>	<b>87.3</b>
Tax	1,933	1,094	76.7	1,480	5,755	3,635	58.3
<b>Net Profit after tax (before minority int)</b>	<b>4,259</b>	<b>2,209</b>	<b>92.8</b>	<b>3,330</b>	<b>13,274</b>	<b>6,527</b>	<b>103.4</b>
<b>Net Profit after tax (after minority int)</b>	<b>4,186</b>	<b>2,107</b>	<b>98.7</b>	<b>3,314</b>	<b>13,070</b>	<b>6,524</b>	<b>100.3</b>
<b>Asset Quality</b>							
Gross NPA's	9,167	8,914	2.8	10,716	9,167	8,914	2.8
<i>Gross NPA's % of advances</i>	<i>3.04</i>	<i>3.68</i>		<i>3.94</i>	<i>3.04</i>	<i>3.68</i>	
Net NPA's	4,408	5,614	(21.5)	6,403	4,408	5,614	(21.5)
<i>Net NPA's % of advances</i>	<i>1.48</i>	<i>2.35</i>		<i>2.39</i>	<i>1.48</i>	<i>2.35</i>	
Provision Coverage	51.9	37.0		40.2	51.9	37.0	
<i>Gross NPA's % - excluding stressed assets</i>	<i>2.16</i>	<i>1.80</i>		<i>2.93</i>	<i>2.16</i>	<i>1.80</i>	
<b>Capital Adequacy (%)</b>							
<i>CAR</i>	<i>19.3</i>	<i>22.5</i>		<i>20.5</i>	<i>19.3</i>	<i>22.5</i>	
<i>Tier 1</i>	<i>17.3</i>	<i>20.0</i>		<i>18.3</i>	<i>17.3</i>	<i>20.0</i>	
<b>NIM - reported (%)</b>							
	<i>6.30</i>	<i>6.00</i>		<i>6.30</i>	<i>6.30</i>	<i>6.10</i>	
<b>Balance Sheet Items</b>							
Deposits	218,192	138,218	57.9	200,839	218,192	138,218	57.9
Advances	297,242	224,976	32.1	293,371	297,242	224,976	32.1
Investments	132,000	96,622	36.6	127,161	132,000	96,622	36.6
<b>Total Assets</b>	<b>429,242</b>	<b>321,598</b>	<b>33.5</b>	<b>420,532</b>	<b>429,242</b>	<b>321,598</b>	<b>33.5</b>



**Q4FY10 Result Overview (Standalone)**

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Interest Income	8,808	8,030	9.7	8,324	32,556	30,651	6.2
Interest on Advances	6,814	6,563	3.8	6,454	25,269	24,937	1.3
Income on investments	1,985	1,462	35.7	1,867	7,269	5,584	30.2
Bal with RBI & others	9	5	3.8	3	19	130	1.3
Interest Expense	3,547	3,850	(7.9)	3,458	13,975	15,466	(9.6)
<b>Net Interest Income</b>	<b>5,260</b>	<b>4,180</b>	<b>25.8</b>	<b>4,867</b>	<b>18,581</b>	<b>15,185</b>	<b>22.4</b>
Non-Interest Income	2,515	1,167	115.5	1,448	6,282	2,736	129.6
<b>Net total Income</b>	<b>7,775</b>	<b>5,347</b>	<b>45.4</b>	<b>6,314</b>	<b>24,864</b>	<b>17,922</b>	<b>38.7</b>
Operating Expenses	3,419	2,766	23.6	2,945	11,894	11,964	(0.6)
Employee	1,740	1,205	44.4	1,326	5,558	5,568	(0.2)
Other operating expenses	1,680	1,561	7.6	1,619	6,336	6,396	(0.9)
<b>Operating profit</b>	<b>4,356</b>	<b>2,581</b>	<b>68.8</b>	<b>3,369</b>	<b>12,970</b>	<b>5,957</b>	<b>117.7</b>
Core operating profits	3,293	1,905	72.8	2,306	11,470	4,957	131.4
Provisions	1,276	979	30.3	1,277	4,859	1,679	186.3
<b>Profit before tax</b>	<b>3,080</b>	<b>1,602</b>	<b>92.3</b>	<b>2,092</b>	<b>8,111</b>	<b>4,261</b>	<b>90.4</b>
Tax	1,055	576	83.2	669	2,500	1,499	66.7
<b>Net Profit after tax</b>	<b>2,025</b>	<b>1,026</b>	<b>97.4</b>	<b>1,424</b>	<b>5,611</b>	<b>2,761</b>	<b>103.2</b>
<b>Asset Quality</b>							
Gross NPA's	7,673	6,892	11.3	9,282	7,673	6,892	11.3
<i>Gross NPA's % of customer assets</i>	<i>3.62</i>	<i>4.07</i>		<i>4.25</i>	<i>3.62</i>	<i>4.07</i>	
Net NPA's	3,602	3,968	(9.2)	4,675	3,602	3,968	(9.2)
<i>Net NPA's % of customer assets</i>	<i>1.72</i>	<i>2.39</i>		<i>2.18</i>	<i>1.72</i>	<i>2.39</i>	
Provision Coverage	53.1	42.4		49.6	53.1	42.4	
<b>Capital Adequacy (%)</b>							
<i>CAR</i>	<i>18.4</i>	<i>20.0</i>		<i>18.3</i>	<i>18.4</i>	<i>20.0</i>	
<i>Tier 1</i>	<i>15.4</i>	<i>16.0</i>		<i>16.1</i>	<i>15.4</i>	<i>16.0</i>	
<b>Yield Measurement ratios (%)</b>							
<i>NIM - calculated</i>	<i>5.76</i>	<i>6.14</i>		<i>5.94</i>	<i>5.62</i>	<i>5.69</i>	
<i>Cost to Income</i>	<i>43.98</i>	<i>51.73</i>		<i>46.65</i>	<i>47.84</i>	<i>67.93</i>	
<b>Balance Sheet Items</b>							
Deposits	238,865	156,440	52.7	221,864	238,865	156,440	52.7
CASA	74,631	51,191	45.8	63,052	74,631	51,191	45.8
<i>CASA (%)</i>	<i>31.2</i>	<i>32.7</i>		<i>28.4</i>	<i>31.2</i>	<i>32.7</i>	
Advances	207,751	166,253	25.0	214,057	207,751	166,253	25.0
Investments	125,127	91,102	37.3	120,906	125,127	91,102	37.3
Total Assets	374,363	287,119	30.4	355,960	374,363	287,119	30.4



Trend in performance of Kotak Mahindra Bank and its key subsidiaries

(Rs m)

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
<b>Kotak Bank (Standalone)</b>							
NII	3,655	3,826	4,180	4,090	4,365	4,867	5,260
<i>% y-o-y growth</i>	<i>29.0</i>	<i>10.1</i>	<i>7.0</i>	<i>16.0</i>	<i>19.4</i>	<i>27.2</i>	<i>25.8</i>
PAT	479	711	1,026	903	1,259	1,424	2,025
<i>% y-o-y growth</i>	<i>(36.5)</i>	<i>(30.0)</i>	<i>48.2</i>	<i>65.6</i>	<i>163.0</i>	<i>100.2</i>	<i>97.4</i>
Remarks	Strong operating performance and lower credit costs boosted bottom-line						

<b>Kotak Mahindra Prime</b>							
Revenues	2,540	2,361	2,546	2,239	2,401	2,546	2,735
<i>% y-o-y growth</i>	<i>66.0</i>	<i>(13.4)</i>	<i>22.9</i>	<i>(5.7)</i>	<i>(5.5)</i>	<i>7.8</i>	<i>7.4</i>
PAT	354	333	470	189	395	494	586
<i>% y-o-y growth</i>	<i>83.9</i>	<i>(10.9)</i>	<i>55.1</i>	<i>(54.2)</i>	<i>11.6</i>	<i>48.5</i>	<i>24.7</i>
Advances - Auto (Rs bn)	50	48	48	49	55	60	65
Advances - Others (Rs bn)	14	11	10	9	13	14	18
Remarks	Healthy sequential increase in revenues and PAT driven by good QoQ growth in advances						

<b>Kotak Mahindra Old Mutual Life Insurance</b>							
Gross Premium	5,255	5,116	9,059	4,334	5,859	7,116	11,371
<i>% y-o-y growth</i>	<i>100.1</i>	<i>22.4</i>	<i>12.5</i>	<i>8.3</i>	<i>11.5</i>	<i>39.1</i>	<i>25.5</i>
PAT	51	94	397	11	44	193	444
<i>% y-o-y growth</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(13.7)</i>	<i>105.6</i>	<i>11.8</i>
Remarks	Profitability in life insurance biz maintained with highest profit recorded in past seven quarters						

<b>Kotak Mahindra Capital Company</b>							
Revenues	326	144	90	221	222	189	382
<i>% y-o-y growth</i>	<i>(67.1)</i>	<i>(76.5)</i>	<i>(87.5)</i>	<i>(47.1)</i>	<i>(31.9)</i>	<i>31.3</i>	<i>324.4</i>
PAT	89	(19)	(38)	48	41	2	134
<i>% y-o-y growth</i>	<i>(81.9)</i>	<i>(108.8)</i>	<i>(115.0)</i>	<i>(49.7)</i>	<i>(53.9)</i>	<i>(108.3)</i>	<i>(452.6)</i>
Remarks	Steep sequential increase in revenues and PAT as the company closed several deals in last quarter						



Trend in performance of Kotak Mahindra Bank and its key subsidiaries

(Rs m)

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
<b>Kotak Securities</b>							
Revenues	2,178	1,045	1,952	2,234	2,345	1,927	1,872
<i>% y-o-y growth</i>	<i>(30.2)</i>	<i>(75.2)</i>	<i>(48.9)</i>	<i>10.4</i>	<i>7.7</i>	<i>84.4</i>	<i>(4.1)</i>
PAT	410	40	180	743	759	592	508
<i>% y-o-y growth</i>	<i>(58.6)</i>	<i>(97.3)</i>	<i>(82.2)</i>	<i>70.8</i>	<i>85.1</i>	<i>-</i>	<i>182.2</i>
Average Daily Volumes (Rs bn)	39	35	26	41	41	38	36
<i>Market Share (%)</i>	<i>5.7</i>	<i>5.5</i>	<i>5.3</i>	<i>4.5</i>	<i>4.4</i>	<i>4.2</i>	<i>4.1</i>
Remarks	Kotak continued to lose market share and cumulative market share stood at 4.1%. ADVs decline by 5.3% QoQ. Cash market volumes (for overall equity markets) dipped 10.2% QoQ in Q4FY10, which has put pressure on profitability of all market players.						

<b>Kotak Mahindra Asset Management Company</b>							
Revenues	212	258	273	373	481	507	395
<i>% y-o-y growth</i>	<i>16.9</i>	<i>36.0</i>	<i>68.5</i>	<i>79.3</i>	<i>126.9</i>	<i>96.5</i>	<i>55.5</i>
PAT	7	60	82	153	195	229	130
<i>% y-o-y growth</i>	<i>(80.7)</i>	<i>78.6</i>	<i>(428.0)</i>	<i>-</i>	<i>-</i>	<i>281.7</i>	<i>83.1</i>
AUM (Rs bn)	182	139	159	256	362	414	348
- Equity	35	28	26	43	54	54	49
- Debt	147	111	133	213	308	360	299
Remarks	Most of the AUM gains in last quarter got reversed affecting the topline as well as bottomline						

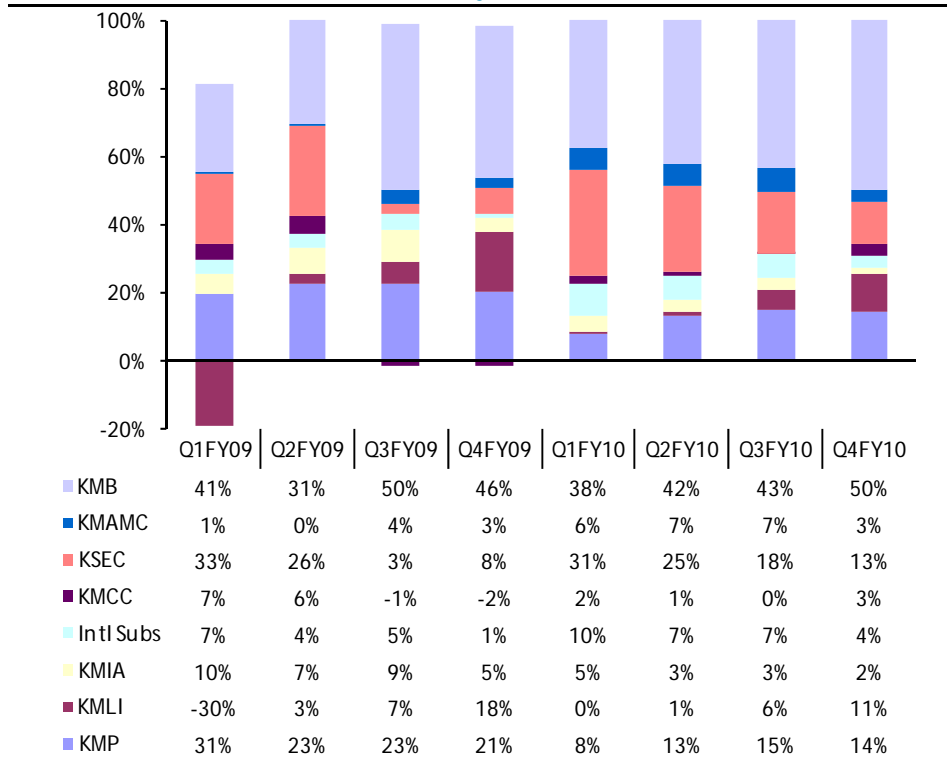
<b>Kotak Investment Advisors Limited (KIAL)</b>							
Revenues	272	295	299	255	247	245	244
<i>% y-o-y growth</i>	<i>-</i>	<i>86.7</i>	<i>39.7</i>	<i>(9.6)</i>	<i>(9.2)</i>	<i>(16.9)</i>	<i>(18.4)</i>
PAT	116	133	102	118	95	115	71
<i>% y-o-y growth</i>	<i>-</i>	<i>144.0</i>	<i>32.5</i>	<i>(9.5)</i>	<i>(18.1)</i>	<i>(13.8)</i>	<i>(30.4)</i>
Commitments (Rs bn)	59	62	66	55	55	55	55
Remarks	The real estate commitments have remained stagnant at Rs55bn for almost a year now						

<b>International Subsidiaries</b>							
AUM (Rs bn)	1.5	1.3	1.1	1.6	1.8	1.6	1.6
<i>% y-o-y growth</i>	<i>(31.8)</i>	<i>(62.9)</i>	<i>(47.6)</i>	<i>(11.1)</i>	<i>20.0</i>	<i>23.1</i>	<i>45.5</i>
PAT	62	74	19	231	208	226	153
<i>% y-o-y growth</i>	<i>4.4</i>	<i>(78.0)</i>	<i>(89.3)</i>	<i>159.3</i>	<i>235.5</i>	<i>204.9</i>	<i>705.3</i>
Remarks	International subsidiaries continue to make healthy contribution to the consolidated bottomline						

Proportion of the lending business to consolidated profits increased from 46% in Q1FY10 to 64% in Q4FY10.

We expect the lending business to contribute 60-65% to bank's consolidated bottom-line going forward.

#### Trend in consolidated PAT contribution by various subsidiaries



Source: Company Data, PL Research

#### Sum of the parts valuation

Subsidiaries	Basis	(Rs bn)		Multiple	Value (Rs bn)		(Rs / Share)		% of SOTP	
		FY11E	FY12E		FY10E	FY11E	FY12E	FY11E	FY12E	FY11E
Kotak Securities - KS	Earnings	3.6	4.5	15.0	53.3	67.0	154	194	21%	21%
KMCC - KMCC	Earnings	0.5	0.7	12.0	5.5	8.5	16	24	2%	3%
Kotak AMC - KAMC	AUMs	278.4	417.6	0.1	16.7	25.1	48	72	7%	8%
Pvt Equity - KMIA	AUMs	71.5	78.7	0.1	5.7	6.3	17	18	2%	2%
Kotak Prime - KMP	ABV	10.2	12.8	2.6	26.4	33.4	76	97	10%	11%
Investments - KMI	ABV	2.6	3.1	1.0	2.6	3.1	7	9	1%	1%
International - KMIntl+Inc	Earnings	0.6	0.7	15.0	8.4	10.3	24	30	3%	3%
Kotak UK - Kotak UK	Earnings	0.4	0.5	15.0	6.2	8.2	18	24	2%	3%
Kotak OM Life - KM Life*	NBAP	2.4	3.0	16.0	28.6	35.3	70	87	10%	10%
Value of subsidiaries per share *							431	555		
KM Bank	ABV **	45.0	52.5	2.3	104.5	121.9	302	353	41%	39%
SOTP - target price							734	907	100%	100%

Source: PL Research

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

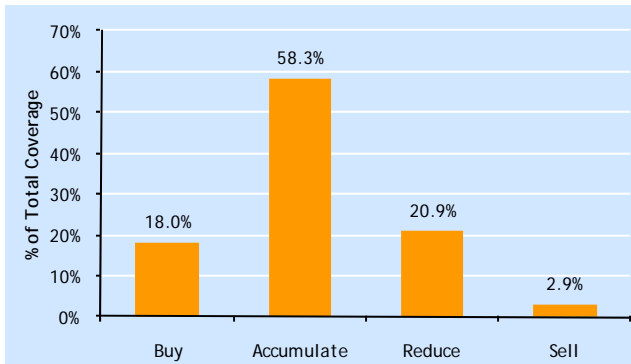
\*\* ABV - reduced by Rs 12 per share for investments in subsidiaries and outstanding NNPA's

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

#### For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties. Additionally, you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.