KOTAK BANK

"NEUTRAL"
22th Jan, 2014

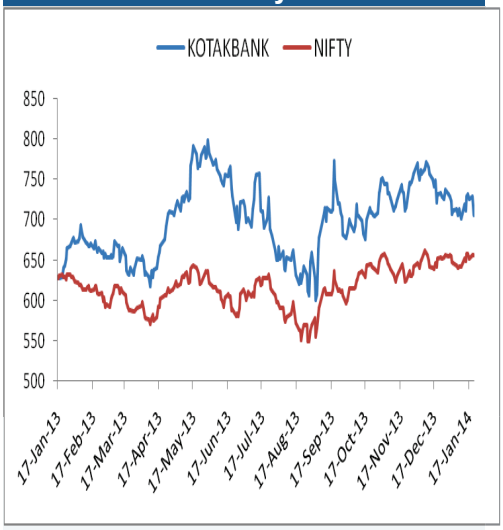
Result update	NEUTRAL
CMP	702
Target Price	714
Previous Target Price	782
Upside	2
Change from Previous	-9

Market Data	
BSE Code	500247
NSE Symbol	KOTAKBANK
52wk Range H/L	804/588
Mkt Capital (Rs Cr)	54341
Average Daily Volume	1.12 lakhs
Nifty	6314

Stock Performance	1M	1yr	YTD
Absolute	-3.6	12.4	12.4
Rel.to Nifty	-4.1	7.8	7.8

Share Holding Pattern-%	Current	4QFY13	3QFY1
Promoters	43.7	43.7	43.8
FII	31.8	31.1	31.2
DII	1.7	2.3	2.2
Others	22.9	22.9	22.9

KOTAK Bank Vs Nifty



At the current price of Rs.708, bank is trading at 4.5 times of one year forward book and 37.5 times of one year forward earnings which premium over its peers under our coverage. Bank reported slightly deterioration in asset quality and negative earnings due to muted operating and financials metrics. We lower our target price to Rs.714 from earlier of Rs.782. We have neutral view on the stock.

Muted revenue growth driven moderate NII growth negative non Interest Income

Kotak Mahindra Bank reported moderate growth in core banking business with NII grew by 10.9% YoY to Rs.913 cr. Muted revenue growth was driven by lower loan growth, flat to negative non interest income, declined credit deposits ratio and NIM compression. Non- interest income reported flat to negative numbers to Rs.300 cr from Rs.305 cr in 3QFY13. Fee income registered growth of 6% YoY to Rs.226 cr from Rs.213 cr in corresponding quarter last year and treasury income reported 128% YoY growth to Rs.144 cr versus Rs.63 cr in 3QFY13.

Cost Income ratio increased led flat growth in operating profit

Operating expenses increased by 13.1% to Rs.628 cr from Rs.555 cr in last year same quarter in which employee cost decreased by 5% YoY while other operating cost increased by 33% YoY. Operating profit reported growth of 2.1% YoY to Rs.585 cr largely due to lower other income. Cost income increased to 51.8% in 3QFY14 versus 49.2% in 3QFY13 and 50.3% in 2QFY14.

Sequentially asset quality deteriorated

In 3QFY14, bank's asset quality deteriorated by 7% on sequential basis in absolute term while as a percentage to gross advance, it stood at 2% (slightly deteriorated by 4 bps). During quarter bank had made provisions of Rs.70 cr versus Rs.72 cr in previous year in which loan loss provisions were Rs. 25.44 cr and investment provisions to the tune of Rs. 43.3cr. As the result, net NPA increased by 20% QoQ while as a percentage to net advance, this ratio stood at 1.1% versus 1% in previous quarter. Provisions coverage ratio (without technical write off) declined by 590 bps on sequential basis to 45.7%.

Financials Rs, Cr

	2011	2012	2013	2014E	2015E
NII	2098	2512	3206	3682	3762
Total Income	781	977	1161	1412	1412
PPP	1325	1655	2157	2585	2536
Net Profit	818	1085	1361	1450	1601
EPS	11.1	14.6	17.7	18.9	20.8

(Source: Company/Eastwind)

Please refer to the Disclaimers at the end of this Report.

Profit declined due to lower NII Growth, flat to negative other income growth along with muted performance in operating and financials metrics

Kotak bank reported net profit de-growth of 6% YoY to Rs.340 cr largely due to lower loan growth, declined in credit deposits ratio, moderate NII growth , lower other income along with higher cost income ratio. Consequently ROA declined to 1.6% from 1.8% in 3QFY14 and ROE declined to 11.4% from 16.1%. On consolidated level, bank's profit grew by 2.4% YoY to Rs.591.25 cr. Consolidated profit come from Kotak Mahindra Prime, Kotak Securities, Kotak Mahindra Capital, Kotak Mahindra Old Mutual Life Insurance and other businesses.

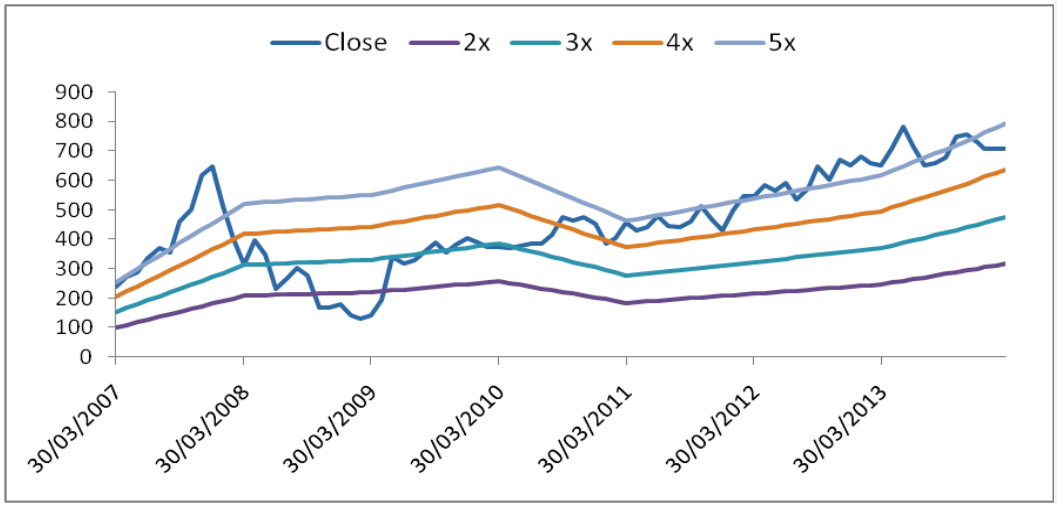
Loan & deposits growth muted on YoY basis, saving deposits grew on the back of lucrative interest rate

Loan increased by 5.8% YoY to Rs.53149 cr from Rs.50245 cr in corresponding quarter last year led by retail and corporate loan growth of 6% and 5% respectively. Deposits grew by 6% YoY led by saving deposits growth of 37.6% YoY largely due to bank's lucrative interest rate on saving deposits. Demand deposits and term deposits registered growth of 6.1% and 0.6% respectively. CASA ratio, in absolute term grew by 22% YoY while in percentage to total deposits, it stood at 29.7% versus 25.9% in last quarter.

Valuation &view

At the current price of Rs.708, bank is trading at 4.5 times of one year forward book and 37.5 times of one year forward earnings which premium over its peers under our coverage. Bank reported slightly deterioration in asset quality and negative earnings due to muted operating and financials metrics. We lower our target price to Rs.714 from earlier of Rs.782. We have neutral view on the stock.

Valuation Band



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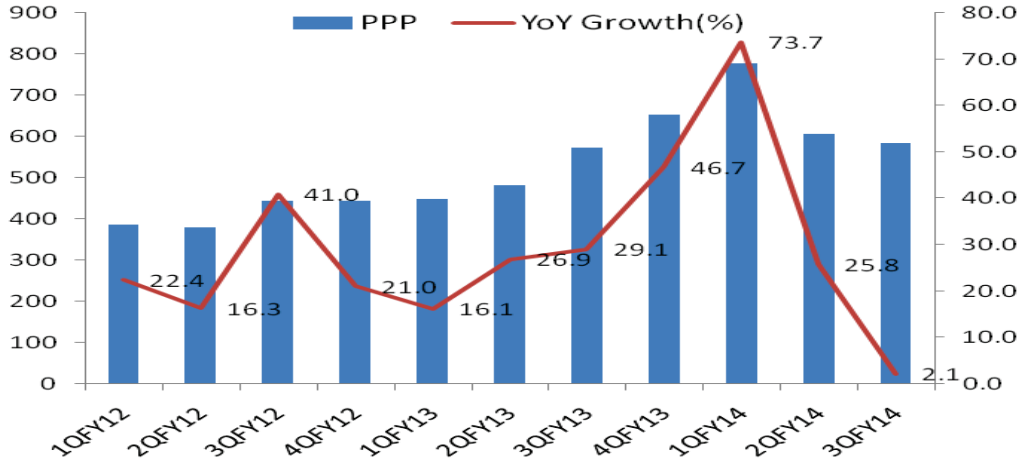
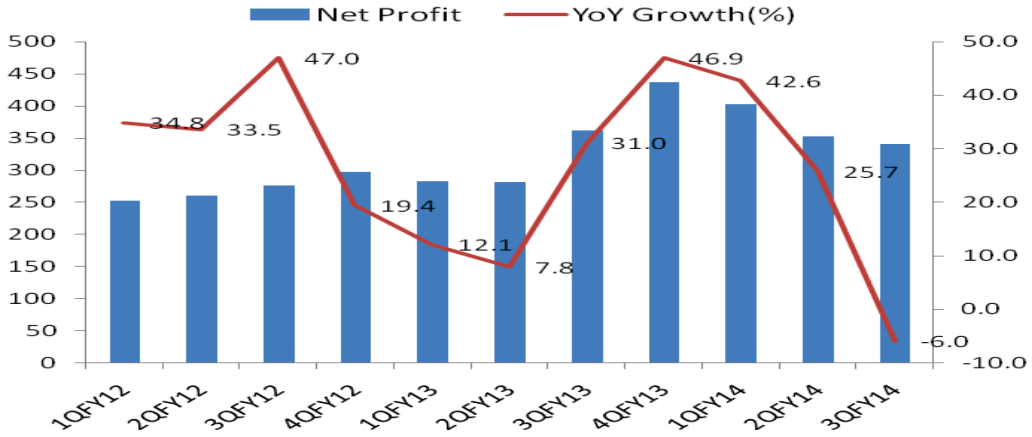
Fundamental through graph

Muted growth in NII was on account of moderate growth in operating as well as financials metrics



Lower non interest income and higher operating cost led operating growth of 2.1% YoY



Profit declined by 6% YoY due to lower NII growth, flat non interest income, higher operating cost and higher provsions on yealry basis.

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KOTAK BANK

Quarterly Performance

Quarterly Result(Rs Cr)	3QFY14	2QFY13	3QFY13	% YoY Gr	% QoQ Gr
Interest/discount on advances / bills	1702	1644	1597	*6.5*	*3.5*
Income on investments	484	510	492	*-1.6*	*-5.0*
Interest on balances with Reserve Bank of India	6	7	5	*21.3*	*-11.7*
Others	0	11	0	*82.6*	*-96.3*
Total Interest Income	2192	2172	2095	*4.7*	*0.9*
Others Income	300	297	305	*-1.7*	*0.9*
Total Income	2492	2469	2399	*3.9*	*0.9*
Interest Expended	1280	1248	1272	*0.6*	*2.5*
NII	913	924	823	*10.9*	*-1.2*
Other Income	300	297	305	*-1.7*	*0.9*
Total Income	1212	1221	1128	*7.5*	*-0.7*
Employee	277	265	292	*-4.9*	*4.8*
Other Expenses	350	350	264	*32.9*	*0.1*
Operating Expenses	628	615	555	*13.1*	*2.1*
PPP(Rs Cr)	585	607	573	*2.1*	*-3.6*
Provisions	70	72	42	*64.6*	*-3.5*
PBT	515	534	530	*-2.9*	*-3.6*
Tax	175	182	169	*3.8*	*-3.7*
Net Profit	340	353	362	*-6.0*	*-3.6*
Balalce Sheet(Rs Cr)					
Net Worth	11896	11569	8992	*32.3*	*2.8*
Deposits	54671	52642	51524	*6.1*	*3.9*
Borrowings	13673	14523	18566	*-26.4*	*-5.9*
Total Liabilities	**84297**	**82185**	**82428**	*2.3*	*2.6*
Investment	23615	22528	26587	*-11.2*	*4.8*
Advances	53149	50609	50245	*5.8*	*5.0*
Total Assets	**84297**	**82185**	**82428**	*2.3*	*2.6*
Asset Quality					
GNPA	1076.2	1005.9	740.0		
NPA	584.5	486.9	322.7		
GNPA	2.02	1.99	1.47		
NPA	1.10	0.96	0.64		
PCR(w/o technical write-off)	46	52	56		

Source: Eastwind/ Company

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KOTAK BANK

Financials & Assumption

Rs Cr	2011	2012	2013	2014E	2015E
Interest/discount on advances / bills	3214	4867	6146	6751	8141
Income on investments	957	1306	1870	2079	2006
Interest on balances with Reserve Bank of India	17	4	24	27	7
Others	1	2	2	20	20
Total Interest Income	4190	6180	8042	8877	10173
Others Income	781	977	1161	1412	1412
Total Income	4970	7158	9203	10290	11586
Interest on deposits	1498	2504	3346	3926	4515
Interest on RBI/Inter bank borrowings	349	775	1055	0	0
Others	246	389	435	1071	2583
Interest Expended	2092	3668	4837	5195	6411
NII	2098	2512	3206	3682	3762
Other Income	781	977	1161	1412	1412
Total Income	2878	3490	4366	5095	5175
Employee	784	902	1075	1129	1188
Other Expenses	769	932	1135	1380	1451
Operating Expenses	1553	1835	2210	2509	2639
PPP(Rs Cr)	1325	1655	2157	2585	2536
Provisions	507	570	796	389	249
Net Profit	818	1085	1361	1450	1601
Deposits	29261	38537	51029	58683	67486
Deposits Growth(%)	22.5	31.7	32.4	15.0	15.0
Borrowings	11724	16596	20411	14671	35387
Borrowings Growth(%)	90.9	41.6	23.0	-28.1	141.2
Loan	29329	39079	48469	55739	64100
Loan Growth(%)	41.2	33.2	24.0	15.0	15.0
Investment	17121	21567	28873	25718	30862
Investment Growth(%)	**36.8**	**26.0**	**33.9**	**-10.9**	**20.0**
Eastwind Calculation					
Yield on Advances	11.0	12.5	12.7	12.7	12.7
Yield on Investments	5.6	6.1	6.5	8.1	6.5
Yield on Funds	8.6	9.8	9.9	4.5	4.0
Cost of deposits	5.1	6.5	6.6	6.7	9.5
Cost of Borrowings	5.1	7.0	7.3	7.3	7.3
Cost of fund	5.1	6.7	6.8	7.1	6.2
Valuation					
Book Value	93	108	123	159	179
P/BV	4.9	5.0	5.3	4.5	4.0
P/E	41.2	37.0	36.9	37.5	34.0

Source: Eastwind/ Company

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