01 April 2016

Company Research

Kotak Mahindra Bank (KTKM.NS)

India | Banks

BUY

Price: INR681.00

Target: INR833.00

Forecast Total Return: 22.5%

Market Cap: INR1,249bn

Average daily volume: 1.8m

Mergerville – Arriving ahead of schedule?

With four quarters now past the acquisition of ING Vysya by Kotak we are now at the business end of the deal. We believe the integration will play out smoothly with the bank well positioned to deliver RoA improvement not just for FY17E but also into FY18E even in a backdrop of weak credit offtake at the macro level. Despite the lower RoEs of Kotak we believe it should trade at a premium to HDFC Bank and its historical average given (a) improving RoA trajectory, (b) higher earnings growth & (c) smaller size. Top pick in Banking.

- **Integration to play out smoothly**: We believe that the integration process is likely to play out smoothly given the extreme care taken in planning the integration centrally and the high level of transparency for all the stakeholders involved which has ensured little disruptions at the branch level. Our channel checks indicate no major problems from the eIVBL unionized employees and as both these platforms fully integrate by April 2016, we expect productivity of the eIVBL branches to improve by higher cross-sell of the broader product suit.
- **Profitability remains at the core**: This statement could seem like a contradiction given the lower RoE of the bank but our interactions with intermediaries clearly point out that Kotak remains very much focussed on the profitability of the deal at the transaction level and is willing to forego growth in order to protect profitability. This is particularly relevant in certain product categories such as CV/CE where intermediary driven business is not necessarily profitable for banks.
- **Growth uncertain but RoA improvement certain**: Given the focus on profitability, growth could take a back seat in the near term as credit off-take still remains weak at the ground level. However, this does not worry us too much at this stage as the bank is coming off a low base in FY16E and has enough levers to pull such as lower credit costs and operating leverage to deliver RoA improvement not just for FY17E but into FY18E as well.
- **Top pick in Banking – Why Kotak over HDFC Bank?**: Kotak remains our Top pick and we recommend it as a core part of the banking portfolio as the bank is well positioned to deliver consistent RoA improvement starting FY18E after normalizing in FY17E. **Reiterate BUY with TP of Rs833.**

Banks

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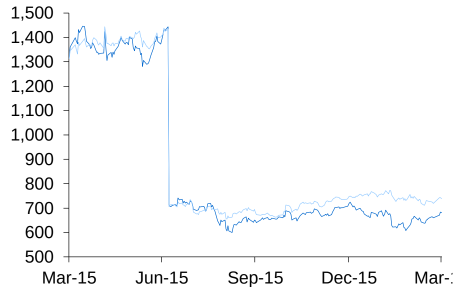
Financials and valuation — Year end: 31 March

	2014A	2015E	2016E	2017E	2018E
Total operating income (INRm)	109,235	144,567	171,651	200,454	241,545
Operating expenses (INRm)	69,190	97,009	105,670	116,237	131,296
Impairments (INRm)	3,090	2,057	10,596	6,569	9,001
Exceptionals (INRm)	0	0	0	0	0
Profit before tax (reported) (INRm)	36,955	45,500	55,385	77,648	101,248
EPS (reported)	16.3	19.8	20.1	28.1	36.6
DPS (INR)	0.8	0.9	1.0	1.3	1.6
tNAV per share (INR)	121.8	141.1	180.7	207.4	242.2
PE (reported) (x)	41.8	34.3	33.9	24.2	18.6
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Price/tNAV (x)	5.6	4.8	3.8	3.3	2.8
Return on equity (reported) (%)	14.4	14.6	11.8	14.5	16.3
Core tier 1 capital ratio (CRD IV "fully loaded") (%)	17.8	16.2	13.6	13.3	12.4
Loans:deposit ratio (%)	125.9	121.7	106.6	104.2	103.0

Source: Company accounts/Investec Securities estimates

Price Performance



	1m	3m	12m
Price	8.1	(5.2)	(48.1)
Price rel to India S&P BSE 500 - BSE	(2.3)	(1.0)	(43.7)

Source: FactSet

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Integration to play out smoothly

Mergers are tricky, especially when it involves integrating two banks with a combined employee base of nearly 40,000 employees. We believe that the integration process is likely to play out smoothly given the extreme care taken in planning the integration process centrally and the high level of transparency for all the stakeholders involved which has ensured little disruptions at the branch level. Our channel checks indicate no major problems from the eIVBL unionized employees and as both these platforms fully integrate by April 2016, we expect productivity of the eIVBL branches to improve by higher cross-sell of the broader product suit.

Measuring benefits from merger

It has been nearly 4 quarters since the integration process of the merger between Kotak and eIVBL. In the first 9 months, the bank had completed the full integration i.e. people, processes, technology of the front, mid and back offices of the **(a)** Treasury, **(b)** Wholesale/Corporate banking and a few support services. During this period the business banking (SME), retail lending and the branch banking (deposits) have been broadly left untouched in the “bank in a bank” (BIB). A few retail products such as Credit Cards, Auto loans (prime) and CV loans have been rolled out partially across the metro and urban branch networks which have already seen traction across the eIVBL branch network.

- **As of Q2’16, 312 branches of eIVBL which have actually started to sell Auto loans**
- **As of Q2’16, close to 183 branches of eIVLB are active on credit card cross sell**

Both these products were virtually non-existent previously at eIVBL. The table below shows the time lines involved in the full integration of both the banks. The last state of integration involves the full integration of the business banking (SME), retail lending and branch banking (retail deposits) along with the full integration of the technology platform, particularly the Core Banking Platforms of both these banks.

Table 1: Timelines involved in integration of various verticals / business segments

Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16E
Wholesale Bkg	Private Banking	Mortgages	Branch Banking
Treasury	Currency Chest	Call Centres	Business Banking
Wholesale Credit	Branch Infra	Personal Loan	Agri Lending
Tax	Services	Cons. Finance Ops & System	Retail Lending Ops
Compliance	NRI Banking	Transaction Bkg Ops	SME & Agri banking Ops
Secretarial	Vigilance	ATM	Full System Integration
Investor Relations	Wholesale Bkg Ops.	Internal Audit	
Credit Cards	Wholesale Tech Integration	IT / Technology	
Commercial Vehicles	Gold Loan	HR	
Marketing	Finance		
Trade Ops	Legal		
	Ops. Risk Management		

Source: Company filings

The Hits so far…

One has to measure the progress of the bank against this back drop of partial integration and a slow macro-environment with weak credit offtake. There were three key success stories which played out over the past few quarters – **(a)** strong retail liabilities momentum, **(b)** strong cross sell of Insurance and Mutual Funds & **(c)** traction on retail lending.

Average SA at eIVBL branches grew 31% YoY, Kotak branches at 41%

- **Strong retail liabilities momentum:** This is the biggest success story of the merger so far. The bank managed to deliver a consistent growth of more than 30% YoY on the combined book. This is driven by 31% YoY growth of average SA at eIVBL branches and 41% YoY growth of average SA at Kotak branches. The period end Current deposits growth has seen a decline during Q3'16 but the sequential average CA growth was at 8% QoQ vs a 17% sequential decline.

Table 2: Kotak (combined) YoY advances growth

Kotak (Merged) - YoY	Q1'16	Q2'16	Q3'16
Total Deposits	**13%**	**9%**	**10%**
Current Deposits	**22%**	**20%**	**9%**
Savings Deposits	**30%**	**28%**	**35%**
Term Deposits	7%	2%	4%
TD Sweep	**28%**	**20%**	**34%**
Certificate of Deposits	9%	5%	5%
Core Term Deposits	4%	0%	1%

Source: Investec Securities estimates, Company filings

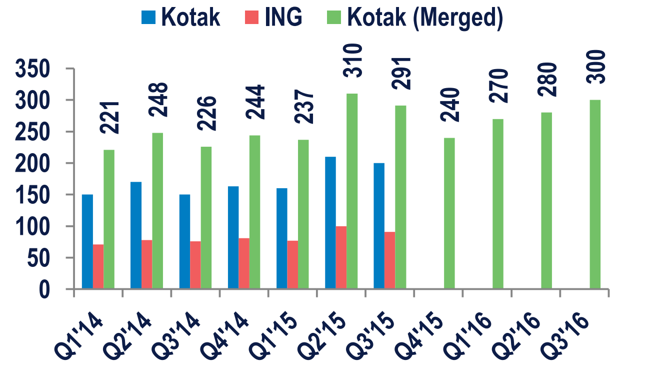
Table 3: Kotak (combined) deposit breakup

Kotak (Merged) % of Total	Q1'16	Q2'16	Q3'16
Total Deposits	**100%**	**100%**	**100%**
Current Deposits	15%	16%	15%
Savings Deposits	19%	20%	20%
Term Deposits	66%	64%	65%
TD Sweep	6%	5%	6%
Certificate of Deposits	9%	7%	9%
Core Term Deposits	51%	51%	50%

Source: Investec Securities estimates, Company filings

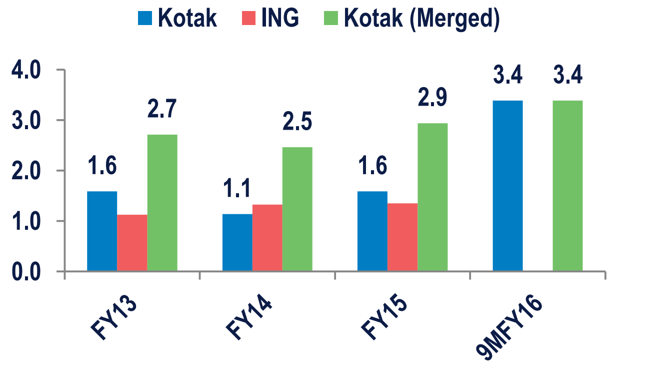
This is also reflected in the strong customer acquisition momentum of Kotak Bank as can be seen from the steady increase to the "New to Bank" customers. On an annualized basis, the bank is adding ~1.2m new customers which is now at par with the likes of Axis Bank which added about the same number of customers during FY15A.

Figure 1: New to Bank (NTB) customers ('000)



Source: Investec Securities estimates, Company filings

Figure 2: Number of Debit cards o/w (mn)



Source: RBI, Investec Securities estimates

While the average SA growth in the eIVBL branches has picked up from an average level of c.10% to around c.30% YoY. However, this is yet to translate into similar level of increase to the number of transactions processed by the bank as can be seen from the monthly RBI data on debit card transactions.

Table 4: Transaction per month per card

No	FY13	FY14	FY15	9MFY16
HDFC Bank Ltd.	2.2	2.2	2.0	1.8
ICICI Bank Ltd.	1.8	1.8	1.6	1.5
Axis Bank Ltd.	2.1	2.3	2.2	2.0
IndusInd Bank Ltd	1.2	1.0	0.9	1.0
Kotak (Merged)	**2.0**	**2.2**	**2.2**	**2.2**
Yes Bank Ltd.	2.0	2.1	2.5	2.7
Grand Total	**1.5**	**1.5**	**1.2**	**1.2**

Source: RBI, Investec Securities estimates

Table 5: Amt of transactions per month per ATM

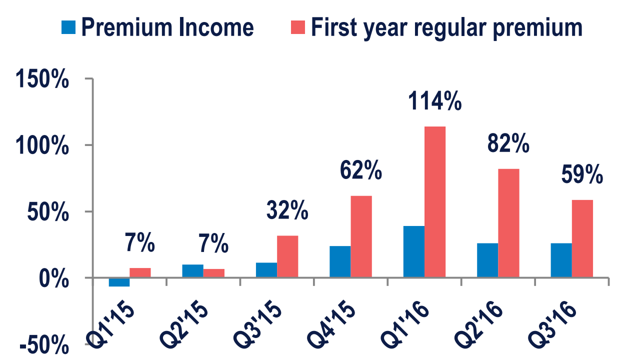
Rs	FY13	FY14	FY15	9MFY16
HDFC Bank Ltd.	8,378	8,349	7,581	6,923
ICICI Bank Ltd.	6,982	6,840	6,410	5,949
Axis Bank Ltd.	7,830	9,081	8,714	8,334
IndusInd Bank Ltd	4,479	3,760	3,543	3,572
Kotak (Merged)	**5,251**	**6,680**	**6,590**	**6,182**
Yes Bank Ltd.	6,263	6,723	7,230	7,814
Grand Total	**4,383**	**4,343**	**3,522**	**3,450**

Source: RBI, Investec Securities estimates

Kotak Life Insurance is helped again by the merger to a certain extent and is now growing at a pace which is significantly faster than industry

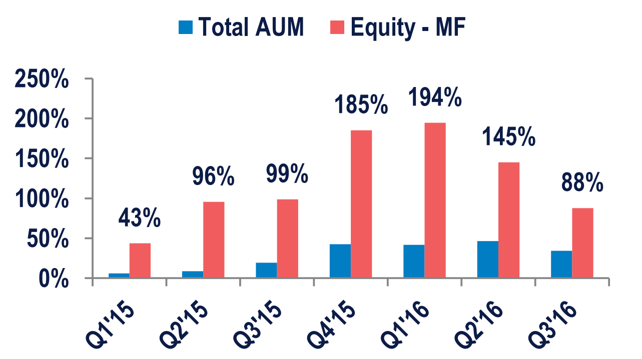
- **Strong cross sell of Insurance and Mutual Funds:** This is one of the biggest success stories of the merger so far. Kotak has seen a sharp improvement to the First year regular premium growth and a sharp improvement to the equity AuM managed by the asset management division.

Figure 3: YoY Premium growth of Kotak Old Mutual Life Insurance



Source: Investec Securities estimates, Company filings

Figure 4: YoY AuM growth of Kotak Asset management



Source: Investec Securities estimates, Company filings

While it is difficult to point out data to prove that eIVBL branches are contributing to this growth, what is definitely visible is the sustained high growth rates and the consistent market share gains in both the businesses.

Table 6: Kotak Old Mutual has seen a sharp market share increase

Total APE	YTD'15	Mkt shr	YTD'15	YoY	Mkt shr
ICICI Pru Life	40.4	10.2%	44.8	11%	10.6%
SBI Life	28.5	7.2%	40.4	42%	9.5%
HDFC Life	26.1	6.6%	29.6	13%	7.0%
Max Life	16.2	4.1%	17.0	5%	4.0%
Birla Life	14.1	3.6%	14.7	4%	3.5%
Bajaj Life	13.6	3.4%	12.6	-8%	3.0%
Reliance Life	17.5	4.4%	12.8	-27%	3.0%
Kotak Life	**7.5**	**1.9%**	**12.0**	**60%**	**2.8%**
PNB Life	6.7	1.7%	7.9	19%	1.9%
Tata Life	2.1	0.5%	5.4	156%	1.3%
Total Life	**395.2**	**100.0%**	**423.2**	**7%**	**100.0%**

Source: IRDA, Investec Securities estimates

Table 7: Kotak AMC has also gained market share in Equity (Rs Bn)

Equity AUM	Feb'15	Mkt shr	Feb'16	YoY	Mkt shr
HDFC AMC	640	18.8%	514	-20%	14.7%
ICICI Pru AMC	425	12.5%	463	9%	13.3%
Reliance AMC	442	13.0%	398	-10%	11.4%
UTI AMC	345	10.2%	301	-13%	8.6%
SBI AMC	204	6.0%	294	44%	8.4%
Birla SL AMC	253	7.4%	274	8%	7.8%
Franklin Temp AMC	225	6.6%	259	15%	7.4%
DSP BR AMC	141	4.1%	136	-3%	3.9%
Axis AMC	79	2.3%	107	35%	3.1%
Kotak AMC	**60**	**1.8%**	**88**	**47%**	**2.5%**
Total AuM	**3,400**	**100.0%**	**3,490**	**3%**	**100.0%**

Source: AMFI, Investec Securities estimates

Especially in urban India, other than Bengaluru probably, most places people are buying new homes a little slower – ***MD & CEO Mr Uday Kotak***

- **Traction on retail lending:** While the overall advances growth rates have been lower at around c.7% YoY, the retail lending growth rates have improved during this period. Within retail the growth rates of the vehicle finance, Personal loans and other granular retail loans. The only retail segment where there has been a slowdown for Kotak is the home loan segment which has seen the growth rates now drop to around c.12% YoY. One of the reasons attributed to this is the slower industry growth and house buying trends leading to the decline in the growth rates.

Table 8: Retail advances growth of the Parent bank - YoY

Kotak (Merged)	Q1'16	Q2'16	Q3'16
Total Advances	**6%**	**7%**	**7%**
Retail Banking	**15%**	**18%**	**18%**
Home Loans	16%	14%	12%
Vehicle	9%	12%	15%
PL	33%	31%	28%
Others	15%	46%	46%

Source: Investec Securities estimates, Company filings

Table 9: Retail advances growth of the Consol entity - YoY

Kotak (Merged) - (Consol)	Q1'16	Q2'16	Q3'16
Total Advances	**6%**	**7%**	**7%**
Retail Banking	**15%**	**18%**	**18%**
Home Loans	16%	14%	12%
Vehicle	9%	12%	15%
PL	33%	31%	28%
Others	15%	46%	46%

Source: Investec Securities estimates, Company filings

And the Misses

Firstly, the rundown book, which was separately identified, is 6% of the eIVBL book. Secondly, where common exposures to the same entity by both the banks (Rs100cr each total of Rs200Cr), the combined limits Post-merger, based on the analysis we did, we came to a combined limit number of Rs150Cr – ***Q1'16 Con Call***

- **Rundown of Corporate and SME portfolios hurting overall growth:** The biggest miss on the performance front so far has been the lower than expected advances growth. The guidance for the full year has been tapered from an absolute level of 15-20% to a more relative growth guidance of 1.5-2.0x nominal GDP (around 7.5-8%) which essentially means that the upper end of the guidance is now around 15%. While the overall system credit offtake has certainly been slower, the main reason for the slower advances for Kotak has been the rundown by nearly c.17% during Q1'16 immediately post-merger. Similarly the SME business has declined by nearly 5% during the first quarter post-merger leading to overall lower credit growth.

Table 10: Corporate / SME advances growth of Parent bank - YoY

Kotak (Merged)	Q1'16	Q2'16	Q3'16
Total Advances	6%	7%	7%
Corporate	**-7%**	**-8%**	**-5%**
Business Banking / SME	9%	5%	3%
Agricultural	12%	16%	7%
Retail Banking	15%	18%	18%

Source: Investec Securities estimates, Company filings

Table 11: Corporate / SME advances growth of Consol entity - YoY

Kotak (Merged) - (Consol)	Q1'16	Q2'16	Q3'16
Total Advances	**6%**	**7%**	**7%**
Corporate	**-7%**	**-8%**	**-5%**
Business Banking / SME	9%	5%	3%
Agricultural	12%	16%	7%
Retail Banking	15%	18%	18%

Source: Investec Securities estimates, Company filings

- **One-off items leading to lower fee income growth:** The other major concern was the continuous decline to the "Core fee income" which as of Q3'16 declined at c.9% YoY run-rate. This was mainly attributed to "lumpy one-off times" from eIVBL which continued to cause higher volatility. We believe the lower credit growth was also partly the reason for the lower fee income growth. However, on a consolidated basis, the "Core fee income" started to show improvement given the strong performance of the capital market subsidiaries.

Table 12: Non-interest income YoY growth for the merged entity

Kotak (Merged)	Q1'16	Q2'16	Q3'16
Total Other Income	**-6%**	**-11%**	**3%**
o/w Core Fees	**-18%**	**-15%**	**-9%**
o/w Treasury	83%	2%	25%

Source: Investec Securities estimates, Company filings

Table 13: Non-interest income YoY growth for the merged (C) entity

Kotak (Merged) - (C)	Q1'16	Q2'16	Q3'16
Total Other Income	**0%**	**2%**	**8%**
o/w Core Fees	**5%**	**-4%**	**10%**
o/w Treasury	-25%	75%	-23%

Source: Investec Securities estimates, Company filings

No major concerns from channel checks – a big positive in merger scenarios

- **On track for branch level integration:** The full integration of the branch banking on the liabilities side is slated to happen by April 2016. At this stage the core banking platforms of both the banks (Finnacle for Infosys and FIS for eIVBL) will be fully integrated. Our channel checks indicate that this process has already at an advanced stage at the branch level and several eIVBL branches have already transitioned on to Kotak's platform. We believe this fully enables the integration at the customer base level leading to (a) higher cross sell, (b) increased productivity / transactions and (c) higher fee income.

*Intense internal communication to all employees on merger related progress and updates – **Q1'16 Con call***

- **No disruptions at the branch level so far:** One of the big concerns around mergers is the potential disruptions of business at the branch level. Our channel checks suggest that the merger has been handled in such a way that there were minimal disruptions to business at the branch level. Another key factor which helped in the smoother integration process is the high level transparency with which developments were communicated across the employee base.

- **Limited interactions between eIVBL & Kotak employees:** While management indicated the beginning of *"Commingling of employees at branches initiated",* our interactions with ground level employees indicate that this happened only sparingly. In fact most employees at the eIVBL branches were quite eager to interact with their respective Kotak counterparts which is encouraging from an integration perspective.

*I am happy to inform you that the IBA unionized employees are fully on board on this merger and are working towards the success of the merger – **Mr Uday Kotak, Q1 FY16 Con call***

- **Foresee no major disruption from eIVBL *'unionized employees'*:** One of the biggest risks and opportunity in the Kotak-eIVBL merger is the integration of the nearly 3500 'unionized employees' of eIVBL. The risk is obviously the potential disruptions which the unionized employee base would cause while the opportunity is the potential improvement in the productivity levels at the branches where these unionized employees are concentrated (Karnataka, AP & Telangana). Channel checks with union leaders and unionized employees of the eIVBL indicate no major concerns which they have highlighted due to the merger which is a major positive in a merger scenario especially involving unionized workforce.

- **Expect near term productivity improvement from eIVBL 'CTC' employees:** Another interesting takeaway from our current interactions with the eIVBL CTC employee base is the fact that most of them function similar to New Generation private sector banks. For example with in Karnataka, the per-branch productivity of the Bengaluru branches (metro) is significantly higher than the other rural / semi-urban branches in the state where majority of the unionized workers are concentrated. This we believe will drive immediate productivity improvement in the eIVBL branches once fully integrated.

Table 14: eIVBL deposits per branch in Karnataka (Rs Mn)

ING Vysya	Rural	S.Urban	Urban	M/P.T	Total
Q1'15	12	28	138	1,101	343
Q2'15	12	47	128	1,214	372
Q3'15	12	38	135	1,162	360
Q4'15	11	36	158	1,213	389

Source: RBI, Investec Securities estimates

Table 15: eIVBL number of branch in Karnataka

ING Vysya	Rural	S.Urban	Urban	M/P.T	Total
Q1'15	34	23	39	35	131
Q2'15	34	26	36	35	131
Q3'15	34	24	38	35	131
Q4'15	33	24	34	35	126

Source: RBI, Investec Securities estimates

Branch level productivity should improve

Most of the unionized employees are concentrated in three key southern states of Karnataka, Andhra Pradesh & Telangana which account for nearly 300 branches of the 580 odd branches or more than 50% of the acquired network. Of these 300 branches nearly 60 branches or 20% are in the two metros of Bengaluru and Hyderabad. It's the productivity of these rural / semi-urban branches which has to be increased leading to higher overall productivity.

Table 16: eIVBL advances per branch in Karnataka

ING Vysya	Rural	S.Urban	Urban	M/P.T	Total
Q4'14	77	246	412	1,418	573
Q1'15	68	253	364	1,377	539
Q2'15	73	260	397	1,739	644
Q3'15	69	260	369	1,617	604
Q4'15	80	229	416	1,722	655

Source: RBI, Investec Securities estimates

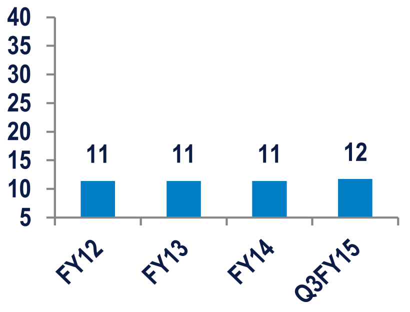
Table 17: KMB advances per branch in Karnataka

Kotak Mahindra	Rural	S.Urban	Urban	M/P.T	Total
Q4'14	477	45	331	2,244	1,374
Q1'15	476	51	323	3,281	1,859
Q2'15	534	62	356	4,442	2,626
Q3'15	593	74	331	4,388	2,728
Q4'15	664	99	368	3,364	2,188

Source: RBI, Investec Securities estimates

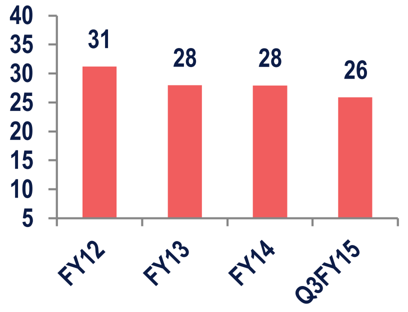
In order to do this, one of the initiatives by the management is to add more employees at the eIVBL branches in the states of AP, Karnataka and Telangana. As can be seen below, the number of employees per branch in these states is nearly 50% lower than eIVBLs per branch employee numbers outside these states and Kotak's overall employees per branch number.

Figure 5: No. employees per branch for eIVBL in AP + Karnataka + Telangana



Source: Investec Securities estimates, Company filings

Figure 6: No. employees per branch for eIVBL in other states



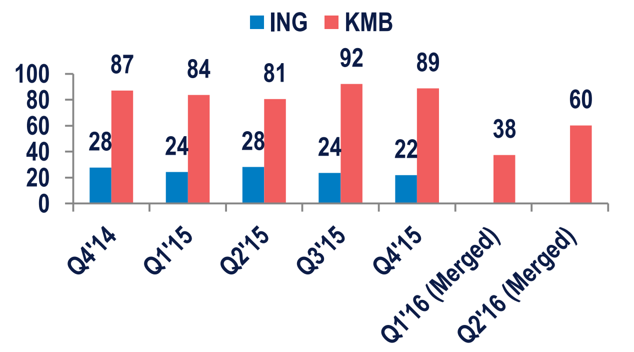
Source: Investec Securities estimates, Company filings

Figure 7: No. employees per branch for KMB across branch network

Source: Investec Securities estimates, Company filings

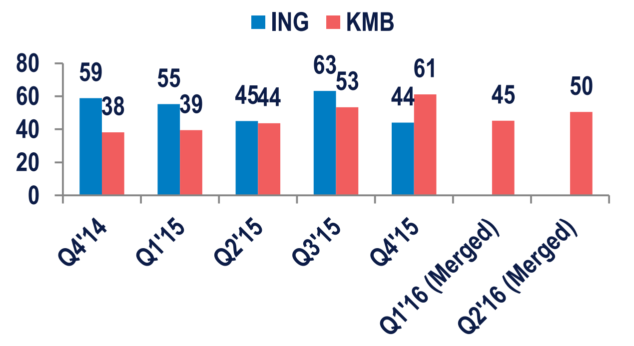
While the state level data for AP / Telangana is not comparable because of the state division, of the other states which are key for eIVLB, state level data for Kerala, TN and Gujarat shows that the branch level productivity has already started to improve as of Q3'16 as can be seen from the charts in the page 8.

Figure 8: Advances per branch for eIVBL & KMB in Kerala (Rs Cr.)



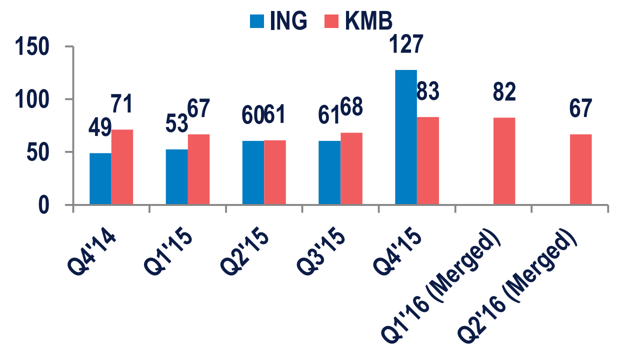
Source: RBI, Investec Securities estimates

Figure 9: Deposits per branch for eIVBL & KMB in Kerala (Rs Cr.)



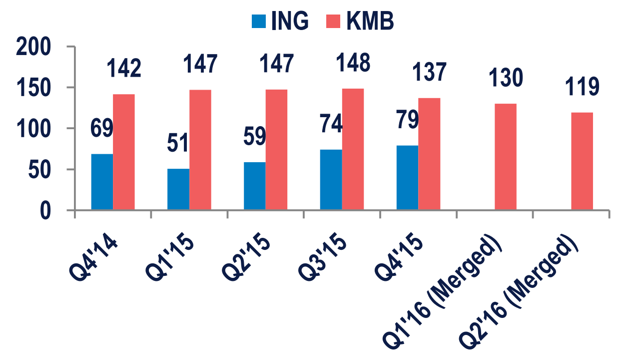
Source: RBI, Investec Securities estimates

Figure 10: Advances per branch for eIVBL & KMB in T Nadu (Rs Cr.)



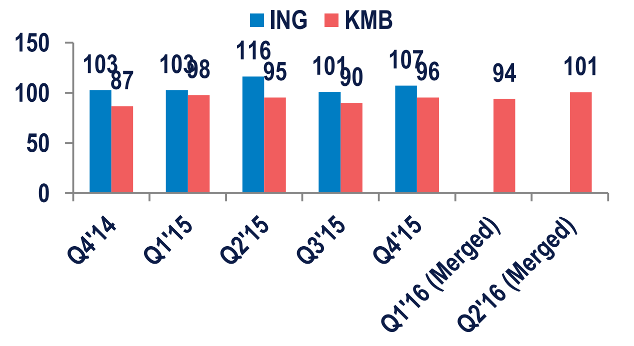
Source: RBI, Investec Securities estimates

Figure 11: Deposits per branch for eIVBL & KMB in T Nadu (Rs Cr.)



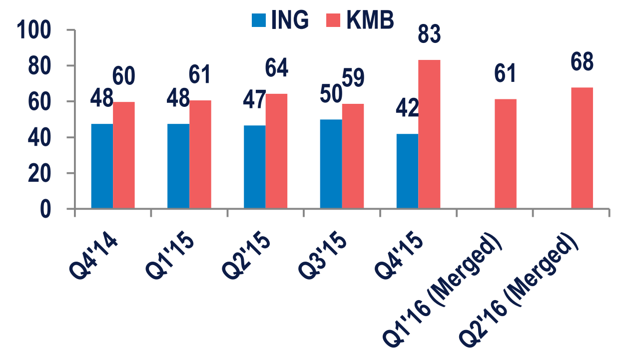
Source: RBI, Investec Securities estimates

Figure 12: Advances per branch for eIVBL & KMB in Gujarat



Source: RBI, Investec Securities estimates

Figure 13: Deposits per branch for eIVBL & KMB in Gujarat



Source: RBI, Investec Securities estimates

Profitability remains at the core

This statement could seem like a contradiction given the lower RoE of the bank but our interactions with intermediaries clearly point out that Kotak remains focused on the profitability of the deal at the transaction level and is willing to forego growth in order to protect profitability. This is particularly relevant in certain product categories such as CV/CE where intermediary driven business is not necessarily profitable for banks. Hence, growth could take a back seat in the near term as credit off-take still remains weak at the ground level. However, this does not worry us too much at this stage as the bank is coming off a low base in FY16E and has enough levers to pull such as lower credit costs and operating leverage to deliver RoA improvement not just for FY17E but into FY18E.

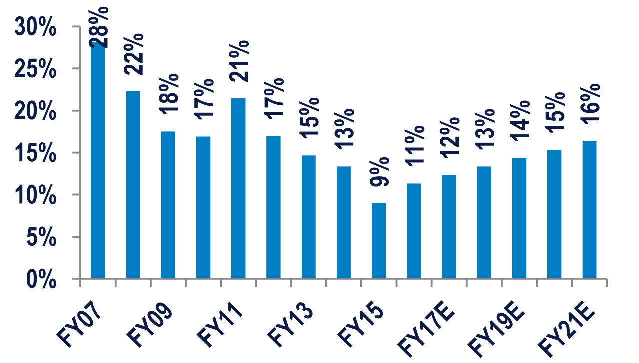
Still uncertain on growth…

I think the way you got to look at this is we feel reasonably confident to be growing at somewhere around 2x nominal GDP – ***Uday Kotak***

As highlighted in the previous section, the biggest change in commentary is the guidance on the growth front where the guidance changed from an absolute 15-20% level for FY16E and 20-25% level in the medium term to a more cautious relative guidance. The biggest reason for the change in the guidance is the lower nominal GDP growth and the slower credit off-take number which remained firmly around the c.10-12% for past few quarters.

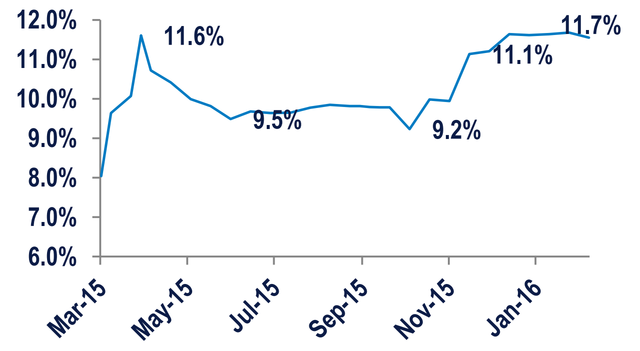
One of the other key aspects about the credit offtake over the next few years is the fact that given the slower than expected improvement to the consensus nominal GDP estimates which range between 7.5%-9.0% over the next 5 years. Based on a Credit / GDP multiplier which increases steadily from 1.5x currently to 1.8x -1.9x over the next 5 years we still arrive at the banking system credit growth picking gradually to around c.16% over the next 5 years.

Figure 14: Banking system credit growth (YoY)



Source: RBI, Investec Securities estimates

Figure 15: Banking system credit growth (YoY) – FY16

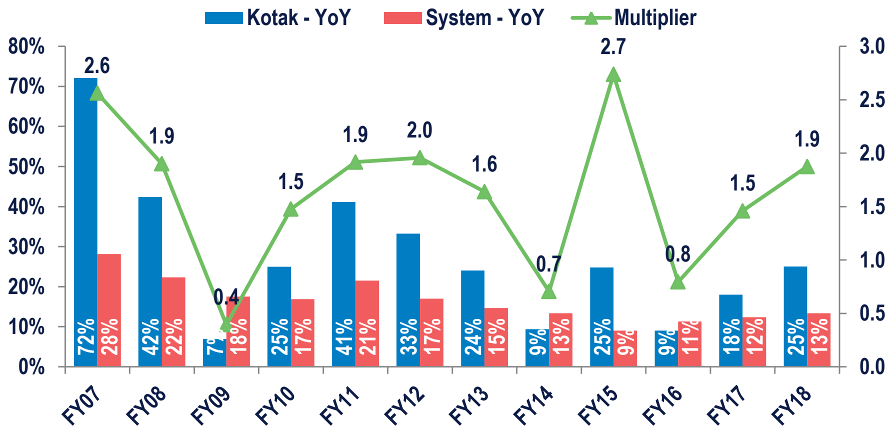


Source: RBI, Investec Securities estimates

Historically, Kotak has managed to deliver a strong improvement to advances growth number after a slow year and as can be seen during the FY09-12 cycle Kotak delivered a growth CAGR of 35% by consistently increasing its credit multiplier over the system from a bottom of 0.4x during FY09 to as high at 2.0x during FY12 delivering a peak growth of nearly 41% during FY11.

Based on the system credit growth of around 12-13% for the next two years, we believe Kotak will deliver growth of around c.18% YoY and 25% YoY for FY17E and FY18E respectively.

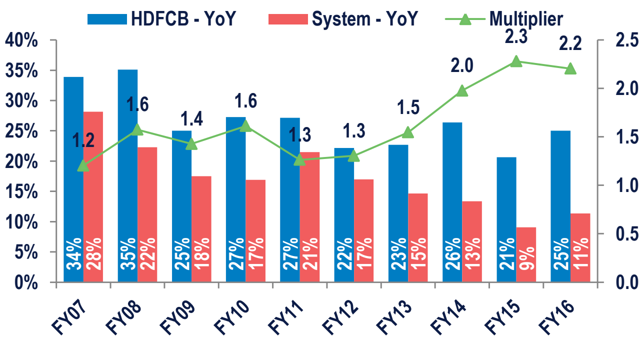
Figure 16: Kotak & System growth estimates based on historical multiplier



Source: RBI, Company filings, Investec Securities estimates

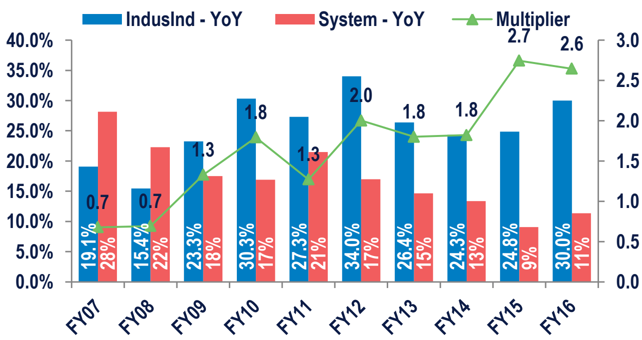
As can be seen from the chart below, both HDFC Bank and IndusInd Bank are currently operating at a historical peak credit multiplier level. One of the key aspects about Kotak's underwriting and growth is the high focus on deal level profitability even in granular advances. So while this doesn't reflect in the overall RoE of the bank which was below 15% level for the last couple of years, the high focus on profitability is seen in the higher RoA for Kotak which is the best in class amongst peer group.

Figure 17: HDFCB & System growth estimates based on historical multiplier



Source: RBI, Company filings, Investec Securities estimates

Figure 18: IndusInd & System growth estimates based on historical multiplier



Source: RBI, Company filings, Investec Securities estimates

…But RoA improvement seems certain even beyond FY17E

One of the most positive aspects about Kotak's positioning currently in is the fact that it has several levers at its disposal on the P&L level enabling it to deliver sustainable RoA improvement not just in FY17E but beyond FY18E.

RoA improvement in FY17E is "low hanging fruit"…

The immediate RoA improvement into FY17E is primarily the results of lack of "one-off items" during FY17E which alone will lead to RoA improvement by nearly 30bps from a low base of 1.2% in FY16E. Three key line items will drive the majority improvement in RoA during FY17E:

- **Employee expense - One-off items**: In Q1'16, Kotak has provided nearly Rs3.4bn of one-off pension provisioning towards defined contribution plan of the unionized employees. This alone will help Kotak save nearly 15bps on the Cost to asset ratio during FY17E.

- **Merger related - One-off items**: During FY16E, Kotak absorbed nearly Rs1.4bn of integration related expenses (of the total of Rs2.0bn with nearly 0.6bn having provided in FY15A). This alone will help Kotak save nearly 5bps on the Cost to asset ratio during FY17E.

- **Credit costs - One-off items**: the other major one-off expense during FY16E is the sharp increase in the credit costs which jumped from the normalized level of 30-40bps seen historically for Kotak to nearly 80bps during FY16E. This should normalize to around 40-50bps for Kotak based on management own guidance on credit costs. This will help Kotak save nearly 40bps on the provisioning line item.

- **On the negative side**, NIMs for Kotak might remain under pressure as the bank transitions to the new MCLR regime. Also, the bank will also have to migrate customers from the dual base rate regime (Kotak & eIVBL Banks rates) to a coming base rate across the customer base.

Summing up, the positive impact of the three one-off items and the negative impact on NIMs on the whole will help Kotak improve the Pre-tax profitability by nearly 50bps leading to a sharp RoA improvement of nearly 30bps during FY17E.

Merger benefits to drive RoA improvement starting FY18E

The RoA improvement during FY17E looks achievable over the low base of FY16E driven by savings from lack of merger related one-off items. The next leg of RoA beyond FY17E will have to be driven by merger related benefits both on the revenue and costs fronts. **We believe three key drivers will help Kotak achieve this:**

Higher revenue momentum through cross sell

- **NIM improvement**: Post the adjustments to NIMs during FY17E, there are several drivers for NIM improvement during FY18E – **(a) higher CASA ratio**: Given the higher CASA growth of around c.30% YoY CASA ratio will steadily improve from the current c.36% to around c.40% by FY18E; **(b)** re-pricing of wholesale deposits and borrowing at a lower rates reflecting the better credit rating of the merged Kotak bank over eIVBL & **(c)** higher growth from granular retail businesses of SME and retail.

- **Higher Cross sell**: We have already seen that Kotak is benefitting from higher cross sell of Life and Mutual funds. During Q2'FY16E, there was a change in the regulation around how distribution commissions are paid with the upfront portion of the fee income reducing and the proportion of the trail commission increasing. This will help the bank deliver higher fee income growth from cross sell. Also, the full integration of the liabilities customers is slated for April 2016 post which a much larger customer base is available for cross selling of multiple products including loans and other wealth management related products.

Lower non-employee expense growth

- **Improve branch level productivity**: We expect branch level productivity to improve leading to better efficiencies and operating leverage. This should help Kotak deliver higher advances growth with a lower number of branch additions.

- **Lower investments / branch expansion required**: Another key feature of Kotak's franchise is that most of the investments required around processes and technology are already in place. Also, rationalization of technology costs during the merger is also another key factor which should play out, given that management has guided for lower branch additions going forward as they take benefit of the merger and digital initiatives going forwards.

Lower employee expense

- **Lower employee addition**: Already Kotak has one of the highest employees per branch which shows that most of the hiring required at the top level and branch level is already taken care of. Also with expectations of lower branch additions going forwards, the net employee additions will also be lower than historical levels allowing for lower employee expense growth.

- **ESOPS**: Most private banks currently distributed around 4-5% of outstanding equity as ESOPs to a wide employee base thus reducing the cash salaries paid. However, ESOP distribution in Kotak is concentrated and towards a smaller set of employees and hence Kotak has one of the highest cash salaries per employees. The bank has the option to make the ESOP program broader based and thus reduce the strain of higher cash salaries.

Table 18: Du Pont evolution of Kotak Bank over next 3 years building in the above assumptions

As a % of Avg Assets	FY15	FY16E	FY17E	FY18E	FY19E
Net Interest Income	***4.40%***	***3.83%***	***3.84%***	***3.84%***	***3.80%***
Non-Interest Income	*2.12%*	*1.59%*	*1.62%*	*1.62%*	*1.57%*
Net Income	**6.52%**	**5.43%**	**5.46%**	**5.46%**	**5.37%**
Operating Expenses	**(3.4%)**	**(3.0%)**	**(2.8%)**	**(2.7%)**	**(2.5%)**
Employee exp	*(1.5%)*	*(1.6%)*	*(1.4%)*	*(1.4%)*	*(1.3%)*
Non- Employee exp	*(1.9%)*	*(1.5%)*	*(1.4%)*	*(1.3%)*	*(1.2%)*
Operating Profit	***3.13%***	***2.41%***	***2.65%***	***2.79%***	***2.91%***
Provisions	*(0.2%)*	*(0.5%)*	*(0.3%)*	*(0.3%)*	*(0.3%)*
PBT	**2.95%**	**1.88%**	**2.36%**	**2.45%**	**2.58%**
Return on Assets	***1.95%***	***1.23%***	***1.56%***	***1.62%***	***1.70%***
Leverage (x)	***7.3***	***7.9***	***8.3***	***8.8***	***9.5***
Return on Equity	***14.1%***	***9.7%***	***13.0%***	***14.3%***	***16.1%***

Source:Company filings, Investec Securities estimates

Why Kotak over HDFC Bank?

Reason 1: Higher sustainable growth over banking system

The biggest factor which works in favour of Kotak over HDFC Bank at this stage is the sustainability of higher growth over HDFC Bank given the sheer difference in the balance sheet sizes. Based on the current growth forecasts for HDFC Bank, Kotak Bank and the banking system growth rates, we estimate HDFC Bank to touch a market share of around 8% over the next 5 years vs just 2.3% for Kotak Bank. More importantly, on an incremental basis, HFDC Bank will have to manage around consistently 10% market share while Kotak can deliver the higher growth with around 3-4% incremental market share.

Table 19: Potential market share of HDFC Bank and Kotak Bank over next 5 years

YoY		Merger with CBoP							Merger with eIVBL						
HDFCB	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**	**FY20E**	**FY21E**
Deposits	23%	48%	42%	17%	25%	18%	20%	24%	23%	25%	19%	20%	20%	20%	20%
Advances	34%	35%	56%	27%	27%	22%	23%	26%	21%	25%	20%	20%	20%	20%	20%
Kotak	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**	**FY20E**	**FY21E**
Deposits	68%	49%	-5%	53%	23%	32%	32%	16%	27%	89%	21%	26%	25%	20%	20%
Advances	72%	42%	7%	25%	41%	33%	24%	9%	25%	88%	18%	25%	25%	20%	20%
Mkt Share															
HDFC Bank	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**	**FY20E**	**FY21E**
Deposits	2.6%	3.2%	3.7%	3.7%	4.0%	4.2%	4.4%	4.8%	5.3%	6.0%	6.4%	6.9%	7.3%	7.7%	8.1%
Advances	2.4%	2.7%	3.6%	3.9%	4.1%	4.2%	4.5%	5.1%	5.6%	6.3%	6.7%	7.1%	7.5%	7.8%	8.0%
Kotak															
Deposits	0.4%	0.5%	0.4%	0.5%	0.6%	0.7%	0.8%	0.8%	0.9%	1.5%	1.6%	1.9%	2.1%	2.2%	2.3%
Advances	0.6%	0.7%	0.6%	0.6%	0.7%	0.8%	0.9%	0.9%	1.0%	1.7%	1.8%	2.0%	2.2%	2.3%	2.3%
Incremental market share															
HDFC Bank	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**	**FY20E**	**FY21E**
Deposits	2.5%	5.6%	6.6%	3.7%	5.8%	5.4%	5.7%	7.6%	10.1%	13.4%	10.2%	10.8%	10.7%	10.5%	10.4%
Advances	2.8%	3.8%	8.6%	5.7%	4.9%	5.3%	6.6%	9.0%	11.5%	12.3%	10.2%	10.1%	9.9%	9.7%	9.5%
Kotak															
Deposits	0.9%	0.9%	-0.1%	1.3%	0.8%	1.3%	1.4%	0.9%	1.9%	7.9%	2.9%	3.6%	3.6%	3.0%	2.9%
Advances	1.1%	1.1%	0.3%	0.9%	1.2%	1.5%	1.4%	0.6%	2.4%	7.9%	2.5%	3.4%	3.5%	2.8%	2.8%

Source: Company filings, Investec Securities estimates

Reason 2: Improving RoA trajectory

As we have highlighted in the previous sections, Kotak has enough levers available to consistently deliver an improving RoA trajectory. We estimate that within the next 3 years of the merger RoAs will be in line with HDFC Bank at a similar point after HDFC's merger. Also, based on consensus estimates, the RoAs of HDFC Bank - since the peak of FY15 (1.97%) - have consistently declined given that the bank is relying on higher advances growth for around c.20% earnings growth. Kotak on the other hand can deliver sustainable earnings growth in 20%-25% with advances growth with in the 20% YoY growth level because of the additional operating levers available.

Table 20: RoA / RoE trajectory of HDFC Bank and Kotak Bank over the next 5 years

HDFCB	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E
RoA	1.34%	1.33%	1.32%	1.50%	1.61%	1.66%	1.81%	1.93%	1.97%	1.86%	1.85%
Lev (x)	14.4	13.3	12.4	11.1	10.4	11.1	11.2	10.9	10.4	9.9	10.3
RoE	19.4%	17.7%	16.3%	16.7%	16.7%	18.5%	20.2%	21.0%	20.5%	18.4%	19.1%

Kotak	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E
RoA	0.94%	1.22%	0.97%	1.65%	1.81%	1.83%	1.82%	1.78%	1.95%	1.23%	1.56%	1.62%	1.70%	1.79%	1.88%
Lev (x)	11.9	9.2	7.6	8.1	7.8	8.0	8.6	7.4	7.3	7.9	8.3	8.8	9.5	9.8	9.9
RoE	11.2%	11.2%	7.4%	13.4%	14.1%	14.7%	15.7%	13.2%	14.1%	9.7%	13.0%	14.3%	16.1%	17.6%	18.6%

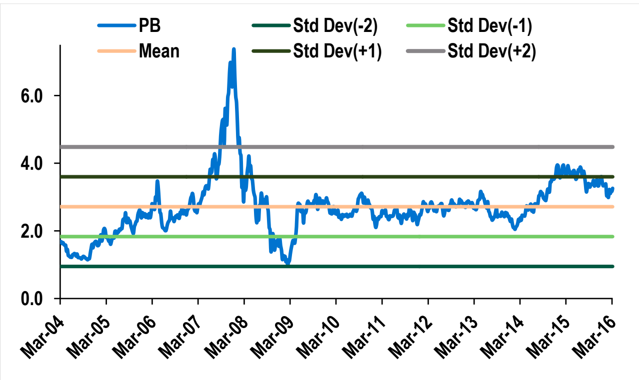
Source: Company filings, Investec Securities estimates

Reason 3: Valuation premiums more sustainable

Both Kotak and HDFC Bank have now corrected over the last 1 year. While Kotak (3.2x 1 Yr Fwd) still trades marginally above the historical average multiples of 2.8x; HDFC Bank (3.2x 1 yr Fwd) is now marginally below its historical average multiple of 3.3x P/B. Given the RoA improvement trajectory for Kotak vs HDFC Bank, Kotak is in a better position to deliver sustainable 5% higher earnings growth vs HDFCB.

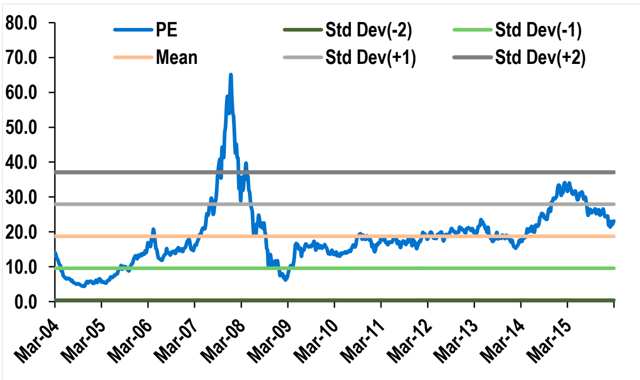
Hence, despite the lower RoEs of Kotak we believe it should trade at a premium to HDFC Bank given (a) improving RoA trajectory, (b) higher earnings growth and (c) smaller size.

Figure 19: Kotak 1 Yr Fwd historical P/B band chart



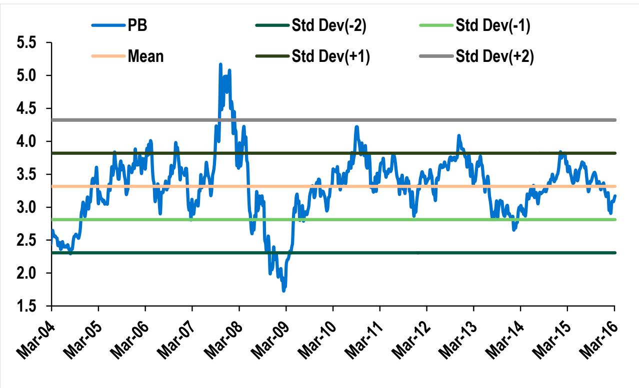
Source:Bloomberg, Investec Securities estimates

Figure 20: Kotak 1 Yr Fwd historical P/E band chart



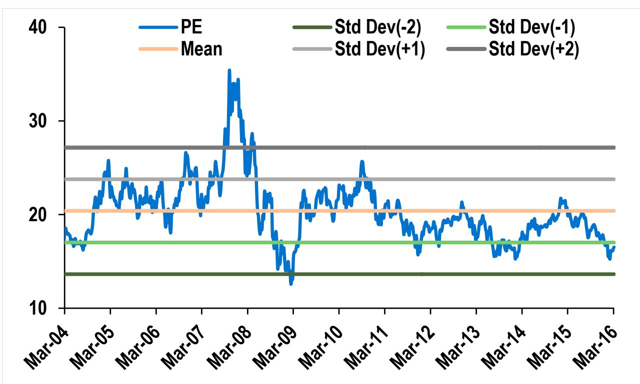
Source:Bloomberg, Investec Securities estimates

Figure 21: HDFCB 1 Yr Fwd historical P/B band chart



Source:Bloomberg, Investec Securities estimates

Figure 22: HDFCB 1 Yr Fwd historical P/E band chart



Source:Bloomberg, Investec Securities estimates

Changes in estimates

Our PAT estimates have reduced primarily because of the lower advances growth assumptions. However, even on the lower advances growth assumption, we believe Kotak will deliver earnings growth of nearly c.50% YoY for FY17E. Our BVPS estimates have not changed primarily because of the better than expected asset quality performance by the bank.

Table 21: Changes to estimates

	Old		New			
Merged (Rs bn)	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Op Profit	47,482	64,474	43,466	56,407	-8%	-13%
PAT	22,477	38,288	22,176	33,206	-1%	-13%
BVPS (S)	130	150	131	148	1%	-1%
BVPS (C)	180	210	181	207	0%	-1%

Source: Investec Securities estimates, Company Accounts

Valuations & SOTP

Table 22: Kotak Bank SOTP

FY17E	% stake	Value (In Rs. Bn)	Rs. Per share	Multiple	Valuation Methodology
Kotak Banking Sub	**100%**	**1,164**	**638**	**4.2x**	**4.2x banking Adj BV on FY17E**
Kotak Prime	100%	151	83	3.3x	3.3x FY17E P/B
Kotak Capital & Securities	100%	75	41	18.0x	15x FY17E P/E
Kotak AMC & Trustee	100%	73	40		6% of AuM
Kotak Old Mutual Life	76%	46	25	18.0x	Valued at 18x FY17E NBAP margin
Others (Investments, International, Ventures)		10	6	15.0x	15x FY17E P/E
Subsidiaries - Total		**706**	**195**		
Value of Kotak Bank (Consol)		**1,527**	**833**	**4.0x**	**4.0x Consolidated Target Multiple on FY17E**

Source: Investec Securities estimates / Company accounts

Relative valuations

Table 23: Relative valuation of New Generation Private Sector Banks – Investec Estimates

Bank	Rating	Target Price	RoA (%)		ROE (%)		P/E (x)		P/B (x)		Div Yield (%)	
		Rs	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
ICICI Bank	BUY	330	1.67%	1.64%	13.0%	13.7%	12.5	10.8	1.6	1.4	2.1%	2.3%
HDFC Bank	BUY	1,320	1.85%	1.83%	18.3%	19.1%	21.8	17.9	3.8	3.2	0.9%	1.0%
Axis Bank	**HOLD**	430	1.73%	1.65%	17.8%	17.6%	12.4	10.9	2.2	1.9	1.2%	1.5%
Kotak (C)	**BUY**	**833**	**1.78%**	**1.90%**	**14.5%**	**16.3%**	**33.7**	**24.1**	**3.8**	**3.3**	**0.1%**	**0.2%**
Indusind	**HOLD**	1,020	1.89%	1.97%	16.1%	16.0%	24.5	18.8	3.2	2.8	0.5%	0.6%
Yes Bank	BUY	1,100	1.61%	1.67%	19.5%	17.7%	14.2	12.7	2.6	1.8	1.2%	1.3%
DCB Bank	BUY	**100**	0.89%	0.77%	10.0%	8.9%	13.5	14.4	1.3	1.1	0.0%	0.0%

Source: Investec Securities estimates, Price as of 01 Arp 2016

Investec

Table 24: Summary Financials – Key Ratios (Rs.Mn)

P&L Summary	FY14A	FY15E	FY16E	FY17E	FY18E
Net Interest Income	37,201	42,237	69,248	81,886	98,238
Non-Interest Income	13,997	20,285	28,804	34,565	41,478
Total Income	**51,198**	**62,522**	**98,052**	**116,451**	**139,716**
% change	*17.3%*	*22.1%*	*56.8%*	*18.8%*	*20.0%*
Wage costs	11,591	14,497	28,052	30,858	35,178
Other costs	13,835	18,050	26,534	29,187	33,273
Operating Expenses	**25,426**	**32,547**	**54,586**	**60,044**	**68,451**
% change	*15%*	*28%*	*68%*	*10%*	*14%*
Pre provision profit	**25,772**	**29,975**	**43,466**	**56,407**	**71,265**
% change	*20%*	*16%*	*45%*	*30%*	*26%*
Provisions	**3,047**	**1,645**	**9,557**	**6,095**	**8,531**
PBT	**22,725**	**28,330**	**33,909**	**50,312**	**62,734**
% change	*15%*	*25%*	*20%*	*48%*	*25%*
Income Tax Expense	7,699	9,670	11,732	17,106	21,330
Net Income	**15,025**	**18,660**	**22,176**	**33,206**	**41,404**
% change	*10%*	*24%*	*19%*	*50%*	*25%*

Balance Sheet Summary	FY14A	FY15E	FY16E	FY17E	FY18E
Equity	3,937	3,892	9,182	9,182	9,182
Net worth	**122,836**	**141,441**	**240,483**	**271,312**	**309,744**
Deposits	**590,720**	**748,603**	**1,413,440**	**1,706,646**	**2,158,405**
Borrowings	128,956	121,497	237,542	189,483	229,857
Other Liabilities & Provisions	33,338	48,580	91,874	110,932	140,296
Total Sources of funds	**875,850**	**1,060,121**	**1,983,338**	**2,278,373**	**2,838,303**
Cash with RBI ,Call Money etc	59,799	62,624	116,185	102,399	129,504
Investments	254,846	304,211	508,838	597,326	733,858
Advances	**530,276**	**661,607**	**1,243,827**	**1,467,716**	**1,834,645**
Fixed Assets	11,069	12,067	19,307	21,238	23,362
Other Assets	19,863	19,612	95,181	89,694	116,934
Total Application of funds	**875,853**	**1,060,121**	**1,983,338**	**2,278,373**	**2,838,303**

Key ratios	FY14A	FY15E	FY16E	FY17E	FY18E
Advances Yield	**13.0%**	**12.3%**	**11.4%**	**11.1%**	**11.0%**
Cost of Funds	7.3%	7.0%	6.5%	6.5%	6.5%
NIM	**4.60%**	**4.55%**	**4.09%**	**4.06%**	**4.04%**
CASA	**31.9%**	**36.4%**	**34.0%**	**35.0%**	**36.0%**
Credit / Deposit	89.8%	88.4%	88.0%	86.0%	85.0%
Investment / Deposit	43.1%	40.6%	36.0%	35.0%	34.0%
Asset Quality					
Gross NPAs (%)	2.0%	1.9%	2.5%	2.1%	1.8%
Net NPAs (%)	**1.1%**	**0.9%**	**1.3%**	**0.9%**	**0.6%**
Provision Coverage Ratio	45%	50%	50%	60%	66%

Source: Investec Securities estimates / Company accounts

Table 25: Key Ratios, DuPont & Valuation Metrics

Efficiency Ratios	FY14A	FY15E	FY16E	FY17E	FY18E
Operating Cost / Income	49.7%	52.1%	55.7%	51.6%	49.0%
Wage costs / Total operating costs	22.6%	23.2%	28.6%	26.5%	25.2%
Capital Ratios	**FY14A**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Tier-1 capital	17.8%	16.2%	13.6%	13.3%	12.4%
Tier-2 capital	1.0%	1.0%	0.9%	0.7%	0.6%
Capital adequacy ratio	**18.8%**	**17.2%**	**14.4%**	**14.0%**	**13.0%**
Dupont (as % of Avg assets)	**FY14A**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
NII	4.42%	4.40%	3.83%	3.84%	3.84%
Other Income	1.66%	2.12%	1.59%	1.62%	1.62%
o/w Treasury	0.35%	0.44%	0.27%	0.26%	0.25%
Employee exp	(1.38%)	(1.51%)	(1.55%)	(1.45%)	(1.38%)
Non- Employee exp	(1.64%)	(1.88%)	(1.47%)	(1.37%)	(1.30%)
Operating Profit	3.06%	3.13%	2.41%	2.65%	2.79%
Provisions	(0.36%)	(0.17%)	(0.53%)	(0.29%)	(0.33%)
PBT	2.70%	2.95%	1.88%	2.36%	2.45%
(1-tax rate)	*33.9%*	*34.1%*	*34.6%*	*34.0%*	*34.0%*
Return on Assets	**1.78%**	**1.95%**	**1.23%**	**1.56%**	**1.62%**
RoA excl Treasury	**1.55%**	**1.66%**	**1.05%**	**1.38%**	**1.45%**
Avg. total assets/Avg. Equity (x)	*7.4*	*7.3*	*7.9*	*8.3*	*8.8*
Return on Equity	**13.2%**	**14.1%**	**9.7%**	**13.0%**	**14.3%**
RoE excl Subs	**14.4%**	**14.6%**	**9.9%**	**13.2%**	**14.5%**
Valuation Metrics	**FY14A**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
P/E (x) - Consol (Merged)	**41.7**	**34.2**	**33.7**	**24.1**	**18.5**
P/ABV (x) - Consol (Merged)	**5.6**	**4.8**	**3.8**	**3.3**	**2.8**
ROE (%) - Excl Subs	**14.4%**	**14.6%**	**9.9%**	**13.2%**	**14.5%**
ROE (%) - Consol	14.4%	14.6%	11.8%	14.5%	16.3%
ROA (%)	**1.78%**	**1.95%**	**1.23%**	**1.56%**	**1.62%**
Div Yield (%)					
BVPS (Rs) - Standalone	80	91	131	148	169
BVPS (Rs) - Consol	**122**	**141**	**181**	**207**	**242**
EPS (Rs) - Standalone	9.7	12.1	12.1	18.1	22.6
EPS (Rs) - Consol	**16.3**	**19.8**	**20.1**	**28.1**	**36.6**
DPS (Rs)	0.8	0.9	1.0	1.3	1.6
Dividend Payout Ratio	*5%*	*5%*	*5%*	*5%*	*4%*

Source: Investec Securities estimates / Company accounts

Summary Financials (INRm)

Year end: 31 March

Income Statement	2014	2015E	2016E	2017E	2018E
Net interest income	56,738	63,528	92,435	106,143	127,469
Other operating income	52,497	81,039	79,216	94,311	114,076
Total operating income	**109,235**	**144,567**	**171,651**	**200,454**	**241,545**
Net insurance claims					
Net operating income pre impairments	**40,045**	**47,557**	**65,981**	**84,217**	**110,249**
Impairments	3,090	2,057	10,596	6,569	9,001
Net operating income	**43,134**	**49,614**	**76,577**	**90,786**	**119,250**
Expenses	69,190	97,009	105,670	116,237	131,296
Operating income	**112,325**	**146,624**	**182,247**	**207,023**	**250,546**
JVs and associates					
Profit before tax pre-exceptionals	**36,955**	**45,500**	**55,385**	**77,648**	**101,248**
Exceptionals	0	0	0	0	0
Profit before tax	**36,955**	**45,500**	**55,385**	**77,648**	**101,248**
Tax	11,840	14,849	18,831	26,400	34,424
Profit after tax	15,025	18,660	22,176	33,206	41,404
Minorities/Preference dividends					
Profit attributable	14,404	18,065	21,522	32,420	40,462
EPS (reported)	16.3	19.8	20.1	28.1	36.6
DPS (INR)	0.8	0.9	1.0	1.3	1.6
Average number of group shares (m)					
Total number of shares in issue (m)					

Balance sheet	2014	2015E	2016E	2017E	2018E
Customer loans	716,925	886,322	1,506,744	1,777,958	2,222,447
Customer deposits	569,298	728,435	1,413,440	1,706,646	2,158,405
RWAs	1,002,675	1,244,522	2,260,116	2,684,716	3,378,120
Core tier 1 capital ratio (%)	17.8	16.2	13.6	13.3	12.4

Source: Company accounts, Investec Securities estimates

Target Price Basis

Two Stage Gordon Growth Model

Key Risks

(1) Higher SME & corporate asset quality stress; (2) Key man risk & (3) Slower economic recovery leading to lower growth

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	Expected total return	All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total
Buy	greater than 10%	197	61%	83	42%
Hold	0% to 10%	90	28%	12	13%
Sell	less than 0%	37	11%	1	3%

Source: Investec Securities estimates

Stock ratings for Indian stocks — Stock ratings for research produced by Investec Bank plc

	Expected total return	All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total
Buy	greater than 15%	44	63%	0	0%
Hold	5% to 15%	16	23%	0	0%
Sell	less than 5%	10	14%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks — Stock ratings for research produced by Investec Securities Limited

	Expected total return	All stocks		Corporate stocks	
	12m performance	Count	% of total	Count	% of total
Buy	greater than 15%	35	49%	5	14%
Hold	5% to 15%	16	22%	1	6%
Sell	less than 5%	21	29%	3	14%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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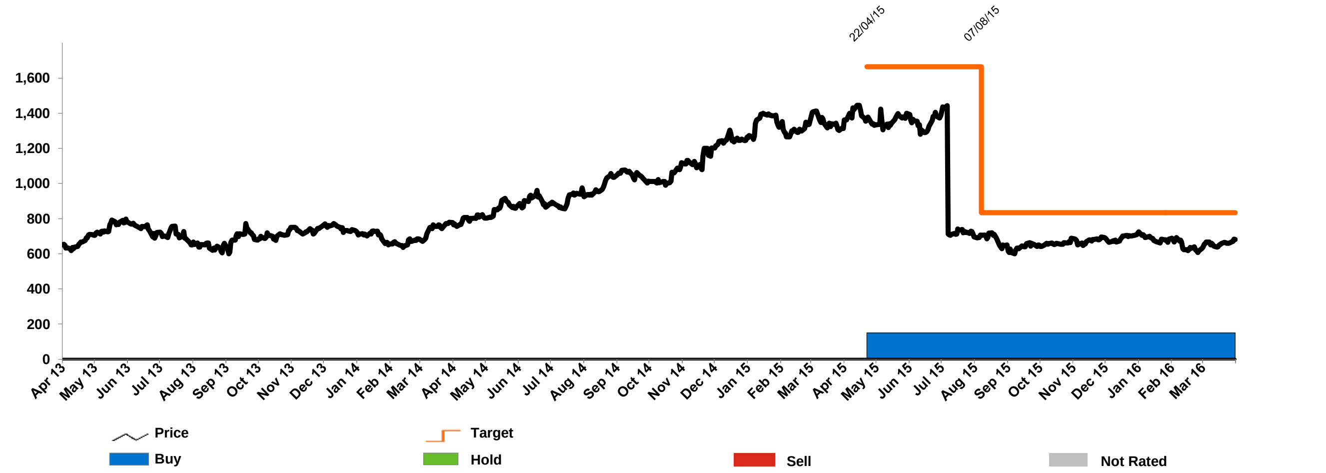
Kotak Mahindra Bank (KTKM.NS) – Rating Plotter as at 01 Apr 2016



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