

INDUSTRY	BANKS		
CMP (as on 25 Oct 2017)	Rs 1,016		
Target Price	Rs 1,179		
Nifty	10,295		
Sensex	33,043		
KEY STOCK DATA			
Bloomberg	KMB IN		
No. of Shares (mn)	1,904		
MCap (Rs bn) / (\$ mn)	1,922/29,590		
6m avg traded value (Rs mn)	2,126		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,115/692		
	3M	6M	12M
Absolute (%)	2.2	12.4	28.4
Relative (%)	(0.3)	2.1	10.7
SHAREHOLDING PATTERN (%)			
Promoters	30.07		
FIs & Local MFs	8.47		
FPIs	46.69		
Public & Others	14.77		
<i>Source : BSE</i>			

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Growth mojo

Clarity of mgt intent coupled with yet another strong show reaffirms our belief in KMB's growth story. **Healthy NIMs (4.33%, despite relatively higher SA rates), strong loan growth (+21%), fee traction (+29%), controlled opex (flat QoQ) and stable asset quality, with a miniscule exposure to stressed/IBC a/cs, led to 22% growth in net earnings.**

A well capitalised B/S, granular book relatively less prone to yield pressure (fixed rate book at ~30%), focus on customer acquisition while reducing costs through digitalisation, incremental revenue synergies from e-VYSB branches and no major worries on asset quality will drive return ratios (+26bps RoA over FY17-20E). Wholly-owned and self-sustainable subs with a continued ramp up in performance provide long-term value accretion opportunities. Maintain BUY with a SOTP of Rs 1,179 (4.5x Sept-19 core ABV of Rs 220 + sub value of Rs 187)

Financial Summary

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Interest Income	23,127	19,954	15.9%	22,456	3.0%	81,261	98,831	115,139	135,767
PPOP	17,248	14,401	19.8%	15,954	8.1%	59,848	74,485	87,195	105,395
PAT	9,943	8,133	22.3%	9,127	8.9%	34,115	43,963	51,712	63,797
EPS (Rs)	5.2	4.4	18.0%	4.8	8.9%	18.5	23.1	27.2	33.5
Core ROAE (%)						13.2	13.9	13.3	14.5
Core ROAA (%)						1.68	1.89	1.89	1.94
Core Adj. BVPS (Rs)						136.0	181.3	205.1	235.4
P/E (x)#						47.0	36.9	30.5	24.0
P/ABV (x)#						6.40	4.70	4.04	3.42

Source: Bank, HDFC sec Inst Research; Note: # adjusted for embedded value of subs.

Highlights of the quarter

- After a gradual uptick in the past few qtrs, loan growth was robust and equally driven by the Corp (+22%) and Retail (+19%) verticals. Within Retail, CV/CE (+33%), PL (+32%) and mortgages (+21%) grew strongly. Though the mgt has been watchful in the business banking segment, growth should pick up as macros improve. We have factored in a loan CAGR of 22% over FY18-20E
- KMB has stuck to its strategy of differentiated SA rates, despite a reduction by most peers in a bid to propel customer acquisition. This coupled with digital initiatives led to addition of ~1.5mn customers in 2Q. Sustained focus on further acquisition and deepening of product offerings across e-VYSB branches will aid asset growth
- Near-term outlook:** Despite an uptick in growth, the stock may witness some pressure, owing to the PSU recapitalisation announcement

- **Impressive SA accretion:** Growth in KMB's SA deposits is remarkable. **It jumped ~Rs 120bn in H1FY18 after achieving similar growth in the whole of FY17.** This was despite a deluge of deposits in 3QFY17 owing to demonetisation. Strong growth in CASA deposits was led by healthy customer acquisition (+1.5mn customers in 2Q), traction in govt business and digital initiatives. **Hence, the CASA ratio jumped 880/390bps to form 47.8% of total deposits. KMB's focus on acquiring deposits digitally (77% of RDs and 60% of FDs sourced digitally), improving oplev in e-VYSB branches and a differentiated SA offering augurs well for CASA growth**
- **Superior NIM will sustain:** NIMs at ~4.33% remain superior, despite the pressure on yields (-120bps YoY). **A higher proportion of loans on fixed rate (~30% of loans) and 49% already linked to MCLR rates provides cushion.** Further, continued growth in CASA and **SA rate (avg. SA cost at 5.57%) reduction will compensate for compression of yields hereon. We have factored in NIMs of 4.6% over FY18-20E**
- **Asset quality stable:** KMB's asset quality remains impeccable, with aggregate net stressed assets (NNPA + restructured book + SMA II) at a mere 1.47%. KMB has no asset quality divergence for FY17 and a marginal inherited exposure (from e-VYSB) in both the NCLT list. The bank doesn't have exposure to the large Iron & Steel exposure (recognised as NPAs by other PVT Banks). **We have factored slippages of 1.2% over FY18-20E, given lower exposure to stressed sectors.** The mgt stands by its stance of further reducing LLP in FY18 (vs. 61bps in FY17). **We have estimated LLP of 50bps (FY18-20E)**
- **Controlled opex growth:** Despite strong business momentum, opex growth remained under control. Overall opex grew merely 11% YoY (flat QoQ), with staff cost growth of only 3/2% YoY/QoQ. Though other opex jumped ~19% YoY (down 4% QoQ), owing to PSLC cost and expenses for digital initiatives (811). Consequently, the C-I ratio improved ~220bps QoQ to 47.4%. **With improving oplev in e-VYSB branches, controlled opex and sustained growth, we expect core C-I improvement of 200bps over FY18-20E**

SOTP

	Rs bn	Per Share	Rationale
Kotak Mahindra Bank – Standalone	1,886.0	991.1	4.5x Sept-19 core ABV of Rs 220
Kotak Mahindra Prime - Car Finance	181.2	96.1	3.25x FY19E core NW
Kotak Mahindra Investments – LAS	44.2	23.2	3.0x FY19E core NW
Kotak Securities – Broking	68.9	36.2	15x FY19E Earnings
Kotak Mahindra AMC - Asset Management	61.1	32.1	5% of FY19E AUM
Kotak Life - Life Insurance	62.9	33.0	21% APE CAGR FY18-20E; NBAP Margin at 15%.
KMCC - Investment Banking	4.8	2.5	1.25x FY19E core NW
Kotak Alternative Assets	5.1	2.7	7.5% of FY19E AUM
Offshore Funds	16.1	8.5	5% of FY18E AUM
Total Value of Subsidiaries	446.0	234.4	
<i>Less : 20% Holding Discount</i>	89.2	46.9	
Total SOTP Value	2,242.8	1,178.6	
Current Value	1,933.3	1,016.0	
Upside (%)	16.0	16.0	

Source: HDFC sec Inst Research

Five Quarters At A Glance

Rs mn	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY Growth	QoQ Growth
Net Interest Income	19,954	20,503	21,613	22,456	23,127	15.9%	3.0%
Non Interest Income	8,311	9,102	10,027	9,069	9,539	14.8%	5.2%
<i>Fee Income</i>	6,300	7,250	7,570	8,050	8,100	28.6%	0.6%
Operating Income	28,265	29,605	31,640	31,524	32,665	15.6%	3.6%
Operating Expenses	13,864	14,328	14,620	15,571	15,417	11.2%	-1.0%
Pre provision Profits	14,401	15,277	17,020	15,954	17,248	19.8%	8.1%
Provisions	1,978	1,921	2,674	2,037	2,165	9.5%	6.3%
<i>NPA Provisions</i>	1,415	1,370	2,519	1,928	2,055	45.2%	6.6%
PBT	12,423	13,356	14,346	13,916	15,083	21.4%	8.4%
Provision For Tax	4,290	4,558	4,582	4,789	5,140	19.8%	7.3%
PAT	8,133	8,798	9,765	9,127	9,943	22.3%	8.9%
Balance Sheet items/ratios							
Deposits (Rs bn)	1,410	1,494	1,574	1,635	1,657	17.5%	1.3%
<i>CASA (%)</i>	39.0	42.0	44.0	43.9	47.8	879 bps	393 bps
Advances (Rs bn)	1,260	1,293	1,361	1,424	1,526	21.1%	7.2%
<i>CV And CE (%)</i>	7.3	7.5	8.0	8.0	8.0	72 bps	-4 bps
<i>Agri Finance (%)</i>	13.7	12.8	13.9	13.0	12.9	-79 bps	-10 bps
<i>Mortgage Loans (%)</i>	19.4	19.4	19.2	19.3	19.3	-10 bps	0 bps
<i>PL (%)</i>	12.6	12.2	12.8	12.8	13.7	109 bps	86 bps
<i>Business Banking (%)</i>	13.8	12.9	13.1	12.3	11.9	-191 bps	-44 bps
<i>Corp Banking (%)</i>	30.7	32.9	30.6	32.3	32.1	137 bps	-23 bps
<i>Others (%)</i>	2.5	2.4	2.3	2.2	2.1	-39 bps	-5 bps
CD ratio (%)	89.3	86.5	86.4	87.1	92.1	275 bps	503 bps
CAR (%)	16.8	16.0	16.8	19.2	19.4	260 bps	20 bps
<i>Tier I (%)</i>	15.7	14.9	15.2	18.4	18.7	300 bps	30 bps
Profitability							
Calc. Yield On Advances (%)	10.86	10.66	10.15	9.99	9.65	-120 bps	-34 bps
Calc. Cost Of Funds (%)	6.08	5.89	5.25	5.33	5.22	-86 bps	-11 bps
NIM (%)	4.47	4.49	4.60	4.50	4.33	-14 bps	-17 bps
Cost-Income Ratio (%)	49.1	48.4	46.2	49.4	47.2	-185 bps	-220 bps
Tax Rate (%)	34.5	34.1	31.9	34.4	34.1	-46 bps	-34 bps
Asset Quality							
Gross NPA (Rs bn)	31.8	31.8	35.8	37.3	38.1	19.9%	2.3%
Net NPA (Rs bn)	15.2	13.8	17.2	17.8	19.2	26.5%	7.9%
Gross NPAs (%)	2.49	2.42	2.59	2.58	2.5	-2 bps	-11 bps
Net NPAs (%)	1.20	1.07	1.26	1.25	1.3	6 bps	1 bps
Coverage Ratio (%)	52.3	56.6	52.0	52.3	49.7	-262 bps	-260 bps
Restructured Book (%)	0.12	0.11	0.07	0.06	0.04	-7 bps	-1 bps
SMA II (%)	0.33	0.19	0.10	0.21	0.16	-17 bps	-5 bps

Source: HDFC sec Inst Research

Driven by loan growth of ~21/7% YoY/QoQ and NIM of 4.33%

Sustained growth momentum as fees now form ~2.2% of loans (vs. 2.04% YoY)

Includes expenses towards 811 and purchase of PSL certificates

The surge is driven by ~62/22% YoY/QoQ growth in SA deposits despite a 7% sequential drop in CA deposits. On an avg basis, SA and CA grew by 57% and 15% respectively

Advances growth was broad based led by PL (+14% QoQ), mortgages (+7% QoQ) and Agri (+6% QoQ).

Contraction in NIMs was owing to a drop in yields. However, a higher proportion of fixed rate book (~30%) provided some respite

Will continue to trend downwards as incremental synergies (revenue and cost) from e-VYSB flow

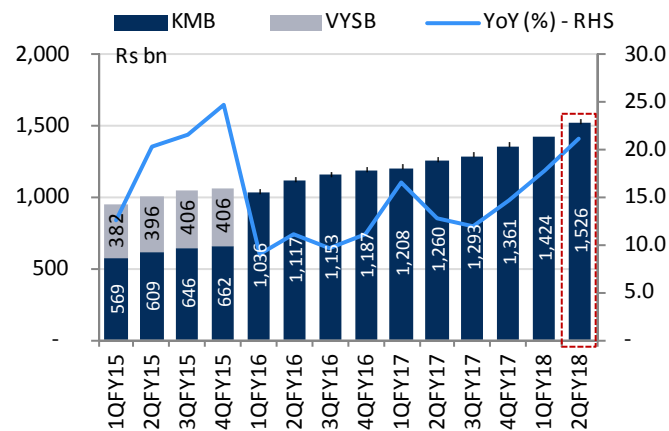
KMB has no significant exposures to a/c's in the second NCLT list and any exposure is adequately provided for

Sequential loan growth of 7% was led by 6-7% growth in CV/CE, Agri, Corp and mortgages; PL grew 14% QoQ

Corp loans (~32% of loans) also grew ~27/6% YoY/QoQ

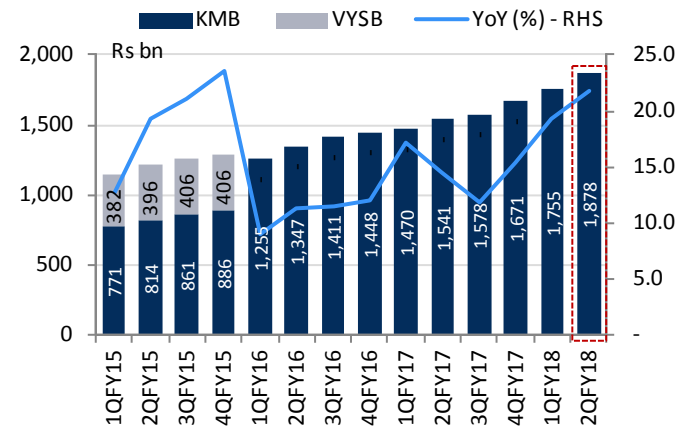
KMP's book grew 22/3% YoY/QoQ

Standalone Advances Grew 21/7% YoY/QoQ



Source: Company, HDFC sec Inst Research;

Consol Advances Grew ~22% YoY



Source: Company, HDFC sec Inst Research

Standalone Book Composition: Corporate Share Flat Sequentially

(%)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
CV and CE	9.0	8.3	7.8	7.9	5.4	5.5	5.7	6.3	6.6	7.3	7.5	8.0	8.0	8.0
Agri	17.5	16.6	16.8	18.3	14.7	15.3	14.6	15.2	13.9	13.7	12.8	13.9	13.0	12.9
Mortgage	21.6	21.2	21.3	22.2	20.0	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.2	19.3
PL	8.3	8.7	9.2	9.5	7.2	7.3	7.6	8.1	12.2	12.6	12.2	12.8	12.8	13.7
Bus. Banking	9.8	9.3	9.4	9.7	20.7	20.3	20.3	19.7	14.1	13.8	12.9	13.1	12.3	11.9
Corp	32.6	34.7	34.1	30.7	30.1	30.4	30.6	29.5	31.5	30.7	32.9	30.6	32.3	32.1
Others	1.2	1.2	1.5	1.8	1.8	1.8	1.9	1.9	2.3	2.5	2.4	2.3	2.2	2.1

Consol. Book Composition

(%)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
CV /CE	6.6	6.2	5.8	5.9	4.5	4.5	4.6	5.2	5.4	5.9	6.1	6.5	6.5	6.5
Agri	12.9	12.5	12.6	13.7	12.2	12.7	11.9	12.4	11.4	11.2	10.5	11.4	10.6	10.5
Auto	17.3	17.1	16.5	16.6	12.0	11.7	11.6	11.5	11.4	11.3	11.1	11.0	10.5	10.6
Mortgage	16.0	15.8	16.0	16.6	16.5	16.1	15.8	15.9	16.0	15.9	15.9	15.6	15.6	15.7
PL	6.2	6.6	6.9	7.1	5.9	6.1	6.3	6.7	10.0	10.3	10.0	10.4	10.4	11.1
Bus. Banking	7.2	6.9	7.1	7.2	17.1	16.8	16.6	16.1	11.6	11.3	10.5	10.7	10.0	9.6
Corp	28.2	30.5	30.1	27.7	27.8	27.9	28.3	27.6	29.1	28.7	30.5	28.9	29.9	30.1
Others	5.5	4.4	5.0	5.3	4.0	4.2	4.8	4.6	5.1	5.3	5.3	5.6	6.4	5.8

Source: Company, HDFC sec Inst Research

KMP's car loans grew ~15/8% YoY/QoQ, and other advances witnessed robust growth of ~41% YoY (albeit down ~8% sequentially)

NII for KMP continued to inch up

KMI (LAS business) AUM growth saw a robust growth of 31/11% YoY/QoQ.

KMI saw a sequential PAT growth of ~22% which was led by higher other income (+243% QoQ)

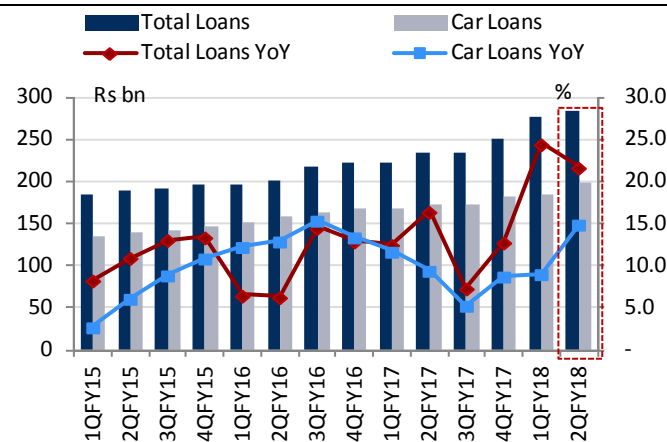
SA growth was strong at 62/22% YoY/QoQ, while CA de-grew by ~7% sequentially

CASA ratio jumped 390bps to 47.8%

KMB to continue its higher rate offerings in SA deposits

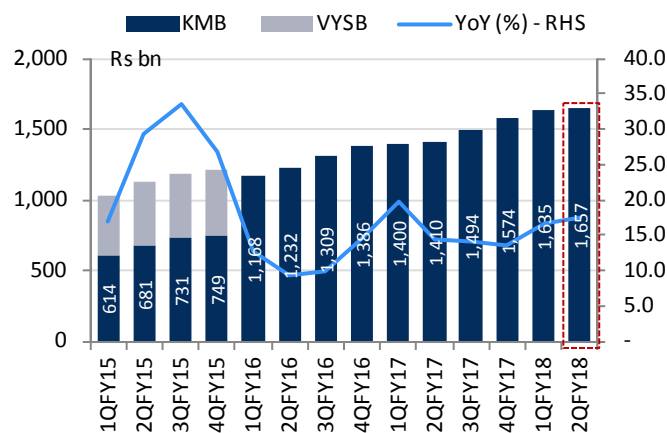
TD sweep deposits form ~7% of total deposits (vs. 6.4% YoY)

KMP Book: Total Advances Grew ~22/3% YoY/QoQ



Source: Bank, HDFC sec Inst Research

Deposits Growth Continues, Up ~17% YoY



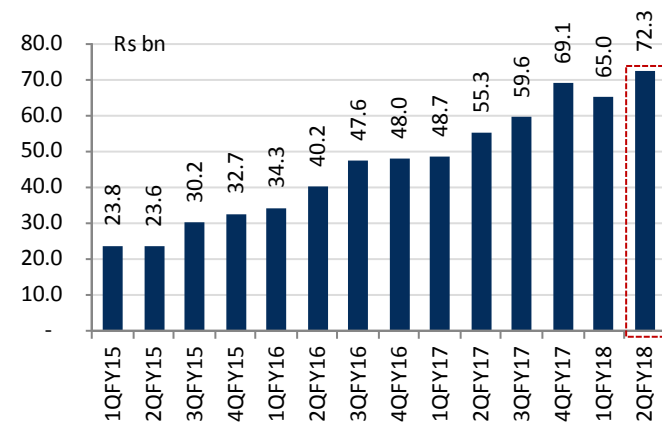
Source: Bank, HDFC sec Inst Research;

Deposits Break-up

(%)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
CA	13.1	13.9	14.6	17.6	14.9	16.5	15.0	16.8	15.6	15.6	15.2	17.6	17.0	15.5
SA	17.9	17.2	16.9	18.7	19.5	19.8	20.3	21.3	21.8	23.4	24.2	26.4	26.9	32.3
TD	69.0	68.9	68.5	63.6	65.7	63.8	64.7	61.9	62.6	61.0	60.6	56.0	49.3	52.2

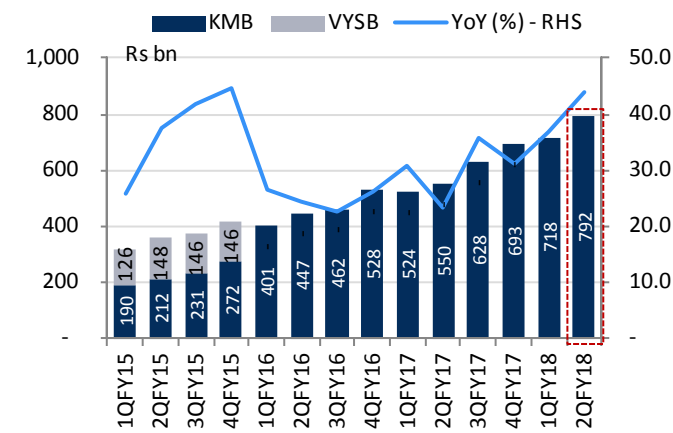
Source: Company, HDFC sec Inst Research

LAS Customer Assets Grow By ~31/11% YoY/QoQ



Source: Bank, HDFC sec Inst Research

CASA Ratio Jumped 880/390bps YoY/QoQ



Source: Bank, HDFC sec Inst Research

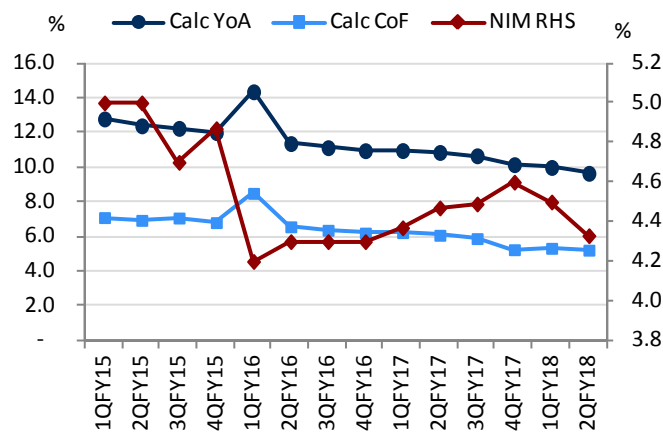
The reported margins were down 17bps sequentially to 4.33%

Avg. cost of SA stood at 5.57% vs 5.51% in 1Q

The mgt has guided for a NIM of ~4.25% for FY18

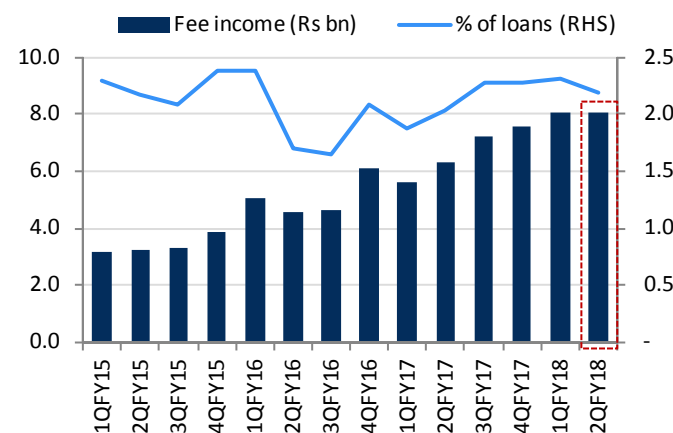
Fee income stands at ~2.20% of loans vs 2.04% YoY

NIM Healthy At 4.33%, Down 17bps QoQ



Source: Bank, HDFC sec Inst Research

Fee Growth Continues



Source: Bank, HDFC sec Inst Research

Non-interest Income Break-up

Rs bn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Fees	3,150	3,210	3,280	3,890	5,050	4,570	4,660	6,100	5,640	6,300	7,250	7,570	8,050	8,100
% Of loans	2.29	2.18	2.09	2.38	1.97	1.70	1.64	2.09	1.88	2.04	2.27	2.28	2.31	2.20
Total	4,000	4,660	4,940	6,680	5,930	6,160	4,660	6,819	7,332	8,311	9,102	10,030	9,069	9,539
% of Total inc	28.5	31.0	31.8	37.3	27.0	26.8	29.0	26.9	27.6	29.4	30.7	31.7	28.8	29.2
% of Avg. Assets	1.81	2.02	2.00	2.57	1.74	1.44	1.62	1.46	1.54	1.73	1.83	1.93	1.65	1.65

Source: Bank, HDFC sec Inst Research

Standalone GNPA's stood at ~Rs 38.1bn, down 11bps at 2.47%

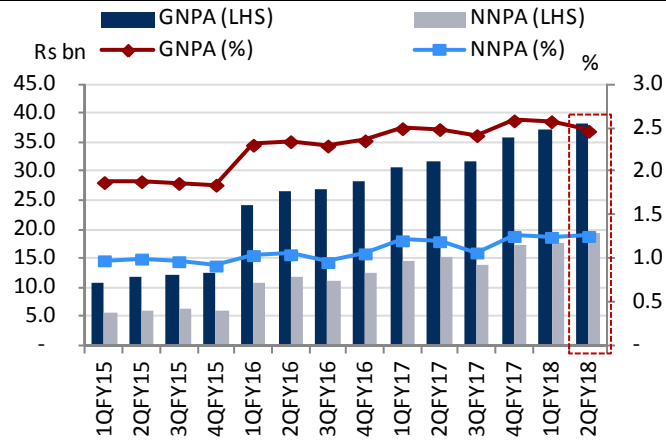
KMB has relatively low exposure to the second NCLT list, and has made sufficient provisions in these accounts

The SMA-II book dipped to ~Rs 2.5bn (down 5bps QoQ to 16bps)

Restructured loans were at ~Rs 650mn, down ~56/19% YoY/QoQ

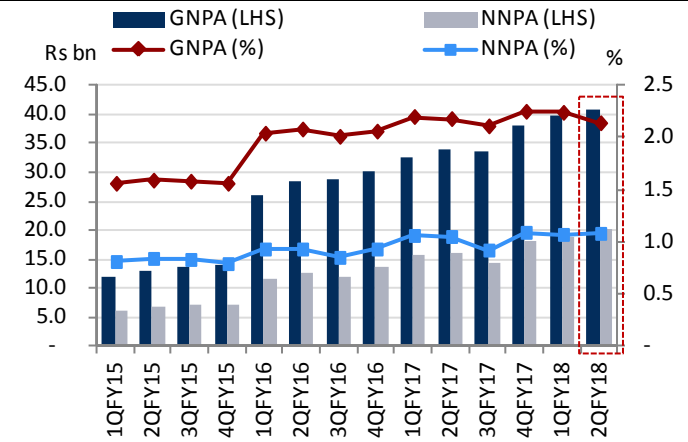
We have factored in LLP of ~50bps over FY18-20E.

Standalone GNPA's Flat Sequentially



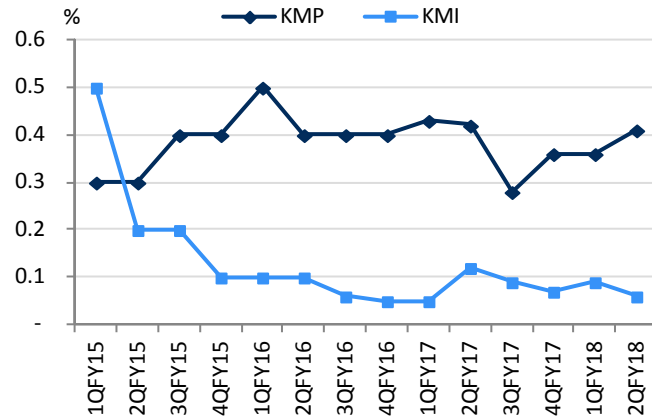
Source : Bank, HDFC sec Inst Research

Consol Asset Quality: Subs Doing Well



Source: Bank, HDFC sec Inst Research

KMP's NNPA Up 5bps QoQ; NNPA For KMI Dips



Source : Bank, HDFC sec Inst Research

PAT Contribution: Ramp Up In Profitability By Kotak AMC and KMP

(%)	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
PAT Rs bn	7.0	7.2	7.2	9.1	5.2	9.4	9.5	10.6	10.7	12.0	12.7	14.0	13.5	14.4
KMB	61.6	62.0	64.9	57.7	36.8	60.4	67.2	66.0	69.5	67.2	69.5	69.5	67.8	69.0
KMP	17.2	17.4	16.7	15.7	23.0	13.5	13.3	12.3	11.2	10.8	10.5	9.5	9.8	10.4
Invest. Co. (LAS)	2.4	3.5	3.3	4.4	5.8	3.8	4.0	4.1	2.9	4.4	3.8	4.0	3.3	3.8
K Sec	9.7	9.2	8.4	10.5	13.0	8.3	5.8	4.8	5.6	7.9	6.7	8.6	9.3	8.2
Kotak AMC	-	(0.1)	(1.4)	(2.0)	3.9	2.4	0.4	2.4	1.8	0.6	1.3	0.9	1.1	1.6
KMCC (IB)	(0.6)	(1.0)	(0.8)	3.3	0.6	0.7	0.6	1.6	2.2	0.4	0.6	0.8	0.4	(0.1)
Kotak Life	7.0	7.2	7.1	8.3	12.8	5.1	6.3	7.3	6.7	5.2	5.4	7.2	7.6	6.9
International Sub.	1.0	1.8	2.0	2.0	4.8	3.4	2.8	2.1	1.2	2.6	1.7	1.5	1.3	1.9
Investment Adv.	1.1	0.6	0.3	1.2	-	-	(0.1)	0.5	1.0	0.1	(0.7)	(0.9)	(0.1)	(0.1)
MI	0.4	(0.6)	(0.4)	(1.1)	(0.6)	2.4	(0.4)	(1.0)	(2.2)	0.8	1.3	(1.1)	(0.5)	(1.7)
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

KMP: Short Term Core Business Growth Strong At 15/8% Yoy/QoQ

Rs bn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Total Loans	185.2	188.2	190.7	197.1	197.3	200.1	218.5	222.6	222.0	233.1	234.7	251.2	276.4	283.7
YoY (%)	8.3	11.0	13.1	13.4	6.5	6.3	14.6	13.0	12.6	16.5	7.4	12.8	24.5	21.7
Car Loans	134.2	139.5	142.3	147.3	150.7	157.5	164.3	167.1	168.4	172.5	173.1	181.8	183.7	198.3
YoY (%)	2.8	6.2	8.9	10.9	12.3	13.0	15.4	13.5	11.8	9.5	5.3	8.8	9.1	15.0
% of total loans	72.5	74.1	74.6	74.7	76.4	78.7	75.2	75.0	75.8	74.0	73.8	72.4	66.5	69.9
NII	2.2	2.3	2.2	2.5	2.4	2.4	2.5	2.5	2.4	2.5	2.6	2.7	2.7	2.8
YoY (%)	5.4	3.2	2.3	5.0	8.8	4.4	12.3	(2.0)	3.0	4.2	6.5	7.3	12.4	11.7
Calc. NIM (%)	4.8	4.9	4.6	5.2	4.8	4.8	4.7	4.5	4.4	4.3	4.5	4.4	4.1	3.9
Total Income	26.7	27.8	26.8	30.9	27.7	29.8	29.7	30.4	29.4	30.8	31.0	33.0	32.9	34.0
YoY (%)	5.5	4.9	3.1	9.2	3.7	7.2	10.8	(1.6)	6.1	3.4	4.4	8.6	11.9	10.4
PBT	1.8	1.9	1.8	2.2	1.8	2.0	1.9	2.0	1.8	2.0	2.0	2.0	2.0	2.3
YoY (%)	2.2	(0.5)	(3.7)	13.5	-	2.6	5.5	(7.8)	-	1.5	5.2	1.0	10.9	15.7
PAT	1.2	1.3	1.2	1.4	1.2	1.3	1.3	1.3	1.2	1.3	1.3	1.3	1.3	1.5
YoY (%)	2.6	-	(2.4)	13.5	(0.8)	1.6	5.0	(9.1)	0.8	2.4	5.6	2.3	10.0	15.4
NNPA (Rs mn)	650.0	640.0	830.0	788.3	986.4	800.5	874.0	890.5	954.8	979.1	657.0	904.4	995.2	1,163.3
NNPA (%)	0.30	0.30	0.40	0.40	0.50	0.40	0.40	0.40	0.43	0.42	0.28	0.36	0.36	0.4

Kotak Sec Snapshot: PAT Up ~23% YoY As Volumes Continue To Rise

Rs mn.	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
K Sec Vol (bn)	60.53	66.21	73.78	83.72	78.13	75.93	64.81	74.03	76.72	73.29	87.43	104.34	109.83	124.08
Market Share (%)	2.9	2.7	2.8	2.9	2.7	2.7	2.7	2.3	2.4	2.3	2.2	2.2	1.9	1.9
Total Income	2230	2240	2230	2890	2500	2700	2280	2250	2380	2940	2870	3660	3650	3510
YoY (%)	51.7	47.4	32.7	80.6	12.1	20.5	2.2	(22.1)	(4.8)	8.9	25.9	62.7	53.4	19.4
Yield (calc.)	0.06	0.06	0.05	0.06	0.05	0.06	0.06	0.05	0.05	0.07	0.05	0.06	0.06	0.05
PBT	1030	1000	910	1470	1020	1200	830	750	920	1440	1250	1820	1870	1770
YoY (%)	114.6	66.7	28.2	167.3	(1.0)	20.0	(8.8)	(49.0)	(9.8)	20.0	50.6	142.7	103.3	22.9
PAT	680	660	600	960	670	780	550	510	600	960	850	1210	1250	1180
YoY (%)	119.4	65.0	30.4	118.2	(1.5)	18.2	(8.3)	(46.9)	(10.4)	23.1	54.5	137.3	108.3	22.9

Kotak AMC Snapshot: Strong AUM Growth

Rs mn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
AUM (Rs bn)	666	657	714	806	942	960	957	1022	1109	1207	1331	1414	1522	1692
Debt (%)	47.0	43.0	40.0	36.0	41.0	39.0	42.5	38.3	41.1	42.9	44.7	43.1	44.2	41.6
Equity (%)	7.0	9.0	10.0	12.0	14.0	14.0	13.7	14.3	14.5	16.0	16.8	19.6	21.3	23.9
Alt assets (%)	9.0	9.0	9.0	7.0	6.0	6.0	6.0	11.1	10.3	9.0	8.2	5.1	4.3	3.6
Offshore Funds (%)	18.0	19.0	22.0	26.0	23.0	25.0	22.1	20.7	19.0	17.3	16.5	17.4	15.6	16.9
Insurance (%)	18.0	19.0	18.0	18.0	18.0	15.0	15.4	15.2	14.6	14.2	13.0	13.7	13.0	12.3
PMS (%)	1.0	1.0	1.0	1.0	1.0	1.0	0.4	0.4	0.4	0.6	0.8	1.1	1.5	1.7
PBT	0	0	-90	-160	210	240	130	320	290	110	240	200	210	340
YoY (%)	(100.0)	(100.0)	(150.0)	(420.0)	-	-	(244.4)	-	38.1	(54.2)	84.6	(37.5)	(27.6)	209.1
PAT	0	-10	-10	-180	200	230	40	250	190	70	160	130	150	230
YoY (%)	(100.0)	(105.9)	(108.3)	(550.0)	-	(2,400.0)	(500.0)	(238.9)	(5.0)	(69.6)	300.0	(48.0)	(21.1)	228.6

K M Investment (LAS) Financial Snapshot: Customer Assets Sees Robust Growth

Rs mn	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Customer Assets	23830	23590	30200	32680	34310	40240	47610	47950	48710	55320	59590	69050	65000	72300
YoY (%)	177.1	218.4	157.2	110.2	44.0	70.6	57.6	46.7	42.0	37.5	25.2	44.0	33.4	30.7
NII	300	390	440	500	480	630	700	710	670	720	740	980	730	760
YoY (%)	130.8	95.0	131.6	85.2	60.0	61.5	59.1	42.0	39.6	14.3	5.7	38.0	9.0	5.6
Calc. NIM (%)	6.1	6.6	6.5	6.4	5.7	6.8	6.4	5.9	5.5	5.5	5.2	6.1	4.4	4.4
Total Income	360	470	470	710	560	680	730	850	720	930	850	980	800	1000
YoY (%)	157.1	123.8	104.3	129.0	55.6	44.7	55.3	19.7	28.6	36.8	16.4	15.3	11.1	7.5
PBT	260	380	370	570	460	550	600	750	610	760	710	83	690	840
YoY (%)	271.4	111.1	131.3	137.5	76.9	44.7	62.2	31.6	32.6	38.2	18.3	(88.9)	13.1	10.5
PAT	170	250	240	400	300	360	390	500	400	530	480	560	450	550
YoY (%)	1,600.0	127.3	118.2	150.0	76.5	44.0	62.5	25.0	33.3	47.2	23.1	12.0	12.5	3.8
NNPA (Rs mn)	60.00	60.00	50.00	32.68	34.31	40.24	28.57	23.98	24.36	66.38	53.63	48.34	58.50	43.4
NNPA (%)	0.50	0.20	0.20	0.10	0.10	0.10	0.06	0.05	0.05	0.12	0.09	0.07	0.09	0.1

Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ICICIBC #	1,957	305	BUY	355	111	132	149	14.8	11.4	10.1	2.03	1.60	1.42	10.5	11.8	10.4	1.20	1.30	1.29
KMB #	1,922	1,016	BUY	1,179	181	205	235	36.9	30.5	24.0	4.70	4.04	3.42	13.5	13.0	14.2	1.89	1.89	1.94
AXSB	1,135	474	NEU	504	199	234	271	30.4	15.7	11.3	2.39	2.03	1.75	6.5	11.7	14.5	0.58	0.99	1.16
IIB	953	1,602	BUY	1,809	382	444	521	27.1	22.0	17.7	4.20	3.61	3.07	16.2	17.3	18.5	1.79	1.80	1.81
FB	235	121	BUY	137	59	65	72	22.2	17.3	14.0	2.07	1.87	1.68	9.9	10.5	11.9	0.84	0.91	0.97
CUB	104	157	BUY	196	56	66	77	17.6	15.2	13.0	2.80	2.39	2.04	15.3	15.3	15.5	1.56	1.56	1.53
DCBB	55	177	BUY	214	78	88	99	20.9	16.5	13.6	2.27	2.02	1.80	10.9	11.1	12.2	0.97	1.02	1.02
SBIN #	2,788	323	BUY	357	117	157	181	17.2	12.3	9.2	1.97	1.47	1.26	5.8	7.0	8.8	0.37	0.44	0.53
BOB	425	184	BUY	206	102	144	172	22.4	14.5	10.8	1.81	1.28	1.07	5.1	7.4	9.2	0.27	0.39	0.47
AUSFB	39	325	BUY	378	147	164	187	198.1	18.8	13.9	2.21	1.98	1.73	1.1	11.1	13.3	0.22	1.95	2.13
Equitas	51	151	NEU	160	64	67	73	93.6	38.0	21.7	2.36	2.26	2.07	2.4	5.7	9.3	0.54	1.11	1.56
Ujjivan	163	574	NEU	530	75	87	102	59.0	45.3	33.3	7.68	6.60	5.62	13.0	14.9	17.5	1.62	1.57	1.71

Source: Company, HDFC sec Inst Research, # Adjusted for embedded value of subs

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Earned	163,842	176,989	210,448	246,704	302,033
Interest Expended	94,838	95,728	111,617	131,565	166,266
Net Interest Income	69,004	81,261	98,831	115,139	135,767
Other Income	26,122	34,772	39,586	45,718	54,893
<i>Fee Income (CEB)</i>	17,644	21,207	25,691	30,986	38,124
<i>Treasury Income</i>	2,132	4,416	3,500	2,750	2,750
Total Income	95,126	116,033	138,417	160,858	190,661
Total Operating Exp	54,715	56,185	63,932	73,663	85,265
<i>Employee Expense</i>	28,170	27,685	31,342	36,153	41,534
PPOP	40,411	59,848	74,485	87,195	105,395
Provisions & Contingencies	9,174	8,367	8,672	9,781	9,892
<i>Prov. For NPAs (Incl. Std Prov.)</i>	7,478	7,004	7,622	8,731	9,642
PBT	31,237	51,481	65,813	77,414	95,504
Provision For Tax	10,339	17,366	21,850	25,701	31,707
PAT	20,898	34,115	43,963	51,712	63,797

Source: Bank, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	9,172	9,204	9,514	9,514	9,514
Reserves	230,419	266,956	364,169	410,851	470,176
Shareholders' Funds	239,591	276,161	373,684	420,366	479,690
<i>Savings</i>	294,947	415,039	570,679	770,417	1,024,654
<i>Current</i>	232,817	277,608	305,369	335,905	369,496
<i>Term Deposit</i>	858,666	881,611	980,259	1,132,567	1,409,062
Total Deposits	1,386,430	1,574,259	1,856,307	2,238,890	2,803,212
Borrowings	209,787	210,973	207,809	204,692	225,160
Other Liabilities	86,790	84,507	92,957	104,112	114,524
Total Liabilities	1,922,598	2,145,900	2,530,758	2,968,060	3,622,586
APPLICATION OF FUNDS					
Cash & Bank Balance	108,760	225,720	290,619	293,511	214,702
Investments	512,602	450,742	519,617	611,610	886,221
<i>G-Secs</i>	407,610	361,899	426,951	514,945	784,899
Advances	1,186,653	1,360,821	1,605,706	1,936,639	2,382,730
Fixed Assets	15,516	15,376	16,914	18,605	20,466
Other Assets	99,067	93,240	97,902	107,694	118,467
Total Assets	1,922,598	2,145,900	2,530,758	2,968,060	3,622,586

Source: Bank, HDFC sec Inst Research

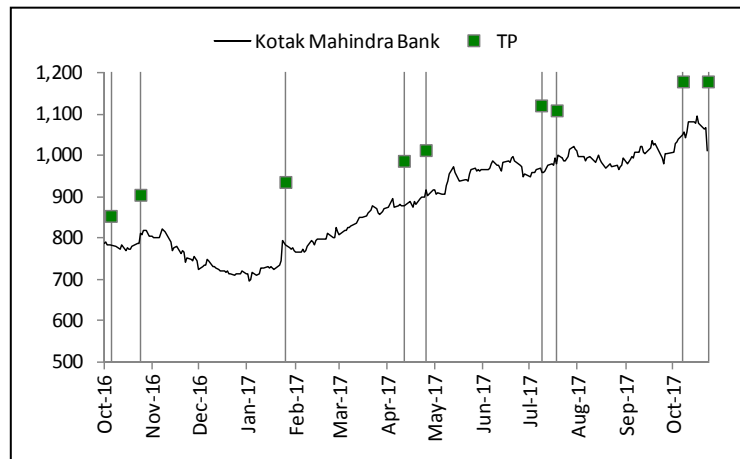
Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
VALUATION RATIOS					
EPS (Rs)	11.4	18.5	23.1	27.2	33.5
Earnings Growth (%)	12.0	63.2	28.9	17.6	23.4
BVPS (Rs)	126.4	145.3	191.6	215.9	246.6
Adj. BVPS (Rs)	119.5	136.0	181.3	205.1	235.4
ROAA (%)	1.41	1.68	1.89	1.89	1.94
ROAE (%)	11.0	13.2	13.5	13.0	14.2
P/E (x)	78.8	47.0	36.9	30.5	24.0
P/ABV (x)	7.51	6.40	4.70	4.04	3.42
P/PPOP (x)	23.1	15.6	13.0	11.1	9.2
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.1
PROFITABILITY					
Yield On Advances (%)	13.49	10.52	11.17	11.03	11.08
Yield On Investment (%)	8.65	7.64	7.65	7.60	7.55
Cost Of Funds (%)	7.69	5.66	5.80	5.84	6.08
Cost Of Deposits (%)	7.37	5.56	5.60	5.57	5.54
Core Spread (%)	5.80	4.86	5.37	5.19	5.00
NIM (%)	4.41	4.39	4.66	4.62	4.42
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	3.7	2.8	2.7	2.7	2.6
Cost-Income Ratio (Ex. Treasury)	58.8	50.3	47.4	46.6	45.4
BALANCE SHEET STRUCTURE					
Loan Growth (%)	79.4	14.7	18.0	20.6	23.0
Deposit Growth (%)	85.2	13.5	17.9	20.6	25.2
C/D Ratio (%)	85.6	86.4	86.5	86.5	85.0
Equity/Assets (%)	12.5	12.9	14.8	14.2	13.2
Equity/Advances (%)	20.2	20.3	23.3	21.7	20.1
CASA (%)	38.1	44.0	47.2	49.4	49.7
Capital Adequacy Ratio (CAR, %)	16.3	16.8	18.7	18.0	17.1
W/w Tier I CAR (%)	15.2	15.9	18.3	17.6	16.8

	FY16	FY17	FY18E	FY19E	FY20E
ASSET QUALITY					
Gross NPLs (Rs bn)	28.4	35.8	40.7	45.2	47.0
Net NPLs (Rs bn)	12.6	17.2	19.7	20.7	21.3
Gross NPLs (%)	2.36	2.59	2.54	2.34	1.97
Net NPLs (%)	1.06	1.26	1.23	1.07	0.89
Slippages (%)	3.10	1.41	1.20	1.20	1.10
Coverage Ratio (%)	55.5	52.0	51.6	54.3	54.7
Provision/Avg. Loans (%)	0.8	0.5	0.5	0.5	0.4
ROAA TREE					
Net Interest Income	4.63%	3.99%	4.23%	4.19%	4.12%
Non Interest Income	1.75%	1.71%	1.69%	1.66%	1.67%
<i>Treasury Income</i>	<i>0.14%</i>	<i>0.22%</i>	<i>0.15%</i>	<i>0.10%</i>	<i>0.08%</i>
Operating Cost	3.67%	2.76%	2.73%	2.68%	2.59%
Provisions	0.62%	0.41%	0.37%	0.36%	0.30%
<i>Provisions For NPAs</i>	<i>0.47%</i>	<i>0.30%</i>	<i>0.29%</i>	<i>0.28%</i>	<i>0.25%</i>
Tax	0.69%	0.85%	0.93%	0.93%	0.96%
ROAA	1.40%	1.68%	1.88%	1.88%	1.94%
Leverage (x)	7.83	7.89	7.20	6.93	7.32
ROAE	10.97%	13.23%	13.53%	13.02%	14.18%

Source: Bank, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
7-Oct-16	783	BUY	854
26-Oct-16	811	BUY	905
27-Jan-17	793	BUY	936
13-Apr-17	879	BUY	987
28-Apr-17	915	BUY	1,103
10-Jul-17	965	BUY	1,121
21-Jul-17	979	BUY	1,109
9-Oct-17	1,037	BUY	1,179
26-Oct-17	1,016	BUY	1,179

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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