

KOTAK MAHINDRA BANK

WAKE YOUR INVESTMENTS UP WITH
KOTAK MAHINDRA BANK STOCKS

Post exhaustive research and getting deep into the numbers, our **Research Team** recommends **DSIJ** reader-investors to **BUY** this stock.

Indian banking industry is expected to witness consistent roll out of innovative banking models like payments and small finance banks. There will be 11 payment banks, 10 small finance banks which are expected to be launched in FY17. Meanwhile, country's banking sector is these days passing through a critical phase due to abnormal rise in NPAs and declining asset quality. State owned banks like Bank of Baroda, State Bank of India, Punjab National Bank took a major cut in the income statement by increasing provisions for NPAs due to which their net profitability was affected. This has led to consolidation in banking space with SBI recently announcing merger with its subsidiaries and another smaller bank. We see that the sector will further consolidate.

In such turbulent time, we have picked a flower blooming in garden- Kotak Mahindra Bank (KMBL) because of its stable low risk diversified business model. KMBL is yielding benefits of cost synergies post the acquisition of ING

Vysya. The bank is also unfazed by the growing jitteriness in the banking sector and remain more poised for growth in corporate, commercial and consumer bank. With 50 per cent of incremental term deposits booked online, it plans to reap the benefit of digitalisation not only on banking side but insurance, securities and mutual funds.

STREAMLINE RISK BALANCED PORTFOLIO

KMBL avoids high leveraged and capital intensive sectors like infrastructure, power, ports and airline with higher repayment cycle. The bank focuses on SME and mid corporate business segment. It believes PAN India diversified financial services strategy with inorganic expansion plans via mergers and acquisitions. KMBL's focus is on micro finance sector and it intends to grow over 20 per cent during the next few years.

GEOGRAPHICAL REACH STRENGTHENED

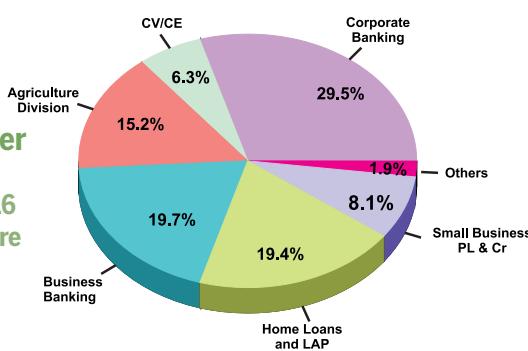
KMBL acquired ING Vyasa Bank via

merger in Q2FY15. Kotak has strong presence in western and southern India which together constitutes 65 per cent of its branches as of March 2016. This merger leads to increase in branch network from 684 to 1333 with deepening roots in south. The bank plans to reach 1400 branches in FY17. Due to merger, it has furthered its reach in south which earlier had only 15 per cent of branches. In metros, the bank has as of March 2016 approximately 40 per cent presence followed by urban 22 per cent, semi-urban 22 per cent and rural 17 per cent. The Bank also plans to expand its rural network to 400+ branches to capture market in "Bharat".

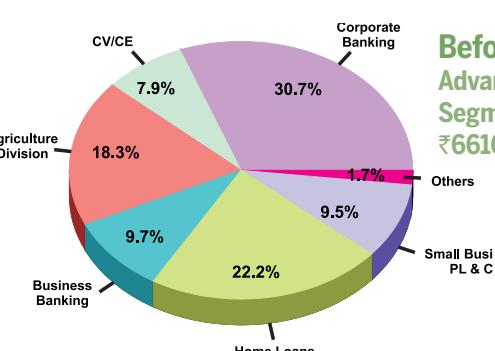
MERGER WITH ING VYASA BANK

KMBL's acquisition with ING Vysya is in the completion stage and will be expected to end in Q1FY17. The bank's people and process integration has been completed. Its elaborate customer communication plan has been rolled out. Meanwhile, technology integration is in the final step. For advances, KMBL has seen highest

**After Merger
Advances by
Segment FY16
₹118,665 Crore**



**Before Merger
Advances by
Segment FY16
₹66161 Crore**



Bank Name	Market Cap	Net NPA	Gross NPA	Advances	Deposites	Interest earned	Interest expenses	NII	NIM
	(₹/Crone)								(in %)
HDFC Bank	288636.19	1320.37	4392.83	464593.96	546424.19	63161.57	34069.57	29092.00	4.30
ICICI Bank	131551.78	12963.08	26221.25	493729.11	451077.39	52739.43	33996.47	18742.96	3.49
State Bank of India	139807.61	27590.58	56725.34	1789053.95	2172260.54	207974.34	133178.64	74795.70	3.54
Kotak Mahindra Bank Ltd	129891.07	1353.03	3016.55	144793.00	135948.76	20401.64	11122.97	9278.67	4.38
Axis Bank	119607.14	2522.14	6087.51	338773.72	357967.56	41409.25	24344.24	17065.01	3.97
IndusInd Bank	64450.62	321.75	776.82	88419.34	93000.34	11580.66	7064.09	4516.57	3.81
Yes Bank Ltd	40888.59	284.47	748.98	98209.93	111704.18	13533.44	8965.41	4568.03	3.40

NII = Net Interest Income NIM = Net Interest Margin

Kotak Mahindra Bank Ltd.

BSE Code 500247 CMP (₹) : 700

Particulars	Amont (₹ Crore)
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Net Sales	20401.64
% Change	53.18%
Operating Profit	6015.30
% Change	26.49%
Net Profit	3431.12
% Change	11.94%
Equity	917.19
EPS (₹)	21.93
FV (₹)	5.00
P/E (x)	32.11
Dividend Yield (%)	0.06
Book Value (₹)	181.82

(Trailing Four Quarter Data)

growth in corporate banking, business banking and home loan as a post-merger entity. The portfolio looks balanced with the merger and has also provided Kotak international reach. After merger, KMBL's standalone advances increased to ₹118665 crore from ₹66161 crore in FY16. Also consolidate advances increased to ₹144793 crore from ₹88632 crore in FY16.

CASA AND DEPOSITS– GROWTH REMAINS INTACT

Average SA for Q4FY16 at e-IVBL branches grew at 34 per cent and Kotak branches at 43 per cent. CA rose by 76.63 per cent to ₹23282 crore in FY16 on yearly basis. SA rose by two folds to ₹29495 crore in FY16 from ₹14036 crore in FY15. CASA contributes to 38 per cent of deposits and expanded by 200 basis points in FY16. CASA and TDs below ₹5 crore constitutes 70 per cent of total deposits as of March-15.

On the deposit side, the bank has seen highest growth in this fiscal year as

compare to previous i.e. to ₹135949 crore from ₹72843 crore. Deposits are grown with CAGR of 55 per cent.

DIGITAL ACQUISITION & DIGITISATION

KMBL is delighting internal and external customer by providing highest rated



"Kotak Mahindra Bank is a very well managed bank. It commands a premium to SBI due to its asset efficiency and strict control over NPA. Kotak Mahindra bank reported an NPA of 1.04% for FY16. This is much lower than reported by SBI. SBI's asset size is 9 times that of KMB but the KMB has almost the double NIMs (net interest margins) than SBI. The latest NIMs are 4.35% for KMB. This efficiency in lending, managing assets well and keeping NPAs under control gives KMB an edge over SBI. KMB will continue to report better numbers in the future due to the structure of its loan book and the management quality. If the trend in growth continues, KMB's market cap will remain at elevated levels".

Siddharth Oberoi, Founder, Prudent Equity.

banking app, ecommerce services with over 80 features placing the bank in top 5 banks in mobile transaction by volume and value. The market share of mobile transaction is 4.7 per cent (₹2882 crore) by value and 4.3 per cent (27.6 lakh) by volume in March-16. This is a huge jump compared with the low market share of 1.4 per cent in deposit and 1.5 per cent share in advances. Digital activity is growing at fast pace at global level as well. Kotak has 133 customers acquired through digital sales per 1000 active customer which is highest at global level as per Global Benchmarking survey. It also received payment bank licence with (19.9 per cent of Airtel) Bharti Airtel which will help bank to reach unbanked rural market.

We compared KMBL's NIM with other peer set based on market cap and we see that the bank enjoys one of the highest NIM's in the industry. The net interest

margin remained in the range of 4.3 per cent in FY16 vs 4.9 per cent in FY15 contracting on the back of integration costs. With the merger, the net interest income has increased 6.3 per cent to ₹6901 crore as of FY15 with Q4 contributing 26.9 per cent to this.

KMBL has much room for further improvement in advances as compare to most of peer companies. NPA numbers keeping KMBL at safer position. The bank's provisions to NII is one of the lowest among its peers at 11 per cent after HDFC. It also enjoys lower provisions to advances at 0.68 per cent. A broader footprint, strong Tier 1 (15 per cent), diversified book, improvement in macro environment, rising product penetration will help KMBL to face the current turmoil and grow its portfolio.

KMBL announces MCLR on loans for 6M- 9.4 per cent, 1Y- 9.6 per cent, 2&3Y- 9.65 per cent. MCLR linked home loan rate is currently marginally lower than base rate linked loan.

FINANCIALS

KMBL's merger with ING Vysya Bank took place effective April 1, 2015. Therefore, previous year periods not

BUSINESS BY SEGMENTS

KMBL's other subsidiaries also performed well. Kotak Mahindra Investments, Kotak Life Insurance, Kotak AMC and TC, Kotak Mahindra Capital have shown consolidate PAT growth 45.28 per cent, 9.6 per cent, 140 per cent and 166 per cent respectively. We see that the growth in subsidiaries also has been substantial

Kotak Mahindra Prime

contributes 14.51 per cent to PAT. Kotak Mahindra Prime's customer assets increased to ₹22262 crore from ₹19707 crore in FY16. NII increased to ₹967 crore in FY16 from ₹915 crore in FY15.

Kotak Life Insurance (KLI)

contributes 7.25 per cent to PAT. The segment's is the second largest contributor to PAT after Kotak Mahindra Prime. KLI ranked fifth among private insurer in FY16 jumping to the position from 9th in FY15. KLI's individual regular business grew by 54 per cent against private industry business growth of 14 per cent. Its conservation ratio improved to 83.9 per cent in FY16 from 79.9 per cent in FY15. It also focusing on E-insurance penetration.

Kotak Mahindra Investment

contributes 4.5 per cent to PAT. Its net worth also increased to ₹841 crore from ₹617 crore. Customer assets increased to ₹4795 crore in FY16 from ₹3268 crore in FY15. NNPA reduced to 0.05 per cent from 0.13 per cent.

Kotak Mahindra Capital

contributes 0.9 per cent to PAT. But has got good potential to grow in future as PAT growth is 166 per cent on yearly basis.

Kotak Investment Advisory

contributes 0.14 per cent to PAT. It has set up focused approach to invest in Indian private equate, Real estate, Infrastructure, listed strategies space. The raised assets under management of about USD 1 billion during Q4FY16 and total revenue rose by 8.64 per cent.

Kotak AMC & TC

Kotak's AMC and TC business growing in double pace with increased market share of 4.3 per cent in Q4FY16 vs 3.5 per cent in Q4FY15. The average asset under management increased from ₹38600 crore in FY15 to ₹54748 crore in FY16.

Kotak Securities

contributes 7.25 per cent to PAT same as KLI. The market share is 2.6 per cent. And has 1.2 million secondary market customers through 1209 branches and franchises.

comparable on yearly front. Considering latest quarter, KMBL reported top line of ₹5317 crore in Q4FY16 verses ₹3517 crore in Q4FY15. The bank's Net Interest Margin (NIM) stood at 4.8 per cent in Q4FY16 while 4.89 per cent in Q4FY15. Its bottom line stood at ₹1055 crore in Q4FY16 against ₹913 crore in Q4FY15.

On yearly front, KMBL posted consolidated net interest income of ₹20402 crore in FY16 against ₹13319 crore in FY15. The bank's Net Profit stood at ₹3459 crore in FY16 while ₹3045 crore in FY15. Its Net Interest Margin (NIM) stood at 4.3 per cent in FY16 while 4.9 per cent in FY15. On asset quality front, KMBL is in a better position though the banking sector is witnessing massive bad loans increasing quarter by quarter. The bank's gross NPA



With market capitalization nearing that of State Bank of India (1,34,218 crore), Kotak Mahindra Bank ("Kotak") has expanded in an environment when the Indian banking sector is being tested for its resilience: credit growth is yet to pick up and NPAs for banks are high. Kotak owes much of this achievement to an acquisition (ING Vyasa) it made in 2015. Kotak's merger move has improved its value in the banking industry and highlighted its market share gains-PE multiple of 60 is highest in the industry. If the loan book is optimized and productivity is improved as a direct result of aggregated deposits in the next few quarters, efficiency improvement will definitely be reflected in its pricing in the near future.

Deb Mukherjee, CEO, Wisdom Capital

stood at 2.06 per cent amounting to ₹3017 crore as of FY16 while 1.56 per cent amounting to ₹1392 crore as of FY15. Its net NPA stood at 0.93 per cent to ₹1353 crore as of FY16 while 0.79 per cent to ₹697 crore as of FY15. Capital adequacy was also pretty healthy at 16.3 % overall and 15.3% at the Tier-1 level.

Going forward, the bank expects 20% growth in its loan book in FY17 vs 11-12% growth witness in FY16 across retail, wholesale and commercial

CONCLUSION

The banking sector is witnessing a prolonged stressed assets issue. Because of bad loans the banking sector growth has been sheared. There are public sector banks which were more severely affected by bad loans. KMBL asset quality remained at reasonably better position as compared to peers. Meanwhile, in private sector banks, KMBL is in position to bet on for future prospective. After merger with ING Vysya bank, KMBL diversified its geographical presence, product portfolio in wide range and is riding on the digitalisation wave.



"Kotak Mahindra Bank is maintaining stable business performance despite challenging macro. The bank's integration with ING is nearing completion and synergies have started gaining traction and yielding results. It is increasing provision but also improving assets quality. The bank is trading at rich valuations consistently due to its superior return ration and net interest margin (NIM). It's NIM and return of Assets (RoA) is expected to stay better than peers. Its other income growth is also going strong. All in all, with asset quality being one of the most stable, strong operational business model and strong management, Kotak Mahindra Bank is expected to give strong returns to its investors."

Dhruv Desai – Director & COO, Tradebulls

(Closing price as of May 24, 2016)