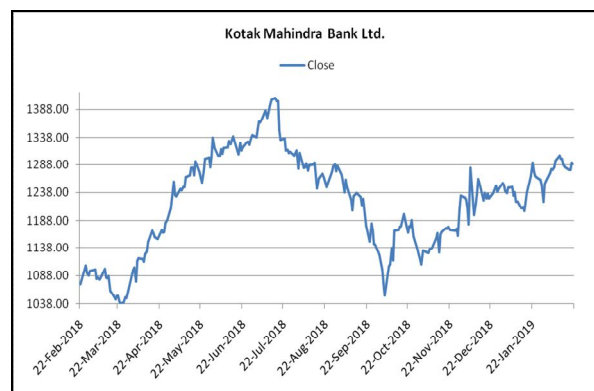


Kotak Mahindra Bank Ltd.	
Industry	Banking-Private
No. of Shares (Crore)	190.80
Face value (Rs)	5.00
Mkt. Cap (Rs. Crore)	236191.32
Price (22/02/2019)	1237.90
Book Value (Rs)	291.78
P/BV	4.25
BSE Code	500247
NSE Code	KOTAKBANK
Bloomberg	KMB IN
Reuters	KTKM.BO
Avg. Monthly Volume	26,22,320
52 W H/L (Rs)	1424.00 / 1002.30
Shareholding Pattern	
	%
Indian Promoters	30.01
Foreign Promoters	0.00
DII's	9.63
FPI's	39.36
Body Corporate	3.17
Non-Institutions	17.83
Total	100
(As on December 31, 2018)	
Recommendation	
BUY	



Company Background

Kotak Mahindra Bank Ltd. (Kotak) is India's fastest growing and one of the largest private sectors Bank with a pan India presence. It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialized subsidiaries in the areas of personal finance, investment banking, life insurance and wealth management etc. As on December 31, 2018, it has a national footprint of 1453 branches and 2,270 ATMs, affording it the capacity and means to serve its customers through its wide presence. In 2015 Kotak acquired ING Vysya Bank in a deal valued at Rs. 15,000 crore.

Investment Rationale

- The bank has an international presence through its subsidiaries with offices in London, New York, California, Dubai, Abu Dhabi, Mauritius, Singapore and Dubai that specialize in providing services to overseas investors seeking to invest into India.
- For the period of FY13-18, its topline and bottomline both grew at a CAGR of ~18% & ~23% respectively. Kotak's consolidated net interest income for Q3FY19 has improved by ~21% YoY to Rs. 7,745 crore against Rs. 6,391 crore in Q3FY18. On a consolidated basis, the bank reported a net profit of Rs. 1,844 crore in Q3FY19, up ~14% from Rs. 1,624 crore, a year ago.
- In Q3FY19, Net Interest Margin (NIM) on standalone basis expanded after a long time to 4.33% against 4.20%, YoY due to increase in yields.
- Its asset quality improved as Gross Non-performing Assets (GNPA) for Q3FY19 stood at 2.07% against 2.15%, QoQ & 2.31%, YoY. Net NPA for the quarter came at 0.71% against 0.81%, QoQ & 1.09%, YoY. In absolute terms, GNPA stood at Rs. 4,129 crore and NNPA at Rs. 1,397 crore.
- During Q3FY19, Advances maintained strong growth traction with 23% from a year ago to Rs. 1,96,432 crore, while Deposits grew by 18% YoY to Rs. 2,13,804.
- The CASA ratio for the bank stood at 50.7% in Q3FY19, whereas capital adequacy ratio (CAR) including unaudited profits as per Basel III stood at 18.1% for Q3FY19 and Tier I ratio is 17.6%.
- Apart from the banking business all other businesses via its subsidiaries viz. AMC, insurance, broking, personal finance, etc. has performed well along with wealth creation and built a brand image.

Recommendation- Kotak enjoys strong growth visibility and superior asset quality management. It has witnessed significant traction in CASA and expect strong traction in earnings to continue owing to robust growth in loan book, moderate credit cost and healthy margins. At the CMP of Rs. 1237.90, the stock trades at ~28 times FY20 EPS of Rs. 45. **Hence, we recommend a BUY on the stock with a Target Price of Rs. 1,440 with an upside potential of ~16% from the current level with an investment horizon of 9-12 months.**

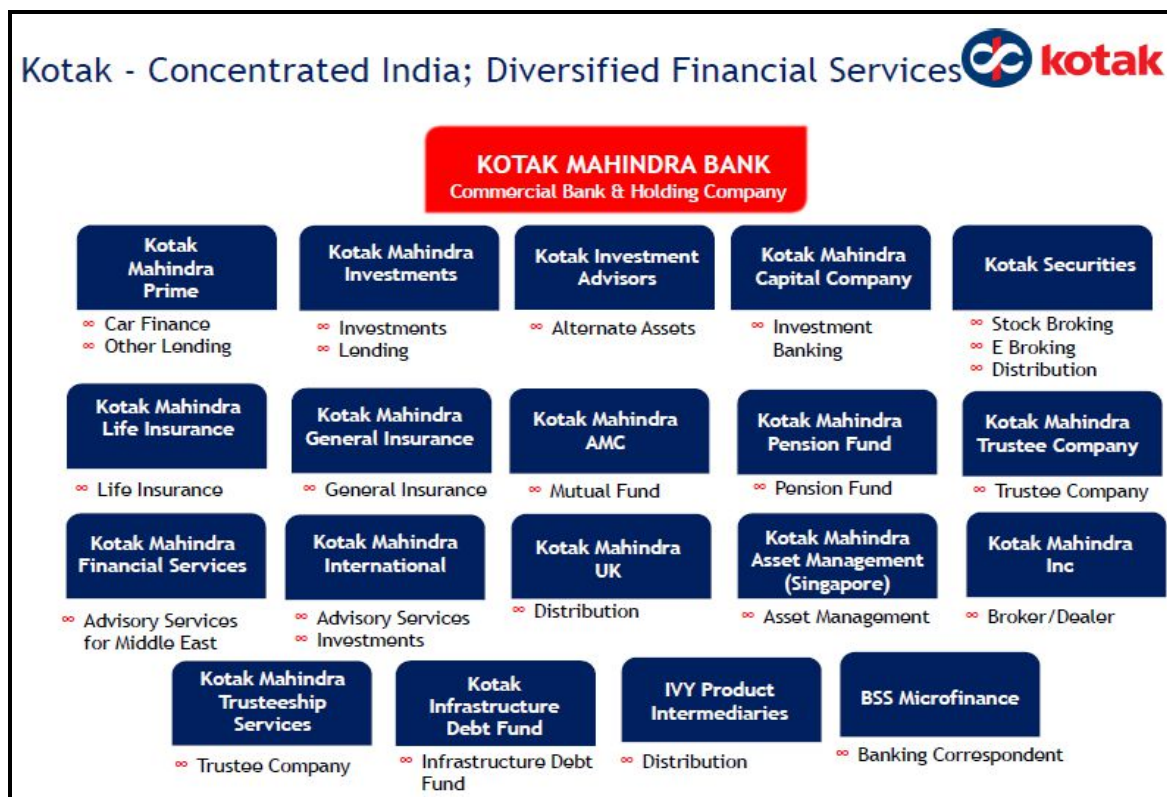
Risk & Concern- RBI has directed Kotak Bank to dilute promoter shareholding to 20% and has disallowed the use of preference shares to reduce promoter shareholding. In this regard Bombay High Court has adjourned the hearing in the writ petition to March 12.

Particulars (Rs. Crs)	Q3FY19	Q3FY18	Var%	9M FY19	9M FY18	Var%	FY17	FY18
Interest Earned	7744.58	6390.71	21.18	21959.07	18398.71	19.35	22324.21	25131.08
PBIDT	2708.36	2640.29	2.58	8432.88	7299.47	15.53	7331.93	9158.23
Profit After Tax	1844.01	1624.24	13.53	5165.86	4411.74	17.09	4940.43	6200.97
PBIDTM %	34.97	41.31	-15.35	38.40	39.67	-3.20	32.84	36.44
PATM %	23.81	25.42	-6.32	23.52	23.98	-1.89	22.13	24.67
EPS (Rs.)	9.67	8.53	13.36	27.09	23.17	16.92	26.84	32.54

Numbers are Consolidated

Source: Company, Ace Equity, AUM Research

Kotak - Subsidiary wise details



Consolidated PAT



₹ cr	Q3FY19	Q3FY18	Q2FY19	FY18
Kotak Mahindra Bank	1,291	1,053	1,142	4,084
Kotak Mahindra Prime	139	148	157	590
Kotak Mahindra Investments	40	50	45	245
Kotak Securities	99	154	112	531
Kotak Mahindra Capital	3	36	14	65
Kotak Mahindra Life Insurance	125	97	127	413
Kotak AMC and TC	76	38	52	115
International Subsidiaries	37	32	47	114
Others	11	12	13	13
Total	1,821	1,620	1,709	6,170
Minority Interest	-	(4)	-	(57)
Affiliates and Others	23	8	38	88
Consolidated PAT	1,844	1,624	1,747	6,201

Source: Company, Ace Equity, AUM Research

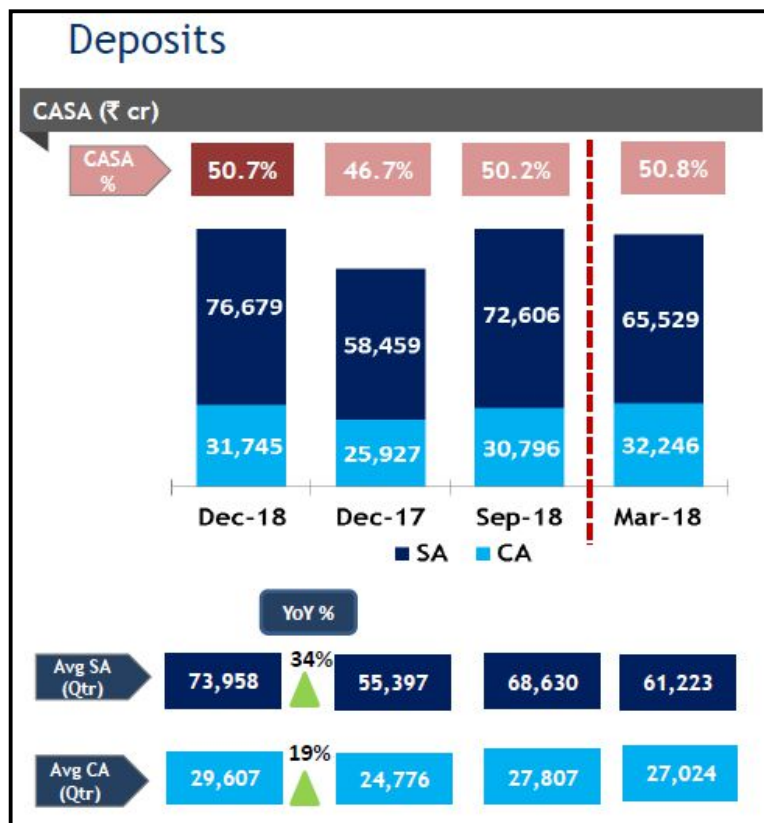
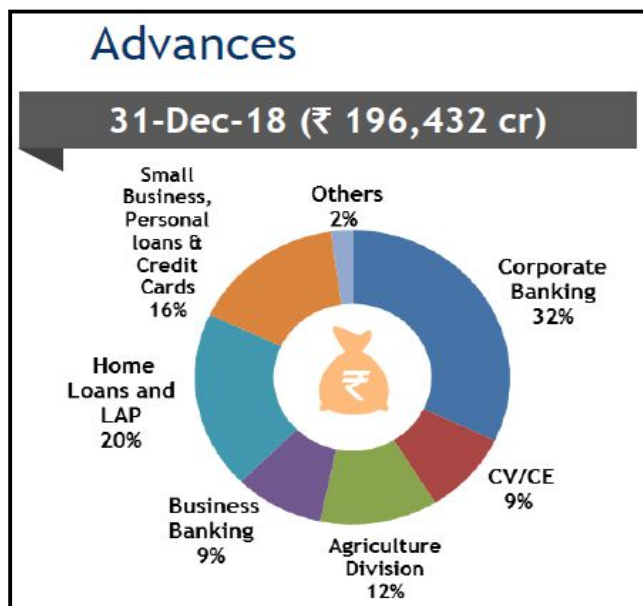
Financials

Consolidated Results (Value in Rs. Crs)						
Particulars (Rs. Crs)	Q3FY19	Q3FY18	Var%	9M FY19	9M FY18	Var%
Interest Earned	7744.58	6390.71	21.18	21959.07	18398.71	19.35
Other Income	3602.81	3713.88	-2.99	10120.96	9450.84	7.09
Total Income	11347.39	10104.59	12.30	32080.03	27849.55	15.19
Interest Expended	3940.53	3204.81	22.96	11211.94	9123.04	22.90
Operating Expenses	4698.50	4259.49	10.31	12435.21	11427.04	8.82
Operating Profit before Prov.& Cont.	2708.36	2640.29	2.58	8432.88	7299.47	15.53
Provisions and Contingencies	-10.94	226.29	-104.83	847.75	711.37	19.17
PBT	2719.30	2414.00	12.65	7585.13	6588.10	15.13
Tax	896.51	795.94	12.64	2503.65	2171.00	15.32
Profit After Tax	1822.79	1618.06	12.65	5081.48	4417.10	15.04
Minority Interest	0.00	-3.97	0.00	0.00	-56.64	100.00
Shares of Associates	21.22	10.15	109.06	84.38	51.28	64.55
Consolidated Net Profit	1844.01	1624.24	13.53	5165.86	4411.74	17.09
EPS (Rs.)	9.67	8.53	13.36	27.09	23.17	16.92

Consolidated Income Statement (Value in Rs. Crs)						
Particulars	FY13	FY14	FY15	FY16	FY17	FY18
Interest Earned	10837.87	11985.90	13318.89	20401.64	22324.21	25131.08
Other Income	5112.41	5282.39	8152.20	7630.73	11659.56	13682.23
Total Income	15950.27	17268.29	21471.08	28032.36	33983.77	38813.31
Interest Expended	6024.49	6312.12	6966.10	11122.97	11457.51	12466.85
Operating Expenses	6598.43	6951.70	9749.26	10894.08	14245.41	16163.49
Provisions and Contingencies	183.19	308.97	205.74	991.57	948.92	1024.74
Profit Before Tax	3144.16	3695.50	4549.98	5023.74	7331.93	9158.23
Taxes	939.95	1183.96	1484.90	1592.62	2382.85	3011.09
Profit After Tax	2204.21	2511.54	3065.08	3431.12	4949.08	6147.14
Minority Interest	-49.33	-62.17	-59.51	-65.19	-78.83	-56.67
Share of Associate	33.58	15.62	39.88	92.92	70.18	110.51
Consolidated Net Profit	2188.46	2464.99	3045.45	3458.85	4940.43	6200.97
EPS (Rs.)	14.66	16.00	19.72	18.86	26.84	32.54

Key Ratios (Consolidated)						
Description	FY13	FY14	FY15	FY16	FY17	FY18
Yield on Advances	16.36	16.72	15.03	14.09	13.36	12.20
Yield on Investments	7.55	8.06	10.38	7.29	8.94	7.01
NIM(%)	4.31	4.84	4.50	4.09	4.16	3.94
ROA(%)	2.12	2.11	2.26	1.76	1.91	2.00
ROE(%)	15.66	14.63	14.87	12.36	13.78	13.82
CASA (%)	29.92	32.52	37.13	38.66	44.34	50.85
Dividend payout (%)	2.39	2.50	2.28	2.65	2.24	1.84

Source: Company, Ace Equity, AUM Research



Consolidated Balance Sheet (Value in Rs. Crs)						
Description	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	373.30	385.16	386.18	917.19	920.45	952.82
Share Warrants & Outstandings	17.53	8.53	3.00	3.41	1.87	2.17
Total Reserves	14876.49	18690.85	21767.14	32443.45	37570.39	49533.24
Minority Interest	208.72	270.89	335.69	395.60	474.43	0.00
Deposits	49389.14	56929.75	72843.46	135948.76	155540.00	191235.80
Borrowings	36171.96	29007.14	31414.88	43729.79	49689.91	58603.97
Other Liabilities & Provisions	14797.51	16944.32	21825.42	27365.37	31990.51	37392.47
Total Liabilities	115834.66	122236.63	148575.76	240803.58	276187.56	337720.47
Cash and balance with Reserve Bank of India	2220.76	2960.51	3945.12	6924.90	7512.23	8933.50
Balances with banks and money at call	2297.49	3682.60	2958.33	4674.51	18076.32	15467.13
Investments	40907.24	38791.05	45588.89	70273.90	68461.54	90976.60
Advances	66257.65	71692.52	88632.21	144792.82	167124.91	205997.32
Gross block	1574.54	2388.59	2675.00	4046.92	4336.70	4433.65
Less: Accumulated Depreciation	954.64	1124.50	1290.03	2285.91	2581.50	2683.82
Net Block	619.90	1264.09	1384.97	1761.02	1755.20	1749.83
Other Assets	3531.63	3845.87	6066.25	12376.44	13257.36	14596.09
Total Assets	115834.66	122236.63	148575.76	240803.58	276187.56	337720.47
Adjusted Book Value	102.13	123.82	143.32	181.86	209.09	264.93

Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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