

Performance of Business Verticals - Kotak Mahindra Prime

Kotak Mahindra Prime business continues to grow impressively. The advances grew 56% yoy (9% qoq) to Rs. 9000 crore with majority of the growth coming from auto loans at Rs. 7064.4 crore (+43% yoy and +9% qoq). The pre-provisioning profits grew by 29.7% qoq (+302% yoy) to Rs. 76 crore. The Net NPA declined to 0.3% (from 0.4% in Q4FY10).

Kotak Securities

Kotak Securities reported 7% qoq decline (+36% yoy) in profits to Rs. 47.4 crore. While the average daily trading volume inched up qoq to ~ Rs.4000 crore (from ~ Rs. 3600 crore in Q4FY10), revenues declined due to pressure on commission yields. It reported a market share of 3.7% for Q1FY11 compared to 4.1% for FY10 and ~3.6% for Q4FY10.

Investment banking

Investment banking division reported net profit of Rs. 6.9 crore giving a rise of 43.8% yoy in Q1FY11. However, the net profit, on sequential basis, declined by -48.5% from Rs. 13.4 crore. It was involved in public offerings of Standard Chartered IDR (~ Rs. 2500 crore), Jayvee Ingrates (~ Rs. 2300 crore), Godrej Consumer Products (~Rs 500 crore), Nitesh Estate (~Rs. 400 crore), and Hindustan Media Ventures (~ Rs. 300 crore). The management is confident on the business prospects and expects to improve the profitability significantly over the coming years.

Asset Management

Kotak Bank's asset management business reported 32% yoy decline in profitability in Q1FY11. Domestic MF AUMs declined 18% qoq to Rs. 28500 crore as equity funds saw negligible inflows and debt funds witnessed redemption due to change in regulation proposed from August 2010 with respect to creating MTM provisions.

Life Insurance

Kotak Bank's Life Insurance Business reported a loss of Rs. 6.9 crore in Q1FY11 against a profit of Rs 1.1 crore in Q1FY10. The decline in profits is primarily because of new business growth incurring higher new business strain. AUM grew 55% Y-o-Y to Rs. 6800 crore. The Number of branches by the end of Q1FY11 stood at 214 (Q4FY10-214, Q1FY10-203) reflecting a halt in pace of branch expansion. The management is focusing on increasing the proportion of traditional policies in its product mix to maintain profitability.

Return ratios declined marginally

The Return on Assets (RoA) have declined to 0.56% (- 5 bps yoy) for the period of 3 months. .

Capital Adequacy remains strong

Kotak Bank consolidated capital adequacy ratio (CAR) as per Basel II norms remain strong at 16.9% at the end of Q1FY10 as against 18.4% in FY10.

Recommendation and Valuation

At the CMP of Rs 763.7, the stock is quoting at 2.5x its BV for FY12. With higher advance growth and strong performance of auto financing business, we recommend **BUY** on the stock.

Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Kotak Mahindra Bank Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Interest Earned	1315.7	1062.7	23.8	1315.7	1247.8	5.4	4601.2	4366.6	5.4
Interest on Advances	986.3	830.4	18.8	986.3	958.7	2.9	3526.4	3505.5	0.6
% of Total Int. Earned	75.0%	78.1%	-	75.0%	76.8%	-	76.6%	80.3%	-
Interest on Balances with RBI	1.9	2.2	-14.4	1.9	1.4	31.3	6.9	56.2	-87.7
% of Total Int. Earned	0.1%	0.2%	-	0.1%	0.1%	-	0.2%	1.3%	-
Income From Investments	316.6	221.7	42.8	316.6	273.7	15.7	1018.6	759.6	34.1
% of Total Int. Earned	24.1%	20.9%	-	24.1%	21.9%	-	22.1%	17.4%	-
Others	10.8	8.5	28.0	10.8	13.9	-21.9	49.3	45.3	8.9
% of Total Int. Earned	0.8%	0.8%	-	0.8%	1.1%	-	1.1%	1.0%	-
Other Income	1010.9	1282.5	-21.2	1010.9	1697.6	-40.5	5384.7	2814.0	91.4
Total Income	2326.5	2345.3	-0.8	2326.5	2945.3	-21.0	9985.9	7180.5	39.1
Interest Expended	523.3	437.7	19.6	523.3	463.9	12.8	1772.9	1992.4	-11.0
Operating Expenses	1277.2	1337.2	-4.5	1277.2	1740.5	-26.6	5799.5	3910.8	48.3
Payment to provisions for Employee	351.9	282.7	24.5	351.9	359.9	-2.2	1261.0	1192.5	5.7
% of Opt. Expenses	27.6%	21.1%	-	27.6%	20.7%	-	21.7%	30.5%	-
Other Opt. Expenses	925.3	1054.6	-12.3	925.3	1380.6	-33.0	4538.5	2718.3	67.0
% of Opt. Expenses	72.5%	78.9%	-	72.5%	79.3%	-	78.3%	69.5%	-
Total Expenses	1277.2	1337.2	-4.5	1277.2	1740.5	-26.6	5799.5	3910.8	48.3
Operating Profit before prov. & cont.	526.0	570.4	-7.8	526.0	741.0	-29.0	2413.6	1277.4	89.0
% of Total Int. Earned	40.0%	53.7%	-	40.0%	59.4%	-	52.5%	29.3%	-
Provisions and Contingencies	55.3	190.8	-71.0	55.3	121.8	-54.6	510.7	261.2	95.6
PBT	470.7	379.6	24.0	470.7	619.2	-24.0	1902.9	1016.2	87.3
% of Total Int. Earned	35.8%	35.7%	-	35.8%	49.6%	-	41.4%	23.3%	-
Tax	151.1	107.0	41.2	151.1	193.3	-21.9	575.5	363.5	58.3
PAT	319.7	272.6	17.3	319.7	425.9	-24.9	1327.4	652.7	103.4
% of Total Int. Earned	24.3%	25.7%	-	24.3%	34.1%	-	28.9%	15.0%	-
Paid up equity share capital	348.6	346.3	0.7	348.6	348.1	0.1	348.1	345.7	0.7
EPS (Rs.)	9.2	7.9	16.5	9.2	12.2	-25.0	38.1	18.9	101.9
Capital Adequacy Ratio		0.0	bps			-bps			-bps
NII	792.4	625.1	26.8	792.4	783.9	1.1	2828.3	2374.2	19.1
NIM									
Gross NPA	935.7	1084.5	-13.7	935.7	916.7	2.1	916.7	790.6	16.0
% of Gross NPA	2.8	4.6	-179.0bps	2.8	3.0	-25.0bps	3.0	3.6	-60.0bps
Net NPA	393.0	667.9	-41.2	393.0	440.8	-10.9	440.8	454.3	-3.0
% of Net NPA	1.2	2.9	-168.0bps	1.2	1.5	-29.0bps	1.5	2.0	-54.0bps
ROA(%)	0.6	0.6	-5.0bps	0.6	0.8	-22.0bps	2.7	1.6	112.0bps

Ventura Securities Limited

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

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