

# Kotak Mahindra Bank | KMB IN

## Strong performance, earnings upgraded

KMB's standalone profit growth of 39% YoY in 3QFY17 was driven by pick-up in credit growth in several segments, healthy revenue growth led by margin expansion, strong fee income and operating leverage. Consolidated performance was further boosted by healthy profit contributions from insurance, asset management and broking subsidiaries. Profits of Kotak Prime were a drag on consolidated profit growth. Consolidated profits increased 18% YoY in 3QFY17. Our consolidated profit estimate for FY17E/18E stands upgraded by 12.3%/7.9% respectively to account for better core revenues, stringent control on costs and lower loan losses. We upgrade our target multiple to 3.3x FY19E BV multiple due to the earnings upgrade, translating into a target price of ₹900/share. Retain HOLD. Despite the earnings upgrade, consolidated RoE would rise to 14% by FY19E. At 2.9x FY19E BVPS, the stock is therefore expensive, and offers 13% upside.

- Stronger than expected loan growth, deposit accretion:** Business banking, auto loans and agriculture suffered the bulk of the impact of demonetisation. However, growth in corporate banking, personal loans and credit cards and CV/CE surprised in the quarter. Management expects sustained normalisation in the demand environment as the effect of demonetisation wanes. Deposit accretion was rapid, and CASA ratio increased to 42% in 3QFY17 (39% in 2QFY17). Reduced reliance on term deposits and redeployment of investments into loans aided NIMs. Despite this, NII growth moderated to 16% YoY.
- Fees, operating leverage drives strong core operating performance:** Core fee income growth of 26.5% YoY in 3QFY17 was due to fees from sale of priority sector lending certificates, syndication and structured products. Management indicated that the bank continues to forego fee income where the risk is more than the banks' appetite. Growth in operating expenses continues to be modest due to low branch addition in the quarter. Despite higher pension provisions, core cost/income ratio declined 330bps YoY and 120bps QoQ to 51.6% in 3QFY17. Sustained strong fee growth and operating leverage would drive performance in the medium term too.
- Upgrade earnings, but valuations expensive:** The earnings upgrade is driven by better outlook on margins, moderate growth in operating costs and lower loan loss provisions. Fewer branch additions, increasing automation of processes and cost synergies from the merger could moderate the growth in operating expenses. Given its persistently low RoE outlook, current valuation appears expensive. The c.7% rally in the stock post results has also diminished the upside yielded by the earnings upgrade. Hence, we maintain HOLD.

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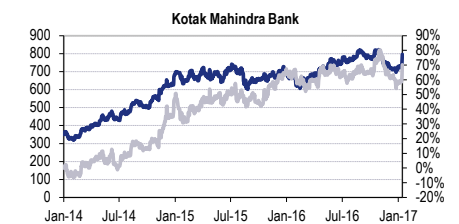
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### Key Data

Market cap (bn)	₹ 1462.6 / US\$ 21.5
Shares in issue (mn)	1,834.4
Diluted share (mn)	1,834.4
3-mon avg daily val (mn)	₹ 1376.0/US\$ 20.2
52-week range	₹ 836.0/585.8
Sensex/Nifty	27,708/8,603
₹/US\$	68.1

### Daily Performance



%	1M	3M	12M
Absolute	11.7	1.1	16.8
Relative*	5.3	2.5	3.6

\* To the BSE Sensex

Shareholding Pattern	(%)	
	Dec-16	Mar-16
Promoters	33.6	33.7
FII	46.6	35.9
DII	10.6	4.7
Public / Others	9.2	25.7

Exhibit 1. KMB - Financial Summary (Consolidated)					(₹ bn)
Y/E March	FY15*	FY16	FY17E	FY18E	FY19E
Net Profit	30.5	34.6	48.9	55.4	65.2
Net Profit (YoY) (%)	23.5	13.6	41.4	13.3	17.7
Assets (YoY) (%)	21.5	62.1	14.3	16.7	19.7
ROA (%)	2.2	1.8	1.9	1.9	1.8
ROE (%)	14.8	12.5	13.7	13.6	14.0
EPS (₹.)	19.7	18.9	26.7	30.2	35.6
EPS (YoY) (%)	23.2	-4.4	41.4	13.3	17.7
<b>PE (x)</b>	<b>40.3</b>	<b>42.2</b>	<b>29.8</b>	<b>26.3</b>	<b>22.4</b>
BV (₹.)	143.4	181.9	207.8	237.1	271.6
BV (YoY) (%)	15.8	26.8	14.3	14.1	14.6
<b>P/BV (x)</b>	<b>5.5</b>	<b>4.4</b>	<b>3.8</b>	<b>3.4</b>	<b>2.9</b>

Source: Company data, JM Financial. Note: Valuations as of 25/01/2017; \*FY15 numbers are for unmerged entity

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ & FactSet.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## KMB - 3QFY17 Trends

## Exhibit 1. KMB: 3QFY17: Results summary – (standalone)

Earnings Table (₹ mn)	3Q'16	2Q'17	3Q'17	YoY (%)	QoQ (%)
<b>NII</b>	<b>17,662</b>	<b>19,954</b>	<b>20,503</b>	<b>16.1</b>	<b>2.8</b>
Fee based Income	5,730	6,300	7,250	26.5	15.1
Trading Profits	1,490	2,010	1,850	24.2	-8.0
Misc Income	2	1	2	37.5	100.0
<b>Non-Interest income</b>	<b>7,222</b>	<b>8,311</b>	<b>9,102</b>	<b>26.0</b>	<b>9.5</b>
<b>Total Income</b>	<b>24,884</b>	<b>28,265</b>	<b>29,605</b>	<b>19.0</b>	<b>4.7</b>
Employee Cost	6,182	6,995	6,974	12.8	-0.3
Other Operating Expenses	6,650	6,869	7,354	10.6	7.1
Total Operating Expenses	12,832	13,864	14,328	11.7	3.4
<b>Operating Profit</b>	<b>12,052</b>	<b>14,401</b>	<b>15,277</b>	<b>26.8</b>	<b>6.1</b>
Loan Loss Provisions	1,483	1,415	1,370	-7.7	-3.2
Provision on Investments	839	562	552	-34.3	NM
Other Provisions*	30	0	0		
<b>Total Provisions</b>	<b>2,353</b>	<b>1,978</b>	<b>1,921</b>	<b>-18.3</b>	<b>-2.9</b>
PBT	9,700	12,423	13,356	37.7	7.5
Tax	3,352	4,290	4,558	36.0	6.2
<b>Reported Profit</b>	<b>6,347</b>	<b>8,133</b>	<b>8,798</b>	<b>38.6</b>	<b>8.2</b>
<b>Balance sheet (₹ bn)</b>					
Deposits	1,309.4	1,410.5	1,493.5	14.1	5.9
Net Advances	1,153.5	1,260.2	1,292.6	12.1	2.6
<b>Total Assets</b>	<b>1,821.3</b>	<b>1,950.6</b>	<b>2,017.9</b>	<b>10.8</b>	<b>3.4</b>
Low-cost Deposits (%)	35.3	39.0	42.0	6.8	3.0
Loan-Deposit ratio (%)	88.1	89.3	86.5	-1.5	-2.8
<b>Key Ratios</b>					
<b>Credit Quality</b>					
Gross NPAs (₹. mn.)	26,903	31,807	31,779	18.1	-0.1
Net NPAs (₹. mn.)	11,108	15,168	13,791	24.2	-9.1
Gross NPA (%)	2.3	2.5	2.4	0.1	-0.1
Net NPA (%)	1.0	1.2	1.1	0.1	-0.1
Loan Loss Provisions (%)	0.7	0.5	0.5	-0.2	0.0
Coverage Ratio (%)	58.7	52.3	56.6	-2.1	4.3
<b>Capital Adequacy</b>					
Tier I (%)	15.0	15.7	16.5	1.5	0.8
CAR (%)	16.2	16.8	17.6	1.4	0.8
<b>Du-pont Analysis</b>					
NII / Assets (%)	4.0	4.2	4.1	0.2	0.0
Non-Interest Inc. / Assets (%)	1.6	1.7	1.8	0.2	0.1
Operating Cost / Assets (%)	2.9	2.9	2.9	0.0	0.0
Operating Profits / Assets (%)	2.7	3.0	3.1	0.4	0.1
Provisions / Assets (%)	0.5	0.4	0.4	-0.1	0.0
<b>ROA (%)</b>	<b>1.4</b>	<b>1.7</b>	<b>1.8</b>	<b>0.4</b>	<b>0.1</b>

NIMs expanded 19bps YoY due to higher CASA ratio and as investments were channelled into loans. Borrowing costs also continue to drop and KMB, being a large wholesale borrower, benefited from such a decline too.

Fee growth was 26.5% YoY as credit card fees grew c40% YoY and merger synergies begin to kick-in. Syndication fees grew sharply aided by the new GIFT city business unit. Insurance distribution fees are expected to pick up as fourth quarter is a seasonally better quarter for the Industry.

Operating expenses were increased by additional expenses on logistics and cash management due to demonetisation. Higher pension provisions were also required since interest rates have dropped. KMB countered these by reducing the branch and employee addition in the quarter

Deposits surged due to demonetisation drive with a c200bps jump in CASA. On a daily average basis, CA grew 25% YoY while SA grew 40% YoY. Cost of SA was stable at 5.52%

Advances growth was led by CV & CE book (+40% YoY), Corporate book (+24%YoY) and Credit Cards & Personal loans (+12% YoY). SME- Business banking (-8% YoY) and Agriculture book (flat QoQ) were impacted due to demonetisation.

Asset quality improved in the quarter, with sequentially lower proportion of impaired loans and lower SMA2 portfolio at 0.19% (versus 0.33% in 2QFY17)

Source: Company, JM Financial.

**Exhibit 2. KMB: 3QFY17: Results summary – (Consolidated)**

Earnings Table (₹ mn)	3Q'16	2Q'17	3Q'17	YoY (%)	QoQ (%)
<b>NII</b>	<b>23,700</b>	<b>26,642</b>	<b>27,471</b>	<b>15.9</b>	<b>3.1</b>
Fee based Income	9,120	10,042	10,948	20.0	9.0
Trading Profits	1,128	2,129	1,515	34.3	-28.8
Treasury Profits/losses (Insurance)	-497	5,399	-3,408	586.4	NM
Insurance premium	8,295	11,243	10,985	32.4	-2.3
<b>Non-Interest income</b>	<b>18,047</b>	<b>28,813</b>	<b>20,040</b>	<b>11.0</b>	<b>-30.4</b>
<b>Total Income</b>	<b>41,747</b>	<b>55,455</b>	<b>47,510</b>	<b>13.8</b>	<b>-14.3</b>
Employee Cost	8,746	10,138	9,936	13.6	-2.0
Policyholder reserves	6,671	15,497	6,313	-5.4	-59.3
Total Operating Expenses	9,557	9,840	10,469	9.5	6.4
<b>Operating Profit</b>	<b>16,773</b>	<b>19,981</b>	<b>20,792</b>	<b>24.0</b>	<b>4.1</b>
Loan Loss Provisions	1,673	1,644	1,535	-8.2	-6.6
Provisions on Investments(AFS)	888	535	643	-27.6	NM
<b>Total Provisions</b>	<b>2,610</b>	<b>2,179</b>	<b>2,178</b>	<b>-16.6</b>	<b>-0.1</b>
PBT	14,163	17,802	18,614	31.4	4.6
Tax	4,780	5,852	6,115	27.9	4.5
<b>PAT (Pre-Extraordinaries)</b>	<b>9,383</b>	<b>11,950</b>	<b>12,499</b>	<b>33.2</b>	<b>4.6</b>
Associate profits/Minority interest	69	74	167	0.0	0.0
<b>Reported Profit</b>	<b>9,452</b>	<b>12,024</b>	<b>12,666</b>	<b>34.0</b>	<b>5.3</b>
<b>Balance sheet (₹ bn)</b>					
Net Advances	1,411.4	1,540.8	1,578.0	11.8	2.4
<b>Total Assets</b>	<b>2,296.9</b>	<b>2,492.9</b>	<b>2,599.5</b>	<b>13.2</b>	<b>4.3</b>
<b>Key Ratios</b>					
<b>Credit Quality</b>					
Gross NPAs (₹ mn.)	28,708	33,955	33,677	17.3	-0.8
Net NPAs (₹ mn.)	12,002	16,222	14,504	20.8	-10.6
Gross NPA (%)	2.0	2.2	2.1	0.1	-0.1
Net NPA (%)	0.9	1.1	0.9	0.1	-0.1
Loan Loss Provisions (%)	0.6	0.5	0.4	-0.2	0.0
Coverage Ratio (%)	58.2	52.2	56.9	-1.3	4.7
<b>Capital Adequacy</b>					
Tier I (%)	16.1	16.5	16.5	0.4	0.0
CAR (%)	17.0	17.3	17.3	0.3	0.0
<b>Du-pont Analysis</b>					
NII / Assets (%)	4.2	8.5	4.3	0.1	-4.2
Non-Interest Inc. / Assets (%)	3.2	9.2	3.1	-0.1	-6.1
Operating Cost / Assets (%)	4.4	11.4	4.2	-0.3	-7.2
Operating Profits / Assets (%)	3.0	6.4	3.3	0.3	-3.1
Provisions / Assets (%)	2.5	5.7	2.9	0.4	-2.8
<b>ROA (%)</b>	<b>1.7</b>	<b>3.9</b>	<b>2.0</b>	<b>0.3</b>	<b>-1.9</b>

Management expects better premium flow and simultaneous distribution fee income as fourth quarter is seasonally better for insurance business. Strong revenue performance of life insurance, broking and asset management drove revenue growth. Momentum in Kotak Prime's income remained moderate.

Total income growth was largely led by banking (constituting 60% of consolidated total income) while among subsidiaries, Kotak securities (+26% YoY) and Kotak investments (+16.4% YoY) registered healthy growth. Kotak prime (+4.4% YoY) and Kotak Mahindra capital (-7% YoY) witnessed lower growth or decline in total income.

The bank's PAT grew 39% YoY and subsidiaries too witnessed healthy bottomline growth. While Kotak Securities witnessed 54% YoY growth in profits, Kotak AMC witnessed a 3x YoY surge in profits. Kotak old mutual life (+13% YoY) and Kotak Mahindra Investments (+23% YoY) too witnessed healthy growth. Profits from Kotak Prime (+6%YoY) and the international subsidiaries (-15% YoY) were a drag on the consolidated PAT.

Asset quality of the consolidated book also improved sequentially while coverage ratio increased.

Excluding profits, CAR was at 16.4% and Tier 1 at 15.5%

Source: Company, JM Financial.

## Key takeaways from the conference call:

### Demonetization impact on loans

- SME, Rural and Agriculture portfolio witnessed slowdown during the quarter. Since KMB has not witnessed growth in its SME book for past 18-24 months post its merger with erstwhile ING Vysya bank, it escaped any possible asset quality impact of demonetisation on this book.
- Small business loan book contracted during the quarter as customers chose to repay outstanding loans and did not utilise or closed credit lines.
- Credit cards and Personal loans continued to grow through the demonetisation phase with little or no impact.
- Housing loans and LAP witnessed highest volumes in October. After a slowdown in volumes during November (25-30% of October run-rate), demand improved in December and volumes increased to c.90% of the volumes registered in October.
- Car loan disbursements were lower in November but improved in December. Sales of smaller cars witnessed healthier growth while that of top end cars dwindled. Car sales in December were aided by seasonal discounts.
- High growth in CV/CE book was primarily due to market share gains, some demand pickup for LPG carriers and pre-sales before Bharat Standard-IV emission norms kicks in.

### Expenses related to demonetization exercise

- Demonetisation led to following additional costs for the bank:
  - Negative carry for the fortnight for which RBI introduced CRR on incremental deposits,
  - Interest outgo with no earnings on the significantly higher cash inventory at branches
  - Operational cost for management and distribution of cash across branches.
- Management expects to end FY17E with C-I ratio below 50% and sees further headroom for improvement as it has only rationalised 24 branches out of the 100 it had shortlisted after its merger with erstwhile ING Vysya bank.
- KMB plans to add much fewer branches and people as compared to large peers and increasingly use digital solutions to automate operations and processes

### Fee income

- Fee income picked up during the quarter due to synergy benefits of the merger
- Credit card fees witnessed higher growth of 30-40% YoY.
- Syndication fees for KMB are primarily derived from three activities, a) fees related to placement of bonds in debt capital market and capital gains on interest rate positions, b) origination/takeover of loan and subsequent sell down, and c) Forex loans through GIFT city business unit to subsidiaries/group companies of high quality domestic corporates operating abroad.
- KMB expects 4QFY17 to be better than 3QFY17 as insurance fees typically pick up in the fourth quarter seasonally.

## Earnings revision summary

### Exhibit 3. KMB: Earnings revision summary 3Q17

	(₹ bn)								
	FY17E, Old	FY17, New	Change (%)	FY18E, Old	FY18E, New	Change (%)	FY19E, Old	FY19E, New	Change (%)
NII	107.2	108.5	1.2	121.3	124.1	2.3	140.9	146.0	3.6
PPP	72.7	80.7	11.0	85.6	92.3	7.8	98.0	108.8	11.0
PAT	42.4	47.6	12.3	49.8	53.8	7.9	57.0	63.3	11.1
ROA (%)	1.7	1.9	11.5	1.7	1.9	7.4	1.7	1.8	10.1
ROE (%)	12.3	13.7	11.2	12.8	13.6	6.1	13.0	14.0	7.5

Source: Company, JM Financial.

## Key data

### Exhibit 4. KMB: Gross loan mix (As per internal classification)

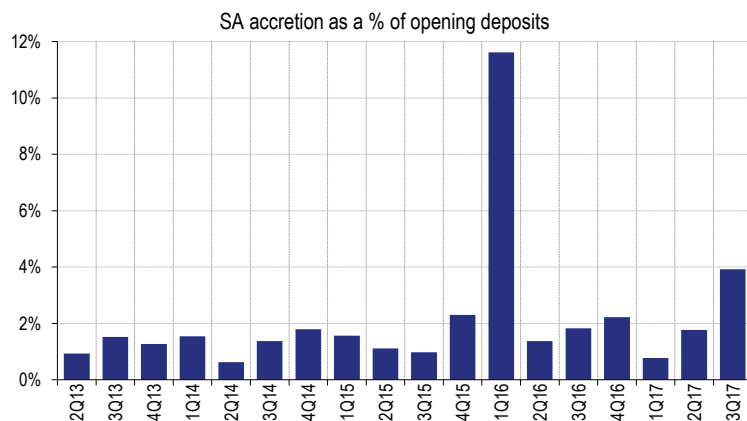
Loans Break-up - Consolidated (₹ bn)	3Q'16	2Q'17	3Q'17	YoY (%)	QoQ (%)
CV & CE	69	92	96	39.6	5.2
Agriculture Advances (Net)	165	173	165	0.4	-4.5
Auto Loans	164	175	176	7.1	0.6
Mortgage Loans	223	244	250	12.2	2.5
Personal Loans	142	159	158	11.5	-0.5
<b>Consumer + Commercial</b>	<b>763</b>	<b>842</b>	<b>846</b>	10.9	0.4
Business Banking	181	174	166	-7.9	-4.2
Corporate Banking	392	442	482	23.0	8.9
Others	76	82	84	10.2	2.2
<b>Net Advances</b>	<b>1411</b>	<b>1541</b>	<b>1578</b>	<b>11.8</b>	<b>2.4</b>
<b>Mix (%)</b>					
CV & CE	4.9	5.9	6.1		
Agriculture Advances (Net)	11.7	11.2	10.5		
Auto Loans	11.6	11.3	11.1		
Mortgage Loans	15.8	15.9	15.9		
Personal Loans	10.0	10.3	10.0		
<b>Consumer + Commercial</b>	<b>54.0</b>	<b>54.7</b>	<b>53.6</b>		
Business Banking	12.8	11.3	10.5		
Corporate Banking	27.8	28.7	30.5		
Others	5.4	5.3	5.3		
<b>Net Advances</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

Source: Company, JM Financial.

### Exhibit 5. KMB: Deposits mix (%) as of 3QFY17

Deposits Composition (₹ bn)	3Q16	2Q17	3Q17	YoY (%)	QoQ (%)
Current	196	220	242	23.5	10.1
Saving	266	330	386	45.1	16.7
Time	848	860	866	2.1	0.7
<b>Total Deposits</b>	<b>1,309</b>	<b>1,410</b>	<b>1,494</b>	<b>14.1</b>	<b>5.9</b>
Current	15.0	15.6	16.2		
Saving	20.3	23.4	25.8		
<b>CASA</b>	<b>35.3</b>	<b>39.0</b>	<b>42.0</b>		
Time	64.7	61.0	58.0		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

Source: Company, JM Financial.

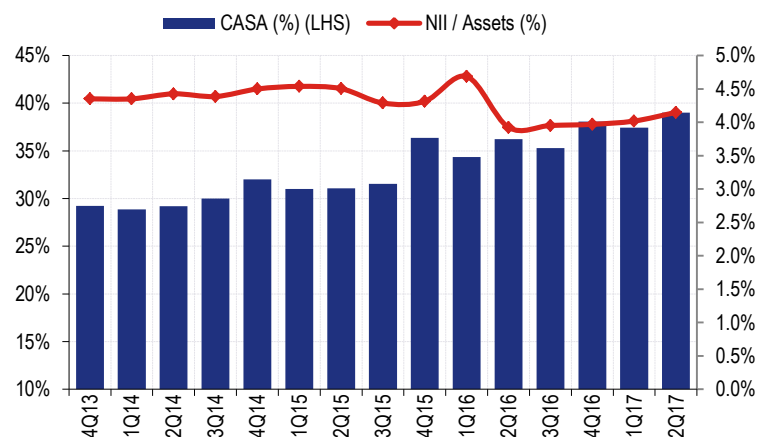
**Exhibit 6. KMB: SA accretion in the quarter was strong**

Source: Company, JM Financial.

**Exhibit 7. KMB: Break-up of consolidated profits**

	3Q'16	2Q'17	3Q'17	YoY (%)	QoQ (%)
Kotak Bank	6,350	8,130	8,800	38.6	8.2
Kotak Mahindra Prime	1,260	1,300	1,330	5.6	2.3
Kotak Securities	550	960	850	54.5	-11.5
Kotak Mahindra Capital Company	60	50	70	16.7	40.0
Kotak Mahindra Old Mutual Life Insurance	600	630	680	13.3	7.9
Kotak Mahindra AMC & Trustee Co	40	70	160	300.0	128.6
International subsidiaries	260	310	220	-15.4	-29.0
Kotak Investment Advisors	-1	10	0		
Kotak Mahindra Investments	390	530	480	23.1	-9.4
<b>Total</b>	<b>9,509</b>	<b>11,970</b>	<b>12,590</b>	<b>32.4</b>	<b>5.2</b>
Minority Interest, Equity Affiliates, Others	-50	30	80		
<b>Consolidated PAT</b>	<b>9,459</b>	<b>12,000</b>	<b>12,670</b>	<b>33.9</b>	<b>5.6</b>

Source: Company, JM Financial.

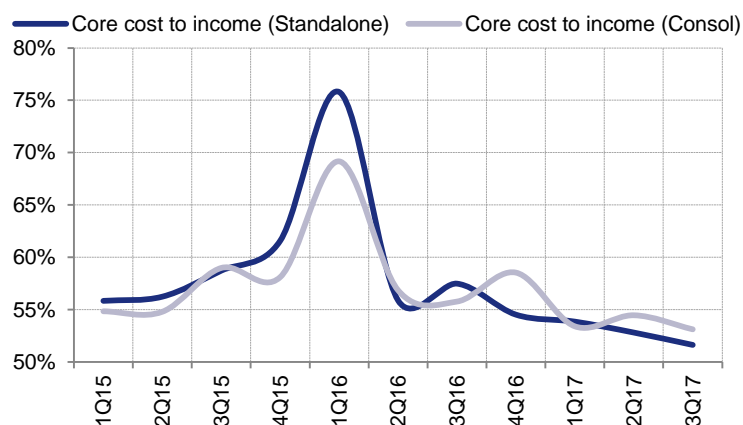
**Exhibit 8. KMB: Trend for CASA and NIM**

Source: Company, JM Financial.

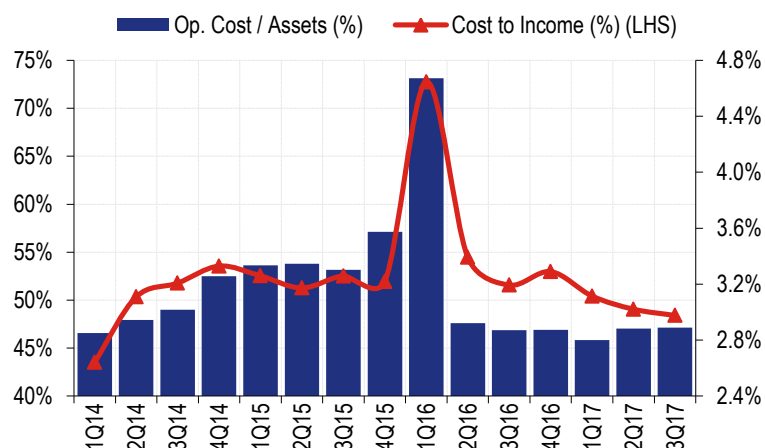
**Exhibit 9. Core fee income remains strong**

Fee Income Composition (₹ mn)	3Q'16	2Q'17	3Q'17	YoY (%)	QoQ (%)
Fee Income	9,120	10,042	10,948	20.0	9.0
Treasury Income (Ex-Insurance)	1,128	2,129	1,515	34.3	-28.8
Profit/(Loss) on sale of investments including revaluation (insurance business)	-497	5,399	-3,408	586.4	NM
Premium on Insurance Business	8,295	11,243	10,985	32.4	-2.3
<b>Total</b>	<b>18,047</b>	<b>28,813</b>	<b>20,040</b>	<b>11.0</b>	<b>-30.4</b>
<b>Fee Income Mix ( )</b>					
Fee Income	50.5	34.9	54.6	4.1	19.8
Treasury Income (Ex-Insurance)	6.3	7.4	7.6	1.3	0.2
Profit/(Loss) on sale of investments including revaluation (insurance business)	-2.8	18.7	-17.0	-14.3	-35.7
Premium on Insurance Business	46.0	39.0	54.8	8.9	15.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company, JM Financial.

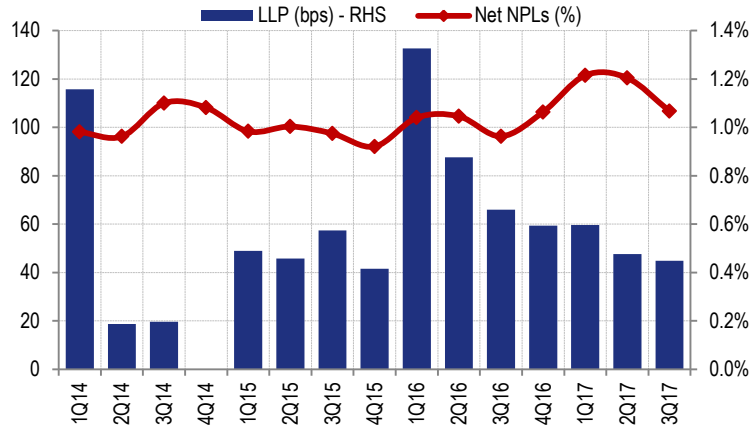
**Exhibit 10. KMB: Core cost ratios continue to improve**

Source: Company, JM Financial.

**Exhibit 11. KMB: Overall cost ratios moderate marginally**

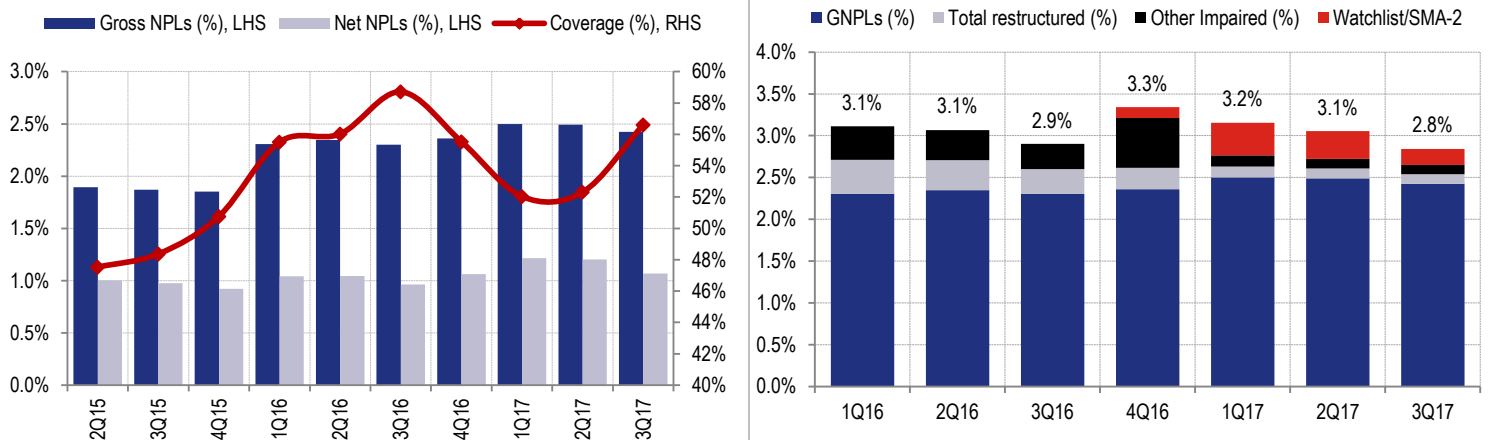
Source: Company, JM Financial.

**Exhibit 12. KMB: Trend for Net NPL ratio and LLP ( )**



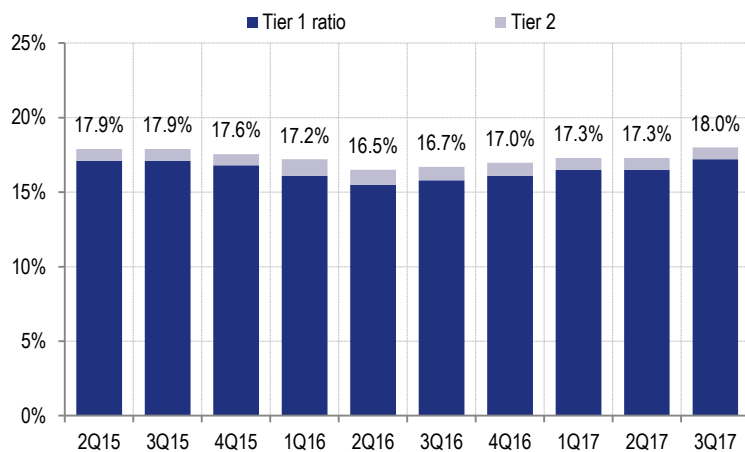
Source: Company, JM Financial.

**Exhibit 13. KMB: GNPL and Impaired asset continues to remain stable**



Source: Bloomberg, JM Financial.

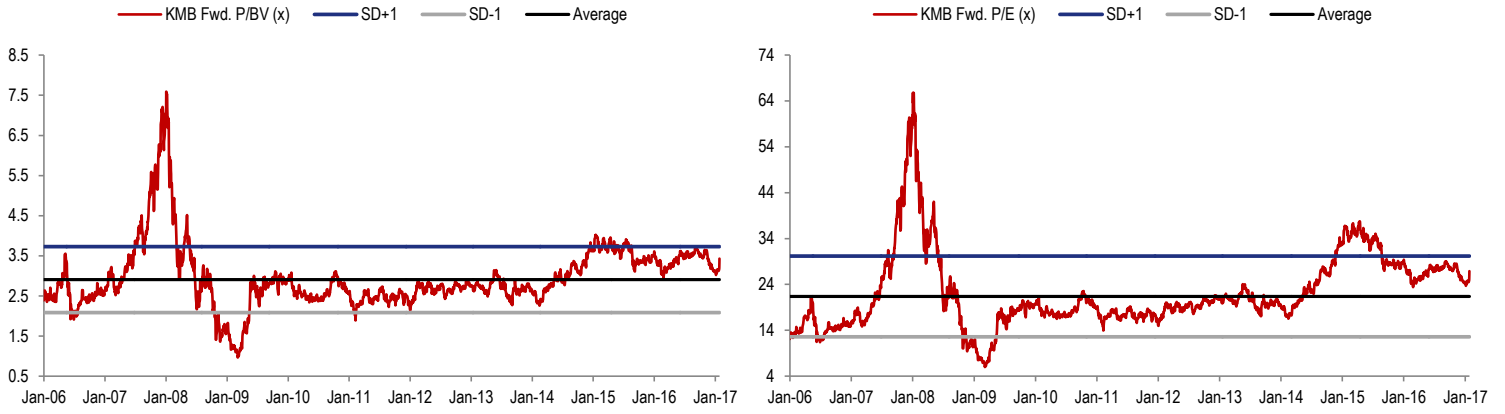
**Exhibit 14. KMB remains adequately capitalised ( )**



Source: Company, JM Financial.



Exhibit 15. KMB (Consolidated): One-year forward P/BV (x) and One-year forward PE (x)



Source: Bloomberg, JM Financial.

## Financial Tables (Standalone)

Profit & Loss					
(₹ mn)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Interest Income</b>	42.2	69.0	82.0	95.8	111.6
Profit on Investments	3.1	2.1	7.0	4.5	4.0
Exchange income	2.1	4.2	3.0	4.1	5.4
Fee & Other Income	15.1	19.8	23.9	28.4	33.9
<b>Non-Interest Income</b>	20.3	26.1	33.9	37.0	43.3
<b>Total Income</b>	<b>62.5</b>	<b>95.1</b>	<b>115.9</b>	<b>132.8</b>	<b>154.9</b>
Operating Expenses	32.5	54.7	56.7	64.5	74.0
<b>Pre-provisioning Profits</b>	<b>30.0</b>	<b>40.4</b>	<b>59.2</b>	<b>68.3</b>	<b>80.9</b>
Loan Loss Provisions	2.6	7.5	6.0	9.3	11.1
Provisions on Investments	-1.1	1.4	1.6	1.2	0.0
Other Provisions	0.2	0.3	0.0	0.0	0.0
<b>Total Provisions</b>	<b>1.6</b>	<b>9.2</b>	<b>7.6</b>	<b>10.5</b>	<b>11.1</b>
<b>PBT</b>	<b>28.3</b>	<b>31.2</b>	<b>51.6</b>	<b>57.8</b>	<b>69.8</b>
Tax	9.7	10.3	17.8	19.9	24.0
<b>PAT (Pre-Extra ordinaries)</b>	<b>18.7</b>	<b>20.9</b>	<b>33.9</b>	<b>37.9</b>	<b>45.8</b>
Extra ordinaries(Net of Tax)	0.0	0.0	0.0	0.0	0.0
<b>Reported Profits</b>	<b>18.7</b>	<b>20.9</b>	<b>33.9</b>	<b>37.9</b>	<b>45.8</b>
Dividend	1.0	1.1	1.8	2.0	2.4
<b>Retained Profits</b>	<b>17.7</b>	<b>19.8</b>	<b>32.1</b>	<b>35.9</b>	<b>43.4</b>

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

Key ratios					
(%)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
<b>Growth (YoY) (%)</b>					
Deposits	26.7	85.2	14.0	19.0	19.5
Advances	24.8	79.4	13.5	19.0	19.0
Total Assets	21.0	81.4	12.6	17.4	18.8
NII	13.5	63.4	18.9	16.8	16.5
Non-Interest Income	44.9	28.8	29.7	9.2	17.0
Operating Expenses	28.0	68.1	3.6	13.8	14.8
Operating Profits	16.3	34.8	46.5	15.3	18.4
Core Operating Profits	7.5	45.8	37.1	22.7	20.5
Provisions	-46.0	457.7	-17.1	38.1	5.4
Reported PAT	24.2	12.0	62.0	11.9	20.8
<b>Yields / Margins (%)</b>					
Interest Spread (%)	3.6	3.0	3.5	3.6	3.7
NIM (%)	4.6	3.9	4.2	4.3	4.3
<b>Profitability (%)</b>					
Non-IR to Income (%)	32.4	27.5	29.2	27.9	28.0
Cost to Income (%)	52.1	57.5	48.9	48.6	47.8
ROA (%)	1.9	1.1	1.7	1.6	1.6
ROE (%)	14.1	9.2	13.2	13.1	13.9
<b>Assets Quality (%)</b>					
Gross NPAs (%)	1.9	2.4	2.4	2.3	2.2
Net NPAs (%)	0.9	1.1	1.1	1.0	0.9
Provision Coverage (%)	50.8	55.5	55.7	57.4	60.1
Specific LLP (%)	0.3	0.6	0.4	0.6	0.6
Net NPAs / Networth (%)	4.3	5.3	5.3	5.2	4.8
<b>Capital Adequacy (%)</b>					
Tier I (%)	16.2	15.3	15.5	15.1	14.5
CAR (%)	17.2	16.3	16.7	16.1	15.5

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

Balance Sheet					
(₹ mn)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Equity Capital	3.9	9.2	9.2	9.2	9.2
Reserves & Surplus	137.5	230.4	262.5	298.4	341.7
Deposits	748.6	1,386.4	1,580.5	1,880.8	2,247.6
Borrowings (Incl. Sub Debt)	121.5	209.8	221.6	247.8	290.4
Other Liabilities	48.6	86.8	91.2	104.8	131.0
<b>Total Liabilities</b>	<b>1,060.1</b>	<b>1,922.6</b>	<b>2,164.9</b>	<b>2,541.0</b>	<b>3,020.0</b>
Investments	286.6	512.6	527.4	611.6	721.3
Net Advances	661.6	1,186.7	1,346.9	1,602.8	1,907.3
Cash & Equivalents	62.6	108.8	197.2	183.8	193.3
Fixed Assets	12.1	15.5	16.4	18.0	20.4
Other Assets	37.2	99.0	77.1	124.9	177.6
<b>Total Assets</b>	<b>1,060.1</b>	<b>1,922.6</b>	<b>2,164.9</b>	<b>2,541.0</b>	<b>3,020.0</b>

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

DuPont Analysis					
(%)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
NII / Assets (%)	4.4	3.8	4.0	4.1	4.0
Other income / Assets (%)	2.1	1.4	1.7	1.6	1.6
Total Income / Assets (%)	6.5	5.2	5.7	5.6	5.6
Cost to Assets (%)	3.4	3.0	2.8	2.7	2.7
PPP / Assets (%)	3.1	2.2	2.9	2.9	2.9
Provisions / Assets (%)	0.2	0.5	0.4	0.4	0.4
PBT / Assets (%)	2.9	1.7	2.5	2.5	2.5
Tax Rate (%)	34.1	33.1	34.4	34.4	34.4
ROA (%)	1.9	1.1	1.7	1.6	1.6
RoRWAs (%)	2.5	1.4	2.1	2.0	2.1
Leverage (%)	7.3	8.0	8.0	8.1	8.4
ROE (%)	14.1	9.2	13.2	13.1	13.9

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

Valuations					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Shares in issue (mn)	1,544.7	1,834.4	1,834.4	1,834.4	1,834.4
EPS (₹.)	12.1	11.4	18.5	20.7	25.0
EPS (YoY) (%)	23.9	-5.7	62.0	11.9	20.8
PE (x)	65.8	69.8	43.1	38.5	31.9
BV (₹.)	91.5	130.6	148.1	167.7	191.3
BV (YoY) (%)	14.9	42.7	13.4	13.2	14.1
P/BV (x)	8.7	6.1	5.4	4.7	4.2
DPS (₹.)	0.6	0.6	1.0	1.1	1.3
Div. yield (%)	0.1	0.1	0.1	0.1	0.2

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

## Financial Tables (Consolidated)

Profit & Loss					
(₹ mn)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Interest Income</b>	63.5	92.8	108.5	124.1	146.0
Profit on Investments	24.4	0.8	14.5	17.1	19.5
Insurance Premium	29.8	39.1	44.6	52.6	62.1
Exchange Income	2.1	4.9	3.2	3.8	4.4
Fee & Other Income	25.3	31.5	38.3	45.8	54.9
<b>Non-Interest Income</b>	81.5	76.3	100.6	119.3	140.9
<b>Total Income</b>	<b>145.0</b>	<b>169.1</b>	<b>209.1</b>	<b>243.5</b>	<b>286.8</b>
Operating Expenses	97.5	108.9	128.4	151.2	178.1
<b>Pre-provisioning Profits</b>	<b>47.6</b>	<b>60.2</b>	<b>80.7</b>	<b>92.3</b>	<b>108.8</b>
Loan Loss Provisions	3.2	8.4	6.6	9.2	10.9
Provisions on Investments	-1.2	1.4	2.0	0.4	0.5
Other Provisions	0.1	0.1	0.1	0.1	0.1
<b>Total Provisions</b>	<b>2.1</b>	<b>9.9</b>	<b>8.7</b>	<b>9.7</b>	<b>11.5</b>
<b>PBT</b>	<b>45.5</b>	<b>50.2</b>	<b>72.0</b>	<b>82.6</b>	<b>97.3</b>
Tax	14.8	15.9	23.4	27.5	32.4
<b>PAT (Pre-Extra ordinaries)</b>	<b>30.7</b>	<b>34.3</b>	<b>48.6</b>	<b>55.1</b>	<b>65.0</b>
Extra ordinaries(Net of Tax)	0.0	0.0	0.0	0.0	0.0
Share of minority interest	0.6	0.7	0.7	0.7	0.7
Share in Associates	0.4	0.9	1.0	1.0	1.0
<b>Reported Profits</b>	<b>30.5</b>	<b>34.6</b>	<b>48.9</b>	<b>55.4</b>	<b>65.2</b>
Dividend	1.0	1.1	1.3	1.7	1.9
<b>Retained Profits</b>	<b>29.5</b>	<b>33.5</b>	<b>47.6</b>	<b>53.8</b>	<b>63.3</b>

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

Key ratios					
(%)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
<b>Growth (YoY) (%)</b>					
Deposits	28.0	86.6	18.0	20.0	23.0
Advances	23.6	63.4	14.5	16.0	20.0
Total Assets	21.5	62.1	14.3	16.7	19.7
NII	12.0	46.1	17.0	14.4	17.6
Non-Interest Income	32.4	16.6	23.7	16.4	17.8
Operating Expenses	40.2	11.7	17.9	17.7	17.8
Operating Profits	18.8	26.5	34.1	14.4	17.9
Core Operating Profits	-31.6	156.4	11.5	13.5	18.8
Provisions	-33.4	381.9	-12.4	11.9	18.0
Reported PAT	23.5	13.6	41.4	13.3	17.7
<b>Yields / Margins (%)</b>					
Interest Spread (%)	2.4	2.6	2.7	2.9	3.0
NIM (%)	4.9	4.9	4.4	4.4	4.4
<b>Profitability (%)</b>					
Non-IR to Income (%)	56.2	45.1	48.1	49.0	49.1
Cost to Income (%)	67.2	64.4	61.4	62.1	62.1
ROA (%)	2.2	1.8	1.9	1.9	1.8
ROE (%)	14.8	12.5	13.7	13.6	14.0
<b>Assets Quality (%)</b>					
Gross NPAs (%)	1.6	2.1	2.1	2.2	2.1
Net NPAs (%)	0.8	0.9	0.8	0.8	0.8
Provision Coverage (%)	49.9	55.1	59.8	62.8	64.9
Specific LLP (%)	0.3	0.6	0.4	0.5	0.5
Net NPAs / Networth (%)	3.1	4.1	3.7	3.7	3.5
<b>Capital Adequacy (%)</b>					
Tier I (%)	16.8	16.1	16.0	15.5	14.9
CAR (%)	17.6	17.0	16.8	16.2	15.6

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

Balance Sheet					
(₹ mn)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Equity Capital	3.9	9.2	9.2	9.2	9.2
Reserves & Surplus	217.7	324.4	372.1	425.8	489.1
Deposits	728.4	1,359.5	1,604.2	1,925.0	2,367.8
Borrowings (Incl. Sub Debt)	314.1	437.3	459.0	503.9	578.4
Minority Interest	3.4	4.0	4.7	5.7	6.8
Policyholder's Funds	137.9	151.5	174.2	200.3	230.4
Other Liabilities	80.4	122.2	128.3	141.1	162.3
<b>Total Liabilities</b>	<b>1,485.8</b>	<b>2,408.0</b>	<b>2,751.7</b>	<b>3,211.0</b>	<b>3,844.0</b>
Investments	473.5	702.7	731.3	840.1	955.2
Net Advances	886.3	1,447.9	1,657.9	1,923.1	2,307.8
Cash & Equivalents	69.0	176.0	216.7	255.6	308.3
Fixed Assets	13.8	17.6	18.6	20.3	23.2
Other Assets	43.1	63.8	127.1	171.9	249.6
<b>Total Assets</b>	<b>1,485.8</b>	<b>2,408.0</b>	<b>2,751.7</b>	<b>3,211.0</b>	<b>3,844.0</b>

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

DuPont Analysis					
(%)					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
NII / Assets (%)	4.7	4.8	4.2	4.2	4.1
Other income / Assets (%)	6.0	3.9	3.9	4.0	4.0
Total Income / Assets (%)	10.7	8.7	8.1	8.2	8.1
Cost to Assets (%)	7.2	5.6	5.0	5.1	5.0
PPP / Assets (%)	3.5	3.1	3.1	3.1	3.1
Provisions / Assets (%)	0.2	0.5	0.3	0.3	0.3
PBT / Assets (%)	3.4	2.6	2.8	2.8	2.8
Tax Rate (%)	32.6	31.7	32.5	33.3	33.3
ROA (%)	2.2	1.8	1.9	1.9	1.8
RoRWAs (%)	2.7	2.1	2.3	2.2	2.2
Leverage (%)	6.6	7.0	7.2	7.3	7.6
ROE (%)	14.8	12.5	13.7	13.6	14.0

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

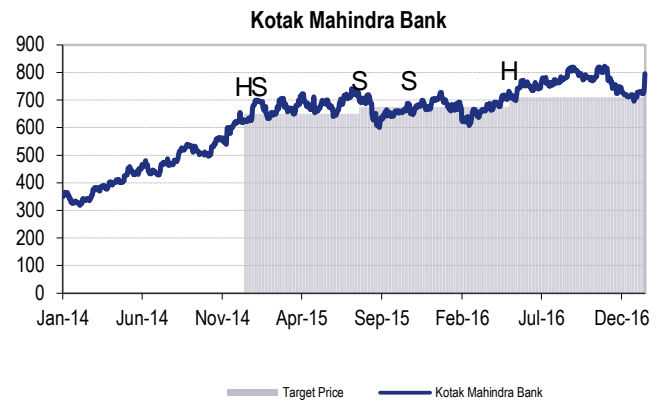
Valuations					
Y/E March	FY15	FY16	FY17E	FY18E	FY19E
Shares in issue (mn)	1,544.7	1,834.4	1,834.4	1,834.4	1,834.4
EPS (₹.)	19.7	18.9	26.7	30.2	35.6
EPS (YoY) (%)	23.2	-4.4	41.4	13.3	17.7
PE (x)	40.3	42.2	29.8	26.3	22.4
BV (₹.)	143	182	208	237	272
BV (YoY) (%)	15.8	26.8	14.3	14.1	14.6
P/BV (x)	5.5	4.4	3.8	3.4	2.9
DPS (₹.)	0.6	0.6	0.7	0.9	1.1
Div. yield (%)	0.1	0.1	0.1	0.1	0.1

Source: Company, JM Financial. Note: Numbers until FY15 are for unmerged entity

## History of earnings estimates and target price

Date	FY17E EPS (₹)	% Chg.	FY18E EPS (₹)	% Chg.	Target Price	% Chg.
23-Dec-14	24.5				650	
21-Jan-15	24.5	0.0			650	0.0
31-Jul-15	19.2	-21.6	25.6		675	3.8
2-Nov-15	28.1	46.4	36.3	41.8	675	0.0
12-May-16	19.0	-32.4	24.9	-31.4	710	5.2
19-Jan-17	16.4	-13.7	19.8	-20.5	816	14.9

## Recommendation history



## APPENDIX I

**JM Financial Institutional Securities Limited**

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst - INH000000610

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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15 . Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10 downside to 15 upside from the current market price.
Sell	Price expected to move downwards by more than 10

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