

# Kotak Mahindra Bank

BSE Sensex  
28,068

S&P CNX  
8,402

CMP: INR1,157

TP: INR1,149

Neutral



## Stock Info

Bloomberg	KMB IN
Equity Shares (m)	771.4
52-Week Range (INR)	1,164/631
1, 6, 12 Rel. Per (%)	16/15/-8
M.Cap. (INR b)	892.5
M.Cap. (USD b)	14.4

## Financial Snapshot (INR Billion)

Y/E Mar	2015E	2016E	2017E
NII	62.3	73.8	89.2
OP	42.3	50.8	62.8
NP	25.1	30.1	37.5
NP#	36.9	44.7	54.9
NIM (%)	4.2	4.1	4.0
EPS# (INR)	40.6	49.2	60.4
EPS Gr. (%)#	NA	21.2	22.8
BV. (INR)#	324.5	370.6	427.3
RoE - Std (%)	12.3	13.2	14.4
RoA - Std (%)	1.6	1.6	1.6
RoE - (%)#	13.3	14.2	15.1

## Valuations

P/E. (X)#	28.5	23.5	19.2
P/ BV (X)#	3.6	3.1	2.7
# Consolidated post VYSB merger /			
* Earnings for banking entity unless stated			

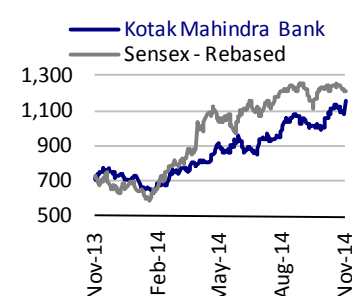
## Shareholding pattern (%)

	Jun-14	Sep-14	Nov-14#
Promoter	40.3	40.1	34.0
DII	1.8	2.0	19.1
FII	35.3	34.7	33.6
Others	22.6	23.2	13.3

# Post-merger with VYSB

\*FII includes depository receipts

## Stock Performance (1-year)



## Taking a big leap

### Opportunities galore; Integration is a key

The boards of Kotak Mahindra Bank (KMB) and ING Vysya Bank (VYSB) have approved merger with swap ratio of 0.725:1 (KMB: VYSB). We believe these two banks complement each other well in terms of branch presence, product offerings and places KMB as a serious competition for the large private banks. Post merger, we expect FY16E cons BV to increase by INR40 (up ~12%). RoE of the merged entity would decline by ~100bp; however, after factoring in post-merger synergies, decline in RoE would not be significant.

**Deal values VYSB at 2.0x trailing BV:** The deal values VYSB at ~INR150b (INR790/share, +16% over 30D avg. share price) and will lead to ~18% equity dilution for KMB. Merged entity will be the fourth largest private sector bank with a loan book of INR1.2t and market share of 1.8% of loans. VYSB is valued at 0.2x deposits and INR268m/branch, one of the highest in private bank mergers.

**Significant strategic benefits for KMB:** a) KMB, which has strong presence in North and West regions (80% of KMB branches), will get deep inroads into the southern region (64% of VYSB branches). b) KMB can utilize strong expertise of VYSB in business banking (36% of loans, 9% for KMB) and LAP segment and also get access to healthy CA float of VYSB, helped by cash mgmt and SME business and c) continued access to ING global clients (ING will remain a large shareholder (6.5%) in the bank and will have a board seat) and ING expertise in digital banking role out and d) VYSB branch network can be better utilized for consumer and auto loans penetration where KMB has strong expertise.

**Pro-forma ROAs to moderate; significant scope for improvement:** KMB (std) makes healthy ROA of ~1.9% whereas, VYSB makes ~1.1%. On a pro-forma merged basis ROA would come down to ~1.6% however, merger synergies (low hanging fruits for generating retail business from VYSB franchise) can be significant in terms of improvement. KMB has INR1.85b and INR24.8m business and profits per branch whereas, for VYSB it is INR1.38b and INR11.8m resp.

**Key risks:** (a) Integration of workforce of VYSB with KMB especially old employees linked to IBA payroll (~3K) (b) Overlapping of branches in some of the key centers (c) Improving the VYSB branch productivity levels

**Value-accretive deal:** Merger will be BV accretive by ~INR55 (32%) and ~INR42 (15%) for KMB at standalone and consolidated level. Merger places KMB in a sweet spot for the next growth cycle with strong presence across geographies, expertise in key product lines and continued healthy capitalization (CAR of 16.5%). KMB premium multiples are likely to sustain considering strong growth in the coming years. While we are positive on the business, valuations at 3.1x/2.7x Cons BV (pro-forma merged nos.) of INR371/INR427 and 24x/19x consolidate PE limit upside. As swap ratio is in place, VYSB is expected to track KMB price performance. Our revised KMB SOTP target price comes to INR1,149. (3.1x FY16 Cons. BV and 24x Consolidated earnings). Maintain **Neutral**.

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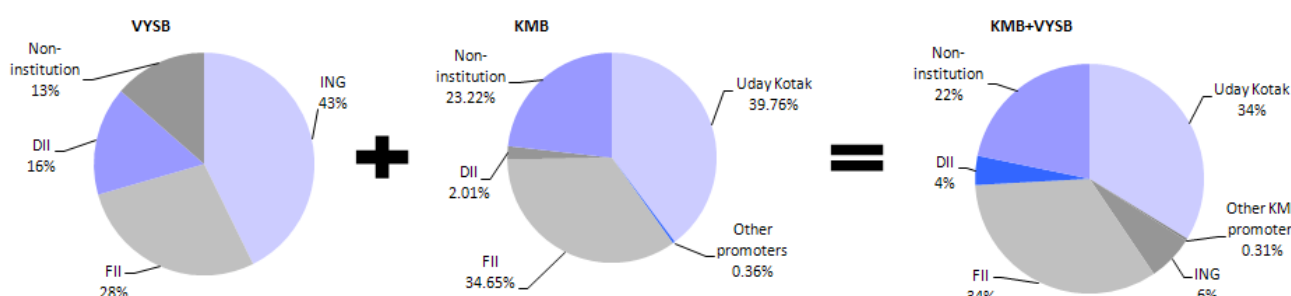
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Investors are advised to refer through disclosures made at the end of the Research Report.

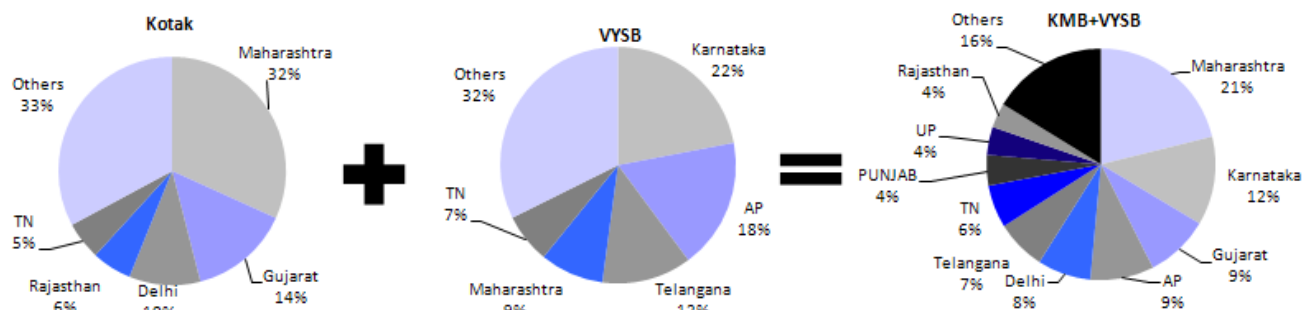
**Exhibit 1: BV accretive merger; ROE dilution of ~100bp can be compensated by merger synergies**

	FY15E	FY16E	FY17E		FY15E	FY16E	FY17E
KMB - Std (BV)	181.7	208.7	242.1	KMB - Consolidated (BV)	285.3	331.2	387.2
Combined entity (BV)	236.7	266.9	304.3	Combined entity (BV)	324.5	370.6	427.3
change (%)	30.3	27.9	25.7	change (%)	13.7	11.9	10.3
KMB - Std (EPS)	23.5	28.4	35.1	KMB - Cons (EPS)	38.7	47.3	57.7
Combined entity (EPS)	27.6	33.1	41.3	Combined entity (EPS)	40.6	49.2	60.4
change (%)	17.8	16.7	17.5	change (%)	4.7	3.9	4.6
KMB - Std ROE	13.8	14.5	15.6	KMB - Cons ROE	14.5	15.4	16.1
Combined entity ROE	12.3	13.2	14.4	Combined entity Cons ROE	13.3	14.2	15.1

Source: MOSL, Company

**Exhibit 2: Shareholding of Mr. Uday Kotak and ING in the combined entity to come down to 34% and 6.5% respectively**

Source: MOSL, Company

**Exhibit 3: Geographical presence: KMB and VYSB complement each other very well**

Source: MOSL, Company

**Exhibit 4: Combined entity will have branch network of 1,212 with presence in 29 states**

Branch presence	KMB	% share	VYSB	% share	KMB+VYSB	% share
Maharashtra	207	31.7	49	8.8	256	21.1
Top 3 states of KMB*	196	30.1	46	8.2	242	20.0
Top 3 states of VYSB*	52	8.0	292	52.1	344	28.4
Rest of India	197	30.2	173	30.9	370	30.5
<b>Total</b>	<b>652</b>	<b>100</b>	<b>560</b>	<b>100</b>	<b>1212</b>	<b>100</b>

\*ex-Maharashtra

Source: MOSL, Company

Except for certain metro locations, branch overlap will be low

**Exhibit 5: 68% of KMB's branches in North/West India; 66% VYSB's branches in South India**

KMB which has strong presence in north and west region (80% of branch network) will get deep in roads into southern region. VYSB has 365 branches into southern region which is 2/3<sup>rd</sup> of its network

	KMB	%	VYSB	%	KMB+ VYSB	%
Andhra Pradesh	8	1.2	100	17.9	108	8.9
Assam	3	0.5	1	0.2	4	0.3
Bihar	6	0.9	2	0.4	8	0.7
Chandigarh	4	0.6	3	0.5	7	0.6
Chhattisgarh	9	1.4	4	0.7	13	1.1
Dadra & Nagar Haveli	1	0.2	1	0.2	2	0.2
Goa	3	0.5	3	0.5	6	0.5
Gujarat	93	14.3	16	2.9	109	9.0
Haryana	27	4.1	8	1.4	35	2.9
Himachal Pradesh	0	0.0	2	0.4	2	0.2
Jammu & Kashmir	1	0.2	1	0.2	2	0.2
Jharkhand	5	0.8	2	0.4	7	0.6
Karnataka	28	4.3	123	22.0	151	12.5
Kerala	8	1.2	24	4.3	32	2.6
Madhya Pradesh	19	2.9	3	0.5	22	1.8
Maharashtra	207	31.7	49	8.8	256	21.1
Meghalaya	1	0.2	0	0.0	1	0.1
NCT Of Delhi	66	10.1	25	4.5	91	7.5
Odisha	8	1.2	7	1.3	15	1.2
Puducherry	1	0.2	1	0.2	2	0.2
Punjab	19	2.9	33	5.9	52	4.3
Rajasthan	37	5.7	5	0.9	42	3.5
Sikkim	1	0.2	0	0.0	1	0.1
Tamil Nadu	35	5.4	38	6.8	73	6.0
Telangana	16	2.5	69	12.3	85	7.0
Tripura	1	0.2	0	0.0	1	0.1
Uttar Pradesh	26	4.0	22	3.9	48	4.0
Uttarakhand	3	0.5	3	0.5	6	0.5
West Bengal	16	2.5	15	2.7	31	2.6
<b>Total Branches</b>	<b>652</b>	<b>100</b>	<b>560</b>	<b>100</b>	<b>1212</b>	<b>100</b>

Source: MOSL, RBI

**Exhibit 6: Branch density complementary in Key Cities**

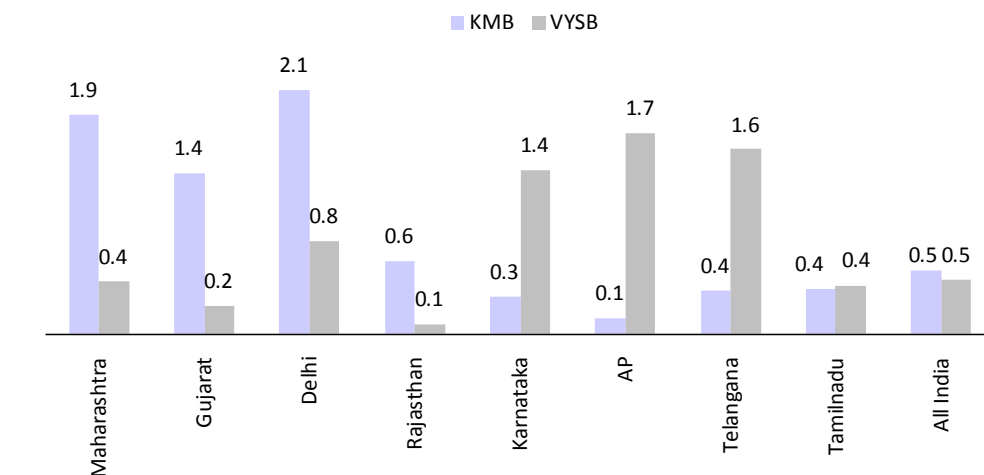
Top 8 cities would contribute 1/3<sup>rd</sup> of the branch network of the combined entity

City	VYSB	KMB	Merged entity
Mumbai	36	88	124
Delhi NCR	34	90	124
Bangalore	40	20	60
Hyderabad	20	8	28
Ahmedabad	5	26	31
Chennai	13	14	27
Pune	4	21	25
Kolkata	10	12	22
<b>Total</b>	<b>162</b>	<b>279</b>	<b>441</b>

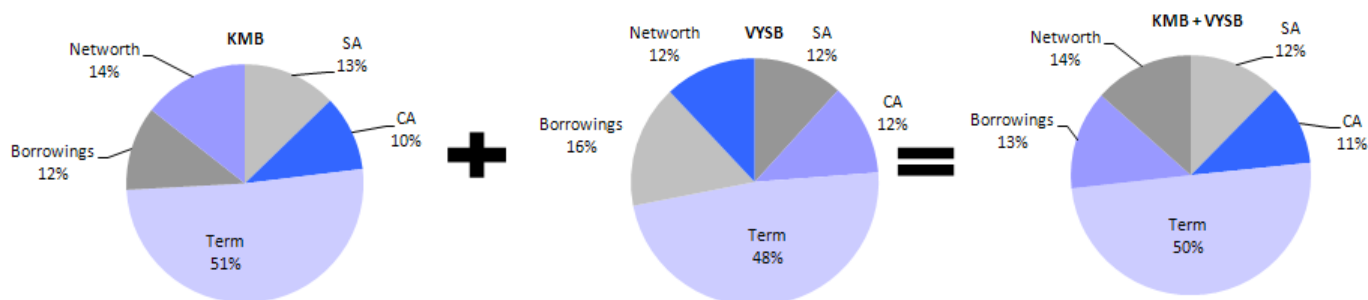
Source: Company, MOSL

**Exhibit 7: Branch market share of each entity in top 5 states of presence (%)**

Significant synergy benefits possible for merged entity; In top 6-7 states combined entity will have ~2% market share vs Pan India market share of ~1%



Source: MOSL, Company

**Exhibit 8: Funding mix is likely to remain stable in the combined entity**

Source: MOSL, Company

**Exhibit 9: Complementarity to Drive Higher Customer Wallet Share**

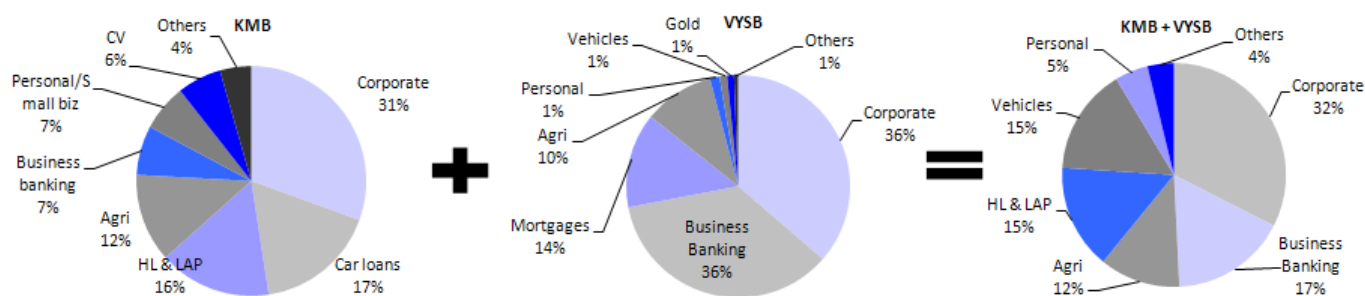
Significant Product Complementarities				Fuller Customer Segment Coverage			
	ING Vysya	Kotak	Kotak (Merged)		ING Vysya	Kotak	Kotak (Merged)
Corporate & Business Banking	✓✓	✓✓	✓✓✓	Large Corporates	✓	✓✓	✓✓✓#
Commercial Banking (CV, CE etc)	✓	✓✓✓	✓✓✓	Mid Corporates	✓	✓✓	✓✓
Consumer Finance	✓	✓✓✓	✓✓✓	SMEs (including Traders)	✓✓✓	✓✓	✓✓✓
Agriculture/Tractor	✓✓	✓✓✓	✓✓✓	High Net Worth Individuals	✓	✓✓✓	✓✓✓
Deposits - CA	✓✓	✓	✓✓	Mass Affluent	✓	✓✓✓	✓✓✓
Deposits - SA	✓	✓✓	✓✓	Mass Market	✓	✓	✓
Fees (Fx, Trade)	✓✓	✓	✓✓	NRIs	✓	✓✓	✓✓
Private Banking / Broking* / IB	✓	✓✓✓	✓✓✓	MNCs	✓✓	✓	✓✓#
Asset Management* / Insurance*	-	✓✓	✓✓				

✓ Level of Presence    - No Significant Presence  
 \* Manufacturer's margins are accretive

# With ING Groep / Kotak cooperation

**Larger Share of Customer Wallet**  
 Expand Customer / Product horizons  
 Serve customers nationally and internationally

Source: Company

**Exhibit 10: KMB would look to leverage upon the expertise of VYSB in business banking and SME space**

Source: MOSL, Company

**Exhibit 11: VYSB valued at ~INR268m per branch and 0.2x deposit base**

Value per branch is largely similar to CBOP-HDFCB merger however, PBV on trailing basis one of the lowest at 2x vs other deals of 3-5x

Target Bank	Acquirer Bank	Year	Deal value (INR b)	Branches	Value per branch (INR m)	Value/Deposit (x)
CBOP	HDFC Bank	Oct-08	112.2	394	285	0.54
Sangli Bank	ICICI Bank	Apr-07	3.5	200	18	0.18
United Western Bank	IDBI Bank	Sep-06	3.5	229	15	0.05
Lord Krishna Bank	CBOP	Aug-07	3.3	118	28	0.17
Bank of Rajasthan	ICICI Bank	May-10	30.5	463	66	0.20
<b>ING Vysya Bank</b>	<b>KMB</b>	<b>Nov-14</b>	<b>150</b>	<b>560</b>	<b>268</b>	<b>0.20</b>

Source: MOSL, Company

**Exhibit 12: Operating performance per branch/employee significantly better for KMB**

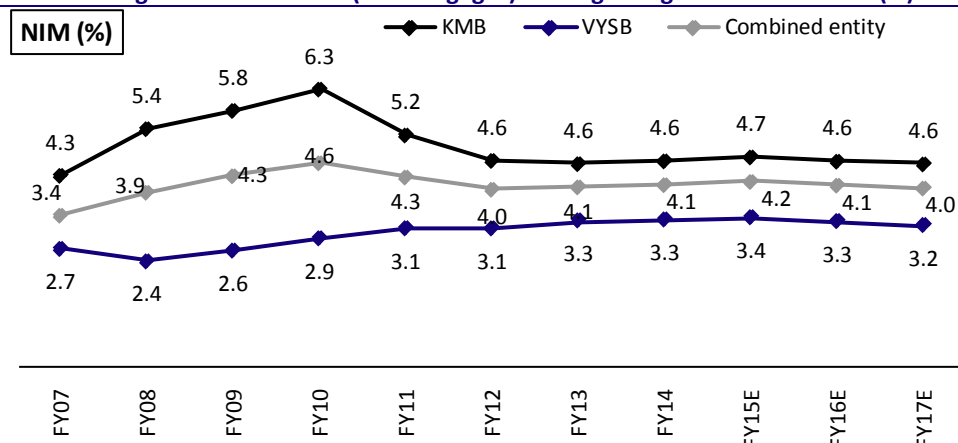
There is plenty of scope to improve the efficiency of VYSB's existing branch network

INR m	FY10	FY11	FY12	FY13	FY14
<b>Business/Employee</b>					
- KMB (A)	51	56	62	73	64
- VYSB (B)	71	76	64	75	77
A/B (x)	0.7	0.7	1.0	1.0	0.8
<b>Business/Branch</b>					
- KMB (A)	1794	1825	2186	2277	1853
- VYSB (B)	921	1053	1204	1339	1383
A/B (x)	1.9	1.7	1.8	1.7	1.3
<b>Profit/Branch</b>					
- KMB (A)	22.5	25.5	30.6	31.1	24.8
- VYSB (B)	5.0	6.2	8.6	11.2	11.8
A/B (x)	4.5	4.1	3.6	2.8	2.1
<b>Profit/Employee</b>					
- KMB (A)	0.6	0.8	0.9	1.0	0.9
- VYSB (B)	0.4	0.5	0.5	0.6	0.7
A/B (x)	1.6	1.7	1.9	1.6	1.3
<b>Opex/Branch</b>					
- KMB (A)	47.8	48.4	51.7	50.6	42.0
- VYSB (B)	16.8	20.1	20.9	23.3	26.8
A/B (x)	2.8	2.4	2.5	2.2	1.6
<b>Opex/Employee</b>					
- KMB (A)	1.4	1.5	1.5	1.6	1.5
- VYSB (B)	1.3	1.5	1.1	1.3	1.5
A/B (x)	1.0	1.0	1.3	1.2	1.0

Source: MOSL, Company

**Exhibit 13: Higher share of retail (ex mortgages) leading to higher NIMs for KMB (%)**

Lower NIMs of VYSB one of the key reasons lower ROAs vs KMB

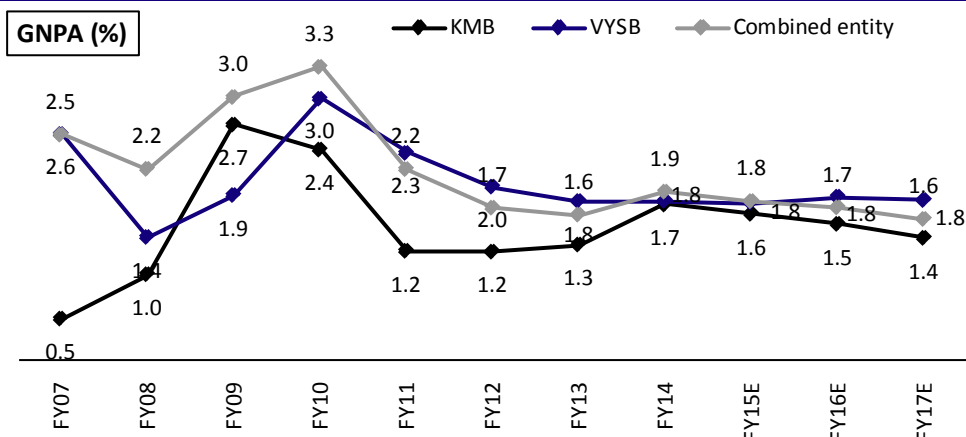


\*KMB Standalone

Source: MOSL, Company

**Exhibit 14: Gross NPA performance largely similar**

KMB has lower restructured loans of 26bp whereas, VYSB has 1.4%

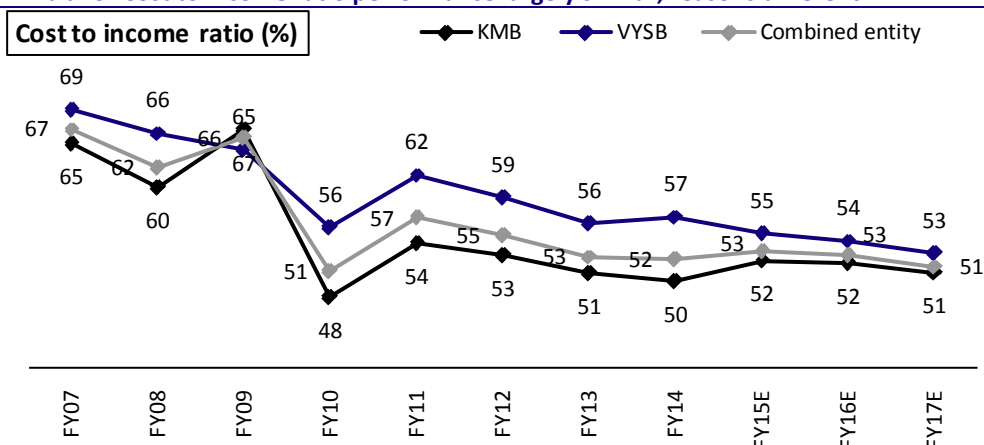


\*KMB Standalone

Source: MOSL, Company

**Exhibit 15: Cost to income ratio performance largely similar; reasons different**

Strong branch expansion and higher retail business is leading to high c/i ratio for KMB whereas, productivity issues drove high C/I ratio for VYSB

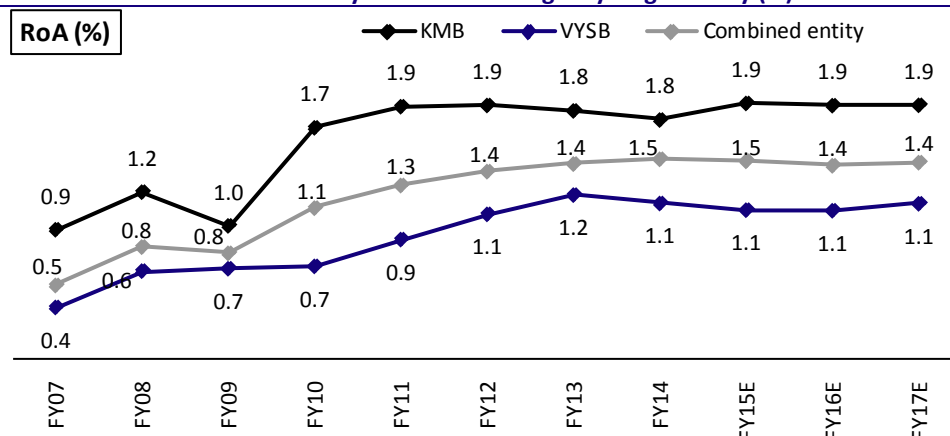


\*KMB Standalone

Source: MOSL, Company

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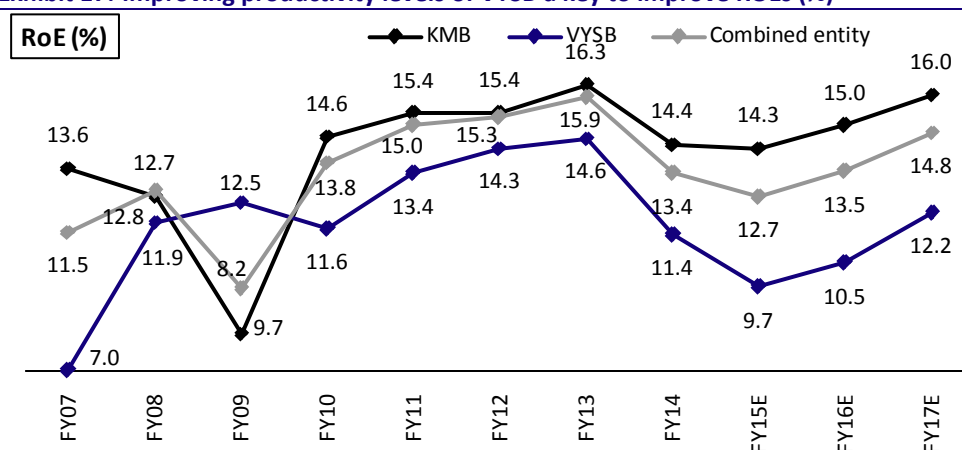
**Exhibit 16: Return on Assets likely to decline - merger synergies a key (%)**



\*KMB Standalone

Source: MOSL, Company

**Exhibit 17: Improving productivity levels of VYSB a key to improve ROEs (%)**



\*KMB Standalone

Source: MOSL, Company

Marginal dilution in ROEs for combined entity; However merger benefits will compensate for the same

### Other highlights related to deal

- Post merger foreign shareholding will be 46.9% vs maximum permissible limit of 74%. FII shareholding (excluding ING group of 6.5%) will be 33.5% which is lower than maximum permissible of ~40% for KMB as pre board resolution and RBI notification dated 18th July 2014. There remains a confusion regarding treatment of ING group shareholding and mgmt expects it to be considered as FDI.
- Overall foreign investment in combined entity will be 46.9% vs maximum permissible limit of 74%
- Combined customer base increases to ~10m (8m of KMB group and 2m of VYSB)
- CEO designate Mr Uday Sareen will be inducted into Kotak's top management. He will report directly to Uday Kotak
- Combined CAR (including 1H PAT) will remain healthy at ~16%. As of 1HFY15, CAR of KMB group was 17.59% and VYSB was 14.59%
- ING group is likely to get board seat in combined entity
- Post merger KMB will strong presence in the important geographies. Combined entity will have 30%, 27% and 28% of the branch network in West, North and South
- Management expects to complete the merger process by end of March 2015.
- In terms of technology, KMB runs on Finacle platform and VYSB is on FIS system



## Financials and valuations (KMB – pre-merger)

Income Statement (Standalone)				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
Interest Income	61,802	80,425	87,671	96,416	114,654	141,268
Interest Expense	36,677	48,368	50,471	54,049	64,013	79,410
<b>Net Interest Income</b>	<b>25,125</b>	<b>32,057</b>	<b>37,200</b>	<b>42,367</b>	<b>50,640</b>	<b>61,858</b>
Change (%)	19.8	27.6	16.0	13.9	19.5	22.2
Non Interest Income	9,773	11,607	13,997	18,092	21,895	26,376
<b>Net Income</b>	<b>34,898</b>	<b>43,663</b>	<b>51,198</b>	<b>60,459</b>	<b>72,535</b>	<b>88,234</b>
Change (%)	21.3	25.1	17.3	18.1	20.0	21.6
Operating Expenses	18,348	22,097	25,426	31,470	37,513	44,745
<b>Pre Provision Profits</b>	<b>16,550</b>	<b>21,566</b>	<b>25,772</b>	<b>28,989</b>	<b>35,022</b>	<b>43,489</b>
Change (%)	24.9	30.3	19.5	12.5	20.8	24.2
Provisions (excl tax)	551	1,846	3,047	1,588	2,377	3,096
<b>PBT</b>	<b>15,999</b>	<b>19,721</b>	<b>22,725</b>	<b>27,401</b>	<b>32,645</b>	<b>40,393</b>
Tax	5,149	6,113	7,699	9,316	10,773	13,330
Tax Rate (%)	32.2	31.0	33.9	34.0	33.0	33.0
<b>Standalone PAT</b>	<b>10,851</b>	<b>13,607</b>	<b>15,025</b>	<b>18,085</b>	<b>21,872</b>	<b>27,063</b>
Change (%)	32.6	25.4	10.4	20.4	20.9	23.7
<b>Consolidated PAT</b>	<b>18,322</b>	<b>21,885</b>	<b>24,650</b>	<b>29,845</b>	<b>36,470</b>	<b>44,457</b>
Change (%)	16.9	19.4	12.6	21.1	22.2	21.9
<b>Equity Dividend (Incl tax)</b>	<b>536</b>	<b>597</b>	<b>721</b>	<b>873</b>	<b>1,067</b>	<b>1,300</b>
<b>Core PPP (Standalone)*</b>	<b>14,445</b>	<b>19,194</b>	<b>23,699</b>	<b>24,989</b>	<b>30,272</b>	<b>37,989</b>
Change (%)	30.3	32.9	23.5	5.4	21.1	25.5

\*Core PPP is (NII+Fee income-Opex)

Balance Sheet (Standalone)				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
Equity Share Capital	3,703	3,733	3,852	3,852	3,852	3,852
Reserves & Surplus	75,756	90,737	118,899	136,111	156,916	182,679
<b>Net Worth</b>	<b>79,459</b>	<b>94,470</b>	<b>122,751</b>	<b>139,963</b>	<b>160,768</b>	<b>186,531</b>
<b>Deposits</b>	<b>385,365</b>	<b>510,288</b>	<b>590,723</b>	<b>753,172</b>	<b>956,529</b>	<b>1,205,226</b>
Change (%)	31.7	32.4	15.8	27.5	27.0	26.0
<b>of which CASA Dep</b>	<b>124,024</b>	<b>149,183</b>	<b>188,279</b>	<b>233,166</b>	<b>275,688</b>	<b>334,651</b>
Change (%)	41.1	20.3	26.2	23.8	18.2	21.4
Borrowings	165,955	204,106	128,956	120,263	138,246	158,702
Other Liabilities & Prov.	25,888	28,073	33,424	37,033	44,518	53,534
<b>Total Liabilities</b>	<b>656,668</b>	<b>836,937</b>	<b>875,853</b>	<b>1,050,431</b>	<b>1,300,061</b>	<b>1,603,993</b>
Current Assets	26,346	36,892	59,799	64,169	82,013	98,686
<b>Investments</b>	<b>215,668</b>	<b>288,734</b>	<b>254,845</b>	<b>293,072</b>	<b>354,617</b>	<b>429,087</b>
Change (%)	26.0	33.9	-11.7	15.0	21.0	21.0
<b>Loans</b>	<b>390,792</b>	<b>484,690</b>	<b>530,276</b>	<b>657,543</b>	<b>821,928</b>	<b>1,027,410</b>
Change (%)	33.2	24.0	9.4	24.0	25.0	25.0
Fixed Assets	4,500	4,644	11,069	10,818	10,466	10,014
Other Assets	19,362	21,977	19,863	24,829	31,036	38,795
<b>Total Assets</b>	<b>656,668</b>	<b>836,937</b>	<b>875,853</b>	<b>1,050,431</b>	<b>1,300,061</b>	<b>1,603,993</b>

Asset Quality (Standalone) (Excl. acquired NPA)				(%)		
GNPA (INR m)	4,778	6,321	9,334	10,885	12,660	14,177
NNPA (INR m)	2,243	3,036	5,736	6,023	6,860	7,569
GNPA Ratio	1.21	1.30	1.75	1.64	1.53	1.37
NNPA Ratio	0.57	0.63	1.08	0.92	0.83	0.74
PCR (Incl acquired NPA)	61.4	58.9	45.9	50.0	50.0	50.0
PCR (Excl acquired NPA)	53.0	52.0	38.6	44.7	45.8	46.6

E: MOSL Estimates



## Financials and valuations (KMB – pre-merger)

### Ratios (Standalone)

Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Spreads Analysis (%)</b>						
Avg. Yield-Earning Assets	11.4	11.5	10.9	10.8	10.5	10.4
Avg. Yield on Loans	14.2	14.0	13.2	12.6	12.2	12.1
Avg. Yield on Investments	6.8	7.4	7.5	7.7	7.4	7.4
Avg. Cost-Int. Bear. Liab.	7.6	7.6	7.0	6.8	6.5	6.5
Avg. Cost of Deposits	7.4	7.5	6.9	6.5	6.3	6.2
Interest Spread	3.8	3.8	3.9	4.0	4.0	4.0
Net Interest Margin	4.6	4.6	4.6	4.7	4.6	4.6

### Profitability Ratios (%)

Consolidated RoE	15.4	15.5	14.4	14.5	15.4	16.1
Standalone Core RoE	15.4	16.3	14.4	14.3	15.0	16.0
Standalone RoA	1.9	1.8	1.8	1.9	1.9	1.9
Int. Expense/Int. Income	59.3	60.1	57.6	56.1	55.8	56.2
Non Int. Inc./Net Income	28.0	26.6	27.3	29.9	30.2	29.9

### Asset-Liability Profile (%)

Loans/Deposit Ratio	101.4	95.0	89.8	87.3	85.9	85.2
Loans/(Deposits+Borrowings)	70.9	67.8	73.7	75.3	75.1	75.3
CASA Ratio	32.2	29.2	31.9	31.0	28.8	27.8
Investment/Deposit Ratio	56.0	56.6	43.1	38.9	37.1	35.6
Invest/(Deposits+Borrowings)	39.1	40.4	35.4	33.6	32.4	31.5
CAR	17.5	16.0	19.0	19.0	17.7	16.7
Tier 1	15.7	14.7	17.9	17.8	16.6	15.7

### Valuation

Book Value (INR)	107.3	126.5	159.4	181.7	208.7	242.1
BV Growth (%)	16.3	17.9	25.9	14.0	14.9	16.0
AP/BV (x)	9.5	7.9	6.1	5.1	4.2	3.4
Consol BV (INR)	174.2	204.3	247.6	285.3	331.2	387.2
BV Growth (%)	17.1	17.3	21.2	15.2	16.1	16.9
Price-Consol BV (x)	6.6	5.7	4.7	4.1	3.5	3.0
Adjusted BV (INR)*	100.9	118.7	148.6	170.7	197.0	229.8
AP/ABV (x)	10.1	8.4	6.5	5.4	4.5	3.6
Adjusted Consol BV	172.1	201.4	242.4	279.8	325.0	380.4
Price-Consol ABV (x)	6.7	5.7	4.8	4.1	3.6	3.0
Standalone EPS (INR)	14.2	17.7	18.8	22.7	27.4	34.0
EPS Growth (%)	35.3	25.0	6.3	20.4	21.0	23.9
Price-Earnings (x)	71.8	56.6	51.6	40.8	32.1	24.4
Consol EPS (INR)	24.7	29.3	32.0	38.7	47.3	57.7
Con. EPS Growth (%)	16.3	18.5	9.2	21.1	22.2	21.9
Price-Concol EPS (x)	46.8	39.5	36.2	29.9	24.4	20.0
Dividend Per Share (INR)	0.6	0.7	0.8	1.0	1.2	1.4
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1

E: MOSL Estimates; \* For Investments in Subs and NPA,

All nos are standalone unless specified

\* For Investments in Subs and NPA,

## Financials and valuations (VYSB – pre-merger)

Income Statement		(INR Million)				
Y/E March	2012	2013	2014	2015E	2016E	2017E
Interest Income	38,568	48,616	52,051	58,357	67,586	82,376
Interest Expense	26,485	33,230	34,521	38,389	44,458	55,063
<b>Net Interest Income</b>	<b>12,084</b>	<b>15,386</b>	<b>17,531</b>	<b>19,969</b>	<b>23,128</b>	<b>27,312</b>
Change (%)	20.1	27.3	13.9	13.9	15.8	18.1
Non Interest Income	6,698	7,269	8,671	9,586	11,372	13,510
<b>Net Income</b>	<b>18,781</b>	<b>22,655</b>	<b>26,202</b>	<b>29,555</b>	<b>34,500</b>	<b>40,822</b>
Change (%)	13.0	20.6	15.7	12.8	16.7	18.3
Operating Expenses	11,102	12,728	14,927	16,285	18,728	21,537
<b>Pre Provision Profits</b>	<b>7,679</b>	<b>9,927</b>	<b>11,274</b>	<b>13,269</b>	<b>15,772</b>	<b>19,285</b>
Change (%)	20.9	29.3	13.6	17.7	18.9	22.3
Provisions (excl tax)	1,137	912	1,498	2,701	3,357	3,556
<b>PBT</b>	<b>6,542</b>	<b>9,014</b>	<b>9,777</b>	<b>10,568</b>	<b>12,415</b>	<b>15,730</b>
Tax	1,979	2,885	3,199	3,514	4,159	5,269
Tax Rate (%)	30.2	32.0	32.7	33.3	33.5	33.5
<b>PAT</b>	<b>4,563</b>	<b>6,130</b>	<b>6,578</b>	<b>7,054</b>	<b>8,256</b>	<b>10,460</b>
Change (%)	43.2	34.3	7.3	7.2	17.0	26.7
<b>Equity Dividend</b>	<b>796</b>	<b>990</b>	<b>1,342</b>	<b>1,438</b>	<b>1,683</b>	<b>2,133</b>
<b>Core PPP*</b>	<b>7,143</b>	<b>9,132</b>	<b>10,054</b>	<b>12,358</b>	<b>14,661</b>	<b>18,174</b>
Change (%)	42.4	27.9	10.1	22.9	18.6	24.0

\*Core PPP is (NII+Fee income-Opex)

Balance Sheet		(INR Million)				
Y/E March	2012	2013	2014	2015E	2016E	2017E
Equity Share Capital	1,501	1,549	1,886	1,886	1,886	1,886
Reserves & Surplus	38,297	44,719	68,827	74,443	81,016	89,343
<b>Net Worth</b>	<b>39,798</b>	<b>46,268</b>	<b>70,713</b>	<b>76,329</b>	<b>82,902</b>	<b>91,230</b>
<b>Deposits</b>	<b>351,954</b>	<b>413,340</b>	<b>412,168</b>	<b>478,114</b>	<b>592,862</b>	<b>735,149</b>
Change (%)	16.6	17.4	-0.3	16.0	24.0	24.0
<b>of which CASA Dep</b>	<b>120,473</b>	<b>134,351</b>	<b>137,587</b>	<b>157,610</b>	<b>185,873</b>	<b>219,019</b>
Change (%)	15.2	11.5	2.4	14.6	17.9	17.8
Borrowings	56,965	65,113	96,685	106,159	123,225	143,247
Other Liabilities & Prov.	21,288	23,644	24,566	27,170	31,366	36,230
<b>Total Liabilities</b>	<b>470,005</b>	<b>548,364</b>	<b>604,132</b>	<b>687,774</b>	<b>830,356</b>	<b>1,005,855</b>
Current Assets	32,306	28,335	58,261	31,327	36,733	45,063
<b>Investments</b>	<b>127,155</b>	<b>182,782</b>	<b>167,208</b>	<b>197,305</b>	<b>226,901</b>	<b>260,936</b>
Change (%)	15.0	43.7	-8.5	18.0	15.0	15.0
<b>Loans</b>	<b>287,367</b>	<b>317,720</b>	<b>358,289</b>	<b>437,112</b>	<b>542,019</b>	<b>672,103</b>
Change (%)	21.8	10.6	12.8	22.0	24.0	24.0
Fixed Assets	5,008	4,996	5,245	5,386	5,564	5,742
Other Assets	18,170	14,531	15,130	16,643	19,140	22,011
<b>Total Assets</b>	<b>470,005</b>	<b>548,364</b>	<b>604,132</b>	<b>687,774</b>	<b>830,356</b>	<b>1,005,855</b>

Asset Quality		(%)				
GNPA (INR m)	1,495	1,214	2,630	1,344	1,370	1,300
NNPA (INR m)	525	91	1,020	598	437	82
GNPA Ratio	0.5	0.4	0.7	0.3	0.3	0.2
NNPA Ratio	0.2	0.03	0.28	0.14	0.08	0.01
PCR (Excl Tech. write off)	64.9	92.5	61.2	55.5	68.1	93.7
PCR (Incl Tech. Write off)	90.7	98.4	84.2	92.3	95.6	99.3

E: MOSL Estimates

## Financials and valuations (VYSB – pre-merger)

<b>Ratios</b>						
Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Spreads Analysis (%)</b>						
Avg. Yield-Earning Assets	9.9	10.4	9.8	9.8	9.6	9.6
Avg. Yield on loans	11.0	11.7	11.2	10.9	10.4	10.4
Avg. Yield on Investments	8.3	8.4	8.0	8.0	7.6	7.6
Avg. Cost-Int. Bear. Liab.	7.0	7.5	7.0	7.0	6.8	6.9
Avg. Cost of Deposits	6.6	6.7	6.6	6.8	6.5	6.6
Interest Spread	2.9	2.9	2.8	2.8	2.7	2.7
Net Interest Margin	3.1	3.3	3.3	3.4	3.3	3.2
<b>Profitability Ratios (%)</b>						
RoE	14.3	14.6	11.4	9.7	10.5	12.2
RoA	1.1	1.2	1.1	1.1	1.1	1.1
Int. Expense/Int. Income	68.7	68.4	66.3	65.8	65.8	66.8
Fee Income/Net Income	35.0	30.7	31.0	30.4	30.9	31.4
Non Int. Inc./Net Income	35.7	32.1	33.1	32.4	33.0	33.1
<b>Efficiency Ratios (%)</b>						
Cost/Income*	60.9	58.2	59.8	56.9	56.1	54.2
Empl. Cost/Op. Exps.	58.6	59.0	60.5	58.3	58.3	58.3
Busi. per Empl. (Rs m)	69.1	69.4	75.8	79.5	89.6	105.9
NP per Empl. (Rs lac)	0.5	0.6	0.7	0.7	0.7	0.9
* ex treasury						
<b>Asset-Liability Profile (%)</b>						
Loans/Deposit Ratio	81.6	76.9	86.9	91.4	91.4	91.4
CASA Ratio	34.2	32.5	33.4	33.0	31.4	29.8
Investment/Deposit Ratio	36.1	44.2	40.6	41.3	38.3	35.5
G-Sec/Investment Ratio	70.5	68.5	62.8	60.6	65.3	70.4
CAR	14.0	13.2	16.8	15.8	14.0	12.6
Tier 1	11.2	10.5	14.6	13.7	12.2	11.0
<b>Valuation</b>						
Book Value (INR)	258.2	292.1	369.5	399.2	434.1	478.2
Change (%)	24.0	13.1	26.5	8.1	8.7	10.2
Price-BV (x)	3.2	2.8	2.2	2.0	1.9	1.7
Adjusted BV (INR)	255.8	291.7	365.7	397.0	432.4	477.9
Price-ABV (x)	3.2	2.8	2.2	2.1	1.9	1.7
EPS (INR)	30.4	39.6	34.9	37.4	43.8	55.5
Change (%)	15.4	30.2	-11.9	7.2	17.0	26.7
Price-Earnings (x)	26.8	20.6	23.3	21.8	18.6	14.7
Dividend Per Share (INR)	4.0	5.5	6.1	6.5	7.7	9.7
Dividend Yield (%)	0.5	0.7	0.7	0.8	0.9	1.2
E: MOSL Estimates						

## Financials and valuations (KMB+VYSB - proforma-merger)

Income Statement				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
Interest Income	100,370	129,041	139,722	154,773	182,239	223,644
Interest Expense	63,162	81,598	84,991	92,437	108,471	134,473
<b>Net Interest Income</b>	<b>37,208</b>	<b>47,443</b>	<b>54,731</b>	<b>62,336</b>	<b>73,768</b>	<b>89,171</b>
Change (%)	19.9	27.5	15.4	13.9	18.3	20.9
Non Interest Income	16,471	18,875	22,668	27,677	33,266	39,886
<b>Net Income</b>	<b>53,679</b>	<b>66,318</b>	<b>77,399</b>	<b>90,013</b>	<b>107,035</b>	<b>129,057</b>
Change (%)	18.2	23.5	16.7	16.3	18.9	20.6
Operating Expenses	29,450	34,825	40,353	47,755	56,241	66,283
<b>Pre Provision Profits</b>	<b>24,229</b>	<b>31,493</b>	<b>37,046</b>	<b>42,258</b>	<b>50,794</b>	<b>62,774</b>
Change (%)	23.6	30.0	17.6	14.1	20.2	23.6
Provisions (excl tax)	1,688	2,758	4,545	4,289	5,734	6,652
<b>PBT</b>	<b>22,541</b>	<b>28,735</b>	<b>32,501</b>	<b>37,969</b>	<b>45,060</b>	<b>56,122</b>
Tax	7,127	8,998	10,898	12,830	14,932	18,599
Tax Rate (%)	31.6	31.3	33.5	33.8	33.1	33.1
<b>PAT</b>	<b>15,414</b>	<b>19,737</b>	<b>21,603</b>	<b>25,139</b>	<b>30,128</b>	<b>37,523</b>
Change (%)	35.6	28.0	9.5	16.4	19.8	24.5
<b>Consolidated PAT (incl VYSB)</b>	<b>22,885</b>	<b>28,014</b>	<b>31,228</b>	<b>36,899</b>	<b>44,726</b>	<b>54,917</b>
Change (%)	21.4	22.4	11.5	18.2	21.2	22.8

Balance Sheet				(INR Million)		
Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Net Worth</b>	<b>119,606</b>	<b>140,913</b>	<b>193,550</b>	<b>216,377</b>	<b>243,755</b>	<b>277,846</b>
<b>Deposits</b>	<b>737,319</b>	<b>923,628</b>	<b>1,002,891</b>	<b>1,231,287</b>	<b>1,549,391</b>	<b>1,940,375</b>
Change (%)	24.0	25.3	8.6	22.8	25.8	25.2
<b>of which CASA Dep</b>	<b>244,498</b>	<b>283,534</b>	<b>325,865</b>	<b>390,776</b>	<b>461,561</b>	<b>553,670</b>
Change (%)	27.0	16.0	14.9	19.9	18.1	20.0
Borrowings	222,920	269,219	225,641	226,423	261,472	301,949
Other Liabilities & Prov.	46,828	51,542	57,905	64,118	75,799	89,678
<b>Total Liabilities</b>	<b>1,126,673</b>	<b>1,385,301</b>	<b>1,479,986</b>	<b>1,738,205</b>	<b>2,130,417</b>	<b>2,609,848</b>
Current Assets	58,651	65,226	118,060	95,497	118,745	143,749
<b>Investments</b>	<b>342,823</b>	<b>471,517</b>	<b>422,053</b>	<b>490,377</b>	<b>581,518</b>	<b>690,023</b>
Change (%)	21.7	37.5	-10.5	16.2	18.6	18.7
<b>Loans</b>	<b>678,159</b>	<b>802,410</b>	<b>888,565</b>	<b>1,094,655</b>	<b>1,363,947</b>	<b>1,699,514</b>
Change (%)	28.1	18.3	10.7	23.2	24.6	24.6
Fixed Assets	9,508	9,640	16,315	16,204	16,030	15,756
Other Assets	37,532	36,508	34,994	41,473	50,176	60,806
<b>Total Assets</b>	<b>1,126,673</b>	<b>1,385,301</b>	<b>1,479,986</b>	<b>1,738,205</b>	<b>2,130,417</b>	<b>2,609,848</b>

Asset Quality				E: MOSL Estimates		
GNPA (INR m)	11,771	13,283	17,037	19,802	23,702	27,250
NNPA (INR m)	2,899	3,205	6,756	6,621	7,297	7,650
GNPA Ratio	1.71	1.63	1.90	1.79	1.72	1.59
NNPA Ratio	0.43	0.40	0.76	0.60	0.53	0.45
PCR (Excl Tech. write off)	75.4	75.9	60.3	66.6	69.2	71.9

E: MOSL Estimates

## Financials and valuations (KMB+VYSB - proforma-merger)

<b>Ratios</b>						
Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Spreads Analysis (%)</b>						
Avg. Yield-Earning Assets	10.8	11.0	10.5	10.4	10.1	10.1
Avg. Yield on loans	12.8	13.1	12.4	11.9	11.5	11.4
Avg. Yield on Investments	7.3	7.8	7.7	7.8	7.5	7.5
Avg. Cost-Int. Bear. Liab.	7.4	7.6	7.0	6.9	6.6	6.6
Avg. Cost of Deposits	7.0	7.1	6.8	6.6	6.4	6.4
Interest Spread	3.4	3.5	3.5	3.5	3.5	3.5
Net Interest Margin	4.0	4.1	4.1	4.2	4.1	4.0
<b>Profitability Ratios (%)</b>						
RoE	14.5	15.3	13.0	12.3	13.2	14.4
RoA	1.5	1.6	1.5	1.6	1.6	1.6
Consolidated ROE	15.1	15.3	13.6	13.3	14.2	15.1
<b>Other Ratios (%)</b>						
Int. Expense/Int.Income	62.9	63.2	60.8	59.7	59.5	60.1
Non Int. Inc./Net Income	30.7	28.5	29.3	30.7	31.1	30.9
Cost/Income	54.9	52.5	52.1	53.1	52.5	51.4
Empl. Cost/Op. Exps.	51.7	52.4	51.4	50.6	50.7	50.8
Loans/Deposit Ratio	92.0	86.9	88.6	88.9	88.0	87.6
CASA Ratio	33.2	30.7	32.5	31.7	29.8	28.5
Investment/Deposit Ratio	46.5	51.1	42.1	39.8	37.5	35.6
<b>Valuation</b>						
Standalone Book Value (INR)				236.8	266.9	304.4
Change (%)					12.7	14.0
Consolidated BV (INR)				324.5	370.6	427.3
Change (%)					14.2	15.3
Price-BV (x)				3.6	3.1	2.7
Consolidated EPS (INR)				40.6	49.2	60.4
Change (%)					21.2	22.8
Price-Earnings (x)				28.5	23.5	19.2
E: MOSL Estimates						



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