

SME concerns surface. KVB reported ~70% yoy decline in earnings on account of higher provisions for bad loans. Slippages were high for the third consecutive quarter at ~7% of loans with this quarter showing higher-than-expected impact from the SME portfolio. We will await a couple of more quarters to see if the SME concerns are a bit more structural or fallout of GST/demonetization. Risks on the large corporate loans are dissipating. Valuations are undemanding. Maintain ADD (TP at ₹110 from ₹120 earlier).

Company data and valuation summary

Karur Vysya Bank

Stock data

52-week range (Rs) (high,low)	150-94
Market Cap. (Rs bn)	72.2

Shareholding pattern (%)

Promoters	2.1
FIs	19.6
MFs	15.2

Price performance (%)

	1M	3M	12M
Absolute	(6.1)	(4.0)	(23.2)
Rel. to BSE-30	(9.7)	(10.2)	(32.8)

Forecasts/Valuations

	2018	2019E	2020E
EPS (Rs)	4.8	3.2	13.1
EPS growth (%)	(52.2)	(32.3)	306.7
P/E (X)	20.8	30.7	7.5
NII (Rs bn)	23.0	24.1	27.0
Net profits (Rs bn)	3.5	2.3	9.5
BVPS	69.5	71.8	82.9
P/B (X)	1.4	1.4	1.2
ROE (%)	6.1	3.7	14.1
Div. Yield (%)	0.6	0.8	3.3

Weak overall performance but an expected outcome due to high provisions for bad loans

KVB's reported earnings declined by ~70% yoy, dragged by ~80% yoy increase in provisions. Revenues grew 8% yoy led by similar growth in NII and non-interest income. PPOP growth was modest at 2% yoy as operating costs grew 16% yoy. Loan growth has accelerated back to ~13% yoy from 8% yoy in the previous quarter. Most of the slowdown was seen in the corporate segment, which grew 8% yoy while retail loan growth was solid at 25% yoy. The bank has taken the benefit of investment depreciation amortization for the current quarter.

SME slippages a bit unexpected; overall concerns on NPLs gradually declining

Headline asset quality saw further deterioration with gross NPLs increasing ~80 bps qoq to 7.4% of loans and net NPLs increasing ~30 bps to 4.5% of loans – the highest levels since FY2003. Slippages were high at ~7% of loans for the third consecutive quarter. However, unlike the previous two quarters, which saw most of the NPLs coming from the corporate segment, this quarter saw a similar contribution from the SME segment as well. This was not anticipated by us and we understand that there have been some transitional issues and lagged impact of GST/demonetization. We would probably wait for another couple of quarters to see if this is becoming a structural issue as the focus is likely to shift towards recovery from these NPLs. Issues on the large corporate book are declining as the bank has been aggressively recognizing the pain. Share of loans under SDR, S4A, 5:25 is quite negligible.

Credit costs will remain elevated in the near term as KVB will need to absorb the impact of new NPL formations and incremental provisions for NCLT accounts. Provision coverage (calculated) is quite low around 38% and FY2019 would continue to see a catch-up on this front.

Maintain ADD: undemanding valuations give comfort

Our broad thesis on the bank remains unchanged and there is comfort on valuations at this point. Near-term performance is likely to be driven by (1) SME performance, (2) path of RoE improvement and (3) execution of the current team. We have cut our estimates resulting in a marginal change to our TP (₹110 from ₹120 earlier). We value the bank at 2X (adjusted) book and 14X FY2020 EPS for RoEs, which can move closer to ~14-15% in the medium term.

ADD

JULY 25, 2018

RESULT

Coverage view: **Attractive**

Price (₹): **99**

Target price (₹): **110**

BSE-30: **36,858**

QUICK NUMBERS

- NII up 8% yoy; net profits dropped 69% yoy
- GNPL and NNPL ratios up 88 bps and 34 bps qoq to 7.4% and 4.5%, respectively
- Maintain ADD rating with TP at ₹110 (from ₹120)

M B Mahesh CFA

mb.mahesh@kotak.com
Mumbai: +91-22-4336-0886

Nischint Chawathe

nischint.chawathe@kotak.com
Mumbai: +91-22-4336-0887

Dipanjan Ghosh

dipanjan.ghosh@kotak.com
Mumbai: +91-22-4336-0888

Shrey Singh

shrey.singh@kotak.com
Mumbai: +91-22-43360895

Exhibit 1: Karur Vysya Bank – Quarterly details

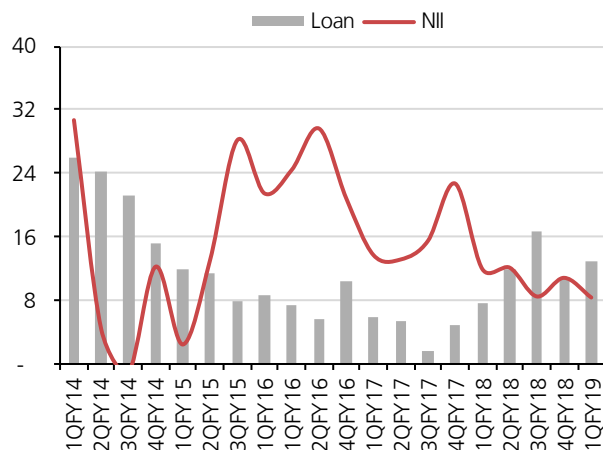
March fiscal year-ends, 1QFY18-1QFY19 (₹ mn)

	1QFY19	1QFY19E	1QFY18	4QFY18	(% chg.)			FY2019E	FY2018	(% chg.)	FY2020E
Interest Earned	14,425	14,289	13,841	14,909	1.0	4.2	(3.2)	59,946	57,784	3.7	67,341
Interest on loans	11,343	11,100	10,886	11,049	2.2	4.2	2.7	46,882	44,208	6.0	54,169
Interest on Investment	2,895	2,925	2,742	2,939	(1.0)	5.6	(1.5)	11,914	11,229	6.1	11,898
Interest on balance with RBI and others	187	263	214	920	(28.7)	(12.3)	(79.6)	1,150	2,346	(51.0)	1,274
Interest expense	8,589	8,691	8,455	8,480	(1.2)	1.6	1.3	35,855	34,015	5.4	40,335
Net interest income	5,836	5,597	5,386	6,429	4.3	8.4	(9.2)	24,091	23,768	1.4	27,006
Other Income	2,549	2,127	2,363	2,087	19.8	7.9	22.2	9,732	8,999	8.1	11,204
Other Income exld treasury	2,479	2,087	1,893	2,007	18.8	30.9	23.5	9,232	7,989	15.6	10,204
Treasury	70	40	470	80	75.0	(85.1)	(12.5)	500	1,011	(50.5)	1,000
Commission & exchange	1,910	1,607	1,700	1,530	18.9	12.4	24.8	6,974	6,171	13.0	7,671
Total Income	8,385	7,724	7,749	8,515	8.6	8.2	(1.5)	33,824	32,768	3.2	38,210
Operating Expenses	3,789	3,743	3,255	3,718	1.2	16.4	1.9	16,254	14,207	14.4	18,064
Employee expenses	1,786	1,742	1,515	1,792	2.5	17.9	(0.4)	7,336	6,391	14.8	8,391
Other operating expenses	2,003	2,001	1,740	1,926	0.1	15.1	4.0	8,918	7,816	14.1	9,673
Operating Profit Before Prov. & Cont.	4,596	3,981	4,494	4,797	15.4	2.3	(4.2)	17,570	18,560	(5.3)	20,146
Provisions & Contingencies	4,227	3,745	2,334	3,942	12.9	81.1	7.2	14,058	12,737	10.4	5,862
Loan loss provisions	3,850	3,239	2,280	3,810	18.9	68.9	1.0	13,208	11,904	10.9	5,312
Profit before tax	370	237	2,160	855	56.1	(82.9)	(56.8)	3,512	5,823	(39.7)	14,284
Provision for Taxes	(90)	79	680	350	(213.5)	(113.2)	(125.6)	1,172	1,580	(25.8)	4,766
Net Profit	459	158	1,480	506	191.1	(69.0)	(9.2)	2,340	4,244	(44.9)	9,518
Tax rate	(24.2)	33.4	31.5	40.9				33.4	27.1		33.4
PBT - treasury + investment dep.	740	697	1,730	1,105	6.1	(57.2)	(33.1)	3,812	5,723	(33.4)	13,784
Key balance sheet items (Rs bn)											
Deposits	576	580	547	569	(0.8)	5.3	1.2	623	569	9.5	700
Saving	114		101	110		12.6	3.4	122	110	11.2	140
Current	59		59	56		(0.4)	5.3	63	56	12.9	73
CASA (%)	30.0		29.2	29.1		76 bps	82 bps	29.7	29.1	60 bps	30.3
Advances	479	452	424	460	5.8	12.9	4.2	495	448	10.6	567
Retail	82		66	76		24.9	8.0				
Agriculture	83		76	79		8.1	5.0				
Commercial/SME	165		144	161		14.6	2.6				
Corporate	149		138	144		8.2	3.4				
Gold loans	74		64	71		14.9	4.2				
Investment	163	162	153	160	1.2	6.9	2.2	161	158	1.7	169
AFS	51		47	47		8.2	7.4				
Key calculated ratios (%)											
Yield on advances	9.7	9.9	10.4	9.7		-72 bps	-7 bps	9.9	10.3	-38 bps	10.2
Yield on investment	7.2	7.3	7.3	7.2		-11 bps	-2 bps	7.5	7.4	15 bps	7.3
Cost of deposit	6.0	6.1	6.2	6.0		-24 bps	5 bps	5.7	6.0	-29 bps	5.8
NIM	3.4	3.3	3.4	3.8		-7 bps	-42 bps	3.6	3.7	-12 bps	3.6
Cost-income	45.2	48.5	42.0	43.7		318 bps	152 bps	48.1	44.4	363 bps	47.3
CD ratio	83.2	78.0	77.6	80.8		564 bps	239 bps	79.5	78.7	76 bps	81.0
RoA	0.3		1.0	0.3		-68 bps	-3 bps	0.3	0.5	-20 bps	1.2
Asset quality measures											
Gross NPL (Rs mn)	35,634		18,070	30,158		97.2	18.2	31,903	30,158	5.8	29,026
Gross NPL (%)	7.4		4.3	6.6		317 bps	88 bps	6.3	6.5	-25 bps	5.0
Net NPL (Rs mn)	20,883		11,892	18,628		75.6	12.1	18,608	18,628	(0.1)	16,620
Net NPL (%)	4.5		2.9	4.2		165 bps	34 bps	3.8	4.2	-40 bps	2.9
Provision coverage ratio (%)	41.4		34.2	38.2		720 bps	316 bps	41.7	38.2	344 bps	42.7
PCR inc. technical write off (%)	56.5		57.0	56.5		-51 bps	0 bps				
Slippages (Rs mn)	7,850		3,892	6,250		101.7	25.6	9,582	20,918	(54.2)	8,096
Slippages (%)	6.8		3.8	5.6		307 bps	125 bps	2.0	4.9	-288 bps	1.5
Restructured (Rs mn)	523		8,079	2,624		(93.5)	(80.1)				
Restructured loans (%)	0.1		1.9	0.6		-180 bps	-46 bps				
Capital adequacy details (%)											
CAR	14.1		11.7	14.4		237 bps	-35 bps				
Tier-I	13.6		11.0	13.9		253 bps	-35 bps				
Tier-II	0.5		0.7	0.5		-16 bps	0 bps				
Key parameters											
Branches	790		719	799		9.9	(1.1)	840	790	6.3	890
ATMs	2,337		2,191	2,328		6.7	0.4	1,895	1,795	5.6	1,995

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: NII growth lagged loan growth in 1QFY19

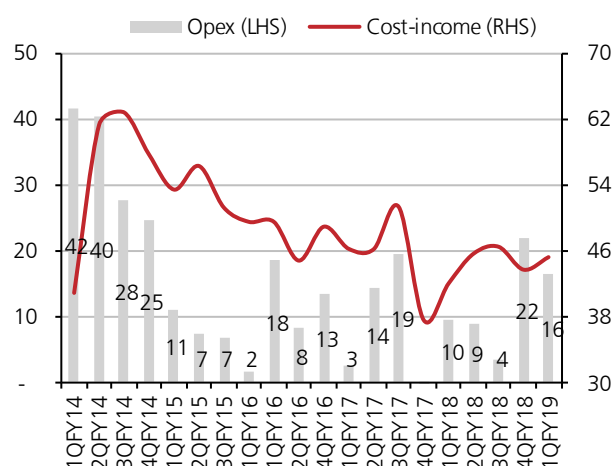
NII and loan growth, March fiscal year-ends, 1QFY14-1QFY19 (%)



Source: Company, Kotak Institutional Equities

Exhibit 3: Cost-income ratio was high at 45.2%

Operating expenses growth and cost-income ratio, March fiscal year-ends, 1QFY14-1QFY19 (%)



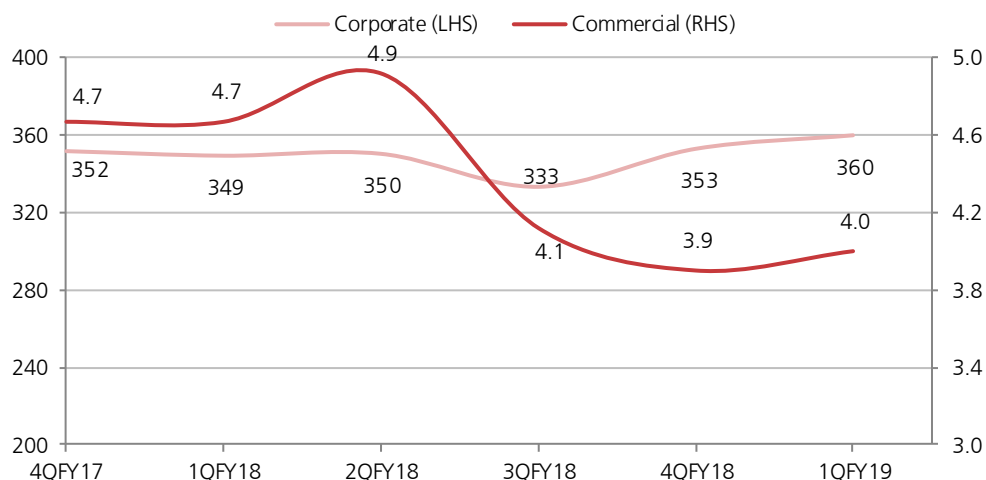
Source: Company, Kotak Institutional Equities

Retail drives loan growth in 1QFY19

Headline loan growth was 13% yoy in 1QFY19. The growth was driven by 25% yoy growth in the retail segment. Retail loan growth has been strong since 3QFY18. The share of retail loans increased 164 bps yoy and 62 bps qoq to 17.2%. Within retail growth was primarily driven by the home loans, LAP and vehicle loans. Home loans increased 23% yoy whereas growth in LAP stood at 41% yoy. Growth in vehicle loans which was robust at 9% yoy in 1QFY19 was lower than that of peers. Personal loans and education loans saw a dip by 5% yoy each in 1QFY19. SME loans witnessed modest growth at 15% yoy. Growth in agriculture and corporate segment were relatively muted at 8% yoy each in 1QFY19.

We expect modest loan growth at 13% CAGR in FY2018-21E driven by growth in retail and SME loans. KVB is aggressively pushing to convert its large retail customer base to asset customers. The company has rolled new branch/individual sales incentive scheme to improve origination. There has been further investment on the technology side to garner new customers.

Exhibit 4: Average ticket size in corporate and commercial space increased in 1QFY19
Average ticket size, March fiscal year-ends, 1QFY18-1QFY19 (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 5: Share of retail loans continue to inch up

Break-up of loan book, March fiscal year-ends, 2011-1QFY19 (%)

	2011	2012	2013	2014	2015	2016	2017	2018	1QFY19
Agriculture	14.3	15.7	18.3	17.7	17.0	17.8	16.8	17.1	17.2
Retail	7.5	8.2	11.9	12.5	13.4	15.0	15.3	16.6	17.2
SME	13.4	34.0	32.3	32.5	32.4	32.3	35.0	35.0	34.5
Corporate and others	64.8	42.1	37.6	37.3	37.2	34.9	32.9	31.3	31.1
of which									
Gold loans	16.2	21.5	26.3	23.4	19.6	16.1	14.9	15.4	15.4

Source: Company, Kotak Institutional Equities estimates

Corporate and SME slippages drive deterioration in asset quality

Reported GNPL increased 18% qoq to ₹36 bn and NNPL increased 12% qoq to ₹21 bn on the back of rise in slippages. Slippages were high at ₹7.9 bn (6.8% of loans) in 1QFY19. The majority of slippages were driven by corporate and SME segments. Corporate slippages were high at ₹2.7 bn and SME slippages stood at ₹2.4bn. While the majority of slippages for the former were likely from the previously guided watch-list, we await further clarity from the management on the nature of slippages in the latter. Out of ₹12 bn (potential stress) guided by the company as its watch-list in 2QFY18, ~₹8.8 bn had slipped into NPL in 2HFY18 while ~₹3.2 bn was left to be recognized in FY2019E. Most likely majority of the slippages were from this watch-list (in the corporate segment).

FY2019E will see volatile movement in NPLs as higher slippages will be present during the initial parts of the year followed by higher recovery and write-offs as well since the company has quite a few large corporate exposures that are in various stages in the NCLT process. Loan loss provisions are likely to remain higher in FY2019 as the bank still needs to catch up on coverage ratio (excluding technical write-off) which is quite low at 41.4%. Provision coverage ratio (including technical write-off) was flat qoq at ~56.5%. We forecast GNPL ratio to be in the range of 1.5-2.5% over FY2019-21E.

Cost pressure remains high

Growth in operating expenses was high at 16% yoy in 1QFY19 driven by 18% yoy growth in employee expenses and 15% yoy growth in other expenses. Cost-to-income ratio increased 150 bps qoq and 320 bps yoy to 45% in 1QFY19. Growth in non-staff expense reflects investments in branch expansion and investments towards digital initiatives.

We expect cost-income ratio to further increase to 48% by FY2019E from 44% in FY2018 (up 370 bps qoq) and further elevate to 49% by FY2021E. Our views are guided by (1) continued investment in branch expansion (though expected to slow down going forward), (2) increase in headcount and (3) investment in digital initiatives.

Other highlights in the quarter

- ▶ Deposit growth remained muted at 5% yoy. CASA growth dropped to 8% yoy driven by flat CA yoy. SA growth maintained momentum in 1QFY19 (up 13% yoy). We forecast 14% CASA CAGR in FY2018-21E with CASA ratio at 31% by FY2021E.
- ▶ Non-interest income growth was muted at 8% yoy driven by drag in treasury gains (down 85% yoy). Core fee income growth was strong at ~12% yoy. Fee income is expected to traverse on a stiff growth trajectory as the company also plans to focus on distribution of insurance and other financial products.
- ▶ Calculated margins dropped 8 bps yoy and 42 bps qoq to 3.4% on the back of drop in yields. Calculated yields were down 6 bps qoq and 72 bps yoy as a result of rise in interest reversals and shift in loan mix towards higher share of low yielding retail loans. There was marginal relief from cost of deposits which dropped 24 bps yoy (up 5 bps qoq) to 6%. NIM is expected to witness marginal compression to 3.5% by FY2021E from 3.7% in FY2018.
- ▶ Tier-1 ratio comfortable to 13.6% with CAR of 14.1%.

Exhibit 6: KVB Change in estimates

March fiscal year-ends, 2019E-2021E (₹ mn)

	News estimates			Old estimates			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Net interest income	24,091	27,006	29,205	23,354	26,230	28,351	3	3	3
Loan growth (%)	10.6	14.4	14.1	10.6	14.4	14.1	0 bps	0 bps	0 bps
NIM (%)	3.6	3.6	3.5	3.5	3.5	3.4	11 bps	11 bps	10 bps
Loan loss provisions	13,208	5,312	5,157	12,972	3,984	4,551	2	33	13
Other income	9,732	11,204	12,382	9,937	11,077	12,418	(2)	1	(0)
Fee income	6,974	7,671	8,515	6,788	7,467	8,289	3	3	3
Operating expenses	16,254	18,064	20,296	16,254	18,064	20,296			
PBT	3,512	14,284	15,583	4,014	15,209	15,869	(13)	(6)	(2)
Tax	1,172	4,766	5,199	1,339	5,227	5,612	(13)	(9)	(7)
Net profit	2,340	9,518	10,383	2,675	9,982	10,257	(13)	(5)	1
PBT before treasury profits and investment depreciation	3,812	13,784	15,083	3,014	14,009	14,469	26	(2)	4

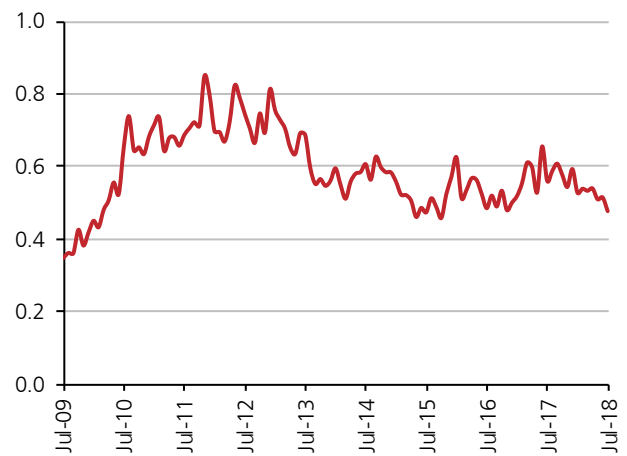
Source: Company, Kotak Institutional Equities estimates

Exhibit 7: KVB trading at 1.3X one-year forward adjusted book
One-year forward PER and PBR, March fiscal year-ends, July 2009-July 2018



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 8: KVB trades at a discount to peers
Trading premium to private banks, March fiscal year-ends, July 2009-July 2018



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 9: KVB - Key ratios and growth rates

March fiscal year-ends, 2016-2021E (%)

	2016	2017	2018	2019E	2020E	2021E
Growth rates (%)						
Net loan	8.2	4.7	9.5	10.6	14.4	14.1
Total asset	8.5	7.2	8.3	8.4	11.6	12.2
Deposits	12.1	7.2	5.9	9.5	12.3	13.0
Current	14.1	22.2	13.3	12.9	15.6	16.3
savings	21.1	30.4	10.4	11.2	14.0	14.7
Fixed	10.2	1.1	3.9	8.6	11.4	12.0
Net interest income	21.5	16.4	10.8	4.8	12.1	8.1
Loan loss provisions	(42.2)	100.2	86.6	10.9	(59.8)	(2.9)
Total other income	21.7	10.7	15.0	8.1	15.1	10.5
Net fee income	15.7	4.5	28.5	13.0	10.0	11.0
Net capital gains	32.9	116.8	(50.6)	(50.5)	100.0	-
Net exchange gains	24.5	(29.5)	13.2	15.0	15.0	16.0
Operating expenses	13.5	2.6	10.6	14.4	11.1	12.4
Employee expenses	0.1	11.1	5.1	14.8	14.4	15.1
Key ratios (%)						
Yield on Average earning assets	10.3	9.8	9.1	8.9	9.0	9.0
Yield on Average loans	11.5	11.0	10.3	9.9	10.2	10.2
Yield on Average investments	8.6	7.9	7.4	7.5	7.3	7.0
Average cost of funds	7.3	6.6	5.9	5.8	5.9	6.0
Interest on deposits	7.2	6.6	6.0	5.7	5.8	5.9
Spread	2.9	3.2	3.2	3.1	3.2	3.0
Net interest income/earning assets	3.4	3.6	3.7	3.6	3.6	3.5
Spreads on lending business	4.2	4.4	4.4	4.2	4.3	4.2
New provisions/Average net loans	0.8	1.6	2.8	2.8	1.0	0.9
Total provisions/gross loans	3.2	4.5	6.5	8.2	8.0	7.8
Interest income/total income	71.6	72.6	71.9	71.2	70.7	70.2
Other income / total income	28.4	27.4	28.1	28.8	29.3	29.8
Fee income to total income	18.5	16.8	19.3	20.6	20.1	20.5
Fee income to advances	1.2	1.2	1.4	1.5	1.4	1.4
Fees income to PBT	50.4	54.4	122.5	198.6	53.7	54.6
Net trading income to PBT	10.4	18.8	2.0	(8.5)	3.5	3.2
Exchange income to PBT	6.0	4.4	8.7	14.3	4.0	4.3
Operating expenses/total income	50.3	45.0	44.4	48.1	47.3	48.8
Operating expenses/assets	2.3	2.2	2.2	2.3	2.4	2.4
Tax rate	37.7	31.4	31.4	33.4	33.4	33.4
Dividend payout ratio	38.6	26.1	12.6	25.0	25.0	26.0
Share of deposits						
Current	15.3	18.6	19.3	19.6	19.9	20.2
Fixed	76.7	72.3	70.9	70.3	69.7	69.1
savings	15.3	18.6	19.3	19.6	19.9	20.2
Loans-to-deposit ratio	78.0	76.2	78.7	79.5	81.0	81.8
Equity/assets (EoY)	7.9	8.1	9.4	8.9	8.8	8.6
Loan impairment ratios (%)						
Gross NPL	1.3	3.5	6.3	5.9	4.7	4.1
Net NPL	0.6	2.5	4.2	3.8	2.9	2.4
Slippages	3.1	3.3	4.9	2.0	1.5	2.5
Provision coverage	57.7	30.4	38.2	41.7	42.7	47.1
Dupont analysis (%)						
Net interest income	3.2	3.5	3.6	3.5	3.5	3.4
Loan loss provisions	0.6	1.1	1.8	1.9	0.7	0.6
Net other income	1.3	1.3	1.4	1.4	1.5	1.4
Operating expenses	2.3	2.2	2.2	2.3	2.4	2.4
(1- tax rate)	62.3	68.6	68.6	66.6	66.6	66.6
ROA	1.0	1.0	0.5	0.3	1.2	1.2
Average assets/Average equity	12.6	12.4	11.4	11.0	11.3	11.5
ROE	12.9	12.6	6.1	3.7	14.1	13.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: KVB - financial statements

March fiscal year-ends, 2016-2021E (₹ mn)

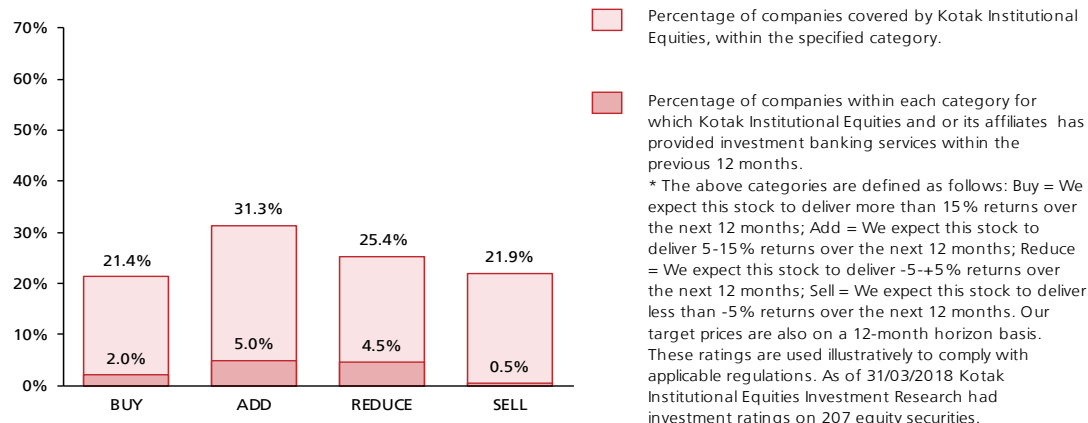
	2016E	2017	2018	2019E	2020E	2021E
Income statement						
Total interest income	54,434	56,224	56,997	59,946	67,341	75,518
Loans	43,294	44,017	44,208	46,882	54,169	61,921
Investments	10,958	11,060	11,229	11,914	11,898	12,220
Cash and deposits	182	1,146	1,559	1,150	1,274	1,378
Total interest expense	36,620	35,486	34,015	35,855	40,335	46,314
Deposits from customers	34,327	34,450	33,097	33,952	38,406	44,079
Net interest income	17,814	20,737	22,981	24,091	27,006	29,205
Loan loss provisions	3,186	6,379	11,904	13,208	5,312	5,157
Net interest income (after prov.)	14,628	14,358	11,077	10,884	21,694	24,047
Other income	7,068	7,822	8,999	9,732	11,204	12,382
Net fee income	4,595	4,802	6,171	6,974	7,671	8,515
Net capital gains	944	2,046	1,011	500	1,000	1,000
Net exchange gains	547	385	436	502	577	670
Operating expenses	12,528	12,850	14,207	16,254	18,064	20,296
Employee expenses	5,474	6,080	6,391	7,336	8,391	9,657
Depreciation on investments	(7)	389	911	800	500	501
Other provisions	59	107	(78)	50	50	50
Pretax income	9,116	8,835	5,036	3,512	14,284	15,583
Tax provisions	3,440	2,775	1,580	1,172	4,766	5,199
Net profit	5,676	6,060	3,457	2,340	9,518	10,383
% growth	25	7	(43)	(32)	307	9
PBT - Treasury + Provisions	11,410	13,663	16,762	17,070	19,146	20,291
% growth	31	20	23	2	12	6
Balance sheet						
Cash and bank balance	27,916	43,451	42,969	49,028	52,861	57,358
Cash	5,238	5,649	7,259	7,622	8,003	8,404
Balance with RBI	20,053	22,256	22,341	28,037	31,489	35,586
Net value of investments	132,217	148,575	158,032	160,751	169,258	183,899
Govt. and other securities	121,640	128,955	140,128	144,092	153,722	169,371
Shares	906	939	1,051	1,051	1,051	1,051
Debentures and bonds	5,742	7,985	12,459	11,213	10,092	9,082
Net loans and advances	390,844	409,077	448,001	495,410	566,891	646,638
Fixed assets	4,201	4,186	5,282	4,976	4,661	4,130
Net Owned assets	4,201	4,186	5,282	4,976	4,661	4,130
Other assets	21,459	12,787	15,007	15,307	15,613	15,925
Total assets	576,637	618,076	669,291	725,472	809,284	907,949
Deposits	500,789	536,998	568,901	623,055	699,750	790,796
Borrowings and bills payable	18,264	20,495	26,987	27,359	27,742	28,136
Other liabilities	11,855	10,226	10,761	10,761	10,761	10,761
Total liabilities	530,908	567,719	606,649	661,175	738,252	829,693
Paid-up capital	1,219	1,219	1,453	1,453	1,453	1,453
Reserves & surplus	44,511	49,138	61,189	62,844	69,578	76,803
Total shareholders' equity	45,730	50,357	62,642	64,297	71,032	78,257

Source: Company, Kotak Institutional Equities estimates

"I, M B Mahesh, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

Ratings and other definitions/identifiers

Definitions of rating

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5 to +5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our target prices are also on a 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive, Neutral, Cautious.

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block"
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051, India
Tel: +91-22-43360000

Kotak Mahindra (UK) Ltd
8th Floor, Portoken House
155-157 Minories
London EC3N 1LS
Tel: +44-20-7977-6900

Overseas Affiliates

Kotak Mahindra Inc
369 Lexington Avenue
28th Floor, New York
NY 10017, USA
Tel: +1 212 600 8856

Copyright 2018 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.
3. Any U.S. recipients of the research who wish to effect transactions in any security covered by the report should do so with or through Kotak Mahindra Inc and (ii) any transactions in the securities covered by the research by U.S. recipients must be effected only through Kotak Mahindra Inc at vinay.goenka@kotak.com.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis / report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis / report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Institutional Equities Research Group of Kotak Securities Limited. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Private Client Group.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions - including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MSEI a. Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us

Details of Associates are available on our website i.e. www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months. YES

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: YES

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com. Investments in securities market are subject to market risks, read all the related documents carefully before investing.

In case you require any clarification or have any concern, kindly write to us at below email ids:

Level 1: For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1800222299 and 18002099292

Level 2: If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.

Level 3: If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Name: Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.

Level 4: If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91-(022) 4285 8301.

First Cut notes published on this site are for information purposes only. They represent early notations and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject. There could be variance between the First cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability for the contents of the First Cut Notes.

For further disclosure please view <https://kie.kotak.com/kinsite/index.php>