

# Kotak Mahindra Bank

**CMP: INR731**
**TP: INR863 (+18%) Upgrade to Buy**

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
25,597	7,849
Bloomberg	KMB IN
Equity Shares (m)	1834.4
M.Cap. (INR b) / (USD b)	1,339.1/20.1
52-Week Range (INR)	744 / 587
1, 6, 12 Rel. Per (%)	6/13/16
12M Avg Val (INRM)	1054
Free float (%)	66.3

## Financials & Valuation (INR b)

Y/E Mar	2016	2017E	2018E
NII	69.0	78.2	95.2
OP	40.4	55.9	72.5
NP	20.9	31.4	42.1
Cons. NP	34.6	47.9	61.8
NIM (%)	4.1	4.2	4.3
Cons. EPS	18.9	26.1	33.7
EPS Gr. (%)		38.6	28.8
Cons. BV. (INR)	182	207	239
Cons. RoE (%)	10.9	13.5	15.1
RoA (%)	1.1	1.5	1.7
Payout (%)	5.1	5.8	5.8
<b>Valuations</b>			
P/E(X) (Cons.)	38.7	27.9	21.7
P/BV (X)	4.0	3.5	3.1

\* Proforma merged (KMB+EIVBL )

## Merger synergies playing out well; Asset quality surprises positively

- KMB's standalone PAT grew ~10% QoQ to INR6.96b (17% beat). Strong NII (+5% QoQ) performance on back of stable margins (4.3%), controlled opex (+5% QoQ) and positive asset quality (GNPA stable at 2.3%) drove the PAT beat. Lower wealth management fees were the key drag to fee income during the quarter.
- **Key positives** are a) SMA2 at just 13bp b) SA growth of ~43% at KMB branches and eIVBL branches at ~34% YoY c) continued traction in CV loans (+14% QoQ) and business/personal loans (+9% QoQ) d) Stable NIMs QoQ at 4.3%. Comfort on the asset quality remains the highest with no SDR and 5:25 accounts on the books, negligible SMA2 accounts and OSRL at just 26bps.
- **Other businesses:** a) KMPL: Post strong customer assets growth (9% QoQ) seen in 3QFY16, growth moderated to ~2% QoQ. b) K-Sec market share declined QoQ to 2.3% vs 2.7% a quarter ago c) Overall average AUM increased 7% QoQ; average domestic AUM increased 7% QoQ and 41% YoY of which equity AUM declined 3% QoQ and grew 60% YoY d) alternate assets AUM increased to INR113b from INR57b a quarter ago led by US\$1b raising during the quarter
- **Valuation and view:** Merger with eIVBL places KMB in a sweet spot, with strong presence across geographies and products, and continued healthy capitalization (T1 of ~16%). The merged entity is India's fourth largest private sector bank, with a loan book of INR1.2t and loan market share of 1.7%+. KMB's premium multiples are likely to sustain, considering the strong growth and operating leverage available across businesses and clean loan portfolio. We upgrade the standalone/consolidated earnings by 3-5% over FY17/18 and roll forward the target price to FY18. At our SOTP KMB will trade at 3.6x consolidated BV with the cons. ROE of ~15%. We upgrade the stock to **Buy** from Neutral.

## Quarterly Performance

Y/E March	FY15				FY16				FY15	FY16
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Kotak Bank (standalone)</b>										
Net Interest Income	10,022	10,389	10,594	11,232	15,982	16,787	17,662	18,572	42,237	69,004
% Change (Y-o-Y)	9.3	12.4	16.1	16.2	59.5	61.6	66.7	65.4	13.5	63.4
Operating Profit	6,655	7,336	7,376	8,607	5,970	10,448	12,052	11,942	29,975	40,411
% Change (Y-o-Y)	-14.5	21.0	26.1	41.8	-10.3	42.4	63.4	38.7	16.3	34.8
Net Profit	4,298	4,445	4,645	5,271	1,898	5,695	6,347	6,958	18,660	20,898
% Change (Y-o-Y)	6.7	26.1	36.6	29.5	-55.8	28.1	36.6	32.0	24.2	12.0
<b>Other Businesses</b>										
Kotak Prime	1,200	1,250	1,200	1,427	1,190	1,270	1,260	1,300	5,077	5,025
Kotak Mah. Investments	170	250	240	400	300	360	390	500	1,060	1,540
Kotak Mah. Capital Co	-40	-70	-60	300	30	70	60	170	130	320
Kotak Securities	680	660	600	960	670	780	550	510	2,900	2,515
International subs	70	130	140	180	250	320	260	220	520	1,050
Kotak Mah. AMC & Trustee C	0	-10	-100	-180	200	230	40	250	-290	720
Kotak Investment Advisors	80	40	20	110	0	0	-10	50	250	50
Kotak OM Life Insurance	490	520	510	760	660	480	600	770	2,290	2,510
Con.adj and MI	30	-40	-30	-100	-30	230	-40	-178	-150	-17
<b>Conso. PAT</b>	<b>6,978</b>	<b>7,175</b>	<b>7,165</b>	<b>9,128</b>	<b>5,168</b>	<b>9,435</b>	<b>9,457</b>	<b>10,550</b>	<b>30,447</b>	<b>34,610</b>
% Change (Y-o-Y)	11.2	23.1	21.2	37.6	-25.9	31.5	32.0	15.6	-2.5	13.7

E: MOSL Estimates, Quarterly numbers vary from full year number due to difference in reporting

**Alpesh Mehta** (Alpesh.Mehta@MotilalOswal.com); +91 22 3982 5415

**AS Venkata Krishnan** (A.Krishnan@MotilalOswal.com); +91 22 3010 2603 / **Dhaval Gada** (dhaval.gada@motilalosal.com)

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## Exhibit 1: Proforma Quarterly Performance

(INR m)	4QFY16	3QFY16	QoQ (%)	4QFY15E			Growth YoY (%)	
	Kotak+ING	Kotak+ING	Reported	Kotak	ING (Est.)	Kotak+ING	Proforma	Reported
Interest earned	42,654	41,217	3	25,809	15,250	41,059	4	65
Interest expenses	24,082	23,555	2	14,578	10,203	24,780	-3	65
<b>Net interest income</b>	<b>18,572</b>	<b>17,662</b>	<b>5</b>	<b>11,232</b>	<b>5,047</b>	<b>16,279</b>	<b>14</b>	<b>65</b>
<b>Non-Interest income</b>	<b>6,819</b>	<b>7,222</b>	<b>-6</b>	<b>6,681</b>	<b>2,216</b>	<b>8,898</b>	<b>-23</b>	<b>2</b>
Fees and Services	5,100	4,660	9	3,890	104	3,994	28	31
Treasury Income	1,183	2,000	-41	1,640	161	1,801	-34	-28
Others	536	562	-5	1,151	1,952	3,103	-83	-53
<b>Total Income</b>	<b>25,392</b>	<b>24,884</b>	<b>2</b>	<b>17,913</b>	<b>7,264</b>	<b>25,177</b>	<b>1</b>	<b>42</b>
Operating expenses	13,450	12,832	5	9,306	4,167	13,473	0	45
Employee cost	6,340	6,182	3	3,789	2,246	6,035	5	67
Others	7,110	6,650	7	5,517	1,921	7,438	-4	29
<b>Pre-provision profits</b>	<b>11,942</b>	<b>12,052</b>	<b>-1</b>	<b>8,607</b>	<b>3,097</b>	<b>11,704</b>	<b>2</b>	<b>39</b>
Provisions	2,004	2,353	-15	669	958	1,627	23	199
<b>PBT</b>	<b>9,937</b>	<b>9,700</b>	<b>2</b>	<b>7,938</b>	<b>2,139</b>	<b>10,077</b>	<b>-1</b>	<b>25</b>
Taxes	2,980	3,352	-11	2,667	715	3,381	-12	12
<b>Profit After Tax</b>	<b>6,958</b>	<b>6,347</b>	<b>10</b>	<b>5,271</b>	<b>1,424</b>	<b>6,696</b>	<b>4</b>	<b>32</b>
<b>Asset quality</b>								
GNPA	28,381	26,903	5	12,372	10,043	22,415	27	129
NNPA	12,620	11,108	14	6,091	4,301	10,392	21	107
Gross NPA %	2.4	2.3		1.8	2.3	1.7		
Net NPA %	1.1	1.0		0.9	1.0	0.8		
Provisions Coverage (%)	55.5	58.7		50.8	57.2	53.6		
Restructured loans	3,020	3,460	-13	1,581	5,200	6,781	-55	91
% of loans	0.3	0.3		0.2	1.2	0.5		
<b>Balance Sheet (INR b)</b>								
Current deposits	233	196	19	132	73	205	14	77
Savings deposits	295	266	11	140	73	213	38	110
CASA deposits	528	462	14	272	146	418	26	94
CASA ratio (%)	38.1	35.3		36.4	30.6	34.1		
Deposits	1,386	1,309	6	749	478	1,227	13	85
Borrowings	210	198	6	121	95	217	-3	73
Investments	513	453	13	287	197	484	6	79
Advances	1,187	1,153	3	662	423	1,084	9	79
Branches	1,333	1,298	3	684	583	1,267	66	66
ATM	2,032	1,987	2	1,273	650	1,923	109	109

eIVBL earnings for 4QFY15 is estimated as they were not reported due to merger

Source: MOSL, Company

**Exhibit 2: Quarterly performance v/s our estimates and reasons for deviation (INR m)**

Kotak Bank (standalone)	4QFY16A	4QFY16E	v/s Est.	Comments
<b>Net Interest Income</b>	<b>18,572</b>	<b>18,035</b>	<b>3</b>	<b>NIMs better than expected; loan growth lower than expected</b>
% Change (Q-o-Q)	5.2	2.1		
<b>Operating Profit</b>	<b>11,942</b>	<b>11,595</b>	<b>3</b>	Better than expected net income drove PPP beat
% Change (Q-o-Q)	-0.9	-3.8		
<b>Net Profit</b>	<b>6,958</b>	<b>5,954</b>	<b>17</b>	<b>Strong core operating performance and better than expected asset quality performance drove PAT beat</b>
% Change (Q-o-Q)	9.6	-6.2		
<b>Other Businesses</b>				
Kotak Prime	1,300	1,306	0	In-line
Kotak Mah. Investments	500	380	31	
Kotak Mah. Capital Co	170	48	255	Helped by several equity issuances and corporate actions
Kotak Securities	510	650	-22	Lower trading volumes QoQ; Market share declines
International subs	220	320	-31	
Kotak Mah. AMC & Trustee Co.	250	130	92	
Kotak Investment Advisors	50	10		
Kotak OM Life Insurance	770	654	18	
Con.adj and MI	-178	-10		
<b>Consol. PAT</b>	<b>10,550</b>	<b>9,444</b>	<b>12</b>	<b>Strong beat in lending and life insurance businesses; Mixed performance at capital market businesses</b>
% Change (Q-o-Q)	11.6	-0.1		

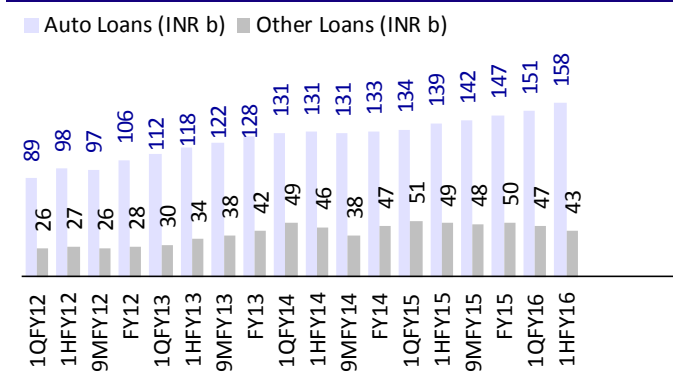
Source: MOSL, Company

**Lending businesses surprise; mixed performance at capital market businesses**

K-Sec market declined 40bp QoQ at 2.3%

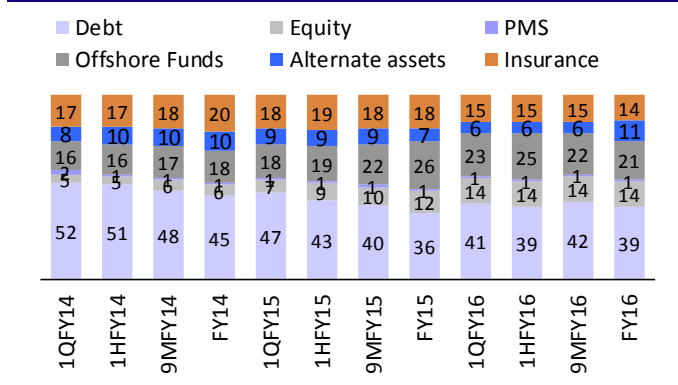
- Asset management business reported PAT of INR470m vs. INR300m in 3QFY16. Domestic AMC business PAT increased to INR250m vs INR40m a quarter ago. Overall AUM increased 7% QoQ however, equity AUM declined 3% QoQ (+60% YoY).
- Capital market related business PAT was at INR6.8b vs INR6.1b driven by improvement in profitability in investment banking division. In the securities business, K-sec market share declined QoQ to 2.3% (v/s 2.7% in 3QFY16 and 2.9% in 4QFY15).
- Life insurance profit increased 28% QoQ to INR7.7b.

**Exhibit 3: KMPL: Overall loans grew by 13% YoY (2% QoQ) v/s 15% YoY in 3QFY16**



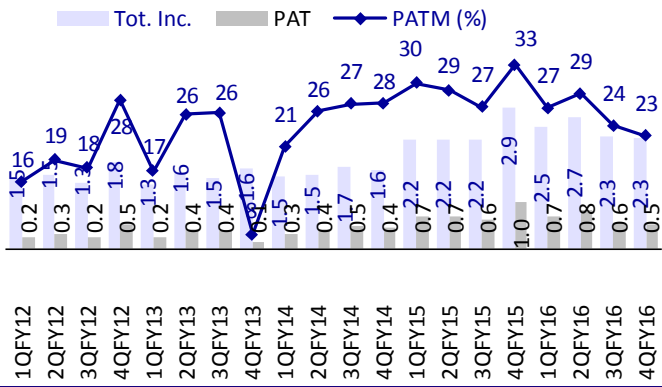
Source: MOSL, Company

**Exhibit 4: Debt funds now accounts for 39% of overall AUMs v/s 42% in 3QFY16**



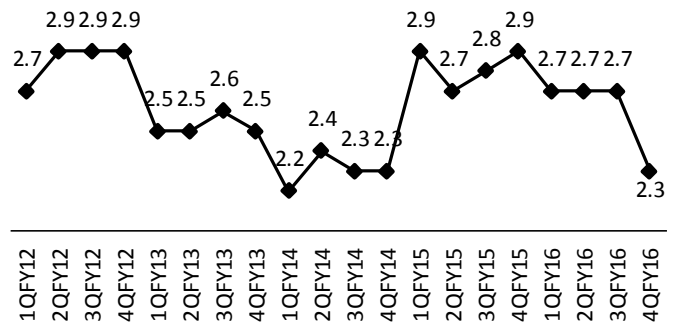
Source: MOSL, Company

**Exhibit 5: K-Sec : QoQ profitability deteriorates (INR b)**



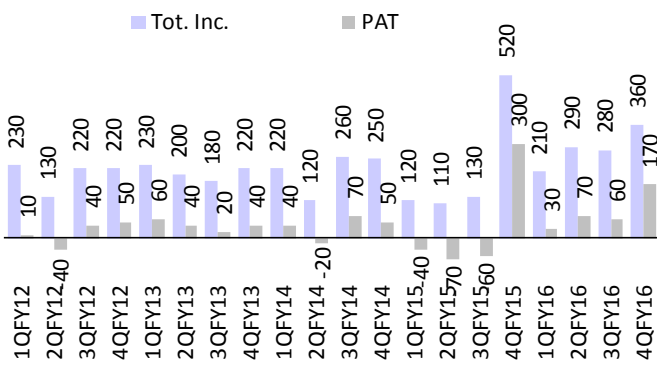
Source: MOSL, Company

**Exhibit 6: K-Sec market share declines QoQ – lowest since 2014 (%)**



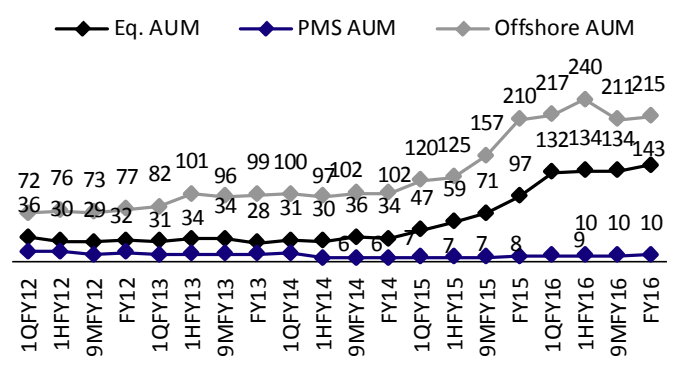
Source: MOSL, Company

**Exhibit 7: Investment Banking: Earnings trend (INR m)**



Source: MOSL, Company

**Exhibit 8: Kotak AMC: Equity AUMs trending higher (INR b)**



Source: MOSL, Company

**4QFY16 Conference call highlights**

**Guidance**

- Loan growth of 20% for FY17. Growth will be broad based and not biased any particular segment. Focus remains on the risk adjusted returns
- Credit cost guidance of 45-50bp; SMA2 outstanding stands at 0.13%. Bulk of the credit cost during FY16 was driven eIVBL loans.
- Focusing on reducing Cost to Income ratio below 50% in FY17
- For KMPL (NBFC arm) loan growth is expected to be 15% on back of 7-8% auto industry volume growth
- CASA traction remains very strong and focus is to increase CASA ratio to 40%+ from 38% reported as of FY16
- Merger related cost is expected to be INR250m in FY17 (INR950m in FY16)

**Comments on integration**

- Entire integration process will get over by 30<sup>th</sup> June 2016
- Focus was on the 4 key Dimensions: a) People (increased span of supervisory staff, higher feet on street employees especially on eIVBL branches), b) Process (close to 5,000 process have been realigned), c) Technology (core banking integration is slated to end by May 2016 – This will help to generate higher revenues and reduce cost), d) Synergy (leveraging branch network on eIVBL for asset growth and adding liability customers)

- Average SA growth at eIVBL at 34% vs KMB branches at 43%
- Cross sale of assets products is seeing strong traction in eIVBL branches

#### **Strong initial response to digital initiatives**

- Key initiatives: a) Minimal paper work on opening savings account b) offering instant loan approval for products like Unsecured PL c) Bharat banking app : India's first multilingual internet free app launched
- Of the total Savings account and personal loan acquisition ~7% and ~15% are via digital channels respectively.
- Kotak has 133 customer acquired through digital sales per 1000 active customers.
- KMB has 4.7% and 4.3% mobile transaction market share via Value and Volume respectively
- UPI will be launched shortly
- Digital will make transaction space extremely competitive.

#### **Loans: Targeting 20% growth in FY17**

- Post-merger some of the large lumpy accounts have been allowed to run down (considering the increasing concentration on balance sheet and relatively less risk appetite on some loans written by eIVBL) which led to moderate loan growth. Further management focus was on addressing issues in the stress loans of eIVBL (6% of eIVBL book).
- 90% of the home loan is pure housing loans. Growth is largely driven by markets in western and southern India. Some part of the portfolio is related to takeover some other banks/FIs.
- LAP: 10% of home loan Portfolio. Trends are very stable but watching the portfolio very carefully
- CV: Demand is driven by largely replacement. Better connectivity and opening up of mining sector to drive demand for new vehicles

#### **Other**

- Fee income growth is impacted by lower wealth management fees. Combined (KMB+eIVBL) MF distribution fees are half of kotak standalone income as compared to last year
- Close to half of the fees is related to balance sheet (assets and liabilities)
- 0.11-0.12m customers are getting added every month
- Bank is sitting on significant MTM benefit
- TD below INR10m at INR350b

#### **Valuation and view**

- Merger with eIVBL places KMB in a sweet spot with strong presence across geographies, products and healthy capitalization (T1 of ~16%). The merged entity is the fourth largest private sector bank with a loan book of ~INR1.2t and market share of ~1.7%+ of loans. Further, KMB's conglomerate structure places it in a very sweet position to ride the up-cycle across financial services.
- Improvement in macro-economic environment coupled with healthy capitalization leaves KMB in a strong position to lever on growth opportunities in the economy. To leverage on its geographical expansion, the management is focusing on product penetration, with higher emphasis on Agriculture (will help

Upgrade to Buy with SoTP  
of INR863 (3.6x FY18E  
Consolidated BV)

in priority sector loans), small business loans (untapped opportunity; creating niche for itself) and mortgage loan. CV loans have bottomed out and likely to show traction in ensuing quarters. We have increased estimates by 3-5% for standalone bank to over FY17/18 to factor in better than expected merger synergy and asset quality performance.

- Operating leverage is expected to kick in the expanded underutilized capacity. We are already seeing benefit of eIVBL network on SA growth (+35% YoY). Higher refinancing opportunities, increased product offering on the combined network and product penetration to eIVBL customers, will keep loan growth healthy. On a lower base we are factoring loan CAGR of ~22% over FY16-19E. We expect PPop (adjusted) CAGR of ~25% over FY16-19E, largely driven by stable margins and operating leverage. Large part of current year credit cost was driven by eIVBL portfolio, adjusted for provisions surprised us positively. With just 13bp of SMA2 accounts, No 5:25 and SDR on balance sheet comfort on asset quality remains the highest. Management has guided of credit cost of 45-50bp vs 82bp in FY16. We expect adjusted PBT CAGR of ~30% over FY16-19E.
- Post-merger with eIVBL, share of lending business in steady state profitability is likely to increase to ~83% - providing much needed stability to earnings. Capital light nature of capital market and asset management businesses can provide upside to ROE if there is a strong improvement in business cycle. We expect consolidated ROEs to improve to ~15% by FY18 on back strong improvement in banking business ROAs to ~1.7%.
- Backed by higher capitalization, diversified business loan book, strong risk management and presence across financial services KMB historically traded at a premium multiples to peers despite relatively lower ROE. We are positive on the business with the expected operating leverage from eIVBL. At our SOTP of INR863, KMB will trade at 3.6x FY18 Consolidated BV (pro-forma merged basis). Upgrade to Buy from Neutral.

#### Exhibit 9: Kotak Mahindra: SOTP Valuation (FY17-based)

	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
<b>Lending Business</b>	<b>1,406</b>	<b>21.1</b>	<b>766</b>	<b>89</b>	
Kotak Mahindra Bank	1,217	18.3	663	77	4x FY18E Core NW, ~1.5% RoA and ~14% Core RoE
Kotak Prime (Car and other loans)	151	2.3	82	10	3x FY18E Net Worth, ~15% Core RoE
Kotak Investment Company (LAS)	38	0.6	21	2	3x FY18E Net Worth
<b>Asset Management Business</b>	<b>72</b>	<b>1.1</b>	<b>39</b>	<b>5</b>	
Domestic Mutual Fund	41	0.6	22	3	5% of FY18E Avg. AUM of INR820b
Alternative Assets	16	0.2	8	1	12% of FY18E AUM of INR136b
Offshore Funds	14	0.2	9	1	5% of FY18E AUM of INR284b
<b>Capital Markets related Business</b>	<b>61</b>	<b>0.9</b>	<b>33</b>	<b>4</b>	
Kotak Securities	57	0.9	31	4	15x FY18E Earnings; Implied ~9x Core BV
Kotak Investment Banking (KMCC)	3	0.0	2	0	1x FY18E Free Network
<b>Kotak Life Insurance</b>	<b>46</b>	<b>0.7</b>	<b>25</b>	<b>3</b>	
<b>Target Value</b>	<b>1,584</b>	<b>23.8</b>	<b>863</b>	<b>100</b>	<b>Implied 3.6x PBV; ROE of ~15%</b>
Current market cap.	1,339	20.1	730		
<b>Upside (%)</b>	<b>18.3</b>	<b>18.3</b>	<b>18.3</b>		

Source: MOSL, Company

**Exhibit 10: We raise standalone earnings for FY17/18E by 4-5% led by expected improvement in C/I ratio; consolidated earnings for FY17E remain largely unchanged (~3% uptick in FY18E)**

INR b	Old Est.			Revised Est.			Change (%)		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Net Interest Income	68.8	78.8	96.2	69.0	78.2	95.2	0.2	-0.8	-1.1
Other Income	27.5	34.8	43.0	26.1	34.5	42.7	-5.1	-0.9	-0.7
<b>Total Income</b>	<b>96.4</b>	<b>113.6</b>	<b>139.2</b>	<b>95.1</b>	<b>112.7</b>	<b>137.8</b>	<b>-1.3</b>	<b>-0.8</b>	<b>-1.0</b>
Operating Expenses	55.2	59.7	70.2	54.7	56.8	65.3	-0.8	-4.9	-7.0
<b>Operating Profits</b>	<b>41.2</b>	<b>53.9</b>	<b>69.0</b>	<b>40.4</b>	<b>55.9</b>	<b>72.5</b>	<b>-1.9</b>	<b>3.7</b>	<b>5.1</b>
Provisions	9.8	7.8	8.0	9.2	8.0	8.2	-6.1	2.9	2.8
<b>PBT</b>	<b>31.4</b>	<b>46.2</b>	<b>61.0</b>	<b>31.2</b>	<b>47.9</b>	<b>64.3</b>	<b>-0.6</b>	<b>3.8</b>	<b>5.4</b>
Tax	10.8	15.9	21.1	10.3	16.5	22.2	-4.6	3.8	5.4
<b>Standalone PAT</b>	<b>20.6</b>	<b>30.2</b>	<b>40.0</b>	<b>20.9</b>	<b>31.4</b>	<b>42.1</b>	<b>1.5</b>	<b>3.8</b>	<b>5.4</b>
<b>Consolidated PAT</b>	<b>35.1</b>	<b>47.5</b>	<b>60.2</b>	<b>34.8</b>	<b>47.9</b>	<b>61.8</b>	<b>-0.9</b>	<b>0.9</b>	<b>2.6</b>
<b>Margins (%)</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>			
<b>SA RoA (%)</b>	<b>1.1</b>	<b>1.4</b>	<b>1.5</b>	<b>1.1</b>	<b>1.5</b>	<b>1.7</b>			
<b>Core RoE (%)</b>	<b>9.0</b>	<b>12.0</b>	<b>14.0</b>	<b>9.1</b>	<b>12.3</b>	<b>14.6</b>			

Source: MOSL, Company

**Exhibit 11: Capital market business driving estimate lower while lending business see uptick**

INR b	Old Est.			Revised Est.			Change (%)		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Kotak Mahindra Bank (Standalone)	20.6	30.2	40.0	20.9	31.4	42.1	1.5	3.8	5.4
Kotak Mahindra Prime	5.1	5.8	6.7	5.0	5.7	6.5	-1.8	-2.2	-2.2
Kotak Mahindra Investments	1.5	2.0	2.6	1.5	2.0	2.4			
<b>Lending Business</b>	<b>27.2</b>	<b>38.1</b>	<b>49.2</b>	<b>27.5</b>	<b>39.0</b>	<b>51.0</b>	<b>1.1</b>	<b>2.5</b>	<b>3.7</b>
International subsidiaries	1.5	1.7	1.9	1.1	1.6	2.0			
Kotak Mahindra AMC & Trustee Co	0.9	1.2	1.4	0.7	0.9	1.2			
Kotak Investment Advisors	0.0	0.1	0.1	0.1	0.3	0.3			
<b>Asset Management Business</b>	<b>2.4</b>	<b>2.9</b>	<b>3.4</b>	<b>1.8</b>	<b>2.8</b>	<b>3.6</b>	<b>-26</b>	<b>-6</b>	<b>4</b>
Kotak Securities	3.1	3.9	4.6	2.5	3.1	3.8			
Kotak Mahindra Capital Company	0.3	0.3	0.3	0.3	0.4	0.4			
<b>Capital Market Business</b>	<b>3.4</b>	<b>4.1</b>	<b>5.0</b>	<b>2.8</b>	<b>3.5</b>	<b>4.3</b>	<b>-16</b>	<b>-15</b>	<b>-14</b>
<b>Consol. PAT excluding Kotak Life</b>	<b>33.0</b>	<b>45.2</b>	<b>57.6</b>	<b>32.1</b>	<b>45.3</b>	<b>58.9</b>	<b>-2.6</b>	<b>0.3</b>	<b>2.2</b>
<b>Kotak OM Life Insurance</b>	<b>2.3</b>	<b>2.5</b>	<b>2.8</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>			
Consolidation Adjust.	-0.2	-0.1	-0.1	0.2	-0.1	-0.1			
<b>Consol. PAT Including Kotak Life</b>	<b>35.1</b>	<b>47.6</b>	<b>60.2</b>	<b>34.8</b>	<b>48.0</b>	<b>61.8</b>	<b>-0.9</b>	<b>0.9</b>	<b>2.6</b>

Source: MOSL, Company

**Exhibit 12: KMB Group: Earnings Estimates**

	FY11	FY12	FY13	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Kotak Mahindra Bank (Standalone)	11,367	15,414	19,737	21,603	24,776	20,898	31,394	42,114	51,816
Kotak Mahindra Prime	3,179	3,849	4,307	4,907	5,077	5,025	5,686	6,505	7,806
Kotak Mahindra Investments	240	153	336	420	1,060	1,540	1,951	2,425	2,948
<b>Lending Business</b>	<b>14,786</b>	<b>19,415</b>	<b>24,380</b>	<b>26,930</b>	<b>30,914</b>	<b>27,462</b>	<b>39,031</b>	<b>51,045</b>	<b>62,570</b>
International subsidiaries	509	-110	60	70	520	1,050	1,575	2,048	2,662
Kotak Mahindra AMC & Trustee Co	173	154	35	410	-290	720	943	1,207	1,449
Kotak Investment Advisors	327	361	307	180	250	50	250	300	350
<b>Asset Management Business</b>	<b>1,009</b>	<b>405</b>	<b>401</b>	<b>660</b>	<b>480</b>	<b>1,820</b>	<b>2,768</b>	<b>3,555</b>	<b>4,460</b>
Kotak Securities	1,819	1,258	1,145	1,603	2,900	2,515	3,123	3,820	4,670
Kotak Mahindra Capital Company	519	59	167	140	130	320	383	431	517
<b>Capital Market Business</b>	<b>2,338</b>	<b>1,318</b>	<b>1,312</b>	<b>1,743</b>	<b>3,030</b>	<b>2,835</b>	<b>3,506</b>	<b>4,251</b>	<b>5,187</b>
<b>Consol. PAT excluding Kotak Life</b>	<b>18,133</b>	<b>21,137</b>	<b>26,093</b>	<b>29,333</b>	<b>34,423</b>	<b>32,117</b>	<b>45,305</b>	<b>58,850</b>	<b>72,218</b>
YoY Growth (%)	22	17	23	12	17	-7	41	30	23
<b>Kotak OM Life Insurance</b>	<b>1,014</b>	<b>2,030</b>	<b>1,900</b>	<b>2,390</b>	<b>2,290</b>	<b>2,510</b>	<b>2,761</b>	<b>3,037</b>	<b>3,341</b>
Consolidation Adjust.	-294	-282	21	-495	-142	-38	-125	-125	-125
<b>Consol. PAT Including Kotak Life</b>	<b>18,853</b>	<b>22,885</b>	<b>28,014</b>	<b>31,228</b>	<b>36,571</b>	<b>34,589</b>	<b>47,941</b>	<b>61,762</b>	<b>75,433</b>
YoY Growth (%)	23	21	22	11	17	-5	39	29	22

\*Including ING Vysya Bank

Source: MOSL, Company

**Exhibit 13: Kotak Group Earnings Snapshot (% of total)**

	FY11	FY12	FY13	FY14	FY15E	FY16	FY17E	FY18E	FY18E
Kotak Mahindra Bank (Standalone)	60	67	70	69	68	60	65	68	69
Kotak Mahindra Prime	17	17	15	16	14	15	12	11	10
Kotak Mahindra Investments	1	1	1	1	3	4	4	4	4
<b>Lending Business</b>	<b>78</b>	<b>85</b>	<b>87</b>	<b>86</b>	<b>85</b>	<b>79</b>	<b>81</b>	<b>83</b>	<b>83</b>
International subsidiaries	3	0	0	0	1	3	3	3	4
Kotak Mahindra AMC & Trustee Co	1	1	0	1	-1	2	2	2	2
Kotak Investment Advisors	2	2	1	1	1	0	1	0	0
<b>Asset Management Business</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>
Kotak Securities	10	5	4	5	8	7	7	6	6
Kotak Mahindra Capital Company	3	0	1	0	0	1	1	1	1
<b>Capital Market Business</b>	<b>12</b>	<b>6</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Consol. PAT excluding Kotak Life</b>	<b>96</b>	<b>92</b>	<b>93</b>	<b>94</b>	<b>94</b>	<b>93</b>	<b>95</b>	<b>95</b>	<b>96</b>
<b>Kotak OM Life Insurance</b>	<b>5</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>4</b>
<b>Consol. PAT Including Kotak Life</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*Including ING Vysya Bank

Source: MOSL, Company



## Exhibit 14: Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		ABV (INR)		P/ABV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
ICICI* <sup>*</sup>	Buy	224	19.7	18.1	20.8	8.6	6.2	145	159	0.99	0.81	122	137	1.27	1.04	1.19	1.22	11.1	11.8
HDFCB	Buy	1,138	43.6	58.5	70.3	19.4	16.2	332	386	3.42	2.95	327	379	3.48	3.00	1.88	1.85	18.9	19.6
AXSB	Buy	498	18.0	35.0	41.0	14.3	12.2	251	285	1.98	1.75	234	266	2.13	1.88	1.45	1.43	14.7	15.2
KMB*	Buy	731	20.3	26.1	33.7	28.0	21.7	207	239	3.53	3.06	207	239	3.53	3.06	1.50	1.70	13.9	14.8
YES	Buy	956	6.1	74.6	91.8	12.8	10.4	387	460	2.47	2.08	383	459	2.50	2.08	1.71	1.72	20.9	21.7
IIB	Buy	1,053	9.5	50.5	63.8	20.8	16.5	334	389	3.15	2.71	329	383	3.20	2.75	1.92	1.96	16.2	17.6
IDFC Bk	Buy	46	2.4	3.0	4.1	15.5	11.2	42	46	1.09	1.02	40	43	1.16	1.08	1.09	1.12	7.2	9.4
FB	Neutral	49	1.3	3.7	4.5	13.0	10.8	50	53	0.97	0.91	46	50	1.05	0.97	0.64	0.65	7.7	8.7
DCBB	Buy	92	0.4	7.1	8.4	12.9	11.0	69	77	1.33	1.19	65	72	1.41	1.27	0.94	0.90	10.9	11.5
JKBK	Neutral	64	0.5	18.0	21.6	3.6	3.0	152	168	0.42	0.38	137	156	0.47	0.41	1.02	1.07	12.4	13.5
SIB	Buy	18	0.4	3.1	3.7	5.9	4.9	31	34	0.58	0.53	28	30	0.65	0.59	0.58	0.61	10.3	11.4
<b>Private Aggregate</b>			<b>122.1</b>			<b>17.5</b>	<b>14.7</b>			<b>2.36</b>	<b>2.09</b>								
SBIN (cons)*	Buy	185	21.8	24.1	28.7	7.7	6.4	243	266	0.72	0.65	193	226	0.90	0.77	0.61	0.64	10.2	11.3
PNB	Neutral	80	2.4	16.8	21.6	4.7	3.7	220	239	0.36	0.33	122	139	0.65	0.57	0.48	0.55	7.9	9.4
BOI	Neutral	87	1.0	4.0	18.7	21.6	4.6	318	334	0.27	0.26	179	232	0.48	0.37	0.05	0.19	1.3	5.7
BOB	Buy	157	5.5	16.4	20.7	9.6	7.6	171	187	0.92	0.84	126	153	1.25	1.02	0.49	0.55	9.9	11.5
CBK	Neutral	187	1.5	47.3	55.2	4.0	3.4	584	626	0.32	0.30	396	458	0.47	0.41	0.41	0.43	8.4	9.1
UNBK	Buy	117	1.2	28.2	38.4	4.1	3.0	323	354	0.36	0.33	209	240	0.56	0.49	0.45	0.54	9.1	11.3
OBC	Neutral	85	0.4	25.0	32.2	3.4	2.6	458	483	0.19	0.18	271	310	0.31	0.27	0.29	0.33	5.6	6.8
INBK	Buy	90	0.7	22.5	28.3	4.0	3.2	310	331	0.29	0.27	257	287	0.35	0.31	0.50	0.55	7.5	8.8
ANDB	Buy	51	0.5	22.8	27.9	2.3	1.8	196	216	0.26	0.24	174	198	0.30	0.26	0.62	0.65	12.2	13.6
IDBI	Neutral	68	1.9	5.7	8.7	11.8	7.8	125	132	0.54	0.51	87	97	0.78	0.70	0.29	0.39	4.7	6.8
<b>Public Aggregate</b>			<b>36.9</b>			<b>7.7</b>	<b>6.0</b>			<b>0.59</b>	<b>0.55</b>								
<b>Banks Aggregate</b>			<b>159.0</b>			<b>13.5</b>	<b>11.0</b>			<b>1.40</b>	<b>1.27</b>								
HDFC*	Buy	1,204	28.8	36.3	41.9	21.9	17.3	192	216	3.77	3.01	192	216	4.48	3.67	1.89	1.90	20.0	20.1
LICHF	Buy	452	3.5	40.1	48.6	11.3	9.3	213	252	2.12	1.79	212	251	2.13	1.80	1.51	1.51	20.4	20.9
IHFL	Buy	682	4.4	67.6	82.0	10.1	8.3	302	336	2.26	2.03	302	336	2.26	2.03	3.84	3.69	23.4	25.7
GRHF	Buy	251	1.4	8.3	10.7	30.2	23.6	28	35	8.86	7.12	28	35	8.86	7.12	2.33	2.34	32.4	33.5
REPCO	Buy	634	0.6	30.3	39.0	20.9	16.3	179	214	3.53	2.96	179	214	3.53	2.96	2.14	2.17	18.2	19.8
DEWH	Buy	197	0.9	29.4	36.2	6.7	5.5	194	221	1.02	0.89	193	221	1.02	0.89	1.18	1.20	16.1	17.4
<b>Housing Finance</b>			<b>39.5</b>			<b>19.5</b>	<b>16.5</b>			<b>3.73</b>	<b>3.31</b>								
RECL	Neutral	165	2.5	44.1	50.5	3.7	3.3	332	370	0.50	0.44	332	370	0.50	0.44	1.90	1.88	14.0	14.4
POWF	Neutral	164	3.3	41.6	43.0	3.9	3.8	310	341	0.53	0.48	310	341	0.53	0.48	2.07	1.85	14.1	13.2
<b>Infra Finance</b>			<b>5.7</b>			<b>3.8</b>	<b>3.6</b>			<b>0.52</b>	<b>0.47</b>								
SHTF	Buy	1,083	3.7	75.5	94.2	14.4	11.5	507	581	2.14	1.86	506	579	2.14	1.87	2.17	2.27	15.7	17.1
MMFS	Buy	300	2.6	15.5	18.8	19.3	15.9	119	133	2.52	2.26	107	123	2.80	2.45	2.14	2.26	13.7	15.0
BAF	Buy	7,479	6.0	302.9	366.4	24.7	20.4	1,622	1,928	4.61	3.88	1,622	1,928	4.61	3.88	3.04	2.79	20.3	20.6
MUTH	Buy	203	1.2	24.8	31.8	8.2	6.4	156	177	1.30	1.15	151	171	1.34	1.18	2.96	3.22	16.8	19.2
SKSM	Buy	587	1.1	34.7	49.3	16.9	11.9	142	179	4.14	3.27	142	179	4.14	3.27	4.76	4.91	27.9	30.7
<b>Asset Finance</b>			<b>14.7</b>			<b>17.2</b>	<b>13.8</b>			<b>2.69</b>	<b>2.44</b>								
<b>NBFC Aggregate</b>			<b>59.9</b>			<b>13.7</b>	<b>11.8</b>			<b>2.20</b>	<b>1.98</b>								
<b>Financials</b>			<b>218.9</b>			<b>13.6</b>	<b>11.2</b>			<b>1.55</b>	<b>1.41</b>								

\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Source: MOSL, Company

## Financials and valuations (KMB+EIVBL - Proforma-merged)

Income Statement		(INR Million)						
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Interest Income	100,370	129,041	139,722	155,677	163,842	180,801	211,056	251,322
Interest Expense	63,162	81,598	84,991	93,876	94,838	102,646	115,904	136,185
<b>Net Interest Income</b>	<b>37,208</b>	<b>47,443</b>	<b>54,731</b>	<b>61,800</b>	<b>69,004</b>	<b>78,155</b>	<b>95,152</b>	<b>115,137</b>
Change (%)	19.9	27.5	15.4	12.9	11.7	13.3	21.7	21.0
Non Interest Income	16,471	18,875	22,668	29,119	26,122	34,519	42,684	51,123
<b>Net Income</b>	<b>53,679</b>	<b>66,318</b>	<b>77,399</b>	<b>90,919</b>	<b>95,126</b>	<b>112,674</b>	<b>137,837</b>	<b>166,260</b>
Change (%)	18.2	23.5	16.7	17.5	4.6	18.4	22.3	20.6
Operating Expenses	29,450	34,825	40,353	48,711	54,715	56,769	65,294	77,047
<b>Pre Provision Profits</b>	<b>24,229</b>	<b>31,493</b>	<b>37,046</b>	<b>42,208</b>	<b>40,411</b>	<b>55,905</b>	<b>72,543</b>	<b>89,213</b>
Change (%)	23.6	30.0	17.6	13.9	-4.3	38.3	29.8	23.0
Provisions (excl tax)	1,688	2,758	4,545	4,723	9,174	7,976	8,246	10,106
<b>PBT</b>	<b>22,541</b>	<b>28,735</b>	<b>32,501</b>	<b>37,486</b>	<b>31,237</b>	<b>47,929</b>	<b>64,296</b>	<b>79,108</b>
Tax	7,127	8,998	10,898	12,710	10,339	16,536	22,182	27,292
Tax Rate (%)	31.6	31.3	33.5	33.9	33.1	34.5	34.5	34.5
<b>PAT</b>	<b>15,414</b>	<b>19,737</b>	<b>21,603</b>	<b>24,776</b>	<b>20,898</b>	<b>31,394</b>	<b>42,114</b>	<b>51,816</b>
Change (%)	35.6	28.0	9.5	14.7	-15.7	50.2	34.1	23.0
<b>Consolidated PAT (incl VYSB)</b>	<b>22,885</b>	<b>28,014</b>	<b>31,228</b>	<b>36,571</b>	<b>34,777</b>	<b>47,941</b>	<b>61,762</b>	<b>75,433</b>
Change (%)	21.4	22.4	11.5	17.1	-4.9	37.9	28.8	22.1

Balance Sheet		(INR Million)						
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net Worth</b>	<b>123,309</b>	<b>144,646</b>	<b>197,401</b>	<b>220,521</b>	<b>239,625</b>	<b>269,190</b>	<b>308,851</b>	<b>357,648</b>
<b>Deposits</b>	<b>737,319</b>	<b>923,628</b>	<b>1,002,891</b>	<b>1,240,148</b>	<b>1,386,430</b>	<b>1,663,716</b>	<b>1,996,459</b>	<b>2,395,751</b>
Change (%)	24.0	25.3	8.6	23.7	11.8	20.0	20.0	20.0
<b>of which CASA Dep</b>	<b>244,498</b>	<b>283,534</b>	<b>325,865</b>	<b>412,995</b>	<b>527,770</b>	<b>648,072</b>	<b>796,120</b>	<b>978,387</b>
Change (%)	27.0	16.0	14.9	26.7	27.8	22.8	22.8	22.9
Borrowings	222,920	269,219	225,641	205,411	209,753	230,729	265,338	305,139
Other Liabilities & Prov.	43,125	47,809	54,053	67,119	86,790	104,148	124,977	149,972
<b>Total Liabilities</b>	<b>1,126,673</b>	<b>1,385,301</b>	<b>1,479,986</b>	<b>1,733,198</b>	<b>1,922,598</b>	<b>2,267,782</b>	<b>2,695,625</b>	<b>3,208,510</b>
Current Assets	58,651	65,226	118,060	97,457	108,797	150,288	162,658	169,847
<b>Investments</b>	<b>342,823</b>	<b>471,517</b>	<b>422,053</b>	<b>513,313</b>	<b>512,602</b>	<b>563,862</b>	<b>620,249</b>	<b>682,274</b>
Change (%)	21.7	37.5	-10.5	21.6	-0.1	10.0	10.0	10.0
<b>Loans</b>	<b>678,159</b>	<b>802,410</b>	<b>888,565</b>	<b>1,069,718</b>	<b>1,186,653</b>	<b>1,423,984</b>	<b>1,765,740</b>	<b>2,189,517</b>
Change (%)	28.1	18.3	10.7	20.4	10.9	20.0	24.0	24.0
Fixed Assets	9,508	9,640	16,315	16,204	15,516	15,764	16,012	16,261
Other Assets	37,532	36,508	34,994	36,507	99,030	113,884	130,967	150,612
<b>Total Assets</b>	<b>1,126,673</b>	<b>1,385,301</b>	<b>1,479,986</b>	<b>1,733,198</b>	<b>1,922,598</b>	<b>2,267,782</b>	<b>2,695,625</b>	<b>3,208,510</b>

Asset Quality		(%)						
GNPA (INR m)	11,771	13,283	17,037	22,884	28,381	31,862	33,357	37,672
NNPA (INR m)	2,899	3,205	6,756	10,722	12,620	14,338	15,011	16,952
GNPA Ratio	1.71	1.63	1.90	2.12	2.36	2.21	1.87	1.70
NNPA Ratio	0.43	0.40	0.76	1.00	1.06	1.01	0.85	0.77
PCR (Excl Tech. write off)	75.4	75.9	60.3	53.1	55.5	55.0	55.0	55.0

E: MOSL Estimates

## Financials and valuations (KMB+EIVBL - Proforma-merged)

### Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Spreads Analysis (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>10.8</b>	<b>11.0</b>	<b>10.5</b>	<b>10.5</b>	<b>9.8</b>	<b>9.6</b>	<b>9.5</b>	<b>9.4</b>
Avg. Yield on loans	12.8	13.1	12.4	12.0	11.1	10.8	10.5	10.3
Avg. Yield on Investments	7.3	7.8	7.7	7.7	6.7	6.5	6.3	6.3
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>7.4</b>	<b>7.6</b>	<b>7.0</b>	<b>7.0</b>	<b>6.2</b>	<b>5.9</b>	<b>5.6</b>	<b>5.5</b>
Avg. Cost of Deposits	7.0	7.1	6.8	6.8	5.7	5.3	5.0	5.0
<b>Interest Spread</b>	<b>3.4</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>3.9</b>
<b>Net Interest Margin</b>	<b>4.0</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>

### Profitability Ratios (%)

RoE	14.0	14.8	12.7	11.9	9.1	12.3	14.6	15.5
RoA	1.5	1.6	1.5	1.5	1.1	1.5	1.7	1.8
Consolidated ROE	14.8	15.0	13.4	13.0	11.0	13.4	15.1	15.9

### Other Ratios (%)

Int. Expense/Int.Income	62.9	63.2	60.8	60.3	57.9	56.8	54.9	54.2
Non Int. Inc./Net Income	30.7	28.5	29.3	32.0	27.5	30.6	31.0	30.7
Cost/Income	54.9	52.5	52.1	53.6	57.5	50.4	47.4	46.3
Empl. Cost/Op. Exps.	51.7	52.4	51.4	48.9	51.2	49.7	48.4	48.4
Loans/Deposit Ratio	92.0	86.9	88.6	86.3	85.6	85.6	88.4	91.4
CASA Ratio	33.2	30.7	32.5	33.3	38.1	39.0	39.9	40.8
Investment/Deposit Ratio	46.5	51.1	42.1	41.4	37.0	33.9	31.1	28.5

### Valuation

Standalone Book Value (INR)	56.1	65.8	82.2	120.4	130.6	146.7	168.4	195.0
Change (%)					8.5	12.3	14.7	15.8
Consolidated BV (INR)	89.6	104.6	126.3	164.5	181.8	207.0	239.4	278.9
Change (%)					10.5	13.9	15.6	16.5
Price-BV (x)				4.4	4.0	3.5	3.0	2.6
Consolidated EPS (INR)	12.4	14.7	16.0	20.1	19.0	26.1	33.7	41.1
Change (%)					-5.5	37.9	28.8	22.1
Price-Earnings (x)				36.4	38.5	27.9	21.7	17.8
Dividend Per Share (INR)	0.2	0.2	0.2	0.4	0.5	0.9	1.1	1.4
Dividend Yield (%)				0.0	0.0	0.1	0.1	0.1

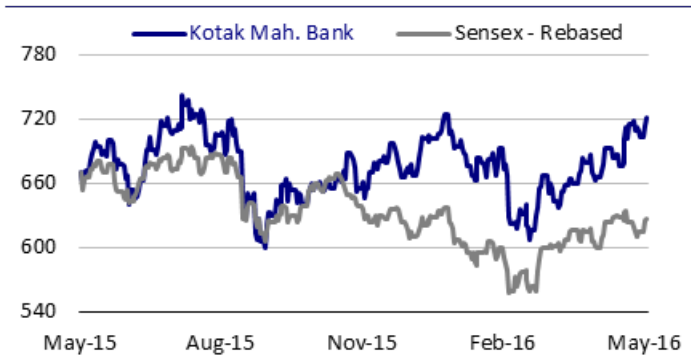
E: MOSL Estimates

## Corporate profile: Kotak Mahindra Bank

### Company description

Kotak Mahindra Bank (KMB) is part of the larger Kotak Mahindra Group led by Mr. Uday Kotak, Founder and Managing Director of the Bank. The group has a strong presence across financial services value chain. Notably, KMB is the only bank in India's corporate history to be converted into a bank from a non-banking finance company. The bank has pan-India presence with 1,333 branches and 2,032 ATMs as on March 31, 2016. In 2015, KMB merged with EIVBL in an all-stock deal.

### Exhibit 10: Sensex rebased



### Exhibit 15: Shareholding pattern (%)

	Mar-16	Dec-15	Mar-15
Promoter	33.7	33.7	40.0
DII	4.7	4.6	1.9
FII	35.9	34.6	37.0
Others	25.7	27.1	21.1

Note: FII Includes depository receipts

### Exhibit 17: Top management

Name	Designation
Uday Kotak	Executive Vice Chairman & MD
C Jayaram	Joint Managing Director
Dipak Gupta	Joint Managing Director
Jaimin Bhatt	CFO
Shanti Ekambaram	President Corporate and IB

### Exhibit 16: Top holders

Holder Name	% Holding
ING MAURITIUS INVESTMENT I	6.4
EUROPACIFIC GROWTH FUND	5.0
CANADA PENSION PLAN INVESTMENT BOARD	4.9
ANURADHA MAHINDRA	2.7
SUMITOMO MITSUI BANKING CORPORATION	1.8

### Exhibit 18: Directors

Name	Name
Shankar Acharya*	Prakash Apte*
C Jayaram	N P Sarda
Dipak Gupta	Uday Kotak
Asim Ghosh*	S Mahendra Dev*
Amit Desai*	Farida Khambata

\*Independent

### Exhibit 19: Auditors

Name	Type
S B Billimoria & Co	Statutory

### Exhibit 20: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	19.0	19.1	-0.4
FY17	26.1	26.7	-2.2
FY18	33.7	32.7	3.2

NOTES

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### Kotak Mahindra Bank

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No  
No

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar

[Varun.kumar@motilaloswal.com](mailto:Varun.kumar@motilaloswal.com)

Contact: (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran

[kadambari.balachandran@motilaloswal.com](mailto:kadambari.balachandran@motilaloswal.com)

(+65) 68189233 / 65249115



## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: [reports@motilaloswal.com](mailto:reports@motilaloswal.com)