

Kotak Mahindra Bank

Refer to important disclosures at the end of this report

Strong growth/margin delivery, but treasury/opex led to earnings miss

- Kotak Mahindra Bank reported a 12% miss on PAT at Rs20.7bn, mainly due to an MTM hit on treasury (Rs8.5bn) and higher opex due to higher investments/business-related expenses, partly offset by lower provisions as the bank continues to draw down contingent provisions as it gains more confidence on the asset-quality front.
- The bank continued to clock strong credit growth - up 29% yoy/3% qoq, mainly led by mortgages, unsecured loans and vehicle loans. SA growth was lower at 6% yoy, prompting it to raise SA rates, reversing earlier stance to stay put. But, the bank surprised positively on margins - up 14bps qoq to 4.9% on better LDR/sharp drop in borrowings.
- Higher slippages, at Rs14.4bn/2.6% of loans, were mainly due to the change in RBI norms on out-of-order a/cs, of which >50% (Rs7.8bn) was upgraded in Q1 itself, leading to a 10bps contraction in GNPA to 2.2%. Management remains confident about asset quality and expects the LLP to remain low in FY23, including consumption of Covid provisions.
- We expect the bank to deliver 2-2.1% RoA on the back of accelerating growth and lower LLP, with RoE of around 13-14% over FY23-25E due to its elevated capital levels. Retain Buy with a TP of Rs2,180 based on standalone P/ABV of 3.5x Jun'24E ABV and subsidiaries' value of Rs620 per share. Retain Buy.

- **Sustained strong delivery on growth/NIMs, but SA growth disappoints:** Overall credit growth accelerated to 29% yoy/3% qoq, mainly led by strong traction in mortgages, unsecured loans and even vehicle loans. Corporate growth remained sluggish at 11% yoy/flat qoq. SA growth too was sluggish at 6% yoy, which we believe would have prompted the bank to raise SA rate, reversing its earlier stance of not raising SA rates. However, NIM surprised positively with a 14bps uptick despite the recent increase in SA rates, mainly led by a higher LDR of 89% and a sharp drop in high-cost borrowings. KMB has guided for sustained healthy credit growth, mainly led by retail and a clear focus on risk-adjusted earnings. Management believes that its strong liability profile, including a high CASA ratio (58%), should help it manage costs well in a rising interest rate scenario.
- **Higher slippages but NPAs decline due to better recovery:** Despite elevated slippages at Rs14.4bn/2.6% due to the change in RBI norms on out-of-order a/cs, of which >50% (Rs7.8bn) got upgraded in Q1 itself, leading to a 10bps qoq improvement in GNPA ratio to 2.2%. The cumulative restructured pool declined to Rs10.7bn (0.4% of loans), which is one of the lowest among large peers. KMB continued to draw down its contingent buffer (Rs0.6bn), which now stands at Rs4.8bn, or 0.17% of loans (vs. 0.9%/0.7% for ICICI/HDFCB). KMB remains confident of lower LLP in FY23 as NPAs continue to decline.
- **Outlook and valuation:** We expect the bank to deliver 2-2.1% RoA on the back of accelerating growth and lower LLP, while RoE should be around 13-14% due to its elevated capital levels. Retain Buy with a TP of Rs2,180 based on standalone P/ABV of 3.5x Jun'24E ABV and subsidiaries' value of Rs620 per share. Maintain Buy. **Key risks:** Significant macro-slowdown leading to derailment of growth trajectory, and top management attrition.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	2,03,460	2,31,722	2,66,470	3,24,413	3,83,561
Net profit	69,648	85,726	96,831	1,11,584	1,32,056
EPS (Rs)	35.8	43.2	48.8	56.2	66.5
ABV (Rs)	314.3	356.4	398.4	441.6	492.4
RoA (%)	1.9	2.1	2.1	2.1	2.0
RoE (%)	12.5	12.7	12.7	13.2	14.0
PE (x)	33.7	27.9	24.7	21.4	18.1
P/ABV	3.9	3.4	3.1	2.8	2.5

Source: Company, Emkay Research

CMP	Target Price
Rs 1,827 as of (July 23, 2022)	Rs 2,180 (■) 12 months
Rating	Upside
BUY (■)	19.3 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-(0.2)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	48.8	56.2
Consensus	50.0	58.9
Mean Consensus TP (12M)	Rs 2,063	

Stock Details

Bloomberg Code	KMB IN	
Face Value (Rs)	5	
Shares outstanding (mn)	1,985	
52 Week H/L	2,253 / 1,626	
M Cap (Rs bn/USD bn)	3,628 / 45.43	
Daily Avg Volume (nos.)	31,82,447	
Daily Avg Turnover (US\$ mn)	71.2	

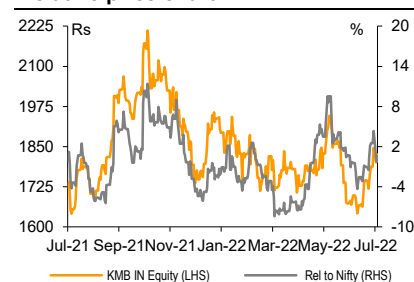
Shareholding Pattern Mar '22

Promoters	26.0%
FIIIs	40.9%
DIIIs	16.6%
Public and Others	16.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	6	(4)	7
Rel. to Nifty	1	9	2	1

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Heet Khimawat

heet.khimawat@emkayglobal.com
+91 22 6612 1275

Dixit Sankharva

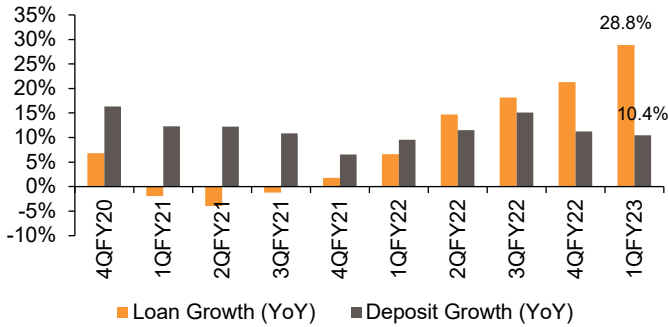
dixit.sankharva@emkayglobal.com
+91 22 6612 1281

Soumya Jain

soumya.jain@emkayglobal.com
+91 22 6612 1262

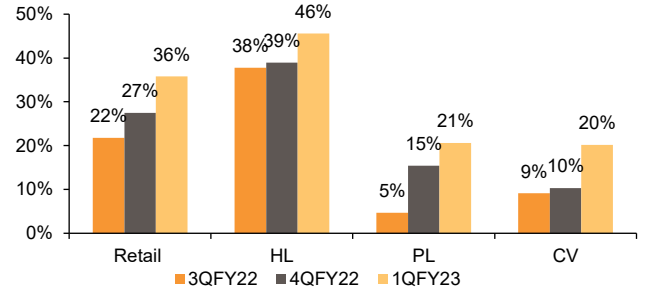
Story in Charts

Exhibit 1: Credit growth remains robust, led by mortgages, unsecured loans and consumer banking



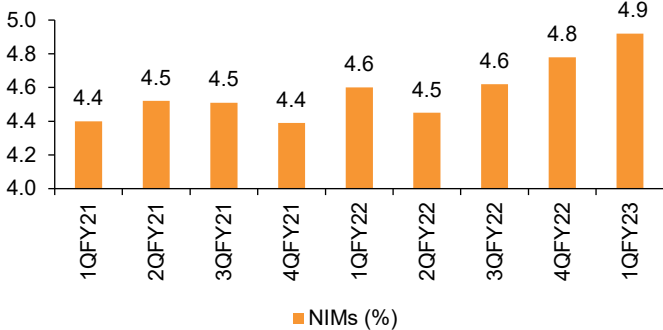
Source: Company, Emkay Research

Exhibit 2: Mortgages continue to grow at a strong clip, while cards/PL and VL too are picking up pace



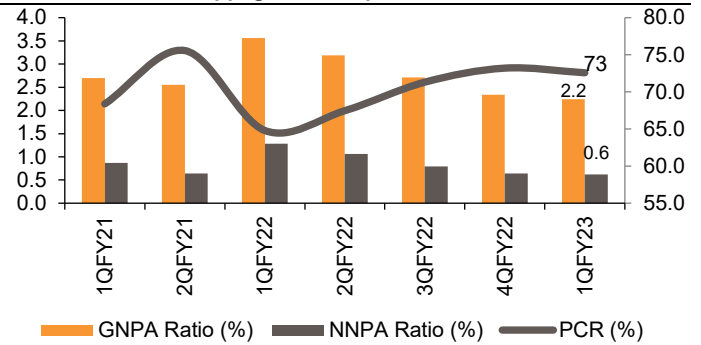
Source: Company, Emkay Research

Exhibit 3: NIMs were up 17bps qoq due to better LDR/lower CoF



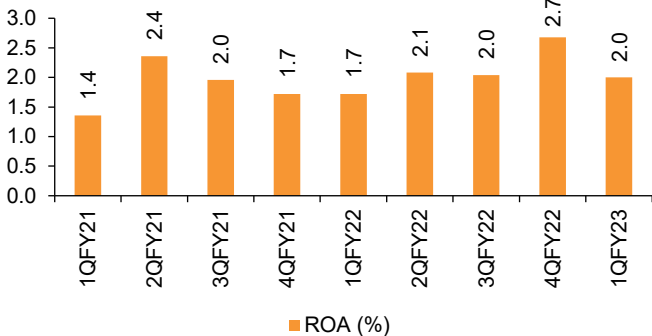
Source: Company, Emkay Research

Exhibit 4: Despite higher slippages, GNPA ratio declined due to recoveries from Q1 slippages in the quarter itself



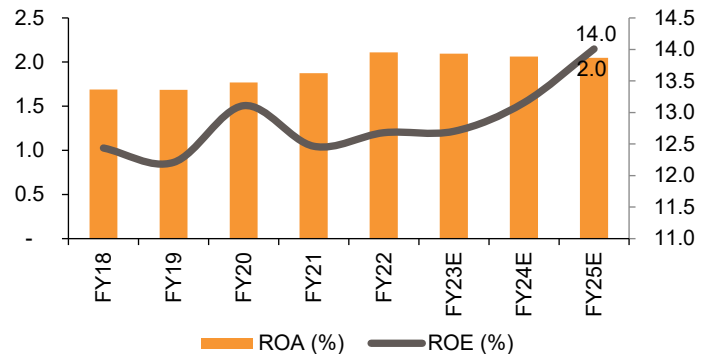
Source: Company, Emkay Research

Exhibit 5: ROA remains strong led by healthy delivery on growth/margins and provision reversal



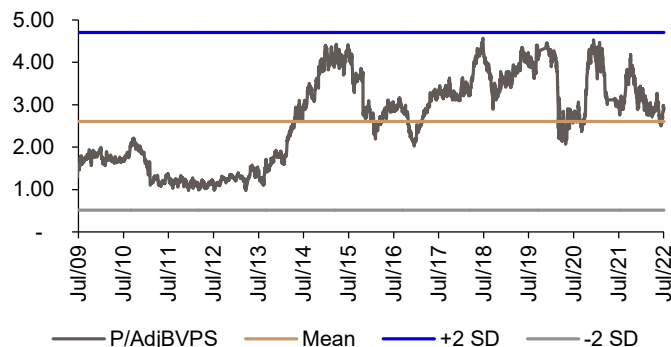
Source: Emkay Research

Exhibit 6: RoE to improve gradually led by better growth/RoAs and leverage, but remains sub-par vs. peers



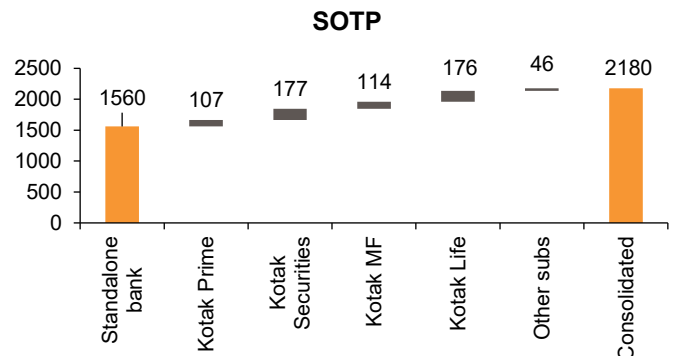
Source: Company, Emkay Research

Exhibit 7: The stock trades at 2.9x 1-Year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 8: SOTP Valuation (Rs/share)



Source: Emkay Research

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Exhibit 9: Actual vs. Estimates (Q1FY23)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	59,408	61,444	62,725	-3%	-5%	Higher MTM losses led to a miss
PPOP	27,833	32,794	27,259	-15%	2%	Higher than expected opex led to miss
PAT	20,712	23,524	21,781	-12%	-5%	Lower PPOP offset by lower LLPs resulted in a miss

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

(Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22A	FY23E	YoY (%)
Interest Earned	64,798	65,963	68,968	70,659	73,385	13.3	3.9	2,70,388	3,19,761	18.3
Interest Exp	25,381	25,757	25,625	25,445	26,415	4.1	3.8	1,02,209	1,24,105	21.4
Net Interest Income	39,417	40,206	43,343	45,214	46,970	19.2	3.9	1,68,179	1,95,655	16.3
Global NIMs (reported)	4.60	4.45	4.62	4.78	4.92	32bps	14bps	4.32	4.41	9bps
Non-interest Income	13,518	18,126	13,637	18,263	12,438	-8.0	-31.9	63,544	70,815	11.4
Operating Expenses	24,036	27,130	29,970	30,078	31,575	31.4	5.0	1,11,214	1,29,439	16.4
Pre Provisioning Profit	28,899	31,202	27,010	33,399	27,833	-3.7	-16.7	1,20,508	1,37,031	13.7
Provision & Contingencies	7,035	4,240	-1,317	-3,062	236	-96.6	-107.7	6,896	7,751	12.4
PBT	21,864	26,962	28,327	36,461	27,597	26.2	-24.3	1,13,612	1,29,280	13.8
Income Tax Expense (Gain)	5,444	6,642	7,014	8,787	6,885	26.5	-21.6	27,886	32,449	16.4
Net Profit/(Loss)	16,420	20,320	21,314	27,674	20,712	26.1	-25.2	85,726	96,831	13.0
Gross NPA (%)	3.56	3.19	2.71	2.34	2.24	-132bps	-10bps	2.34	1.85	-49bps
Net NPA (%)	1.28	1.06	0.79	0.64	0.62	-66bps	-2bps	0.64	0.56	-8bps
Deposits (Rs in bn)	2,866	2,917	3,053	3,117	3,165	10.4	1.5	3,117	3,645	16.9
Net Advances (Rs in bn)	2,175	2,350	2,529	2,713	2,802	28.8	3.3	2,713	3,323	22.5

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	2,70,163	2,66,470	-1.4%	3,20,545	3,24,413	1.2%	3,80,007	3,83,561	0.9%
PPOP	1,45,558	1,37,031	-5.9%	1,77,809	1,72,465	-3.0%	2,15,077	2,06,724	-3.9%
PAT	96,841	96,831	0.0%	1,11,832	1,11,584	-0.2%	1,32,096	1,32,056	0.0%
EPS (Rs)	48.8	48.8	0.0%	56.3	56.2	-0.2%	66.6	66.5	0.0%
BV (Rs)	406.5	405.5	-0.2%	450.4	449.2	-0.3%	501.9	500.8	-0.2%

Source: Emkay Research

Exhibit 12: Key assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	20.8	22.0	20.0	20.0
Deposit Growth %	11.3	16.9	17.0	18.1
NIM %	4.3	4.4	4.4	4.4
GNPA %	2.3	1.9	1.7	1.5
Credit Cost %	0.4	0.3	0.6	0.7
Yield on Advances %	7.9	8.2	8.3	8.5
Cost of Deposits %	3.3	3.5	3.8	4.0

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Loans (Rs bn)	2,197	2,040	2,048	2,141	2,237	2,175	2,350	2,529	2,713	2,802
YoY growth (%)	6.8	-1.9	-4.0	-1.2	1.8	6.6	14.7	18.1	21.3	28.8
QoQ growth (%)	1.4	-7.2	0.4	4.5	4.5	-2.8	8.0	7.6	7.2	3.3
Composition %										
- Corporate	38.6	37.3	36.2	36.7	26.8	27.7	35.4	26.9	24.6	23.8
- Retail & Agri	61.4	62.7	63.8	63.1	64.1	64.8	64.6	64.1	66.2	67.2
Liability Profile & Margins										
Deposits (Rs bn)	2,628	2,615	2,616	2,653	2,801	2,866	2,917	3,053	3,117	3,165
YoY growth (%)	16.4	12.3	12.2	10.8	6.6	9.6	11.5	15.1	11.3	10.4
QoQ growth (%)	9.8	-0.5	0.0	1.4	5.6	2.3	1.8	4.7	2.1	1.5
CASA %	56.2	56.7	57.1	58.9	60.4	60.2	60.6	59.9	60.7	58.1
CA %	16.4	14.8	15.5	16.6	18.6	18.3	18.3	18.7	20.7	18.0
SA %	39.8	42.0	41.7	42.3	41.9	41.9	42.3	41.2	39.9	40.1
NIM %	4.7	4.4	4.5	4.5	4.4	4.6	4.5	4.6	4.8	4.9
Branches	1,600	1,600	1,602	1,603	1,604	1,612	1,622	1,647	1,700	1,702
Asset Quality (Rs mn)										
Gross NPA (Opening Balance)	54,132	50,269	56,193	53,360	49,280	74,255	79,318	76,579	69,828	64,697
GNPA	50,269	56,193	53,360	49,280	74,255	79,318	76,579	69,828	64,697	63,786
GNPA %	2.3	2.7	2.7	3.2	3.2	3.2	3.2	3.2	3.2	4.2
NPA	15,579	17,771	13,038	10,640	27,052	27,923	24,914	20,035	17,367	17,493
NNPA %	0.7	0.9	0.7	1.2	1.2	1.2	1.2	1.2	1.2	2.2
PCR %	68.4	67.8	72.6	61.3	61.3	61.3	61.3	61.3	61.3	46.7
Slippages (Rs mn)	4,910	7,960	2,640	19,000	24,400	15,000	12,930	7,500	7,360	14,350
Slippages % (annualized)	0.9%	1.6%	0.5%	3.5%	4.4%	2.8%	2.2%	1.2%	1.1%	2.0%
Capital Adequacy (%)										
CAR	17.9	21.2	23.4	21.5	23.4	23.7	21.8	23.3	23.7	22.8
Tier I	17.3	20.6	22.8	20.8	22.6	22.8	20.8	22.4	21.7	21.6
ROE Decomposition (%)										
NII	4.2	4.0	4.2	4.2	4.0	4.1	4.0	4.2	4.3	4.4
Other Income (Ex Treasury)	1.7	0.8	1.5	1.4	1.6	1.4	1.8	1.8	1.7	2.0
Treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.0	-0.8
Opex	2.7	2.0	2.2	2.4	2.5	2.5	2.7	2.9	2.8	3.0
PPOP	3.2	2.8	3.5	3.2	3.1	3.0	3.1	2.6	3.2	2.6
Provisioning Cost	1.2	1.0	0.4	0.6	0.8	0.7	0.4	-0.1	-0.3	0.0
PBT	2.0	1.8	3.1	2.6	2.3	2.2	2.7	2.7	3.4	2.6
ROA	1.5	1.3	2.3	2	2	2	2	2	3	2
ROE	10.3	8.6	14.7	12.0	10.6	10.0	12.1	12.2	15.3	11.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	1,53,395	1,68,179	1,95,655	2,28,853	2,71,849
Other income	50,065	63,544	70,815	95,560	1,11,712
Fee income	33,841	41,286	52,020	62,944	75,533
Net income	2,03,460	2,31,722	2,66,470	3,24,413	3,83,561
Operating expenses	85,841	1,11,214	1,29,439	1,51,948	1,76,837
Pre provision profit	1,17,619	1,20,508	1,37,031	1,72,465	2,06,724
PPP excl treasury	1,14,894	1,21,871	1,46,031	1,69,765	2,03,214
Provisions	24,590	6,896	7,751	23,487	30,414
Profit before tax	93,029	1,13,612	1,29,280	1,48,978	1,76,310
Tax	23,381	27,886	32,449	37,393	44,254
Tax rate	25	25	25	25	25
Profit after tax	69,648	85,726	96,831	1,11,584	1,32,056

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	9,909	9,923	9,923	9,923	9,923
Reserves	6,22,382	7,09,955	7,94,877	8,81,654	9,83,940
Net worth	6,32,291	7,19,878	8,04,801	8,91,577	9,93,863
Deposits	28,01,000	31,16,841	36,44,681	42,65,868	50,38,715
Borrowings	2,31,946	2,54,111	2,28,700	2,51,570	2,76,727
Total liabilities	38,34,699	42,94,284	49,40,382	58,84,649	70,09,008
Cash and bank	1,24,936	4,29,240	4,37,825	4,46,581	4,91,239
Investments	10,50,991	10,05,802	9,95,528	11,40,867	13,17,744
Loans	22,36,701	27,12,536	33,23,316	39,93,188	47,96,865
Others	1,35,390	1,30,269	1,57,900	2,10,519	2,86,486
Total assets	38,34,699	42,94,284	49,40,382	58,84,649	70,09,008

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	4.3	4.3	4.4	4.4	4.4
Non-ll/avg assets	1.3	1.6	1.5	1.8	1.7
Fee income/avg assets	0.9	1.0	1.1	1.2	1.2
Opex/avg assets	2.3	2.7	2.8	2.8	2.7
Provisions/avg assets	0.7	0.2	0.2	0.4	0.5
PBT/avg assets	2.5	2.8	2.8	2.8	2.7
Tax/avg assets	0.6	0.7	0.7	0.7	0.7
RoA	1.9	2.1	2.1	2.1	2.0
RoAE	12.5	12.7	12.7	13.2	14.0
GNPA (%)	3.3	2.3	1.9	1.7	1.5
NNPA (%)	1.2	0.6	0.6	0.5	0.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	35.8	43.2	48.8	56.2	66.5
BVPS	324.7	363.0	405.5	449.2	500.8
ABVPS	314.3	356.4	398.4	441.6	492.4
DPS	0.9	1.1	6.0	12.5	15.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	33.7	27.9	24.7	21.4	18.1
P/BV	3.9	3.4	3.1	2.8	2.5
P/ABV	4.1	3.5	3.1	2.8	2.5
P/PPOP	30.8	30.1	26.4	21.0	17.5
Dividend Yield (%)	0.1	0.1	0.3	0.7	0.8

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	13.6	9.6	16.3	17.0	18.8
PPOP	17.4	2.5	13.7	25.9	19.9
PAT	17.1	23.1	13.0	15.2	18.3
Loans	1.8	21.3	22.5	20.2	20.1

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	39,417	40,206	43,343	45,214	46,970
NIM(%)	4.6	4.5	4.6	4.8	4.9
PPOP	28,899	31,202	27,010	33,399	27,833
PAT	16,420	20,320	21,314	27,674	20,712
EPS (Rs)	8.29	10.25	10.75	13.96	10.45

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	26.0	26.0	26.0	26.0	26.0
FII	44.2	42.8	42.6	42.1	40.9
DII	13.5	14.6	15.3	15.5	16.6
Public and Others	16.2	16.6	16.1	16.5	16.6

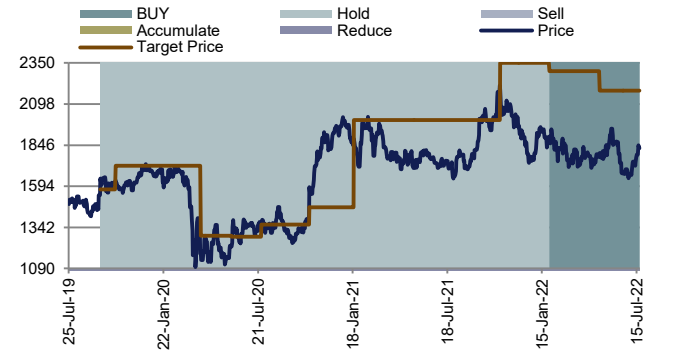
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-May-22	1,909	2,180	12m	Buy	Anand Dama
05-May-22	1,798	2,180	12m	Buy	Anand Dama
29-Jan-22	1,898	2,300	12m	Buy	Anand Dama
27-Oct-21	2,188	2,350	12m	Hold	Anand Dama
27-Jul-21	1,698	2,000	12m	Hold	Anand Dama
03-May-21	1,725	2,000	12m	Hold	Anand Dama
25-Jan-21	1,794	2,000	12m	Hold	Anand Dama
20-Jan-21	1,884	2,000	12m	Hold	Anand Dama
27-Oct-20	1,588	1,465	12m	Hold	Anand Dama
27-Jul-20	1,323	1,360	12m	Hold	Anand Dama
31-May-20	1,224	1,285	12m	Hold	Anand Dama
14-May-20	1,173	1,290	12m	Hold	Anand Dama
11-Apr-20	1,273	1,290	12m	Hold	Anand Dama
02-Apr-20	1,182	1,290	12m	Hold	Anand Dama
30-Jan-20	1,628	1,720	12m	Hold	Anand Dama
20-Jan-20	1,618	1,720	12m	Hold	Anand Dama
22-Oct-19	1,629	1,720	12m	Hold	Anand Dama
09-Oct-19	1,612	1,575	12m	Hold	Anand Dama
23-Sep-19	1,641	1,575	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



Analyst: Anand Dama

Contact Details

anand.dama@emkayglobal.com
+91 22 6624 2480

Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.91	19.86	-0.2%	-5	100.00	
Axis Bank	1.98	1.97	0%	-1	9.90	0
AU Small Finance Bank	0.27	0.24	-9%	-3	1.22	0
Bandhan Bank	0.20	0.20	1%	0	0.99	0
Bank of Baroda	0.21	0.20	-7%	-1	1.00	0
Canara Bank	0.13	0.11	-12%	-2	0.56	0
City Union Bank	0.00	0.04	NA	4	0.20	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.22	0.20	-8%	-2	1.00	0
HDFC Bank	6.14	6.57	7%	43	33.00	0
ICICI Bank	5.58	5.52	-1%	-6	27.74	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.54	0.60	11%	6	3.03	0
Karur Vysya Bank	0.00	0.06	NA	6	0.32	0
Kotak Mahindra Bank	2.45	2.07	-16%	-38	10.40	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.00	2.07	3%	7	10.40	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.05	0.00	-100%	-5	0.00	0
Cash	0.00	0.05	NA	5	0.24	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Jul-21	20-Jan-22	21-Apr-22	21-Jun-22	21-Jul-22
EAP - BFSI-Banks	100.0	117.6	130.3	125.7	114.4	124.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.1	127.7	123.2	112.2	121.8

*Performance measurement base date 1st April 2019

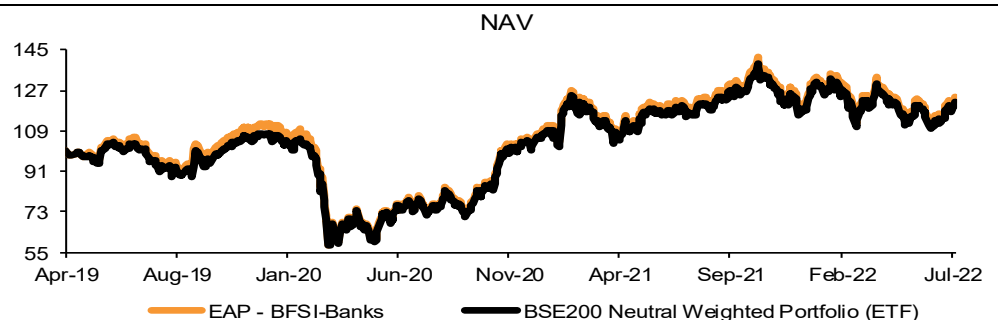
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.7%	-1.0%	-4.5%	5.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.6%	-1.1%	-4.6%	5.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com