

Kotak Mahindra Bank
Investors/Analysts Conference Call
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Moderator: Good evening ladies and gentlemen. I am Sandya, the moderator, for this conference. Welcome to the Kotak Mahindra Bank Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Uday Kotak. Thank you and over to you sir.

Uday Kotak: Good evening ladies and gentlemen, and welcome to our quarterly review and performance of the bank. We just announced our quarterly results this morning, and I will just start with some big-picture comments on the situations as I see it in the context of the Indian financial sector before going into the specifics. First of all, I believe that it is a very key turning point in the last few months in the Indian financial sector and goes back to a theme which is at the heart of the financial services business. Essentially, the business on a broad picture basis comprises of two parts. The first and the more traditional part historically, which has been the saver to the borrower intermediation, and the second which is the issuer investor intermediation. Over the last five or ten years, India along with the rest of the world for that had a wonderful era of significant growth on the issuer investor intermediation side of the business which led to a very strong growth in earnings on a relatively low levels of capital because of significantly higher leverage possibly coming out the issuer investor model. We have been seeing over the last six to nine months some replacements from the issuer investor model to the more traditional savings borrower model, and this change is pretty significant and in a way we as a financial institution which straddle both sides of that businesses are very focused on making sure that we get the fair balance between both sides of this business. Therefore, while we obviously continue to make sure that our focus on the issuer investor side, a very heightened and increased focus in our business in the last six months has been on the more traditional side of business, which in some ways, we internally define as the back to basics business. We have continued with our very significant investment in our retail branch banking network with the lending businesses and also in the life insurance business which is in a way wanting to make sure that the model has a true integrated financial institution gets the advantages of a balance between both sides of the business, and in a way enables up to leverage across a wide spectrum of opportunity as it comes, and therefore, the most interesting point is that if you look at our numbers which my colleagues will take you through, a lot of investment has gone into the branch banking side, in the retail assets side, as also on the life insurance side, and therefore if you look at some of these more as investments though in the way we account for it, they go through a profit and loss account as losses. The numbers underlying that actually shows pretty good growth, and therefore, if you look at the first part of our performance highlights, it is showing before these expenses a close to 30% growth in profits.

Moving on from there, the other very important point in the back to basics concept of banking which we have focused on is having a strong cushion of capital, and I am happy to say that we run the largest and the highest capital adequacy in the Indian banking sector probably, especially amongst some of our peers, and we sit at 18.6% capital adequacy ratio of the bank and out of that very large portion tier I. Tier I now more than 15% of that, and in a way this enables us to very dramatically, if we so decided, to expand our balance sheet. We can dramatically and significantly expand our balance sheet without needing

new capital for a long, long time, and as we had mentioned on a consolidated basis, our capital situation is even stronger and sounder because lot of our subsidiaries sit on significantly surplus pools of capital which continue to be a strong source of support at the group level, and therefore, on a consolidated basis and while we do not have the numbers for the quarter if we are at around the 20% mark on capital, it gives us a significant petrol in our engine in a way to be able to grow without necessarily depending on the market in the short run for more capital at a time when the financial sector across the world is going to be capital scarce.

Our advances growth is at about 29% year-on-year. It is a pretty good growth in this environment albeit compared to many of our other institutions of a smaller base, but we see this year, there is a certain calibration and modulation of the growth in advances, and we are also shifting focus to make sure that at the very lowest end of the retail, we are more cautious, but more on the commercial and thereafter on the little more mid market and wholesale side is where we have shifting focus in terms of our lending. Our current thinking is that this year, we should grow between 25% to 30% on the advances and that is the way it is looking right now, but we are watching it closely. We are watching the NPL situations extremely closely, and my colleague Dipak Gupta will talk more about it as we go forward. Consistent with our overall philosophy that we and the business of making returns on the capital, we put to work. Our net interest margins continued to be at very high levels, and now at 5.9% consistent with our view that we better make money for the risks we take.

The growth in our network at 1300 offices on a group basis continues. While we understand the challenges that we need to also focus and we have dramatically increased our focus on productivity and cost. We want to make sure that we do not pull back so sharply that we run the risk of losing momentum even in the medium term, and therefore, it is an act of navigation. We will certainly, and we have started an exercise over the last few months to focus on unproductive cost, but we will make sure that we do not lose some of our energy while we cut down cost, and the internal mantra is that if the costs are of three kinds which is fat, muscle, and bone, we are very focused on getting rid of all the fat and that is how we are looking at the whole area of productivity and cost.

Branch network continuing, we are now 191 branches, and we will continue to add the branch network to reach between 250 to 275 branches by the end of the year, and we are going more calibrated even there, because we believe that as we proceed in the year we want to take advantage of probably softer rentals on getting new branches compared to the kind of very high rentals which we paid in some parts of the last year in particular when we had to get branch locations, and some of the pressures which we have seen coming into our P&L are coming out of very significant increase in branch rentals and related salaries and another cost with most of our space through bigger part of last year, and we are making sure that we take advantage of some of the softening which may be happening on some of that.

Otherwise, in terms of the other interesting point is our CASA ratio has gone up from 22% in June 2007 to 28% now and even higher than as of end of March. So, high focus on what we call as back to basics banking, and we have got our colleague who looks after the branch banking and retails liabilities, Manian, here with me. He will also speak about that. About increased focus on productivity

on back to basics CASA and even term deposit because term deposits are also coming in significantly larger numbers as people move away from risk particular on the capital market side. The other big focus is the alternate assets side where we are continuing to see momentum. We will see in the current year more assets under management added in our PE and RE fund and that is where 7-year money, 2 - 20 structures, and if we can grow that, that will be a big plus for us.

The credit card business was launched in the first quarter. So, all the launch costs and marketing and related cost of the credit card launch in April to June are reflected in the profit and loss numbers for the first quarter, and our view again is contrarian. We did not rush into the credit card business when everybody did over the last two or three years, and as the market goes through significant downturn, particularly in credit card recoveries, we think now we will start building this business with a high focus of selling it to our captive customers as well, and again, we are targeting the market segment which is much more than gold and the platinum segment and not the lower end credit card customer segments. So, very different focus in terms of our target segment in the credit card business, and last but not the least something which we have been working for some time, we have finally got approval for an ARC, an Asset Reconstruction Company, which as you know we have been doing this business actively as a bank, but should the economy see some slowdown, and there is an opportunity for doing ARC work out of third-party fund management, we just want to make sure that we keep ourselves ready and geared from the point of view of having the appropriate platform in vehicles to be able to take leverage of a much larger opportunity, which we may or may not want to do on the bank's balance sheet, and we will work towards setting up an independent fund under the ARC, which would be basically investor moneys and leverage of our expertise in this space, enabling us to do a significantly larger amount of business, and before I hand over to Jaimin, the point is we see the financial services sector model getting more balanced between the two different forces, and we as an integrated institution really are positioned to take advantage of both the sides of the fence. We believe that this is a unique opportunity for us to stabilize and build step by step without doing anything which is stupid or disproportionate risk in this market place, but in the middle of more volatility, more disruptive behavior in the financial sector globally and in India. We are sitting on a huge cushion, well positioned and geared to take this forward in a calibrated and measured manner. With that, I will hand it over to Jaimin Bhatt.

Jaimin Bhatt:

Let me just take you through the revenues first. We ended the quarter with our overall revenue at 14.8 billion rupees, which is about 7% higher than the same period last year. Financing business has seen a very sharp rise, 8 billion of the revenue coming from the financing business, and that is 56% higher than last year. The fee income has been flat at 2.8 billion for this quarter. Insurance premium has doubled almost over the last year, and we are at 3.9 billion for this quarter. In the insurance segment, treasury has seen a large negative on account of market movements, but bulk of this is on account of policy holders money, and negative on that count is 2.5 billion, but bulk of this is policy holders money. Treasury others is 1.5 billion revenue for the quarter. As Uday mentioned, our profits for the quarter before the retail liabilities and the life insurance businesses, are 29% up over the last year same quarter, for the quarter at 3.4 billion rupees. Retail liabilities for the quarter had a negative of 718 million whereas life insurance had a negative of 387 million. Pretax profits

for the quarter at 2.3 billion rupees which is about 15% higher than last year same quarter, and post tax we end the quarter with 1.5 billion rupees as profit after tax. Our consolidated advances have grown by 39% on a year-on-year basis. We end June with an overall advance base of 231 billion rupees, which is 39% higher than last year. On an immediate quarter basis, our annualized growth would be at about 22%. Most of the segments have seen growth. The commercial vehicles and autos have seen growth in the 30% range, whereas home loans have been a sharper growth at 61%. Another interesting thing is the investment and treasury assets as of June, we are at 104 billion, which is a reasonably lower number than the 3-month ago number at March, which was 125 billion rupees. During the year, our deposit base has also grown, and we end June with 143 billion rupees of deposits. As of June now, our net worth is 59.9 billion with our book value per share at 173.8. Net interest margin for this quarter at 5.9%, also by the fact that we raised money last year, and that the benefit for this quarter. Our net NPAs have gone up marginally this time around, and we are on a consolidated basis at 0.47%. Our return on net worth for the quarter is at 10.1%. If I take entity-wise profits, the bank standalone after taking the hits of retail liabilities and credit cards, profits for this quarter is 545 million compared to 476 same period last year. Kotak Mahindra Prime has seen a very sharp rise. Its quarterly profits are 412 million compared to 137 last year. The investment banking and the securities business has seen a drop. Thanks to the happenings in the capital markets. Securities ends the quarter at a profit of 434 million rupees. Kotak Investment Advisors for the quarter shows a profit of 130 million. This is a business to which we moved our alternate asset management piece from the bank and Kotak Mahindra Investments. This is primarily focused on alternate assets in the private equity and real estate space, and that is where we are getting the benefit of funds which we have raised last year. Overall, after tax before the insurance losses, our profits for the quarter are 1.79 billion, and our share of the insurance loss is 294 million for the quarter, and we end the quarter at 1.499 billion rupees. I will hand it over to Dipak for the bank's standalone numbers.

Dipak Gupta:

On the bank's standalone, if you see the profit after tax, the profit after tax is up from 47 to 48 odd crores on a year-on-year basis to about 55 odd crores for this quarter though it is slightly down from a quarter-on-quarter basis. If you look at the components of the various segments really, the first one really is lending. Lending is significantly up on a year-on-year basis, and even if you compare on a Q-on-Q basis, it is sort of on par, except remember that Q1 this year we launched our credit card business, and the profits there take into account the investments which we have made really in the credit card business, so from that perspective, the lending business has done pretty well. Corporate banking is sort of level on a year-on-year basis but down on a quarter-on-quarter basis because especially there has really not been any IPO float income during this quarter. Retail liabilities I will have Manian speak separately on. Treasury is significant improvement basically because last quarter we had significant provisioning, both on MTMs as well as foreign exchange currency provisions really. Venture fund management, the income which you saw last year now has moved to KIAL. On the asset side, the growth continues on a YoY basis, you still see a 40% odd growth, and this growth is sort of consistent across practically all segments, we have grown in commercial vehicles, personal loans, much more in home loans, agri finance and corporate bank. Even on a Q-on-Q basis, there is reasonable growth across most of the segments. Delinquencies have gone up both on the gross side and on the net side, but still on an absolute

basis, we are still reasonably comfortable and still reasonably best in class in the industry. NIMs, as we mentioned in the beginning, are significantly high still. We are still in the high 5s, notwithstanding the fact that some of the high NIM is because of, you know, the capital addition which happened last year, but the NIMs are still in the high 5s. As far as the liability in the branch banking piece is concerned, I will just request Mr. Manian to talk briefly about that.

K. V. S. Manian: On the Branch Banking side, we ended the quarter with 191 branches. We are looking at branches in the range of 250 to 275 by the end of this financial year. The overall rollout is going as per plan, and we also see a significant traction in our customer acquisition there. On two fronts, one is the normal retail acquisition where we have reached levels of about 45,000 per month of customers, and we see also a good traction in the corporate salary segment, which used to be one of our problems earlier, but we are seeing a significant traction in acquisition of that segment, and therefore, the customer acquisition seems to be in line with what expect it to be, and the branches do follow a trend in terms of the time they take to breakeven and we have not seen significant change in that, even though there have been pressures on the cost in terms of rents and employee costs and things like that, but broadly branches have been able to sustain the trend that we have seen in the past of breaking even in the particular amount of time. We also see significant growth in the core banking side of the business, which is the CASA, the NI relating to CASA, the transaction charges and those. Those again seem quite healthy in terms of growth. However, the third party income is where there has been an impact in the current quarter vis-à-vis the last quarter, but you must also remember that the things like insurance and all actually happened in the last quarter, and the volumes are significantly higher compared to the usual quarter than the last quarter. So, when you see Q-on-Q, the third party income has been significantly impacted, but if you measure it on Y-on-Y, it is close to being flat. So, in that sense, the third party is the area there has been some impact. However, like Uday mentioned earlier in this call, we are focusing significantly on back to basics issues here, and we have significantly stepped up asset distribution, and we also plan to do credit card distribution, products like that out of our branches, so that while the third party impact can be overcome by increasing productivity on these products, and that is the essential focus that we are going through just now. The quality of sourcing of customers seems continuous to be good, and our average balances continue to be healthy vis-à-vis the industry. Our CA and SA mix on the retail side again seems quite healthy and remains good. We are also seeing a significant shift in terms of term deposit growth compared to the past. I think money is moving back into term deposits, and we are seeing significant growth on the retail term deposit and retail CASA growth and term deposit growth. So, broadly, I would say that the losses that we have seen in the quarter largely are represented by two, one the cost which remains in line with the growth in the network. The impact of lower earnings on the third party, compared to the last quarter seems to have taken hit higher, but if I look at YoY, we still seemed to be on a positive trend there.

Dipak Gupta: Thanks Manian. Moving on to Kotak Prime. Kotak Prime has done fairly well both on a Q-on-Q basis as well as obviously on a YoY basis, and this is not only the traditional car finance business, which has done well, better spreads basically and better market share, but the other businesses also which we do out of prime which is the debt capital market business, and some of the other

lendings which we do out of this business have done very well, so for the quarter it is 41-crore PAT, which is significantly up, even on a Q-on-Q basis. Moving onto insurance, insurance again the quarter has been pretty good from a premium perspective. First year premium was up over 100% on a Y-on-Y basis. The P&L seems to be significantly inferior basically because of the additional MTM hits which we have taken because of lower NAVs on essentially endowment policies in this case, but that is basically in line with the market place and as markets move, they will really get corrected. Otherwise, business at this point of time, on the insurance side seems to be well on track and as per budget. I will hand it over to Jayaram.

Mr. C. Jayaram: Kotak Investment Advisors Limited, which is where we manage our alternate assets, private equity and realty funds. Currently, we have an AUM there of about 1.4 billion US, and first quarter, we have had good numbers, a total income of 282 million and a profit after tax of 130 million. We are currently in the process of raising an international tranche of both the realty fund as well as the private equity fund, and we are reasonably confident that over the next few months, we will be able to cross a number of 2 billion US. We also, in addition to these two, verticals which we currently have, which is private equity and real estate, we plan to also do an infrastructure fund during the current year, and we have started putting together a management team in order to get into this area of core infrastructure. With respect to our international subsidiaries, for the current quarter, we have a profit after tax of 89 million, which is significantly better on a Y-on-Y basis, but lower than the last quarter, obviously as result of the capital market situation. The good news is that the assets managed by passive subsidiaries are 1.8 billion, and we have not seen any significant redemptions in the current quarter, even though markets have been turbulent, and in fact, from the last quarter, the reduction in the total AUMs is essentially because of fall in NAVs. Kotak Mahindra Capital Company, which is the investment banking entity, had a fairly muted quarter, again thanks to capital market conditions. A lot of emphasis currently there is on financial sponsor business as well as the M&A business. We continue to strengthen our franchise there, and Kotak Investment Banking was named as the best investment bank by Finance Asia, and we have had a couple of good mandate during the year, including the Thomas Cook open offer. I will now hand it over to Narayan.

Mr. Narayan: For the quarter, Kotak Securities' top line was about 202 crores. The PBT was 67 crores and profit after tax 43.5 crores. The average volumes we clocked during this quarter was about 3900 crores per day, and the market share was about 6%. The total AUM which under the portfolio management was about 3100 crores. The good part is during this quarter also we saw positive flows though the decrease in value is more on account of the market coming down. We have now about 807 offices across 309 cities and towns. I will now run through the AMC numbers. AMC, we have total income of about 20 crores. The profit before tax of about 2 crores and profit after tax about 1.2 crores. Total AUM which we have today is about 19,000 crores, of which about 3,700 crores is in equity AUMs. Again, the good part here is during this quarter, we have seen about 500 crores of gross inflows in equity. The net inflow has again been positive here. We have about now 87 branches, with about 10,25,000 investors to service. With this, I will request Uday Kotak to take over.

Uday Kotak: I think that is the end of our presentation. We will now move towards Q&A.

Moderator: Thank you very much sir.

Uday Kotak: Yeah.

Moderator: We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First question comes from Mr. Seshadri Singh of Macquarie. Over to you please.

Seshadri Sen: Hi everyone. I just had a couple of questions. One is on a number, I don't know whether you discussed it, but what was the extent of the average IPO float that you enjoyed last year, if you could throw some light and how much pressure that would put on your NIMs going forward, and secondly if you could throw some comment on the declining market share in Kotak Securities. Is there any specific segment that is contributing to that or is it across the board, thanks.

Uday Kotak: Okay, on the first question, last year, that is quarter ending June 2007, the IPO float which was there in our numbers was about 2,200 crores, which in the current year in the first quarter, our numbers are with zero IPO float, so that gives you the answer on this quarter's numbers versus last year. The second point was with reference to Kotak Securities, and I will ask Narayan to answer in a more detail. As a general point, one of the things which we have been quite cautious about is for the levels of risks which broking firms have been taking in terms of the quality of the counterparties and the margins positions and also the absolute percentage of margins, but Narayan can probably talk a little more about that, and at some level, we are very focused on making sure, particularly on the retail side, and the quality of our business is alright because otherwise you run the risk of putting your capital into significant risk. Over to you Narayan on that.

Mr. Narayan: Yeah. There are, as to take that forward as Uday said, during last year itself when the market was up, we did some analysis internally and found that for the amount of risk which the market is taking and accordingly brokers are taking, we take undue risk based on the capital which we carry. At some point of time, we did change our strategy of not increasing market share continuously, but focusing markets along with the risk which we take. Over and above that, normally we find that the markets are in the value space as is today, the market share of client booking business, this has just come down, and normally it affects the market share of all the brokers who do client business and not stock business.

Seshadri Sen: Okay, thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Ashish from Enam Securities. Over to you sir.

Mr. Ashish: Good evening sir, congratulations on good set of numbers. This is Ashish from Enam AMC. The question is pertaining to your daily volumes only. The volumes have declined by 13% which is in line with the market, but your overall revenue has declined, can you just throw a light on that. Is it change in the

business mix sir?

Uday Kotak: One is obviously, if you look at our top line, it is including brokerages and other incomes also.

Mr. Ashish: Yes sir.

Uday Kotak: Yes to some extent it is also very marginal on account of fall in revenues, but what has happened first quarter of last year for instance, we had a big maturity of a portfolio management profit sharing scheme income, so if you were to compare year-on-year basis, that should bring on major difference out.

Mr. Ashish: No, I am talking about sequential decline sir compared to Q4 FY08.

Uday Kotak: Q4 to Q1 is again on account of...we had good distribution fees in Q4, obviously is down in the current quarter.

Mr. Ashish: Can you just share with us the number of what will be the composition of brokerage in the total income sir?

Uday Kotak: I think I would suggest Ashish that our colleagues, Jaimin Bhatt and team are here, and if you would like to get that number, I don't think they.....you have it Jaimin?

Jaimin Bhatt: Yeah. Brokerage, if you look at last year to this year, it is more or less the same. This quarter, our brokerage number would be at about 1.2 billion which is about the same as last year.

Mr. Ashish: Okay sir, what would be the operating levels. I mean, just understanding how much percentage of operating cost would be fixed in nature and how much would be variable for Kotak Securities?

Uday Kotak: I suppose everyone on this call particularly coming from the broking industry would have a sense of that I suppose. Having said that, my point to you is that yes there is no question, and this is true for the broking industry in general, and Kotak Securities to a certain extent also between last year first quarter and this year first quarter over the last 12 months had some impact of exuberance in terms of the kind of costs we built, and those costs take time to shed compared to the speed with which the revenue lines moves down, so your brokerage income drops much faster than your ability to shed your cost which you bid over time, and that is correct, and while we don't do.....as I mentioned right in the beginning in my talk, we want to make sure that we reduce the fat out of our system. We want to make sure that as this industry, broking industry goes through a phase which I think will be a consolidation phase, we protect our muscle and bone, and build in a smart and sensible and not exuberantly through this period of what is clearly cyclical downturn in volumes.

Mr. Ashish: Okay sir, and this one clarification on the advance growth here guided 25 to 30%. This is on a consolidated basis or ?

Jaimin Bhatt: Consolidated basis.

Mr. Ashish: Okay sir, thanks a lot sir, and all the best.

Moderator: Thank you very much sir. Next question comes from Mr. Ankit from Ambit Capital. Over to you sir.

Mr. Ankit: Sir, I actually joined in a little late, so can you please give the breakup of the advances?

Uday Kotak: Yeah, it is there in the earnings update, Ankit, which is there on page 4 of the earnings update.

Mr. Ankit: Okay.

Uday Kotak: Which is given the full breakup of advances....

Mr. Ankit: Sir, breakup of the credit given.

Uday Kotak: Yeah, page 4 and page 7. Page 4 will give you consolidated and page 7 will give you standalone.

Mr. Ankit: Okay, and sir the NPAs?

Uday Kotak: NPAs are also given, as the details have been given, already there Ankit. I would suggest you can get the details of the earnings update from my colleague Jaimin Bhatt. Essentially, the NPAs are 0.47% net.

Mr. Ankit: Okay, and sir, what is your.....okay, that is all, thank you.

Moderator: Thank you very much sir. Next question comes from Kunal Shah from Edelweiss Securities. Over to you sir.

Kunal Shah: Hello, yes sir, one question, sir your consolidated NIMs are 5.9%. Sir, can we know how the NIMs have moved in your standalone entity in Q1?

Dipak Gupta: Kunal, standalone NIM is also about the same number as the consolidated NIM, which is 5.9%.

Kunal Shah: Okay, and sir, on your Prime, it is like whether it is anything coming out of your stressed assets recovery, either in your standalone book or on your Prime businesses?

Uday Kotak: In Prime, there is nothing out of stressed asset except for any earning for this quarter, but I think the Prime the two main drivers are the traditional car finance business, which we have sort of built over time is doing well for us. We have a very robust recovery process there, and very tight control on cost, so that business is in good shape, and simultaneously the net capital market side of the business, which also primed us, which is essentially we give out loans and then we securitize and syndicate them out. That business is continuing to do well.

Kunal Shah: Okay, and sir, on the advance growth in case of prime, so where actually it is coming from in the industry?

Uday Kotak: It is in the car loans and the car dealer segment.

Kunal Shah: Car loans and car dealers, okay, and sir, in your standalone, employee costs have been almost like 50% quarter on quarter from 1000 to approximately 1500.

Uday Kotak: Yeah, I think it is standalone.....

Jaimin Bhatt: Yeah, that is true, one is yes we have added people both in credit cards as well as in the branch banking. That has been a significant deviation and also lot of managements joined in the first quarter. The other advantage was the fact that in the fourth quarter, we had a benefit of some change in policies, which gave us credit, and to that extent, that is missing in this quarter, so if you look at sequentially quarter on quarter, it has been a big rise, but if you adjust for the policy adjustment, the rise is significantly lower.

Kunal Shah: Sir, how much would be that, can you quantify, would it be possible to share that number?

Jaimin Bhatt: If you look at the differential of 50 crores, that the policy change would account for about 20 and odd crores.

Kunal Shah: Okay. Okay sir, thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Aditya Narayan of Citigroup. Over to you sir.

Aditya Narayan: I have two questions. One was really on the growth side you talked about 25 to 30% going forward. Any sense of downside risk in terms of these numbers, given that you are in segments that some could argue or (a) concentrated on the consumer side and (b) are segments that are facing a certain amount of risk, and really some color in terms of the asset quality pressure that you faced. The second question would be on, you know, your net worth franchise, given that there have been market losses, given that segment is probably likely to have lost a fair amount, do you sense that, that is an area that could face some pressure either in terms of, or primarily in terms of customer attrition, which is something then, which could potentially suggested on the way up whenever markets revise, it might be a little harder getting the same upside than in the past?

Uday Kotak: Yeah, I will ask Dipak take the first and Jayaram the second.

Dipak Gupta: Aditya, you see, if you look at retail segments in which we are, the stress is significantly pronounced for most end, which is you know bordering on what is called the small-ticket personal loan. Now, our business in that segment is actually very insignificant. It was very insignificant, and we really stopped doing thereabout maybe 6 months back totally. Less than 100,000 lending category is where the stress in the industry has been the highest, but for that, if you look at all other segments, the delinquency is not very significantly different. The GNPL levels have risen undoubtedly, you know, whether it is you are looking at CE, Commercial vehicles, construction equipment, or agri loans, or personal loans, there is an increase, but if you still look at it on an absolute basis, 0.47 is not really very great. On a GNPL basis also if you look at it, gross NPL still at about 1 to 1.1 odd percent for us, so not very significant, but if the economy continues to go in the same direction and maybe slows down, and may be at some point

of time you will start seeing delinquencies increase, so from that point of view, yes, one will increasingly be more careful to who one lends to and how much you lend to. Moreover the big problem has been excessive leveraging of customers, basically by customers because you had more than one financier continuously lending to him. So, once you are careful about all of that, I think delinquency does not seem to be that bigger problem at this stage.

Aditya Narayan: And just on agriculture, since you know that is pretty topical thing, you built up that portfolio pretty aggressively, do you think....?

Dipak Gupta: Not aggressively, that is regulatory requirement.

Aditya Narayan: Well, okay, but all said and done, you have grown 130%, so any sense that, that could have any spillover impact of.....?

Dipak Gupta: In April and May we saw increase in delinquency where basically a lot of people were waiting for the final debt waiver scheme to be out, and some of them had withheld payments, you know, until the final scheme came out, so we did see an increase in delinquency in that period, but once the final scheme came out, really all of those customers really have come back and paid up. On the second question which you had I will have Jayaram

Uday Kotak: On the first question. Aditya, just two other points. If you look at our growth between March and June, we are around 25% level of growth versus end of March, and can we grow faster than 30% if we want to, the answer is clearly yes. There is demand for credit, and demand for credit is pretty strong, which is giving us significant pricing power. I mean, I have not seen this kind of pricing power for a long, long time, but we just want to make sure that we handle it more carefully, and which is why normally first quarter is normally the slowest of the four quarters. Therefore, if we had done this level of growth, I would have been more confident to say that you will be at 40% growth for the year, but we are actually saying that we better make sure that we are watching it more carefully rather than just rushing in, and that is the reason why we are giving a guidance which is more like 25% to 30%, rather than based on the demand for credits. The second point which again I think Dipak touched upon and which is to say that even within the different segments of the so-called retail as you see in our case, a lot of them are actually business and commercial credit. The percentage of consumer credit is relatively..... unsecured consumer credit is relatively smaller because the entire construction equipment and commercial vehicles and all are more linked to the business segment though we classify for our internal purposes than for talking to you as retail. Therefore, our retail has significant parts which are commercial in nature and what is known as pure retail, and to corroborate Dipak's point at the real small-ticket end, which is below one lakh, we are virtually nonexistent, and that is where if you go to recover 100 or 200 or 300 rupee loan, it is toughest part, and I think we have always kept a little away from what is known as statistical lending to cost of recovering at 200-rupee installment is a killer in India. With that, over to Jayaram on the second point, which is HNI.

Mr. Jayaram: Yeah, on the HNI franchise, actually over the last few months we have not sort of being focusing or pushing up equity mutual funds or stocks, you said, most of the activities have been around either alternate assets like private equity or real estate or structured products where typically they are capital guaranteed

products with upsides on the Nifty or basket of stocks, so I think thanks to markets that we haven't seen too much unhappiness among clients as a result of the last fall, and in that sense there have been hardly any attrition. In fact, our acquisition of clients continues pretty much at the pace at which we had wanted or we had budgeted it to be, so clearly no problems in terms of acquisition of clients and franchise. Obviously, the number of transactions are little less now because people are sitting on the sidelines, so to that extent income would be affected to some extent.

Aditya Narayan: Thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Anand from HDFC Mutual Fund. Over to you sir.

Mr. Anand: Hello?

Uday Kotak: Yes.

Mr. Anand: Sir, I mean, good set of numbers. Just two to three questions from my side. Kotak Mahindra Prime has shown a significant growth, both in top line as well as PAT, I mean, will that continue for the whole year, or there would be some moderation in the coming quarter. Secondly sir, just wanted to know the pipeline for Kotak Mahindra Capital, KMCC, if you look out margins for it this quarter are significantly down compared to Q-on-Q last year, both sequentially and YoY.

Uday Kotak: Okay, I think two good questions. On the first question with reference to Kotak Mahindra Prime, our traditional car lending business, we continue to have pretty strong and steady growth subject to the speed at which of course the car market grows, but margins are overall reasonably okay, and the net capital market side of the business continue to chug along. I think therefore in a way, to certain extent new business will be depended on the incremental car demand, but it is a very, very well oiled engine on the car finance side, and we have got our operating cost as the whole equation in good shape. On the second question with reference to the investment bank, KMCC, you asked, Anand, maybe I should flip it over to you. We have got a hell of a lot of pipeline on companies wanting to raise capital, but in the absence of some of you deciding to buy on the public markets, we have directed them more towards the private equity side of the business, and which is why as Jayaram highlighted, the financial sponsor space, which is private equity fund across India, and just for your information, there are 200 active private equity funds in this country, and we have focused on that business very significantly, and we are beginning to see early signs of results. Therefore, if public markets are shy, we take them to the private equity side, and one of the reasons why the first quarter saw a slowdown is the mindset of the issuer in India, who had been used to the high exuberance in the last quarter of last year, including the first quarter of this year, where public markets and portfolio investors were falling over each other to buy paper in a way at aggressive valuations, and I would say the part of the blame also lies with the issuer community, the investment banking community, and the portfolio markets in general, that exuberance made it difficult for issuers to come down to more realistic valuations when it comes to dealing with the private equity side, but as reality begins to sink in more and more and as the issuers begin to realize that public markets are not the place they are going to money easily and

in a hurry, we are seeing a fair backlog and pipeline of transactions with issuers being more realistic and private equity coming to the fore, and we hope to see deals in the next quarter and thereafter, which will therefore obviously accrue in terms of revenues on fees and other things to us, but it is a mindset change and a change in gear of an issuer who was getting pretty exuberant values from the market place to be more realistic in terms of his valuation expectations, both vis-à-vis private equity and certainly vis-à-vis the public markets, which are even more shy.

Moderator: Sir, are you done with your question?

Mr. Anand: Hello?

Moderator: Mr. Anand, are you done with your questions? We will move on for the next question. Next question comes from Mr. Hiren Dasani of Goldman Sachs. Over to you sir.

Hiren Dasani: Hi. Thanks for the time. My question was on the non-interest income side on the standalone bank, we have seen a decline year on year.

Uday Kotak: I think the reason for the decline in the fee income is something which Manian alluded to, a slowdown in the mutual fund distribution space in particular is one of the reasons for the drop in fee income and that is essentially what he called as a third-party distribution side which has had an impact as investors have bought less aggressively than they did in the first quarter.

Hiren Dasani: And would this also include any mark to market losses on the investment portfolio?

Uday Kotak: Yeah, which I think we have taken the hits to the P&L and completely got everything mark to market in the P&L of the bank.

Hiren Dasani: Okay. Because, I mean, if I just try to run the numbers, 89.4 crores was the non-interest income last year in the Q1...

Uday Kotak: Yeah.

Hiren Dasani: ...83 crores and even if I adjust for the fee of distribution of financial products, it has actually declined from 74 crores to 67 crores. So...

Uday Kotak: Yeah, Jaimin would you want to take it?

Jaimin Bhatt: Yeah, you are right in terms of the fact that there is a hit on account of the third-party distribution fees which has dropped, but also we would have taken hits there on account of MTM differentials on the treasury front which is the reason for the fall in the other income.

Hiren Dasani: Okay. Is it possible to share the number?

Jaimin Bhatt: Yeah, if you look at debt and equity put together would be about close to 40 crores thereabout.

Hiren Dasani: 40 crores MTM loss.

Jaimin Bhatt: That's correct.

Hiren Dasani: And corresponding number of last year would be?

Jaimin Bhatt: Last year wouldn't be large, I mean would be very little actually.

Hiren Dasani: Okay. So, there won't be any much profit, trading profit as well in the last year, but there wouldn't be any loss as well.

Jaimin Bhatt: That's correct, that's right, that's right.

Hiren Dasani: Okay. And...

Jaimin Bhatt: There will be some profit, I don't have the number exactly right here with me in terms of some profit which you may have picked up in the previous quarter.

Hiren Dasani: Last year...

Jaimin Bhatt: Last year previous quarter that is.

Uday Kotak: Last year same quarter.

Jaimin Bhatt: Yes, Q1.

Hiren Dasani: Okay. And one question on the car financing side, I mean the overall car market volumes have not grown that well, but I mean your advances growth are pretty strong, so are you seeing other people vacating the market share and you picking up or...I mean how, how this is panning out?

Uday Kotak: No, basically if you see, the pricing power is better. The industry on a coordinated basis is getting a better spread, so that gives you, you know, more strength to, you know, buy more really. So, there are lesser players and better pricing. So, from that perspective, while overall industry growth rate may be 10% to 12%, you can definitely pick up more assets really plus we modulate the product mix really between new, used, and refinance basically, so that improves your spread also.

Hiren Dasani: And lastly one more of a general question, I mean you have been indicating a very cautious stand for the last I think two analyst interactions now, March as well as this quarter, so in your mind, what needs to change really for, you know, you to become little more aggressive.

Uday Kotak: In which aspect?

Hiren Dasani: In the overall lending growth side, I mean what would be the key indicators which you would be looking at?

Uday Kotak: I think the key thing would be number one, the interest rate environment and the risk return matrix. We are never shy of increasing the speed at which we grew our book if we believe that risk adjusted returns are what will work because that is the key matrix for us and if you look at our growth last year, we were at 45%

plus, may be of a smaller base than in first quarter. Despite everything, we still grew at 39, and we are talking about 25 to 30 more in the context of risk adjusted returns as the key matrix for us and if we get our risk adjusted return, we will grow faster, and you go back to the history, our own history, in the car finance business, when the returns began to drop despite the fact that the market was growing faster, in those years you saw our growth has moderated and we let people pick the share at extremely low risk-adjusted rates of return and some of them are now actually becoming far more rational players in the market place than what they were two or three years ago and in a sense we stuck to our course, we did the car finance then but on terms which made sense for us. We grew slower than the market at that stage and therefore we will keep on calibrating our speed based on we meeting our objectives on risk-adjusted returns.

Hiren Dasani: Okay, thanks a lot.

Moderator: Thank you very much sir. Next question comes from Mr. Gautam Jain from IBIS Capital. Over to you sir.

Gautam Jain: Yeah, hi sir. Hello....

Uday Kotak: Yeah.

Gautam Jain: Yeah, congratulations for very good numbers in banking space. My question was regarding the number, I want the breakup of your total revenue in PBT in your different businesses.

Uday Kotak: In our?

Gautam Jain: You different businesses.

Uday Kotak: The bank standalone...

Gautam Jain: No, no, consolidated revenue breakup and PBT breakup.

Male Speaker: Yeah, we have got that all in our earnings update.

Uday Kotak: Page 5 of the earnings update, we have given entity-wise after tax profit quarter on quarter and the bank standalone if you take page 6, you have different segments of the bank and the profits for that segment...for each of the segments there.

Gautam Jain: Okay. Okay, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Manish from Motilal Oswal. Over to you sir.

Mr. Manish: Yeah, hi. I just wanted some update on your Forex derivative front, has there been any write-backs this time or have there been any further provision that we have made during this quarter?

Uday Kotak: Yes. I think first of all, let me tell you one thing, the MTMs which we are carrying on our portfolio, if you recollect, on 8th of May we reported our MTM,

which was 612 crores. Our MTM as of today, both out of recovery and net MTMs are lower than 612 which is a categorical position which we are taking and in the normal course of provisioning, we have added a little more provisioning towards that in our quarter ended June, just to make sure that we are reasonably beefed up and I would still like to maintain that at the end of this saga, now whether that saga is over next 12 months, 24 months, banks in general, out of their MTMs, at whatever point of time you take, they would be ready for around a 20% hit on their overall numbers which is what we continue to maintain and in our case, as you know, we provided as of 31st March, the total provisioning we were carrying was 86 crores. We made some more in this quarter, and we think we are coming probably...we are not very far away from what we think is the total end to the saga from our point of view and for us in a way we are now working towards moving over the next couple of quarters to life beyond Forex derivatives, in a way it is a saga which will be behind us and we are very focused on resolution both through the legal process and otherwise on this matter and we are very much...we feel much more comfortable, confident, and in control of what the situation is on that and therefore have a full measure where this saga for us ends and not excessively perturb from the point of view of future over the next three or four quarters.

Mr. Manish: Okay. And one more thing on the stressed assets business, what you have acquired this quarter and had we booked any income from that front in this quarter?

Uday Kotak: We have acquired just in the normal course, not very significant and similarly income booked is also not very significant in this quarter Manish.

Dipak Gupta: More or less in line with what we had planned, nothing which is one-time disproportionately normal. We keep on booking away, doing it from time to time. So, nothing which we would say would be unusually large.

Mr. Manish: Can you quantify what sort of income would have come in this quarter from the stressed assets sell downs?

Uday Kotak: So far, we have not been giving that number separately...

Mr. Manish: Okay.

Uday Kotak: ...but if and when we decide, I think we will definitely share it with you.

Mr. Manish: Okay, thanks a lot.

Moderator: Thank you very much sir. Next question comes from Ms. Kamal from JP Morgan. Over to you sir.

Ms. Kamal: Hello...

Uday Kotak: Yeah.

Ms. Kamal: Hi. My question is on the capitalization ratios reported. Is the bank using Basel II for reporting these ratios?

Uday Kotak: We have done our exercise on the Basel II, it will be marginally different from

what Basel II numbers will show up compared to the current numbers. We will get significant benefit on account of the fact that we have a large amount of our advance in the retail, where the risk rate becomes slightly lower. So, if you look at Basel II, we have done internally workings and they are not...they are just marginally different from where these numbers come up to.

- Uday Kotak: And there was no major impact on our capital adequacy out of Basel II.
- Ms. Kamal: Okay. Okay, the second question is that there is a...do you have a timeline for reducing the promoters' stake in Kotak?
- Uday Kotak: Our promoters' stake now is around 52%...
- Ms. Kamal: Right.
- Uday Kotak:and the requirement of RBI is to come down...
- Ms. Kamal: 10%.
- Uday Kotak: ...the first license condition was 49% which is not very far from where we are and we believe that we will not have to do anything which would be disruptive in terms of dilution to the market place and we are pretty comfortable with what we have as acceptable levels from the RBI.
- Ms. Kamal: Okay.
- Uday Kotak: In other words if your question is that because of that, are we going to rush into doing some fresh issue on the capital in the next quarter, my answer is no.
- Ms. Kamal: Okay. Thank you.
- Moderator: Thank you very much ma'am. Next question comes from Mr. Vikram Kotak from Birla Sun Life.
- Vikram Kotak: Good evening and thank you for your time. I have three questions for the bank, one is that what are the number of branches we have. As on 30th June, we have 191 braches, that is correct, right?
- Uday Kotak: Yeah, correct.
- Vikram Kotak: And what is the program or what is the progress for the next 9 months, what is the number we are planning to have?
- Uday Kotak: We have just mentioned 250 to 275 branches by end of March 2009.
- Vikram Kotak: Okay. And the locations will be?
- Uday Kotak: Locations, all, I mean, spread out with our overall focus on the top 8 metros and Manian, you want to add a little big on that?
- K. V. S. Manian: When we reached 250-275 range of branches...
- Vikram Kotak: Right. Okay, okay, and second on the credit card side you launched in April

2008 and what is the progress and how are the things, the initial feedback and what is the game plan there?

Uday Kotak: The feedback is excellent. As you know, we stand out with a unique credit card and if you haven't got it, I think you should think about it.

Vikram Kotak: Okay.

Uday Kotak: It is a vertical credit cad for the first time in India. Again, we only give it the higher end customers which is gold and platinum.

Vikram Kotak: Right.

Uday Kotak: Therefore, I would strongly recommend to all the people on the call, who undoubtedly continue to be the higher end customers.

Vikram Kotak: Okay.

Uday Kotak: And therefore recommend this credit card and we have got very positive response from the card and we have tried to actually make sure that, you know, the biggest challenge with some of the other credit issuers and all the main they have faced is with small market and target market. And we are trying to redefine the whole space with reference to where we want to be.

Vikram Kotak: Can you share some numbers, what are the numbers you got in the quarter or...

Uday Kotak: Still very early, you know, this is initial, so about I think 10,000 plus cards, but we will continue to build it as we have got lots of enquiries and growth, and we are at the same time being much tighter on our credit standards, and we are not just taking anybody and everybody as a customer.

Vikram Kotak: Sure. The third question on the bank is what is the number of employee increase in the Kotak Bank, the standalone on a Q-o-Q basis, can you share the number?

Uday Kotak: Q-o-Q would be close to about 750 or thereabout largely in the bank retail branches and credit cards.

Vikram Kotak: Retail and credit, okay. And one question on Kotak Securities, I have seen the number of 807 franchisee and the own offices, which is your offices, and if I am correct, the number as on first quarter, the financial year 08-09 was 835.

Mr. Narayan: That's right.

Vikram Kotak: So, you reduced some of the franchisee or what is the reason of...

Mr. Narayan: From the first quarter this year, we have been...sorry, Jan-Feb-March onwards, we have been consciously rationalizing the franchisees and offices.

Vikram Kotak: Okay.

Mr. Narayan: What it means is that in lot of places, we had more than one offices or certain

franchisees who were not coming up the curve over a period of time.

Vikram Kotak: Right.

Mr. Narayan: So, we have been rationalizing this and ensuring that per unit PBT is reasonable and correct, so on that basis, some rationalizing has happened and that is why you see the number of outlets come down.

Vikram Kotak: And Narayan, how do you see the trend going forward in that area because...yeah, sorry.

Mr. Narayan: Sorry, trend...

Vikram Kotak: How do you see the trend because you had seen from 877 to 807 from March till now the Y-o-Y decline, how do you see further, is it happening still or what is your...

Mr. Narayan: I think maybe possibly we can come down about 7% to 10% from hereon, not more than that.

Vikram Kotak: Okay.

Mr. Narayan: But believe me, it is a conscious effort to ensure that while we did grow aggressively on that front initially...

Vikram Kotak: Right.

Mr. Narayan: ...we continuously monitor the performance...

Vikram Kotak: Yeah.

Mr. Narayan: ...and if it is not meeting expectations, it could be for two reasons, one is they are not in the right area and took a wrong choice or otherwise, but having said that, at the same time, we also continue growing in certain areas in setting up franchisees, so you may...so I will not be able to make a direct statement that it necessarily will come down.

Vikram Kotak: Okay.

Mr. Narayan: It is possible that we may have a balancing factor also in that.

Vikram Kotak: Right. And one question I think again coming on the Kotak Prime, I think when the whole market is kind of trying to vacate the space because I think players are kind of getting weaker in that segment, I think that is a question for Mr. Kotak that why you are trying to kind of, you know, grow faster, what is happening there; of course, I see there is a demand, but will it not be worried on the NPA trend or will it not be worried on some of the other issues?

Uday Kotak: Let me just take you back to history. Kotak started in the car finance business in 1990.

Vikram Kotak: Right.

Uday Kotak: The only player who had got into that space at that stage was Citibank and we were the second player to get into that space and therefore the number of cycles we have seen in that space including the fact that we had some experience with the joint venture partner on the way is that we have got a very, very disciplined approach to doing the car loan business.

Vikram Kotak: Right.

Uday Kotak: And that discipline actually is beginning to work for us.

Vikram Kotak: Okay.

Uday Kotak: And, in fact, as you rightly observed, there are many players who are vacating the space...

Vikram Kotak: Yeah.

Uday Kotak: ...and as long as you know how to get your margin equation and your recoveries are under control...

Vikram Kotak: Right.

Uday Kotak: ...this is a great opportunity for us to improve our positioning and which is what you are seeing and you would probably see that in a number of our businesses that as cyclicalities happen and volatility happens, as players who are more opportunistic in their approach to a market place vacate the space...

Vikram Kotak: Right.

Uday Kotak: ...we will keep on getting...plowing more and more of our positioning in that space.

Vikram Kotak: But...

Uday Kotak: And that is our way of demonstrating aggression rather than raw, naked aggression which we see otherwise in the market place.

Vikram Kotak: But that also throws opportunity on the capital market side, right, that more and more players are going to see the consolidation going forward in the next 3, 6, 9 months' time, so will it not be an opportunity for you to kind of, you know...

Uday Kotak: Of course, without a doubt, you may go back to our own retail brokerage business in particular...

Vikram Kotak: Yeah.

Uday Kotak: ...that business and the brokerage business in general, we really built it between 2001 and 2003 when the markets were really going through a bad phase.

Vikram Kotak: Right.

Uday Kotak: And we certainly see that pain coming into the market place, and we will take

opportunity in that, you know, calibrated manner, focus all the time on making sure that we are not sort of blowing capital to risks which we are not comfortable with. At the same time, if it means investing and investing smartly, to take an opportunity, we will take it.

Vikram Kotak: Thanks, thank you so much, thank you.

Dipankar Chaudhary: Hi, this is Dipankar Chaudhary here. Your margins have been consistently inching up quarter after quarter and I know that a bit of it could be coming from the increase in the yields, a bit of it from reduction in costs and some of it from capital, so I don't know the exact composition; however, historically, it is higher yields that has contributed more to your increase in margins. I would have thought that in this environment, you will be working towards reducing the risk profile of your lending possibly going towards lower ends and lower yields and lower risks, so could you just give me your thoughts on that, where you are, particularly since in your opening remarks, you suggested basics type of approach.

Uday Kotak: Okay, okay. On the whole, you know, very often there is a widely prevalent myth that if you get better yields, it means higher risk and our experience is that if you are very close to the ground and watching the space carefully, you get higher yields because of pricing power without necessarily compromising on risk and therefore it is a very focused approach to improving our yields. If you recollect, in the last quarter's discussions, I had mentioned that first time we are sensing pricing power coming to us as banks and that continues to be the case. We are also beginning to...just to give you a sense, we are also for the first time beginning to see an equation where the cost of funds for non-banking, standalone non-banking finance companies is now getting to be significantly higher than commensurate comparable cost for banks, and finally as far as the customer is concerned, we are just making sure that we get our pricing right vis-à-vis what the customer is ready to pay, and therefore, the fact that our banking model is now able to attract cost of funds which is at a competitive advantage to standalone nonbank finance companies is beginning to seep in to our margin equation, combined with the fact that there is pricing power, combined with the fact that we are not constrained for capital, and combined with the fact that we are very focused on our philosophy that better yields do not necessarily mean higher risk, and you have to watch the risk very carefully. I think that is the mix. Having said that, I think our returns are pretty high, and you have to keep in mind that we raised the dollop of capital in October, which is helping some of those.

Dipankar Chaudhary: So, where does the trade-off come from, higher operating expenses in order to execute this strategy?

Uday Kotak: I think no, not really. I think right now if you look at our overall cost structure, and if I were to give an objective view where we could do better is that in the early stages of rolling out our bank, our retail liabilities and branch banking about which Manian spoke was run much more and pure liability side end of the business, and that side was being run much more independently, and therefore, the cost structures were higher. As we are able to integrate the two sides, we would be able to squeeze out some of those costs because the distribution fees which we have been paying to the market place in terms of direct marketing

agents and others, we will start saving to the extent with the distribution happens more and more through our branch network. Over time, there is an element of higher cost because you have the branch network rolling out and the assets independently, but very strong internal effort is on to squeeze out those costs by using better distribution through our branch network.

Dipankar Chaudhary: Great, thank you.

Dipak Gupta: I need to add. I think the big difference really also is in choosing the customer right and then deciding what the product mix is because if the customer quality is good, you can get better pricing by appropriately choosing the product which you are selling to him or the asset class. So, the same customer for two different products is willing to give you significantly differential pricing, and that is what you were to capitalize on with.

Moderator: Shall we move ahead with the next question sir?

Uday Kotak: Yeah.

Mr. Sampath: Uday, hi, this is Sampath here. You mentioned about tightening the belt on the cost side, what I want to understand is, what impact this would have going forward on your cost growth, and how do you differentiate that what is being invested for growth, and what is actually the results of tightening of the cost, although one understands a bit about, I mean, let me exclude the insurance business from this, but if you were to look at a group level cost income ratio, what is that, that you want to target?

Uday Kotak: Okay, I think Sampath the question which we have been spending enormous amount of time, I can assure you over the last 30 and 60 days in particular, I think really starting from May, you know, if we looked at our cost structures, one of the biggest areas of concern for us has been on the entire infrastructure side, and I will just share with you the fact, I mean, we are all sitting at Bhaktawar. At Bhaktawar, yeah, we have a couple of floors we own, but there are many floors which we take on lease. Five years ago, the floor which right now houses our investment bank, we took on lease at about 110 rupees per square foot a month. As of now, we pay 500 rupees plus per square foot per month. So, basically, for the same space, we have ended up paying 5 times more, and therefore, we actually took a call way back in 2005-2006 that we need to find a way of cracking, maybe the high-end investment bank may be able to afford a little bit of it, but across the group as we add the kind of numbers of people we just can't, and as you look at our numbers currently, the biggest duplication on cost which sits is in our infrastructure side. Some of you may be aware, we have invested in a building at Goregaon, close to 200 crores for 560,000 square feet that is at a price less than 4000 rupees a square foot. Therefore, comparable rental value by any count of overall 50 rupees a square foot a month, and this is 8 floors, 70,000 square feet floor plate, and right now, as I talk to you, the 200 crores or close to that sits in our balance sheet eating away interest. This space in our judgment is going to be ready in about 6 to 7 months' time, and we will move a lot of our operations, and call centers, training, other things from various parts in Mumbai out to that. Now, that in no way impacts our operating business, but will it bring down our cost by 60% to 70% to 80% from where we are today, the answer is yes. That is what we would like to

see. The similar efforts for us to be looking at moving to the Kalina or around Bandra-Kurla space in terms of moving from a zone of 500 rupees a square foot to may be around 200 rupees a square foot in terms of shifting, you will see that unfolded over the next 12 months, and some of those costs are therefore hitting our current P&L, but we have taken some actions over the last 2 years. The fruits of which will come 6 to 9 months from now, but today, our P&L is taking that pain, and therefore one is a very structural shift in our infrastructure cost, which is what we are doing. Second is the power of getting our people together and what it means in terms of synergies and efficiencies. One of the big drivers if you have started focusing on particularly over the last 3 or 4 months is moving away from a mindset which a lot of India Inc was in, which is growth at any cost, to growth with productivity measure, and therefore whether it is our retail branch banking, whether it is our brokerage, whether it is our life insurance, whether it is our retail assets, whether it is our wealth management, asset management, every part of our business, we are now putting significantly tightened up productivity measures for a unit of person, and people are the key measure of that productivity, and that exercise has begun to kick in, in a big way, and therefore, we are squeezing, we are going to squeezing out significantly more productivity for the huge capacity which we have added in terms of people over the last 12 months. Therefore, capacity is created, we have moved very much in the direction of productivity, and we are basically navigating between two forces. One is, while we certainly want to get rid of the fact, we want to make sure we do not lose our really great people at this point of time, and that is the big focus area. The second is to make sure that everything in this form is challenged on a zero base, and if some costs can go out in totality, you know, inevitably lots of fat gets into firms in the growth phase, and lot of it is something which you can really shed quickly, and before there is very significant effort to have productivity grow, challenge costs on a zero base, at the same time not lose the momentum of what we have. Bottomline, we want to make sure that we don't cut costs because that is the fashionable thing to do, but we make sure that we question everything from a zero base. I hope this is a long-winded answer to a simple question. Yes, we will get more productive, we will get our costs more efficient, with focus in terms of the overall productivity is on two things, infrastructure cost and people costs.

Mr. Sampath: Okay, thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Hiren Dasani of Goldman Sachs. Over to you sir.

Hiren Dasani: Just one question on the insurance side, I mean, we have been getting pretty divergent views about the growth momentum on this side, and your numbers seem to be pretty healthy, so are you seeing any, first of all what it is coming, what is the result of it, and secondly are you seeing any shift in the composition of the figures which you are looking?

Uday Kotak: No, I think, and if you look at the insurance side, there are really two parts to it. One is the external business, second is the internal processes and execution. I would like to categorically say that I believe our internal execution on the insurance side has really significantly got better over the last 12 to 18 months compared to what it was, and we are beginning to see the fruits of that actually in our numbers. Therefore, a lot of our success is coming out of our internal execution getting very much better over the last 12 to 18 months. We are

seeing also a shift in policy sizes being general, therefore the ticket sizes are getting to be smaller than what they are, but that is the decision which I think is the reality of the market place. Therefore, on the external side, we are getting smaller ticket sizes than before, but on the internal side, we have really got our execution tracking, and keep in mind that this growth in the first quarter is despite the fact that as Manian mentioned the bank side of the business is still picking up, and my view over the medium term is, and you would see that over time that long-term companies with strong captive banking assurance as a distribution partner, is going to be one of the key mantras for success. We have also created a captive distribution in Kotak Securities and some of the pressure you are seeing in Kotak Securities numbers is close to of 1000 people have been added for insurance distribution in the first quarter of the current...first quarter itself. So, insurance significantly more spelling captive through the bank assurance and of course different arms of the firm, greater internal focus on execution is what is beginning to show results.

Moderator: Mr. Hiren, are you done with your questions?

Hiren Dasani: Yeah, thank you.

Moderator: Thank you very much. Next question comes from Mr. Ashish from Enam Securities. Over to you sir.

Mr. Ashish: Yeah, just a followup question on the CASA strategy, I mean, just wanted to get a sense of under this operating environment, are not we seeing customers induced to focus more towards retail term deposits, what sort of CASA target you have built in for FY '09 sir?

Uday Kotak: We have not specified a target, but clearly we are growing the CASA book, and lot of the CASA growth is happening out of transactions.

Mr. Ashish: Okay.

Uday Kotak: Lot of things are being done on the ground, on the transaction front, so we would like to consistently see our CASA ratio climb up, and term deposits again I think, this is back to what I said, the bank model is now seeing the significant advantages over the nonbank model particularly at this stage of the cycle with term deposits at the cost at which we get the term deposits are significantly cheaper than the price of lending against those term deposits, and therefore a healthy term deposit base is something which is critical for us rather than concentrated wholesale deposits.

Mr. Ashish: Okay, so there will be some shift, but the focus would be on CASA plus retail term deposits.

Uday Kotak: Certainly.

Mr. Ashish: Okay, and just one, the other numbers on the international subsidiaries, AUMs, what would be your percentage of assets which are discretionary and what would be the percentage strictly nondiscretionary sir?

Male Speaker: 1.83 is the total, and it is about 40% to 45% is the discretionary and the remaining would be advisory.

Mr. Ashish: How much sir, I missed on the figures sir?

Male Speaker: About 40% to 45% would be discretionary, the remaining would be advisory.

Mr. Ashish: Okay sir, thanks a lot sir.

Moderator: Thank you very much sir. Next question comes from Mr. Rajesh Kothari of Voyager Investment. Over to you sir.

Rajesh Kothari: Just a few questions. First is, is there any one-time credit card related cost in first quarter, if it is then how much it is?

Uday Kotak: It is not one-time, but when you launch a credit card business, we have taken significant marketing costs, and that is all gone through the first quarter.

Rajesh Kothari: How much is it, approximately that amount is?

Uday Kotak: The total credit card, first quarter, rate would be about 13 to 14 crores....about 13 to 14 crores rate in the first quarter is coming out of the launch of the credit card business, which we have taken through our P&L.

Rajesh Kothari: Okay.

Uday Kotak: Which I wanted to highlight since you are talking about that is, we also were sponsors for the IPL Punjab team, as some of you may be aware, and those marketing costs also hit us in the first quarter.

Rajesh Kothari: Okay, can you just give me the breakup of your total other income, how much is third party, and how much is MTM losses for first quarter FY '09 compared to first quarter FY '08?

Uday Kotak: Rajesh, can we come back to you on that.

Rajesh Kothari: Lastly, with reference to your cost incurred, you rightly mentioned that there are significant kind of efforts what you are taking to reduce your cost, but you don't.....even at one-month timeframe, the overall cost which was done in the FY '08, 25% to 30% growth in that for similar FY '09?

Uday Kotak: You know, I don't want to give you a number. All that I can say is that costs are getting very high focused but more than just absolute costs, productivity related to these costs are getting even more focused. Therefore, if the productivity of the cost we are incurring goes up, we are ready to take both and link it much more to efficiency and productivity of that and therefore rather than giving you an absolute number, let us see how the year pans out, but the fact of the matter is we are not afraid or bogged down by quarterly pressures to take the costs if we believe that they are appropriate cost to take. As you could see in the first quarter, we took the cost of the credit card launch because we felt it was a good time to do it or the kind of cost that we are taking in our branch banking because we think that makes our model significantly more stable.

Rajesh Kothari: Sure, thank you sir. Thank you very much.

Moderator: Thank you very much sir.

Uday Kotak: I think can we now do one last question or is it enough?

Moderator: Sure sir. Last question comes from Mr. Arun Agarwal of Capital. Over to you sir.

Arun Agarwal: Hi, I have one small question. Your cost of borrowing, if I am doing my numbers right, over the last two to three years has been around 4.5% to 5%. That seems pretty low. Why is that? What drives such a low cost of borrowing?

Male Speaker: No, Arun that numbers are not the way of.....

Uday Kotak: I think it is not that low, but keep in mind that we have pretty high capital adequacy; therefore, compared to most others, there is an element of capital which is sitting there.

Arun Agarwal: No, no I am talking about just the cost of borrowing excluding the deposits. So, all your CASA and term deposits, if I just look at borrowings?

Uday Kotak: Arun, I do not think I have a complete handle on being able to give you an answer right now. I would suggest that Jaimin and his team would discuss with you and try and give you some analysis on that.

Jaimin Bhatt: The hunch is that, that number seems very low. Our numbers would be higher, but yeah, if you have a way of working, we would be happy to look at it.

Arun Agarwal: Okay, thank you.

Moderator: Thank you very much sir. At this moment, I would like to handover the floor back to Mr. Uday Kotak for final remarks.

Uday Kotak: Friends, that was a pretty long call by our normal standards, and I must say that we are clearly in challenging environment, but within this challenging environment we see a medium-term opportunity. If we can calibrate between doing the right things and not getting excessive either on cost or cost controls. If we can keep our focus right back to what I said in the beginning of the call of the balance of our business model between the saver borrower side and the issuer investor side, and if we can continue to remain focused on the different spaces and nuances within the financial sector, focus on risks and returns, focus on back to basics, focus on making sure that we price our credit right, and most of important of all, focus on making sure that we don't make stupid mistakes which financial institutions tend to do from time to time, and we just want to make sure that our feet on ground, head on shoulders, and ready to grind our noses to take a longer term view of this business, we feel as a team optimistic and making sure that we grow over the medium term as this cyclical downturn happens in the financial sector. Thank you very much Ladies and Gentlemen.

Moderator: Thank you very much sir. Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
