Kotak Mahindra Bank

Q2 FY 06

Conference Call

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Moderator:
Good afternoon ladies and gentlemen. I am Monali, the moderator, for this conference call. Welcome to the Kotak Mahindra Bank Conference Call for Q2 FY06 results. 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 now like to hand over to Mr. Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank. Thank you and over to Mr Kotak.

Uday Kotak:
Thank you and welcome to all of you on the update for our quarter ended September results. Before I go into the specific performance highlights, I just want to make a few general comments in terms of how we see our business model building, but before that, let me quickly introduce to you my colleagues who are here on this call. I have got Mr. C. Jayaram and Mr. Dipak Gupta along with me, Mr. Jaimin Bhatt, the Group CFO, and Mr. Gaurang Shah, MD, from our life insurance company, on this call. We would be making this presentation and taking questions and answers collectively.

Coming back to the broad points, as most of you know, we made the major transition to becoming a commercial bank in March 2003 and as I look at a period of 2-1/2 years, the few things which we believe seem to be now kicking are, no. 1, we are beginning to get a validation of the business model and the strategy which we shared with you at the point of time when we became a commercial bank and thereafter on a regular interval basis, the business model really seems to be working and working pretty well. We have seen a very significant execution of various parts of this business model happen over the 2-1/2 years and we feel that for the first time in the last few months that we are beginning to get a significant scale into many of our businesses and the overall growth which we are seeing there. We feel significantly more comfortable about building what I would call a stable and a balanced business model over the next one or two years and which in many ways we believe is a unique business model in the financial services landscape in India with a balance between different pieces rather than excessive skew in favor of one piece over the other, which is what happens with the case of most business models. Therefore, this is also the fundamental validation of a true financial service conglomerate which is the way we look at ourselves with a well balanced menu and portfolio.

Coming specifically to the quarter, I am sure most of you would have seen the earnings and the highlights but I just wanted to make a few points. Income has grown by 95% compared to the same period last year to about Rs. 6.2 billion up from Rs. 3.2 billion in the same period last year and what is gratifying is the growth in the consolidated fee income including insurance premium income, growing by 118% over the same period. Obviously, we have seen a very significant growth in our profit before tax at 150% to Rs. 151 million from Rs. 60 million same period last year. The advances book continues to show robust growth and primarily driven by the housing and the personal loan side which have grown at a great speed. Then, as I mentioned to you a little while ago, employee strength is now over 5,000, and if I went back to March 2003 when we first became a commercial bank we were at a level of about 1,500, so we have more than trebled our employee strength and I just wanted to share with you that some of these are costs which are being absorbed by us in the investment mode and the returns for these costs including the employee strength which has gone up, would reflect hopefully in a larger business being built into the future. Net interest income is 57% higher on year-on-year basis. Deposits in the bank are up to about Rs. 55 billion, 63% growth over last year. On the investment banking side, we are ranked by Bloomberg as the #1 IPO underwriter and Mergers & Acquisition house for the first nine months of the current calendar year. Our securities firm did an average volume for Q2 FY 06 of Rs. 23 billion which is again three times compared to last year. The equity assets which the group manages between mutual fund, portfolio management division, and offshore funds is now close to Rs. 60 billion and up from Rs. 25 million same time last year. Two other interesting developments which we had posted you earlier, was, our private equity fund, which we have closed at an amount in excess of Rs. 7 billion and we have made some investments out of that already. As I talk to you, we are in the process of raising our real estate fund which again is getting very favorable response. We completed our purchase of 40% stake of Ford Credit International in Kotak Mahindra Primus. Just to specify in terms of what this transaction does for us, is that, it adds a net Rs. 2.33 to our book value which is actually, therefore a book value accretive for us and obviously translated that we have probably been able to buy the stake of Ford in Kotak Mahindra Primus at a discount to book value because only then it will be book value accretive which is what is being reflected in the transaction here. This Rs. 2.33 addition to book value happened on 4th of October and would therefore not reflect in our book value as of 30th September. Therefore our 30th September book value is excluding this additional benefit of Rs. 2.33. We have terminated from October 4th royalty payments from KMP to Kotak Mahindra Bank, which means going forward that will accrue in KMP. Obviously, we have also independently made a proposal for an issue up to 15 million equity shares through an offering either in domestic or international market subject to regulatory approvals.

If you go through the breakup of our revenue model you see that almost every segment of our revenue model has had a growth over the previous year. The growth if I look at on a half yearly basis, financing activities have grown 56% and the highest growth of course is the fee income component excluding life insurance which has grown at about 120% driven significantly by brokerage revenues.

With reference to profitability, we have given you the numbers of the operating profits before losses of the retail liabilities and life insurance business which is at about Rs. 1.6 billion for Q2 06 which is approximately double of what it was in the same period last quarter, and the profit before tax impact is higher because we have seen a reduction in losses of the retail liabilities and branch banking which I must add that one of the main reasons for the drop in that loss number compared to the same period last year is on account of significant income on third party product distribution which is distribution of mutual funds and other products which we have now been getting significant momentum in the bank and that happens both out of our wealth management side as well as out of our retail banking side.

Moving onto the advances side, this is again an interesting chart. Car loans grows at 13%, commercial vehicles at about 25%, and the big growth areas are personal loans at 93%, home loans obviously of a small base at close to 200% and the corporate and SME side which is primarily SME at about doubling itself from where it was.

Healthy growth on the deposit side on a consolidated basis. The bank standalone number is higher because on the consolidated basis you net off the surplus deposits of the subsidiaries with the bank.

Moving to analytical ratios, the net worth before minority interests is close to Rs. 20 billion. Our net NPAs continue to be under control. Our annualized return on net worth has significantly improved to about 17% after the losses of branch banking and life insurance and on a pre-tax basis before these two divisions, we are at a pre-tax return on average net worth for the first half annualized at 37.1%.

Going on to the company wise breakup, obviously, the two main growth engines have been the bank primarily driven by the retail lending business and the securities firm. These are the two main drivers for the growth which we have seen in this period.

I will request Dipak to take through Kotak Mahindra Bank standalone and as he takes you through that I would request Jayaram to speak a little bit on the wealth management side about how it is rolling out and building within the bank.

Dipak Gupta:
On the bank's standalone side, if you look at the liabilities piece really, we have just about crossed over a 100,000 odd retail liability customers, deposit customers now and we are adding about close to 9,000 to 10,000 odd customers every month. So that piece is picking up. We are operating 44 odd branches, which you saw in September. Currently that figure is closer to 50 and by the end of the financial year we hope to reach a figure somewhere between 65 and 70. There is a very decent growth both on the current account and savings account deposit front also. On the CASA front, if you look at the type of figures we have, we have hit a figure close to about Rs. 1,000 crore of total current account and savings accounts deposits, which is first time really for us, and there is steady growth all over on that front.

Going to the assets side, Uday mentioned briefly about the growth in various segments. The auto parts, which is really commercial vehicles, you see a 25% odd growth, a very healthy growth. We have maintained returns and yields really on the housing financing side as well as personal load side. SME again the growth has been phenomenal, but running off a small base. If you go to the segmental PBT which really is on that stand alone chart really, retail lending really has grown from a figure of about Rs. 19 crore odd to totally to about Rs. 28 crore in terms of PBT. Some of that really is also arising out of profits and income which we have booked on the asset reconstruction business of ours really. Corporate banking has grown but more or less, it is at the same level. Retail liabilities and branch banking, you see a significant reduction from the loss of last year, but as mentioned earlier some of that reduction is largely due to the significant fee earned by us out of the distribution business really. Some of that will not necessarily be consistent as we move forward. Treasury is a change really, more or less stable at the same level and the corporate center reduces from about Rs. 19 odd crore to Rs. 10 crore. All in all Rs. 30 crore odd quarter figure last year moving up to Rs. 47 crore odd figure.

C. Jayaram:
On the wealth management side, we see significant progress. We currently have over 100 relationship managers across the country in about 12 locations and both in terms of the products which we have been able to offer to the wealth clients in terms of the range of products, we believe today that we have a superior set of product range as compared to competition, and as a result of this, we have been able to add clients much higher than what we had targeted, and in terms of distribution of equity product, again it has been extremely good period both in terms of distribution of mutual funds as well as product like portfolio management services. So clearly it has been a good period for the entire distribution and it has also been helped by the fact that we have had offerings like our private equity fund and the real estate fund, which also has significant contributions from the wealth clients.

Uday Kotak:
With that, I think I will now really want to move away from the bank which we have had a discussion on to really moving onto some of our other subsidiaries. On Kotak Mahindra Capital Company, I just wanted to highlight the fact that if you look at the two businesses within KMCC, they have investment banking business and the fixed income and proprietary side of the business. The investment banking P&L is growing extremely healthily and we see a very significant continuing momentum in that business. Obviously, there are two major parts to this business. One is the IPO business and the second is the M&A advisory business. We have actually been fortunate to have a pretty strong pipeline on both, and on the M&A advisory business as has been reported, we are the exclusive advisors for the acquisition of the BPL Cellular business by Hutchison. We have also recently, a few days ago, announced the transaction as exclusive advisors for the Micro Ink transaction. Recently, we have had a few new awards, and in the last quarter, we completed successful equity offerings of IDFC, HT Media, IL&FS, and Nicholas Piramal rights issues. We have also been GDR lead managers for Apollo Hospitals. We have a very significant pipeline on both and our view is that even in volatile markets, we see some of the IPOs continuing to happen probably obviously subject to appropriate pricing and terms, and actually a pick up in the mergers and advisory business as we go into the future. The principal side of the business has shown a marginal loss which is our judgment mainly on account of accounting and the way the accounting treatment is and fundamentally that business also is in reasonable shape. Stockbroking, I think the quarter July to September was a great quarter and a unique quarter for the securities business, and as we talk in the month of October, there could be changing perception of that business at least in the short run but we actually trebled our volumes and both the institutional equities and the retail broking business really was kicking on full cylinders and with a pretty strong network of own and franchisee network across the country, we have established a pretty deep and entrenched position. We also believe that over the years and we have been in this business for a long

time we have in our judgment built appropriate risk management system for the securities business and that includes being able to do the right things on a consistent basis and we believe that the years of experience and the processes and risk management which we have built in this business will hold us in great stead in more volatile markets as we are seeing right now. We are also gaining significant market share in our institutional equities business and we have broadened our client base both on the long side and on the other client base side, we have also seen a very significant increase in the F&O volumes on our institutional side. All in all, both the non-institutional side, the institutional side, and also including the online side, these businesses are in very good shape and we believe that the current volatilities may have had a temporary impact in volumes, but from the point of view of our positioning and franchise, we are in a position to continue strengthening and getting deeper in our relative positioning in the market place in the coming months.

Kotak Mahindra Primus, obviously as you saw we have seen a very, I mean, the car finance business continues to be a tough one for producing returns for shareholders in terms of a pure car finance business. We have therefore effective October 4, now have a restructured Kotak Mahindra Primus with a new name which we propose to shortly come out with. The buying of the equity from Ford actually now frees up our net worth, that company has a net worth of Rs. 480 crore and we are very focussed on actually seeing how our customer base which is the car loan customer base which we have built and nurtured over many many years, how we can leverage that customer base for improving returns not only in the car loan business but also on some of the other businesses which includes the personal loans business or the home loans business and we see actually freeing up of our capital in this subsidiary as a very significant step for our ability to do right things for producing returns into the future, and therefore the advantage of freeing up this capital is not just the price at which we award the Ford stake, which I mentioned to you is at a discount book therefore reflecting in increase of our book as of October 4 by Rs. 2.33 but in addition to that, close to Rs. 500 crore which is Rs. 50 billion of capital which we can produce hopefully going forward better returns on.

Asset management, we are now at Rs. 82 billion and if you go back to history we were one year ago at Rs. 55 billion. We have also improved the profitability of that business compared to the past, and the equity AUMs have also actually grown faster than the total AUM. So we are focused on increasing total AUM and within that segments of the equity AUMs, and post the closing at September when we closed at about Rs. 82 billion, we have had another fund which we closed which has garnered Rs. 3.6 billion and our wealth management division of the bank had a very significant role in making that flexi fund of funds a success.

Life insurance, I will now request my colleague, Gaurang Shah, the Managing Director of the life insurance company. Gaurang as you know moved from Kotak Mahindra Bank about a year ago into the life insurance company and has literally taken the charge as a CEO about nine months ago, therefore he is now at an appropriate time to start telling about his delivery objectives on that business.

Gaurang Shah:
The delivery in life insurance as Uday is asking for is basically all about distribution, and on our distribution side, the first six months, actually we can talk in terms of numbers, regular individual premium, we grew around 110% and it does not get reflected in overall numbers because the overall number at 82% which is down due to reduction in the group business and that is mainly due to the superannuation now as a part of FBT and nobody goes for superannuation contributions. Regarding distribution, on the tight side, we increased the number of sales managers from almost 320 last year around this time to 640 and we plan to increase it to around 1,000 by the year end. On our alternate distribution side, there is a big gap between the bank assurance on the one side and the individual agent on the other, so we are focusing on basically the franchisees in the market, that is, the distributor who has got

some sort of access to the customers, so we are planning to increase that and that increase has been shaping up quite fine and the results should come in the next half. The Kotak group bank assurance plan, we were last year dealing largely with the retail bank and the wealth management group, now we have extended it to the Kotak Securities PCG and the entire retail asset group and we have included all the plans from the credit term cover for all the home loans and car loans and the personal loans which you get from Kotak group, you get insurance together with it. Like, recently we introduced it with a mutual fund scheme which has also got a very good response. So in all, we are focusing on distribution and I think these investments should keep on giving us result every quarter on an incremental basis. Thank you.

Uday Kotak:
Great, I think with that we have covered ground on the basic part of the earnings update and we are half an hour into the call, so we now have enough time for any questions which you may have.

Moderator:
Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their question on a first-in-line basis. Participants are requested to use handsets while asking questions. First in line, we have Mr. Vishal from Quantum Securities.

Vishal:
Hello, sir could you please give me a breakup of your profit after tax and total income earned from IPO and M&A business?

Uday Kotak:
I will have my colleague, Jaimin Bhatt to answer that.

Jaimin Bhatt:
If you look at the earnings update sheet for Kotak Mahindra Capital Company, I won't be able to give you post tax but on a pre-tax basis for the quarter, for the half year let me take that, for the half year on a pre-tax basis, the entity has made a pre-tax profit of Rs. 156 million. If you notice the last bullet point on that page, the loss for trading and principal business for that particular period was Rs. 36.8 million, the differential is the profit which you are making on the investment banking business, which is actually higher than the PBT.

Vishal:
You just said Rs. 156 million?

Jaimin Bhatt:
Rs. 156 million is the profit before tax of the entity, which is Kotak Mahindra Capital Company. It basically has two divisions, the investment banking and the trading and principal investment division. Trading and principal investments has had a loss of Rs. 36.8 million and therefore net result Rs. 19.4 crore would be the profit before tax of the investment banking.

Uday Kotak:
Rs. 19.4 crore

Vishal:
Okay sir. One more question, could you please give me a breakup of your investment portfolio of what would be in AFS and what would be in HTM?

Uday Kotak:
In the bank, I think is roughly 50:50 between AFS and HTM, and the average maturity of our SLR portfolio is about 18 months.

Vishal:
Okay, and what would be the excess SLR in this case?

Uday Kotak:
Very marginal and we believe that we need to maintain SLR primarily from a banking book point of view for what is the regulatory requirement and from time to time we may take trading positions, but not of any significant magnitude.

Vishal:
Okay. Thank you sir.

Moderator:
Thank you very much sir. Next is Mr. Ashutosh from India Infoline.

Ashutosh:
Hello sir. Could I get an idea about your commercial vehicles as to how much of it comes from second hand vehicle financing and how much from first hand financing?

Uday Kotak:
Anything else?

Ashutosh:
I had two more questions. The second thing is what are the yields you are looking at in the second hand or re-financing. The other one is on your Kotak Securities, if you could share with us what would be the average volume in your F&O turnover, both online and offline, if you could give us?

Uday Kotak:
I will answer the first two questions. In commercial vehicles, basically we follow 80:20 mix, 80% of vehicles are new vehicles, about 20% are used or what is called re-financed vehicles. As far as your question on yields is concerned, the yields we get on the second hand or re-financed vehicles are not necessarily very higher than new, but you would roughly get about 400 basis point additional spread on the used re-financed vehicle. That's because the category which we cater to really is what we call prime credit but sub-prime assets, so it is not really sub-prime credit that we look at. We are just looking at a sub-prime asset to the same credit quality customer really.

Vishal:
Just a followup question on the car loans. How has been the yields moving in this segment?

Uday Kotak:
Yields have more or less been constant.

Vishal:
Okay.

Uday Kotak:

On the question on Kotak Securities, I am looking at my CFO, and he says that he has not so far been disclosing in terms of the split between cash and F&O, and I will request him to keep in mind your request whether he is open in the future to consider giving a breakup.

Vishal:
Okay, thanks a lot sir.

Moderator:
Thank you very much sir. Next is Ms. Sohini from ASK Raymond James.

Sohini:
How many of your branches have been turned around by now?

Dipak Gupta:
We are about 2-1/2 years since the first set of branches setup, roughly if you look at, at this point of time, we are looking at break-even periods of around 15-18 months, so we have about close to about 10 of our branches which have broken even really. This is without allocating really fixed costs of head office, that is branch on a standalone basis, and when I say standalone, we really look at the retail liabilities piece of our branch because we really don't do any other asset related business out of our branch. On a very standalone basis, retail liabilities related about 10 of branches have broken even.

Sohini:
Sir, you had mentioned that this break even period seems to be coming down, so is that the trend you are witnessing again in this quarter or it has been steady at about this level?

Dipak Gupta:
Quite steady. There are two aspects to that. When we initially started, we were really looking at break evens of about 24 odd months, but that seems to have come down to about 15-18 months really and the reason why the break evens is (a) as you experience newer and newer branches you get better cost economies, so your cost of setting up itself come down really, and (b) as you grow again arising out of your experience, you are in a position to get away a much better mix between your deposit base and your income base in a branch really.

Uday Kotak:
And I just want to highlight one other point that so far since we were in the early days of our branch roll out and we wanted to make sure that there was enough focus on the liability product. We have not seriously started using the branch network of the liability branches actively for the assets side but that obviously is on our agenda and as we go into the future, we would want to use this distribution base also for distribution of the asset side of the balance sheet and so that is something which we will do as we go into the future because we needed to make sure that our liability focus and execution is in good shape.

Sohini:
Okay, and in terms of the branch licensing, the RBI has come out with a new policy to apply for the licenses at the beginning of the year only, so does it affect any of your expansion plan?

Uday Kotak:
Our aspiration on the size of our network as you have seen is to reach a number of around 100 in the next 12-18 months, and we believe obviously we are doing what is appropriate from the Reserve Bank point of view, but we believe that at this level of aspiration, we would get a considerate RBI and as long as we are not asking for a few hundred branches in a year, we should be in reasonable shape.

Sohini:
Thank you.

Moderator:
Thank you very much ma'am. Next is Mr. Rajagopal from ICICI Securities.

Rajagopal:
Good afternoon. I had a question on your insurance venture. I wanted to know what is the quantum of capital infusion proposed into the insurance venture, and two more questions, what is the current accumulated losses in the life insurance venture and when do you expect to break even?

Uday Kotak:
Gaurang.

Gaurang Shah:
The accumulated loss today would be just about Rs. 200 crore. Broadly, the break-even for the life insurance business will happen in seventh year, around 2001–02 was the first year.

Uday Kotak:
We are in year five.

Gaurang Shah:
We are in year five, so that is one, and the second one you said about, can you repeat it?

Rajagopal:
The quantum of capital required?

Gaurang Shah:
The capital requirement is expected to be around Rs. 40 crore, out of which we have already put in Rs. 20 crore.

Rajagopal:
20 has already been put in, okay. And a small question on the car finance business, you rightly pointed out that the car finance yields have been extremely competitive over the last maybe two years or so, so what is that you are trying to do vis-à-vis redressing the car finance yields and also especially in the light that in spite of your royalty payments having come down, your contribution from the car finance business has virtually halved over the last one year?

Dipak Gupta:
I think let me answer the second question first with respect to royalty. Royalty has been paid by the car finance company to the bank up to 30th September, so you will see the impact of change in royalty from this quarter onwards, not reflected up to 30th September. On the first one, I think the fact that the market is competitive is an understatement actually. There are not actually too many competitors but whoever there are, its really more of a monopoly now rather than a competitive environment and what we are trying to do is, we have been a significant player in this market place, we have controlled the wholesale part of the business very well and we just want to do as much as business which keeps us so that we remain a significant player because returns are not necessarily great at this point and see how we can improve returns out of other additional products and services to the same customer.

Rajagopal:
Okay, and another question on the primary dealership business, now you have already reported a trading loss of Rs. 4 crore in the first half, now given the current scenario of interest rates, have you already completed your bidding commitments?

Uday Kotak:
I think we are ahead of the pro rata in terms of the number of amount which has been raised by the RBI on behalf of the government, so on a pro rata basis, we are ahead of what was required. If say for example, RBI is going to issue Rs. 100,000 crore, and they have already issued say Rs. 60,000 crore, which is 60%, our bidding commitments are in excess of that 60% number.

Rajagopal:
So going forward any further hardening in the interest rates?

Uday Kotak:

I wish all of you as analysts and we could discuss this till cows come home, how much is the hardening and where is it going to stop, but my sense is, on interest rates, we have seen a 0.25% increase in the repo rate and the reverse repo rate, my sense is it really depends on where does the fed rate stop? If it stops at say 4.5% by end of this year, my bet would be another 0.25% somewhere between January, either in January or in the April policy that is what I feel. A 0.25%, is a very calibrated move by the central bank and I just feel that the central bank is acting significantly in a responsible manner to make it measured rather than giving any jerks. This is probably because all of us are living with memories of mid-to-late 90s and hopefully history will not repeat itself.

Rajagopal:
Okay, thank you.

Moderator:
Thank you very much sir. Next is Mr. Amisha from Motilal Oswal.

Amisha
Good afternoon sir. I have one query on your securities business. In the total income, what will be the breakup which we have from the fee-based income, that is PMS and through distribution, and transaction based income, that is through broking?

Uday Kotak:
Amisha, I am directing your question to our CFO, Mr. Jaimin Bhatt and putting it on record for him to see whether it makes sense for him to give this breakup, and he has already put it on record in terms of whether he wants to do it for the future. Currently I do not think we are giving that breakup to the market yet, but we have noted your request.

Amisha:
Okay, and one more query as to how are we foreseeing the fund based activity in future?

Uday Kotak:
You mean the lending business?

Amisha:
Right sir.

Uday Kotak:

On a broad basis, we feel that two important fundamental developments are relevant. As market volatility on the cost of money increases, we are now seeing a much greater traction on our deposit gathering side, whether it is term deposit or whether it is CASA, and we believe that we are going to sustain that traction even more so in the next few months and years. So the very strategy of our business model to build a stable liability base is a very critical part of that strategy and we are now actually beginning to see the results of the execution we did over the last 2-1/2 years. So it helps our cost of funding and we believe at the same time, on the asset side where we have been traditionally strong product players, we see asset gathering as something which we believe will maintain our spreads and in an interest rate environment which is volatile, spread maintenance is something which we think we can achieve.

Amisha:
Okay, thank you so much.

Moderator:
Thank you very much ma'am. Next is Mr. Shashin Upadhya from Tower Capital.

Shashin:
Good afternoon sir. Just wanted to know the detailed breakup of fee income in consolidated revenues?

Jaimin Bhatt:
Broadly, the bulk of the fee revenue was contributed by the securities entity, so out of Rs. 190 crore, about two-thirds would be from that business.

Uday Kotak:
But that is not necessarily only brokerage.

Jaimin Bhatt:
It is not brokerage, it is all the fee income booked in that entity.

Shashin:
Okay, and in terms of the loans and advances in personal and home loans, are they generated through our own branches?

Uday Kotak:
Yes, out of our asset lending branches. We have branches of the bank which are asset lending branches. Obviously there will be some direct marketing agents and others used, but we have our own asset lending branches which are focussed asset lending branches.

Shashin:
Okay, could I know the average ticket size of our home loans?

Dipak Gupta:
Home loans average ticket size is about Rs. 15 lakhs.

Shashin:
Rs. 15 lakhs, okay thank you.

Moderator:
Thank you very much sir. Next is a followup from Ms. Sohini of ASK Raymond James.

Sohini:
This is regarding your stressed assets business. You have mentioned that some of the retail liability business losses were reduced because of some income booked there, so if you could tell us what is this income about?

Uday Kotak:
No, I think let me just clarify. The losses in the retail liabilities business are lower because of third party product distribution, which is distribution of mutual funds and other third party product. The bank distributes mutual fund products to its customers and makes fees out of that. So that is on the retail liabilities side, which is very different from the stressed asset business which is a part reflected in our retail assets division and which is a retail lending business. That is where we buy stressed assets and then over a period of time we sell them and make profit, so that is reflected in our retail assets business in the bank.

Sohini:
How much would be the profit? if you could give us some estimate of that?

Jaimin Bhatt:
During the period, we have taken profits but the impact on the bottom line is not significant since we have had a change in the accounting policy. The amount which we have taken is Rs. 13 crores of profit and we have provided for it. So the net result effectively is no impact on the bottom line as such as compared with the previous period treatments.

Sohini:
Okay, and on the whole how do you see this business shaping up in future? Have we done some more purchases during the quarter?

Uday Kotak:
Yes, there have been marginal purchases, but not very significant as it was in the last half year.

Sohini:
Sir, we have seen a lot of activity in this segment with the other players also getting into this business, so how do you see the potential of this business going forward?

Dipak Gupta:

The potential is huge there. Actually, there are not many significant players at this stage. Apart from Arcil, we probably are the only one who are operating in this space. All others really are essentially foreign offices of some of the multinational banks. But I think potential wise we should see significant availability of stressed assets this year and going forward. Basically, the PSU banks are in the process of opening up and selling off their stressed assets.

Sohini:
Right sir, and on the capital adequacy front, we have already come to 11%, so any plans for raising capital, tier I capital?

Uday Kotak:
Yes, just two parts to this. First of all this 11% is based on March 31st capital and therefore does not include the profits for the current year. No. 2, we have some more head room in our tier II, we have raised something in October, and so no. 2 therefore is, we have got some head room in tier II which we have raised. No. 3 is, we have announced that we are proposing to issue up to 15 million equity shares through an offering either in the domestic or

international market as fresh issue of capital. So a combination of the fact that this is capital as of 31st March and therefore have the ability to add the profits of the current year to the capital. No. 2 is, some tier II head room and no. 3 is our proposition to raise new capital, and this is in addition to the fact that most of our subsidiaries are hugely surplus on capital and what prevents us at this stage from moving capital from subsidiaries to the parent is the dividend distribution tax. Therefore we are doing it in a very cautious manner. But, we have always explored options about how we can make use of capital more efficiently, which is in our subsidiaries, so that's something also which is very much on our agenda.

Sohini:
Right. Sir, could you tell us what would be the capital adequacy after your raising of tier II which happened in October?

Uday Kotak:
Let me just explain. We have raised tier II capital of Rs. 40 crore, so whatever is the multiplier of that. We have significant head room as I mentioned in our subsidiaries, so that's very much on our agenda in terms of thinking how we can make more efficient use of that capital. No. 3 is, we have a proposition to raise 15 million shares, depending on which way you look at the price is, the amount of money which we believe we will raise at an appropriate point in time, and if you look at our capital adequacy including the surplus capital with our subsidiaries, we are very, very capital comfortable.

Sohini:
And what would be the time line for the issue of equity?

Uday Kotak:
At an appropriate time and appropriate price.

Sohini:
Okay sir, thank you.

Moderator:
Thank you very much ma'am. Next is Ms. Mahrukh from UBS.

Mahrukh:
Hello, I just had two questions. One is that your securities business of course has done extremely well and probably as expected, and even if the market does not do too well I do not see too much of year-on-year decline in that business over the next few quarters, so I mean at what level of markets or what level of crash in volumes would you see this business not doing very well at all? Have you done such sensitivity? that's my first question. And the other question is that the deposit mix has now really picked up very well, so are there any one-offs or this is more like a sustainable thing?

Uday Kotak:
Okay Mahrukh, on your first question, let me tell you one thing. We have always found that whenever market volumes have come down it is a great opportunity for us to increase market share because we always focus on two things, one is what is our medium term focus on the business in terms of P&L and no. 2 is how can we keep on improving the health of our business, and therefore I understand your question from a quarter-on-quarter basis, but if you ask from a medium term point of view, the way we look at it is, that volumes are going down, many other securities firms who have expanded significantly would consider that as a significant pressure on them, we look at it as a way for us to further improve the health of our business and consolidate our franchise. So we actually look at it as an opportunity to further consolidate, not necessarily something to be worried about, and we focus much more

on that rather than the sensitivity in terms of what it will do to our immediate P&L, and we have see that. Actually if you go back our history Mahrukh, if you look at post 1999-2000, when we really started building the securities business, the early days of markets going through tough times were actually the big opportunity for us and we considered that as something which is an ongoing philosophy. On the second question, on deposit base, I will have Dipak take that question.

Dipak Gupta:
It's a reasonable healthy growth and universal, so there is no real one-off in these CASA. Earlier we used to have some one-offs arising out of IPO floats, but this time all of that is not that significantly really. So it's a generic growth really.

Mahrukh:
Thanks.

Moderator:
Thank you very much ma'am. Participants who wish to ask questions may please press *1. We have a question from Mr. Sampath from ABN-Amro.

Sampath:
Hello, this question is about your capital-raising plan. I suppose apart from your business requirement, there is also the regulatory prescription that you would have to bring down your stake to 49% over time, which forces you take the capital issuance? Even after the current issue, suppose you still have some more headroom to go down as well, so why not raise capital in one shot rather than doing it in trenches?

Uday Kotak:
You know Sampath, we believe that we raise capital when we need it and we believe that we can convince the regulator that we are doing it in a manner which is appropriate for the company from a medium to long term perspective. Our view on that is that the current capital which we are raising is reasonably sufficient for our plans in the reasonable future and I would say reasonable future is a number which is say about 9-12 months at least, and we also have a very big opportunity to see how we make good use of capital in our subsidiaries and that is one of the challenges in front of us over the next one year. We want to make use of that and we believe that as we grow our engine, as we grow the overall business model, we just want to do dilution not necessarily from an opportunistic point of view but from the point of view of a larger long term vision for our business and that's how we will look at it.

Sampath:
Okay, thanks sir.

Moderator:
Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Uday Kotak for final remarks.

Uday Kotak:
Great! I thank all the participants for their listening to our comments and the discussions we have had. We have taken note of all the points and the questions raised by the participants and thank you very much for our ongoing dialogue, and wish all of you a wonderfully Happy Diwali and Great New Year. Thank you.

Moderator:

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 and have a nice day.