



**Kotak Mahindra Bank
Investors/Analysts Conference Call
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Moderator: Ladies and gentlemen good afternoon and welcome to the Kotak Mahindra Bank Q2 FY09 Results Conference call. As a reminder, all participants will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Uday Kotak of Kotak Mahindra Bank. Thank you and over to you sir.

Uday Kotak: Good afternoon friends and let me first introduce the team here with me. I have got my two colleagues Mr. Jayram, Mr. Dipak Gupta. I have got Shanti Ekambaram who is the Head Corporate and wholesale banking, Mr. Vikram Sud who is the Group Chief Operating Officer and also oversees some of our new initiatives including the credit card, Mr. Narayan, a familiar face for most people in the brokerage industry and my colleague Mr. Jaimin Bhatt, the Group Chief Financial Officer. Before I go into the specifics, I wanted to actually focus on the strategy, which we are following at this point of time in the context of an amazing world both, the financial world and real world which all of us are living through.

Our single biggest focus in the last few months has been and continues to be a surgical focus on balance sheet as the key parameter for us to make sure that we keep it squeaky clean and that has been a relentless pursuit which is something which we are very focused on and I would like to believe that we make sure that we have gone through that in as great detail as we can and continue to do so on a regular basis as the single most area of focus well ahead of any other focus including short-term revenue focus in terms of where we think the longer term stability of our institution is and that is something which we think we are in excellent shape as we look at our present going into the future. Obviously, we are all dealing with a very uncertain environment and therefore an increasing higher focus on risk and balance sheet is I think the key to financial institution.

Moving on to the big picture of the revenue line, the two areas where revenues if I compare it with a year ago where there is a pretty dramatic difference in the market place and obviously reflecting on our revenue lines, are two businesses of brokerage that is securities business and investment banking business. And we have seen a significant drop in the revenue line on these two businesses which have at least till last year been significant contributors to our revenues. In addition to that, if I look at three other important aspects from the point of view

of revenue, one is retail liabilities and branch banking where we have been continuing to build up our branch network and our negative on that is higher in this quarter compared to last year but we think we are coming pretty close to the end of the cycle there and in sometime in next year we see that actually moving towards a more break-even level.

Life insurance actually has been a very positive development for us. We have grown year-on-year premium more than 100% and we have seen the ticket sizes come down but our strategy which we have followed for the last many years of making relatively lower capital commitments but having much higher focus on productivity of the business model actually beginning to pay off in terms of how those numbers are panning out. And then the last piece which is something, which we started in the market place sometime around May and is the piece which we have got into the credit card business and I have my colleague Vikram talk a bit about that but essentially on that piece our focus is only significantly at the higher end of the credit card curve and right now we are not at all at the lower end where the bulk of the problems are and our view is that we will build this business at a very slow boil but steadily over time, try and get and acquire quality customers as many other financial institutions are actually defocusing on that business at this point of time. And in a way the best time to build a business is when things are really looking bad and that's the hope and belief with which we are just got into this credit card business again differentiating in terms of the segment, which we have focused on and that's another interesting development, which is there on our side.

Moving then to the cost side and some of the pain, which we have seen our P&L is coming from the cost side essentially out of the fact that last year both people cost and rental cost particularly branches and other things have been at a very high level and these costs are beginning to reflect in our P&Ls as you can see particularly on the cost side and we think this is actually as the rentals and other costs begin to come down, we are hopeful that in the next 6 to 12 months we will begin to see some of our rentals get re-negotiated down in due course and we will start seeing the benefit of that. Also at this point of time on the cost side, there are some areas where we are taking double cost because we have got a full-fledged operations and back office center which we are setting up at Goregaon in Bombay at a cost rate of something like Rs. 50-60 sq.foot about 0.5 million sq.foot and currently most of those people are occupied in offices where the rentals are between Rs. 250-500 sq.foot. So we have made our investment in that field, we would be fully effective on that sometime in

March and early April so some of our cost are also we see a clear path into the next year coming down.

We have also decided to calibrate our branch network speed to make sure that as we go into the future over next 3-6-9 months, we get advantage of low rentals rather than rushing into new branches at this point of time so that's the plan strategy overall. Therefore essentially then as we go into the future, we also believe that a significant change is happening in the financial sector where there is stress on many aspects of the financial system but both globally and in India, we would like to believe that a commercial banking platform is becoming more and more the center piece of the financial systems. We like all the businesses around it, which we have but the commercial bank is getting to be significantly more a central piece of the financial sector and we in a way are seeing that as a key part of our strategy.

Another interesting fact, which I just wanted to highlight is at a time when there has been reasonable uncertainty in the market place, I was just looking at our own bank's deposit numbers and as of end of September and now and between these two days we have seen a pretty healthy net growth in our deposits over these last 30 days literally and that in our view is pretty comforting to us to see net positive deposit flows coming into our bank in the last 30 days, which I have been a very crucial time in the market place. With that I will now hand over to Jaimin and my team to take you through some of the more specific aspects of our quarterly performance and also give the perspective of as we into the future. Over to Jaimin Bhatt.

Jaimin Bhatt:

Thanks friends. I will just take you through the quarterly numbers presume you have got the earnings update which we have circulated sometime earlier. We end this quarter, which was September 08, with quarterly profit after tax on consolidated basis of 1.6 billion. This was about 7% higher than the immediately preceding quarter, which we ended at 1.49 but significantly lower than the previous year, which was 2.4 and we will come to the reason on that. At a consolidated level, we have a capital adequacy, which is pretty strong at 19% and we ended this quarter with consolidated NIM of 6% which is much higher than the 5.2 we recorded this quarter last year. Our assets under the management across the group are at 372 billion, which is about the same level as this time last year despite the market and the NAV dips, which we have been taken on the equity funds.

At the bank stand-alone we ended the quarter at 198 branches. We have launched our 200th branch in the month of October and we are today at about

201 branches. Our CASA in the bank standalone is at 27% and the bank capital adequacy at 17.2% with Tier I being at 14%. Our insurance business during this quarter has done pretty well. The insurance premium compared to last year have grown 100% where the first year regular premium itself growing 127% over the same period last year. On the revenue side, our financing activities, the total revenue has been 8.8 billion, which is somewhat higher than the preceding quarter but about 48% higher than the same period last year. The fee income is 2.9 billion which is lower than the same period last year significantly and that is coming from both the drop in the brokerage and the investment banking revenues. The premium income as I said is significantly higher than the last year and the total revenues for the quarter is at Rs. 18.5 billion.

On the profit line, the three businesses, which we invest in Retail liabilities branch banking, life insurance and credit cards. If you look at our profit before tax before these three businesses, for the quarter we are 3.25 billion compared to 3.5 in the previous quarter. Retail Liabilities show the negative of 597 million for this quarter and credit cards, the amount, which we have looked at as a negative for this quarter is 217 million.

Uday Kotak:

I just want to explain the credit card negative is not account on account of any receivable or credit losses but on account of the business roll out cost as we have just started the business a few months ago.

Jaimin Bhatt:

Yeah. Insurance for this quarter has shown a small positive and we end the quarter with the PBT of Rs. 62 million. On the advances front, we end the quarter with 240 billion of advances which we compare with the same figure last year we have up by about 30%. If we look at the March number on annualize basis, we grown by about 19%. Most of the growth has come from different segments, big growth being in the home loan area. Treasury book has remained significantly flat during the last quarter. Deposits at September 08 were 144 billion. Last year 158 billion as a September 07 included an amount of 24 billion, which was on account of IPO collections. So if you strip that off we have seen a recent rise in the deposits during the year. On a consolidated basis, our net worth as of September now is Rs. 61.8 billion with a book value per share of Rs. 179. Net NPA on a consolidated basis other than stressed assets at 0.53%. If I take the company-wise profit after tax levels at the bank standalone, we ended the quarter with a profit after tax of 478 million as against 545 in the immediately preceding quarter. Kotak Prime ended up with the profit of 354 as against 412 in the preceding quarter.

Kotak Mahindra Capital and Kotak Securities together accounted for about 500 million of profit, which if we compare with the same period last year is a significant dip. It is about 1/3rd of the same period last year and that's on account of for the movement in the capital market segment. The insurance entity ended up with profit of 50 million after taxes and FBT for this quarter at Rs. 50.9 million. The Kotak Investment Advisors Limited, which was something we carved out from October 2007 and therefore we don't have a comparable number for the last year, it is 115 million for this quarter. At the end of the quarter, we ended with Rs. 1609 million as profit after tax. On a standalone basis, I will take the segmental PBT importantly. The lending business has shown a profit before tax of Rs. 1 billion for this quarter, which is significantly higher than the same period last year. Credit cards as we explained has a negative of 217 for this quarter.

Corporate banking is 437 million for this quarter and treasury showed up a profit of 105 million for this quarter. The bank standalone had a profit before tax of 747 million. Advances at the bank standalone have kind of followed the trend of what we are doing at the group level. At 170 billion, it is about 32% higher than the same period last year and about 19% annualize growth from the March numbers. Deposits in the bank again have grown if you take out the Rs. 24 billion of deposits, which on account of IPO floats last September, the deposits have grown steadily during the year. I'd let Dipak take up the bank numbers.

Dipak Gupta:

On a standalone basis as Jaimin mentioned, we now have 198 full-fledged branches. The customer acquisition is continuing and we are now close to about 1 million deposit customers, which is up practically double of what we were around the same time last year. From a strategy perspective, we hope to have close to 220-225 odd branches by the end of this financial year and as Uday mentioned the hope really is that by deferring some of these additional branch expansion by 3-6 months we would be in a position to lock in at significantly lower real estate cost, which will help us over the next few year on the deposit side.

On the asset side, as Jaimin mentioned that asset base is practically about 20% up year-on-year but last quarter it is sort of flattened out and except actually for home loans where the portfolio does not run off fast enough most of the other lending pieces have more or less been stable. NIMs have gone up that's the direct consequence of us managing to improve our spreads both in the quarter as well as on a year-on-year basis. Delinquencies are higher undoubtedly

practically all segments more so in the personal loan segment, the Agri segment and to some extent in the commercial vehicle segment but on an absolute basis they are still fairly well under control particularly from a risk adjusted return point of view they are still pretty healthy. I would now hand over to Vikram to talk about the credit card business.

Vikram Sood:

Hi, I just want to give you a quick update on the credit card business. I think all of you are aware that over the 5-6 years, the Kotak Mahindra Bank has been building our retail services suite. We are always significant player in the off-line and the online brokerage space, life insurance business, as well as Dipak mentioned building out the retail branch banking business. It made logical sense to sort of pretty much close out the suite of services that retail customers require and therefore we decided to launch the credit card business. A lot of work went into it for about 9 months prior to the April 2008 launch and since then we have had a fairly healthy run. We did realize that we are the 22nd card issuer in the market and therefore we decided that we needed to have you know some kind of a differentiated product and some kind of differentiated business model and strategy because it is very clearly our objective to be one of the most profitable card issuers in the market.

We did significantly amount of market research and we have developed four differentiated products that catered to four specific differentiated segments and we have focused against those particular segments. The philosophy has been to try and keep the whole business model very simple as the cards and products very transparent and very relevant to the segment that you operate and therefore the four products that we have launched are catering very specifically to the segments that we have focused on. So far what we have been able to do is build out using of course is very good people that we got from the market. We are able to build out a sales force that is currently working at a productivity level much higher than the average in the market and better than the best. The average spend that we have on a per card basis is higher than the average and comparable with the top end of the market. Our activation levels are above any other card issuer in the space.

One of the things that we did right from the beginning was to try and make sure we can create model that is sustainable. We build our systems working with a large technology player where our current model is an ASP model. We leveraged the technology setting off their Data Center so we have not spent huge amount of money building out a technology infrastructure. We currently operate on a per card basis so we pay every month for every card that we issue

and that will help us in times like this when we do not intend to be issuing card necessarily at feverish space. Our focus is clearly to do both, acquire new customers for the firm as a whole so that we can cross sell to that customer base our other products but we have very significant focus on cross selling to our existing customer base and that has begun to happen in the last few months have seen pretty significant progress on that front. All are various sales forces in the banking and in other aspects have now got another product to sell and therefore for we are leveraging that to continue to reduce our acquisition cost.

Lastly let me state that we have a fairly conservative credit approval process at the moment given what's happening in the market and where the industry is heading as well as where some of the larger players are hurting at the moment given we have had the opportunity to learn from that launch ourselves in a market like this. We have been extremely conservative and what as Uday said we are building is a high-end, high-quality customer base and therefore we are happy to build this business out slowly and steadily and make sure we never forget that we want to build out a profitable card business. Let me hand you over to Shanti Ekambaram who will talk to us about the wholesale banking business.

Shanti Ekambaram: Hi, there continues to be unprecedented demand for credit from the corporate sector. This is across all kinds of corporate large to small and across all sectors. Our strategy continues to be a cautious approach to portfolio building with focus on quality and today you really can look at better quality credit at better spreads. We have seen you know a continued demand and a continued focus on the liability side and the transaction banking side of the business and we continued our strategy of getting in the customers and really trying to see how we can cross sell a number of products. Work with them on the debt capital market side, liability side and across the whole host of products to try and mind them better. The focus on the portfolio remains quality, better spreads, and cross sell a number of products as far as the plans are concerned.

Dipak Gupta : Moving on to Kotak Prime that's the primarily car financing entity, the advances again are up on a year-on-year basis though for the quarter, we sort of started stabilizing again but remember we have still one of those few lenders who are still in the market place lending against cars. The portfolio is behaving very well. The profitability and the spreads are significantly superior and again on a risk adjusted return basis it is reasonably profitable business so the growth fairly continues on that front. In KMP, we also have small other businesses particularly

on the debt capital market side and some amount of other lending and all of that put together on a year-on-year basis profitability of that entity is significantly superior than what we saw last year. Insurance side, it's been a good quarter of our insurance and you see positive numbers there though don't get very carried away by that because some of this would be in comparison to the Q1 figure if you see we had a significantly negative number in Q1 rising out of MTM position so some of those positions have been written back now because the MTMs have improved significantly but nevertheless we actually built our very very strong and stable business the most productive from our capital efficiency point of view among the original set of people who started the life insurance business. We still must be among the lowest capitalized and the most productive and probably the most profitable and there is significant growth as you see on a year-on-year basis we have grown at a 100% plus rates. Next two quarters are the critical ones particularly Q4 and it really remains to be seen how those quarters pan out. Over to Jayram now for other business.

Mr. Jairam:

Yeah. Start with Kotak Investment Advisors Limited; this is the company in which we have all our alternate management business effective October 1, 2007, the investment management of our real estate and private equity fund where assigned to Kotak Investment Advisors Limited. For the quarter, we have a total income of Rs. 272 million and a profit after tax of Rs. 116 million. In terms of the total AUM in this entity, we currently have about \$1.2 billion of which about close to \$650 million is the real estate vertical and about \$550 million is the private equity vertical. Large portion of both the realty and the private equity funds are un-invested and we believe that's a good precession to be clearly going forward we believe we will get much better valuation as we look at investments.

We are currently in the process of closing out the international branch of the real estate fund, which we hope to do in the next month or so and we have also started the first trench for our international private equity fund and again we hope to first closing of between \$80-100 million in the next couple of months or so. In terms of our international subsidiaries privately an offshore asset management business for the quarter-ended FY09, we have profit after tax of Rs. 52 million. Essentially these are all sort of underlying Indian equities and as of September 30, 2008 the total amounts AUM where \$1.5 billion as against a number of about \$1.8 billion as on June 30, 2008, so clearly we haven't lost too much asset in terms of redemptions The decline is really being primarily on account of valuations having come off. On these international subsidiaries, we

run purely an asset management business and there is no capital deployed in any offshore sort of instrument.

Our entire capital outside of India in this subsidiary is in bank account and in no other sides of instruments. Kotak Mahindra Capital Company, the investment bank had a quiet quarter as would be expected with the state of the market. Total income of Rs. 326 million and a profit after tax of Rs. 89 million. In terms of important mandates during the quarter, Kotak Investment banking was exclusive financial advisory to Mahindra & Mahindra for its JV with the Yancheng Tractor which is China's third largest tractor manufacturer. They were also Exclusive Financial Advisor to Voltas for an acquisition of a controlling stake in Rohini Industrial Engineers. They also completed the Open Offer for Thoms Cook (India) Limited on behalf of Thoms Cook UK Limited and was the manager to the equity share buyback of Abbott India Limited. I now hand you over to Narayan to take you to the brokerage.

Mr. Narayan:

Our focus for this quarter has been considering a volatile market condition as being to control and manage risk and this we think will continue doing for some more time till there is some stability in the market. For the current quarter, we had a 217 Crores top line and profit after tax of 41 Crores. The average daily volume of about 3,900 Crores for the quarter and giving us a market share of about 5.7%. The assets under management and PMS was 2,900 Crores at the end of September. As of now, the securities have about 796 offices across in about 313 cities and towns.

Coming to the Asset management business, our total income was about 21 Crores top line with a profit of tax 70 lakhs. The AUM total was about 14,700 Crores of that equity AUM was about 3,500 Crores as of September 30, 2007. The numbers of banks that AMC operates at is about 89, it's about 1,094,000 investors. And now I will hand it over to Mr. Kotak.

Uday Kotak:

Now, let's keep make it open for questions and answers.

Moderator:

Thank you sir. We will now begin the question and answer session. At this time, if you would like to ask a question, please press * then 1 on your touchtone phone. Please use only handsets while asking a question. Participants who wish to ask a question may press * and 1 now. Our first question comes from the line of Mr. Prashant Poddar from ICICI Prudential, please go ahead sir.

Prashant Poddar: Good evening sir. Sir, one question is on profitability of the bank, which has been lower quarter-on-quarter. What has been the primary reason for the same?

Uday Kotak: Yeah, I think obviously the numbers are there in front of you of the standalone but two or three reasons. One is the credit card investment. We started in around April-May and had for the quarter Rs. 21 Crores P&L hit, which was not there last year. So that is item number one. Item number two is if we look at the retail branch banking last year for the same quarter it was Rs. 45 Crores, this year it's about Rs.60 Crores so that's the second reason. Third reason is to a certain extent some of the distress assets business last year had a second quarter profit which to the same extent was not there in this year's second quarter. So broadly these are the three main reasons why if you look at it on year-on-year basis we were lower but the two main reasons if you take it is credit cards 21 Crores plus retail branch banking 15 Crores itself adds to 36 Crores pre tax and should explain to you the bulk of the difference between last year and this year and to a certain extent you go to keep in mind that a lot of cost have increased over last year into this year and the returns from those costs are still not being reflected in the revenue side so that is also something which has impacted the P&L and one other point is last year if you re-collect the second quarter, there were a number of IPOs and the bank used to make significant float on those IPOs in terms of flows with in the bank. That also to a certain extent has impacted our second quarter. So away from some of those steroids in terms of IPO flow which have gone out.

Prashant Poddar: Sir, in terms of segmental PBT, the lending PBT has also de grown from first quarter to this quarter 1Q09 to 2Q09 from Rs. 133 Crores to Rs. 102 Crores. I think credit card investment would account for this?

Uday Kotak: Credit card would not be one. Credit card is separate.

Jaimin Bhatt: Credit card is not part of that. Lending the single most significant item there would be the difference in this stress assets profitability. In the first quarter, you had decent gains in stressed assets. This quarter has been a very quite quarter for that business.

Prashant Poddar: Okay. Q1-09 there was distressed assets Okay. Sir what is our investment in life insurance business and what is the capital of life insurance business?

Uday Kotak: Total between us and our partner total capital of Life Insurance Company is Rs. 550 Crores and our investment and bank as a subsidiary 350-375 our investment total till date.

- Prashant Poddar:** 350-335?
- Uday Kotak:** Our investment and that is to the point JV partner investment. We are actually porting Rs. 352-375 Crores and out of which for this year we put in hardly Rs. 15 Crores year to date.
- Prashant Poddar:** And what would be the requirement of this business in your sense for next foreseeable till FY 10 for example?
- Uday Kotak:** We don't see any major investment from here I mean obviously we are planning for it but we don't see more than Rs 50-75 Crores and the most in terms of the capital requirement between now and one year.
- Prashant Poddar:** : That would take you to 30-40% CAGR?
- Uday Kotak:** In what?
- Prashant Poddar:** In life insurance?
- Uday Kotak:** Yeah. We should be doing at least that much part for. First half was the record 100%. We think that level of growth may not sustain. Even it is closed down we think our need for capital actually is less because we have been actually very conscious about what was supposed to be very old fashioned way of looking at business, which is things like cost and others in life insurance business. So we used to always ask what is the productivity of the spent we are doing, is the amount of money which is being thrown and distributors by life insurance company, is it value for money and some of that always bothered us for the last many years and continues to bother us because we have focused that if we put money to work, there better be value for money.
- Prashant Poddar:** Sir, two quick questions again on insurance. One is this write back of MTM would be on share holder funds investment?
- Uday Kotak:** Yeah. To that extent because you know to a certain extent on endowment and others there was some MTM hit we took in the first quarter and thereafter we took a conscious decision to prune the levels of investment of those funds into equities which has held up in the second quarter.
- Prashant Poddar:** Okay. And one last question again on life insurance and then we declare the NBAP margins and the enterprise embedded value?
- Uday Kotak:** You know my view about the whole NBAP margins and all that I think there is a lot ambiguity going on in the market place and we would like to see some

serious credible numbers out here in the market place. We don't want to be going out and giving our numbers without getting clear clarity on levels of ambiguity which have prevalent in this life insurance industry.

Prashant Poddar: Okay sir. Thank you very much sir.

Moderator: Thank you Mr. Poddar. The next question comes from the line of Mr. Dipankar Choudhury from Deutsche Bank, please go ahead sir.

Dipankar Choudhury: Hi, good evening. First question is about your standalone banks other income which was down 50%. You talked about distressed assets part, was that the predominant reason or even the commission exchange brokerage line suffered because that presumably has got a capital market angle to it some extent?

Jaimin Bhatt: If you are talking about last year to this year, yes, we. Q2 to Q2, the stressed asset business is a major chunk and then it would not be the commission exchange but the difference in treasury activities, which is profit on sale of investments and MTM changes in the government securities in the money market area.

Dipankar Choudhury: Yeah. because that tends to be a very small number. Last full year it was just Rs. 15 Crores, so I was wondering whether the.....

Jaimin Bhatt: The other impact would be in terms of distribution income. We do make some on account of distribution of MF and other financial products. Last year that was a decent income and it has fallen this year.

Dipankar Choudhury: Okay. The second question is if I read the number right just to take the standalone account for the sake of simplicity, your deposits seem to be falling and borrowings seem to be going up, so what's exactly happening here?

Uday Kotak: On the deposits, I just wanted to highlight. First of all, if you look at vis-à-vis June. In June we had some IPO floats because it was open offer situation on Thomas Cook whose float was with us as of June 30, which did not exist on September 30th. If you look that out quarter-on-quarter, we have seen a growth in deposits and on year-on-year, the last year if you recollect there were some major IPOs including Power Grid Corporation IPO, some those were actually sitting with us on September 30, which are not there this year. If you look at deposits, core deposits that separate from the temporary IPO or IPO like floats, which have been there and the bad and the good news is that as 30th September, the deposit base you are seeing is stripped off any of these abnormal items. So if you are seeing is raw and clean without any of these

temporary floats which we were seeing in the system. On the other borrowings of institution we have been getting significant refinance against our agri portfolio from NABARD and other refinancing institutions who are supposed to be lending against like what the bank lends to agriculture priority sector. So that is where the refinance is coming from. It is a very significant growth in that refinance which we are seeing that money is 3-5 year money at very reasonable rates where to the risk prevailing in the current money markets.

Dipankar Choudhury: Okay I understood. My last question was about your margins that seem to be consistently going up despite the fact that now the equity portion would be you know unwinding progressively, so what's happening there? And of course the cost of funds are also rising in the whole system, so is it you're the lending rate increases over and above the increase in cost of funds, are you consciously increasing the risk profile of your assets, which shouldn't be the case actually according to your strategy, so could you just explain that a little bit?

Uday Kotak: Yeah. First of all last year to this year, you must keep in mind last year we did not have capital in this quarter, which we have in this year. Then we have improved to the extent of new capital, which is coming into this year versus last year, so that is difference number one. Difference number two, is that I have no doubt that the pricing power today with banks, if they decide to use it for the same level of risk is higher than ever before and continues to be sustainable and I would like to believe that we are not taking more risks, but we are just saying and I do believe banks and financial institutions around the world have had a tendency to misprice assets for the levels of risks we have taken. And therefore, if you look at the global situations, lot of the banks in the past use to produce ROEs on dropping ROAs, that is on dropping Return on Assets, and I believe that in today's volatile times, it is very important for a financial institution to price risk and therefore, while we believe we are getting additional pricing power, which is reflecting in our means, we got to be clear that going into the future, the levels of risk are higher and availability of capital for a financial institution is also at a premium, therefore we want to make sure we use our capital well.

Dipankar Choudhury: Yeah that's it, thanks.

Moderator : Thank you Mr. Choudhury. The next question is from the line of Mr. David Hanle from DLH Capital, please go ahead sir.

David Hanle: Good evening guys, just two questions if I could. First question is back on deposit growth for a minute.

Uday Kotak : I beg your pardon. Can you be a little louder, David?

David Hanle: Yeah, on deposit growth, could you just talk a little bit about your expectations for whether or not you think that's likely to pick up over the next year or so and if it doesn't pick up what does that say about your ability to continue to grow your loan book? Do you see your loan to deposit ratio, getting significantly over one at some point or do you see you being able to grow deposit in line with loans?

Uday Kotak: I think it is a very relevant question for financial institutions at this point of time and looking at the level of volatility. My picture on this is the biggest beneficiary of current volatility by far in terms of deposit growths are Public Sector Banks. And they have been disproportionate beneficiaries of the current turmoil by far. Having said that; I do believe that many segments of the Indian Financial Sector are finding redemption of money coming out of their balance sheets particularly, the Debt Mutual Funds. And if you look at the debt mutual funds number between 30th September to 31st October, I think debt mutual funds would have seen redemption of nearly a 3rd of their portfolio and the portfolio use to be something like a \$100 billion. So, \$25 to \$30 billion of money has moved out of debt mutual funds and it has come into bank. The biggest beneficiary of that in the last 30 days have been Public Sector Banks. And I am happy to say that, if I look at our bank's deposit numbers as of today versus 30th September, despite all the turmoil, we have seen a pretty across the board deposit growth in different segments, it was not just in a single bulk deposit or that, but also in the small segments 10 lakhs, 15 lakhs segments. And I am happy to say that between 30th September and 31st October, our deposits have actually grown on a reasonable basis and, which is a positive sign from our point of view and I hope we continue to see it. A lot depends on how the market feels about banks in general and I hope the fact that we have amongst the highest capital adequacy amongst all banks, probably in India and probably at most places in the world, combined with a fact that we have a conservative balance sheet, low net NPL, overtime would be a qualitative difference from a perception point of view, so that we should continue hopefully to see deposits with us grow in this times of volatility and turmoil. And we are also seeing a lot of customers who had large deposits with various banks are actually beginning to split the deposits across different banks and the fact that we were relatively smaller in size in terms of our deposit base, we would probably seeing some of that flow come to us as well. However, this is one area, which we cannot take for granted and it is at the top of our agenda to make sure that on a net basis, we continue to get deposits steadily, which is also all the more reason that

when we go out and buy any asset, we better make sure that we price it well. And I am happy to say that in the last 30 to 45 days, for almost every single day, for almost every single day barring 1 or 2 days, we were significant net lenders in the inter-bank call market. Including today, (when inter-bank call is at 20%), so we have made sure that our liquidity is surplus, we have made sure that at all points of time we don't have a need to be distress borrowers in the marketplace and actually, consistently in the inter-bank market, we have been lenders on that side. Having said that, how do we see the situation about 3 to 6 months, this is like a daily game, you know the speed at which events are moving, David it is very difficult for me to tell you how the world will look like over next 30 days, with the speed of change is faster than what any of us have experienced probably in our history.

David Hanle: Thank you and then I guess, my only other question is, in looking at the insurance business would that having been profitable on the quarter? Were there some one odd reasons for that or it should we have an expectation that the insurance business from here forward will continue to be profitable?

Uday Kotak: David as Dipak mentioned we had some mark-to-market losses in the June quarter and we took a decision to reduce the size of our exposure to equities in the July to September quarter. As a result of which our exposure to equities came down and that helped up in this quarter. Therefore, while we don't see huge losses going ahead, we should not see significant profit as well, therefore it will be reasonably controlled; no big losses of the scale and size, which we may have seen earlier. Therefore, significantly more measured and calibrated, but don't take up this quarter's profit as something, which shows a trend line for us being profitable for over the next two quarters. But, we don't see major losses at the same time.

David Hanle: Okay thank you very much.

Moderator: Thank you Mr. Hanle. The next question is from the line of Mr. Ashish Sharma from Enam Asset Management Company, please go ahead sir.

Ashish Sharma: Yeah good evening sir and congratulations on good set of numbers. Well, you have explained; my question was exactly what the last caller asked about bank deposit franchise event impacted because of certain events happening in the month of September. As you have seen that the impact has been less. Now, taking the same thing I mean are we consciously trying to create more liquidity and consciously slowing down the loan growth, considering the peer group, the Private Sector Banks have been impacted because of certain rumors?

Uday Kotak: Let me put it this way. First of all, we are making sure that we are more liquid than what we would have been in normal time, without doubt. We want to be as far as possible to be as a treasury surplus on cash than before. Having said that, if we find a stability on our deposit side which we are watching day to day obviously, we are not hesitant to be looking at reasonable lending opportunities, which means that we are not going to grow up balance sheet at 30%, 40%, 50%. But, if we feel that there is stability coming on our deposit side and we are getting the right levels of risk, obviously and tightening the quality of risk, which we will do even further. We are not averse to looking at measured calibrated opportunities to make money.

Ashish Sharma: Okay, but would we generalize that there is some impact on deposit franchise for the Private Sector Banks because of certain events happen in the month of September and which will impact, I mean your low-cost deposit growth going forward to some extent?

Uday Kotak: My point is, I first of all believe and this is a very specific point that considering the levels of capital available particularly for a bank like us and keeping in mind that there is 30-odd percent cushion of CRR and SLR, which is available with us as a bank. We feel very comfortable on the fundamental stability of our balance sheet and also with the fact that our quality of credit is in good shape. And therefore, it would be improper for me to make any generalized statements. I can say that we as a bank are very alert, very focused at the same time, we are not wanting to be at this part of time being excessively worried about any rumors, which may be going around from time to time. We will just take it day by day and just make sure we are doing the right thing, we are navigating well, we are working very closely as a team across all businesses and we feel that in the medium term, as the Indian Financial Sector, re-jigs itself the biggest beneficiary of that will be banks.

Ashish Sharma: Okay, yeah and my second question would be I mean it is just a number. What will be the outstanding portfolio of your stressed asset portfolio, sir?

Jaimin Bhatt: 575 Crores.

Uday Kotak: 575 Crores and as you know this has been bought at something like an average of 15 cents to a rupee and we think, we are still significantly in the value in terms of the embedded value of this portfolio even in these markets. Having said that, earlier if we believe the portfolio, the value of this portfolio was 3, 4, 5, x maybe that there is some impact on that multiples, but we do not see it

anywhere are equal to or lower than the current value of what we are carrying. We think there is a lot of embedded value still fitting in that portfolio.

Ashish Sharma: But in then enlistment I know the situations have changed dramatically; you have mentioned that we would like to unlock value from our stressed asset portfolio. But, in the first half numbers, there has been not much of income coming from stressed asset portfolio so may be in the second half-?

Uday Kotak: It is in second quarter, in the first quarter we had an income.

Ashish Sharma: Okay, so in the first half, what would be the quantum of income, which had come sir, can you just quantify?

Uday Kotak: We do not give disclosed at our separate number, but it was reasonable in the first quarter.

Ashish Sharma: But in second half we can expect something from the same?

Uday Kotak: We would like to believe so.

Ashish Sharma: Okay and coming to your broking part as you had mentioned last time that you are not focusing on market share or market volume because the quality and quantity matters a lot. But can you just give us a sense on the broking yields, are they at a same levels compare to Q1-FY09, I am not comparing Q4-FY08?

Uday Kotak: Yeah Narayan.

Mr. Narayan: See over period of time obviously yields have come down as, this is moved from the cash market to F&O market, but if you want to ask me the last six months, are you seeing the yields coming down on average, well we are not seeing it coming down.

Ashish Sharma: Can you just give ballpark figure for the broking yield sir?

Mr. Narayan: No, we don't disclose that so I cannot comment on that.

Uday Kotak: Having said that, I think bottom line of what Narayan is saying, yields are not coming down anymore on a portfolio basis and I think if I have to comment on the broking industry, particularly on both I mean institutional and retail side, we see time has come for significant consolidation taking place in that industry, as we so called exuberant market business models, which happened last year start facing the pressure of the downturn.

Ashish Sharma: Yeah thanks a lot sir.

Moderator: Thank you Mr. Sharma. Our next question comes from the line of Mr. Manish Karwa from Motilal Oswal, please go ahead sir.

Manish Karwa: Yeah hi, I had a question on your credit card venture. In this quarter, there has been a loss of around 21 Crores on that. Now, what is the clear strategy in terms of numbers, till what time this loss will continue, in which quarter probably it will tend to peak out and then what number of cards are we looking at, breaking even in the credit card ventures?

Uday Kotak: Let me say that, obviously we are controlling cost on that. Our target for this year is about 150,000 cards for this year and we are really going on that on quarter-on-quarter. We are capturing the high-end customers, we are not going at the lower end at all because we are very conscious about that and we have only in ten cities and we continue to have a plan to remain only in ten cities. So, if you ask me, when do we see that breakeven? First of all, we would like to believe that the losses are certainly not going to go up dramatically from here. And we think the range over time, even if I am talking next year unless there is a disaster on the receivable side. I have no doubt the number will be significantly lower from here.

Manish Karwa: Okay and even on your branch banking, the liability franchise that you are putting up. Would it be fair to assume that, we are very near to the peak in terms of losses out there?

Uday Kotak: Yes, I would like to believe that and you know as if again, as I said if I have to look at it next year, we are going to work particularly at '08, or '09, '010 working as much as we can do and bring that model closer to the breakeven.

Manish Karwa: And just one particular number on your promoter financing that you have been doing. What is the book size out there?

Uday Kotak: If you are talking about the current situation, our book is among the smallest in the industry and it will be may be couple of 100 Crores to 300 Crores on the promote financing, approx 10, 12, 14 promoters. So, nothing major and almost that entire book even at current prices is, at margins of close to 50%.

Manish Karwa: Okay thanks a lot.

Moderator: Thank you Mr. Karwa. For the benefit of participants who joined us late, I would like to repeat. Participants who wish to ask a question may press * and 1 on their touch-tone phone. Our next question comes from the line of Mr. Aditya Narayan from Citi Group, please go ahead sir.

Aditya Narayan:

Hi, I had two sets of questions. One was really on the asset quality side; you mentioned a certain amount of pressure, if you could just throw some light on this issue and how you see it panning out going ahead? The second one was coming back a little bit to your funding, but just on the deposit side you have actually seen a branch expansion of about 50% over the last year, yet an absolute term there is very nominal growth. So, one you know if you could give us some sense of how you see the performance of your branches and whether that is related to your slowing down on the expansion so, that is one way. The other thing also on the funding is that at the end of the day almost, you know at the consolidated level, almost half of your funding actually is wholesale rather than deposit funding and since you are making the call, there will be a switch to bank funding. Is there a little bit of an issue that over the next one or two years as you either get pressured on that funding or seek to unwind it you know, you could have more of this relatively modest balance sheet kind of growth scenario?

Uday Kotak:

I will answer the second question first and handover to Dipak on the asset side. On the deposit thing, therefore first of all you need to strip out all these IPO floats and then look at our numbers and net of that. Number two is and this is actually something, which is very important. The mix of our deposit base are actually significantly changed and ticket sizes have come down and therefore one of the reasons of the advantage of the branch rollout is that we are getting significantly more smaller ticket size deposits. Therefore, the overall mix has actually got better over the last 12 months or even last 6 months compared to the previous time. Therefore, the absolute growth in deposits may not be stunning, but if you look at the quality of the mix, there has been very significant change in that. So, that is the point on deposits as I say. We are reasonably hopeful and confident. Particularly, if I look at the trend in October that we have seen our net money coming to us in the most volatile time and as money moves out from other financial institutions including debt mutual funds, while Public Sector Banks will gain a lot, we do see a trickle down coming to us as well. And as long as we can maintain our credibility as high-quality institution with high capital adequacy, low net NPA's. We do believe, we could have the advantage of getting benefits of very significant shifts in the financial savings across the country from all non-bank entities into banks and again I reiterate undoubtedly, Public Sector Banks are getting the big chunk of it. But, we do believe that we should get the trickle down and however, small the trickle down of the total pot maybe for the size of our balance sheet, it will be significant. And then over to the asset quality, I will handover to Dipak.

Dipak Gupta:

On the asset quality Aditya I think, there are three areas where the gross NPL figures and the net NPL figures have moved up. One is the personal loan side, the business loan side, the second would be really the commercial vehicle side, and third is Agri side and the reasons are different in each of these cases. On the personal loan side, if you recall last year the problem was on the STPL, there was Small Ticket Personal Loan, which we did not have too much of portfolio. But what we have seen is after the STPL, the next category, the lower category of personal loan. Typically, personal loans in the 100,000 to 300,000 category, there is deterioration in credit quality there and GNPL levels there have actually moved up. There is no significant change in the quality above the 3,00,000/5,00,000 level, so that is on the personal loan and that is where we really see the impact. So, in actual absolute terms, the impact is not that very significant, you know because if you look at net NPL as of March PL it was about you know 7.5 odd Crores and net NPL. And on absolute terms in September only about 7-odd Crore increased in net NPL. On the commercial vehicle side the increase really is essential because freight rates haven't really moved up and lot of cost have gone up, diesel has gone up, tyre cost have gone up, so some of these have really gone up and there is a certain set of customers particularly the smaller end customers who have been facing problems in repaying. So, that is again increase in the GNPL levels. But again, overall in absolute terms, the increase is not that very significant. The third one really is agri, agri the increase again is largely because a lot of farmers took it easy during the debt waiver scheme announcement hoping that their names would be feature in the debt waiver schemes. But ultimately, when the scheme details came out and they got refined progressively then found that they have not been you know classified, or eligible, or entitled for the waivers. But a lot of them have now come back to 4th September, once the list have been put up in all and paid up. So, Agri is not really a problem, the business loan trend is yes, definitely negative

Uday Kotak:

And I think again coming back to the point on deposit, I just want to highlight one other point that particularly in the private sector, if the deposit basis are large; there is greater pressure on that if there is any sort of move. Now, I want to also discuss on a particular scenario, which is actually unfolding right now and that is back to the debt mutual funds. There is 4,00,000 Crores of money, which was 4,00,000 Crores plus money as of 30th September in debt mutual funds. A lot of money is moved out of there and it is continuing to move out of there and it is coming into banks. Now, I do not think all the 4,00,000 Crores will go, but let us for the moment assume that even say 50% or 60% of that

moved and I am just picking a number up to 3,00,000 Crores, actually moved out of debt funds and into banks. And if you take 3,00,000 Crores and assuming 80% of that move to Public Sector Banks and 20% to Private Sector Banks. We are still talking about 2,40, 000 Crores to Public Sector Banks and 60,000 Crores to Private Sector Banks. And can we aspire and work towards getting at least 10% share out of the money, which moves into Private Sector Banks that 6,000 Crores. My total deposit base today is 16,000 Crores and that is nearly 40% of that base. So, you are actually seeing a tectonic shift in movement of money and what it takes for our relatively smaller liability base is a small percentage of a big tectonic move for us, to get our deposit term.

Aditya Narayan: Okay thanks.

Moderator: Thank you Mr. Narayan. Our next question comes from the line of Mr. Ashutosh Mishra from Asian Market Securities, please go ahead sir.

Ashutosh Mishra: Good evening, I have a question regarding the provisioning. It has seen that in a standalone basis, provisioning has not gone up much-

Uday Kotak : Ashutosh, can you be slightly louder please?

Ashutosh Mishra: Yes, when we look at the standalone basis number, provisioning has not gone up significantly. But when we see the consolidated basis, it has gone up very significant. Can you put a light on this?

Jaimin Bhatt: Sure, there is one big item of stressed assets, which we have partly funded from one of our subsidiaries, which is in KMP and this quarter we would have to take a provision, thanks to the RBI guidelines on that asset. And to that extent that is impacting the provisioning in the consolidated, but not the bank standalone and that is also the reason why we will see the KMP PBT down for this quarter versus the previous quarter.

Uday Kotak: And the bank is in that provisioning-?

Jaimin Bhatt: Yeah, in the bank he has already taken the provisioning in the previous quarter.

Ashutosh Mishra: Okay sir thank you.

Moderator: Thank you Mr. Mishra. Our next question is from the line of Mr. Manish Oswal from Darashaw, please go ahead sir.

Manish Oswal: Good evening sir, my question relates to the credit card business. What is your delinquency level in credit card business?

- Uday Kotak:** Right now insignificant because it is of a very small receivable base yet and we have started business on end of April or early May. So far, we can say so far so good, but it has one number, which we are watching very closely to that number and we very carefully rollout that number.
- Manish Oswal:** What is the size of credit card portfolio sir?
- Uday Kotak:** Right now it is about, 5-6 months; we have added only 55,000 cards.
- Manish Oswal:** Okay and then secondly, what is your outlook on personal loan and retail loan-?
- Uday Kotak:** And our total credit card receivable, let us say 100 Crores today.
- Manish Oswal:** Okay sir, the second question relates to your outlook on credit growth in personal loan and SME segments and default levels in that segment?
- Uday Kotak:** Right now, obviously we are seeing a lot more as I talked to you the demand is coming from even high quality corporates right now and we are actually quite amazed with the level of demand from really the top-end corporates and the kind of pricing, which they are now ready to pay and therefore, obviously we are moving up to the credit quality curves as we do our lending, because we are getting are spreads coming at significantly lower overhead costs and better quality.
- Manish Oswal:** Could you explain right now the system level credit was about 29% and there is a market are talking about earnings, downgrades, so the 29% growth against in delay in projects, how could you correlate these numbers because 29% is good set of numbers?
- Uday Kotak:** If you look at our annualized growth from March to September is about 20% of our bank and we believe that we will end this year for the full year in the range of 15% to 20% growth in credit, as it looks today.
- Manish Oswal:** Okay sir, thank you.
- Moderator:** Thank you Mr. Oswal. At this stage there are no further questions. Mr. Kotak, would you like to add few closing comments?
- Uday Kotak:** Yeah sure, I think we had truly unprecedented time and uncharted territory, where the mix of the focus of us as a business and as management has very significantly changed, as I highlighted right in the beginning. Our single biggest focus is Balance Sheet Management and which we are continuing to do very closely. We believe that while the global situation maybe structurally weak, we

believe the Indian situation is still cyclical and our own view, as our house view is this is 9 to 12 months cyclical downturn, which India has seen that doesn't mean that you, at this part of time take big bets open-ended, but you navigate carefully, make sure that you are remaining clean in terms of your risk management and systems. Your cost obviously are an important item to control, calibrate branch roll outs make sure your spreads are fine, your credit quality is good, focus on making sure the deposit growth is happening on a day-to-day basis, month-to-month basis. And make sure that all our businesses are focused on value and not just price at any cost including at poor productivity levels. So, that is core of our focus. It is a very challenging time, our capital market businesses, obviously have faced the heat of drop in revenues, but that as I say, face reality and that's what we are doing. But we feel cautiously confident that most of the management team, which is here has lived through many cycles starting with the famous '91-'92 cycle of Harshad Mehta, the '97 Asian crisis and the NBFC crisis, which followed the 2000 tech bubble. And therefore, we believe that we have got our hands strongly on the steering wheel, we are not driving our car at supernormal speed either and we just wanting to make sure that we keep our eyes on the road, have our headlights on and hands firmly on the steering wheel and move steadily and navigate through this very challenging period for the global financial sector. And over the long-term a significant opportunity, if we place well for a bank centered financial institution model. Thank you ladies and gentlemen.

Moderator:

Thank you, on behalf of Kotak Mahindra Bank that concludes this conference, thank you for joining us, you may now disconnect.