



**“Kotak Mahindra Bank Q2 Earnings Conference  
Call”  
October 27, 2009**



**Moderators:            Management of the Kotak Mahindra Bank**

**Moderator:** Ladies and gentlemen, good afternoon and welcome to the Kotak Mahindra Bank Q2 earnings conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing '\*' and then '0' on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Uday Kotak of Kotak Mahindra Bank. Thank you and over to you sir.

**Uday Kotak:** Good afternoon friends and welcome to our second quarter results. It just so happens to be the same day as the date of a very significant monetary policy announcement by the RBI and I want to spend a minute on the overall RBI monetary policy. The policy reaffirms a progressive and conservative central bank which is once again moving ahead of the curve in terms of thinking and has made some very significant monetary policy announcements. I think it is fundamentally good for the soundness of the Indian financial system and I would welcome the announcement and the policy in general. This is on the back of the fact that when we have seen very significant liquidity come back in to the financial system and we have seen the back drop of pretty sharp drop in interest rates. The benefit of which has begun to flow into the P&Ls of the banks. And that is reflecting in our case on the kind of NIMs we have been able to maintain despite the change in mix of our business which has gone clearly more wholesale compared to the earlier times but despite that the reduction in the overall cost of money is the key factor behind us being able to maintain our margins. We have also seen a pretty steady growth in the assets side, we are now feeling more confident about the asset growth and believe that 20% plus asset growth is something which we will see as our estimate for the current year in terms of advances and with the margins remaining reasonably robust, we think that is a good

sign. We are also seeing a significant increase in the broad deposit base of the firm across many sources. In addition to CASA we have seen a sharp jump in our sweep fixed deposits which right now does not reflect in CASA but which is relatively low cost deposits for us. Overall I think we have had a good quarter. The outlook going forward certainly looks better on a year on year basis and I hope it should be better as we go forward. Our subsidiaries on the capital markets side have been steady. We have seen a significant progress in our asset management business particularly our domestic mutual fund and on a year on year basis we have seen a sharp increase in profits of the domestic mutual funds as well as significant swing in the earnings. With that I will request my colleague, Jaimin Bhatt to take you through the highlights and my colleagues around the table to take you through the different parts of the presentation.

**Jaimin Bhatt:**

Thanks Uday. We have just declared the quarter numbers earlier today and copy of the earnings update as well as the press tables, which would have been with you all. Just to take you through the highlights for this quarter which is July-September 09, on a consolidated basis we ended with the profit of just short of 3 billion rupees which is higher than 1.6 billion rupees same period last year and 2.5 billion rupees in the immediately preceding quarter. As Uday mentioned we are now stepping up our advances and at the end of September our consolidated advances were at 268 billion which is a growth of 12% over the same period last year. Decent part of this growth is coming in this current financial year. We continue to have net interest margins at 6%. Our consolidated capital adequacy including current year profits is a healthy 20.7% of which tier I itself comprises 18.3%. At the bank's standalone levels for the quarter we ended with a profit of 1.25 billion rupees which is significantly up from the 0.47 billion rupees in the previous year and 0.9 billion rupees in the immediately preceding quarter. The net interest income in the bank has also grown significantly and we had a 4.3 billion rupees of net interest income for

this quarter. At the bank level, the CASA is at 28% which is at the same level as we had 3 months ago. The mutual fund assets under management at the domestic mutual fund levels were 362 billion rupees as average for the month of September which is significantly higher than compared to 3 months or a year ago. The total assets managed or advised by the group as of September was 529 billion rupees which is again a decent rise from comparable periods.. We have seen a rise in the fee income coming in both at the bank and the subsidiary levels. On the ratios our net worth as of September 30<sup>th</sup> is at 71 billion rupees with a book value of 205 rupees per share. The net NPA levels other than the acquired stressed assets at the group level are 1.7% whereas on return on average net worth considering the half year profits will be at 16.3% annualized. Advances, we have seen a steady growth during the period where bulk of the growth has come from the corporate bank segment. QAs of September end the corporate bank advances were 57 billion. Auto loans has been another segment where we have seen growth and September we ended at 55 billion rupees whereas overall advances grew 12% on a year on year basis.. Deposits have grown steadily during this period. On an entity basis while we talk about the bank at 1.25 billion for the quarter. Kotak Mahindra Prime, which is primarily into auto loans, earnings after tax of 394 million for the quarter which is significantly higher than 189 million in the immediately preceding quarter. That preceding quarter we had some one time debts which led to lower profits. Kotak Securities clocked 758 million rupees of after tax profit for the quarter. The international subsidiaries had a profit of 208 million rupees for the quarter and as Uday mentioned the domestic mutual fund, the asset management and the trustee company put together which were very small contribution this time last year, has clocked a profit after tax of 195 million for this quarter. Overall at the end of the quarter we have a profit after tax of 2.997 billion rupees for this period. I would like to let Dipak take over the banking detail.

**Dipak Gupta:**

Coming to the bank standalone, the profit after tax, the bank is up 163% to 125 crores for the quarter as compared to about 48 crores the previous year and about 90 crores in the previous quarter. Advances as Jaimin mentioned, gained significantly up 16% up at 19,700 odd crores as compared to the 17,000 crores last year. If you look at the breakup of the advances you will see that bulk of the growth and advances is essentially in the corporate banking segment. The personal loan business and some other business you know continued to actually degrow. Basically it is not adding any assets at the same pace as we were in the past. So bulk of the growth is corporate banking and while you see growth here on the funded side, the non funded side LCs and bank guarantees has also grown up equally very well. On the NPL side there is an improvement in the performance, on a standalone basis that exclude the non performing stressed assets. The gross NPL are 2.97% and the net NPL are 1.7%, marginally down from what they were earlier on. On the liabilities side we now have 230 full fledged branches which is up about 13 odd branches this quarter and you see the CASA deposit ratio at roughly about the same level as it was in the past. Though of course, in the absolute terms if you see CASA, CASA has actually grown by close to about 400 crores on a quarter on quarter basis. Moving on to Kotak Prime, which is essentially our car finance business, there has been a reasonably healthy growth on the car finance assets buildup. We have added close to about 600 odd crores of assets in the quarter of September 09.. Profitability is significantly better on a sequential basis while on a quarter on quarter comparable basis, it is about the same level. Delinquency level in the car finance business are reasonably under control and overall in line with the overall improvement in delinquency performance, car delinquency actually are also coming down. I would now request Gaurang to take on the insurance biz.

**Gaurang:**

The insurance gross premium quarter two went up from 525 crore last year to 585 crore. This comprises of first year regular premium of 216

against 342 of last quarter and we have a significant growth in our renewal premium, which was around 112%. Solvency margins have gone up because we are still in to the profits to 3.07 versus 3.02. Our profit after tax for the quarter two was 44 million against 51 million last year and the network of branches, we were very slow in terms of putting up branches last year. But we put 6 branches in the first half. The total number of lives combined between the group and individuals is over 2 million at the end of the period. Thank you. Now we hand over to Narayan of Kotak Securities.

**Narayan:**

Kotak Securities, the total income for the quarter was 234 crores as against 219 crores in the same quarter last year. Net profit was 75.9 crores against 41 crores. The average market turnover was about 4100 crores as against 3900 crores in the first half of 09. Our market share for the first half is about 4.4% of the total daily average. The assets under management is 2700 crores as of September 30<sup>th</sup>, 09. Kotak Securities as today has network of 962 offices, it includes both owned and franchises and it is across 358 cities and towns with about 5,25,000 customers. I would also like to cover AMC at the same time. For AMC, October 09 was one of the important landmarks for we crossed 40,000 crores of assets in this month. For this quarter, that is the quarter which passed by we had a total income of over 48 crores and the profit after tax was 17 crores on the AMC and about 1.7 crores in the trustee company as against a nominal loss of 10,00,000 last year same quarter and almost the same amount of profit the last year the same quarter. The AUM as of September 09 was 36,200 crores of which the equity AUM was about 5400 crores. As of now the AMC has about 82 branches and approximately serves about 1.1 million investors. Now I will hand it over to Jayaram.

**Jayaram:**

I will start with Kotak Investor Advisors Ltd. This is the entity in which we manage our private equity and realty funds. Currently we have funds with the commitments aggregating to 55 billion rupees.

And the quarter performance as is the case in this business is pretty much at par with the last quarter performance and we hope to over a period of time do some disinvestments.. Kotak Mahindra Capital Company, the investment banking entity obviously with capital markets having improved dramatically, , not necessarily reflected in the second quarter numbers which are the same as the first quarter numbers with a profit after tax of 41 million rupees but a number of prestigious mandates in terms of QIP's, some of the important QIP's which KMCC was involved with were HDFC Ltd, Cipla, LIC Housing Finance, Nagarjuna Construction Corporation and Patel Engineering. We were also involved with the initial public offers of NHPC, Adani Power and Sriram Transport Finance. On international subsidiaries again we have had a good quarter and as of September 30<sup>th</sup> 2009, the assets managed or advised by the international subsidiary are up to 1.8 billion US dollars. Second, with this number we have now got past the number which we had as of September 30<sup>th</sup> 2008 which was 1.5 million and at the end of the previous quarter when it was 1.6 million. Profits also in this business were robust and we had a profit after tax during the quarter of 208 million rupees.

**Uday Kotak:** I think we are done with our presentation and now we open it up for Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '\*' and '1' on their touch tone telephone. If you wish to remove yourself from the question queue you may press '\*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Mr. Ashish Sharma from Enam AMC. Please go ahead sir.

**Ashish Sharma:** First question is on the Kotak Mahindra standalone bank sir, first of all can I get your average yield on investments because this quarter your interest on investment has jumped sharply on a sequential basis where

as your investment book has gone down. I mean can you explain why is that sir?

**Jaimin Bhatt:** Investment book has gone down at the end of the period but I don't think on an average the book is very different from what was there in the previous year.

**Ashish Sharma:** But I mean any sharp increase in on the yield on investments?

**Speaker:** No when you are saying that is income on investments.

**Ashish Sharma:** Your interest income components?

**Speaker:** That would be not just that, you have some investments which have been made during the period and which you have exited by the end of period.

**Ashish Sharma:** But can you just share the number of your yields on investment sir for the first half?

**Speaker:** We have parked temporary surpluses in , in debt mutual fund but which does not show up in my balance sheet number at the end of the period since we have exited these. However, obviously income on investments arising out of these during this quarter.

**Ashish Sharma:** Okay but income on mutual funds citing as per RBI I mean last quarter I mean when did the bank started showing it in non interest income it was not clubbed with your interest or income on investment?

**Jaimin Bhatt:** That was showing as income on investment.

**Ashish Sharma:** Okay and second would be for your AMC, I mean it has shown a profit of close to 20 crores in this quarter. Is there any one off I mean is it operational income or I mean any one of non operational income is included in that sir?

**Jaimin Bhatt:** There is absolutely no one off income and that is what you expect to go during the year as well as operational income.

**Ashish Sharma:** Okay purely operational income and do we have any internal target I mean strategic target for the AUM's we are targeting by March 10 and March 11, I mean it all depends upon market conditions but do we have any strategic internal target for that?

**Uday Kotak:** Our strategic internal target is to get as much as we can, as soon as we can.

**Ashish Sharma:** Okay.

**Uday Kotak:** I like one thing its the Max Stuart philosophy which we have always talked about, we actually love business which are more annuity in nature which keeps on giving us earnings without necessarily sucking in disproportionate capital. At the same time of course we are building the bank which will take capital but we really like the asset management business and it is an area of focus for us both in terms of domestic and offshore asset management into India.

**Ashish Sharma:** And Kotak Mahindra Capital Company sir, I think in the last con call we have mentioned that many of the QIP's income couldn't trickle in the last quarter and we expected to come in Q2 but the Q2 even again sequentially we haven't seen any marked improvement even though capital markets have improved drastically is it the cost pressures which are building or the yields on transactions have a bit gone down sir?

**Uday Kotak:** I think the fact of the matter is activity levels are high, having said that lot of deals are having more merchant bankers so that is obviously fragmenting the fees clearly and we feel that with the pipeline we have going forward, if those deals fructify and if the markets are in reasonable shape, I think a lot of those deals will get done and fees will be booked. You know at the same time that some of the

acquisitions are happening at very low prices in terms of what merchant bankers are quoting as fees.

**Ashish Sharma:** Okay. So basically not the cost pressure the industry getting fragmented and the yields on the transactions are getting better?

**Uday Kotak:** We have been seeing that, that is right now investment banking business is seen, I mean every global player in the world is here in India now. So you have seen everybody trying to get a piece of action and which is obviously while the pot may be growing we think there will be fragmentation before there is consolidation, but having said that we are seeing that in terms of our position and our share we are getting a pretty decent positioning and share of the business and which we will see in terms of how it results in performance as we go down the year. Other important point I think we need to keep in mind is that a lot of the advisory work is in the pipeline and we haven't seen that much closure of advisory work in the last few months.

**Ashish Sharma:** Okay sir and last question is on Kotak Mahindra Prime, sequentially we have seen a close to 1000 crore increase in the advances, first of all can you provide the break up between auto advances and other advances and how exactly are the things shaping up on Kotak Mahindra Prime and I mean as you have provided asset quality its perfectly fine. Do you see its ascending in the ensuing quarter sir?

**Dipak Gupta:** . Our auto loans have grown from Rs. 4938 crores as of June 09 to Rs. 5532 crores as of September 09 a growth of close to Rs. 600 crores.

**Ashish Sharma:** So I mean on overall basis out of 6840 crores how much will be auto sir?

**Speaker:** 5500 crore is auto.

**Ashish Sharma:** Okay fine sir.

**Moderator:** Thank you Mr. Sharma. The next question is from the line of Mr. Sunil Kumar from Birla Sunlife Insurance, please go ahead sir.

**Sunil Kumar:** Yeah sir. On the banking side wanted to check as you mentioned on the loan book that the majority of the loan book has been contributed in the corporate banking side and we have seen obviously a decline sequentially in the personal loans, what is the trend you are going to follow going forward and considering this trend what is the outlook on the margins?

**Uday Kotak:** I think first of all very clearly a shift in mix between wholesale and retail which we will have overtime some implications on NIM's and we are actually quite fortunate to be able to maintain NIM's at the levels we are and having said that our cost of funds is dropping pretty sharply. We are getting a very good mix and as I mentioned to you that in addition to our CASA ratio which is the number which you have seen, we have a fair amount of deposits which are much lower cost. We are amongst the few banks which actively promotes sweep fixed deposits and which results in lower cost on TD's for us compared to most of the banks and sweep fixed deposits are now a significantly larger part of our total deposits and we do not consider that as cannibalization. We consider that more customer friendly and while our cost of funds on those TD's is much lower than the average cost of TD's. We have also been more pretty conservative in the kind of interest rates we have been paying on the liability side. Therefore we think our cost of funds management has been pretty good, which is leading to our mix. The mix is changed and is changing which is fine and therefore at some point of time, does that have a consequence of reducing NIM's to a certain extent? We think yes marginally but we don't see a very dramatic shift in NIM's down because of the way we are managing both the assets and the liability mixes but 6% is a very high NIM so we understand that and our focus is to make sure that we continuously improve ROE and with capital adequacy on a

consolidated basis still at 20% plus and our current ROE at 16.5% or so we think that we have got a lot of room to go in terms of growing ROE and spending our equity better and at the same time getting more and more of earnings coming out of things like asset management which don't require capital.

**Sunil Kumar:** Okay sure sir and so on the asset quality side, wanted to check what our restructured asset is? Is there any change?

**Uday Kotak:** We are amongst, the lowest on the amount of restructured assets, I think we have hardly got any restructured assets; total stock is about 100 crores.

**Sunil Kumar:** Okay and on the gross NPA side obviously it's very positive to see that a sequential decline in gross NPA so can we assume that it's peaked out for the bank?

**Uday Kotak:** We think in fact if you recollect in the June quarter we said that we felt that we were at the peak of the cycle in terms of provisioning and with the philosophy which does not make us do restructuring and much rather recognized NPLs as they are through our books which is what we are always more comfortable with. We think unless something dramatic happens and I don't know which camp you are in whether in the camp of V or W, but as long as we are not in a another W globally, I do believe that we have peaked out on NPAs probably.....

**Sunil Kumar:** Okay sure, and sir one last question in asset management business what's your outlook going forward. Is this kind of revenue and profitability is sustainable? My question is coming from the numbers of investors which have gone down sequentially?

**Uday Kotak:** Yeah my view is that if you manage asset management well and that is a big challenge because from time-to-time you have challenges in terms of making sure your performance is okay and everything else which comes with fiduciary responsibilities. We think the asset

management business is a very strong long term annuity business and we are very committed to that across all our different products routes through we work whether it is both public market assets, fixed income assets or alternate assets and as a group we will continue to give focus. I remember for many years, asset management revenues and profits did not show up in most of our charts because they were so insignificant but we think it is going to be a very material business for us as we go into the future.

**Sunil Kumar:** Okay but sir number of investors which have gone down sequentially the wall is high actually.

**Uday Kotak:** So that is pretty clear, you are having much larger ticket money coming, it's a pretty clear sign.

**Sunil Kumar:** Thank you so much. All the best.

**Moderator:** Thank you Mr. Kumar. The next question is from the line of Mr. Ajinkya Dhawale from Motilal Oswal, please go ahead sir.

**Ajinkya Dhowle:** Just wanted to check on two things, one is on the retail banking side, our operating expenses have gone up the standalone bank I am talking about. Revenue line seems to be stabilizing but the profit growth is pretty strong on the lending retail piece. Also wanted to understand the NPA cost decline sequential which is very meaningful and then considering the 70% provision coverage ratio which RBI is asking everyone to make. How do we plan to take that?

**Uday Kotak:** Okay I will answer the third one and then for the first one and the second one I will give it to Jaimin. I think RBI again is being proactive and ahead of the curve and it has two implication, number one banks will need to provide more aggressively on NPA's and philosophy which we strongly believe is the right way to go forward, that's point number one, point number two is that and here in a way vindicates our position that if you have any NPL recognize it and we

prefer the NPL recognition route rather than the restructuring route because by September 2010 if a new NPL happens between now and September 2010, the new coverage rule effectively means on that new NPL the bank will have to provide 70%. We believe that recognizing NPLs early and making provisioning on those NPLs through your books of accounts as you see the NPL situation evolving, is a much better way than to have a situation where suddenly March or June or September our asset which would have been better recognized as NPL has gone through the restructured route and then you find that you have got zero provisioning on that and suddenly you have to provide 70% on that.

**Ajinkya Dhowle:** Right. I mean it is going to be problem for other banks, you also with a 40% coverage ratio right now...

**Uday Kotak:** No I think our coverage ratio you also got to keep in mind that we have got a pretty significant standard provisioning number, out of which a very significant portion of that is not required for us for standard provisioning, it is actually surplus. So there is an element of surplus in our standard provisioning which is effectively I mean obviously depends on how RBI qualifies it, in our view if it is not required as per the standard provisioning norms of RBI that would certainly be classified as a floating provision, they do not allow us to write it back on the books. And that along with the fact that we continue through a process of steady provisioning in most of our businesses we think we are very comfortable on the whole area of this 70% coverage between now and September 2010 and the fact that we have hardly any restructured assets which we need not worry about on which if they became an NPAs between now and September 2010 by the new coverage norms you need 70% provisioning. So with that I will ask Jaimin to answer the first two.

**Ajinkya Dhowle:** Okay, just one clarification here, the standard asset provisioning will not be added as of now, as we read the document today?

**Uday Kotak:** Yeah but in the standard asset provisioning, we have two kinds of provisioning, one is required for standard assets. Second is what was provisioning as per October 2008 which has dropped because a lot of our provisioning was on things like retail loans, unsecured personal loans and all where the absolute asset book has dropped. So we actually have a surplus sitting there. And there was that 2% if you recollect and that asset book has dropped so there is actually surplus on that provisioning which is sitting there.

**Ajinkya Dhowle:** Right. And you hope you will be able to get...?

**Uday Kotak:** And therefore not standard provisioning as required by RBI on the asset book which we are fully meeting and a surplus sitting.

**Ajinkya Dhowle:** Right. And you hope that this could be given as an allowance for that 70% coverage?

**Uday Kotak:** As far as I know if by any definition that is surplus provision then I would consider as floating provision in a way.

**Ajinkya Dhowle:** Okay.

**Jaimin Bhatt:** Ajinkya coming back to your other questions on the cost for example sequentially you have seen a quarter-on-quarter wise, you are talking about the bank or overall consolidated?

**Ajinkya Dhowle:** No standalone.

**Jaimin Bhatt:** Okay standalone, a few reasons, one is you would have noticed some of the marketing spends which we did this quarter which after a long time we have started spending on the brand image building efforts, so that is some cost which we have taken this quarter. We have also taken some cost which are accounting and one time in nature on account of premises related, also this quarter we have got operation cost rises, for example you have talked about NPA declining, NPA

decline also has come with increased prepossession cost and that is one of the reasons for the increase in the cost there. The other thing is we have moved into new premises while that is overall going to be saving cost we gave up some existing premises elsewhere and took accelerated depreciation on those. So, all of this put together you have a certain element of spiky one time cost which have risen this quarter. So that is to answer the cost question. On the NPA ....

**Ajinkya Dhowle:** Jaimin one question here, how much of this one off would be there in the current quarter?

**Jaimin Bhatt:** About half of that.

**Ajinkya Dhowle:** Okay, thanks and yeah go ahead.

**Jaimin Bhatt:** NPA you take our last quarterly call we talked about the fact that we believe June was the peak and we continued with that, this quarter if you look at the increase in the NPA amounts it has been significantly lesser than what happened last quarter. And the trend which is going we continue to believe that that is where we are headed.

**Ajinkya Dhowle:** Okay. And the sequential drop in Tier I in the standalone bank is it fully attributable to the loan growth during the quarter or ...?

**Jaimin Bhatt:** It is loan growth as well as off balance sheet items.

**Uday Kotak:** But having said Ajinkya the bank's total capital adequacy is 18% plus.

**Jaimin Bhatt:** Yeah 18.6% if you take overall Tier I with Tier II of which bulk of it is Tier I. Further the non funded piece has also grown.

**Ajinkya Dhowle:** Okay.

**Jaimin Bhatt:** Which adds to the risk weighted.

**Ajinkya Dhowle:** Right. And how do you see the credit card losses because we could have thought it would come down eventually but seems to be we are running at a same run-rate or actually it is accelerating also?

**Uday Kotak:** So there we have, I think this is a quarter where we have 37.2 crores and it should start coming down next quarter onwards maybe. See basically in all of these entire unsecured loans what we have seen now is a reasonable positive feel. Addition to the fresh delinquent customers is coming down now, but whatever is NPA it has to go through the pain actually. So I guess last quarter probably was the peak and it should start coming down now. And there we have not really been increasing our book by any major...

**Ajinkya Dhowle:** Okay, fine that is it for now, I will get back later with some questions.

**Moderator:** Thank you Mr. Dhowle. The next question is from the line of Mr. Manish Ostwal from Darashaw. Please go ahead.

**Manish Ostwal:** Yeah the question on the market share, currently Kotak Securities market is 4.44 or sequentially it is declining although the market turnover is increasing so what is the reason behind it?

**Narayan :** Yeah see if you look at the 2<sup>nd</sup> Quarter it is slightly lower than what it was in the 1<sup>st</sup> Quarter and our average for the first 6 months is about 4.4 so the fall is not that significant compared to the 1<sup>st</sup> Quarter, yes but we have lost a little bit of market share in this quarter. I think if you look at the market which I have been seeing last quarter also, the substantial part of the market has been on the prop which is what is major part of the market has been, plus the distribution has happened of the market share over larger number of players than what it was about say a year, year and a half back. So to that extent if you look at most of the players in the market today you will see some amount of fall in the market share rather than anybody gaining substantial market share.

- Manish Ostwal:** And what is the bank standalone network?
- Uday Kotak:** It just crossed 4000 Crores at this point of time, banks standalone and consolidated it is about 7100 Crores.
- Manish Ostwal:** Okay, sir thank you very much.
- Moderator:** Thank you Mr. Ostwal. The next question is from the line of Mr. Kunal Shah from Edelweiss. Please go ahead sir.
- Kunal Shah:** Sir on credit growth we have already done round about 19% year-to-date okay and we have been previously guiding in the range of 15% to 20% sir so how do we look at over the next half, since we expect as there would be a good credit off take in the second half. So what would be the guidance now at this point in time?
- Uday Kotak:** I think credit growth is looking good at this stage and we are positive about the credit growth as I have said right at the beginning, for the year we are saying 20% plus. Now where do we end at I think depends on how the economy shapes up and how it goes but our guidance is 20% up year-on-year.
- Kunal Shah:** Okay. And secondly like we have seen the stressed assets portfolio going down so was there any significant gain which was booked in this quarter?
- Uday Kotak:** Not significant gain, no, just routine, nothing significant.
- Kunal Shah:** Okay. And overall if I see the gross NPLs including stressed assets and excluding and even the net NPL then actually there has been a significant jump in gross NPL for stressed assets for which we were required to provide round about 70 to 75 odd Crores during the quarter, while actually there would have been write back if we just look at the banking number apart from the stressed assets portfolio, so when do we see the provisioning from stressed assets going down?

- Uday Kotak:** I think our view is that we will continue to provide on assets including stressed assets and we will keep in mind, say we buy a portfolio 10 stressed assets and we get success in 1 or 2, we still have got to continue providing on the balance sheet but on the 1 or 2 which indicate success it is a multiple of the amount of investment we have got net of the provisioning.
- Kunal Shah:** Okay. So maybe the write back gets offset from the additional provisioning which ...?
- Uday Kotak:** That is correct and therefore you know in a portfolio of say 10 you have 1 or 2 successes and balance 8 you got to make sure you also provide to the P&L. And the 1 or 2 which come in give you a big kick up. And this figure is not right it is not 75 Crores the increase on a sequential quarter basis is very marginal actually.
- Jaimin Bhatt:** In fact 77 Crores what you are looking at Kunal is the overall position which we have got.
- Uday Kotak:** Total outstanding provision.
- Jaimin Bhatt:** Total provision for the quarter in the bank standalone.
- Kunal Shah:** Yeah but I was just back calculating the number and over there I was just getting some write back, if I exclude stressed assets and on account of this it was on stressed assets there was slightly...
- Uday Kotak:** No.
- Kunal Shah:** Okay, I will take this offline.
- Uday Kotak:** Okay.
- Kunal Shah:** Okay, thank you.

**Moderator:** Thank you Mr. Shah. The next question is from the line of Mr. Aditya Narayan from Citigroup. Please go ahead sir.

**Aditya Narayan:** I have a couple of questions, the first was in terms of the wholesale loan book which you know there seems to be huge amount of lumpiness, there is a strong growth but it appears very lumpy in terms of the size of it. Any sense in terms of, you know how granular this is? And along with it the profitability on this seems to be very sharp, because your PBT on it seems to have gone up almost doubled over the previous quarter. So some sense of whether this is fundamentally more profitable or it is just netted off against lower provisions that have happened this time, that is one question. The second one was on the wealth management side and the distribution side, you know some sense in terms of how the model is shifting to a fixed fee formula and whether there have been any pains or gains on that front. And if possible any thing in terms of the actual numbers in terms of how that has evolved? And along with that, just something from Gaurang on the impact on insurance given the new regulations, I know it is still very early but whether there has been a lot of chopping and changing in terms of the policy mix and how do we expect this to pan out going forward. And just one last one, some sense again in terms of the profitability, the leverage of profitability to the markets because now we see quarter-on-quarter I know volumes have not really been up over QonQ but in some sense both the investment banking business and the securities business seems to be losing a bit of the market share and from a return perspective seems to be flattening off a little bit. So some sense in terms of how you see the overall leverage in that business to the markets, whether there has been a delta or a change in the dynamics as they used to previously.

**Uday Kotak:** I think very valid questions Aditya, first on the wholesale banking business and then I will hand it over to my colleague. On the wholesale banking business keep in mind that that one of our

businesses which is beginning to kick in pretty well is the debt capital market piece which sits in the bank and which we club as a part of the wholesale banking business which is again a model which we take some loans on our books and we syndicate the balance and book fees on that. So that piece is beginning to kick in pretty nicely and I would like to believe that the debt capital market fees has got more legs to it and more granularity to it and therefore we have the ability of being able to keep on getting some of those hits as we go into the future. #2, The pure book growth keep in mind also due to the fact that, book growth does not immediately result in immediate profits because it gives you earnings over a period of time and therefore not all of the book growth has resulted in spiky profitability. #3, The area where I think we have done well on the wholesale bank side is we have really got our cost of funds very much under control and I am sure you have got, our cost of funds for this quarter was 5.5% so which is significantly down from what it was say even as for the previous quarter which was close to 6% and 6.25% for the pervious quarter and if you just look at one year ago it was like something like 7.5% or 8. So very significant drop in our cost of funds and the mix of how we have managed the liability side on the wholesale bank, which has given us the earnings in our wholesale bank...

**Aditya Narayan:** Uday just one thing on this is this reasonably short term in nature you know 3 to 6 months assets and liabilities or would they be slightly more medium term?

**Uday Kotak:** If you ask me and at the heart of our model is that we are a little cautious about taking 5 year and 10 year loans in project finance and infrastructure that is not something which from a risk point of view we necessarily go gung-ho on. And therefore heart of it of what we are building is more transaction banking, getting into banks into working capital lines for getting into companies for working capital lines and that is the area where we are focusing much more rather than more

project oriented infrastructure oriented, those would be sticking on the balance sheet we just feel we are not that comfortable with some of the risks which are associated with that therefore we are not more project finance, we are more working capital.

**Aditya Narayan:** But in a fact, would this still be more, you know 3 to 6 months or 12 to 18 months?

**Uday Kotak:** Some of them are floating rate loans, some of them are working capital bills of exchange and things like that.

**Aditya Narayan:** Yeah I mean any possibility that you know at the end of the next quarter this number is potentially actually down even though the general environment is positive?

**Uday Kotak:** At the end of next quarter, I mean at the end of December quarter would be high.

**Aditya Narayan:** Okay.

**Uday Kotak:** That is why we are confident about that.

**Aditya Narayan:** Okay.

**Uday Kotak:** Now with that I will handover to Jayaram on the question on wealth which as you know we moved to a completely different model and will take you through the process of that, which we think is a annuity in the making.

**C. Jayaram:** Much before SEBI has come out with new terms removing entry loads etc. we had made the call on the wealth side that we wanted to move to an advisory model from a transactional model. And this is just in line with global private banking trends where many of the private banks particularly in Europe have moved over to an advisory sort of models, because essentially it removes all conflicts with the client. And this is the process which started it is progressing very well, we believe there

is a lot of traction with that clients, currently anywhere between 20% to 25% of the assets which we used to sort of managed, we have moved on to this platform to the advisory platform. And I believe with that over the next year, year and half we would be able to sort of not only move our entire existing sort of base of clients to this platform but also get a fair amount of new clients because while many of the competitors are now starting to look at this model, I think there is an advantage which we have of sort of moving into this model a little earlier and sort of hence capturing early grounds, this is on the wealth side. And on branch banking and retail banking we still have a transaction model there of course again as a bank we have the advantage over many of the distributors, because typically some of the charges on the mutual funds sort of thing you can debit in the account and you do not need the customer writing out a separate cheque which is what you would do if he needed it, he wants with anybody other than a bank. So that is broadly what we have been doing on both the wealth front as well as the distribution front.

**Aditya Narayan:** And from a pure, say revenue for customer perspective you know is there a dip on this because I would be surprised if you are charging 2% flat on this, right?

**Jayaram:** That is the little bit of, it really it depends in which environment you are talking about, I mean clearly if you were talking about a year, year and half back at the peak, transaction volumes are very high to that extent if you say has it sort of change from that, yes it had, but clearly in the last year, I mean number of transaction also have decreased because markets have gone through their own set of ups and downs, so to that extent if you were to look on a sort of apple to apple sort of basis I think most of that pain which involved the transaction front is out of the system and from now on, if we can achieve what we seek to achieve which is to sort of move the entire client base onto this platform over the next year, year and half. And sort of increase the

number of clients, we believe that going forward from there it is far more robust model because then you really have annuity year-on-year rather than sort of depending on markets spent, whether there are more transactions or less transactions.

**Aditya Narayan:** Thanks.

**Gaurang Shah:** Aditya, you know you are talking about regulation and there are so many of them, so I hope it is on cap on charges and I think the cap on charges kicks in from 1st of January and of course for the new product it was 1st of October but even with the existing products, and I think the overall impact from the total allowance which you collect out of your policy over a policy period would be around 20% compared to what currently you know product mix which we are running. And the real stress is actually on a lower ticket size, so wherever you are selling ULIP with 15000, 10000, 18000 that is where the sale is more, but our average compared to what the industry, where the industry averages, we are at sweet spot of around 25,000 so it impacts us less to that extent. And I think you can also pass on part of this burden in terms of reducing commission, but I think we will by and large wait and watch how exactly it goes and I think everything will unfold in the critical last quarter January to March. I think you need basically a 25% productivity increase from January and I think we are lean and mean where in terms of our overall structure, I think it will help us a lot in terms when we enter January.

**Aditya Narayan:** Right thanks. Just a last one in terms of some sense of the leverage that the securities and investment banking has to the capital market if you see and it is cannot even quantified but in some sense you know this quarter itself has been a little flattish where the markets have continued to move on?

**Uday Kotak:** Having said that Aditya divide it in two parts, the securities and investment banking. On security side if you look at quarter-on-quarter

the market volumes are more or less flat, I mean we have not seen the jump in market volumes. And the time has really come for securities firms now to really see how they can manage margin better. And one of the areas which I think is clearly dominant is that, the F&O side may give you higher market shares but it is giving you very, very low margins, and the cash market side is giving you significantly better margin with the F&O side, therefore in condition to focusing on market share which I think is clearly important, it is extremely important to make sure that your margin mix is in good shape. And the real issue I think in my mind is obviously; as the market turnaround happens you will go to start increasing the levels of expenditure including for compensation and all that. So we have got to really watch how that cycle works. And on the investment banking side, there is every global player here on the investment banking side and we obviously even if the pot grows, I think the key issue in terms of earnings is going to be how the whole compensation cycles plays out. And I am very closely watching how the American compensation cycle plays out in December, in terms of how that handles because in many ways I think India unlike some of the other global market in investment banking is relatively a low margin market. And the ability and sustainability of global competitors to play the game in a relatively low margin market over long periods of time is still in question. And I would say that the jury is still out and I will wait for, one the sustainability and the resilience of the global players to sustain in terms of the Indian markets at relatively low margins and how that cycle plays out with the compensation cycle which we must watch very closely over the next 3 to 4 months. I think those two are going to be very critical for the shape of the investment banking business in particular. And on the securities market I think we are doing a set of things which actually is going to increase and have significant implications on improving productivity and obviously we are very conscious about making sure that our market share is focused on as an

item as well as the margin on cash and F&O difference between cash and F&O is now pretty dramatic, in terms of agency commissions.

**Aditya Narayan:** Okay, thanks sir, now you actually also have the RBI to contain with on compensation.

**Uday Kotak:** That is correct, so I think it is a very big area because, at Indian margins on investment banking business and if it is global cost, I have a big question about sustainability of the global cost structures for India.

**Aditya Narayan:** Okay thanks.

**Moderator:** Thank you sir. The next question is from the line of Mr. Hiren Dasani from Goldman Sachs. Please go ahead sir.

**Hiren Dasani:** Just a macro question, first of all since you mentioned the different camps, which camp as of today you believe in V, U or W?

**Uday Kotak:** My view is again this is I am not an expert but I just happened to be making two trips to the US in September and early October and also one trip to Europe. My sense is US is in for a sluggish recovery, which is nothing dramatic, slow sluggish, painful but nothing which is weak, therefore it is clearly not a V in the US that is the basis of what I read. And if the recovery is sluggish in the western world and of course I still do not know how the Dollar equation will play out, but the other key factors to this whole equation is how the oil equation plays out, because from an Indian point of view that is also important but if I have to take an optimistic scenario, a sluggish US recovery, low commodity prices, oil prices below \$75, liquidity because the recovery sluggish therefore global liquidity is comfortable, as a result of which India continues to be in a sweet spot. And oil prices not out of control which will be a great position for India to be in. Of course the counter situation is that if the Dollar cracks disproportionately and oil goes out of control that is not good news for India. So my personal

view is I am more in the camp of sluggish US recovery, moderate commodity prices, and a Cinderella period for India to be in.

**Hiren Dasani:** Great, sir the second question is on the, you know the banking side, now it seems more or less clear that we are moving into an era of probably raising interest rates in the Indian banking system maybe not now but over a 3 to 6 months. So how do you look at the balance sheet in terms of funding your own funding mix where it is roughly half of the interest bearing liability that would be coming from the borrowings, probably 1/3rd of, I mean I am looking at 18,000 Crores of deposits vis-à-vis 7 roughly 6300 Crores of borrowings. So don't you think that this is slightly skewed towards borrowing?

**Uday Kotak:** You are right, I think it is, I think I will ask my colleague Mohan, answer on that because some of our borrowings are refinancing.

**Mr. Mohan:** Yeah the borrowing that we have done you know it a low cost since amongst others it includes refinances and refinances basically are which we have predominantly taken from NABARD and that is actually long term there it goes to from 2 year to 5 years that is the length of this one. So it is stable in that sense. And the other component of this one is also CBLO, now CBLO is against government securities and therefore if you liquidate government securities, that part of borrowing will come down. So these are the two actual components of borrowing.

**Uday Kotak:** In fact I think the deposit growth is pretty robust and we are very cautious on our interest rates and if you look at our interest rate compared to most of the other players you will find us to be a little conservative that is because even now the funny thing about the Indian market is, even now wholesale term deposits rates, term deposit rates are lower than retail term deposit rates, with all of the additional retail cost.

- Moderator:** The next question is from the line of Mr. Sangam Iyer from Alpha Advisors. Please go ahead.
- Sangam Iyer:** Yes sir, I just wanted to get a sense on your this Kotak Bank, the provision for this quarter was actually lower as compared to this thing, could you just give me some idea on that?
- Jaimin Bhatt:** Last time around in June we had taken a one-time provision on some non-auto loans, so clearly one time in nature which are not there this time.
- Sangam Iyer:** So, okay and finally sir on the retail banking side, just an outlook in terms of when do we see this profitability coming back and in terms of contributing to the numbers?
- Uday Kotak:** You are talking about, on the asset side, the overall retail banking?
- Sangam Iyer:** On terms of retail banking sir and overall.
- Dipak :** I think for the asset side you still would have to wait for sometime you see last quarter was the peak probably of the delinquency cycle but there is still some amount of delinquency which really needs to be run off the book. And in terms of assets growth one is still pretty cautious in terms of growing in all of the assets classes which we really had with this in the past really so the unsecured business for example, we still are very cautious going about those. So I think it will take some time for us to start building all of those again and there are pieces which are doing pretty well, for example you saw the significant growth on the car side. There the spreads are pretty good and the market growth is pretty good. So it makes sense for us to build it very fast.. You know mortgages, again the spreads are comfortable and the delinquencies are pretty low. Again there is increase in demand over there. So those are pieces which we just will keep building.. But have to wait for basically the shrink through the P&L of the unsecured losses..

**Sangam Iyer:** Okay. Okay sir could you just tell me what was the one time that you said in terms of non auto loans including the provision in June quarter?

**Uday Kotak:** Mentioned last about some CRE exposures really on.

**Sangam Iyer:** Okay the amount could you just tell me?

**Uday Kotak:** Amount is given. Provision is given.

**Sangam Iyer:** Okay sir. Thank you.

**Moderator:** Thank you Mr. Iyer. We have a follow up question from Mr. Hiren Dasani, Goldman Sachs please go ahead sir.

**Hiren Dasani:** I am sorry I got disconnected so I couldn't get the answer about the borrowing and deposit part.

**Uday Kotak:** Yeah I think the borrowing side, my colleague Mohan Shenoy took answer that question essentially from most of the borrowing is refinanced from financial institutions like NABARD and long term in nature, pretty stable and some of it is linked to CBLO borrowing which comes again government securities portfolio. Therefore both sides being self liquidating Therefore we don't see any pressure on that and in fact right now the deposit growth is pretty good. We are also seeing the fact that one of the reasons we are cautious about how much money to take is the fact that even now wholesale rates are lower than retail rates.

**Hiren Dasani:** Yeah but I mean that will change right over next 3-6 months?

**Uday Kotak:** Yeah we did think we have got enough ability now as branch network is going up. We are at 230 branches. Our current plan is to cross 250 branches by March. And we think we are on track in that case to I mean we have now got a reasonable build up of the network for us to be able to get the deposits for the base of assets which we have.

**Hiren Dasani:** Sure. One question on your DCM business. Today RBI is saying that you know the minimum period of locking for the securitization has to be 1 year. So does that impact materially the DCM part?

**Uday Kotak:** I think there are 3 parts to the DCM. One is bonds, second is syndication and third is securitization and I have my colleague Mohan Shenoy to answer that.

**Mohan Shenoy:** See the previous years, the income from the securitization was significant portion of the DCM revenue. However in the current year what we have seen is that securitization revenue is almost insignificant in the total revenue of DCM and the revenue primarily comes from bond syndication and loan syndication. And the guidelines from RBI do not impact these two businesses so we are not worried about DCM revenue dipping because of the securitization guidelines from RBI.

**Hiren Dasani:** Sure. One last question on the insurance side. Was there any additional capital put in the life insurance business this quarter?

**Uday Kotak:** No. We are not putting any additional capacity for a while.

**Hiren Dasani:** Okay thanks. That's it.

**Moderator:** Thank you Mr. Dasani. The next question is from the line of Mr. Mohd Riazuddin from Eureka Stocks and Shares. Please go ahead.

**Mohd. Riazuddin:** Sir I just wanted to know, can I have an idea about the yields on the retail book and corporate books sir?

**Uday Kotak:** Well we do not publish them differently but the NIM's are there. They have been more or less consistent so the threads are comparable. We are currently at net interest margins of about 6%.

**Mohd. Riazuddin:** Okay Sir, and how would just like to know currently we are working at much above the industry average NIM, so are we getting, so what is basic advantage on our side which is helping us to get this kind of NIM

are we getting, are we sacrificing on underwriting standards for that fund.

**Uday Kotak:** No I think obviously NIM's are linked to number of things, one of them is the mix of your portfolio, second is about cost of your funds, third is also in terms of what is level of capital which you have got into it so combination of all that and obviously there is a risk return matrix which is what we monitor very closely in terms of risk adjusted returns and when as we look at the mix, we look at the returns post evaluation of risk and that is how we should be doing it as a bank and I suppose every bank has a similar plan in terms of how it looks like, I suppose, in terms of risk adjusted returns.

**Mohd. Riazuddin:** Okay sir. Sir, as far as what is your current cost of deposit sir?

**Uday Kotak:** We have set about 5½% for the quarter ended September.

**Mohd. Riazuddin:** In next six months what kind of deposit re-pricing are we going to see sir?

**Uday Kotak:** I think October November December still has some high cost deposits so we hope it gets better.

**Mohd. Riazuddin:** So can we see around 5.25% cost to fund somewhere around by that...

**Uday Kotak:** Because it also depends on how RBI policy happens and how money market move.

**Mohd. Riazuddin:** Okay. Sir one more question on security front. We are seeing that there might be a possibly that markets are trading from 9 to 5 p.m. so will it affect the revenues of the Kotak Securities.

**Uday Kotak:** You tell me my friend, if you all hope that revenues go up and employee cost do not go up.

**Mohd. Riazuddin:** I cannot hope that sir because I am an employee too. Thank you.

**Moderator:** The next question is from the line of Mr. Amit Premchandani from UTI Mutual Fund. Please go ahead Sir.

**Amit Premchandani:** Just a small question on this RBI policy of 70% coverage, how do you think it will impact the credit growth in the retail segment especially as the PSU bank suddenly has got active. Will they be more careful now on retail side.

**Uday Kotak:** I first of all very much welcome RBI moves on anything which is leading to more conservative provisioning and that is good for the system and I would strongly welcome that and I think the implications are two fold number one implication is that banks will have to be making sure that they are consistently provisioning appropriately on their NPA's which means, the moment an account becomes an NPA, by September 2010, 70% of that has to be provided for.. Now therefore banks will also I mean obviously banks like us did not go aggressively for loan restructuring because we already we have decided that we will take the pain and recognize the loan as an NPA rather go to through the route of restructuring which we were always a little cautious about. And because if you are restructuring a loan and it becomes an NPA between now and September 2010, then you have to make a 70% provisioning on that loan. So we think that it is a good sign and it will make banks a little more prudent in building their loan book.

**Amit Premchandani:** Okay. Thanks. That's it from my side.

**Moderator:** Thank you sir. The next question is from the line of Mr. Nitin Jain from IL&FS Investment please go ahead sir.

**Nitin Jain:** I had some you know question on your treasury profit, can you just tell me what your treasury profits was for this quarter if any?

**Jaimin:** The segmental profit if you notice, treasury is 70 crores.

**Nitin Jain:** Okay what I mean to say is profit from your g-secs on your standalone results?

**Jaimin:** That will include the g-secs profit, interest, trading profits, forex related. See the treasury profits include profit on fixed income and fixed and other activities that we do including the profits on you know fixed income trading and NII. So those are the different components.

**Nitin Jain:** Okay so when I am looking at your other income of 109 crores, it is largely fee income and what is treasury what you are saying treasury income in that 70 crores or it is split in?

**Jaimin:** There are two different things, when you say income that's the interest part is going to income. The fee part if any would go into the other income whereas we you are talking about 70 crores of the segmental that's profit.

**Nitin Jain:** Okay and that is being recorded where?

**jaimin:** If you look at the standalone segmental, there are segment results. The first part of the segmental results, which is showing 70.65 crores.

**Nitin Jain:** Okay my second question is you know the number of branches which have increased this quarter has been 13. I think you have gone up from 217 to 230. So I wanted to understand what is your branch building strategy till march 2010 and possibly going forward, also last time you disclosed your branch losses, you know losses which you made on your branch banking business. So could you give me that? If that's possible?

**Uday Kotak:** On the branch network as I mentioned we plan to be around 250 branches by march and our branch losses, retail branch banking is a number which we are disclosed under segmental separately.

- Jaimin:** If you look at the earnings update, there is a number which if you have put there which is 58 crores in this quarter but just to add out that's on page 6 of the earnings subject but just to mention that bulk of the one time expenses which I talked about earlier are sitting in that segment.
- Nitin Jain:** Okay. Okay and I think I just wanted to something on your, what are your plans for any fund raising going forward?
- Uday Kotak:** We have no plans to raise our equity as you can see our consolidated capital adequacy is 20% plus and the bank standalone capital adequacy is 18% plus with tier I at more that 15%. Therefore no plans to raise capital in the foreseeable future.
- Nitin Jain:** Okay thanks.
- Moderator:** Thank you Mr. Jain. Due to time constraints that was the last question, I now hand over to the management for closing comments.
- Uday Kotak:** Thank you very much friends. We are now in a different world as compared to one year earlier from today and having said that, there is one lesson I have learnt through the period 2006, 2007, 2008 that when the going looks good, one has to be careful that its not as good as it looks, and when the going is bad it is not as bad as it is seen. Our ability to build sustainable profits over a periods of time, I think is the key how I would look at building our business. Thank you very much.
- Moderator:** Thank you Sir. On behalf of Kotak Mahindra Bank that concludes this conference. Thank you for joining us. You may now disconnect your lines