



“Kotak Mahindra Bank”

January 21, 2010



**MODERATORS: MR. UDAY KOTAK
MR. JAYARAM
MR. DIPAK GUPTA
MR. JAIMIN BHATT
MR. GAURANG SHAH
MR. NARAYAN
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Moderator: Ladies and gentlemen, good afternoon and welcome to the Kotak Mahindra Bank Q3FY10 Earnings Conference Call. As a remainder for the duration of this conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone 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: Thank you and good afternoon friends. I have got my set of colleagues here with me Mr. C. Jayaram, Mr. Dipak Gupta, Mr. Mohan Sheno, Mr. Jaimin Bhatt, Mr. Narayan and Mr. Gaurang Shah and welcome all to this call. I will have my colleagues take you through the specifics on our performance but before that, on the big picture it is pretty clear that one year makes a world of a difference and on the same call a year ago the world looked very different. As we look at the situation we are actually quite amazed and impressed at the level of recovery, which has happened in the Indian economy and consequently on our business particularly in the financial sector. Two or three big points, which seem to be having very significant trendsetters, number one over the last 12 months and particularly in the last quarter we have seen a continuing decline in the cost of funds at the bank, which has enabled us to further consolidate on our margins. Number two, we are seeing particularly in the last few months pretty significant turnaround on the asset side including the fact that some of the assets, which we may have considered as stressed are looking significantly less stressed and having said that we are continuing with our aggressive provisioning but we do believe that over time if the economy stays up we could possibly see a reasonably positive recovery on some of the asset side as we go into the future. Number three, we are seeing a reasonable growth on the advances side and on a year-on-year basis we are at about 23% growth on the advances book and it is looking reasonably robust on the lending side. Turning to some of the other areas, capital markets October, November, and December was relatively sluggish for markets in terms of relative volumes and we believe that volumes are a challenge for the market players and the capital market business in general has gone through margin pressure and fragmentation. We think in the next few quarters we foresee a serious need for consolidation in the capital market business and that is something, which we would be very keen on seeing how we can be a significant player in that. The other area is the investment banking business, we actually are in a situation where the actual performance in terms of numbers for the quarter ended December looks significantly weaker than the very strong pipeline, which we are seeing currently in the business and therefore going forward we actually have a pretty positive outlook on that business. Our insurance business as you can see has become profitable and we think it is going to be continuing to be profitable and asset management also we have had a good run, but we have got to wait and watch how that space goes into the future, it is an area of great focus for us. All in all, the strength of our business model and our ability to be make sure that the business model works as a broad integrated piece within the system is the key reason why we have seen decent growth in our bottom line. We are also very happy about the mix of some of the more newer businesses like the bank how it has begun to kick in a lot more and if the overall economy remains good and capital market remains



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in good shape. We think the strength of the consolidated model has provides a potential to do well in to future, of course this is subject to the big caveat in terms of what happens to the world economy and its implications in India but at this stage the outlook for India certainly looks better and capital flow seems to be in good shape.. So, all in all, we think the outlook into the 2010 year as we look at today looks in pretty good shape. With that I will ask my colleague Jaimin Bhatt to take you through some of the performance highlights and then to other colleagues across the table. Over to Jaimin Bhatt.

Jaimin Bhatt:

Thanks Uday. I will just take you through the highlights on the consolidated numbers. We clocked profit of Rs. 3.3 billion for the current quarter, which compared to the same period last year a rise of 153%, last year this quarter was Rs. 1.3 billion. The nine-month ended we end up with a profit of Rs. 8.88 billion as against Rs. 4.4 bn same period last year. As Uday mentioned advances have grown 23% on a year-on-year basis and the number at the end of this period is Rs. 293 billion. The big growths have come in corporate loans, auto and mortgages. Net interest margins continue to be healthy at 6.3% and Capital Adequacy again continues to be high, we are at 20.5% in terms of BASEL II with current year profits included including the fact that Tier I itself is at 18.3%. At the standalone level the quarter profits is at Rs. 1.4 billion compared to Rs. 0.7 a year ago. For the nine months the bank has clocked Rs. 3.5 billion as against Rs. 1.7 a year ago. Overall CASA at 28% of the deposit ratio. During the 12-month period CASA has seen a growth of 62% on a YOY basis. As Uday mentioned, the insurance company has continued to make profits, this is the sixth quarter in a row and for the quarter the insurance company clocked at Rs. 193 million as against Rs. 94 million one year ago. Similarly the asset management business, which was a small contributor of profit a year ago at Rs. 60 million for third quarter last year, has now clocked Rs. 229 million this quarter while overall assets and the management in the group are at Rs. 524 billion as against Rs. 320 billion a year ago. Overall, on the income levels for the quarter the group saw an income of Rs. 23 billion as against Rs. 18 billion a year ago and Rs. 20 billion in the immediate preceding quarter. With the current quarter profits the net worth of the group is at Rs. 75 billion with a book value at Rs. 216 per share. Net NPA after the current quarter provisioning at 1.46% as against 1.72% in the preceding quarter and with our return on net worth based on nine-month profits annualized at 16.9%. Advances across the consolidated entity has seen a growth and the growth coming largely from auto loans, which stand at Rs. 58 billion this period as against Rs. 47 billion a year ago, corporate bank at Rs. 89 billion as against Rs. 53 billion a year ago, I must say we have done some reclassification related to the advances of corporate bank and added to corporate bank based on the RBI guidelines of classification into corporate bank. The other growth has been in mortgages where the number for this period is Rs. 40 billion as against Rs. 33 billion a year ago. Deposits have also grown and as of December 09 the overall number is at Rs. 200 billion as against Rs. 133 billion a year ago. In terms of entity wise profits Kotak Prime for the quarter had a profit after tax of Rs. 494 million as against Rs. 333 million a year ago and Rs. 394 million the previous quarter. Kotak Securities clocked Rs. 591 million for this quarter as against a very small number a year ago. International subsidiaries continue to clock Rs. 225 million this quarter, while the other parts of the asset management businesses have clocked decent gains to end the quarter for the group as a whole at Rs. 3.31 billion. I request Dipak to take the standalone results.

Dipak Gupta:

I will take the bank standalone and I will stick to crores and lakhs. As Jaimin mentioned the PAT on a standalone basis is Rs. 142 crore, which is practically 100% up from the Rs. 71 crore figure last year and even for the nine-month period it is close to about Rs. 359 crore, again practically 100% up from the Rs. 174 crore figure in the previous year. Significant growth in advances 41% up at about Rs. 21,400 odd crore at this point in time and if you look at the mix as Jaimin briefly touched upon key growth areas really have been in corporate banking, mortgages, and to some extent while commercial vehicles and construction equipment was falling until about one quarter back we have seen revival and demand and growth even in the commercial vehicle and construction equipment businesses. Again, agri segments have been growing very steadily. From a balance sheet perspective we have grown some of our treasury assets also, so overall if you look at advances and investments you will actually see close to about a 30% odd growth in the balance sheet. On the NPL side the overall gross NPL stood at 3.02% of advances, this is excluding our NPL rising out of the stress asset portfolio and net was at 1.5%, that gives us a coverage roughly of about 50%. On the liability side we now have 245 full-fledged branches across 140 odd locations. On the deposit side you see a reasonable growth in CASA, in absolute terms CASA growth is close to about 60% though on a percentage basis CASA is practically at about 28% odd level, which was there last year. On Kotak Prime again as Jaimin mentioned we have seen significant growth in profits. Auto has done well. Spreads have been reasonable and delinquency is well under control. So, all in all, Prime also has done very well. I request Gaurang to take you through the insurance results. Thank you.

Gaurang Shah:

Life insurance, gross premium income moved up from Rs. 511 crore last year Q3 to Rs. 711 crore showing a growth of 39% and that also improved our YTD nine months by 20% from Rs. 1,437 crore to Rs. 1,730 crore. I think the environment for life insurance new business premium has considerably improved and it is expected to remain strong in the last quarter. The profit consequently has gone up from Rs. 9.4 crore to Rs. 19.3 crore and for YTD against a loss of Rs. 25 crore last year now we have got a profit of Rs. 25 crore. The first year new business premium for the quarter was Rs. 286 crore as against Rs. 267 crore last year and the solvency ratio is steady at 3.05 against statutory requirement of around 1.5. The total number of individual policies have now crossed a million and there is a sum assured of around Rs. 30,200 crore and the group insurance policies have gone up to 626 and it is a significant focus area for us to do the risk premium and the number of lives covered has reached now 1.4 million with a sum assured of Rs. 45,800 crore. The total AUM is now Rs. 5,700 crore against Rs. 3,100 crore at Q3 2008 and now the network of branches has reached 214 covering around 152 cities and we got our first award from the NASSCOM – CNBC TV 18 for IT User Awards for 2009. Now, I hand over to Narayan to take you through the Kotak Securities and AMC results.

Narayan:

I will first run through the Kotak Securities and then the AMC. The income for the quarter was Rs. 192 crore and PBT was Rs. 90.9 crore, profit after tax was Rs. 59.2 crore. PAT for a nine-month ended was Rs. 209.3 crore. The average daily volumes handled up to nine-month ended December was about Rs. 4,000 crore and same for the last year was Rs. 3,500 crore. YTD that is up to December our market share was about 4.2%. The assets under management in the portfolio management services was around Rs. 2,700 crore as on December 31, 2009. As of now we have



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got about 1,000 office across 331 cities and the total clients in the broking business is about 5,41,000. During this quarter we have set up a subsidiary in Dubai called Kotak Mahindra Financial Services Limited in the DIFC with the intention of servicing the clients in that region. Kotak institutional Equities was ranked number one amongst local brokerages and number two in country research sales, service and sales trading across domestic and international brokerages by AsiaMoney Brokers Poll 2009. Coming to the asset management company the income for the three month was Rs. 50.7 crore, profit before tax of Rs. 31 crore and profit after tax of Rs. 20.9 crore plus there is a trustee profit of about Rs. 2 crore. The figures relevant of profit after tax for the nine-month was Rs. 52.5 crore and Rs. 5.1 crore for the AMC and Trustee companies. The average AUM in December 2009 was Rs. 41,400 crore of this equity AUM was about Rs. 5,400 crore. The asset management company has now about 82 branches and satellite offices and has about 1.1 million investors. Now I will request Jayaram to take over. Thank you.

Jayaram:

I will start with the Kotak Investment Advisors Limited, which is an entity where we manage alternate assets. Currently we manage / advice, private equity, and realty funds with commitments aggregating to Rs. 55 billion. The current quarter was a steady quarter with a profit after tax of Rs. 115 million as against the previous quarter, which was Rs. 95 million. In this segment currently we are sort of looking at lot of deals both in the private equity side and the realty side currently and we believe that this will gain traction over the next few months. Kotak Mahindra Capital Company, the investment bank had a modest quarter with a profit after tax of Rs. 16 million but as Uday mentioned earlier there are a lot of deals in the pipeline in this business and during the current quarter investment bank successfully managed three back-to-back IPOs, which is JSW Energy, Godrej Properties, and DB corporation, also managed a QIP of Suntech Realty and we were the transaction advisor independent valuer to DLF for the integration of its subsidiary engaged in the rental business. Also, the other important deals were managing the open offer of ABG shipyard and we managed the buyback of Zensar Technologies. The international subsidiaries, as on December 31, 2009, the asset management advised by the international subsidiaries were 1.6 billion US dollars, up from 1.3 billion US dollars as of December 31, 2008 and if you look at the last quarter for the international subsidiaries there is a profit after tax of 226 million.

Uday Kotak:

With that let us open it up for Q&A.

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. Any one who wishes to ask a question may press "*" and "1" on their touchtone 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 Ajitesh Nair from UBS, please go ahead.

Ajitesh Nair:

Just a couple of questions on the banking side; one if you could please give some colour on the provisioning that increased QOQ, what were the main contributors whether it was investment depreciation or NPLs?



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- Uday Kotak:** I think the main contribution was NPLs both on regular portfolio and the distressed asset portfolio and if you notice our coverage ratio has moved from 40% to 50% in one quarter.
- Ajitesh Nair:** Right. So this is mainly on increase in provisioning rather than fresh accretion. Will that be fair to assume?
- Uday Kotak:** In principle yes you are right because we have got a deadline of September to get to 70.
- Ajitesh Nair:** Absolutely sir. A related question. How much is the quantum of technical write-off that is what will be the...
- Uday Kotak:** No, not considered at all for this purpose.
- Jaimin Bhatt:** For the 50% coverage we are on the assumption that there will be no technical write-off for this segment; there is lot of ambiguity on the whole thing there.
- Ajitesh Nair:** Perfect sir. Thank you.
- Moderator:** Thank you sir. The next question is from the line of Ashish Sharma from Enam Asset Management, please go ahead.
- Ashish Sharma:** First of all on the broking side on the volume mix, do we expect that volumes would sustain at these levels going forward, I mean, I guess it is more of how the economy will pan out, but do you think a 95,000 or 1,00,000 crore average early volume for the market would sustain or the mix will remain the same or the market volume growth would taper off, what is your outlook on the volume?
- Uday Kotak:** I will try to give my outlook but there are many of you on this call who also would give their outlook even better than me. My sense is we are going through a period of reasonably perceived low volatility and that is actually probably leading to volumes, which are reasonably constrained. I believe that the broking industry is in an environment where volumes are reasonably constant as we have seen over the last couple of quarters, in fact this quarter may be marginally lower in totality. We are seeing a broking industry where reasonable fragmentation is happening and there will be margin pressure, I think this is a time for significant ability to consolidate the business and build it in a steady marathon like manner and not want to bet on a business model, which assumes 30%, 40%, 50% growth in volumes and starts taking disproportionate increase in cost on that basis, but I will ask my colleague Mr. Narayan to get his views since he is a veteran in the industry.
- Narayan:** I think Uday summarized it, fact is that if the volatility is low the volumes are definitely low plus if you look at the overall market also the participation from the institutional clients weight has increased, the retail classification is low. On the retail side it is more of the proprietary trades which has gone up and again if you look at the F&O side it is the option trading, which has gone up substantially, I think it constitutes about 50% F&O today, so to that extent the entire colour of

the market and the segmentation of it has considerably changed over a period of time. My personal view is that yes while a volumes 1 lakh crore it has been steady like this but I think if you take a one year view I see definitely going up from here.

Ashish Sharma: Fine sir. Second question on the insurance side. We have been making profit for the last three or four quarters I mean this is a function of more of the product portfolio we have and going forward what is the outlook, I mean now post regulatory changes IRDA has done, I mean do you expect that current portfolio to be maintained, what is your outlook on that?

Uday Kotak: I will ask Gaurang to answer but before that my view is that at the end of the day there was a lot of crazy stuff, which was happening among the insurance companies in 2006, 2007 and 2008, and we were always very focused on value versus volume equation and that was the heart of what we were at and that is the big picture. I think I will let Gaurang answer that specific question on portfolio mix and outlook going forward.

Gaurang Shah: Yes, there are three factors, which has contributed largely to the sustained positive bottom line, one is the new business growth has slowed down. Once this slows down, you know, have got a lesser new business strain, second is our lower expenses. By and large what Uday defined was a philosophy, but this year our expenses compared to even last year was lower by around 40 odd crore and the other thing is the product mix. The combination of all three has contributed to this sustained positive bottom line. Regarding your second question I think the Cap on charges does impact in the sense for the last quarter if I look at the impact of whatever volume we are planning to do we may lose around Rs. 10 crore of first year allowance, the sales allowance, which is booked at the time of selling the policy, so there is definite impact of that.

Uday Kotak: I think the important point is taking up from Gaurang's point, it is not about just whether you want to, you know, very often I think the analyst community in insurance industry has assumed that the more you spend the more value you are creating and the question is that spending and correlation to value creation is very important as you think about the business, I think the point is that you need to make sure that your expense ratios are reasonably under control. Having said that despite the new rules I think the margin was still pretty good.

Ashish Sharma: Sure sir. Second would there be any plans to disclose your embedded value figure, I mean not contemplating at this point in time?

Uday Kotak: We are not contemplating at this point in time;

Ashish Sharma: Okay. Could you help me with one data point on the insurance front, I mean as on December 2009 what will be the policyholder's fund figure? At least you can extrapolate the embedded value figure at least?

Uday Kotak: We have just given the number, right?

Ashish Sharma: I want the policy holder's fund?



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- Gaurang Shah:** It is called the control fund and the link fund. The control funds are Rs. 1,100 crore and the linked fund is Rs. 4600 crore.
- Ashish Sharma:** Okay.
- Gaurang Shah:** Both these are policy holder's fund.
- Ashish Sharma:** So the total will be Rs. 5700.
- Gaurang Shah:** Rs. 5,700 crore.
- Ashish Sharma:** This is the last question; again on the Kotak Mahindra Prime what is the split between advances, I mean you have given the split between advances for car and other advances?
- Dipak Gupta:** Car is about Rs. 6,000 of the total advances of Rs. 7,450 crore. **Ashish Sharma:** Fine sir. thanks a lot. All the best for the next quarter.
- Moderator:** Thank you Mr. Sharma. The next question is from the line of Manish Ostwal from Darashaw & Co., please go ahead.
- Manish Ostwal:** What is the yield on advances during the quarter on the banking side?
- Jaimin:** Should be 12 plus.
- Manish Ostwal:** Okay. What is the cost of deposit?
- Jaimin:** Cost of deposit is around 5%, NIM is 6.2.
- Manish Ostwal:** 6.2 is your consolidated NIM or standalone?
- Jaimin:** Standalone is 6.2 and consolidated is 6.3.
- Manish Ostwal:** Okay sir. Fine, thank you.
- Moderator:** Thank you Mr. Ostwal. The next question is from the line of Kunal Shah from Edelweiss, please go ahead.
- Kunal Shah:** Just the outlook on the growth, we have already pressed the accelerator, we are growing at much higher than industry pace now that insurance is also flowing the money in terms of profit and we are also very adequate on the capital front, so what is the outlook over there whether we will be growing at higher than the industry pace and the segments may be like definitely on the corporate we are looking, so just want to know the outlook overall?



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- Uday Kotak:** Overall if you take a 12 to 15 month view our view is certainly positive and therefore if I took a 12 to 15 month view we obviously see growth, we will not necessarily be carried away by what is industry growth or otherwise, we will look at our different segments and where we think we are getting our risk return metrics we will grow the balance sheet.. We are less concerned about how industry grows or otherwise, as long as we can get our segments and we think those are profitable for the levels of risk we are taking we will expand it. The bottom line is that in our view is if the economy grows at 8% it is a pretty good rate of a nominal GDP at around 14%, we think that is a good environment to be thinking about growing between 25% and 30% on assets over a 12 to 15 month period.
- Kunal Shah:** Okay great sir. On this Kotak Mahindra Prime maybe like the growth has been quite aggressive, the demand has picked up, so how is the capital adequacy and whether there would be any funding requirement over there?
- Uday Kotak:** We are reasonably comfortable and keep in mind this is a 100% subsidiary of the bank and there other subsidiaries, which are significantly surplus on capital and therefore if at all it needs capital it is something, which we think are on a consolidated basis are in a position to provide, we will not need to look at outside capital for that in the foreseeable future.
- Kunal Shah:** Okay. Any plans of merging Kotak Mahindra Prime and bank?
- Uday Kotak:** No plans.
- Kunal Shah:** Okay. On IB, is there any significant chunk, which is left out to be booked maybe something, which would float into just from the deals, which you would have closed?
- Uday Kotak:** We think January to March is clearly a much better quarter in terms of how we are seeing the revenue side compared to the earlier quarters.
- Kunal Shah:** And this stressed asset portfolio that has also gone down, Sir any significant chunk of profit, which were recognized in this quarter?
- Uday Kotak:** Bulk of it has gone down because it is continuing with reasonably I guess the provisioning. That does not mean we have sold out the portfolio itself that is looking smaller because of more and more provisioning.
- Kunal Shah:** Okay and since on that also we may be required to provide kind of 70%?
- Uday Kotak:** Yes, which is why we are doing what we have to. We do believe that the stressed asset portfolio we have bought it at a significant discount to the original value of the loan. We decide to recover money or if we have to settle based on what we think is fair value at that point of time and therefore we think provisioning is something which if the central bank requires us to do it is accounting. It does not change our view on the philosophy of doing what is right for value.



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- Kunal Shah:** Okay and how many resolutions getting through, means has the overall environment infrastructure...?
- Uday Kotak:** **It has** got much better than what it was six months ago.
- Kunal Shah:** Okay and how will you look at the business in terms of acquisition of stressed assets now.
- Uday Kotak:** I would say that on the acquisition of the stressed assets as long as banks have to have this coverage ratio achieved they will be less keen on selling, but therefore the new acquisition we think will pickup post September 2010.
- Kunal Shah:** Okay. Thank you. Sir.
- Moderator:** Thank you, Mr. Shah. The next question is from the line of Ajinkya Dhavale of Motilal Oswal. Please go ahead.
- Ajinkya Dhavale:** First question on the margins, first of all have we restated some margins of the past NIM? Second we were reducing risk on the balance sheet and we usually do not take ALM mismatches and still I do not understand the margin expansion, which has been reported? What is the outlook from a four to six quarter's perspective on the NIM?
- Uday Kotak:** I will request Mohan ShenoI who is our Head of Treasury and who is responsible for the balance sheet management unit to comment on this and then I will give any views thereof.
- Mohan ShenoI:** On the liability side, you know, the lower policy rates has resulted in low deposit rates and therefore naturally that benefit has come into the bank in terms of the borrowing cost. We have ensured that the liability mix remains in such a manner that risk is reduced and repricing risk is broadly spread across over the months and just to give you a sense in terms of duration our duration of asset and liabilities is broadly matched. Therefore there is not much interest risk embedded in the balance sheet.
- Ajinkya Dhavale:** But then asset yields have also been, not for you, but for most of the other bankers also we are seeing a severe stress on the asset yields as well, and it is compensating. I mean the borrowing costs are coming down, the yields are also coming down, but we are expanding margins with our reasonably lower risk profile, that is one thing which is, and the second question was a more futuristic that next four to six quarters how one should look at Kotak Mahindra's margins?
- Uday Kotak:** Obviously if you recollect even if you and I were talking one year ago when we had NIMs that were 5.7 to 5.6 the most frequently asked question was will it go down in a hurry. We had mentioned that the whole thing is going to come out down hardly because our entire focus is value in terms of risk return matrix and reasonably tight monitoring in terms of cost of funds versus use of funds and I must mention that when a lot of the other banks on the street were aggressively going out and taking one year and 1000 day money between October 2008 to March 2009 last year, we were relatively cautious because we felt that the rates at which banks were

borrowing and growing assets did not make sense to us and if you recollect we were very cautious on the liability side in terms of not having too much of high cost money getting locked in because we did not think it made sense at that point of time and that is something which has helped us and we think that as we go into the future obviously 6.2% - 6.3% NIMs are pretty high and therefore more sustainable numbers I would say are between 5.5% to 6%.. But keep in mind that this is also an extraordinary period over the last three quarters in terms of the kind of provisioning we have gone through.

Ajinkya Dhavale: Right. I understand that. Second question, have we reinstated some NIMs. I mean earlier we had some 6% in the current press release and again previous quarters have been written as 6.3%?

Jaimin Bhatt: We had not given the decimal, we now shown decimals.

Ajinkya Dhavale: Okay that is the only difference. Second question was touched upon on this stressed asset portfolio, Jaimin, can you just give me what is the gross stressed asset portfolio? How much provision we have made so far and what is the net stressed assets?

Jaimin Bhatt: Net number Rs. 215 crore and the gross would be around the Rs. 350 crores.

Ajinkya Dhavale: Have there been any resolutions because the Kotak Bank's standalone other income has grown pretty sharply?

Uday Kotak: Nothing significant in this October to December quarter.

Ajinkya Dhavale: Okay then how do we reconcile the sharp rise in the other income at Kotak Bank's standalone sequentially from 110 to 145?

Mohan Sheno: I think it must be partly from the treasury size. Some part of it is from the debt capital market size. In terms of you know, we are now quite active on syndication of bonds and syndication for loans there the fee income was decent in the last quarter, so part of that was from DCM activities and partly I think transaction banking and branch banking income has also gone up. Therefore bottomline is it is not a significant increase coming from the stressed asset books as of October, November, December quarter.

Ajinkya Dhavale: Okay. Yes, and lastly again on the gross NPA side, we are seeing a buildup there, especially in third quarter again, again standalone bank?

Uday Kotak: I think there the answer is we will take a look at it as we have a particular write off policy, which normally looks at it once in six months in terms of between gross and write offs, so this is like middle of the quarter, middle of the second six months.

Ajinkya Dhavale: Okay, but if you write off henceforth the provision coverage will fall?

Uday Kotak: That is okay. I think again where you get the tax break immediately.



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- Ajinkya Dhavale:** Right, I mean, there is always a balancing between the provision coverage and tax rate, I mean, that is what my question was. Can we write off aggressively going forward or we will allow?
- Uday Kotak:** In terms of philosophy, again I will share with you. Our philosophy will be if you can save cash, you save that over accounting. You will be less worried about accounting and obviously that we will make sure we reach the 70%, but there is following a consistent policy, there is a way of saving cash which is present tax, something which we will not forgo just because accounting compulsion requires us to do it.
- Ajinkya Dhavale:** Right and some outlook on how do you see now the operating expenses. I mean that has been the OpEx control across all private sector banks has been a key driver of profit growth for all banks including you, so how do you see inflations there in various heads and are we going to improve cost to income or do you see some negative pressure from that?
- Uday Kotak:** Answer is a controlled growth. Controlled growth of expenditure also.
- Ajinkya Dhavale:** Okay, if I have to put some you know cost to income or cost to average assets or if I had to take it from that perspective, how?
- Uday Kotak:** We are getting better as you can see quarter-on-quarter, in September and December quarter.
- Ajinkya Dhavale:** It is getting better, but can we sustain this here or...?
- Uday Kotak:** Our thing is that as the balance sheet grows and the bank becomes significantly more full-fledged we are going to consistently focus on improving over time. But that does not mean that beyond a point it is possible to control cost at a very low levels as well because we are also going to make sure that you handle the people issues, so it is a balance.
- Ajinkya Dhavale:** And if last question if I may ask? I am not able to understand Kotak Investment Banking a Crores profit, I mean a Rs. 2 Crores profit, you have almost Rs. 500 Crores network there, so that itself would earn good PBT. I mean, so much pressure on profitability in reasonably buoyant capital markets?
- Uday Kotak:** Watch the space. Watch the space I think the point is well taken, but having said that the pipeline looks very good and we think we have got a reasonable visibility on revenues there. Also you would have to factor in investments made by KMCC in subsidiaries of the Bank which utilizes the free network.
- Ajinkya Dhavale:** Okay. Thanks.
- Moderator:** Thank you, Mr. Dhavale. The next question is from the line of Sunil Kumar from Birla SunLife Insurance. Please go ahead.



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- Sunil Kumar:** I wanted to understand this gross NPA thing, which are the sectors, which are contributing to this gross NPA now in this quarter especially after last couple of quarters we mentioned that gross NPA thing has peaked out?
- Uday Kotak:** My view is that as I mentioned earlier gross NPA and the write-offs is something which we take as a half yearly view and my request is look at the focus much more on the net NPA side because that is something which will give you a better picture and we think the NPA cycle is getting significantly better.
- Sunil Kumar:** So no specific sectors as such?
- Uday Kotak:** . The biggest pain was of course was credit cards and personal loans, so there again we have done a very significant amount of provisioning. Now we are probably at the bottom of the cycle in terms of the amount of pain which had to be taken in terms of the real recovery in the market and we are seeing in many cases existing provisions made coming back.
- Sunil Kumar:** Sure, second on provisioning, I think, Jaimin mentioned some time back that provisioning coverage, which is 50% right now, I just want to relate to last year call when you mentioned that provisioning in standard assets there are a lot of questions and there are lot of surpluses in standard asset provisioning and we are comfortable in maintaining 70% provisioning coverage, so has that situation changed?
- Uday Kotak:** No, we are holding surplus provision in standard assets of Rs. 59 Crores, which is not considered for the 50%, till we get clarification from the RBI. That is an additional cushion available for us and so far not been taken towards the 50% and that additional cushion sitting in the standard provisions not reflecting in any of the gross provisioning or net NPL numbers and additional cushion, which is sitting as a surplus in the standard assets.
- Sunil Kumar:** Okay. So that remains in the standard assets and technical write offs also have not been included?
- Uday Kotak:** Absolutely correct.
- Sunil Kumar:** In the current quarter gross NPAs?
- Uday Kotak:** That is correct.
- Sunil Kumar:** Okay. And just wanted to how are your views; there have been lot of reports saying that and especially a lot of banks have come forward saying they are interested in acquiring other banks and all and there have been reports in Kotak Bank also if you want to share something?
- Uday Kotak:** You tell me which is a good opportunity as we talk.
- Sunil Kumar:** Lot of opportunities. I do not know which one do you like?



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- Uday Kotak:** We should talk about it, but let me tell you one thing, you really are going to make sure that we are in the right place and appropriate distribution. But there is nothing, which is on the card for me to say that okay, here it is the next quarter we are going to talk about this or even earlier. We do not have that case right now, but we are always open.
- Sunil Kumar:** Okay, sure and last one if you can share with us your expectation on the monetary policy?
- Uday Kotak:** I will first ask my colleague Mr. Mohan Shenoi to get that updated little more.
- Mohan Shenoi:** Broadly if you look at the earlier cycle though the reverse REPO rate was around 4.5%. You know when Dr. Jalan left his governorship that is the time when the reverse REPO rate was around 4.5%. So if the current reverse REPO rate, which is 3.25% if it has to go back to 4.5%, which is the - I can say predicted reverse REPO, 125-basis point increase has to happen. But one feeling that we have is that this is not going to happen in a hurry, over the next 15 months perhaps the reverse REPO rate will go up by 125-basis points to make it around 4.5%. At the same time we feel that the market will operate at the lower end of the interest rate corridor. I do not think the market will operate at the upper end anytime soon, so therefore there will be ample liquidity in the system. Broadly that is the view on interest. Under the given circumstances of inflation I think some steps have to be taken or at least you have to seem to be taking some steps, so I think CRR hike here and there might be there in the January policy.
- Sunil Kumar:** Okay. Thank you, so much.
- Moderator:** Thank you, Mr. Kumar. The next question is from the line of Hiren Dasani from Goldman Sachs Please go ahead.
- Hiren Dasani:** Hi, just on Kotak Securities, I mean, even if you were to imply the market share for this quarter seems to have dropped on a QOQ basis, any comments on that?
- Uday Kotak:** I will once again ask Narayan but before that I would just like to mention that all the market share numbers you are seeing are combined numbers between cash and derivatives. As you know the margins in the business are mainly on the cash market volumes and much less on the derivative market volumes. While we do not give the split, I must make sure that I must inform you that cash market our volumes are holding up very well and derivatives volumes is where we are seeing some drop in market share, but it is relatively much lower margin business and some of the reasons Narayan gave, but he might want to reiterate.
- Narayan:** If you look at the overall market as I said between the futures and options, options market is about 50% of the total F&O market and to a great extent the options market is dominated by prop. To that extent, which is not available to, brokers as to business. Secondly, if you look at the overall split between cash and futures, the futures market volumes percentage is much higher than the cash market. To that extent most of the brokers have seen their market share on the client business coming down and we have also seen some amount of effect in our market share.



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Hiren Dasani: Okay. One question on the investment banking, I know there has been considerable debate on this call over why the revenues are lower. Sir the question in terms of your accounting policies is there any more conservative than the industry practices. Is it accrual based or is it like shift basis or something like that?

Uday Kotak: We are certainly more conservative than industry, I can assure you on that, and you know, one of the challenges in investment banking is there is a certain based fees for transactions and then there is certain structures and may be incentives and till we get a clear picture about how it is going, we are very cautious in terms of rushing to book in to our revenue line of P&L and that is something, which we have followed for a long, long time and that is something, which we will continue to follow.

Hiren Dasani: I mean, just there is some other listed company, which has declared results couple of days back and much smaller than your franchise on investment banking size but the revenues booked kind of almost double than what little less than double what you have booked.

Uday Kotak: Correct. We also have got to keep in mind that in our case the investment bank also splits the revenue with the securities firm, number one and number two the entire debt capital market side of the advisory business is all in the bank.

Hiren Dasani: Okay, so one should look at the overall fee rather than...?

Uday Kotak: Correct. The bottomline is other than the M&A advisory business, the equities business has a split with the securities firm, something again which is what I understand is reasonably standard global practice between divisions. In our case there are two separate legal entities. Number two in our case there is a separate legal entity which is doing debt capital market size which is the bank. So we have to keep all these things in mind and therefore when you are looking at the investment banking business we will not get the full picture looking at only Kotak Mahindra Capital. In fact Mohan Shenoji mentioned on another question that debt capital market syndication of other income sits in the bank and therefore it will be difficult for you to take a call on investment banking fees based on only the legal entity; having said that it is correct that we are very conservative before we really like to take something into our revenue line.

Hiren Dasani: Okay, and just lastly is there any trading gains as part of the other income in bank's standalone?

Uday Kotak: There is obviously some part of treasury which is on and again I want to highlight the fact that if you go back to last year's December and last year's January to March the question which was asked by some of you was why is your treasury profits are so much lower than some of the other banks and our view on that is that we run this our core banking book as if you are convinced about the price at which we are holding the asset, we do not like to trade in and out of that asset, just to book profit, if we see the value proposition we would like to hold the book and on the carry through the interest rates are differentials, which is what we have done in the heart of our



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entire banking and treasury book and which is really helping us in terms of getting higher treasury earnings for us.

Hiren Dasani: Okay, thank you.

Moderator: Thank you, Mr. Dasani. The next question is from the line of Manish Choudhary from Citigroup. Please go ahead.

Manish Choudhary: Basically, if you can give us an update of what is happening on the wealth management side and possibly the second question would be basically on the branch banking side there has continued to be losses there, is that really a case of only transfer pricing or is there something else also?

Uday Kotak: I will answer the second question first and then ask Jayaram to answer the first question on wealth management. As far as branch banking is concerned we are now moving a lot more asset financing to the branch banking group which does not show up as a part of the branch banking profitability currently. Therefore we think our branch banking business actually is now coming pretty close to breakeven and we see actually it getting into profitability. In terms of the strategy on branch banking our strategy is roughly about 25% per annum growth in the branch network and therefore over three years we think our plan is to get to about 500 branches, and make sure that along with the growth in the branch network we significantly focus on the productivity of the branch network. So clear plan of going to 500 branches as a reasonable steady trout, squeeze out more productivity out of the branch network and optimize productivity while make a continuous steady growth.

On the wealth management side as you know we have dramatically changed the model and we have moved much more to an AUM model and Jayram wanted to talk about that.

Jayaram: As Uday said on wealth management clearly we have probably been the earliest in terms of making this move from a transaction base model to an advisory model and we have started this exercise about close to about eight to nine months back and close to about 40% to 50% of our total assets under management of our total clients we have transitioned into this model and we expect that over the next one year we will be able to transition the entire set of AUM to this model and clearly we believe that conceptually this is the right way for a private bank to move forward because it is a model based on which you do not take anything from the manufacturers of product but you charge the client, and you accept a fee only from the clients and we believe that this removes all biases and recently you have seen SEBI sort of coming down on distributors for excessive churning.. But this is a model which we believe is the right model for private banking. We have sort of probably the earliest to move into this mode and we believe that over the next one year we will transition completely to this model and after that quickly in terms of our P&L as well, it would be essentially annuity income, which will be far most stable than the other models.

Manish Choudhary: Is there any trade off between near term income and longer term model growth in this?

- Jayaram:** But it is really related to the nature of the market at that point of time, if the market is sort of fairly strong, bullish and there are a lot of transaction, there is a near-term set of hit which you are taking, but we have gone through both periods in recent times. We have gone through a period when there was not too much happening in the market, but that point of time even the near-term impact was not really there, but when you have times in the market is buoyant, when there are a lot of transaction going on, there is a near-term impact as well, but having said that fundamental change to less transactional more annuity.
- Manish Choudhary:** Okay thank you.
- Moderator:** Thank you, Mr. Choudhary. The next question is from the line of Shrey Loonker from Reliance Mutual Fund. Please go ahead.
- Shrey Loonker:** How was the duration of the assets moved over the last six to nine months on the banking book and on the NBFC front, if you could just give us a sense of that?
- Uday Kotak:** On the banking book we are at about 1.2 to 1.3 years on this.
- Shrey Loonker:** On the overall?
- Uday Kotak:** On the overall banking book, overall assets we are at about 12 months now?
- Mohan Shenoy:** 14 months on the asset size and the liability side is more like 10 months. 10-11 months on the liability side.
- Shrey Loonker:** And what would be this duration be may be say nine months back or six months back? Could you give us a sense?
- Uday Kotak:** Around similar levels. We monitor this pretty closely in a tight range, and on KMP we are reasonably matched on the funding between the liabilities and the assets.
- Shrey Loonker:** Sure, just wanted to get another sense from you how do you, we know, that there is a lot of talks about development of debt markets in India for lot of years now. What do you think is more imminent now than before given that infrastructure financing is becoming a challenge and there are a lot of changes in regulations being talked about and pension investment norms, insurance investments norms, so I just wanted to have a sense from you in the next 12-15 months do you really see this time around there will be some walking the talk kind of a -do you expect any of those things would really materialize to develop the debt markets in India?
- Uday Kotak:** Number one I think the good news is the corporate REPO market, if it develops well that should be a good thing. I think, right now the issue is the level of margin asked is pretty high by RBI at 25%, but overall I think corporate REPO market is positive for the debt markets. Secondly, the question is for infrastructure financing there has been a talk about the policy makers wanting to push it including requests from banks to consider the infrastructure financing as a part of the

priority sector. We think if infrastructure financing is priority, make it priority. So that is where we would believe that there is a need for walk to talk. I would say that the key issue on infrastructure financing is long-term funds, discretionary funds available with institutional investors and that is where the real issue is. Banks really do not have ability to give fixed rate long-term fund, banks are funding most of the infrastructure lending today by giving floating rate funds, so that is as far as banks are concerned, as far as insurance companies are concerned, most insurance companies are getting mandated money in unit linked, which is again reasonable part of it is in equity, so that is mandate from the policy holder in terms of where the institution can invest therefore very little discretion in that, other than what is endowments which are still a very small part of the market and third is pension funds as an industry is still pretty much EPFO and we are not seeing much outside that, so there could be some flexibility been given to some of the public pension fund in terms of what they can do and therefore ultimately I would say net markets will get a big fillip from the availability of REPO, but infrastructure financing is another story; however, my view on infrastructure financing is the problem is not the financing, the problem is governance and execution.

Shrey Loonker: Sir, but do you see the government being a bit more serious this time around or the RBI being a bit more serious?

Uday Kotak: I think policy makers are really looking at that much more than before. Now whether that translates into action in the ground, let us watch, but there seems to be a desire to develop infrastructure financing, which is a separate issue compared to debt markets and do not think the problems for projects today is financing as much as governance and execution.

Shrey Loonker: Sure. I appreciate that. Thank you, very much.

Moderator: Thank you, Mr. Loonker. The next question is from the line of Chirag Shah from ICICI Direct. Please go ahead.

Kajal: I am Kajal from ICICI Direct. Sir one of my questions is answered, but I just wanted to know more on margin funding book? What is the current size?

Uday Kotak: Margin funding book, our capital markets loans against shares including margin funding would be a combination of what we give as loans against shares and what we give as margin funding both of them are none out of our NBFC. They keep on moving with the market. At this stage we have not been giving the numbers separately on that, but we can say that the book is higher than what it was at the end of September.

Kajal: Okay, Sir, if you can broadly tell in this quarter how has your volume would have been in futures and cash, just a broad breakup?

Uday Kotak: Again good question, we get it every quarter. So far we have not been giving the split, but even when we decide to do it we will definitely let you know.



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Kajal: Okay Sir. Thank you.

Uday Kotak: Thank you very much. I think it is about an hour and I really appreciate for all of you to take trouble to be on the call and look forward to be in touch. Thank you and bye.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Kotak Mahindra Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.