

**Kotak Mahindra Bank**  
**FY 07**  
**Analyst Meet**  
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Uday Kotak

Good afternoon friends and a very warm welcome to you all on a warm day. At the completion of our last year's accounts, we would like to share some of the analysis of what we have done and also about some perspective about how we see the future within the broader banking and financial services space and more specifically about Kotak.

I will first start with the highlights of the year i.e. March '07. Consolidated profit after tax is at about Rs. 538 crore, which is up from a number, which was around Rs. 342 crore for the year ended March '06. Q4 PAT is up to about Rs. 170 crore from Rs. 130 crore in the same period last year.

The most interesting, exciting, and the challenging part for us friends is actually the bricks and mortar, which is, building and rolling out the bank branches and we have completed about a 105 branches as of March 2007 from a number of 65, and keep in mind the fact that we focus a lot more in terms of how we want to build our branches, what we want out of our branches with a proposition which is significantly differentiated from the rest of the market place in terms of a branch distribution platform. We are working very hard now to really see that by middle of next year, we move from a number which is 105 branches right now to 200 branches, which is nearly doubling in the next 13-15 months or so, and that is a very significant challenge in front of us and this is obviously what we are planning organically and we have geared ourselves as

you see down the line in terms of number of people we are adding at a significant draught and we continue to add that because we are building, and this is a time we believe we must build and build quickly.

Our consolidated advances are up close to 50% year-on-year and the bank's standalone advances actually crossed Rs. 10,000 crore, which is a 72% year-on-year growth in our advances portfolio. Our consolidated net interest margins continue to be very healthy, amongst the highest in the industry, and is back to an approach and a style we have had to lending which is being very focused, very frisk return oriented something which we have learnt for many years in our NBFC days that if we are in the lending business we must make sure that we have adequate margin for the risk we are taking, and that continues to get reflected as a core philosophy into the numbers of our net interest margins in a way.

Our CASA deposits, current and savings, grew 82% year-on-year, and we have about Rs 2,250 crore of CASA, four years ago this was zero, when we started from scratch as a bank. It gives us a great sense of satisfaction on two counts: #1, our CASA has grown despite a very significant growth in advance, CASA of course is bank's standalone, i.e bank advances grew at 72% and CASA grew faster, and therefore our CASA as a percentage of total deposits is up to 22% from 19%, with a very fast growth of advances which has happened, CASA has grown even faster, so we believe this trend will continue and over time we would like to see our CASA ratio continue to improve, and that should help us in improving the margins on our asset-liability mix. So this is something which we are very focused on, that over time we will consistently improve value of our spread business and improving CASA is the heart of the strategy. We also need to make sure that our ability to have stable liability base and an efficient cost which is the key for the future. As we do that, we continue to grow our assets at a rapid pace and also continue to focus on NPLs, certainly helped by a wonderful economy. I have been asked by many people that is there any sense of issues on the NPL side, and I can say at this point of time the situation is pretty robust and we have actually marginally improved our net NPLs. Obviously for these purposes we are excluding the distressed assets portfolio, which is a completely separate ball game by itself.

So all in all if you look at some of these points, the core businesses are in very good shape, particularly on the advances side, our branch network roll out, the core commercial bank part, the CASA growing, and net NPAs under control.

Moving on to a subject which you would certainly be more familiar with, i.e. securities. 9% of the daily average volume is where we are, and in absolute numbers that is an average daily volume throughout the whole of last year was Rs 3,700 crore per day, and this includes both cash and futures, and at the rate at which our volume is growing, in many other countries in the world where they allow setting off of buy and sell, and which is how a lot of global firms in different markets enable themselves to be mini exchanges by themselves, therefore the buy and sell flows which go through our office now are significant enough that anywhere else in the world we could say that we could have the ability of being a mini exchange. We are now beginning to get scale which is pretty significant and we will talk about that as we go on, I think Narayan is here and he is going to talk about how the whole landscape in the securities business is changing with its own challenges and new opportunities which will come up as we go forward.

Investment banking, thanks to one of the reasons being the advisors to the Hutchison transaction, we have the privilege of being probably for the first time, an Indian firm in the top 10 on an Asia list on the mergers table across Asia. It, in a way reflects also the importance of India and Indian deals in global league tables, finally.

We are also seeing a very significant shift in our businesses particularly with the QIP product coming in. We have established our leadership in the QIP and GDR business. Asset management continues to be an important focus and we will talk about it both in the regular asset management space as well as the whole area of alternative asset management, which is going to be very important globally. We have got assets under management of about US \$5 billion both what we manage and advice, in India and overseas.

Life insurance premium is up 56% year-on-year and here again we have taken the tough call that we will focus on premium business which adds to embedded value as a key philosophy, and there is a lot of premium business out there in the market which gives you the top line but not necessarily the same levels of embedded value and we have taken a call internally that we will focus on building the premium income model where there is significant embedded value creation for the stakeholders.

On the softer issues, we feel very good about being in the top 10 best employer in India by Hewlett Survey and we feel great that we are the only financial services company in the top 10 and the only other company in the top 25 was HSBC from the banking and financial services space, and at a time when we are adding 4,000 – 5,000 employees a year, this we think is going to be a very critical differentiator for the future of the financial services firms as in how well you treat your people and how well you build your business.

Another interesting win was the most popular investor relationship website across Asia Pacific by IR Global Rankings. And as I mentioned to you, we are now close to 11,000 people, adding 4,000 – 5,000 people a year. These are real people, professionals, many of them front facing carrying the brand of the firm, training skills and HR skills are very significant challenges, but we think these are also ways and means of opportunity for differentiating our firm and what we stand for from the broader financial market in India.

A quick 5 year snap shot. It is always good to view a company at the end of every quarter or at the end of every year, but viewing it like a motion picture over a 5 year period in a way gives a sense of the direction in which the company has gone over a reasonably long period of time, and this is really like comparing a quarterly to a sprint and a 5 year to a marathon, so just putting it up in front of you friends, you will see that our consolidated net profit has grown compounded 65% a year over the last 5 years. Our net worth albeit with some dilution but mostly through internal generation from a level of just over Rs 1,000 crore has grown to Rs 3,200 crore. Book value, we have the wonderful number of 99 and again from basically almost three times from what we were 5 years ago. In employee terms, 7 times, from 1,500 to 10,800, and 4,000 added in just one year. So we are in a very significant growth phase. We understand that as we manage growth we got to manage risks along the way and continue to grow at a pretty significant momentum.

Footprint across the bank and our group companies including our securities firm with 2.6 million customers, 300 locations in India and offices of our subsidiaries in New York, London, Singapore, Dubai, and Mauritius. Basically a very deep national footprint and a sprinkling of a global footprint.

Our key differentiated business model, as we have discussed from time to time friends, is an integrated financial conglomerate, a well rounded financial conglomerate across a common brand, and we really look at our disintegrated financial conglomerate across four major buckets. The first bucket of course is the retail bank, which is retail liabilities, retail and commercial assets, and everything around this, branches, and the whole focus around that. The second bucket is what we call as the investment services bucket, which includes retail brokerage, asset management, and wealth management, and we look at this whole area as investment services;

in wealth management of course we have created a differentiated product offering to our customer base and my colleague Jayaram will talk about it, but we see this as a very significant and a segmented opportunity by itself.

Corporate and investment bank, friends globally we hear this phrase which is an integrated corporate and investment bank. Many banks in India have tried to be that, but as some banks see it as the growth of their institutions, it is very important to have this as an integrated piece. For us where the life began first in areas other than banking, and banking came in later. We have the unique advantage of being an investment bank first and a commercial banker later. And globally if you see it normally commercial banks have moved into investment banking over time. We were one of those unique institutions and are one of the unique institutions which has been an investment bank first and now integrating the corporate and investment bank and we think this integrated corporate and investment bank platform is a unique platform and can add very significant value over a traditional wholesale banking platform.

Last but certainly not the least friends is the whole area of life insurance, and we think it is the core business for financial services. It is a combination of distribution and asset management and risk business and we see it as one of the most important propositions in the Indian context and going forward in the well defined global context as an integrated brand very focused and working towards synergies between different pieces to become an integrated financial institution.

With that we will move on to the retail bank and I will request some of our senior management team to come and make a presentation of a few slides on each segment which they run on a day-to-day basis. So first on the retail bank, on the retail assets side I will request my colleague Dipak Gupta to share the business there. Thank you.

Dipak Gupta

This is basically about retail and commercial assets, as some of you are aware close to about 85% of our assets on a consolidated basis come from retail and commercial segment, and if you look at the segments which we really straddle on the retail space, it practically covers most of the product segment, but interestingly if you see what we have done is while you start off around a broad product segment over a period of time we have graduated and expanded each of those segments horizontally, basically to try and capture as much of the net interest margin as possible arising out a wider customer base. For example, if you look at consumer products, say personal loans, which you know that as, the market becomes more and more competitive it is important for you to move out of an existing product customer segment into a different product customer segment to improve your net interest margins. What you have to be careful about is that you still have to ensure that your NPLs are within control. So it is a very tight balance between ensuring that you get your NIMs (the net interest margins) right and your net NPLs in order. That is broadly the philosophy if you see across all these product segments. If you look at us historically, we practically as a bank run with the highest net interest margins in the banking segment and simultaneously also probably the lowest net NPLs in the banking segment; not just net NPLs, across most of these product segments what you will find is the gross NPLs themselves actually are very low. Some of the products give you very high yields, for example, retail consumer space, like personal loans to car finance customers; are very high yield products. Right on top is the asset reconstruction business which as Uday pointed is where we have got an investment of about now Rs 500 odd crore in the business, and the principle outstanding of this investment is close to about Rs 3,000 to Rs 3,500 crore. Now does it mean that we will realize the entire Rs 3,500 crore of principle which is due from customers? Obviously not, but we will also not just realize the Rs 500 crore of investment which we have made. So actual returns in this business can be very high, and historically we have seen very

good returns out of this business, and from a pure competitive point, there aren't actually too many players in this business segment in the Indian market space. Most of them are foreigners and foreign institutions, and over a period of time last 4-5 years in the asset reconstruction business we have established ourselves pretty well really.

If you look at the mix of advances, totally out of the Rs 15,500 odd crore of advances including corporate, retail still is predominant and within retail again the auto sector including CV & CE tends to be large for us. But if you look at the over the last 3 to 5 years the percentage of exposure to the auto sector including CV & CE has been progressively coming down and we probably had a percentage of about 50% odd now. Some of them, if you look at the chart on the lower side, have been growing faster than others. For example, cars is something which we actually did not grow and we have not been growing it for 3 or 4 years now because the yields were not good enough, except for the last year about 6 odd months where the spreads actually started improving because of competitive pressures easing out, so we have started pushing some of those businesses much more; similarly for commercial vehicles. But the growth really has been in home loans and personal loans. Actually home loans until December if you had tracked the growth rate would have been close to about 100%. Actually it has slowed down in the last quarter and one really is extremely watchful about how it moves over the next one quarter before deciding to see whether we continue the growth emphasis in the home loan sector. The personal loan business of course has been growing consistently and our experience has been remarkably good. NPLs have been very well under control. I guess one of the big reasons why we have maintained a high risk adjusted return in the personal loan business is because of the segmental focus of ours. We have concentrated in the self-employed non-professional business as against the salaried business. So net-net one has seen large growth in the entire retail space. It is a predominant focus for us really and I guess as long as that growth continues the focus into the segment will remain for us. Thank you.

I will request Manian to take you through the retail liabilities and branch banking piece.

KVS Manian

Retail liabilities as Uday mentioned has the branch banking business included in it. This was a year where we crossed our milestone of 100 branches; we ended the year with about 105 branches. In the next 15 months, as Uday mentioned, we are looking at reaching 200 branches. That is the distribution side of the business.

On the customer side, we continue to remain focused on the mass affluent and above segment of customers, which is reflected in two things: one the fact that significant proportion of our income continues to come from distribution of health products apart from getting us a healthy CASA book out of these customers, and we have in the last year grown the customer base to almost twice of what it was at the beginning of the year, thereby continuing to maintain the acquisition quality.

Overall, on the CASA frontier, we ended the year with about Rs 2,250 crore of CASA. The mix obviously is in favor of current account deposits, like Deepak mentioned in the earlier segment, we are also quite highly focused on the small business segment, which gives us the current and of course the corporate business, so we get the current account balances there, and savings of course comes from the household segment.

What is important here is if you can see that CASA has grown by 82%, but if you were to take our incremental growth during the year compared to last year, actually it is closer to 33%, and purely on the retail segment our base CASA book itself is about 40%, but because like Uday said, we started with zero on the liability side, our reliance on the bulk deposit on an overall

results in the 22% CASA that you see there, but the fact that the incremental is 33% and purely on the retail segment is 40% gives us the confidence that we can keep upscaling this percentage closer to the best in the industry.

So that is broadly what I had to say, and I would now ask Narayan to come and take the securities part.

Narayan

Good afternoon friends. Last year was a year when we saw the market volumes going up substantially and it continued to be very volatile. In fact if you look at last year this time the market probably the best now vis-à-vis the market hitting the low around this time last year. But overall the market volumes did go up substantially, and the heartening thing for us is that while the increase of volume from Rs 2,400 crore a day to Rs 3,500 crore a day we also managed to increase our market share from 8.5% to 9% on a total average daily volume basis.

We continued to improve our presence both in retail and institutional segments. We added about 150 offices last year, which increased our footprint substantially across the country. This year we plan to use these offices substantially to also sell third party products such as mutual fund etc., which we have not been doing up to this time. We think with that it would help us recover assets better.

Asia Money in its broker's poll rated us as the best local broker. We were also adjudged the most customer responsive company from Avaya Global Connect.

If you look at our profits last year it was about Rs 255 crore. The overall top line moved from Rs 620 crore to Rs 834 crore. Now our research team covers about 265 stocks and we continue to focus on building it, because we think that it will be the differentiator over a period of time. We added about 100,000 customers last year on the retail side. On the portfolio management side we have now about Rs 2,300 crore of assets and the good part is that out of that more than 50% is under performance based space. We were also awarded the best provider of portfolio management by Euro Money Private Banking Industry 2007 poll.

Thank you. I will now request Jayaram to take it over from here.

C. Jayaram

Good afternoon friends. Let me start with the asset management piece. As you all know, extremely competitive business, but we have managed to grow to US \$5.1 billion assets under management. Typically, when we look at asset management, we manage money in four different pools. We have our domestic mutual funds; we have our portfolio management services, our offshore funds, which is offshore asset management piece and the life insurance funds.

In terms of important events in that piece; the Kotak Mutual Fund has tied up with T Rowe Price under its window where resident Indians are allowed to invest into global products and this would be a fund called T. Rowe Price Funds SICAV – Global Emerging Markets Equity Fund, and this is something which we hope to get off the ground fairly quickly.

There has been all sort of switch from the listed equities space to the alternate assets, and we believe and as Uday mentioned this briefly is going to be one of the exciting growth areas, particularly in the Indian context, we can already see this happening in the global context. We believe that in India as well, this will be a big growth area going forward and we have a

reasonable presence in this area already and over the next few years we hope to step this up significantly.

In the private equities space we have a fund called India Growth Fund with commitments of US \$170 million. Of this broadly about two third has already been committed and we have invested in about 10 companies. We typically invest in companies which are knowledge based or in other high growth sectors and look to back entrepreneurs who can be potential leaders of tomorrow, typically people who are among the top 3 in their segment.

This is just a brief flavor of some of the sort of investments that we have made in our first private equity fund. Sabare International, which is a home furnishing outfit out of Tirupur, Home Solutions Retail, which is a Pantaloon subsidiary, Metahelix Life Sciences, which as the name suggests, is in the life science space out of Bangalore, Bharat Fritz Werner, which is an engineering unit, again out of Bangalore and DRS Logistics, which is a logistics company out of Hyderabad. We have also planned to launch a new fund as we are two third committed over the next few months we would complete our investments in this fund and then we propose to launch a new fund in FY08.

Again in the alternate assets space, the other area where we have entered recently is the realty space. Again we have an existing realty fund, which is a domestic fund with over US \$100 million. Again 90% committed in a reasonably short period of time. We have invested in six companies, and this again is a flavor of some of the investments we have made out of this fund. We have invested in an IT part in Mumbai. We did a pre-IPO placement with Shobha Developers. We have also invested in Lemon Tree Hotels, which is a interesting mid-segment business hotel, and this is an investment which we made along with Warburg Pincus who have also significantly invested in Lemon Tree Hotels. The other one which is again an interesting one, Clover Golf Community in Bangalore, this is a golf course with villas around it, and we believe again that it could be a big success story. We are currently in the process of raising an international realty fund and over the next few months we hope to have this up and running.

I will now just move to our international subsidiaries. We have three international subsidiaries: Kotak Mahindra UK, which is registered with FSA of UK, SEBI, DFSA which is a Dubai authority, and the monitory authority of Singapore as well. Kotak Mahindra Inc. which is the US entity registered with NASD and SEC, and Kotak Mahindra International, which is registered with FSC in Mauritius and the Central Bank of UAE. The basic set of model in our international subsidiaries is that of investment management and advisory. We act as financial intermediary. We currently have in that piece equity assets between management and advice of about US \$1.4 billion and as a business model what we are now looking to do there is to set up various funds in various geographies some times along with partners and sort of do different products, and the first one of this which we did recently was a fund in Australia, which we did it with a partner, where essentially we provide the fund management expertise and they have the distribution expertise, a small fund of AUD 75 million, but significant because it is the first such product in Australia for retail investors there and it is a listed fund on the Australian stock exchange. Similarly, for the Middle East geography we propose to now do Shariah compliant fund, and this again we would be tying up with somebody who has strong distribution strengths in that part of the world, and hopefully over the next months we will launch this as well.

Currently, we have our presence in London, New York, Dubai, Mauritius, and Singapore. Singapore was a very recent office; we just set up shop there about 3 months back.

The wealth management piece, it is the part of the Bank, which Uday talked about deeply again. Now the focus here is on high networth customers and since different people have

different definitions, our definition of an HNI customer is somebody who has an investable surplus of actually Rs 5 crore, around US \$ 1 million, because the dollar keeps depreciating, but our benchmark will remain at Rs 5 crore. We manage stock advice wealth for over 3700 families in this part of the business, out of which around 30% of the top 300 wealthy families in India are our clients, and this is something which we are extremely proud of and we hope to improve this percentage as we go along. We currently have our presence in 14 cities with over a 110 relationship managers. As part of this business we are among the top three distributors of equity products in India. We also place a lot of emphasis on structured products, because we believe that going forward your vanilla products are not good enough for this segment, we will need to come out with innovative structured products which could be typically capital guarantee products with upsides on various assets classes, and we have done some of these already, we hope to do many more going forward. In this category we have been recognized as an important player. The latest Euro Money private banking poll 2006, rates us as the Best Local Private Bank, and we won awards in 33 categories in the Asia Money private banking poll including the Best Private Bank Award in Southern Asia.

I will now just request Shanti to take over the corporate and investment bank.

Shanti

Hi! Good afternoon. As Uday mentioned earlier we probably are one of the unique institutions that started the investment banking business, built a dominant presence, and moved on to commercial banking, and this is really the core of our strategy. At the center you have clients whom we have covered in our client coverage model surrounded by the products that we offer to these segments. Our coverage model includes what we call the top 50-60 corporations and groups, the large corporates, small and medium enterprises and financial institutions, and the strategy is to offer cutting edge products both on the commercial banking as well as on the advisory side of the business to cross sell. At the very top end we really have an integrated coverage model for both the commercial bank and the investment banking businesses, and for the rest across we really have put in across 12 cities relationship managers who cover these clients and there we leverage the investment banking relationships to offer other products and we leverage the banking relationships that we have to offer the investment banking products, thereby really deepening the share of our client. We have a very judicious mix of NII and fee income, while you can see that the corporate advances have really gone up 78% this year over last we have really used that very effectively to enhance the quantum of fee and other advisory services that we provide, and our key product focus areas to the entire spectrum of segments is really debt capital markets, FX and derivatives, transaction banking, structured products and this is in addition to the investment banking products that we offer. So a deep coverage model with cutting edge products.

I would ask Mohan to take you through the treasury products that we offer.

Mohan

Thank you Shanti. We have a very active proprietary desk in the treasury of the bank and we participate actively in almost all instruments of the market; forex, fixed income, money markets, derivatives and bullion. Bullion is a recent addition. About a year back we started bullion business in the treasury. The capabilities on the proprietary side has basically helped us to build the client side of the business and on the client side we focus on basically two areas which Shanti referred to in her presentation; the debt capital markets and derivatives.

Let me start with the debt capital markets first. We are one of the key players in the securitization market. We participate both in retail asset securitization as well as corporate loan

securitization. Corporate loan securitization in particular we are very active and I can confidently say we are one of the leading players there. I think the main competitive edge that we have on securitization is our response time, we are able to respond quickly and secondly innovative structures. The other products that we focus on under DCM are loan syndication, bond syndication, mezzanine financing, promoter funding, acquisition financing etc.

Let me quickly turn to derivatives. We have strengths in the area of derivatives. One is what Shanti referred to i.e. we work closely with both corporate bank as well as investment bank. This synergy basically helps us build this business very quickly. Secondly, we are one of the few Indian banks who are able to price complex structure products, complex derivative products, and this structuring capability and pricing capability is basically coming because we have made significant investment in technology and people. That is what gives us this strength to be active in this area.

Lastly, we offer value to our customers through research support as well as views on markets.

That is it from me. I would request Falguni to take over investment banking.

Falguni

Good afternoon everyone. On the investment banking side, we were awarded the best investment bank status from Finance Asia for 2006. We also manage a number of offering deals in IPOs, QIPs, GDRs, private equity placements as well as M&A transactions and the pipeline for next year looks even more robust. In fact, we were always doing a lot of IPOs and this year we decided to focus a lot more on follow on offerings, not necessarily the rights issue and all which do make much money, but more on the QIPs and the GDRs and block deals and we have done a number of those and we have been the number one lead manager for this chunk of QIPs and GDRs based on current data there. On the M&A side as was earlier mentioned, the importance of India is now coming to play where the flow that we had in the first quarter of 2007 itself, had us ranked as # 4 in entire Asia and this is by MergerMarket and I think we expect India to continue to be very important market for M&A and that will give us pretty good deals for going forward. Moving to some of our deals, I think on the IPO's despite more of QIPs and the GDRs, what I would like to say is some of the best deals last year were done by Kotak and we are really proud of that fact, starting from Sun TV to Tech Mahindra, and I think all of you are very aware about that Sun TV, Tech Mahindra, Sobha, Mindtree, PFC, ICRA, GBN, each of these were Kotak deals and the performance in terms of overall subscription levels exceeded 77 times to almost even 169 times in case of Sobha. We have had probably largest retail application in a couple of our deals like on PFC with 6.3 lakh applications. So, some of the best deals came from Kotak's fold this year, and we are increasingly focusing on quality of deals rather than just large size deals which sometimes are not very good for the investors and are trying to build a track record on that basis. Besides that we did one of the largest GDR transactions which was the largest GDR transactions last year and second largest in the history of five years in India. And Kalpataru which was one of the first QIP transactions; Mahindra Gesco which was again one of the first QIP with more than \$100 million issue and the similar trend continues. In this year, for first quarter also, we have seen a number of QIP transactions. Talking a little bit of many deals, Hutch has been a long-term relationship for us which culminated in a transaction of sale of controlling interest in Hutchison Essar to Vodafone, where we acted as one of the financial advisor. But another interesting transaction that I would like to talk about is the work we did with Anchor and we divested 80% stake in Anchor, more than Rs. 2,000 crore and this was sold to Matsushita Electricals where we were exclusive financial advisors to that deal, which we are very proud of. For most of the work was done last year; the fee is going to be booked in the current year not the year that went by. Another

interesting transaction was Bombay Stock Exchange, where we placed more than half of the equity through private placement, this included in three bouquets; it began with strategic stake that we sold to both Deutsche and Singapore exchange followed by a financial placement to FII and then the domestic placement that is both with, QIPs as well as high-net worth individuals. Then I think this was unique about the quota that we can bring about all the segments to come to play in a large placement like \$500 million that we did for BSE. This also is a transaction which will be booked in this year. We were the exclusive advisors to Mahindra & Mahindra for the acquisition of Punjab Tractors from Actis Group and Burman family; we also did two acquisitions for them in Germany. The next transaction on Pioneer Electro Trophies, talks about how global firms are coming to us and retaining us to provide Advisory or work with them in their Indian strategy and this is what we did with Pioneer. when they approached us and we represented them and found them a JV partner in India. A little bit about our advisory and private equity practice, we advised Great Eastern Shipping on the demerger of the offshore business, very interesting restructuring was done by us, and on the Blackstone stake that they bought into Ushodaya, we were advisors to both sides and they are very proud of the fact that both Blackstone and Ushodaya wanted a sole advisor which was us, it was a \$275 million transaction. Another very proud movement for India is the INX India deal, where a couple of management team including Indrani Mukherjee and the whole management she put together in media space has been able to raise in excess of \$200 million based on their dreams alone, and this was done by Kotak. We also ourselves took a small stake in that. We did a number of private equity deals in reality space that we have been dominant. We have done a transaction for Oberoi Construction as well the DivyaSree and some other transactions that I have put to you. So, I think we are very pleased to be at this juncture where the pipeline looks very robust and our customer franchise both with Indian corporate private equity players and the foreign companies that are coming into India is pretty robust. I think with that I would like to invite Dipak again on life insurance business.

Dipak

Hi, I am back again. I am actually doubling for Gaurav Shah. He is on a holiday somewhere in Southeast Asia, I think after a great year ending. You will ask me how is the year great when total premium income has gone up only by 56%, but do not get misled by that 56% because as Uday briefly covered, last year we have changed our strategy significantly and went for business which creates value rather than just top line and historically if you see there were three broad segments of the business, the big top line contributors used to be the single premium business, then we had what we call the key line insurance business, but the core business in insurance which creates the direct value which is the quality business is the individual standard policies and last year we actually did significant shift in the mix concentrating on standard regular premium business and if you look at that component of business for us, actually it has grown significantly more than 100% for us. What came down was the concentration on the single premium and the key line insurance. So, there is a big change and hence while the number looks like 56%, infact we believe we created significantly a more valuable entity out there. The second interesting focus for us on the insurance side has been the usage of the bank and other parts of the Kotak group to help in distribution what is called alternate channel and similar to bank assurance. Last year the bank and other associate group companies contributed about 16% to 17% of the total premium but very significant improvement or change in the quality of business was contributed and mind you the bank itself is in the process of acquiring customers and it is quite a challenge for the bank to go out and sell insurance to those customers who are fresh customers for them. But the single matrix probably gives you a good idea really. We are probably one of the highest ticket sizes in the insurance business; our average ticket size is about Rs 30,000 to Rs 31,000 plus and then actually there is just only one insurance company which has a ticket size comparable to that. So, the focus is bank assurance and other distribution channels within the group to ensure that you get your premium income.

I think the third key change last year was focusing more on distribution creating by adding sales managers and that is the chart which you see on the bottom right hand side and that is about a 1000 odd sales managers because that creates the multiplier effect, but that also means that you are investing that much more into the distribution of the business and what you try to focus on is not just add those numbers, but increasing the productivity. It is very easy to keep on adding and showing a growth in the top line but it is very important that you have your productivity numbers very well in place and improving. Again, that is a focus of ensuring that you reinforce only high embedded value businesses rather than all businesses. That in summary is about insurance business and I will now request Vikram to take you through the group operations in the separate parts of the business.

Vikram

Thank you Deepak. Good afternoon ladies and gentlemen. I thought I will do a quick introduction because you have seen all of these people for several years and I a new member in the management team at Kotak. My name is Vikram Sud. I joined almost a year ago after spending about 20 years with Citibank both in India, in the far east, as well as in the U.S., and having decided to listen to the newspapers in New York figure and figure out that if there was much more happening here than was happening in the United States. I will walk you quickly through the operations, focus and strategy. What Kotak has been doing over the years is really focusing on each of the businesses and growing each line of business somewhat independently, but in a very focused and nimble manner and while doing that we have built up infrastructures for each of the line of the business. What we are now starting to do is focus on consolidating and getting synergies across all of those pieces of infrastructure that we have. So, in that sense we started to move towards a common data center and network strategy therefore consolidating a lot of our IT assets into common data center process. We have also started to look at outsourcing something that many firms have started to do and we have now very actively started to centralize all our purchasing for IT assets as well as doing fairly serious strategic vendor management and looking at vendors that supplied similar services across the entire group. We are now a large group and this kind of looking at scale that we have across the group can give us pretty good synergies. We believe all of these things will help us drive down unit cost to some extent and will give us the ability to be a lot more nimble going forward. We are also rolling out several platforms across the entire group, so when we start to roll out platforms like anti-money laundering or CRM and some of the other platforms, we now go ahead and negotiate across the group and roll it out to each of the businesses one after the other. This will give us a lot of synergy both internally as well as it will give us lots of benefit in the face of the customer who buys multiple products and services from us. The other thing that happened as you all know if you all live in Mumbai, that our growth has been huge and you have seen the numbers that we talked about before. And as we grow on we literally grab real estate and premises wherever we could, given the nature of our business and it has been really difficult to try and get a lot of productivity when you are grabbing small pieces of real estate in different places and setting operations and technology function in different parts of the city. So, clearly in line with all the investment that the group has been making, we made a very significant move last year and we acquired a little over half a million square feet in one of the suburbs in Mumbai at a very reasonable price, if you think about it a year ago was a good time to do it and we will be moving into this premises in the next 12 to 15 months. We will build the premises out clearly so that we can get synergy of operations and technology across the entire group. We will create capabilities in that place which will drive down unit cost as I said and will help us deliver a more seamless view to our customer base that buy multiple products from us.

So, that is the piece on operations. I am going to continue on HR, as we have all talked about it, people is really our key asset. Without people we would really not have a lot that we deliver.

We have continued to attract a lot of talent into the company. You have seen the numbers. We are continuing to grow at a steady pace of 400 people a month. Given the nature of the market, you are all fairly familiar, this is quite a creditable performance. Our brand has continued to grow both from a customer point of view but also from a people retention point of view. We had a lot work done with the HR teams in terms of improving training and development activity within the company as well as we have been doing a lot of other activity like moving people around within our businesses. So, things like internal job postings, etc., have been become sort of the norm. A great thing about Kotak and I can say that because I sort of got here not that long ago is there has been great stability in terms of the senior management as well as middle management in the company. This has really helped the business and I think it helps us attract people enter the company. Most of the senior management has moved around as well from one business to the other and that makes us feel very comfortable that we have a really solid management team. We are all fairly familiar with rising compensation cost, that is a very large challenge for us and I think the best way to keep compensation costs down is reduce the churn because as you all know when we lose people, it costs you a lot to hire them, train them, and put them to work. Given the growth in our business, we have now learnt steadily over time as we bring people in to get them to start producing as quickly as possible. Manian talked about adding a number of branches. Now that we have done this for the last three or four years, we are fairly good at bringing on branches and training people and having them get productive as soon as possible. We have also with years effectively used ESOPs to retain people and you must have felt that this might be part of the reason why none of these people have left but are still here. I think I will just end by saying that we continue to attract talent from multinationals as well as any other place that you think was traditionally the best of employers and really as we have said we are now considered one of the best employers in the market and making it to the top ten Best Employer in India by Hewitt Best Employer Survey is something that we are all very proud of. Thank you. I will hand over to Jaimin who will probably give you, what you are waiting for, i.e. the numbers.

Jaimin

Thanks Vikram. Lets just take a quick look at the numbers which we stand out during the last year. I will take the top line first; we grew our top line by 51% and we ended the year with a total revenue base of around Rs.4,200 crore, of course with the current the exchange rate that is over US \$1 billion. Big contribution came from the financing activity with the growth in advances. Financing revenues grew by 60% and that was a significant contributor. Fees continued to be a good part of our total revenue. Fees constituted almost 22% of our revenues. Of course last year we had a big kicker on our fees, especially in the last quarter when we had a peaking of the NFOs boom and we had made the distribution revenues which we made in Jan-March 2006, that is all that remains for the straight data on the fees this year. Insurance premium as Deepak covered has grown by 55% during the year and we have seen the total growth at 51%.

Before I take the P&L, I just would like to spend some time on the one-time accounting heads which we have taken during the current year. These are purely accounting heads, none of these items are affecting our cash flows in the current year and to that extent these are accounting positions either posed by regulations. The first one is in respect to standard provisioning. During the current year we saw RBI increasing standard provisioning on specific categories of assets and we happen to be in some of these categories. Resultantly, we have taken a P&L hit of close to Rs.45 crore during the current year on account of increased provisioning. The other one which also impacted us was the stressed asset portfolio. During the year again RBI came out with clarifications and guidelines on accounting for stressed assets and resultantly this now requires us to focus on accounting on these individual asset level basis and effectively therefore if you do not realize anything on a specific assets for a period of six months, then that gets into

you NPA and attendant provisioning. Resultantly, the provisioning on this account itself is Rs.37 crore and our belief is that that is an accounting provisioning and as we go along we will certainly recover more than what we are providing here. The other one is the accounting standard 15 which came in with the Institute of Chartered Accountants introducing that earlier in the year. We started providing for this in the beginning of the year and almost towards the end of the year we were told that this is kind of voluntary for this year. It becomes mandatory on the first of April this year. However, having gone through it, we decided to take a hit for that year also and during that period the accounting hit for the group as a whole is Rs 16 crore across. As a result therefore if you aggregate all of these, these are all accounting hits which does not go through a cash flow aggregates to almost Rs.100 crore is what we have lived to on a pre-tax basis for all of these items.

If you then take a look at the different companies in the group and how they have performed, the bank which ended the year with Rs.141 crore profit after tax, that is a 20% growth over the same period last year, recognizing the fact that the bank is one entity which has taken bulk of the pains of the previous slide we talked about, of the Rs.98 crore which you saw on the previous price, almost three-fourths of that has been taken in at the bank level itself and that is one of the reasons why we have lower profit in the bank during this period, but some of the details are also one time things as we go along for example on the standard provisioning it will be only be incremental which you will be getting along as we go forward. Kotak Mahindra Prime had a sharp rise in the after tax profits. One of the reasons of course was until about half of last year, it was paying a certain royalty of about Rs.10 crore a quarter to Kotak Mahendra Bank which we stopped after we acquired the stake from Ford credit and it became effectively a 100% subsidiary. The other reason for the rise also is if you look at the last quarter, you will see that the profit after tax is Rs.24 crore, some of this has come from debt capital market activity which is now pretty active in this company and certainly we expect that to continue as Mohan briefed you earlier in his presentation.

Kotak Mahindra Capital Company, the investment bank also had a steady year and has grown profits by 20%, and as Falguni mentioned, it has completed a lot of work last year for which you see revenues coming in the current year. Kotak Securities continues to be the largest contributor to the bottom line has had a good year again and the profit there in that entity crossed the Rs 250crore mark and closed at Rs.255 crore for the year. Significantly, the international subsidiaries have now started showing in good results. A sharp rise in the profits after tax of our international subsidiaries, we closed the year with Rs.35 crore profit, this is almost three times the levels which we had in the previous year. The mutual fund continues on a steady growth and then you have the Kotak Mahindra Investments which has earned a small profit of Rs.26 crore. We also have a line called Equity Affiliates, which shows a profit of about Rs.15 crore for the year. A large part of this is coming from a company which we had and we continue to have an investment in and which had realized a lot of gains from sale of the stake in Hutchison last year. A lot of that investment is lying in tax free bonds which are getting a very low return there. Equity Affiliates profits includes the investment into that company and the profit pickup from that company. At the end of the day, the after-tax profit other than the life insurance company, we end the year with Rs.581 crore which is 55% higher than Rs.374 crore comparable last year. If you take the life insurance numbers, our share of the loss, which is 74% stake, is Rs.43 crore for the year and as a result we close the year as our share of profit of Rs.538 crore for the year which again is 57% higher than the Rs.342 crore last year. Mind you all numbers for the last year are other than the profit on the sale of the transaction from Hutchison which I talked about earlier.

On the ratios, net worth, is now more than Rs.3,000 crore, we end the year with a network on a consolidated basis of Rs.3,200 crore. Our earnings per share at the year end is close to Rs.16.50, and book value, we just stopped short of the 100 mark. Our net NPA is pretty much

in the control other than stressed assets at 0.17% with high NIMs of 5.2%. Post-tax return on network is 19.6%, this is despite the equity's two points which I would like to make to you all; one is we had raised equity at the beginning of last year which is when we did a GDR issue of close to \$100 million, that added equity base. Number two, as I mentioned, last year we had sold our stake in Hutch and approximately about Rs.450 crore of money belonging to the shareholders has been invested in low-yielding assets primary to stage as new taxes and that is one of the reasons why the RONW has taken a slight beating. Capital adequacy at the bank's standalone level, we are very comfortable at 13.46%, Tier1 at 8.81%. Tier1 in the year was helped (1) by the GDR issue as well as the fact that we demerged our primary dealership from our investment bank and have dropped that into the bank that has brought with it net worth of Rs.216 crore free of tax into the bank and that is added to our Tier1 capital. On Tier2 also we have raised Tier2 capital both at lower Tier2 and upper Tier2 during the year. Banks standalone segments, lending activity Rs.112 crore profit for the year; again, this is one year which took the bulk of the provisioning heads which we talked about earlier. Corporate bank has had a great year and we closed the year with a profit of Rs.100 crore plus. Retail liabilities which Manian talked about is in the investment mode because you need to invest and we have put in 40 branches during the year. We ended the year with a loss of Rs.42 crore. Treasury again had a good period and ended the year with Rs.23 crore. On the pre-tax basis, at the bank's standalone level, we had a profit of Rs.203 crore and a post-tax of Rs.141 crore. I may just add that during this period in the last quarter you see tax provisioning which is comparably lower because during this period we also got orders which helped us write back some of the tax provisions which we had earlier.

Uday Kotak

This is the last slide friends before Q&A. I think the challenge for building institutions is about creating scale at the same time focusing on productivity and value and that is precisely what we are working on. We believe that the choice today is not the word "or" but "and," for scale and value creation, and we need to achieve both. First thing on the scale which is a significant priority for us is 200 bank branches as soon as we can and you do not stop there obviously, so that is a key focus and within that that very high focus on customer acquisition and CASA. Advances focus on net interest margins and asset quality. Build a unique corporate and investment bank. Expand international presence and here again we do not want to be everything to everybody. Our focus is going to be linked to Indian products and our Indian customers which means sell an Indian product to a global customer or a global product to an Indian customer. Therefore, if a global customer wants to invest in Indian assets, we believe we have the expertise on the Indian product. If an Indian customer wants to invest in global assets then we tie-ups as we have done with the T Rowe Price or search other global product providers for our Indian customer base. It is a much focused approach to international presence. Securities & wealth management we think will continue to be a significant part of our growth into the future and within the asset management case, I once again want to reiterate that real action over the next few years, friends, is equal to net assets, and that is where significant money is being made around the world, that's where we want to focus significantly.

Distress assets we have had acquisition and we have been acquiring assets over the years and we will continue to do that and we see harvesting begins in this year that is the post-07-08 and beyond. There is significant amount we think which is lying there, and as we have mentioned about Rs.3300 crore of face value of assets which we have purchased about Rs.500 crore. Life insurance is about growing share and building market share while focusing on value. It is truly an exciting time building a financial institution in India and we are really delighted sharing this aspiration and dream with you. And with that, we open it up for Q&A. Thank you ladies and gentlemen.

Questioner

Good evening sir. With interest rates firming up at fairly higher levels than what they used to be in the past, how do you see your business shaping up in the near term on retail side and the housing side? I think all these segments very clearly hinge on the interest rates not moving up from this level. So, what is your call there and how do you strategize to grow these businesses? Second is, in terms of the Kotak Securities out of the business which lends a lot of profits to the group, could you share some more thoughts on how do you intend to grow market share, grow profits, in such a competitive environment and global entrance into the picture?

Uday Kotak

Let me first take the interest rates. Essentially, as I see it the impact of interest rates is on three key factors and we need to evaluate each of these three factors. Spreads, growth in volume, and asset quality, and if you look at each of these three factors, first of all spreads, I think right now in a market place where I use the word which most of you would have heard with reference to a number of other industries, that is pricing power. So, any body sitting with the ability to lend, has reasonable pricing power. So, on spreads, I think it is a good time which has actually prompted big central banks, okay listen guys do not go overboard in terms of the amount of spread money you can make. I think probably you are aware of the RBI circular, but keep that aside. I think more importantly on the spread side with reference to higher interest rates, it has come with reasonable pricing power which is available to us at the bank, that is point number one. Point two is on the volumes and Deepak mentioned about it. I think you got to look at segments where there could be potential risks to volumes and at this point of time, it looks like the segment one has to watch the closest is the real estate and housing finance segment from the point of view of impact on volumes, happening in out of the higher interest rate segment. We really do not see much of a problem in volumes. In the entire small medium business segment and some of it comes within our retail and commercial lending, some of it comes in our SME and emerging corporate lending. But in that segment, I think actually there is a tremendous demand for money, whether it is construction equipments, whether it is business banking group, whether it is the SME and the emerging corporates. Very significant asset growth opportunity with pricing power. So there will be segments you are going to watch out for in terms of how they shape up and what adds to that in the next few months and quarters, particularly the real estate related lending. That is the second point on the overall thing with reference to interest rates and volumes of assets.

The third, which is asset quality. So far no signs of any any trouble in our Balance Sheet, and may be we have the luxury of having just Rs.15000 or Rs.20,000 crore of assets and not a few hundred thousand crore of assets. Therefore, we have the luxury of being careful about where the money is going. But in our balance sheet, we have not seen any stress yet arising out of interest rates, and some of us have lived through the agni pariksha of the late 90s. so, this is how we make sure that we balance between, as I call it internally, lessons of history and baggage of history, and that is the balance which we are grappling with because there is too much of memory of all this thing happened in 1996, 1997, 1998, and then the counter argument that this time is different. So, we are constantly balancing between these two forces. Is history going to repeat itself or there is a paradigm shift. So, we grapple with that as we think about the whole area of credit. But the point which I want to highlight with you is very alert about it. If something which is very much in our genes, something which will not go away quickly in terms of hopefully not doing stupid things, but the good news about history that you can always judge it, you can may be discuss it in the future, but these are the three points with reference to interest rate, spreads, volumes continuing to be very robust in most segments,

watch out for one or two segments more carefully, and so far no stress which we are smelling in the balance sheet.

So, this is on the interest rate. Second is another very interesting question now. On the whole broking space and I think we are in for very interesting times. If I have to venture a judgment about how I see those spaces develop for the next few years and you probably value it to market share, pressures on margins, and all that. It is a little bit of a crystal ball because industry evolution is at stake, how consolidation will happen or not happen. These are issues we can debate a lot, but for most of us here who have significant interest in the brokerage industry, again I am speaking not so much about institutional space which we can talk separately but more about the general brokerage space. My view is one of the challenges the brokerage industry will face is over time brokerage will become more and more a bundled business in the execution mode. And what do I mean by that. A broker will have to find ways of what I call as Otis Elevator model. You do not make money on the lifts or make selling the lifts, you make money on the maintenance.

Or the Gillette model, you do not make money on selling the razor, you make money on selling the blade. So, the broker, the core brokerage business execution only, will come under more and more pressure and that is how I crystal gaze about the future, but how are you going to make money around it. Your brokerage somebody says, 5 paise, some body will say 4 paise, somebody will say 3 paise, somebody will say free. How will you make money? Money will be made through bundling where you have to find ways and means of doing that and that is how I see the future on the pure execution only. And in that sense we think we are uniquely positioned, and we are very conscious about arms length and all the compliance issues as much, but within that framework, being a bank and a broker. And that over time will be a significant differentiator as this industry consolidates, and money will be made when people have presences in both the legs. We could ultimately solve about customer ownership, who owns the customer; so that is one part. But the future is not as bleak in broking space in general. This is only the pure execution space. In the rest, people will pay for good research. People will pay for ideas, value addition, finally people buying equity and the business of making money. And if you can make money because of good ideas and value addition, people will pay brokerage, for ideas and value addition. And therefore superior products, superior research, superior ability to generate ideas, will be the key differentiator for brokers who can make money and walk on. And, as Narayan highlighted, we are focusing on both sides, one is if the execution have the ability to be that volume driver if necessary, the prize driver to make sure that you get your market share. So that is one part of the strategy. What are we doing to value add? What is our research product? How are you going to keep on coming with ideas, value add? We have created separate desks where we charge higher brokerage which is like value added brokerage with a very significant advice component and that is the way you make a difference in the business. Therefore, each firm that I could really find out within the brokerage industry, their space. Within the space you define how are you going to competitive and that is what I see as a future.

Questioner

Are you looking at inorganic opportunities in any of your business areas?

Uday Kotak

You know, it is an interesting question for a firm which deals so much in the mergers and advisory space. The question is you are hopefully creating great enterprises by giving advice to others. What are you guys doing for yourselves, and it a question you asked yourself all the time, but you know it is a little bit like a doctor. When he sees too much, he will be cautious to

implement some on himself. So, probably we need to focus on what we are, but the challenge for us with deep down in our DNA as a firm, there is a deep need for value. Whatever we do, we want to see value, we want to see how we can get significantly value and in the market which is a big picture market, where acquisitions are done on big picture. Most people like to focus on the big picture how value will be created in the big picture. We like to go and challenge it and see that the value is not only in the big picture and the small picture. If we can get value in both, we will do it. Having said that we see clear value in banking consolidation, but all of you cover staff in the banking space, then how can, we just look at the relative valuation. I would love to buy a PSU bank at one time book, but where it is available. And then, if you go into the private sector bank, some of the value proposition, it is always a struggle. How do you make sure you will be getting enough value and I do not think one has to look at merger if your market cap is high, the other guys' market cap is high, so it is currency for currency. I think if I were to buy another bank, I am writing a cheque for that amount because that is the money of the shareholders, and that is how we think about it but is that cheque worthwhile. I can tell you if you believe it is worthwhile, you would have a go for it and that is the struggle we go through. I am trying to answer your question in a complicated manner, but I am trying to give you a little bit about our psychology which is very significantly value driven for what we are getting.

May be we can discuss later, since you have had a long presentation, we were just very keen to give you a sense about the depth of our management team as we build the institutions. And I just wanted to say thank you to all of you for being with us this afternoon. Thank you and join us for tea and snacks.

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