"Kotak Mahindra Bank Q3FY12 Results Conference Call"

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MODERATORS: **MR. UDAY KOTAK – MANAGING DIRECTOR, KOTAK MAHINDRA BANK.**
MR. JAIMIN BHATT – GROUP CFO, KOTAK MAHINDRA BANK.
MR. DIPAK GUPTA – EXECUTIVE DIRECTOR, KOTAK MAHINDRA BANK.
MR. NARAYAN – SR. VICE PRESIDENT, CV & CE FIN, KOTAK MAHINDRA BANK

Moderator: Ladies and gentlemen, good evening and welcome to the Kotak Mahindra Bank Q3FY12 results conference call. As a reminder, for the duration of this conference, all participants' 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 now like to hand over the call to Mr. Uday Kotak from Kotak Mahindra Bank. Thank you. And over to you sir.

Uday Kotak: Good evening, friends and welcome to the call at the end of December quarter results and as our normal practice, I will start with some broader issues in the context of our Bank and then I will hand it over to our CFO, Jaimin Bhatt to take you through the presentation followed by question-and-answers.

In terms of the big picture, we, as a bank, have continued with our steady growth on building the balance sheet and the overall positioning of the bank. We year-on-year have had a growth of about 38% in advances at the bank standalone and consolidated is about 32% to 33%. We continue with our guidance for the full year on a consolidated basis at about 30% guidance in growth. Yes, we have seen some concerns in the broader macro economy on a few sectors with reference to potential credit risks. We have tried to make sure that even as we grow our balance sheet, we are careful about our exposures to the some of those sectors, primarily Airlines and Infrastructure and we have continued with our conservative approach on both these sectors where we feel that the risk adjusted returns from a lending point of view are not commensurate. We also continue with our very cautious approach on the whole area of restructuring of assets on the balance sheet and continue with one of the lowest numbers there of about 60-odd crores in terms of restructured assets and which is consistent with our philosophy of wanting to look at any problematic asset as rather taking it to P&L then wanting to restructure. These are some of the tenets of our basic philosophy and we continue with that.

In terms of the entire focus on the Savings area, we have been post the November 1. We have made a change, as you know, in terms of our Savings Deposit rates and the initial traction has been positive. We have seen an improvement for this quarter of about 900 crores to our Savings Deposit base from a level of about 3500 crores to 4400 crores. We are not exuberant about it, but we want to be steadily increasing the overall pool of low cost and stable liability base which is in the heart of what we want to build this bank.

The Nonbanking and Financing businesses continue to be having a pretty challenging environment. And as you would see through the presentation, we genuinely take you through now Banking and Financing for this quarter has accounted for 85% of the total consolidated profits. We think the capital markets business is probably at the lowest end of the trough and from here our view is that things get better or remain flat. We do not see a significant downside from here. We are seeing some traction in the overall direction of our market share there, particularly, in the cash markets coming out of the fact that we are beginning to get gains of consolidation through people beginning to cut capacity in the capital markets businesses. And all in all, we think the reality on the ground is probably better than the mood in the end, and therefore, our perspective on Loan growth going forward at this stage is not negative, we think for the year of 30% number is on a consolidated basis is certainly feasible, and going forward depending on our economy and the level to which it slows down on the size of our balance sheet at 25% to 30% is something which we feel is possible over the next 12 to 15 months as well.

On the Branches front, we had a slow first 9 months. We see a pickup in the last quarter. We see ourselves adding a total of close to 30 branches in the fourth quarter which will take us to a number of around 360 branches, and going forward we still maintain our 2013 guidance of 500 branches in 2013. With that, I will now have Jaimin, my colleague take you through the specifics of the Bank followed by Q&A.

Jaimin Bhatt: Thanks, Uday. I just take you through the presentation which we have mailed out and we believe you have got it. In terms of the highlights for this period, we closed the period with a consolidated profit of 463 crores, which is about a 21% rise from 384 crores last year. As Uday mentioned, we have seen a Loan growth at the consolidated level of 32% and we closed this period at 52,800 crores. NPA story has continued to be stable and at the net level consolidated, we are at 0.4% without taking into account our acquired stressed assets business. NIM again continues to be healthy and we are at 4.7% NIM at the consolidated and the standalone level. Our capital adequacy in the bank is continuing to be at a pretty healthy number for the current period including the quarter profits we get 17.5% and without the profits at 16.9%. Of which Tier I is 15.6 with profits and 15 without the profits. CASA as a percentage level at the end of the period is at about 28% and we have seen a decent jump in CASA both during the year-on-year and for the quarter. As I said advances growth of 32% has been reasonably across board, large growth coming in from Corporate book, which itself has grown 44% on a year-on-year basis, Commercial Vehicle, Construction Equipment, the Mortgage business and the Agri business, the last two having contributed decently for the jump this quarter too. On a consolidated revenue base, the revenue stands at 3300 crores, which is a rise of 25% over the same period last year. The big contributor there being the Financing business which has jumped 43% to 1765 crores for the quarter.

From entity likewise numbers, overall, as we said we have grown 21%. The largest contributor, the Bank at 276 crores is a 47% rise over the 188 crores, which had delivered in the same period last year. Kotak Prime, the other big contributor at 104 crores, this is our NBFC which is primarily into the Auto Loan business. The Life Insurance business contributed 47 crores to the bottom-line which is against 24 crores same period last year and 53 crores in the sequential previous quarter. The Capital Market business, as Uday mentioned, slightly subdued and it got 28 crores profit from the Investment Banking and the Stock Broking activities put together. So net-net overall at 463 crores is where we closed the quarter at.

And as Uday pointed out, this quarter therefore see the Financing business which is the Bank and the NBFCs together now contributing 85% of our pre-tax numbers with the capital market at 6%

and the Insurance business at 7%. On the consolidated basis, our deposits have grown by 38% during the period and our balance sheet now stands at about 88,000 crores with a net worth at 12,400 crores. Return on Assets continues to be healthy at 2.2. NIMs as I said is 4.7. Gross NPAs now on consolidated basis at 1% and net NPAs at 0.4%, both of these without the stressed asset business. So the NPA story continues to be decent there with a book value at the end of the period at Rs. 168.

The Financing business has been the biggest contributor. And as we said for the last year that advances book had shown a 38% growth for the year-on-year basis December-to-December showing a 32% growth with very little restructured assets as of 31st December. Our overall restructured asset at the gross level being at 63 crores which is like 0.1% of our overall gross advances. The Financing business has also seen a rise in the Net Interest Income by 21% on year-on-year basis with post-tax profit increase of 35%.

The Consumer Bank which on the liability side, we closed this period with 330 full-fledged bank branches and 781 ATMs and we are on course for the 500 branches by Calendar Year 2013. The Consumer bank also focuses on the cross-sell opportunities at the consumer level which would largely consist of Auto Loans, Mortgages, Personal Loans and Credit Cards. CASA, the 28% number which I mentioned is without taking into account the sweep deposits which is an additional 6.7% of the deposit base.

The Consumer Financing piece, which is the Mortgages, Auto Loans and Personal Loans, continues to be the largest piece of the advances book that is about 38% of our advances. The growth there has been slow than the other two pieces. This book now accounting for about 20,000 crores of our overall advances. Growth has been seen in the Auto Loans on a year-on-year basis, though for the quarter has been somewhat smaller growth. Mortgages have grown during the quarter and the Personal Loan business continues to be focused on the SENP category.

The Commercial Financing business constituting Construction Equipment, Commercial Vehicles, Agriculture-related and Capital Market primarily focusing on non-corporate business borrowers, that is roughly a book of about 16,000 crores and has grown very sharply in the last year with Commercial Vehicle, Construction Equipment showing a growth on year-on-year basis and Agri contributing decent amount for the quarter.

The Wholesale book which is another about 16,500 crores has grown about 44% on year-on-year focused largely on Trade Finance and Transaction Banking with bulk of the funded book being in short-term working capital related advances.

At the bank standalone level, we have seen the Net Interest Income go up 22% with the total Income going 27% on year-on-year basis. The Net Interest Income at 22% is after taking into account the increase in the Savings Bank rate from 1st of November. The operating expenses on a year-on-year basis grown by 16% that for this quarter also includes the advertisement campaign, which we launched in November. Provisioning also now includes standard provisioning which we did not have the same period last year as we were carrying a surplus from the kind of regulations change. Net-net, we end the bank's standalone profit at 276 crores, which is 47% higher than last year same quarter.

At the segment level, both the Corporate and the Retail banking have shown smart growth; the Corporate and the Wholesale bank has grown from 131 crores last year to 265 crores for this period with the Retail bank contributing 145 crores of the pretax profit.

If you look at the segments of bank Advances more or less the same areas of growth, and I was just mentioning here that the segmental profits which we talked about is on the basis of the classification recommended by RBI, which effectively means that any loan which has a limit of 5 crores plus will sit in the Corporate bank and therefore while the product-wise breakup we talk about Corporate bank at 16,000 crores. As per the RBI classification, the Corporate book would be like 20,600 crores, which is about slightly over 50% of the bank's standalone advances.

At the bank balance sheet, our net worth now is about 7600 crores. Deposits have seen a smart growth. The Current Deposits on year-on-year basis showing a 33% growth and Savings at 38%. Savings, in fact, for the quarter has seen 900-crore growth which also has enabled us to reduce our dependence on certificates of deposit that has remained flat on a year-on-year basis and we continue to go in for both refinance activities from NABARD, SIDBI and the likes as well as foreign currency borrowings, which are fully hedged on our books now. Capital adequacy at the bank standalone 17.5% as I said including the quarter profits and 16.9% without the profits with ROA at the bank standalone level again healthy 1.8%.

Kotak Prime, the advances on year-on-year basis has grown 19% and is now at 12,379 crores. Auto Loans constitute something like 78% of the advances at Kotak Prime, while the capital adequacy requirement for the NBFC is at 15%; Prime is at currently 16.8%. The 15% was introduced at the beginning of this financial year. The Life Insurance business current quarter premiums at 639 crores, which is a marginal increase from the same period last year. And, of course, with the regulations change like the industry, we are currently in the middle of product mix change from the last year. Our capital continues to be steady at 562 crores and we have not seen any infusion of capital for several years now. And our conservative approaches on this business have kind of set us in good state over the last year or so. Our AUMs in the Insurance business currently at about 8200 crores with insurance subsidiary now clocking 47 crores of profits this quarter as against 24 crores same period last year.

Kotak Securities which have seen an average daily volume of 4160 crores this quarter. On the back of the fact that if you look at last year to this year, the cash volumes in the market has dropped from about 21,000 crores to 12,000 crores and that has effectively seen the brokerage revenues dropped quite substantially. Of course, as Uday mentioned, our overall market share is at 2.9%, we have a healthier position on the cash market share.

The Investment Bank was involved in several transactions this period. The issuances by IDFC and the NHAI tax-free bond issuance, investment by Actis Private Equity in Endurance, the open offer by Styrolution for INEOS ABS as well as Oriental Iron Casting taking up 100% stake of BS Ispat. At the end of this quarter, the Investment Bank has shown a profit which is 4 crores for this period.

The asset management, overall assets from the management we closed this period at 48,659 crores. The overall quantum has dropped largely in the domestic mutual fund both on the equity and the debt side. Our private equity, we continue to manage both Realty and the private equity funds, but realty funds on the management being at about 3500 crores and private equity at 2000 crores. As we mentioned earlier, the first realty fund which we launched has refunded the entire capital and we still have several investments to go in that fund. We, in fact, raised a fund in the last quarter in the Realty side which has brought in 500 crores corpus. And today, as of December end, we have points of presence in about 2100 places across the country. That is broadly which what I have to say about the highlights. We will be open for questions.

Moderator: Thank you so much. We will now begin with the question-and-answer session. Participants who do wish to ask a question may please 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 only handsets while asking a question. We have a first question from the line of Suruchi Choudary from Edelweiss. Please go ahead.

Kunal: Hello sir, Kunal over here from Edelweiss. Three questions; firstly, with respect to CASA, definitely, the trend has been bit positive, yes, in almost 2% accretion to Savings Deposit. So just want to know considering the momentum today, what's our guidance would be with respect to low cost deposit and within this CASA as to how sweep deposits have behaved, have you seen some transition happening from sweep deposit to CASA because I think last time it was almost like 7.5-8%, now it is 6.7%, so both these aspects?

Uday Kotak: I will ask my colleague, Manian who heads the Consumer Bank to answer this question.

K. V. S. Manian: Like Uday said earlier in this call, I think the initial traction on the acquisition and CASA accretion has been quite good and in retrospective, we think we did take the right decision. Having said that, what you asked about the sweep deposit, yes, since the Savings Account rates have moved up, the relative sweetness of sweep has obviously dropped in. So we have seen a marginal slowing down of the growth in sweep deposit, but net-net it still seems right thing for us to do and as things stand now, we think we will continue the momentum.

Kunal: So any guidance with respect to where do we see the CASA ratio inching up over the next 12 to 18 months or so?

Uday Kotak: There is still very early days, abhi dho mahina hua he. Let us watch the situation and let us focus on building steadily and we will give you update, I promise you every quarter on the CASA numbers.

Kunal: Thanks sir. Sir, second question is particularly on the advances. If we just look at the product-wise segment, this time if you look quarter-on-quarter, there has been buildup on the Agri side and on the 'other advances.' So whether this Agri buildup is primarily to achieve say the PSL requirements towards the end of this fiscal and what primarily is there in other category to almost like 2000-odd crores if you can just throw some light out there?

Jaimin Bhatt: Kunal you are right. The large growth in Agri advances has been in a manner we meet our PSL targets. As you are aware, the PSL targets are to be met by the end of the year and you will continue to see growth in our Agri advances as we close the year. In fact if you look at last year also, we had decent jump in the second half of the year. So yes, it is towards building up the…

Uday Kotak: Having said that, we are not purchasing Agri assets at an unattractive spread it is a part of our normal business buildup which we do year-after-year and it is at healthy returns and for us, Agri has turned out to be a very, very good segment for our growth. It is back to a statement which I have made sometime ago which is borrowing from India and lending to Bharat. So it is a part of that story, and we think Agri is not only about meeting PSL targets, yes it does help that, but it is about making good business sets out of that business model and we are continuing down that path, we see ourselves comfortably meeting the requirements of the regulator and beyond that. So we are not just meeting 80% on Agri, we are doing more than that.

Kunal: Sir, what will be primarily the nature of this Agri credit if you can just throw some light as to --?

Uday Kotak: A whole host of things. We are into lending for Agricultural contractors, we are lending against Agricultural commodities, and we are sort of pretty widely expanding our base on Agri lending. It could be warehousing. So it is actually going pretty wide and deep in the whole Agri space over time and we think this is a very good business long-term, but it is not an easy business from the point of view of entry.

Kunal: And sir on other advances?

Jaimin Bhatt: I think it would have mix of the host of stuff, advances at the retail level, on overdrafts, on loans against shares, it would be what we call internally 'a strategic business' which is more the like of business banking, advances or not.

Kunal: Anything on Gold because we have just entered, we have launched any -?

Uday Kotak: Very small, insignificant. It is even smaller than that, it is about less than 10 crores.

Kunal: And sir one last question on this other income piece on the standalone bank. So if you can just throw some as to how much is the investment income and how much is Rupee income out of that?

Jaimin Bhatt: It has a mixture of everything. Investment income, small amount. Yes, in this period we have also got recovery, there has been a decent rise, the ForEx-related income and some stressed asset recovery, so it is a mix of all three of that.

Kunal: Stressed assets would be significant, sir?

Jaimin Bhatt: Not significant really. We had one deal, but it is not necessarily significant.

Moderator: Thank you. Our next question is from the line of Manish Oswal from KR Choksey Shares and Securities. Please go ahead.

Manish Oswal: My question related to other income at standalone bank. Could you tell us is there any one-off in the ForEx proprietary gains that included in the other income and any one-off, some guidance on sustainability at this-?

Jaimin Bhatt: There is nothing, no one-off ForEx in that one. The ForEx would be some amount of prop, but the large amount would be client related also.

Manish Oswal: And second sir, during the quarter we showed increase in the provision in standalone bank to 31 crores. So could you give some color on that whether it is related to the asset provisioning or any increase in the (LLP) Loan Loss Provision during the quarter?

Jaimin Bhatt: It includes asset provisioning. It also includes standard provisioning. So out of the odd-30 crores which you see, decent amount has taken up by standard provisioning, thanks to increase in advances, but yes there would be some amount of asset provisioning also.

Manish Oswal: And last how do you see the macro environment for the capital market businesses such as security IB for next 3 to 4 quarters?

Uday Kotak: I think I should ask each of the people on the call. My sense is going to be a tough environment and the base case should be flat and hopefully as we move through the year, it should get matter, but we should be careful not hoping too early.

Moderator: Thank you. Our next question is from the line of Ganesh Ram from Spark Capital. Please go ahead.

Ganesh Ram: Wanted to get your thoughts on how you see the Auto Loan pricing environment with many banks dropping the rates of late and in general sense, how do you see the Retail Loan book, they have held up pretty well compared to earlier slowdowns, do you see this sustainable, what do you think is the reasons for this or do you see the quality deteriorating with a lag? Just wanted to get your thoughts on that?

K. V. S. Manian: On the Auto Loan per se, we have actually seen some relief in rates in the last month or so where people have up the rates a bit, banks actually not dropped, so that is one and cost of funds have kind of flattish or have shown a downward trend. So I think we are in reasonable shape to protect our spread in that business. In terms of volumes, I think December we have seen good volumes. One has to see at the end of Jan whether those volumes sustain, but December volumes were reasonably good in the market. October, November were relatively bad. December saw some return of volumes in the market. We are hoping that that will sustain going forward, but we will have to watch that. Credit losses, we have not yet seen any signs of stress in any of our portfolios whether it is Cars or Home Loan or Personal Loans. We haven't seen any signs of stress at all as of now, things seem alright. We will watch very closely.

Moderator: Thank you. Our next question is from the line of Suresh Ganpati from Macquarie. Please go ahead.

Suresh Ganpati: Just had a question on your branch addition. You said that there are 30-odd branches which you are planning to open in fourth quarter, but in general the pace of branch addition has been pretty slow. Is this a conscious strategy? Because some of the others tend to open quite a large amount of branches every year, so can you just throw some light as to how Kotak is doing the entire process of opening up a few branches?

Uday Kotak: I just wanted to highlight which I mentioned in the second quarter call that in the first half of this financial year which is April to September, we had a major technology change which is a Core Banking solution change. We moved from Flexcube to Finacle. That process got over in the second half of August and we wanted to go a little cautiously before that technology change in terms of not wanting too much stress on new branch openings especially when we were changing the technology platform. We, therefore, as I said we continue with our guidance which is 500 branches by 2013 calendar and in the last quarter 30 branches. Therefore, there was a planned slowdown which we did in the first half of this year. And as you rejig the model again, it takes a little while for us to get back to normal track, but you can count in terms of the pace last quarter about 30 branches and by 2013 about 500 branches. So that will give you a sense that we will pace ourselves certainly better than what we did in the first part of this year.

Suresh Ganpati: And just a last question on the Retail side, you said credit losses are still pretty low. Are these credit losses in your portfolio lower than what you have actually budgeted or they are on budgeted lines? Just to understand in general the credit environment.

Uday Kotak: Let me just divide. If you look at the portfolio in three parts, the first part is what you call as 'Retail.' I think the consumer this time around is behaving extremely well. So now we obviously had our internal budgets, we had made certain exemptions, but all in all the behavior of the consumer is extremely good in this cycle compared to 2008-09. We then moved to the gold commercial piece. I think commercial piece also is holding up well. At the most we have started being a little more careful on sectors like Construction Equipment, but the farm side is still pretty strong and rural, mid-India is holding up very well in the commercial side. Therefore, if the infrastructure story slows down, we think there maybe some level of watch we must have on parts of construction equipment and things like that, but the broad story, as I said in the beginning of our talk that the reality on the ground is better than the mood. You then come to the third part which is the wholesale particularly. And in the wholesale part, I think the thing which we have to watch most closely is highly concentrated mid-ticket loss, but the broader genre of the portfolios and the credit environment is still holding up reasonably. Therefore, there may be pockets here or there in the wholesale piece which may have pressure. On that I think one has to from the point of view of the sector have a close watch on not only the NPL ratios, also the restructured portfolio ratios to find out the situation and because we have been probably a little less aggressive on the Infrastructure side or even Airline side, we seem to be still holding up pretty well.

Suresh Ganpati: Just last thing on this Retail, you were doing even better than 2008, is it nearly a function of the portfolio mix because it more and more provides secured category or even unsecured categories you are seeing performance which has been better than 2008?

Uday Kotak: I think both, secured obviously, the mix helps us, but even unsecured. The consumer this time is behaving much better. And one does not know what the reasons may be. Is it credit information bureau? Is it the fact that the Retail is less leveraged this time and better prepared than 2008? But, at this stage the things which we are most concerned on the credit cycle are concentrated big tickets corporate bets which we are looking at very closely all the time.

Moderator: Thank you. Our next question is from the line of Amit Ganatra from Religare Asset Management. Please go ahead.

Amit Ganatra: What is the risk-weighted assets amount on the Banking business?

Jaimin Bhatt: If you look at our capital adequacy that effectively tells you risk-weighted assets. So that is if I take my current quarter profits, our capital adequacy would be at 17.5%.

Amit Ganatra: I know that, but does your net worth if I want to calculate the risk-weighted assets, are not there any deductions from your net worth?

Jaimin Bhatt: Other than investments in our subsidiaries, nothing.

Amit Ganatra: So then would it not help me to tell me the amount?

Jaimin Bhatt: The investment in subsidiaries will be about 350 crores.

Amit Ganatra: That is number one. Second thing is a lot of discussions have already happened about retail asset quality holding up right now, but two years ago during one of these analyst meets, this question is basically to Mr. Uday Kotak, he just made a remark that one thing that we have learnt in the past financial crisis is that things are not always bad as what they seem to be and it is also the other way round, right, the things are not always as good as they seem to be. Right now, no doubt, the retail asset quality is holding up much better than even most of the banks' expectations, but considering that some sort of slowdown is already there, would it not be prudent for us to slow down the growth already? Do you still continue to grow aggressively?

Uday Kotak: I think it is a very fair question. Let me answer. First of all if you look at the mix of retail between 2008 and now, we have made a pretty significant structural change to get lot more collateralized. And in collateralized lending keep in mind that the underlying collateral value in inflationary times gets better protected. So the significant structural shift on our retail book is much higher levels of collateralization than 2008-09. And on the profit side, we have actually taken the calls to move more up the value chain in terms of quality and focusing more on transaction banking and working capital and things like that rather than going in for project, loans or big concentrated bets in general. So we have sort of prepared ourselves for a more robust asset quality portfolio.

Jaimin Bhatt: I just add here on this thing. If you look at unsecured advances on the Retail side largely in the form of personal loans, there could be about half the absolute number size of what it was in 2008 on a much larger advances growth. Our advances are effectively doubled and we have grown our personal loan from a peak of about 3000 to about 1600 right now and then look at the buckets which we talked about earlier, Wholesale, Commercial and Consumer, if you look at year-on-year, the consumer bid has actually seen the lowest percentage growth.

Amit Ganatra: But last time if I remember, did you not suffer also on the CV side or CV was doing fine?

Uday Kotak: CV was okay. The spread of CV was much less than other, it's not that was zero, but it was less than others.

Amit Ganatra: So last question is on the total assets for the consolidated balance sheet, what would that number be?

Uday Kotak: 88,000 crores is the balance sheet size consolidated.

Moderator: Thank you. Our next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just to get some data points as to how have been the enquiries and how have been the account additions post we increasing the rate to 6%, some data points on that sir?

Uday Kotak: I think overall we have pretty positive increase in the number of new acquisitions. As I said, we think the sample size of two months is still not enough for us to be able to give a convincing trend, but to make a clear statement that we have seen a reasonable growth to the number of acquisitions on accounts compared to the period prior to the Savings deregulation. So it is a reasonably positive number, but we want to have the greater clarity on the direction before we see how we can say what the sustainable level of account addition is.

Ashish Sharma: So you would not be able to share the numbers for the account additions at least in the month of November and December?

Uday Kotak: This is still early days. Let us see the trend more sustainably before we give the numbers, but I can assure you that the trend is positive.

Ashish Sharma: Does this allow you to focus on the Salary segments a bit more? Because you have been very good in the non-Salary segment, but Salary segment was some sort of weak, but now this allows you to focus on the Salary segment?

Uday Kotak: We are getting more empanelments, we paid more empanelments compared to what we were and we have given you in our presentation the number of customers added in the Consumer Bank for the quarter, it is about 1.5 lakhs customers in the quarter.

Ashish Sharma: Second question was on the fee income. We have seen a strong growth in the Q3. Does this trend going to continue and can fee income sustain the growth in the balance sheet?

Jaimin Bhatt: Other income, as we mentioned earlier, it has the elements of profit on investments, ForEx rates, even including standard fees which we get from both our consumer and the retail bank and some amount of stressed asset recovery. So, yes, it has been a mix of all of that which has contributed to the rise this quarter.

Ashish Sharma: But going forward, at least it can match the balance sheet growth rate of 25% to 30%, if we strip off the lumpy amount?

Jaimin Bhatt: On a normalized basis, we follow the trend. You might have some spice or some drafts in specific periods, but otherwise it should follow the trend.

Ashish Sharma: Fine and last question was on the branch addition side. You mention now that in Q4 we will start the pace of branch opening because we have been slow. But the 500 number is the March year ending number for --?

Uday Kotak: Calendar 2013.

Moderator: Thank you. Our next question is from the line of Murli Gopal from Brics Securities. Please go ahead.

Murli Gopal: Can you give us some perspective in terms of your outlook on the net interest margin. I know in the past you have said that your incremental lending is now more focused towards higher quality credits and the corporate loan book is also growing rapidly and there is a shift in your loan mix overtime. So how do you expect this to play out? What level of net interest margin you think would reflect kind of some of these factors in terms of the loan mix changing kind of being built in so from that point on, you start kind of looking at the business as having the reasonably close mix in terms of its reflection on the net interest margin?

Dipak Gupta: When we said up the value chain that was really the corporate side. There is an equally large retail portfolio which is commercial as well as consumer, where we continue to see decent margin spreads and hence net interest margins. So net-net if you see, we have been around this 4.7-odd figure. Even if you look at sequential quarter, we sort of manage to maintain notwithstanding the additional costs on the Deposit side which we have seen last months really. So I think it should be possible to look at seeing maintenance of these NIMs really.

Murli Gopal: And then I know you do not have a large Infrastructure book, but we have...

Uday Kotak: We do not have. What we do in Infrastructure is essentially on the Construction Equipment side basically.

Murli Gopal: My question is we have heard from a lot of other banks that obviously, things have slowed in the sector and various areas of Infrastructure and we also know that, not in your case, but Agriculture credit has been slowing. What is the impact on these two happening on your CV/CE portfolio? Are you seeing any kind of slowdown in that sector or it has not reflected in kind of pipeline or what you may be looking at?

Uday Kotak: I will have Narayan from CV portfolio.

Narayan: If you see the CV portfolio has been increasing over a period of time. In the case of CE as Dipak mentioned it is more of construction equipment. So it is not large infrastructure related funding which we do. In the last quarter obviously, we have been little bit cautious in that portfolio also, not that we have pulled it back or something, but we have been cautious. CV actually October, November sales were not high. If you look at the CV sector except in the LCVs where CV is still actually down, but if you look at December again they have picked up, may be it was a year-end phenomena and also making up for some of the shortfalls in November. We need to wait and watch in January, but overall, the portfolio we are growing while we are slightly cautious that we continue to grow that portfolio.

Dipak Gupta: Murli, it may interest you, in the month of December practically each and every commercial vehicle dealer has had a stuck out. So that is what back to what Uday was mentioning. The reality is slightly more positive than maybe the perception.

Uday Kotak: And one of the things which again I will highlight in the context of KMP and if you look at the past traditional car book which includes Car Loans plus Dealer Loans. One of the reasons why December saw a dip at the end of December is because dealers did so much sales, then they repaid the money end of December back to us which saw drop in the dealer book in the last one week and that made the numbers look lower on 31st December.

Murli Gopal: And lastly, obviously, you have a lot of excess capital. I know you said in the past you are going to be patient looking at potential opportunities. But we have in the last several months seen that valuations in many areas of financial services getting beaten up. My question is when you look at different areas, different proposals coming to you, what areas, what businesses seem to be getting a lot of proposals, lot of potential opportunities that you are receiving, that you are seeing that you probably find a little bit interesting?

Uday Kotak: Our positioning is pretty clear on that. If you look at acquisitions our sequence in terms of prioritization is bank broking asset management. The trouble is in most of these cases, there is a view that the market is not reflecting the reality of what the situation is. So once I think the perception and reality of the potential targets comes closer, I think there is a possibility of us getting something, but at this stage there seems to be many of the potential consolidatees that the reality of the valuation is significantly different from market price.

Moderator: Thank you. Our next question is from the line of Vikesh Gandhi from Bank of America. Please go ahead.

Vikesh Gandhi: Pardon me if I missed it, but would it be possible to get some granular details on your non-interest income on the standalone bank?

Jaimin Bhatt: As I said, we do not have the details of the breakup of that, but it includes all of these which is ForEx income, income from traditional fees, both on retail and the wholesale side, investment sales as well as my stressed asset recoveries.

Vikesh Gandhi: So any of the four items that you mentioned, would there be an unusual bump?

Jaimin Bhatt: Not really. Of course, this period as you will have seen everywhere the ForEx business has done better and as I mentioned earlier, yes, we would have some stressed asset recoveries, but we are having that reasonably regularly.

Uday Kotak: I also want to take this opportunity to bring one other point to the notice of all of you. This quarter we have also had very significant advertising spend, much more than our normal spends and this is the first quarter, therefore 2 months, we have also started paying the higher cost on savings. So both these are also reflected in these quarter's numbers.

Vikesh Gandhi: In the non-interest income line?

Uday Kotak: No, other expenditure line.

Jaimin Bhatt: The first one is on the interest expense side; the rates in the Savings Deposit and the advertisement cost would be on the operating expenses.

Uday Kotak: On the non-interest side, I think the single biggest positive has been FX close and significant customer business around foreign exchange which has been the most significant differentiator between previous quarters and this quarter.

Vikesh Gandhi: Fine sir, and just finally what would be your provision coverage including any technical write-offs, if any?

Jaimin Bhatt: We are at over 70% and this is on overall advances as of December at the standalone level.

Moderator: Thank you. We have a last question from the line of Sanjay T from Motilal Oswal Securities Limited. Please go ahead.

Sanjay T: I just wanted to refer to Mr. Uday's earlier statement on the environment looking better than what we are thinking about it. Is the same thing being visible on corporate books or it is just the Retail side of the business?

Uday Kotak: There is a beauty lies in the eyes of the beholder. Therefore, if you have relatively limited exposure to sectors, which are under greater pressure, even though Corporate side does not look that bad, but if you have exposure to select companies or select sectors, then you get colored by that, but my personal view is that a lot of the stress, which you are talking about in India is linked to 25 groups ____49:59 and that may changes perception and mood. The reality outside is 25 groups is not as bad.

Sanjay T: And just one more question, would you be able to throw some light on your meetings of the debt recast that we have been having whether it be Kingfisher or Air India, what is your experience being in, how are the government --?

Uday Kotak: If this is the way for you to ask us whether we have got exposures in that…

Sanjay T: No, it is not all--

Uday Kotak: We have zero exposure to Airline sector.

Sanjay T: We do not want to be very clever about it --.

Uday Kotak: We have zero exposure to Airline. So we would not be able to tell you what is happening in that sector and what is happening in those meetings.

Moderator: Thank you. As there are no furthermore questions at this time, Mr. Uday Kotak would you like to add a few closing comments sir?

Uday Kotak: Thank you, friends for this discussion, and it is quite interesting to me that all the questions in this analyst call have been around the Bank and our Financing business. Yes, both the Bank and KMP have continued to work pretty strongly and we see reasonable traction to be able to have a decent growth in both these businesses. We await a time when both in terms of what external environment does and our internal execution about how we can get traction in all our other businesses. And just to recap for the benefit of all of you, again, while currently capital markets businesses are 6% of our total profits for this quarter. I would like to take some of you back to 2007 and 2008. They were 60% of our total profits. So, we hope that there will come a time at some reasonable time in future where not only the Banking and Financing, but the Capital Market businesses also come back and hopefully for all our **specs 52.12** with the bank. Thank you and wish you all a very Happy New Year.

Moderator: Thank you so much. On behalf of Kotak Mahindra Bank Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.