



**“Kotak Mahindra Bank Limited Q3FY13 Earnings  
Conference Call”**

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**Moderator**

Ladies and gentlemen, good day and welcome to the Q3FY13 Earnings Conference Call of Kotak Mahindra Bank Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Uday Kotak – Executive and Vice Chairman, Kotak Mahindra Bank. Thank you. Over to you, sir.

**Uday Kotak**

Good evening, friends. Wish you a very happy new year. As this is the first call of 2013 I would like to hope and believe that 2013 is going to be a lucky year for all of us. And on that note let me first really talk about the situation on the macro side. There is obviously a significant improvement in the mood. Thanks to policy initiatives by the government which is certainly helping markets. There is also a feeling that the government is taking action and doing something concretely on the ground including the latest action on diesel, import duty on gold, the oil and gold being the two major items of our external account deficit and therefore the sense is at this point of time that the markets have responded positively to the policy initiatives from the government.

The question in our mind is where is the real economy and how do we look at that in the context of where we are. And our view is that at this stage the markets certainly are ahead of the real economy. The real economy hopefully will catch up, but as of today is still behind the curve versus the markets. And in that context, while I am reminded of the period of 2009 when we saw post March to May period a pretty significant recovery in the real economy post the markets coming back. And the question therefore is, are we going to see one more round of markets led real economy recovery. And that is the important question about whether the recovery happens and in what shape it happens. I believe that it is a difference this time and this time, if I have to take a bet, yes, the markets will help, but the recovery will be through markets helping banks to raise capital as some of the banks maybe doing and which will in turn help real economy companies to be able to manage some of their leverage.

Moving then to the specific point in terms of how do we see the loan growth at Kotak in the context of the economy? In the last two quarters we had guided more at 20% plus. We would like to now say that we see our loan growth at around the 25% mark as more sustainable and it is reflected in our year-on-year loan growth also at 26% and a slightly faster loan growth in the quarter October to December. However, I would just to like say that something which we told you in I think the March results that we were seeing softness in two sectors directly connected to our loan portfolio which was the Commercial Vehicles sector and the Construction Equipment sector and in the last six to nine months it has shown some amount of deterioration and therefore higher stress on those particular portfolios of Commercial Vehicles and Construction Equipment. And as I mentioned, in the real economy, as reflected, particularly in these two sectors, we have so far not seen a turnaround happening. However, the Consumer continues to be in pretty good shape and we are not seeing any problems with reference to

lending which is linked to Consumer, therefore Cars, Personal Loans, Credit Cards, Home Loans continue to be reasonably robust.

Moving from that on to some of the more specifics I think my colleague Jaimin will take you through them. We have seen some shift in moving our portfolio to slightly higher end Corporate sector which has brought our NIMs to about 4.5% levels at the bank and at a consolidated level 4.6%. We are also happy to inform you that post the March results we had mentioned about getting our cost-to-income ratios and operating cost better and we are now just sub-50% on the cost-to-income ratio versus around 52% which we have been in the earlier part of the year, and we would like to believe that we can sustain around or marginally below the 50% mark in terms of the cost-to-income ratio as it looks at this stage.

The story with reference to the NPAs, as I mentioned, these two sectors are something which we are watching very closely and having a tight monitoring. And on the Corporate side focus on trying to ensure that no major bullets hit us in our chest and very high focus on that at this stage. And we are seeing from that point of view a continuing improvement in our gross and net NPA ratios in the December quarter. Moving beyond the bank we are seeing green shoots of recovery certainly in the Capital Markets business, particularly in the month of January, there is a pickup in volume, there is a pickup in flows and that is a good sign, as also some improvement in the Fixed Income business as well. So, the bank and the markets business continue to be looking promising to us. With that I will now hand over to my colleague, Jaimin and I will be very happy to come back at the end of this. Over to you, Jaimin.

**Jaimin Bhatt**

Thanks, Uday. The bank standalone let me take that first. We closed the quarter with a profit of 362 crores which is compared to last year 276 crores, 31% rise. This quarter at the bank standalone we closed the loan book just above the 50,000 crores mark showing a 26% growth of loans on a year-on-year basis and if you look at a year-on-year each of our segments which is Consumer, Commercial and Wholesale has shown 20 plus growth. The restructured standard assets continue to remain pretty low and loans which are restructured but considered standard remains at sub-10 crores levels which is 0.02% of our overall advances. As Uday mentioned, NPAs are reasonably under control. This period we end at a net NPA of 0.62% as against 0.73% a quarter ago. Capital adequacy again continuing to be healthy at an overall number of 15.6 with a Tier-I itself of 14.2 and the nine months number this time have got to a full-fledged audit. Return on Assets at the bank standalone at 1.8%. CASA at 26%. The SA piece within the CASA has during the last 12 months seen a 50% growth on year-on-year basis.

At the consolidated levels we ended the quarter with a profit of 577 crores which is 25% higher than the 463 crores recorded last year. Loans at the consolidated entity at 67,000 crores, roughly at 27% rise on a year-on-year basis. As Uday mentioned, NIMs standing at the consolidated level at 4.6% with an overall balance sheet size which crossed 1 lakh crores in September we are now at about 113,000 crores. At the overall advances level, as I mentioned, 26% growth year-on-year and each of the pieces the three verticals have shown decent growth on a year-on-year basis with Consumer and Commercial showing higher than average. For the

quarter however, we have seen a higher growth in the Corporate Bank and the Agri division, and consciously have degrown the Commercial Vehicles and Construction Equipment segment where we had seen some stress.

On an entity wise basis other than the bank which clocked 362 crores, the larger contributors being Kotak Prime at 105 crores, the Insurance company at 53 crores and Kotak Securities at 38 crores.

Overall on the asset basis at consolidated levels, we have seen the balance sheet growth 28% with the PBT mix if you look at our four SBUs the financing business consisting of the bank and the NBFCs continuing to show at 80% plus share of the profits.

The Financing business itself if we break up the 67,000 crores of our asset book at the consolidated level the Consumer piece by far the largest, it is 26,000 crores with Commercial being at 23,000 crores and Wholesale piece being at 18,000 crores.

The Net Interest Income during the 12 months period has grown by about 26% year-on-year whereas the post-tax profit has been about 25% higher than last year.

At the bank standalone if one looks at the capital adequacy, as I mentioned, 15.6 and 14.2 right now. When we close the last financial year we were at 17.5 and 15.7 respectively. And at bank standalone again the NPA numbers pretty much the same as what we had last year at the year-end 1.2 and 0.6 but lower than what we had a quarter ago. The asset quality again as I mentioned restructured numbers extremely small.

On the bank P&L as Uday touched upon while the income has grown on a year-on-year basis the cost has been reasonably contained and for the quarter we end with a cost-to-income ratio just below the 50% mark.

On the Segmental side, the Corporate and the Wholesale Bank ended the quarter with a 325 crores pretax profit with the Retail Bank at 158 crores and mind you this classification of Wholesale and Retail here are as per RBI where any sanction of 5 crores and plus will go and set in the Wholesale segment. It is not necessarily the product wise cut as we look at internally.

At the bank standalone level as I mentioned the advances have grown 26% on a year-on-year, we have had a higher growth this quarter largely coming on the back of growth in Corporate Bank and the Agri division.

Bank balance sheet as I said, the overall deposits growth have been 34%; Savings Bank during the last year has grown 49% whereas the Current account numbers showing about just under 10% growth on a year-on-year basis. This quarter we added close to 700 crores on the Savings numbers. And overall we added 2.1 lakh new customers as Savings Account customers during this period.

We end the quarter with 407 branches adding 18 branches during this quarter. We had closed last year at 355 and having 907 ATMs during this period. Note the fact that TD sweep which is in addition to the CASA is about 7% of our overall deposits. And the TD sweep itself has grown at 40% for the year as well.

At the Consumer Bank asset side we have seen the delinquencies very much under control and each of the segment has grown. The Auto segment has grown 25% on a year-on-year basis, the Mortgages have grown 24% whereas the Personal Loans on a smaller base has done 40% plus rise on a YoY basis. Overall, focusing on the SENP segment selling through the bank branches and continuing low delinquencies there.

At the Commercial Bank, as I mentioned, the CVs and the CE segment has seen a negative growth during this period whereas if you look at a year-on-year basis both the Agri division and the Business Banking division have shown a 40% plus growth effectively making the Commercial Bank overall growing at 28% on a year-on-year and this effectively helps us meeting a lot of our priority sector targets for the year.

At the Wholesale Bank, year-on-year growth of 24% though sharp rise during the quarter, continuing focus largely on working capital and deep attempt to continue to have franchise development across all the customer segments.

At Kotak Prime 76% of the advances book continues to be within the Passenger Car financing segment, NPAs in that segment is extremely low and the entity as a whole has a 0.2% net NPA numbers. This quarter profits affected to an extent by one-time hit which we have taken this quarter which we hope to recoup some part of it soon.

At the Life Insurance entity premiums for the quarter at 595 crores which includes renewals of 359 crores during the quarter. Kotak Securities marginally up on market share at 2.6% of the overall markets. Profits, slight dip over the previous quarter but sharp increase over the same period last year. We closed this quarter at 38 crores profit after tax.

The Investment Bank has been in the middle of flows, three IPOs you saw last quarter which is Bharti, CARE and PC Jewelers, KMCC as an investment banker have also been associated with a few tax free bond issuances like REC and PFC including some offer for sales which have hit the market recently, DB Corp and Eros being some of them.

We have also been associated with the restructuring of the Wipro demerger as well as the merger of the Shriram entities. So that has been an active quarter for the Investment Bank.

At the asset management level, overall the assets under management at 56,000 crores, large part of it coming in from the domestic mutual funds, we have seen a small drop in the offshore funds where one of our schemes matured during the period and was redeemed. The asset management and the trustee company which services about 8.8 lakh folios showed a 11 crores

profit for this quarter and we also saw four of the funds managed by the domestic mutual fund in quartile one of the top performing funds.

At the alternate asset business we continue to manage about just short of 5,000 crores under management showing a steady stream of assets there with our Infrastructure Fund we hope to launch that shortly in the next few months. That is broadly the highlights for this quarter. Would be happy to take questions.

**Moderator** Thank you. We will now begin the question-and-answer session. The first question is from the line of Alok Kapadia from Antique Finance. Please go ahead.

**Alok Kapadia** Hi Uday, just have two questions; one is on your Corporate book in the standalone bank just wanted to get some color on what segments we are targeting there and what is the tenure, is it primarily working capital loans?

**Uday Kotak** I think our focus is much more on transaction banking rather than more long-term loans associated with projects where we have a relatively small exposure. So, continuing focus on short-term loans and transaction oriented working capitals loans.

**Alok Kapadia** Just a related question that when we frankly start taking some risks on the CAPEX cycle 12 months from now, two years from now or immediately or basically the environment is just as it was say three quarters or four quarters back?

**Uday Kotak** If I want to play the CAPEX cycle the first place to play that game will be equities. So all of you as analysts should be in a better position to tell when is the time to play equities on CAPEX and bankers should be looking at debt risk rather than equity risks in lending. So I would personally want to watch the situation carefully and not just plunge into it because finally you want to make sure that leverage player which is what a bank is. You take risks which are debts like rather than equity like. At this stage, we are still continuing to be careful.

**Alok Kapadia** Just a question on the Savings franchise per se, that I think you mentioned that you added roughly 2 lakh Savings customers in the quarter so that probably 60,000-70,000 customers per month, similar run rate to the previous quarter slightly better?

**Uday Kotak** I think it is better and this includes all our Savings customers including we have now got a very active plan on financial inclusion as well which we are pursuing aggressively.

**Moderator** Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley** Just on the loan book growth side, the Corporate book started picking up this quarter. Could you talk a little bit about how you are expecting that to shape up? And also, the growth in Business Banking and Agri division is very strong at least on a year-on-year basis so is that

because of the new reach or is it new products, what is driving that? On the growth also the investment/treasury assets are up a lot ....

**Uday Kotak**

You asked three questions and I will just divide them into three separate categories. On the Corporate loans as I mentioned the focus is short-term and transactional. We are still not out there giving large long-term loans or project loans. So, Corporate Banking is more working capital oriented, short-term funding and transactional in nature.

**Anish Tawakley**

I guess my question is, has your risk appetite increased in this last quarter or is it more demand, what is....?

**Uday Kotak**

I will answer that question as well. Secondly, with reference to Business Banking and Agri we really like that business, we think it is a business which first of all gives us adequate margin for the risks we take and it is a segment which has actually performed extremely well in the cycle. So whether it is a really small business starting from people like a marriage contractor to a pharmacist or anybody else that entire segment we feel is behaving well, at that level, you are not seeing getting stuck with projects midway, business as usual goes on, so we love the Business Banking segment and the Agri segment. And within the Agri segment it is the Agri division. So we are finding interesting opportunities linked of course to agriculture but also to mid and rural India. So we are seeing that as a pretty focus business strategy which we are going after where we think long-term franchise building with appropriate risk for returns we are making we are getting comfort. So it is a very different way of looking at that business compared to the Corporate business. And on that second piece which is Business Banking and Agri we have continuing risk appetite to grow as a business and we are not doing it because of any necessarily just because there are targets on what we need to achieve. So we are very, very happy to grow those segments. And the third on treasury and investments, we saw an opportunity in terms of building our investment book sometime around October end or so. And once we had conviction we took a call on it and as you know so far it is playing out well. So, it was a conviction call. We decided to increase our risk appetite on the treasury side by choice and we have done it. Again, when you are doing investments you got to be clear what is your risk appetite for the interest rate risk versus what is your risk appetite for the credit risk and we have got it pretty measured on that in totality. And more broadly, on risk appetite if we see returns we will take the risk and for the returns which should be commensurate, and we are clear about that. If we like something, if we see the returns and the risk is worth for those returns we will go for it. But if we do not like something and feel that it is not worth the risk we will just take a call we would not do it. So, in many ways we are more open to taking calls which are more sort of categorically rather than muddling our way through.

**Anish Tawakley**

And is this treasury book more corporate or G-Secs and the increment?

**Uday Kotak**

It is a mix but there is a reasonably good part of it which is pure and simple G-Secs as well.

- Anish Tawakley** And what was the one-off that was mentioned in the Kotak Prime business roughly, what order of magnitude?
- Jaimin Bhatt** That is on a pretax basis about high teens. So that is something as I said we hope to recoup part of it soon.
- Moderator** Thank you. The next question is from the line of Aditya Narayan from Citigroup. Please go ahead.
- Aditya Narayan** I had one question which is a bit of a follow-up to the last one which is your credit understanding at the moment is that you have to be careful but it is good enough market to grow. If you look around most banks are typically tending to say the same thing. My question would really be at the operating level is the market behavior somewhat consistent with yours, i.e. the people are careful but are ready to lend. That is one bit. And the second thing is given that there is some credit quotient in the market one would have expected there to be more pricing pressure in segments where everyone wants to lend, your retail being effectively a classic. We have not effectively seen too much of that in either your margins or in the markets margins. So some sense from you in terms of what do you think about, whether the markets chasing the same set of assets? If so, how come it has not impacted margins yet?
- Uday Kotak** Aditya, as always you have a tough one, so I will try my best to give you my perspective. First of all, what we are looking at in terms of growing our balance sheet is places which we find are still underpenetrated from a credit point of view and we are getting enough of those areas. So it is getting things like working out our branch banking model which historically was so much more focused on just the liability side, to get it more integrated into our asset products side and that integration actually is now beginning to pay off pretty well and we are moving, it took us two to three years to really get that act together significantly more seamless where proposals on the ground across the country begin to flow into our product groups which control the risk and the asset side. So that integration and understanding more close to the ground is now giving us results and it is therefore enabling us to go out and build credit exposures where the returns are fine for the risks we are taking. In fact, we were discussing in the commercial space a very interesting situation where on a relatively smaller tickets we were getting higher yields compared to larger tickets where we were obviously getting lower yields, but the risks were higher in a larger ticket than in the lower ticket. So there was a complete disconnect. You are getting higher returns but at measurably lower risk compared to lower returns and higher risks. So there is a very significant mispricing out there in the marketplace which is pretty, pretty evident to us in various segments of our lending business and we are sort of seen how we grew our franchise in those areas and building customer stickiness. And I do not know how the rest of the market is looking at it, but we are getting enough sweet spots of credit growth for getting our return for the risk we are taking. One of the challenges of banking is if you have a broad brush approach to lending you miss some of these sweet spots and our approach still is from DNA which is holding us in good stead to really go out there and dig deep or where we think we can make good returns for the risk we are taking and therefore yes, if you look at our



mix to the extent our mix may have changed on the Corporate side for the growth, yeah, we are ready to take a call on lower margin for better growth on the quality of the assets but for the core retail and commercial businesses we are continuing to get our margins and our pricing is holding up pretty well. So, that I suppose answers your question, Aditya?

**Aditya Narayan**

Yeah largely, I just add on one, you mentioned that you are able to pick decent returns with decent risk. Part of that advantage probably comes from the fact that you are somewhat small. Do you see yourself hitting size ceiling at some stage whether you will have to broad base your lending like a lot of others do or you think that is just some distance?

**Uday Kotak:**

I think there is a fair distance away and at this stage if you ask me we do not see that as an issue for at least for the next 12 to 18 months.

**Moderator**

Thank you. The next question is from the line of Adarsh P from Prabhudas Lilladher. Please go ahead.

**Adarsh P**

Just two questions. One was on the OPEX side. We have seen OPEX kind of moderating in terms of absolute growth. And in context with your branch expansion, can you just throw some light on how would you expect that to be over the course of next 12, 15 months?

**Uday Kotak:**

We have guided that we will cross 500 branches by Calendar 2013 and we are well on track for that, hopefully we will try and do it a little faster than end of the year but we are very much on track.

**Adarsh P**

Would that mean that the slowdown or the OPEX growth moderation that we have kind of seen, would probably inch a little bit again?

**Uday Kotak:**

No, I think if you look at it, we have done a pretty detailed work internally and there were lots of areas where we had got capacity for higher throughput ahead of the curve. Therefore that capacity we are using a little better. And I think we have got enough ability to improve productivity, go back to our calls which we did in the March quarter and the June quarter and we had said that improving productivity was an important aspect of our strategy, therefore we are not doing anything which compromises our growth aspiration at all. What we are doing is that for the capacity which we have and which we are adding we are making better use to throughput.

**Adarsh P**

Just one more thing is so from cost-income angle, I think you had hit 49 again in the last few quarters now. Do you see that this is something that could sustain under 50 over course of next two years?

**Uday Kotak:**

We would like to be, as I said, at or below 50. It is good to be but it will not be at the cost of what we see as growth opportunity.

- Adarsh P** Just one more question here, there was a talk of dynamic provisions about nine, ten months back and we have not heard too much but I think RBI has asked banks to kind of submit. The number that they were talking about were very large. So I just wanted to check on whether you all have done any internal estimations, whether you all would be compliant with their requirements to follow your own loss given default internal numbers, because I think they have left a leeway for banks where they are satisfied with the data?
- Uday Kotak:** Let us see what comes out but the fact of the matter is and you just have to look at the last quarter which we are talking about, for the quarter our loan book has grown by more than 10%. And as per standard provisioning which is the form of the current dynamic provisioning of whatever need to look at we have made our provisions and for the quarter we have made incremental provisions of over 20 crores on standard. So we are taking those provisions already in our chin and wedding on. So if we are growing the balance sheet at a faster trot, irrespective of the nature of the loan we are providing at an average of around 40 basis points. Now, what that dynamic provision comes we have to see but 40 basis points is already in.
- Moderator** Thank you. The next question is from the line of Suruchi Chaudhry from Edelweiss. Please go ahead.
- Kunal Shah** This is Kunal over here. Firstly, on CVs and CEs. Obviously, you highlighted that the things are deteriorating. It is not reflected yet in NPLs since, there is hardly any increase in NPLs over there. So if you can quantify that in terms of say where were we at the bottom of the cycle, where are we today, what was the pick and anything within the next 30 days, 60 days which is worrying you on the CVs and CE side?
- Uday Kotak:** No, these are not large ticket, so CVs, CEs are continuing. And if we look at our mix within our overall provisioning the NPA both in CVs and CEs have grown, the overall NPAs are under control but CV and CE are segments have grown faster than the others in the mix. Therefore our provisioning on Commercial Vehicles and Construction Equipment because of the GNPA the mix of GNPA of CV and CE in our total GNPA is higher than what it was nine months ago. This is something again I just wanted to share with all of you. We were the first people to highlight softness in these two segments in our call at least two quarters ago.
- Kunal Shah** In terms of credit cost where we had seen during the boom time, so it would be as low as say 10-15 basis points and where are we today in terms of the average, just the credit cost in this particular segment?
- Uday Kotak:** The bad news is the segment is slow. The good news is that there is an underlying collateral. There is an impact cost because of collateral not realizing value but the impact is muted because of the collateral which is enforceable and saleable. And again, it really depends on the quality of each collaterals, what conditions the truck is in, Construction Equipment a little more difficult in terms of saleability compared to a truck. So, it is very, very much dependent on different segments, different regions and different equipment.

- Kunal Shah** And evaluating the scenario as of now over how many quarters do we further see like the repayments to be higher and the disbursements. So actually no growth coming in this portfolio?
- Uday Kotak:** Our Commercial Vehicles and Construction Equipment portfolio has degrown by design. The heavy commercial vehicles sales for the month of December are known to the market, I think there were 30 or 40% lower year-on-year. Therefore, when you have such a significant slowdown in the Heavy Commercial Vehicles segment we want to see how it sort of plays out and I think it is much more linked to infrastructure, mining and related sectors where we have seen a pretty significant slowdown, therefore you are seeing Bhubaneswar, you are seeing Goa, you are seeing bits of Karnataka where this is real and Hyderabad of course, even West Bengal we are seeing challenges coming. So, as I said you have a bipolar real economy right now. There are parts of the economy which are moving on as if nothing has happened and there are parts of the economy where things are pretty bad.
- Kunal Shah** In terms of this Auto financing, what was the nature of this one-off? Maybe it was in higher teens, but I did not get the nature of this one-off.
- Uday Kotak:** No, I think it is with reference to MTMs on some investment.
- Kunal Shah** So it is MTM on investments in high teens?
- Uday Kotak:** In crores, not in percentage.
- Kunal Shah** The other thing is in terms of other income as far as the banking standalone business is concerned. So in Q3 of FY12 you highlighted that it is the major delta or say the differentiator has been FOREX okay, but still we are seeing growth over there and even quarter-on-quarter there is almost like 50 crores of addition. So is it treasury, is it FOREX or say any of these stressed asset which we bought, is there any recovery coming in this, what is it exactly?
- Uday Kotak:** Actually, the most interesting aspect of our other income is that the distressed asset division has had a very low October to December quarter. And the distressed asset division is countercyclical. You acquire assets in a more problematic times but you monetize when times get a little better. So this is not the time when we are seeing significant monetization of the stressed assets and actually that has had a negative impact on our non-interest income for this quarter and for most of this year. So this year actually distressed asset business has contributed negatively on a net basis to our P&L.
- Kunal Shah** What was the nature of the 50 crores? How much was the treasury profit which we booked in the standalone banking business in this quarter?
- Jaimin Bhatt** Say between 25 and 30 crores during this quarter which is again not very different from what we did in the immediately preceding quarter, slightly higher than what we did in the

immediately preceding quarter. So if you look at, a large amount of that 50 crores has come from traditional banking which is your commission fees, exchange and what not.

**Kunal Shah** So it is core fee income which has actually....?

**Jaimin Bhatt** Treasury has gone up, not significantly, we would have done about early 20s in the preceding quarter which is now high 20s this quarter.

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

**Ashish Sharma** In terms of growth for FY13, we have sort of shown a 26% growth which is quite high from the earlier guidance we were giving but usually we see a phenomena where I think Q4 we sort of run off our book, are we likely to see the same phenomena this year also?

**Uday Kotak:** We will do what is right for the business and therefore are guiding you at YoY growth around 25% for the year. And let me also be clear when earlier we had given you guidance it was 20% plus keeping the upper end open. So, we are now just saying more around 25% for the year.

**Ashish Sharma** And in terms of outlook on NIMs, do you expect this NIMs to be stabilized at these levels? There were some apprehensions that NIMs would sort of compress and now with the rate cycle supposed to go down, do you expect NIMs to remain stable for us?

**Uday Kotak:** We have guided consistently around the 4.5% mark and we will continue to guide around that mark. Now, is there a range? 4.3 to 4.6%, that is the kind of range we will give.

**Ashish Sharma** And just one bookkeeping question, of the 800 crores sort of other income we have on in standalone bank, how much will be from distressed assets, recovery from NPAs?

**Uday Kotak:** Distressed asset income this year is lower than the previous year.

**Ashish Sharma** Of the 800 crores how much will be...?

**Jaimin Bhatt** 796 crores, 65-70 crores would be from the distressed asset division.

**Uday Kotak:** And that is significant over the half of last year.

**Jaimin Bhatt** Half of what was there for same period last year.

**Ashish Sharma** And for Kotak Prime, we have seen sort of a sustained traction in the CAR advances. Any asset quality issue, any collection efficiency deterioration in that segment or it is doing pretty well?

- KVS Manian** As of now the asset quality is holding up there. We do not see any concerns on asset quality yet. Margins have been under slight pressure but we are still there at reasonable levels, for the risk that we take there it is fine.
- Ashish Sharma** So 20 to 25% sort of growth in that segment also can be maintained?
- KVS Manian** No, that depends on how the CAR industries grow. One has seen some softness in that in the last couple of months. But of course in the last few months we have gained share and in spite of the CAR industry not growing we have been able to grow our book, but I think if there was an estimate there I would be closer to 20 than 25 there on the growth.
- Moderator** Thank you. . Next question is from the line of Manish Oswal from KR Choksey. Please go ahead.
- Manish Oswal:** On Investing Banking Division, IB has been reporting very weak numbers for last four-five quarters with the increment in the capital market equity and the fund raising, how do you see the recovery in the IB business? Is there any intense competition affecting overall Kotak IB business?
- Uday Kotak:** I would say that is something that we have discussed over last many quarters. The good news is there is significant capacity contraction which is happening in this business across the industry. Lot of global players, reducing the number of people, and I think the industry if there is some capacity correction which continues over next couple of quarters that will be good for the industry and we think some point of time it will come back as markets come back as M&A activity picks up. So we continue to be patiently committed to the business.
- Manish Oswal:** And on franchisee in terms of competitive strength of Kotak IB is there any overall meaningful difference over a period of time?
- Uday Kotak** I think we continue to maintain our leadership in issuance on equities and as earlier mentioned we were the book runners for all the three IPO's which happened in the month of December. We have got a pretty good share on QIP's and OFS Offer For Sale. We are at the same time focusing on improving our presence in the M&A business further, where we can do better.
- Moderator:** Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.
- Manish Karwa:** I just want to check on cost-to-income ratios. While you have done fairly well on the overall cost, just wanted to check what is it that is driving the cost or what is it that is resulting in the cost growing at a much lower rate and what is the future outlook on this?
- Uday Kotak:** Manish, as I mentioned you know we have front-ended a lot of our cost and at built capacity ahead of actual utilization. So, some of that is now getting better utilized. So, for example if you have say an area manager responsible for, just as an example, for say Mumbai branches.

As you add branches you don't add Area Managers. So, we had got capacity created for handling a larger throughput than what we were actually doing. So we were a little ahead and which you will find if you look at absolute cost, we have taken a lot of cost ahead of the time. Second, we started getting for the cost we were doing pretty detailed focus on productivity of those costs. So, that is the second thing which has helped us.

**Manish Karwa:** Also on costs is there a scope for it to decline further from these levels, given the fact that now business is starting to grow better? Probably cost may not grow as fast?

**Uday Kotak:** No, the cost in absolute terms you know as we see costs will continue to grow. As I said we believe that our cost-to-income ratio will be more sustainably around or below the 50% mark. But as I said we will not let that come in the way of our growth if we feel it is necessary. But we are conscious about it. We are far more conscious and firm about the productivity of what we are spending. And that is something which we will continue to have in our DNA.

**Manish Karwa:** And just checking the costs, if I just remove the banking cost of the bank the cost in the other businesses have actually declined or not grown at all. Would we see a similar trend continuing going forward as well in the subsidiary businesses?

**Uday Kotak:** No, subsidiary businesses as you know are significantly more variable here. Broking, Investment Banking, and areas like that where a lot of our costs are variabilized so we are keeping a tight control over the costs and if throughput increases..... actually those are all very high operating leverage businesses.

**Moderator:** Thank you. The next question is from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley:** Obviously the capital position remains very strong. Are there opportunities on that front to deploy excess capital? What is the environment?

**Uday Kotak:** I think it is getting better. We are working on it. First of all as you can see we are growing our balance sheet. And as we have said we think it grows at 26% certainly on the advances side. We have taken some more risks on the investment side as well which is reflecting in the size of our balance sheet. And we are always open to acquisition opportunities, whether it is portfolio or otherwise and continue to do so.

**Anish Tawakley:** And our sort of valuations more realistic now than they were perhaps earlier when you were.....

**Uday Kotak:** If you got anything why don't you come and see us and tell us what you have got to offer and at what value.

**Anish Tawakley:** No, I am asking you, are things looking....

- Uday Kotak:** No I think there is opportunity out there but we are scouting. If there is something interesting we are open.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** First of all, can I get the numbers of interest expended on deposits and borrowings in this quarter separately, please?
- Jaimin Bhatt:** That will be my interest expense. I wouldn't have the breakup of borrowings and deposits separately.
- Rahul Jain:** But estimate I think would be good enough. If you can just give a broad mix of the two interest expense what would be on account of borrowings and deposits. If you can recall, otherwise it is fine.
- Rahul Jain:** I can maybe just call up tomorrow.
- Rahul Jain:** I can take you offline. Second thing is since you increased or rather grew the investment book during the quarter, is it possible to know of the total investment book what would be in AFS and the duration thereon?
- Uday Kotak:** Let me put it this way, our HTM book has not grown significantly.
- Rahul Jain:** Is it possible to know the proportion of HTM book?
- Uday Kotak:** We are below the 23% mark, well below the 23% mark.
- Rahul Jain:** Just one more question slightly forward looking, you talked about growth likely to remain upwards of 20% going forward in FY'14 what do you think will be the key drivers of loan growth? Will it be retail or corporate or will you look to maintain the proportion as it is today or how will it shape up in the next 12 to 15 months?
- Uday Kotak:** I think broadly if I have to take a judgment call it should be more or less in the range of the breakup as you currently see it. But then you have to watch because you know this time around it is a very bipolar world. So if the world changes we will have to modulate our lending strategy accordingly. Right now there are sectors which we are very uncomfortable with and the rest of the sectors are fine. So it depends on how the mix changes in the external environment and we will have to modulate that but broadly we think we will be at the similar mix as we are.
- Rahul Jain:** Because you know this question was asked earlier also and I am sorry for repeating this but the pricing pressure on secured retail and high quality corporate credit remains quite intense, so how do you sort of plan to navigate through that kind of a scenario especially given that CASA

growth is just still picking up. The CASA ratio is still not up there to the industry average. So how do you sort of plan to tackle the current pricing pressure in the segments which you are targeting to grow?

**Uday Kotak:** You know the most important area which I think Manian covered was the Car Loans business. We have grown shares and on the margin when we felt risks were okay we were ready to grow share giving a little bit away from the margin. So it is not like that we are necessarily saying if the risks are okay we are hung up on margins. So our focus will be risk-adjusted returns as a basis for what we do and if on a risk adjusted basis the market is mispricing risk, if we feel market is mispricing risk we will let that business go and if we believe that on a risk-adjusted basis it makes sense for us we will do it. Our approach is much more measurement of the risk we take and trying to avoid necessarily chasing irrationality of markets. And the other area which is helping us many places actually is geographical expansion also. So there are areas of pockets which we are not covering which we start covering that is giving us completely new market.

**Rahul Jain:** Because if we see you know on risk-adjusted returns basis you know the credit cost continues to remain quite good in the retail so as such we haven't seen any pickup in the credit cost part on the retail business. So, if you sort of decide to give away little bit of margins and in future if the economy god forbid doesn't pick up then risk adjusted returns may as well come down. Am I right in thinking like that?

**Uday Kotak:** We are talking about many variables now growing. Therefore, we have to watch how each variables plays out and some judgment call of course.

**Rahul Jain:** This final thing, can I get the number of employees in bank, standalone?

**Uday Kotak:** About 12,500 employees in the bank. Total consolidated continuing about 22,000.

**Jaimin Bhatt:** Now getting back to your earlier question on the interest expended, 1271 crores for the quarter, deposits will be short of 900 on that.

**Moderator:** Ladies and gentlemen due to time constraint only one last question can be taken. Last question is from the line of Amit Ganatra from Religare AMC. Please go ahead.

**Amit Ganatra:** I just had two questions. One was what are the total risk-weighted assets for the bank?

**Uday Kotak:** If you do not mind can I have my colleague give it to you in terms of the numbers because capital adequacy ratios will reflect that.

**Amit Ganatra:** The second question is that what explains the sharp increase in top-line as well as profitability for AMC business during this quarter?



- Uday Kotak:** No, I think in the last quarter call we had mentioned that there was a distribution cost which we had taken on during the quarter as a front-end cost.
- Amit Ganatra:** So that would impact the bottom-line, right? The top-line also has expanded very sharply.
- Uday Kotak:** To that extent we are taking the hit on the cost and the revenues were coming later therefore. Assuming that you have got a corpus growth in few schemes which are giving you revenue over time but you are taking upfront distribution cost even before revenue comes.
- Amit Ganatra:** So once again the equity corpus actually has gone down quarter-on-quarter.
- Uday Kotak:** But in addition to equity there are a lot of debt schemes which are working pretty well right now which are not necessarily liquid funds. So these are higher charged debt schemes but on which investors are putting money right now with the yields dropping.
- Jaimin Bhatt:** The risk weight the bank standalone was about 60,000 crores.
- Amit Ganatra:** Do you also have to maintain the capital adequacy on a consolidated perspective or that is not required?
- Jaimin Bhatt:** No we work it out and refer it to the RBI. But there is no regulatory on that.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would like to hand the conference back to Mr. Uday Kotak for closing comments.
- Uday Kotak:** Thank you very much colleagues and look forward to talk to you once again in a few months. And as I said wish you all a very lucky 2013.
- Moderator:** Thank you. On behalf of Kotak Mahindra Bank that concludes this conference. Thank you for joining us and you may now disconnect your lines.