



## “Kotak Mahindra Bank Limited Q3 FY-14 Earnings Conference Call”

**January 21, 2014**



**MODERATORS:** **MR. UDAY KOTAK** – MD & EXECUTIVE VICE CHAIRMAN, KOTAK MAHINDRA BANK LIMITED  
**MR. JAIMIN BHATT** – CFO, KOTAK MAHINDRA BANK LIMITED  
**MR. NARAYAN S A** – PRESIDENT, COMMERCIAL BANKING & CAPITAL MARKETS, KOTAK MAHINDRA BANK LIMITED  
**MR. KVS MANIAN**– PRESIDENT, CONSUMER BANKING, KOTAK MAHINDRA BANK LIMITED  
**MS. SHANTI EKAMBARAM** – PRESIDENT, CORPORATE & INVESTMENT BANKING, KOTAK MAHINDRA BANK LIMITED

**Moderator**

Ladies and gentlemen good day and welcome to Kotak Mahindra Bank Q3 FY14 Earnings Conference call. As a remainder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '\*' followed by '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak – MD & Executive Vice Chairman at Kotak Mahindra Bank. Thank you and over to you sir.

**Uday Kotak**

Good evening friends and wish you all a very Happy New Year after what has been a tough quarter in earnings for us at Kotak Mahindra Bank. Before I handover to colleague, Jaimin Bhatt, I will just give some of the key highlights and challenges which we face at the bank.

The first and the most significant one in the context of the fact that our consolidated earnings are at Rs. 591 crores which is marginally higher than last YoY and the bank's standalone which is marginally lower than last year. The first major item which has hit us in this quarter is on the treasury overall operations. And this goes back to a combination of booking some of the losses as well as mark-to-market to the effective tune of between Rs. 90 crores and Rs. 100 crores YoY. And let me take you back to the picture as of 30<sup>th</sup> September versus 31<sup>st</sup> December. Unlike some of the other banks we took a decision in September not to move any securities into hold to maturity category and we carried an SLR of in HTM book historically which was about 11% against the 23% mandatory SLR. And as you are aware on an overall investment book which was around Rs. 20,000 crores in the month of July to September and some of it which spilled over in to this quarter. Effectively you saw a 1.5% move in yields that is from 7.5% close to 9%.

This had lead as of end of September to an unamortized MTMs of Rs. 176 crores. We ended December with an unamortized MTM now as of 31<sup>st</sup> December which is Rs. 65 crores. And I am happy to inform you that as we stand today this unamortized MTM as of today has actually gone from negative to marginally in the positive. So if the current the yields as they stand today we would have completely washed out the pain of the movement post 15<sup>th</sup> July as of 31<sup>st</sup> December and not have any further pain of the yields closing today.

So this is on the treasury side which on a YoY basis was a differential of Rs. 90 crores to Rs. 100 crores in totality on the operating performance of the treasury. The second significant development is on the loan growth. Our loan growth has been 6% including CV and CE. The commercial vehicles and construction equipment consistent with our philosophy have de-grown by 27% and therefore if you look at our non-CVCE growth is about 12%. My belief is that we have bottomed out in the levels of de-growth which we have seen in the CVCE segment by our decisions over last 12 to 18 months and considering the base effect we feel now relatively less impact in the overall loan growth from here.

So that is point number two. Therefore in many ways a lot of the pain which we have seen in terms of slower loan growth has again happened primarily in the third I think the September quarter and the December and we now believe that the good India which is the part which we

have and Jaimin will take you through pockets where we had pretty decent growth in loans. We see that as the more dominant part of our loan growth going forward.

Third is NPAs and it goes back to our philosophy of recognition early and consistent with that we have taken it on our chin in terms of recognizing non-performing loans, more I would believe significantly in the early stages of the pain and that is again reflecting in a marginal increase both in gross and net NPLs. I would like to believe that from here as we look at the situation three important points in calendar 2014. First we believe the MTM pain is well behind us. Number two, NPA recognition has happened and we therefore see the NPA cycle from our point of view having bottomed out in terms of recognition and the big focus now is on resolution of these NPAs at on a net and then overall basis we do not see an increase in NPAs from the current level as we see the situation today.

And going forward our view is that the balance sheet of the firm is in excellent shape we have taken the pain in to the P&L particularly in the October to December quarter and therefore in a way of the belief that we could see a reasonable and significant pull back starting from Quarter 4 2014. Also if you notice on our subsidiaries they have begun to do better and in fact started getting some win in some of the pockets in the subsidiaries. Therefore all and all as I look the quarter behind was a tough quarter but the quarter ahead and the outlook ahead keeping in mind that we have taken recognition on MTM, on NPAs taken the hit on the chin as I say of the rising ball.

The view ahead is certainly more positive than the quarter behind. With that I will now handed over to Jaimin Bhatt to take you further.

**Jaimin Bhatt**

Thanks Uday. I will just take you through the earnings update which we had circulated earlier today.

As Uday mentioned this quarter at the consolidated level we closed with profit after tax of Rs. 591 crores compared Rs. 577 crores the same period previous year. ROA at the current level 2% and at this level we are now with a net-worth of Rs. 18,455 crores at the consolidated. Our console NIMs at 4.9% better than what it were a year ago and as I mentioned loan growth at the consolidated level is at 6% which we end December at Rs. 71,000 crores of advances. If we take out the commercial vehicle construction equipment we have grown at the console level by 10%. The Net NPA at the consolidated level at 0.92%.

The standalone bank clocked post tax profit of Rs. 340 crores for this quarter. Loan growth in the bank again has been 6% at Rs. 53,149 crores end of the period without CVCEs that growth being 12% for the year. NIMs in the bank at 4.8%; capital adequacy at the bank continuing to be healthy and if we take the 9 months profit the Tier-1 capital adequacy at the bank is 17.9% with overall capital adequacy at 19.2%. CASA at just short of 30%. We have seen a CASA growth of 22% on a year-on-year basis. Restructured loans continue to be a very small number Rs. 42 crores which is 0.08% of our overall advances.

If I look at the entity level numbers while the bank clubbed Rs. 340 crores the other contributors as Uday talked about some of the subsidiaries have done better than what they had last year. Kotak Prime giving a post-tax profit for the quarter of Rs. 123 crores. The insurance entity Rs. 60 crores; the securities company Rs. 46 crores and the mutual fund in the others contributing better numbers than last year. As regards to the net worth of the overall Rs. 18,450 crores just short of Rs. 12,000 crores sits in the bank both Prime and Securities pretty much capitalized at Rs. 2,700 crores and Rs. 2,000 crores respective with the insurance company reach close to a Rs. 1,000 crores net worth. Overall at the consolidated level if one looks at the advances breakup of Rs. 71,000 crores the corporate book is short of Rs. 20,000 crores; the commercial bank at about Rs. 22,000 crores and the consumer bank at just around Rs. 29,000 crores.

While the overall advances book as we said is 6% if I looks at components there have been parts of good India where the growth has been pretty decent. The agriculture division has grown at 23% on year-on-year basis; the small business and personal loans at 39%; mortgages at 13%. The big negative of course is the commercial vehicle and construction equipment division which had a negative growth of 26%. At the bank level post tax profit for this quarter of Rs. 340 crores. We had NII for this period at Rs. 913 crores with operating profit at Rs. 585 crores. This quarter the provision number of Rs. 70 crores higher than the same period last year partly also resulting from the amortization of the treasury numbers which we had talked about last quarter. The tax provision this time marginally higher on account of a onetime hit which we have taken of about Rs. 7 crores for this period.

The other income in the bank for this quarter at Rs. 300 crores which includes fees of about Rs. 226 crores; treasury at Rs. 53 crores and the ARD buyout clocking Rs. 18 crores of number. As Uday talked about the MTM hit which we had decided to amortize over the year we have taken some part of the pain in this quarter and as of December end we had an un-amortized number of Rs. 65 crores which is currently looking positive. The duration of our investment book in the bank is 2.06 years. At the segment level if one looks at the year-on-year numbers treasury has a big delta which is from a positive Rs. 47 crores to negative of Rs. 18 crores this is after taking the pain of the amortization and some trading losses during this period. The retail bank has grown to clock a profit before tax for the quarter of Rs. 207 crores while the wholesale bank is at Rs. 326 crores. Of course the split of wholesale and retail here is as per the RBI classification of anything over Rs. 5 crores is classified as wholesale.

At the bank advances 6% for the year without CVCE's negative growth it is at 12%. If one looks at this quarter the bank advances has grown 5% for the quarter and if I take out the negative growth of CVCEs the growth for this quarter on advances is at 8%. The overall breakup of retail and wholesale retail at about Rs. 24,000 crores and wholesale at Rs. 29,000 crores. Deposits at the bank grew 6% however we have seen pretty much different mix coming up. The savings account grew 38%; term deposits overall grew 20% but as regards to retail term deposits which are deposits of less than Rs. 1 crore we have seen a growth of 31% on an year-on-year basis. Current accounts have grown 6% and we have seen for the year a negative growth in the certificates of deposit continuing our focus on the retail and the more stable deposits.

At the bank level the NPAs gross at 2.01% and the net at 1.1%. We continued the fact that restructure numbers continued to be at 0.08% and continuing the fact that we have not participated in CDRs or transferred to ARCs or converted any on balance sheet item to an off balance sheet item. We talked about that we have reached 533 branches as of December which means that we had setup 125 branches during the calendar year. We are targeting 1000 branches by end of 2016. During this quarter we have added 1.5 lakhs customer accounts. In addition to the CASA, the TD Swips now are at 8% of the overall deposit base and if I look at my CASA plus the term deposits which are below Rs. 5 crores that amounts to 64% of the overall deposits a rise from 55% a year ago. The consumer bank continues to focus on the digital space. On the asset side the overall consumer bank in the bank entity has grown by 19% helped by growth in the small business personal loans of 39%. The focus continues to be on the self-employed non-professional category and with selective growth coming in the small business and personal loans.

This segment also continues to show up very low delinquencies. On the commercial bank while the CVCEs that we saw has a negative growth. The agri division have seen a healthy growth 23% during the year-on-year period. The focus on looking at the Bharat story continues with agri being a big focus area. The wholesale bank at the bank entity ending the quarter with an advances book of Rs. 16,800 crores focusing continuing to be on the working capital area and continue to deepen the franchises across the customer segments. Kotak Prime focused on the car finance business of the overall advances of Rs. 16,800 crores about 78% it is about Rs. 13,000 crores coming from the car finance segment. Net NPA there very controlled at 0.4%; capital adequacy of the entity at 17.1% and that entity clocking ROA of 2.6%.

The life insurance company as we saw clocked a profit of Rs. 60 crores for this quarter continuing to have a high solvency ratio which is 3.16%. Kotak Bank accounting for 31% of the premium collection by the life insurance entity. The securities entity showing a profit of Rs. 46 crores for this quarter. This quarter we have seen volumes in the industry as well that Kotak Securities dropped from the period in the previous quarter. The investment bank was involved in issuance of the Power Grid FPO as well as the NTPC bond issuances. The transaction whereby we advised Torrent for its purchase of Elder Pharma as well as we were involved in divestment of a major portion of Vijay Electricals to Toshiba during this period.

The investment bank clocking a post-tax profit of Rs. 7 crores for this quarter. Overall as assets under management we managed close to Rs. 60,000 crores across different product groups. At the mutual fund the average AUM for December at Rs. 36,000 crores plus Rs. 6,000 crores with the favor being in terms of the long term debt which continue to contribute a large quantum. Of course during this period we saw equity flows which were better than what the industry clocked during this period. The alternative asset space which is the Kotak investment advisors the overall assets under management there amounting to just over Rs. 6,000 crores as of December. So that is been the broad highlights for this quarter. As Uday mentioned a tough period but as we look forward we are seeing growth coming.

We will open to take questions from all of you.

- Moderator** Thank you very much, sir. We have the first question from the line of Vikesh Gandhi from Bank of America. Please go ahead.
- Vikesh Gandhi** Just couple of questions. One is I was just looking at your slide on loan book where pardon me if I have missed it. Last year there was some Rs. 12,000 crores so basically my question is that from December to March was there a big de-risking on the book on the corporate side?
- Jaimin Bhatt** Yes, that is correct. Basically and we have seen some of that happening every fourth quarter some short term loans we would typically avoid crossing the March quarter. So that is why some of the short term loans in the corporate book had a negative growth from the period December to March last year.
- Vikesh Gandhi** So sir, then in this through extend this then how do we read this March quarter will it be moving in the same direction or as Mr. Kotak was talking about it that things are improving on growth side and things should move up? So will there be a growth or will it be?
- Uday Kotak** Let me take this question this way. If we have loans which cross the March quarter we like those loans to be longer tenure. If the loan crosses March quarter as if matures in April then the spread or the earning with the bank that is beyond March is for a very small period compared to the fact that on that day we have to maintain priority sector in the following year. This year we have seen the pickup of loans of longer tenure maturity for which we are ready to carry beyond March of the risks acceptable to us. Last year we were getting in to March 2013 with some worry about tenure. As mentioned earlier this year we see some of the issues and the pain in the loan book coming out of history actually behind us and we have seen some pickup in loans of medium term maturity which we are ready to take we cross March because we gets spread for a longer period to make up for the pain of having to provide priority sector commitment in the following years on those loans. So it is a purely therefore we do not like we do not cross the March maturing in April but we are happy having a loan crossing March which is over next two years.
- Vikesh Gandhi** Just couple of asset quality questions. One, obviously there was a 10% sequential rise in your bank level NPLs so is it I mean it is not a big number although but is it something from corporate lumpy or is it just retail CV types?
- Uday Kotak** Again in terms of the delta you have seen it is essentially out of mid-market.
- Jaimin Bhatt** Rs. 70 crores has been the overall rises.
- Uday Kotak** Yeah, overall rise and it is much more out of a single customer. Okay, one customer in the mid-market where we have a security which is in our view more than 2X the loan but the customer is having challenges in his cash flow. Therefore high collateral, good security but currently poor cash flow which has become an NPL and that is the reason why you have seen this move essentially coming out of this one account and on CVCE we think we have peaked in terms of absolute overall NPA number. Therefore we overall over on the NPA business we feel that at the current level of gross NPA we are not seeing from here in the foreseeable future an increase in

NPA's recognition at this stage. Therefore a lot of the NPA recognition we think off has already happened in the September and December quarters which you have seen have taken arise. It is back to one of thing which we have always if you have seen us over cycle we like to recognize pain early and not income early.

**Vikesh Gandhi**

And sir, your thought process on coverage ratio which is probably trending down at somewhere today now it is around 46% to 47%?

**Uday Kotak**

Our view is that I think you have got to divide this in to two parts really. First is recognition therefore we think our recognition has happened and we probably have peaked on recognition. Secondly, we believe that a lot of our loans have solid collateral therefore there is not that much which is unsecured. If it was unsecured you would recognize faster and therefore on collateral's we feel the issue is a lot more cash flow rather than security and we therefore our marking in to the basis of what we think is recoverable on that loan. We are significantly higher these than the RBI norms obviously a close to double of what RBI would have required us to mark on those same loans. But we think that our big focus now is moving from recognition to resolution. And we think we have peaked on recognition.

**Moderator**

Thank you. We will take the next question from the line of Aditya Narain from Citi. Please go ahead.

**Aditya Narain**

I actually have three questions. The first is you have kind of indicated that this is a kind of a bottoming quarter across the board. Now how much of this would be environmental and how much of it will be company specific? So that is one. The second question is variation in your loan growth across different segment the way ahead how do you see this balancing out if any and to some extent an aggregate growth number if you are giving one out? And the third one is really a soft one. You have talked a lot about good India and bad India previously any more thoughts on that which part is expanding or contracting or any overlap there?

**Uday Kotak**

Great Aditya, I watched you on Television the other day and I have heard your views on that it was it couple of days ago. So coming to the three questions. First is on bottoming out we feel first from the micro point of view we think we have watched a lot of these things. So on a micro basis we think we have peaked out or bottomed out depending on which way you looked in terms of recognition of both MTM and NPAs. So that is point number one on micro. However, on a macro basis I would like to actually watch two important aspects in the current year. First is interest rates and I think interest rates in India are again linked to what is happening globally and it is quite amazing how your 10 years US treasury moved from 3% and back to 2.83% or so as we talk and oil also showing some signs of softening. Therefore my macro call on the generalized environment as distinct from us will depend on a call on interest rates which we see in the Indian context in the light of the fact that the CAD is better the Fisc is temporarily better but one does not know whether it is sustainable in the next year. The US surprisingly the 10 year is yields are under control and energy prices are softer. Therefore I am of the view that energy does not look too bad in the current year. And if I have to do my own assessment I think 100 to 105 Brent is where I would put as the average for the current. Therefore as a perspective I think a



gently trending down on the interest rates cycle not dramatic which over time would give some support to the economy. So assuming there was no politics on the same I would be for the current year around 5% GDP in terms of my external environment. Now will this take out a lot of the leverage players and others out of trouble I am not so sure just on the basis of the real economy. However, we think that that gives us an opportunity to go out there as some of the banks are under pressure may be on under pressure including on capital for us to be able to get some good India loans. So that is what I see. Therefore macro I would say flat to marginally getting better but an opportunity from a micro point of view for us to be adding a little faster. So that is micro versus macro on your first point.

Second is the variation of the loans on the mix. I think what is good news for us is that the CVCE portion now has become a relatively small portion of our total advances. So we are now and if I look at the last two years by nearly 40% in the book so with such a significant drop in the India which we have found challenging we feel now actually that the good India part will start getting more traction and we will probably will be able grow faster. Therefore if had to put out a number over the next 12 to 15 months I would put out a number of around 15% as loan growth what I would see with significant amount obviously depended on good India and the challenging India becoming a smaller part but we are waiting for a CVCE recovery cycle and frankly I have got binoculars out there but I am still not getting a comfort that it is coming. So may be next few months, six months, nine months, twelve months that is the kind of range I will see before some of these really turns around in the challenging sector.

On the Infrastructure and other spaces I am not seeing any visibility of any dramatic change and in fact as we talk we are actually focusing on a fiduciary side through a fund to go on a special situations because I would much rather buy leverage Infrastructure loans at significant discounts Rs. 100 rather than taking at Rs. 100 which is currently what most banks are holding on their balance sheet. Therefore the play on Infrastructure of challenging India has to be through special situations or distress rather than putting capital at face value on the loan book. And I think in a way I have answered two and three I think I have sort of given you a perspective. My view is therefore external overall may not get worked but I do not see it is dramatically improving external may be marginally trending up external and internal we feel that 2013 lot of the pain is out for us.

**Moderator**

Thank you. We have the next question from the line of Anish Tawakley from Barclays. Please go ahead.

**Anish Tawakley**

I had two questions. One was on the OPEX and the second was on the credit quality side of things. On the OPEX in this quarter OPEX in the bank has also slowed pretty sharply yet your network expansion continues. So I guess my question is how long can you sustain this level of OPEX growth and sustain branch expansion at the rate you are targeting?

And the second really is your point about recovery and resolution like what would you expect the pace of resolution to be given the quality of collateral should we start seeing net NPAs down sharply in three months, six months?



- Jaimin Bhatt** The OPEX are Anish, actually you are talking about the quarter-on-quarter which is where it is.
- Anish Tawakley** No, not just quarter-on-quarter the bank OPEX growth was pretty down, pretty substantial. Growth was down not number was down.
- Jaimin Bhatt** I agree. Let me take on a year-on-year the bank OPEX non-employees is actually up 20% whereas for the quarter-on-quarter you are right it is just flat. But I think it is about Rs. 291 crores to Rs. 350 crores whereas for the quarter-on-quarter it is flat from Rs. 350 crores to Rs. 350 crores. Now Rs. 350 crores to Rs. 350 crores flat coming from the fact that this quarter unlike quarter two we had a much lower advertisement expenses whereas that has been offset by the fact that we have setup new branches and my cost on premises and related cost on depreciation all that actually gone up. So that is been the setting up effect where my ad cost has been much lower in Q3 than Q2. So it is not that it has closed down. If you look at overall last year versus this year we have grown and if I look at my nine months numbers we are again close to about 16% to 17% growth on non-employee OPEX.
- Anish Tawakley** Let me phrase the question differently, right? If I look at year-on-year overall OPEX growth employee plus non-employee that is about 13%, right?
- Jaimin Bhatt** That is correct.
- Anish Tawakley** Is that sustainable given your branch network expansion targets or will that increase?
- Jaimin Bhatt** It will be somewhere in the **pinch** anyway. I do not expect that to be significantly more than that despite the branch expansion.
- Uday Kotak** And then on the second question of recognition to resolution I would have been bold enough to tell you couple of quarters but looking at the legal system I would say about a year's time we would like to believe our net NPAs will be reasonably lower than today.
- Anish Tawakley** And just if I could squeeze in the third your Tier-1 ratio is moving upwards?
- Uday Kotak** Yeah, so that is what obviously we understand that if you are not going to get return on risk whether it is organic or inorganic we are always open.
- Anish Tawakley** And the environment for that?
- Uday Kotak** Depends on how much. It is back to the earlier question how much is the external environment pain. We think that in some ways yes, we have taken pain for the third quarter but it positions us well for the future in terms of being not having to look at what are the challenges on the existing balance sheet it being going out and looking at opportunity going forward.
- Moderator** Thank you. We have the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

- Kunal Shah** Sir, firstly on fee income so if you look at say excluding the treasury and even the ARD buyout income the core fee income growth is much more muted so maybe it is in line with the loan growth exactly at 6% year-on-year. But just wanted to have your outlook on the same and what steps we are taking in order to ramp up the fee income?
- Uday Kotak** Let me just first say that it is a big area of focus for us and something which we are very conscious about that there is significant upside opportunity for us from where we are in terms of each line on the fee income side. So it is a big focus area for us and it is something which we would like to improve as we go in to the future. Moving on to the second aspect about fee income and loan growth you have hit the nail of the head. If it is true fee income it should not be linked to loan growth. And therefore we as a bank believe that fee income is fee income other than minor processing fee which are relatively a smaller part of the overall part of fee income opportunity. And therefore we actually want to see significant growth in our opportunity on FX client revenues as we go in to the future in terms of genuine syndication rather than upfront fees for a lower yields on bank loans. And trade is another area which is an area of focus for us, remittances, charges so those areas where we think we have upside going in to the future. We do not believe in frontend in fee income by having lower yields on the loans.
- Kunal Shah** So in terms of say the kicker also coming in from a fee income and the overall lower provisioning what is the kind of ROAs which we are looking at may be can we see like a say substantial improvement coming in ROAs or that would broadly get offset say by the decline in the margins if we move more towards these?
- Uday Kotak** See what are the issues in front of us? We have been pretty focused on getting high spreads on our loans. On the other hand we are sitting on high capital. Therefore we need to while maintaining discipline of ROA and ROE and NIMs we can afford to grow our balance sheet for the right risks at lower spreads if it is still incrementally makes money for us. And therefore in a way it is a scissor between volume and margin which we are going to focus on as we go in to the future. Therefore bottom-line is yes, the discipline will be continued for risk return metrics but if the risk is acceptable we are ready to add to balance sheet even if it means marginal spreads are lower than the past.
- Kunal Shah** And one thing which you highlighted was say the subsidiaries also gaining traction so today if you look at the contribution from the financing business which is say 80% may be with the overall improvement do we see the change between the financing and the other income in the overall profitability or should we assume like the financing would still continue to be a key contributor say more than 80%?
- Uday Kotak** At some level we are in a situation which I will call as a positive situation where we have the ability of growing the risk balance sheet because of capital for the risks which are acceptable to us and we think the subsidiary businesses have actually bottomed out. Therefore I at this stage would not be excessively obsessed to the mix I would be excessively obsessed with getting my absolute now growing and kicking faster. And size of the cake across and less concerned about A, B, or C but just making sure that the engine which has significant capacity has taken most of

the pain out of its current P&L and balance sheet now positioned to be able to take advantage of growth when it in my view some of our competition will be more concerned about the current baggage and that may divert the retention.

**Moderator** Thank you. We have the next question from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

**Amit Premchandani** I had a question on the recent slowdown in growth that you have seen and you have almost exited some of the key products like CVCE that you have. So we have seen some of the banks earlier who had tried exiting some of the products and coming back and they were facing huge difficulties say debt of two to three years to come back with the same product segment with the same vigor and same market share. So how do you expect that you will not fall in to trap and you will be able to change gears safely?

**Uday Kotak** Let me assure you we are not exiting CVCE, okay? And we are continuing to be lenders in that market however, we believe that we want to be on slow boiled probably for a quarter or two at the most and we see opportunity coming at that stage. Another very interesting aspect on the CVCE side is that the mix of opportunity has changed and may be my colleague, Narayan, who look after that business can highlight the mix changes and how he sees the business.

**Narayan SA** First let me answer your question that we have not pulled out from any of the places that we operate CVCE business. We continue to disburse that at a substantially lower scale. We said we also changed our mix over the last 12 to 18 months from heavy commercial vehicles to light commercial vehicles. So our percentage of the retail book has increased compared to the wholesale book. There is a conscious effort made by us because we thought there was a good opportunity there and till date as of now if I look at it looks like a good decision. And we think this bottoming out will happen in the next three to six months and we are ready to take that opportunity again we are not pulled back from any of these places we continue to be in touch with our clients and getting a feel from them about the overall situation and when the opportunity permits we will be able to ramp up reasonably fast.

**Amit Premchandani** Sir, just a point on you are continued to disburse but if you see the CV loan declined it is almost Rs. 776 crores in one quarter and even if you annualize it, it comes at around 30% to 40% repayment rate. So three, four year loan should have one-third of repayment rate so it seems almost that there is no disbursement so that is how I came to the conclusion that there is no business?

**Narayan SA** No, your conclusion that we have reduced substantially disbursement is right but we personally believe that no sense in disbursing at a high number today because it will have a consequence later but having said that to repeat what I said if the opportunity changes or if you see things changing in the economy we will be able to ramp up substantially but to catch up with the overall advances may take time but our ability to start disbursing substantially more than what we are doing today or catch up what we were doing earlier we are confident of doing that.

- Uday Kotak** And let me assure you the entire factory machinery has not been dismantled because we have not closed any branches for these businesses so the machinery is active. It is again reflecting in our operating expenditure which is a pain we are ready to take. Simple I am ready to take OPEX pain but not capital pain.
- Amit Premchandani** Sir, another question was the FCNR deposit have you raised any money on that front?
- K.V.S. Manian** Yeah, we have raised in rupee terms close to about Rs. 1,200 crores of FCNR(B) deposits.
- Uday Kotak** That is the portion which was swapped with RBI.
- K.V.S. Manian** Yeah, under that scheme I meant the RBI scheme. Overall NR business continues to have good traction. So the NR deposit in terms of term deposit it constitute close to about 23% to 24% of our retail term deposits.
- Amit Premchandani** And have you lend against the FCNR deposits?
- Uday Kotak** No. So that is not reflected in our loan book.
- KVS Manian** Because we do not have a branch abroad and we cannot do leveraging outside. These are purely FCNR deposits. May be leverage with some other banks there but we have not financed that leverage.
- Jaimin Bhatt** This quarter loan growth does not have any of those.
- Moderator** Thank you. We have the next question from the line of Saikiran Pulavarthi from Espirito Santo Securities. Please go ahead.
- Saikiran Pulavarthi** Just exactly question on the funding profile. Do you think you can sustain the bulk funding at 30% of the total deposits when you start to grow your balance sheet?
- Uday Kotak** I think it is a good question. Now first look at how significantly we have changed the mix of our funding. As Jaimin mentioned earlier the less than Rs. 5 crores deposits out of our total deposits one year ago was 55% as of December it is 64%., number one. Number two, our overall term deposits growth is up 20% year-on-year at a time when our wholesale bulk funding out of certificates of deposit is down, which is negative (-46%). Therefore wholesale funding has come down. Our term deposits has grown 20% and sub Rs. 5 crores has grown as a percentage from 55% to 64% and sub Rs. 1 crore deposits which is where the real stable deposits are we have grown that year-on-year 31%. We looking at deposit-to-deposit base therefore we have made a very conscious effort to focus on stable and low cost liability as a core to our strategy and I would like to say that this will keep on improving as we go in to the future.
- Saikiran Pulavarthi** On a sustainable basis what do you think is the right mix of deposits between CASA and Retail TD and bulk? What would be the thing which you would like to look at on ongoing basis?

- Uday Kotak** You asked the question of what is my dream? My dream is not to have bulk But I do not think I get that where because at this stage it is almost like a rainbow. But we would like to see sustained material improvement by about say roughly about 8% to 10% is basis point every year on the below Rs. 5 category.
- Saikiran Pulavarthi** And one more question on the advances side. I just want to understand you were what I can say the sense on the business banking. Have you seen any kind of challenges especially on the growth or asset quality in this book? What are the trends looking like?
- Uday Kotak** As I mentioned that again business banking there is mid-market higher end mid-market lower end. The issue is you are always challenged in the balance between cash flow versus collateral and we are finding situations where there is phenomenal collateral but poor cash flow and there is situations where cash flow is good but collateral poor. So our key focus on business banking is to get this balance between collateral and cash flow appropriate. And at this stage other than the one account which I think I have mentioned about which is the Rs. 70 crores account in the mid-market we are not seeing any significant pain of any nature at this stage.
- Moderator** Thank you. We have the next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma** Just on the growth part you had just sort of elaborated as so why we have not growing our corporate book because I think the peers in the private banking space had actually grown their corporate book quite fast. Just some color as to I mean are the long term opportunities which you had elaborated available or is it just purely the working capital finance opportunities which are short term in tender so?
- Uday Kotak** See again we have there obviously missing working capital opportunities there but we are beginning to see some demand for working capital term loans of one year or eighteen months kind of situation. And I will have my colleague, Shanti, to answer that question.
- Shanti Ekambaram** Just to answer your question if you actually see our growth this quarter we have actually grown our loan book quite significantly in the December quarter in the corporate bank.
- Uday Kotak** Therefore quarter-on-quarter corporate bank has grown year-on-year it has not.
- Shanti Ekambaram** That is right. So in a year-on-year it was flat while on a quarter-on-quarter basis I think we have grown quite significantly. So there is demand while working capital remains our focus we are seeing a lot of demand for medium term loan as Uday said which is really working capital term loans, two to three years even up to five year loans we are seeing some amount of Brownfield expansion and opportunities coming. So one of our focus areas is really to see how we can build up as we build out our working capital book. So you would see a growth but keeping the hallmark of what we said risk and return in mind as it has been in our plan already.

- Ashish Sharma** And sir, just on the growth number now as you had mentioned that in Q4 we are a bit reluctant to grow and the growth in corporate is sort of a one piece which is actually doing well. So are we looking at even a subpar growth for FY14 I mean because we were just little hesitant to grow the corporate book?
- Uday Kotak** No, if you look at I think I must say that if now first of all CVCE is now getting to be a much smaller part of the total book. As mentioned we are not everything that but we are cautious on that and continuously do so as we stand today. For the part which we think are good businesses for example agriculture we have grown agriculture lending YoY 23%. We have grown our small business loans 39% YoY. We have grown even mortgage loans 30% YoY. So overall in pockets which we like we are ready to grow and grow faster. In the corporate book if you look at quarter-on-quarter growth is good; year-on-year is slow because last year we had a high amount of short term loans which happened last December. So we think corporate banks from here goes faster than 6% YoY. So if you take corporate bank growth in to say early-teens and if we continue grow small business and business banking faster and agricultural division in the 20's we think and the fact that CVCE is now a much smaller part of our total we think of around a mid-teens growth is something which we are pretty confident from here.
- See keep in mind you are coming off a big downtrend in some segments particularly CV and CE we have seen it is coming 12 or 18 months before the rest of our peers started acting on it. For us the breaks were early but we think our release is also early from here.
- Ashish Sharma** And just lastly on the collection efficiency across retail segments, have you seen the trend sort of a stabilized or has been the Q3 updates on that, sir?
- Uday Kotak** As I said our view is recognition of pain we have probably bottomed out and from here harder work on recovery is what we are focused including making sure that wherever we have collaterals we are able to recover and we think that resolution piece in the next 6, 9, 12 months will start giving us fruits back in to our P&L as we go in to the future.
- Ashish Sharma** And sir, the account which you mentioned was mid-market account would it be possible for you to share the sector?
- Uday Kotak** No, it is basically somebody who is connected with somebody having significantly large real estate but has given up the security of a hotel.
- Moderator** Thank you. We have the next question from the line of Kajal Gandhi from ICICI Direct. Please go ahead.
- Kajal Gandhi** Can you please share the data on this small business and personal loan how much will be the personal loan or whether credit card is included in this?
- Jaimin Bhatt** No, credit is not included there.

- Kajal Gandhi** And if I can get the personal loan data in this?
- Jaimin Bhatt** It is a mix of both small business and personal loan so there is not much significant difference in terms of how much of that is personal and so there is not much of significant difference in terms of the way they operate both these personal loans and small business. Because small businesses are while technically you may have security of its furniture or whatever it is not largely there. It is much more for small businesses. So if you look at the mix it may be more small businesses than personal loans almost to the extent of an 80:20 situation there.
- Kajal Gandhi** In terms of Kotak Securities' QoQ the volumes in the market has also gone down so what has lead to the profit growth and even the top-line growth in the business?
- Jaimin Bhatt** Yeah, there has been some amount of profits which have and some amount of yield improvements which has happened during this period. Also the thing is the important thing for us has been that while you have seen what you have declared there is an overall market share while it has come down marginally. Our cash market share has improved decently.
- Uday Kotak** Picking on from Jaimin we see actually the retail broking space a space for us to have significant consolidation in the market share. Our big focus is cash we are also improving our margins in that business. And a combination of this we think will pay us good results over the next 12 to 15 months.
- Kajal Gandhi** And sir, one last thing on have you purchased any stressed assets over the last quarter or so?
- Uday Kotak** Nothing has come up yet but still other banks have to recognize the stress before we can buy. They are not recognizing it at all. It is all going in to restructured or some other place?
- Moderator** Thank you. We have the next question from the line of Jaiprakash Toshniwal from IndiaFirst Life Insurance. Please go ahead.
- Jaiprakash Toshniwal** Just one thing on the capital market business basically investment banking business, are we losing market share versus the new entrant player?
- Uday Kotak** Market share how do you define? I think the question is the equity insurance market has been slow on M&A we are doing well. And if you see in our results we have also shown the deals we have done we are getting some traction actually on the M&A side and we are feeling better about the M&A business or equity capital market actually is become very commoditized and very low margin. M&A is the diamond cutter of investment banking and we do not count loan processing fees as investment banking fees.
- Jaiprakash Toshniwal** Second question is on your commentary if I recall from the Q2 commentary versus this quarter commentary it is more or less same in terms of the stress areas the growth areas and all but since this quarter turned out to be a little bad in terms of financial numbers. So what is your thought on this?



- Uday Kotak** My thought is that it is back to a point that upfront the pain and it is very simple philosophy we have always followed that balance sheet is more important than P&L and that is what we are clearly focused on. We have got our treasury not shouting to HTM we have taken the pain through MTM and through our P&L so that is behind us. As I mentioned as of today as listing from as of 31<sup>st</sup> December we have no further MTM provisioning required based on the MTMs as of today. I hope the yields are remaining in the around the current levels in which case we will have a significant delta coming because of no additional provisioning required. Number two, on NPAs I have mentioned it that we have recognized our NPAs and which are out there for you which is why our GNPA has gone up which for you to see. We are now moving beyond recognition in terms of on a gross basis to much more on the resolution situation. So from here as we have indicated we see more upside than downside actually on a micro basis I cannot talk about the macro.
- Moderator** Thank you. Participants that was the last question. I now hand the floor back to Mr. Uday Kotak for closing comments. Thank you and over to you sir.
- Uday Kotak** Thank you very much colleagues. I just hope that one other point which we did not touch upon in this discussion was the politics of the country and that is a significant event in 2014 May and I believe whichever way that cookie crumbles from the point of view of financial sector, in terms of our positioning we feel we are much better positioned to manage both at the downside and at upside at this stage considering that a lot of our micro issues have been are now behind us. So thank you very much ladies and gentlemen.
- Moderator** Thank you. Participants, on behalf of Kotak Mahindra Bank that concludes this conference call. Thank you for joining us, you may now disconnect your lines.