



“Kotak Mahindra Bank Limited Q3 FY-15 Earnings Conference Call”

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MANAGEMENT **MR. UDAY KOTAK – EXECUTIVE VICE CHAIRMAN &
MANAGING DIRECTOR, KOTAK MAHINDRA BANK LIMITED**
**MR. DIPAK GUPTA – JOINT MD, KOTAK MAHINDRA BANK
LIMITED**
**MR. JAIMIN BHATT – GROUP CFO, KOTAK MAHINDRA
BANK LIMITED**
**MR. NARAYAN S A – PRESIDENT, COMMERCIAL BANKING,
KOTAK MAHINDRA BANK LIMITED**
**MS. SHANTI EKAMBARAM – PRESIDENT, CONSUMER
BANKING, KOTAK MAHINDRA BANK LIMITED**

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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Kotak Mahindra Bank Q3FY15 Earnings Conference Call. As a reminder, all participant lines 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak – Executive Vice Chairman and Managing Director of Kotak Mahindra Bank. Thank you and over to you, Mr. Kotak.

Uday Kotak:

Good Evening, ladies and gentlemen and welcome to the First Call of Calendar 2015 and let me wish each of you A Very Happy and a Wonderful 2015 in the context of both the global and the Indian situation, economic and political as we see it right now. Without getting into that part, I would want to focus on two parts – first is with reference to the broader parameters of our bank in the context that this is the first call we are doing after the announcement of our proposed merger. In a way therefore this was the last quarter where we continued with the strategy obviously which started before the announcement of the merger and then from that giving some specifics on our business parameters and specific comments on the earnings, before I hand over to

Jaimin, I will also touch upon the latest situation on the proposed merger with ING Vysya Bank.

So in terms of the broad parameters of the bank, as I have mentioned to you over last 2-years, the key focus for us is 'Capacity Building' which is one of the reasons why we have explored the inorganic option as well, but pending that inorganic option, we had been on a path which was rapid capacity building in terms of scale and size. Therefore, if you look at the period of 1-year that is December '13 to December '14, we have added on a consolidated basis a total of about 4,000 employees and the consolidated entity has moved from 26,000 to 30,000 employees, and on the bank standalone we have added a total of 2,500 employees out of the total 4,000 incremental, increasing the bank's employee strength from 15,500 to 18,000. And as I have discussed in the calls particularly over last 2-years, this has been a part of the clear focus on capacity building for the future.

And we are seeing that beginning to reflect, first, on the core drivers of our strategy, which is CA and SA growth. We get a sense that we are now reaching close to what I would call as a potential tipping point and our CASA growth in this 1-year period if you look at it has been 42% with CA also now showing significant traction in addition to SA. And we feel very pleased about that and we feel this momentum is something which over time we should sustain particularly in the context of the fact that we would now hopefully have a merger as well. Therefore, the core of our strategy which was to build low cost and stable liability is working well in terms of our own agenda which was a standalone agenda and that momentum of Kotak Mahindra Bank's focus on CA and SA is kicking in at a speed which is significantly higher than the industry average.

I would also like to reiterate the fact that on SA, we have continued to maintain the discipline of not paying any person any amount more than 6% and our SA rates now are 5% up to Rs. 1 lakh, and for above 1 lakh at 6%; our weighted average cost is about 5.47% and is something which we would like to hold at present.

The other important aspect which I have shared with you is our focus on 'Stable Liability.' And our Deposit below Re.1 crore have continued to show very rapid growth and we have grown that at 33%.

On the Loan growth side, we have seen a continuing uptick both on our Corporate Bank and the Consumer Bank and Loan growth is about 22% consistent with our guidance of 20% which we have given.

And we continue to believe that going forward our guidance would be 20% plus.

We are also focused on building small and medium business segment of loan and that is where we will grow faster. Our entire NPL and distress situation in terms of the asset portfolio is under control and at this stage we are reasonably confident that things should be marginally better but no deterioration from where we are.

If you look at this quarter's numbers – there are three important areas which I would like to mention about – #1 is our 'Distressed Asset' business. In this last few quarters, we have had little bit of a backlog and therefore the recoveries out of Distressed Asset portfolio have got a little more back-ended than we would have anticipated at the beginning of the year. So that is one point I would like to highlight.

The second point is with reference to the Asset Management business. We are seeing a very nice and a healthy growth in our Assets Under Management which Jaimin will take you through in detail; however, with reference to domestic funds in particular, we have a situation where the upfront fees payable to distribution have grown, which are reflected in a P&L hit to the asset management company, which we obviously fully expense out. Therefore while the Distribution business at the bank is in general, because we distribute all Asset Management products is gaining at the mutual fund, it has created P&L pressure which is reflecting in our numbers, but we think that is ultimately a front end cost, but hopefully the corpuses on Asset Management will sustain, and therefore the annuity side of it will build.

The third point is with reference to the Life Insurance business, and here I am happy to say that the sale of policies is growing, but the proportion of policies which are being sold have a high upfront reserving requirement, which creates present pressure on P&L but is significantly embedded value adding on the Life Insurance business, and there again our call has been as always medium-term, whatever is value creating we will do that even if it leads to short term P&L strain, but the health of the Life Insurance business is something which is giving us significant comfort going forward.

And the last part is of course the Investment Banking business where there is significant pipeline, but closures have been behind the curve and which is again reflecting in the numbers.

Therefore, we move in this quarter with the bank standalone at about 37% and consolidated at about 21% earnings growth, but I have described significant improvement in all the health parameters on which we measure ourselves, and on the

earning side pretty good clarity on some of our subsidiaries and specific divisions which we think will be able to give significant contribution down the line.

On specifics with reference to the merger, I am sure most of you would have been aware of this, I am happy to inform you that the shareholders at both, ING Vysya Bank and Kotak Mahindra Bank have overwhelmingly supported the merger between the two institutions, and as we see it from where we are working towards getting approvals both, from the Competition Commission and the Reserve Bank of India. At this stage, we are quite hopeful and confident and our hope is that we will be able to complete the merger process by end of March which is the guidance we gave you in November as well. So on track with reference to the merger.

We think our integration plan is looking good, we have got a full detailed integration team focused on areas where we need to work on and we actually believe that the merger really helps us get synergies and in a way the merged entity, post receipt of all regulatory approvals, will get a combined capacity, which till now we were spending upfront significantly for building that capacity which is as you can see reflecting so far in our historical upfront cost numbers. So all in all, we feel that this is a time for us to build sustained growth; we think the overall economy situation in the Indian context is much more favorable for a marathon building and not a sprint and we continue down that path as we go into the future. With that I will hand over to Jaimin Bhatt.

Jaimin Bhatt:

Thanks, Uday. I will quickly take you through the 'Earnings Update' which we have sent to you all earlier. At the consolidated level, we end this quarter with a profit after tax of Rs.717 crore, as Uday mentioned, 21% up from Rs.591 crore last year. Loans at the consolidated level were Rs.86,000 crore, again 21% up from last year. We end this quarter with a net worth now of Rs.21,299 crore with a NIM of 4.7% at consolidated level. At the standalone level, this quarter showed a profit of Rs.465 crore with a loan growth of 22% on a year-on-year basis. We ended with 661 branches as against 533 branches a year ago. Capital adequacy overall at 17.7% and Tier-I at 16.7% including the current quarter profits. Net NPA at 0.97% as against 1.1% a year ago. At the entity level apart from the bank contribution of Rs.465 crore, Kotak Prime contributed Rs.120 crore, the Securities business gave Rs.60 crore of post-tax profit for the quarter, and the Insurance entity had a contribution of Rs.51 crore for the quarter. Out of the net worth of Rs.21,299 crore, the bank has a net worth of Rs.13,600 crore, Prime just over Rs.3,000 crore, Securities at Rs.2,200 crore and the Insurance company at Rs.1,100 crore.

Overall loan book, if we split out between the Consumer, Commercial and the Wholesale businesses, the Consumer business contributing about 40% of the Advances book whereas the other 60% split reasonably equally between the Commercial and the Wholesale business. Total assets at the consolidated level at Rs.1,42,000 crore with a book value at Rs.276 per share. Advances growth on a year-on-year basis has come largely from the Corporate Banking side which is now close to Rs.26,000 crore on a consolidated basis. Small business growth is now at Rs.6,000 crore wherein that has grown 37% on a year-on-year basis. Home Loans and Agri we saw 20% rise on a year-on-year basis. At the bank standalone levels, Net Interest Income for this quarter at Rs.1,060 crore, about 16% up from Rs.913 crore last year. Other income growing, thanks to regular banking, DCM business, Forex fees as well as Mutual Fund distribution, and overall cost of Rs.816 crore this quarter we saw some hits taken on the employee costs on account of share-based payments as well as the interest rates going down and impacting the retiral benefits. Overall provisions at Rs.30 crore which is after taking into account Rs.56 crore write back on account of investment, so the Advances provision is at Rs.84 crore.

Other income of the bank for the quarter at Rs.494 crore, which includes Rs.328 crore coming in towards Fees and Services. Segmental for the bank, the Corporate and the Wholesale Banking division contributing Rs.338 crore, Retail Bank Rs.240 crore and Treasury Rs.130 crore as against a small loss for the same period last year.

The bank Advances, as I said, largely coming in from the Corporate Banking growth and the small businesses have shown a large growth also. The split as far as the RBI definitions go where any sanction of over Rs.5 crore is sitting in the Corporate book, the overall Rs. 64,000 crore split up as Rs.26,000 crore Retail and Rs.38,000 crore Corporate book.

On the 'Liability' side, as Uday mentioned, the CASA piece has seen 42% year-on-year growth where the Current Account growth period December '13 to December '14 has seen a 49% growth whereas the Savings Account showing a growth of 36%. Even Deposits which are less than Rs.1 crore have grown 33% on a year-on-year basis. Return on Assets at the bank on the basis of the quarter numbers was at 1.9%, restructured numbers which are considered standard was 0.25%, and we continue to being in a situation where there is no participation of CDRs, no transfers to ARCs and no converting to off-balance sheet items.

At the Consumer Bank, as I mentioned 661 branches we ended with, CASA at 32% and in addition there is the sweep deposits at 7.7%. Total Deposits which are CASA

plus Deposits less than Rs.5 crore are now constituting 65% of the overall Deposit base. A lot of digital initiatives have been launched in the Consumer Bank. The overall cost of Savings Account Deposits was at 5.47%.

The Consumer Lending business grew year-on-year by 25%, big growth in the Small Business segment, with a focus on the SENP and cross sells with the bank branches. Also, we are driving growth in the Mortgages and the Small Business and Personal Loan segment.

The Commercial Bank overall growth of 9% on the back of Agri division growing 20%, Business Banking at 16% whereas the Commercial Vehicle/Construction Equipment have seen a negative growth for the year, Focus continues on Business Banking and this quarter has seen some growth coming back in the Heavy Commercial Vehicle segment.

The Wholesale Bank primarily seen growth in the working capital related area and with focus on Transaction Banking, Trade, Forex, and Structured Finance business has grown pretty significantly on a year-on-year basis.

Kotak Prime closing the quarter with Rs.120 crore profits. Total customer assets of Rs.19,000 crore, 75% of which is in the Car Finance business. The net NPA of Kotak Prime at 0.4% with capital adequacy of 17.3% and an ROA of 2.3%.

Kotak Mahindra Investments which is into Capital Market and CRE business ended the quarter with Rs.24 crore profit as against Rs.11 crore last year, again net NPA pretty contained 0.2% with a capital adequacy of 18.6%.

Life Insurance business as Uday mentioned growing in health. The Individual business has grown 17% with regular business growing at 33% for the quarter clocking up Rs.51 crore profit.

Kotak Securities ended the quarter with Rs.60 crore profit marginally less than the immediate or preceding quarter on account of lower trading days this quarter. Market share at 2.8% of the overall market.

Investment Bank had a small loss for the current quarter.

Assets Under Management at the group level has grown significantly; we are at Rs.71,000 crore as of December end with large growth coming in the Domestic Mutual Fund and on the Equity segment as well as in the Offshore Funds. The Asset

Management company having Assets Under Management at the end of the period Rs.39,000 crore, of which Rs.7,400 crore is on the Equity side but the upfronting of expenses as Uday mentioned has resulted in the overall loss for the quarter of Rs. 10 crore. The Alternate Asset business had Assets Under Management of about Rs.6,100 crore and the quarter showed a Rs.2 crore profit for this period. Those were broadly the highlights. We should be open to taking questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Adarsh from Nomura. Please go ahead.

Adarsh P.: Just two questions; first on the LCR compliance, I just wanted to understand where we are at the end of this quarter and did we have to do some extra G-Sec investments for that?

Uday Kotak: Let me say that as of 31st December we were well compliant with LCR and well above 60%. Yes, we had to make sure that our high quality liquid assets were in line with what is required for LCR, though we were little worried when we finally got the outcome, we are well above the LCR requirements for December.

Adarsh P.: The question was more that if you had to do some liquid investments just moving from 60% to 100%, will a lot more be required, or probably you think with the balance sheet mix so that you can reach 100%?

Uday Kotak: I think what you need to keep in mind, Adarsh, is on LCR the most high quality liquid asset is of course the government securities asset, currently, what RBI allows is effectively to consider only 7% out of the 22% SLR at 60%. So our view is that as and when RBI decides to increase 60% to 100%, it will probably be accompanied overtime with probably lower SLR requirement and/or higher dipping down into the SLR, which currently is restricted to 7% only, which means as of today 15% out of 22% of our SLR is not considered for high quality liquid assets category. So we think that would be either dipping down or absolute SLR levels will be brought down.

Adarsh P.: On Core Fee growth, it has been extremely strong as you had guided. I just wanted to understand, one, obviously is the Distribution Income. Where are we in terms of both the SME FX business and the DCM business? I think we have spoken in the past about ramp up on that. So what is the base and can this momentum continue for say two to three more years, where you outstrip Fee growth significantly much more than balance sheet growth?

- Uday Kotak:** First of all, let me assure you, Adarsh, we do not have any large lumpy Investment Banking income in our Fee income, as a general point I just wanted to mention to you. Yes, we are seeing some growth in the DCM piece, but it is nothing dramatic, therefore, if you look at year-on-year our growth in Fee income is nearly 50% and just to highlight some of the key ones, the big delta is on our Mutual Fund Fee income which is because we are probably the top two or three distribution companies in the country for this particular product, and as you know we have a very strong wealth management practice, so that has been a pretty strong source of income for us and it has grown very significantly. The second area where we are now beginning to see a significant growth is in the area of Branch Banking fees and service charges which have also shown a very decent growth, and in addition to that we are seeing a very nice, healthy growth in Foreign Exchange income generally, which is again client-related Foreign Exchange income, it has taken us time, but we are now beginning to make sure that there is reasonable work happening in terms of client flows on the Trade and FX side. Therefore, we are quite hopeful and confident that the momentum on this will continue. Interestingly, Adarsh, against the very strong Distribution Income from Mutual Funds which is reflecting in the bank, and of course this is what the bank gets from all Mutual Funds. We have a natural counter-hedge because our AMC lands up paying all distributors pretty significant upfront. So there is a natural hedge within the consolidated entity, not by choice, but by the circumstance which gives us a natural hedge to this business.
- Adarsh P.:** Just a question on the AMC. Is the accounting a little different for the other AMCs? Can they kind of spread out?
- Uday Kotak:** We do not know what other AMCs are doing, we are consistent, and therefore in the bank whatever fees we receive, we book it as income, in the AMC whatever expenses we pay expenses as expense, so that just keep it simple and therefore the policy at the two places is identical.
- Adarsh P.:** What part of the AMC fees is coming to the bank, like how much percent are you distributing?
- Uday Kotak:** The bank is a complete open architecture firm, we have open architecture with all manufacturers and are completely focused on what the bank product and distribution team believes is most beneficial to their customer base. It is not necessarily doing a disproportionate distribution for Kotak AMC at all, therefore there is no direct one-on-one counter which I can correlate between the bank and the AMC, and again this

is something which I hear that AMC complaints of the bank that it can do a lot more for them which it does not seem to have been doing.

Moderator: Thank you. The next question is from the line of Yasuhiro Sasago from Sumitomo Mitsui Banking Corporation. Please go ahead.

Yasuhiro Sasago: On Deposits, you had a robust growth of 34% year-on-year. What is the factor which is driving this increase of Deposits and how long do you think it is going to continue? RBI is going to give payment bank licenses. So I assume the competition to get deposits will be tougher. So, could you tell us your view please?

Uday Kotak: First on increase in Deposits, this is one of the key focus areas particularly in our Consumer Bank, and I will have my colleague Shanti who heads the Consumer Bank speak about it, it is a key result area for each of the branches and relationship managers in terms of growing the customer share with us and Deposits as a product is a key focus area for them to drive. So increase in Deposits has come through a significant focus on going out and penetrating through our sales force and relationship managers across the country, and Shanti you may want to speak about this.

Shanti Ekambaram: Simply put, it is a combination of a), continued focus on acquisitions, which is quality acquisitions as well as deep mining our existing book, I think in the last 2 to 3-years we have acquired a reasonably large base of customers, we use analytics to try and make sure that we deep mine and penetrate the customers, at the same time the various acquisition engines in the Consumer Bank continue to focus on new acquisition, both numbers and value. I think that is really how our Deposits are growing steadily and at a reasonably good pace.

Uday Kotak: And on the second point about the payments banks, we believe that, yes, there will be a number of payment banks but their impact will be, if at all, more on small ticket transactions and less on the overall deposits base of the existing banks, but obviously we have to be ready for more competition, and I believe that, that will expand the size of the customer base in Indian banking as well. So we are ready for the competition; however, we feel it will be more at the small ticket transaction and less in terms of making any significant impact on our Deposits.

Moderator: Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: It is on the loan growth and the capital ratio. So, even after a very strong sequential growth, capital consumption has seen essentially flat and not moved up even on the

banking level. So, number one, has there been any issuances, because of which the numbers are flat and not up, or if not, what exactly has happened out there?

Jaimin Bhatt: Actually, there have been no issuances other than ESOPs which people exercise. So during this quarter we would have some small ESOPs exercise, other than that there have been no issuances. What we have declared as capital adequacy including the profits, so the profit for this period is included in the calculation. So net effect is you have seen the profit growth and the risk weight asset growth has kind of kept pace for this quarter.

Nilanjan Karfa: But if you look at your Corporate seems to be growing at what 33% on consolidated basis and rest of them are growing at a slower pace. Not sure how many of them are in the schematic design of products, which will need.

Jaimin Bhatt: I am talking only about the incremental for the quarter, the capital consumption for this quarter has been reasonably flat in line with the profit growth which is there.

Nilanjan Karfa: Again going back to the Fee questions, assuming the Kotak AMC itself has upfronted since it is also likely that other AMCs would have also upfronted and therefore that is driving very large contribution to the Fee Income growth. Would that be a fair assumption?

Uday Kotak: Our Fee Income in the bank is coming from whole host of Mutual Funds, and Kotak AMC, let me assure you, does not have a very significant market share with the distribution of the bank, so we are distributors for the entire asset management industry and we are helped by that.

Nilanjan Karfa: No, my question was different, so just to turn around the question, if you were to exclude the Mutual Fund Distribution Fee, how much would have been the rest of the Fee businesses growth?

Jaimin Bhatt: Mutual Fund will have contributed may be some number in the mid-teens or something in terms of the delta towards the income versus the last quarter.

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

Ashish Sharma: Just from a consolidated entity post the merger point of view, the Net Interest Margin picture, first of all for Kotak as a standalone bank, the margins were little high

because of the lower leverage. So going forward and as a consolidated entity, where do you see the overall margin sort of tracking, sir?

Uday Kotak:

I would find it tough to give you what happens post-ING Vysya merger into us, we are yet to study that portfolio in detail, which we will be able to give you some clarity post the merger; however, on the bank standalone on our side, I have said this again earlier also that, we believe that (+4.5%) is sustainable at this stage of our development. So, this is where we believe that it is sustainable and if you notice the fact that two things – one is our growth in Wholesale Lending which has been faster, therefore the margins on that are lower than what you would have on the Retail, that is point #1; and point #2 is our Investment book also has grown. So both these have implications on the NIMs, which is why you are seeing that come to 4.7%, but our current view is based on our business model, we think 4.5 plus is sustainable.

Ashish Sharma:

On the guidance you have given (+20%). This is on a normalized sort of a macro environment or do you sort of have put in the uptick, which we sort of expect in FY16?

Uday Kotak:

My view on GDP, I will be very happy if I am surprised upwards, but for March 2015 5.3% or around, for March 2016, I would be delighted if we touch 6%, so this is our broad expectation of how we see. We think therefore the Indian GDP growth gradient is more gradual, but we have been focused on building capacity and I think our engine is in good shape, we have also been cautious in the last 2-years about not being caught in any particular segment or sector, which has given disproportionate pain, we try and be a little more proactive whenever we see potential signs of pain, as you would see that we have consciously in the last two quarters slowed down the pace of growth in tractor finance because we saw a little bit of pressure coming on that. So, we moderate the different segments of our business quite actively, and we think that as we build capacity, besides getting a fair share of the market out of incremental growth, we also will get share from the rest of the players. So our approach to Loan growth is not only based on secular growth of the economy on a nominal basis, but also gaining some share.

Ashish Sharma:

On the Digital bank piece, from a data perspective, the current acquisition in terms of the Savings and the Asset side, what would be the contribution of incremental customer acquisition and where do you see that sort of a metric shaping up in a couple of years – do you think that it is going to be a very sizable portion from a customer acquisition point of view, sir?

- Uday Kotak:** Let me answer in two parts – first of all at this stage I think Digital while it is certainly getting more important, it is a lot of existing customers switching to Digital, customer acquisition through Digital is still a relatively small percentage of the total acquisition; the physical world is where we are getting a lot more acquisition, after coming in they move to Digital. We are trying to increase the percentage of acquisition through Digital as well, particularly on the Liability side and on the Asset side we are working on products particularly in the area of Personal Loans and Credit Cards where we hope to grow Digital faster.
- Moderator:** Thank you. The next question is from the line of Anish Tawakley from Barclays Capital. Please go ahead.
- Anish Tawakley:** Two questions; One was on the branch opening plan, what would be the plan after the merger for opening branches over the next three years and what would next year look like, and what would be the implications for cost growth?
- Uday Kotak:** I think branch is pretty simple on a merged basis we get close to 1,300 branches, post-merger somewhere between 1,250 and 1,300 branches, after that our focus will be more measured, and we are therefore certainly going to slow down the pace at which we add new branches, as Jaimin mentioned, last year, between December '13 to December '14 we added about 130 branches, going forward the pace will be significantly more measured than that rate of growth.
- Anish Tawakley:** Could you quantify that and also the cost implications?
- Uday Kotak:** The cost implication, certainly, we will save a lot of cost and start sweating the network in our hand better obviously, which we are going to work very hard at because we want to make sure that we sweat all the costs we have incurred and we are incurring a lot of upfront costs acquiring customers, in the last quarter we have acquired over 2 lakh customers through our existing network, and you can see our people addition which have been pretty significant, not only we have added more branches, we have added more people per branch.
- Anish Tawakley:** No-no, I understand, the investment has been pretty substantial, I was just trying to see if we can...
- Uday Kotak:** And certainly, we will undoubtedly slow down the pace of the network, at this stage whether it is 40 branches, 50 branches, 60 branches a year; I cannot tell you the exact number, but it will be significantly moderated because we have to - on a combined

basis post-merger make sure that our 1,300 odd branches get significantly more productive as we go into the future.

Anish Tawakley: On the current results, if I look at the slides, Page #10 and #11 where you give the bank segmental performance and Advances as per RBI classification, is the segmental performance and Advances as per RBI classification consistent?

Jaimin Bhatt: If you look at Page #10 and the bottom of Page #11, they will be consistent.

Anish Tawakley: So if I look at Corporate Advances are up from Rs.28,000 crore to Rs.38,000 crore. Am I reading that correct?

Jaimin Bhatt: Correct.

Anish Tawakley: And then the Corporate Wholesale Banking profit is Rs.326 crore to Rs.338 crore, so it is basically pretty flat?

Jaimin Bhatt: One, of course, is some of the provisions which have hit have gone into the Corporate book and if I look at for the current period, the stressed asset piece again if it is over Rs.5 crore will go there, which has a better contribution in the previous period than in this period.

Anish Tawakley: The ARD piece?

Jaimin Bhatt: That is correct.

Anish Tawakley: No, ARD is up year-on-year, right?

Jaimin Bhatt: ARD is up year-on-year, but what is up is Retail part of the ARD; there are two parts of ARD; one is where we acquire some retail assets like Credit Cards, Home Loans etc., but there are also some Wholesale asset which we acquire, which will sit in the Corporate Bank – thanks to the RBI definition – and if I look at the Wholesale part of the ARD, which is sitting there, both for the quarter and for the nine months YTD, they are decently lower than the same period last year.

Moderator: Thank you. The next question is from the line of Aditya Narain from Citigroup. Please go ahead.

Aditya Narain: I had two questions; the first was regarding what you have seen within ING Vysya so far, whether there are anything that has surprised either on the positive side or the negative side or that could make you tinker your strategy going ahead in terms of the

merged entity? That combined with the view that this (+20%) kind of Loan growth guidance that you have given, I presume that applies to the merged entity, and also whether there could be a transition period where this could be a little slower? The other is getting to this AMC piece. I know your revenue profile at the Group level seems to be hedged, but the pressure that your AMC has faced is somewhat reminiscent to what happened the last time around in a strong market when all financial services entities starting with AMCs extending to insurances and then potentially to the capital markets side also were effectively to gather growth, everyone paid up and then finally the economics were not working. Just your sense in whether we are seeing signs of that this time around also?

Uday Kotak:

Aditya, first on ING Vysya Bank, I believe they are coming out with the quarterly results tomorrow, therefore, you will get a good sense of where they are. All I can say that is we are quite happy with the basis on which we have announced the merger pending-completion, and we are therefore ready to ensure that once the merger is approved and completed, to come to you with our assessment of that in the first quarter post the merger, that is the promise I will make to you about the overall status and situation of ING Vysya Bank, and that would be probably as you would appreciate the fair way for us to be doing that. I must reiterate that we believe that the merger is very synergistic and complementary to shareholders of both ING Vysya Bank and I would like to believe for Kotak Mahindra Bank as well. However, execution is a significant aspect of the challenges which we have to work together to make it work. On the (+20%) growth at this stage, my guidance is based on what we are going to be doing in the context of Kotak Mahindra Bank, and again, we will try and come out with a combined guidance post the merger in the very first quarter after the merger. So, I will be able to give you very clear guidance once we are done with the deal and become a single entity. I would also be happy to tell you that we have got a very significant focus on the integration issues, we have got a separate team which we have put in place, and from what I understand the team is deeply immersed and excited with the opportunity and the challenges which the merger poses and gives us. Therefore, at this stage consistent with all that I have said from 20th November onwards, we continue to have great conviction that merger will add value to all the stakeholders on both the sides, and there is nothing which in anyway deters us from the perspective and perception we have had on the basis of which we announced the merger. On the AMC, I think it is a pretty significant issue, which is there for the Asset Management industry and Distribution industry. As I understand, there have been some discussions between the Asset Management Industry Association, between themselves with the distributors and probably, at some point of time, the regulators also may have a view on that. So, whatever is the outcome, we will have to wait for

that, but till then, we believe that the Distribution business has to do what is right for it, and the Asset Management business has to do what it believes is right for it. But, keep in mind that there is a claw back arrangement; therefore, if there is premature redemption by investors, I think Asset Management companies, this time around unlike 2006, 2007, 2008 are protected by claw back arrangements with the distributors. But, having said that, we are seeing a consistent flow of money into domestic equities and domestic mutual funds and the flow has continued through December and is continuing even pretty strongly in January.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: On Kotak Prime, it seems that profitability is under pressure for last 2-3 quarters. So is it because of lower growth or pressure on ROAs or pressure on asset quality?

Narayan SA: On traditional basis, the Car Finance business, we have seen the margins come a little bit of pressure in the current year, and if you see that has resulted in some amount of profit coming down; 2) we had other assets like Real Estate CRE, i.e. Commercial Real Estate business and we are seeing the overall asset size in that coming down which normally has a high margin business, and that has overall affected the net margin of the business.

Pankaj Agarwal: Is there some pressure on margins as well there in Car Financing?

Narayan SA: Car Finance, yes the Car Finance has seen some amount of margin, but we have seen it improving in the last 2 months, but for major part of the year, we saw it coming down.

Pankaj Agarwal: Now going forward, would you give similar guidance of 20% growth in this business as well in terms of Loan book and as well as profitability?

Uday Kotak: Our overall guidance is (+20%). Car Finance will be dependent on gaining share and growth of the Car industry, which at this stage I do not think looks like 20%.

Pankaj Agarwal: Second question, was on your Rural portfolio. Have you seen any pressure on this portfolio in the recent time because some of the NBFCs who are active in Rural Lending, they have seen significant increase in their NPAs in the recent time.

Uday Kotak: Let me step back, if you look at Semi-Urban Lending or Commercial Bank Lending of ours, there are different segments; we have Construction Equipment, we have

Commercial Vehicles, and we have Tractor Financing. Actually as you may recollect we were well ahead of the curve on seeing the pressure particularly on Commercial Vehicles and Construction Equipments. So, in fact, we now feel that we may be closer to the bottom of the cycle and actually this may be a time for us to be steadily building, and we obviously, in the last 2 years have dramatically dropped that book. So, actually that has stood up in good stead. We also saw some early signs in Tractors in the last 2 quarters and we moderated the speed at which we have grown. If you look at Q-o-Q, our Tractor Financing business has grown only 1%, and overall Y-o-Y, because that is also the base effect is only 14%. Therefore, we have moderated the growth in the Tractors business by choice, and having said that, that is linked to the fact that the overall Tractor sales are lower, and I will now hand it over to Mr. Narayan who heads the Commercial Banking business.

Narayan SA:

To carry forward to what Uday said, if you look at the Tractor; the sale of tractors have Q-o-Q come down, is obviously going to affect the overall asset growth. And specifically to answer your question whether we are seeing pressure on the portfolio there, Commercial Vehicles and Construction Equipments since we pulled back early if anything we are seeing it flattening and in fact getting better. On the Tractor Finance, yes, we did see some little bit of pressure, but we have corrected it and we are back to where we were earlier. It was in October-November, we did some pressure, but we have corrected it in December. The overall Rural India seems to be little slowing down because agri-commodity prices are coming down, but as of now, we do not think there is anything to worry in our portfolio.

Pankaj Agarwal:

On the margins, it seems there is a very sharp drop in margins on QoQ basis. So, is it because of pressure on yields or any other factor?

Uday Kotak:

I think two things, primarily it is change of mix. If you get to a little more Wholesale Lending, your margins will be lower, so, that is one part. And secondly, I think our Investment portfolio also has grown which is evident in our numbers and if you look at our Investment portfolios, that is now about Rs.30,000 crore, up from Rs.23,000 crore a year ago, therefore, that is 28% growth in the Investment portfolio also.

Pankaj Agarwal:

So higher proportion of investments are...

Uday Kotak:

Higher mix of Wholesale and higher proportion of Investment Portfolio.

Moderator:

Thank you. The next question is from the line of Manish Choudhary from IDFC Securities. Please go ahead.

- Manish Choudhary:** Just to look at this NIM again, the QoQ drop in NIMs has been about 30 basis points, and then QoQ, if I look at the mix, it has not changed that much. So, was there really pressure on the Corporate side in terms of the yields? And if you can just bifurcate this 30 basis points roughly into the Investment and the Loan part in terms of the margin pressure?
- Uday Kotak:** One is, you are going to keep in mind that the Wholesale book has been building steadily. So, assuming we had some assets even in September and they are running through this October-November-December quarter, they run at the yields which they are earning. Therefore, I think it is much more linked to the mix of that Wholesale versus Retail mix which is leading to a change in the composition of NIM combined with the fact that we have also got the Investment portfolio up, and within the Investment portfolio, just to remind you we have got MCX Investment which we did, on which we do not earn any interest.
- Jaimin Bhatt:** Even overall if you look at the Investment book itself, for the quarter has grown over 10%, whereas the Advances for the quarter is about 5%.
- Uday Kotak:** Our view is, if there is an external marketplace which is giving opportunity in segments which are still value accretive and return accretive for the bank, we need to make sure that we capture those opportunities for the bank irrespective of whether they are Wholesale, Commercial or Retail.
- Manish Choudhary:** In terms of the AMC, you talked about the higher upfront fees, is there some amount of it that also get netted off against revenues, because revenues are also down QoQ?
- Jaimin Bhatt:** Yes, some amount of that is getting knocked out against revenues. So, to that extent revenue is also lower.
- Moderator:** Thank you. The next question is from the line of Jay Mundra from Bank of America. Please go ahead.
- Jay Mundra:** Two questions; one is on your Corporate Banking, we have seen a strong growth for the last 2-3 quarters. If you can just give some color about the growth is coming from which segment, because I remember in the last con call you articulated your intention to finance some of the Infrastructure Projects also. So just wanted to understand where this growth is coming from. Second question is you were having stressed assets pool of which you said some Rs.250 crore portfolio book value which you expected to realize it for somewhere around Rs.1,800 crore to Rs.2,000 crore. So just wanted

an update, what kind of SR that we are holding on and what is your expectation for the realization?

Uday Kotak:

First on Infrastructure projects, we have not increased the Corporate book with reference to any Infrastructures or dramatically any on the Infrastructure Projects unless they are from strong entity. And if at all we would love to see opportunities if they are available for distressed infrastructure in our Distressed Asset division, therefore, it is tough for me in most of the cases and obviously, there are some Infrastructure Projects which are fine, it is tough for me to think about buying some of these loans at par value. Also the other point is that new infrastructure investment does not happen. So, we do not see that as a potential at least right now, hopefully, it will happen in about a year's time. So, at this stage bulk of our Corporate and Wholesale Banking growth is working capital-led rather than Infrastructure-led. On the second question on distressed assets and estimates which I have given, I will request my colleague Dipak Gupta to answer that.

Dipak Gupta:

The figures which we had mentioned are still relevant and appropriate. I think what has really happened is we have seen some element of back ending of the realizations essentially from two points of view; one is the legal processes have really taken or taking more time than what we probably had anticipated, and b) it has been more difficult to realize particularly on the real estate side in this intervening period. So, I guess a lot of those probably is pushed back slightly. But having said that our stressed asset piece is really in two parts – one is on the Wholesale which is Corporate side, the second is really on the Retail side; the Retail side is moving pretty well and consistently even in terms of returns; the Corporate side is probably where realizations and hence booking of profits is pushed slightly back really.

Jay Mundra:

If I may ask, what is the duration of your G-Sec portfolio and the percentage in AFS?

Uday Kotak:

We keep on modulating it based on our perspective before interchanging targets, but rest assured we are very focused on opportunity as well as risk management. Therefore, we have certain levels of risk taking norms above which however good an opportunity, we will be cautious, but within that we will certainly work towards optimization. I am not talking about HTM portfolio. Even in our non-HTM portfolio; where we are sitting on reasonable profits, have not been recognized in the accounts on 31st of December.

Moderator:

Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: When you got to look out from the next three-year perspective for the combined entity, where are the key areas you think you really need to invest and where do you see opportunity in the context of the opportunities that are out there and both in terms of financial and non-financial investments, so in terms of people and teams as well?

Uday Kotak: I think it is a good perspective for us and that is something which we are pretty excited about when we look out over the medium-term how the merged entity will look, and what is exciting us most is the combined distribution positioning which we will get in view of the complementarity of the distribution networks on both sides, and one of the things which we are quite excited about is on the combined distribution network. Our bank has significant product which can certainly do with small distribution; whether it is Tractor Financing; whether it is Commercial Vehicles; whether it is Car Financing; whether it is Mutual Funds; whether it is Life Insurance, and therefore, we are very excited with the fact that our bank has a whole host of products which currently, if you look at on a relative basis on ING Vysya side, most of these products are either not on the shelf or have a low intensity currently on the shelf of the ING Vysya network. Therefore, on a combined basis, with a complementary network of distribution, our ability to have significantly more products push through the system is something we are extremely excited about. Second one, which we think is another very significant one is back to the focus which I mentioned about our interest in small businesses and SME and Mid-Corporate segment across the chain, we think the complementarity on that between the two institutions also can be very significant and profitable. Third, we believe with a digitized world as we get into the future and a branch network of around 1,300 branches which gives us reasonable size versus some of our bigger players, but combined with a significantly more digital strategy, we will have the ability to have a branch network, which may be more compact than some of our larger players, but the ability to get throughput on a combined physical plus digital basis can give us a significant delta into the future. It is one thing to say that you have 600 branches versus a competitor who has 3,000 to 4,000 branches. But in a changing world, if we have, say, 1300 to 1500 branches and much more digitized in our approach for the future, we have a lot more muscle for the medium-term to be able to get significant productivity, and Jeetu, there is also an advantage of distribution on time-to-market. We were going organically and you can see in our cost numbers of significant upfront cost to build the liability side of our franchise. This enables us to save time and build the liability side of the franchise better and quicker, and I am very clear that a stable and low cost liability franchise is key to our future, and the quicker we do it, better we do it, and in a way in the medium-term over next 3 years, even if I looked at about say 150 branches a year, if we try to do on our own, roughly the cost of that would have

been Rs.300 crore a year. But going through this route, we would obviously have saved time-to-market and incremental organic significantly upfront cost versus having the distribution quicker to use. Just one other point in that context; you know we are in a very interesting stage in the Indian Financial sector history, and I genuinely believe that a model which is a diversified Financial Services model but highly concentrated in India. Both are important. Diversified Financial Services and concentrated in India can be an extremely strong model over the next 5 to 10 years, and we are also seeing a transformational change after a period of 6 to 7 years both in debt and equity capital markets, where I believe that you are going to see both the engines work together; one is the Traditional Engine which is the “Saver Borrower Model” and the second is the markets engine which is “Investor Issuer Model” and if we have our presence across both these models, they can give us significant leg for the future.

Moderator: Thank you. The next question is from the line of Amit Ganatra of Religare Invesco. Please go ahead.

Amit Ganatra: Two questions; in this Kotak Mahindra investment, what is the actual business or what is the nature of these customer assets?

Uday Kotak: It is Lending business focused on Capital Markets and Commercial Real Estate.

Amit Ganatra: But that business is not done in Prime?

Uday Kotak: No, Kotak Prime is primarily Car Finance and does selectively some big ticket, but this is a focused company now in these two areas.

Amit Ganatra: So then, incremental Real Estate Lending will be done through this company?

Uday Kotak: Primarily, lot of the Capital Markets Financing and Real Estate Financing is done through Kotak Mahindra Investment as a focused vehicle with a strong team of managers who are running this business, and just to give you a sense; this is an area which a number of players – domestic and global – have got a very focused approach, you must have heard recently about Government of Singapore and KKR forming a joint venture NBFC for just financing in this sector. So, in our case, we have built this business over the last 12 to 18 months in this company with a very focused team focused on this, i.e. essentially structured products, products linked to Capital Markets Financing and Commercial Real Estate Financing as a highly segmented and targeted NBFC.

Amit Ganatra: Second question is on Life Insurance business. Now, in the past, the profitability of Life Insurance was such that the calculated ROE used to come to around 33%-34% or in some quarters even around 40%. Now this has come down to almost 17%-odd. I heard your comment initially in terms of that the reserve requirements are higher and embedded value growth is still strong. But, is it that under the current products, those old ROEs cannot be achieved now or this is the new norm in terms of ROE for this business?

Uday Kotak: No, let me explain to you, there are 3 categories of products in the Life Insurance business – one is the Unit-Linked Products, second is Participatory Products, and third is Non-Participatory Traditional Products. Our Life Insurance Company has got the highest focus on what is known as Non-Participatory Insurance Products, which are the traditional products. These products have higher upfront reserving requirements, but we believe are more margin accretive for shareholders over time compared to the other categories of products, and we therefore believe that this is back to the same point even if it is frontend higher reserving cost, ultimately, value accretive cost for our stakeholders.

Amit Ganatra: So then do you expect the ROEs to go up in future?

Uday Kotak: In the Life Insurance business, the way we look at is, what is that which is creating the highest value of new business and therefore, ultimately EV and that is the basis on which we are taking our judgment calls, and EV in a way is a present value calculation of true increase in book value of a Life Insurance company as distinct from current profits only.

Amit Ganatra: But have you already declared your embedded value?

Uday Ganatra: No, we have not declared it, and we believe that at this stage we do not plan to declare it, but we will watch how the rest of the industry is doing it.

Moderator: Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.

Kunal Shah: This is Kunal Shah here. Sir, two questions. Firstly, in terms of the Corporate Banking growth, so definitely you have highlighted it some more kind of working capital-related demand, but just want to get more insight in terms of, are there, say, any particular sector wherein we are seeing the green shoots in the environment, which is linked to say this kind of a growth in the Corporate Banking, is it more kind of a refinancing which we are seeing, and is it more opportunistic wherein the PSU

banks are slow and we are just taking now say the benefit of this opportunity and gaining the market share and how sustainable would this growth be?

Uday Kotak: I think it is across the board, Kunal, but we are also gaining market share in this segment, and we think this is a good time to be gaining share in this segment and particularly in a relatively benign liquidity and interesting environment, we would be happy to grow this at a time when some segments of the economy are still facing structural pressure, so we think it is worth going for it, and it is more across the board, and we are also, in addition to large corporate, our focus is also a lot on the Mid-Market Corporates, where we are actually able to gain share from competitors.

Kunal Shah: So it is like building new relationship rather than say giving out the loans to the existing relationship, so...?

Uday Kotak: Both, but we are clearly adding new relationships, there is no question, and we are going out in the marketplace and adding relationships.

Kunal Shah: In terms of say the mortgages, which include I think say 50% would be Home Loan and 50% LAP within this. So how you are seeing this entire space? I think incrementally it is getting too competitive. So both in terms of an opportunity as well as in terms of competitiveness, what is your view on this particular segment?

Shanti Ekambaram: We have seen a growth in both Loan Against Property and the Mortgages businesses. The Mortgages businesses actually we have been driving a lot through our own customers and branches; this is one of the strategies that we put in place this year. So, one of the elements of growth that you are seeing is that we are driving it through our customers which makes it much more sticky as well as moving up their primary bank account. So, to that extent we have grown the Mortgages business to that route. Loan against Property continues to be like we mentioned in the last call also to be SENP segment as self-employed non-professional who use it largely for working capital purposes. We have seen sufficient demand for that. So, both in the Mortgages and the LAP businesses, we are seeing demand and we are driving differential segments based on that.

Kunal Shah: But, maybe structural in terms of the yields, are they coming off over last, say, four to six odd quarters in this particular segment, are we seeing the pressure in terms of yields?

Uday Kotak: I think the good news is interest is also beginning to come down, so cost of fund is also adjusting, maybe 10, 20 basis points here or there.

- Kunal Shah:** In terms of strategy, are we still being selective in terms of, say, selective geographies wherein you are looking at the growth in the Mortgages or we are looking at, say, more kind of pan-India because I think last time it was clearly highlighted, we will be selective, is there any change in the stance over here?
- Shanti Ekambaram:** So, to say a large part of the business is still selective focus, but we have been slowly looking at expanding our footprints including in this quarter. So, we will again be growing around where we have our network and where we believe there is positive upside. But even now the strategy continues to be largely selective, but expanding foot print as we have seen this quarter and going forward.
- Kunal Shah:** So it is being distinctive from all the branches which we have today?
- Shanti Ekambaram:** No, it is selective across our branch network.
- Kunal Shah:** So how many branches would be actually percentage in terms of the proportion of branches which would be actively engaged into this?
- Shanti Ekambaram:** Actually, we go more by cities and regions that we distribute rather than branches. So, giving you as a percentage of branches really will not give you the right picture.
- Uday Kotak:** But we are steadily adding cities and locations, and again to highlight Kunal, there is another segment which we have started, which we call as 'Rural Housing', which is being done by the Commercial Bank at the semi-urban areas. So, that is a new segment we have started about a year ago. So, that also is addressing this market at the mid-India level as distinct from the Consumer Bank which is focused on the Metro India. So, we are expanding footprint across our bank, but between different verticals.
- Kunal Shah:** In terms of your initial comments, recovery from the distressed asset, so is that a spillover which we can expect in Q4 as it was not in line with expectation what we thought at, say, the start of the quarter?
- Uday Kotak:** There is a spillover, whether it is Q4, Q1, Q2, time will tell.
- Moderator:** Thank you. The next question is from the line of Nilanjan Karfa from Jefferies. Please go ahead.
- Nilanjan Karfa:** The question is related to what essentially we are saying at least two or three quarters back related to the risk pricing and how it was found that in several segments the

pricing is really good. So has the situation changed specifically also in light of, is this getting competed away? And secondly, if the rates are going to come down, is this going to diminish?

Uday Kotak:

As I mentioned we feel that there is still enough business out there at the risk adjusted return margins we like, I have guided that our NIMs, we think at least at this stage 4.5% plus looks reasonably sustainable. We also believe that looking at absolute means a loan is important but not solely because it also depends on how fast we can grow the different segments going by the risk-adjusted returns in some segments are looking better but at lower absolute NIMs, we will be open to doing that business. I think at this stage there is enough out there, if you just step back and look at the bigger picture, the banking industry is 75%-25% between public sector and private sector, and even if the economy grew at say 5.5% to 6% as we go into the future on a real basis, nominal basis, say around 11.5% to 12%, we think there is enough risk adjusted return growth available keeping in mind the industry structure for us to be thinking about growing at close to 2x industry in terms of nominal GDP into 2.

Nilanjan Karfa:

The question is quite related to what you said. If I have to look at risk adjusted margin, they are actually flat to coming down. Maybe it is too shorter time to realize what you had mentioned. Do you think this is going up or do you think that we should stop looking at that and look at the growth side of things?

Uday Kotak:

You may have seen the margins come down a bit, but risk adjusted margins may not, because the risk we may be carrying for incremental business may be lower than what we may have been carrying for the past. So, it is linked to that. And our view is risk adjusted, the margins will differ, because then you are also pricing the risk. So, we think that this is the point of time wherever there are pockets of growth which we think and give us the returns and ROEs for our businesses in totality including the spin offs of foreign exchange and other incomes out of that customer, we are thinking much more making customer revenues in totality out of the businesses we build in addition to the spread business.

Nilanjan Karfa:

What you just summarized, is that the way the things are reported is not the way you look at things essentially?

Uday Kotak:

We look at much more. Assuming I am getting a lower margin or spread margin from a customer but I am getting significant flow of business in terms of Transaction Banking or FX and all, I have to consider that in my customer ROE.

- Nilanjan Karfa:** If we can get a data point, please, can I have the movement of NPAs both on consol as well as standalone basis?
- Jaimin Bhatt:** If you look at the press table, GNPA as of December it is Rs.1,219 crore as against last December was Rs.1,076 crore, September was Rs.1,175 crore, this is on standalone, and if I take the comparative numbers for the consolidated same numbers, December is Rs.1,372 crore, December last year was Rs.1,205 crore, and September was Rs.1,305 crore. These are the gross numbers. Would you want me to give you the net numbers also?
- Nilanjan Karfa:** No I just want how much you added in terms of new slippages, just that number on standalone?
- Jaimin Bhatt:** If you look at this quarter, that has grown up from Rs.1,165 crore to Rs.1,219 crore, so that is Rs.54 crore.
- Uday Kotak:** And on restructured assets, we have dropped from Rs.161 crore to Rs.159 crore.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Uday Kotak for closing comments.
- Uday Kotak:** Thank you very much, Ladies and Gentlemen, and really appreciate the level of interest which you are demonstrating in our story. In sum total, we think we are in for pretty interesting time. My view is that this is a marathon where we have to keep a certain pace of our running, at the same time be able to sustain it over the medium-term, which is how we are looking at it, and I am quite confident that 'Acche Din' are moving forward as we look at 2015, albeit GDP growth may be a bit slower than what some of us would have liked it in May 2014. Therefore, we are working on a base game plan of GDP growth of 5.3% to 5.4% for March 2015 and 5.8% to 6% for March 2016, and we think we can grow on the nominal GDP around 2x nominal GDP. Thank you.
- 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.