



Kotak Mahindra Bank Limited
Annual Analyst Meet – Financial Year 2011
May 06, 2011

Mr. Jaimin Bhatt: Welcome friends. Good afternoon to this Annual Analyst Meet where we declare the annual results for the year ended March 2011 and for the Quarter Four for Kotak Mahindra Bank's Standalone as well as the Consolidated Entity. Most of you know that we actually completed our 25 years a few months ago, so we just take this opportunity to before getting into the results for the year, to just go through some of our journey for the 25-year period. 1985 was when Uday started this activity. Three people, about 300-square feet office in Fountain. About 30 lakh rupees of capital to start with and doing bill discounting. We got into car finance thereafter as our first one biz activity and became a listed company in 1992. Some of you who were there at that time would remember that we had a very good listing when the stock got listed in 1992. 1995 is when we spun off our investment banking activity into a separate subsidiary when we got into a joint venture with Goldman Sachs. About the same time, we also spun off the car finance activity into another company which became a joint venture with Ford Credit. 1998 was when we got into mutual funds launching the country's first gilt fund, came 2000 and 2001 when we got the license to become to operate into life insurance space and we wrote our first policies in 2001. In 2001 again, the securities business which was otherwise a separate company became a subsidiary of the then parent called Kotak Mahindra Finance. 2003 was the big break when the company called Kotak Mahindra Finance became the first company in the country to get converted into a commercial bank. 2004 we launched ourselves into the alternative asset space by our first private equity fund and today, we operate both in the private equity and the real estate space. 2008 we promoted an asset reconstruction company where as the group we own 49%. In 2009, we became one of the six entities to be allowed to manage new pension schemes and last year, we became an anchor investor in ACE which is a commodity exchange which launched in October. So, that has been our journey in the 25 years and what started as 3 people and 300-square feet offices, today we have over 20,000 employees across the world present in over 2,000 locations across the country through our bank branches, car finance activity, insurance, mutual fund and securities, which includes through franchises. We, of course, also have presence overseas in the US, UK, the Middle East, Mauritius and Singapore and today, we service close to 9 million customers. That is where our current

structure is. The commercial bank which is Kotak Mahindra Bank, the only listed company there which acts as a commercial bank plus is the holding company for all the subsidiaries in the group. There are total of 16 subsidiaries in different businesses, hold 100% beneficiary by the bank other than the insurance company where we have Old Mutual as our joint venture partner with 26% stake.

If you look at our journey over the years, started small. In fact, even if you look at 2003, which is when we became a bank, our consolidated after tax profit was 73 crores and as we close this year, we end the year with 1,567 crores. Our advances grew steadily. When we became a bank, we were under 1000 crores, at 750 crores and today, we close our books at over 41,000 crores of loans. We had a net worth of just over 1000 crores when we became a bank in 2003 and today, that is just close to 11,000 crores. Of course, during this period, we have done 2 private placements, one to Warburg Pincus and to SMBC last year, a GDR and QIP, our raising overall about 3,500 crores in the last 8 years, and the market cap of course has grown and today, we are close to 30,000 crores.

Delving into the numbers for the year. On the consolidated basis, our profit for the year at 1567 crores, 20% rise over the previous period which we had ended with 1307. Advances, we have had a steady growth at 41,000 crores, we are up 39% over the previous period. Net interest margins, we continue to have healthy margins in the country and at 5.6%, we have a slight dip from the previous period but still reasonably healthy numbers. Capital adequacy at the consolidated levels at 19.5, with tier 1 itself at close to 18%. This year has been where NPA numbers have seen a big dip and we close the year with 0.43 on a consolidated basis. With assets under management across the group at over 10 billion Dollars.

This chart talks about how the different entities in the group have contributed to the year. If you take the last column which is the FY' 11 numbers, the bank contributed 818 crores of the overall profits, which is a 46% rise over the same period of the last year's number. The other financing NBFC, which is Kotak Mahindra Prime which is into car financing almost doubled its profits and ended the year with 318 crores compared to 166 in the previous year. If you take the first 3 numbers, which constitute our financing business, that contributed 1160 crores to the bottomline this year, which is over a 50% rise from the previous period. In fact, if you take the left-most column of FY' 07, those 3 entities together contributed just to 25 crores of our overall profits. So, in a 4-year period, we have seen the financing entity's contribution grow by 5 times. On the other hand, the securities business this year went through a turbulence. Most of you are from that industry and know what is happening. We ended the year with 182 crores and the investment bank which is Kotak Mahindra

Capital company clocked 52 crores, had a healthy last quarter. The insurance business which went through regulatory changes during the year, ended the year at 101 crores, rise from 69 crores in the previous year. The asset management business again went through regulatory changes and if you look at all the 3 which is the domestic mutual fund, the international subsidiaries and Kotak Investment Advisors, which is our private equity and the real estate management, that had a small drop in profits over the previous period. So, we ended the year with 1567 as against 1307 in the previous year. A few years ago, say about 3 to 4 years ago, the general talk in the market was that we are too capital market dependent on our bottomline and that was through that period. If you look at FY' 07 and FY' 08, the capital market piece contributed 59% and 53% respectively to our bottomline, where as the financing pieces were contributing just about 40%. Now, that has grown on a larger base and in the current period, the 3 financing entities contribute 75% of our profits with capital market coming off to 15. Insurance which was a loss in the initial years is now profitable activity. For the quarter, the bank continues to be the top contributor, almost 250 crores of profits. Kotak Prime at 87 crores, a marginal drop over the previous quarter as we had explained in our Quarter Three call. Quarter Three, we had a one-time profit which has kind of led to the fall for this quarter. Otherwise, Kotak Capital as I said had a good quarter in this period, and so also the insurance company had a record quarter of 71 crores of bottomline profits this quarter. So, for the quarter, we ended with 491 crores of profit as against 384 for Quarter Three.

Overall, advances at 41,000 crores has been a steady rise over the period and our total assets on a consolidated basis at 73,000 crores. Our book value per share post the dividend declared is just short of 149 Rupees and as I said, capital adequacy is pretty healthy with a lot of that being tier I. Of course, that puts a pressure on the return on net worth which has dropped to 16.4, thanks to the capital issuance we did during the year. On a standalone basis, the bank contributed 818 crores of profits with the net interest income going up 21% to 2200 crores. Capital adequacy at the bank standalone is just short of 20% with tier I at 18, so we certainly have a lot of room to go in terms of usage of capital and growing our balance sheet. Advances in the bank standalone up 41% at 29,000 crores with NPA there again continuing the good story, dropping to 0.5% other than the stressed assets from 1.23 which we had at the beginning of the year. We have very little of restructured assets on our books and at the end of the year, we only have 60 crores of restructured assets which are considered good, and while the Reserve Bank has relaxed the provisions on PCR, we continue to hold 70% PCR.

Bank's standalone financials, total income at 2878 crores, largely held by interest income going up, with operating expenditure being what it is. We had a big story on the provisions and the contingencies going down during the period led largely from NPS coming off and we ended the year with pretax profit of 1188 and post tax of 818. Standalone bank, our overall deposits have grown about 24% to 29,000 crores at the end of the year. Our CASA at March end is at 30%, with a larger part of that being current accounts and not savings account. Advances at the bank as I said has grown 41% and the ROA at the bank level, we have a healthy number of 1.77 and that has been improving. If you look at the different businesses which we are in, internally we look at it as 4 different SBUs, the financing piece, the asset management piece, insurance and capital markets. So, I will just talk about each of them in sequence.

The financing piece, we have seen NII's grow over the last 5-year period and for this year at short of 3,000 crores as against 840 in 2007. NIMs continue to be a healthy story. We have always had NIMs in north of 5% over the years. Our after-tax profit for this period has again shown a sharp rise. NPA numbers, what you are seeing there is year-end numbers which are at 1.2 and 1.1. We actually had a peak of 2% plus which has now dropped to 0.4, so that is being turnaround there. On advances, we have grown. If I take the story from FY' 03, which is when we converted into a bank, we had grown continuously at about 40% year on year till 2008. In 2008, when there was a slowdown, we took a conscious call of not growing the balance sheet and for that FY' 08 to FY' 09, there was zero growth in the advance number. We started the growth again and this year we have hit the overall number of 41,000 crores. The three shades that you see there are effectively the way we have cut the 3 businesses internally.

You have the commercial banking, the consumer bank and the corporate bank. The consumer bank is what focuses on primarily what the individual customer needs, the wholesale bank is for the corporates and the commercial bank is primarily look at noncorporate commercial use activities. The consumer bank of course has a total advance of over 17,000 crores. This is what we had started with way back in the late 80's with passenger car financing. Even today, that continues to be a pretty large part of our consumer bank with an overall book of over 8,000 crores and we continue to be leading players in the passenger car financing activity. What we have grown in the consumer bank over the last few years is the mortgage business, which currently we end the year with about 7,000 crores of loans on our books, and today, we operate that in about 13 cities. Unsecured piece which at one point of time was a pretty large number. In 2008, we had an overall unsecured book of 3,000 crores plus which consists of personal loans and thereafter of credit cards. We have consciously post the slowdown degrown that and today, we are at

about 1300 crores of overall unsecured pieces. Of course, in this quarter, we have seen some opportunity to grow that business again in pockets and if you look at the quarter on quarter number, we have seen small growth during this period. The focus on the consumer bank is largely on what we call the SEMP category, which is the self-employed non-professional and that is an area which we have been with over the years and clearly we see this as a robust segment to grow with. The consumer bank in addition to the advances also consist of bank branches. Today, we end the year, March 31st, at overall bank branch of 321 branches across the country and 710 ATMs. A CASA deposit at 8,800 crores, which comprises 30% of our overall base. The focus in the consumer bank is a lot more on the affluent segment of the society with the overall integration of the consumer bank with the advances side, we have seen a lot of cross-sell happening on the asset products, which especially in things like mortgages and passenger cars. We added about half a million customers to the accounts this year and currently, we are doing close to 50,000 accounts a month.

Commercial banking, which is primarily as I said looking at the noncorporate commercial user. Commercial vehicles and construction equipments is a business which we are pretty strong in and we end the year with close to 6800 crores of book. Agricultural advances are another piece of the commercial bank vertical. We started this once we converted into a bank more to meet our priority sector targets, but today it is a very robust business, profitable and we have seen no downturn there with certainly something which has grown very steadily over the years and as we end the year, we have agri advances of over 4,000 crores. In fact, over the years, we have consistently met the priority sector targets set by the RBI, which actually has prevented us from putting large monies into RIDF, which is low-yielding asset. MFIs became news last year and while we had exposure, our current numbers there are just about 0.2% of our overall advances. The wholesale bank, we got into that a little late. We started really focusing on that only around 2008 and have grown that rapidly after that. Leveraging on our relationships with corporates across the group including through the investment bank. We have actually grown that very sharply in this year, close to 40% from 7,400 crores to over 11,000 crores. Have a strong presence in the debt capital markets and continue to focus on trade and transaction banking. If you look at our non-fund base activity again, that has doubled during this period from about 3,000 crores to 6,500 crores. The insurance business went through regulatory changes in the middle of the year, so that changed the business complexion completely from about September this year. So, you have seen the overall premiums which were growing pretty rapidly till the previous period has been somewhat flattish with the individual regular premiums dropping somewhat to just short of 700 crores for the year. During the

period when we were building this business, we have been somewhat conservative in building this and today, I think that is going to stand as in good stead. Effectively, if you look at our costs and capital efficiency, there have been analysts who come out with reports of cumulative premiums versus capital invested, and we kind of stand out as among the best players in the industry. Our current solvency ratios there is 2.7 and assets under management of 8,300 crores. In the life insurance business, the sum assured today, which we have is about 130,000 crores, which has been steadily rising and we understood that life insurance was a long gestation project, but we were among the first private sector companies to get into profits and we ended this year with 101 crores. Branches, we have been steady over the last few years and we actually rationalized some of them, ended the year with about 200 branches, and capital, the last time we put money as shareholders into the life insurance business was June 08 and that has been steady thereafter, so we don't see need for capital in this business at least for the medium term. Stockbroking well again you all are from this industry, so I don't need to really get into details of that, but if you look at how the year has been, the left top quadrant gives what the year has gone through. Yes, you have seen volumes increase in the market. Average daily volumes for the market this year has been something like 125,000 crores, but if you look at the composition, what is grown is primarily options. The cash market which for a broker is the most remunerative one has actually shown a small degrowth. While the options market has more than doubled during this period, which is for a broker is the least remunerative business. This period, our average daily volumes have grown from just under 4,000 crores to 4,600 crores during the period. Our growth on our branches is likely from our franchises and at the end of the year, we have 1400 points of presence across the country. We, in the broking activity, serve around 6 lakh customers in the space. As an investment bank, we have always been in the forefront of what is happening in the country. For the year FY' 11, we continued to top the prime league tables and you know if you look at the cumulative 5-year period, we have been No. 1 on the charts. In fact, if you look at the bottom chart, which is showing the top 20 issuances in the country for the last decade, Kotak Investment Bank has been involved with as many as 17 of them. During this year, we were involved in several large issuances, cutting across whether it was IPOs, FPOs, an IDR issue, QIPs, debt placement, private equity placement, delisting, takeover, open offers, so we have been involved in the variety of activities in this space, M&A transactions, and we have done that for a variety of clients, large Indian, foreign, and we continue to be having a good hold on this space. Our asset management business cutting across the group about 47,000 crores of assets under management. If you look at the 2 pie charts from last year to this year, there has been a small change in terms of the offshore piece increasing its percentage, where as the domestic equity has fallen off somewhat. Insurance

of course is the other piece which has gone up during the period. The domestic mutual fund, again most of you are aware, that has stagnated during the year. Regulatory changes which happened in the previous period. The mutual fund industry corpus has been around the 6 lakh crore mark and has remained there, in fact shown a small negative growth for this year. At Kotak Mutual Fund, we have seen a small increase in our AUMs and we closed the year with 24,455 crores. Our alternate asset piece, we operated both in the realty and the private equity space. Today, overall funds under management at about 5,300 crores. We have in both the segments started making exits out of what we had invested earlier. The realty fund in fact being the first fund in the country to return its entire capital to the investor and we still have in that fund several more investments which are yet to be exited. So, there has been more coming in terms of exits. The private equity fund still has some more investment to go from its current investments. We have proposed to launch a 300-million Dollar Infrastructure Fund in partnership with SMBC and Brookfield. During the year, of course, we picked up a lot of awards in the area of HR, corporate governance, technology, private banking, advisory and as well as in stock broking, investment banking and private banking. I just request Uday to maybe take up.

Mr. Uday Kotak:

Good afternoon friends and thank you for being with us this afternoon. Maybe it is first time for me to talk a little bit about 25 years at Kotak, the journey of the financial sector in the Indian Economy in that context and what are the messages we take out of that as we think about our future. So, I will try and first go a little bit to what really started us and it has relevance where we are today. We started in the early 1980s because there was an opportunity of a spread between the rate at which companies used to borrow from banks and the rate at which banks used to pay depositors and in those days, when I started out with this business, bank deposits were at 6% and companies used to borrow at 17%. So, the starting point of our business was this huge spread in the market place mandated and regulated by the system and considered as something in the interest of the Indian consumer and the Indian taxpayer that 11% spread is an appropriate spread for the banking industry. So, it is in the backdrop of that, that we got into business and for us it was a very simple model, which is a friend of mine from Bajaj joined a Tata company called Nelco and Nelco used to borrow money at 17% and then banks would not give as much money. So, I went to a few family friends who used to put deposits in banks and get 6%. So, I said do you trust a Tata company and if instead of 6% which you are getting from a bank most of which were state-owned banks, you have got 12% on your money and it is a Tata risk and that is how we got into business, and that is the time, as I started my career, the whole fascination for financial services started around what was a very simple first principle spread business, 17 minus 6, of course we worked on smaller spreads then, which was

only 5% and which is what we continue to work even now and friends, since then the journey has been exhilarating and really great to build a financial services business in India along with the growth of India and after that, once we started making money on that, the next thing was how do we plan our taxes. So, equipment leasing which gave you depreciation currently and give you tax breaks and IRRs over time. Then, 1989 was car finance. 1989, nobody talked about auto finance. Citibank was the first bank in India to start auto finance and at a flat rate of 13%, which to the best of my mathematical abilities about 31% IRR, so it sounded like a damn good business to get into behind Citi and that is how we got into car finance business. Along the way, we bought a stock broking card. 1992, the government of India decided that it no longer needs to decide pricing of public issues in India. Till then, we had no focus seriously on the capital market businesses. We were doing wonderfully in the spread businesses between bill discounting, leasing, car finance and therefore, not many people would know or remember that Kotak started in the spread business. Then, in 1991 to 1992, as capital market side of the markets began to open up with liberalization followed by a huge securities scam in which for reasons outside our control and which had nothing to do with us, the RBI decided bill rediscounting to be stopped, which was 60 to 70% of our total business. It forced us to start looking at other avenues and areas of opportunity, so that is when we started building the capital market business and began to feel that if India is opening up, a need to look at how the rest of the world worked, and therefore, capital markets, joint ventures with Goldman and Ford in the mid 1990s to getting into the asset management business in the late 1990s and then next round of reform, you saw the insurance industry open up in 2001. So, we went into it and finally in 2002-2003, you saw banking new licenses open up and we applied actually in January 2001, and since many of you are tracking what is going to happen to new banks. So, from the date of the final guidelines, by the time we became a banking company, it was 2 years and 3 months. So, that was the time and the process it took for us to be a bank. The other very important and interesting point friends is that when we actually went ahead and applied for a banking license in 2001, banking was perceived to be a bad business. It is in the backdrop of the Asian crisis, it was not a fashionable business and there were not too many people who wanted to go into banking. Some of my colleagues particularly from New York or some of my friends particular from New York actually asked me why are you getting into a lousy low ROE business and I said that if we have to build a financial institution and financial services outfit in India, you have to be customer centric and the banking platform is the key to customer centricity, which is why we went back and therefore went into banking. Therefore, if you see our growth, there is a first part which is the building of a spread business between bill discounting, leasing, auto finance. Then, a period through the 1990s, all the way up to 2008, where we saw the growth of our

capital markets and the market side of the business and we started also realizing that the spread business and the customer centricity businesses are extremely important from building an institution over the long term, therefore the banking foray, which again you can see 8 years later. As the tide has changed, it is back to 75% between banking and financing of our total pool, and along the way friends if you notice all along, in the financial services space, whatever we have built, we have built to last. We have not built to sell. Therefore, whether it is a spread business, the auto finance business or any of the other businesses, we build it sustainably for long periods of time and the point which I want to highlight at this point friends is as you see this transition which has happened, pretty dramatically over time between times when the savers think differently from investors or investors become more and more savers or vice versa, when even the most traditional savers want to become investors. We have seen many such cycles in our 25 years history and we are in the middle of one such cycle, which has increased the predominance of the saver versus the investor at least in the Indian market and the saver of today is saying if I am getting 10% on a bank deposit or 9.5% on the bank deposit, is it worthwhile for me to be an investor. So, our business model therefore is focused on ensuring that we build a sustainable product and customer centric approach to our different parts of the business, which have the ability to last through cycles of up and down and through those cycles hopefully continue to emerge stronger and therefore, when we saw the peak of our cycle the other way and as Jaimin showed, where the capital markets businesses were nearly 60% of our total profits. It was for 2 reasons. The entire Indian savers market was much more interested in the investment aspect of his savings and we were building our bank. At this point of time, I would also like to tell you that yes we are obviously building the bank and our nonbank finance company very strongly, and we will continue to do so, but we see that our commitment to the capital market side of the business, whether it is securities, investment banking and asset management is extremely strong and we think through these periods, actually we will get opportunities to get strong, whether it is through consolidation or rationalization of the industry and we actually would like to continue our systematic investing in these businesses through these cycle because we think these cycles are our opportunity for getting even stronger post the change in cycle which we think will inevitable happen like we have seen in our own case of 25 years how cycles have changed. The other important aspect about our commitment is that we will grow the businesses with a very clear focus of depth in addition to width. We have done a pretty decent job over last 25 years to build a significant width to our business. We have now in addition to width and obviously if there are opportunities, we will certainly look at them, but in addition to width, there is the big mindset and institutional focus within our firm to go for depth and therefore, scaling each vertical is the key priority within our firm as we go

forward. The other point is in terms of where do we grow. Yes, India is going to be the single-most important avenue for us in terms of growth. We have begun to look at a few select opportunities outside India, but at this stage it is preliminary, but I would like to say that at least 90% plus of our business as I see over the next 5 to 7 years will be in India. We have consistently looked at the fact that we have very significant capital. We have the ability to grow our balance sheet, 2, 3, 4x without needing new capital and therefore, we are obviously looking at growth organically which is we think if the credit cycle in the year 2010-2011 grows at 18% to 20%, we should be able to grow our advances at around 30% in 2011-2012, of course depending on the fact that the broader banking credit grows at 18% to 20%, so it is in a way linked to that. We think we are growing our credit book faster than the industry and which is what we have demonstrated over the last year or two again, keeping aside the 2008-2009. We also believe that we have built a much strong risk-adjusted return matrix on our spread businesses. We are very focused on each vertical of the lending business closer to the ground and I would like to give this comparison that ours is a more rifle approach than a machine gun approach to lending because we believe finally the returns are risk adjusted and that is something I believe has helped us in getting better margins over time and again, unlike most other banks in India, we have classified ourselves internally as 3 banks, the consumer bank, the commercial bank and the wholesale bank. Most other banks are classified internally as wholesale and retail. Of course the consumer bank and the wholesale bank are very significant parts of the firm but the commercial bank is also a very important part of the firm and many of the businesses which we do in the commercial bank piece are actually what you see very often in standalone nonbank finance companies and it actually some of those businesses which we have built come out of our history as a nonbank finance company over a long period of time and that culture is something which within the framework of a bank, we do not want to lose. In fact, we are preserving it because it is a culture of retail, it is a culture of making sure that we think real small town middle class in some of our businesses and not like a high street banker who forgets where the roots are. So, friends, these are just some of the thoughts that I wanted to share with you. The outlook into the next year of course is linked to the broader economy but within that we are feeling quite positive about how we are shaping up. We are continuing to feel reasonably confident about broadly spreads, there may be some compression here or there but nothing which we think will be dramatic. Therefore, spreads look good. The credit cycle on the provisioning side even now as I stand with you looks extremely positive. We are still not seeing any signs of significant stress. We have tried to avoid very lumpy high-risk concentrated advances to sectors including infrastructure and our philosophy is and if you don't understand something too much, it is better not to do it rather than wonder why, so that is the

philosophy which we have used in our lending businesses and we are seeing the results of some of that are split between what you would call as wholesale and retail that is plus 5 crores and below 5 crores. Even now, below 5 crores is more than 2/3rd of our total balance sheet in terms of lending and above 5 crores would be about a third. Roughly 2:1 ratio between retail and wholesale, so which is something which we have improved that ratio or depends on which way you want to look at it, but we think somewhere between 60% and 65% retail is where we think we will be as we go into the future. On the wholesale side, we are making progress, so that has moved up. This ratio used to be 80:20. It is now about 2:1. So, roughly in the range of 65:35, going to say 60:40 is where we see it, and we actually believe that lending to agriculture is a profitable business. What sorted out as an exercise to meet the RBI requirements has now turned into a significant business engine for our firm. We are on our paths to increase our branch network. 2013 is when we want to cross the 500-mark. We are figuring out whether it is early part of 2013, later part of 2013, but that is the kind of thought process which we are having on the branch network and overall outlook, reasonably positive on the core banking business. On the capital market business, I think there is a very fundamental structural issue which we are dealing with where cash volumes I believe there is some article which shows about 11% of the total volumes is cash in the market place. So, I think we are beginning to find challenges of very significant dominance of index futures and options and single stock futures and options versus the cash market business and that obviously is having significant implications on the securities business and we think this too will find its right level, but on the way, it is causing and I think for some more time will continue to cause pain for all of us wearing the hat of securities firms, but it is something which I think will have to be sustained, and I think the securities industry will find a way to restructure itself in the next 12 to 24 months and in the meantime, we are beginning to see some positive wind on the investment banking business. We are seeing reasonably good signs on the advisory business as well. So, there is a pick up on the advisory side, there is a pick up on the debt capital market side of the business and all in all, the picture is reasonably positive despite all the sound and fury we got from the RBI Governor in terms of interest rates moving up and everything on May 3rd. Thank you very much and we will take Q&A from all of you.

Male Speaker:

Hello. I just wanted to ask a question on your priority sector requirement in the sense that how do you go about meeting your direct and indirect targets. Do you actually do lot of top loans or CD financing getting clubbed under direct or indirect, just wanted to get a perspective especially in the light of RBI tightening norms on the PSL sector, do you really see some implications for you and what are your financial inclusion initiatives also and the second

one is specific to the rising rates and of course the inflation also. Do you see at the margin that impacting demand or asset quality?

Mr. Jaimin Bhatt: On the priority side, we have done all of what you mentioned really, the CV piece, the tractor piece, the crop loan piece, the agri piece and we started doing it right from the beginning itself and we said we need to build this business as economically viable business rather than subsidized business just because a regulator wants you to do this business. So, right from the beginning if you see we were fortunate we had the commercial vehicle piece really but progressively, all the tractor pieces, all the crop loan pieces, all of that we have built over a period of time really. So, we do all of that what you really mentioned and we met most of the targets, in fact even the weaker section targets we have sort of practically met fully really.

Mr. Uday Kotak: What was the second question. You know, this thing about interest rates is so dynamic. The view on interest rates could have been very different 24 hours ago versus today, and I am sure the market is voting on its feet as we sit here. I feel that there are really two or three key factors in the interest rate scenario. First of course is clearly where the global commodity price cycle is and there is no question that there is very significant feeding of the global commodity price cycle into the Indian inflation situation. So, that is point No. 1. Point No. 2 is the low interest rate environment around the world versus the high interest environment which India has moved into. This can actually play two ways. We have got to watch what happens post QE2. If that begins to see a tightening cycle in the world which I doubt with the kind of growth numbers which seemed to be coming out of the US and as late as Yesterday from Germany, you are probably seeing a easy interest rate cycle around the world, and I think the single most important joker for the Indian interest rate cycle is the commodity prices and if there is some moderation in that, I think you will see tempering of Indian interest rate increases. At this point of time, my view is that the Indian interest rate, if I had to take a bet, and nobody knows how commodity cycle is going to work 2 hours from now, but as it looks now, I would say that at this point of time, I would be in the camp of the LAF, which is the repo rate and assuming that India's oil basket is in the range of say around 95 to 100 Dollars average for the year as the price of oil for 2011-2012, my bet is that we will see the repo rate somewhere in the range of 8 plus minus 1/4. So, which you are at 7.25, so depending on where we think we are going to be, but that is the kind of interest rate increase I see and the link to the credit cycle, another 50 basis points from here, maybe 75 basis points from here, I think the credit cycle can withstand it, but if it starts going up above that, then you will see the lag effect of it on the credit cycle in terms of the quality of the loans.

Male Speaker: Good evening sir. The question is on the net interest margin. What is the outlook for the net interest margin going forward. This year, we had some benefit of capital raising we had and currently, the leverage is low. Where we can sustain the margins going forward?

Mr. Uday Kotak: You know, I mentioned at the beginning that 25 years ago also 5% was the nice number. So, we think we would like to remain north of 5.

Male Speaker: And any plans of leveraging international, I mean, growth in advances from international side or we want to focus on only on the domestic?

Mr. Uday Kotak: Right now, we are focusing on the international side for borrowing money cheap. So, we have actually, if you see our balance sheet, you would have found that we have significantly increased within the RBI norms of course, our foreign currency borrowings because fully hedged, the rupee cost of those borrowings has been lower than our local rupee deposit rates. So, at this point of time, the reverse flow arbitrage has worked on a fully hedged basis, so which is what we have been doing and we will continue to do within the limits available for us till a point where the hedges don't give us effective rupee cost advantage.

Male Speaker: Last question on life insurance, I mean, can we sustain the current profitability in FY' 12, I mean, what is the status of the business outlook there?

Mr. Gaurang Shah: FY' 12, yes. Otherwise, life insurance profitability is an enigma equally to you as well as somebody who runs. So, beyond that, FY' 12, FY' 13, it will be okay.

Male Speaker: Thank you.

Male Speaker: Sir, first and foremost, many congratulations to your good self and all your colleagues on the occasion of 25 years at Kotak. It is truly a wonderful journey you have gone through in these 25 years and coming to the point that your life insurance business with the insurance sector reforms kicking in, may be in the next quarter, do you plan to take it public and list it separately because that is the way going forward for explosive growth in the insurance sector which is at a nascent stage in India.

Mr. Uday Kotak: I think let me answer this question in couple of parts. First of all, back to something which we think, if we believe that there is a particular path which is the right path, we very often are ready to take it even if it is not the path which at that point of time is fashionable with the investors and analysts. I remember there was a time when in 2006 and 2007, it was about how much cost you increased in your life insurance company and how much

growth in the revenues you got, even if it meant putting disproportionate capital into the company because there was a valuation game which was going on and that is how life insurance companies were being driven by what the market was ready to pay rather than what made common sense and that is how the whole market was going and it was something which we could not understand. So, we took a call that let us do what we can understand even if we seemed to be a little out of fashion at that point of time. Another fashion at that point of time and I am talking about 2007-2008 was sum of parts, which is list the brokerage company because Kotak Securities, because it has got such huge value and that will help the value of the holding company and yes, we could have got away with the huge valuation in Kotak Securities but investors would have been left holding a baby today because if you look at between 2007 and now, what has happened is the securities industry, the listed companies have dropped their valuations anywhere between 50% to 80% and we believed that the right way is to think about us as one consolidate firm, not go by what seems like the right flavor of the season, but focus on building the business in the a holistic manner. In that same spirit, I am a believer that we have significant capital available with the firm. From the point of view of investors holding at the holding company that is the bank level, if there is an opportunity to grow the life insurance business sensibly and we are now really open provided we feel that we will get volume and value. We are ready to put capital, but if there is capital available and it is in the interest of the bank shareholders, we will invest there. Therefore, unless we are regulatorily obliged to go public, we don't think it makes sense for all of you as potential or actual shareholders of the company that we take the life insurance company public and our belief is that we in a way as an overall financial services company provide an unique opportunity for anybody wanting to play financial services across different spectrums of financial services, which includes banking, brokerage, life insurance, asset management, nonbanking finance. We will manage it as one single firm and therefore, at this stage, unless regulatorily required, we will not go public in life insurance.

Male Speaker: Thanks and all the best.

Male Speaker: I have two questions. One on the insurance business. What is the absolute amount of operating expenses for this year?

Mr. Uday Kotak: Gaurang?

Mr. Gaurang Shah: Total expenditure other than commission will be 580 crores.

Male Speaker: And commission expense.

Mr. Gaurang Shah: Commission....

Mr. Uday Kotak: Commission is volume led, so it is minimal.

Mr. Gaurang Shah: This 580 is operating expense.

Male Speaker: And the other is on the medium term outlook for Kotak Mahindra as a consolidated entity itself. Now, anyways, lending is 75% of the overall business, so I was looking at it from a return on assets and return on equity perspective. So, overall profits for this year seem to be like 3.1% kind of ROEs and because the capitalization is huge, so obviously the ROEs are 17% to 16%. So, as you mentioned that you can grow your balance sheet significantly basically in the next 2 to 3 years because of the capitalization. So, if you were to give a medium term kind of outlook for the entire entity, would it mean that in the next 3 years, the growth will come at ROEs going down but leverage going up, hence ROEs still remaining same or ROEs basically remaining same and leverage is picking up, so ROE is expanding?

Mr. Uday Kotak: I think it is a good question. First of all, yes, we will clearly sweat our balance sheet more if we grow our advances at 30% plus, which is what we estimate to do. It will mean we will sweat capital better. Now, where we put that growth in advances again is a mix between what you would call is wholesale. Now, the advantage of wholesale, it is a lower fixed and lower operating costs but also lower spreads. So, if we find an opportunity to be growing the wholesale business, we are going to grow that and that is why I gave you an indication that from the current 2/3rds, 1/3rd mix between retail and wholesale, we see that to be more in the range of 60% to 65% and 35% to 40%, that is retail between 60% to 65% and wholesale between 35% to 40%. So, that is the direction in which we are going, and obviously, if the wholesale increases even by a few percentage points, that has some impact on the spread in totality. So, that should give you a sense about how this should pan out, but the actual spreads in each of the businesses are linked to a number of variables including the market dynamic, the asset liability situations and things like that.

Male Speaker: But just one more question, see next 3 years if the balance sheet size growth is going to be so significant, is it at some point of time operating leverage will start kicking in and the operating expenses to average assets ratio will also start going down?

Mr. Uday Kotak: We hope so as much as you.

Male Speaker: No because at the other end, you are building the business and investing also.

Mr. Uday Kotak: We think that there will be a steady improvement and we will continue to invest wherever we think there is an opportunity. We are not necessarily going to constraint ourselves by the fact that

our ratios will look worse because we invest, but I think despite the investment decisions which we will continue to take, we think the ratios should get better.

Male Speaker: A couple of questions or viewpoints on the mortgage and the housing finance business. What percentage of that business is part of Kotak's business at the moment. How do you look at it going forward. Do you think it can become a separate by itself and how do you plan it and is the ROA and ROE equally good like the other businesses.

Male Speaker: You know, Jaimin showed you the figures there on the consumer banking piece. If you look at it, mortgage would be about somewhere about 15% to 16% of our total advances. The mortgage piece really on the retail side the way we look at is really home loan and what we call loan against property, these are the two broad pieces. Just now if you look at it, it probably would be 2/3rds home loan and about 1/3rd loan against properties. The ROEs are not great on the home loan side on a standalone basis, the ROEs are better on the LAP side on a standalone basis, but home loan you must look at it in terms of totality of earnings from a customer. It is a great customer acquisition tool and then over a period of time, you have to build loyalty and you know, hope that you earn from that same customer over other products and businesses, but if you look at it standalone, it is not a great one really. At this point of time, the ROEs actually look pretty depressed, so our concentration if you look at in the last 3 to 4 months has been more on the loan against property side rather than the home loan side, but if you go forward, once the spread starts looking better again on the home loan side, we will start moving there again.

Mr. Uday Kotak: Thank you friends. May I request you to join us for some tea and snacks and thank you once again for being with us this afternoon.
