



“Kotak Mahindra Bank Q4FY12 Results Conference Call”

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**MODERATORS: MR. UDAY KOTAK – VICE CHAIRMAN AND MANAGING
DIRECTOR**

MR. DIPAK GUPTA – JOINT MANAGING DIRECTOR

MR. C JAYARAM – JOINT MANAGING DIRECTOR

MR. JAIMIN BHATT – PRESIDENT AND GROUP CFO

**MR. KVS MANIAN – PRESIDENT AND GROUP HEAD, CONSUMER
BANKING**

MR. S A NARAYAN – PRESIDENT – COMMERCIAL ABANKING

**MR. GAURANG SHAH – PRESIDENT LIFE INSURANCE AND ASSET
MANAGEMENT**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q4FY12 earnings conference call of Kotak Mahindra Bank Limited. As a reminder, for the duration of this call the participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchstone phone. I would now like to hand the conference over to Mr. Uday Kotak, Executive Vice Chairman and Managing Director Kotak Mahindra Bank. Thank you and over to you Sir.

Uday Kotak: Good evening friends and welcome to our annual results call and also to give you perspective on what's happening in our bank as we complete 2012.

If we look at the year behind us, the big picture is we have grown the overall loan book just a shade below 30% at 29% on a consolidated basis and the bank stand-alone loan book growth is about 33%. We have had a very clear focus on where we want to grow our loan book, we have grown it either at essentially what I would call as collateralized lending or as high-end quality corporate. These are the two ends where we have focused in terms of growth of our loan book and that has actually seen a reasonable growth and traction whether it's trucks, tractors, cars, agricultural commodities loans on the collateral side and the corporate side, effectively on the higher end in terms of credit quality, working capital, transaction banking kind of lending on the wholesale side. This has given us reasonable position in terms of our overall credit quality at the book and if you look at our approach to recognition of stress assets also we believe that if there is an issue on the credit book our natural instinct is to let it slip into an NPA if it has to rather than trying and restructure as a philosophy and therefore if you look at that breakup as well it reflects our philosophy of that and our restructured loans as a percentage of our total advance bill is on net basis about 0.08% or an absolute amount only Rs. 30 crores. Keep in mind that, this adds pressure to our P&L in two ways. Number one, a NPA requires a higher provisioning compared to a re-structured loan. And number two on NPA you have to stop recognizing the income rather than restructured loan you are continuing to recognize the income through your P&L and our philosophy has been to be taking more cautious approach on that. Second important aspect is we feel that capital is going to be an extremely important part, particularly with Basel-III coming in the future. Tier-1 capital of core equity is going to be a key to the banking institution. We continue with our Tier-1 equity at close to 16%, Tier-1 and all of it is core equity there is no other structured Tier-1 in our balance sheet and we think this is something which really will stand up in good stead as we go into the next year and beyond. The third significant aspect about our year which has gone by is a very high focus on the CASA side and moving towards the most low-cost and stable liability base as core of sort of philosophy.

We have had a good success on the savings accounts side between November and now which is about five months, we have grown the savings book by about 40% from Rs. 3600 crores as of end of October to about Rs. 5050 crores by end of March. So that's a pretty decent run rate, our average cost on the savings account is about a combination of three things. It's an average of 5.5% .On one lakh plus we pay at 6%, below 1 lakh we pay 5.5% and on NRI we pay 4% giving

us a weighted average cost of savings account at 5.5%. We do not have any category of any size where we pay more than 6% on our savings account balances. Moving forward our sweep account is also now as of 31st March, about 7% of our total deposits. So if you take CA, SA and sweep these three as relatively the low-cost part of our liability, the combined number as of end of March is 39%, 32 for CASA and 7 for sweep. So this is the brief picture of our key focus on the core banking and financing business is, focus on stable and low cost liability on the one hand and we focused on growing our balance sheets in the areas where you're comfortable on credit and we think as we go into the next year from a level which we had indicated to you about 30% growth in advances for the year ending March 2012, we estimate 25 to 30% growth in advances going into next year.

On the non-banking businesses, we are dependent on markets specially for our securities and investment banking business but the strength of our business model gets reflected if you look at for the quarter January to March 2012, there is a little bit of bend in the market, saw a dramatic change in Kotak Securities performance and earning numbers and we have clocked in a pretty good number for Kotak Securities Stand-alone for the quarter January to March 2012. It's reflective of the fact that the capital market engine needs throughput if and when it comes but when it does, it has the capacity to add volume and profits pretty significantly. Yes, the current situation of the market especially when we have this call today is the outlook is not great but this is also a period when capital markets businesses will go through significant consolidation and I believe reduction in capacity. And we would like to position ourselves to be able to take advantage of this as capacity rationalizes to be able to gain position and share into the future. Same applies to the investment banking business where we continue to want to improve our relative positioning. On insurance and asset management, while profits look good underlying business is going through some pain in terms of new business and as the model readjusts we think it is still 12 to 24 months work in progress. And on asset management whether its equities or fixed income overall corpus of the industry are challenged and we therefore take winds of the external environment. All in all, the way we are positioned as a financial services conglomerate we believe that the different pieces are intact, well-positioned with bank leading the charge along with our NBFC Kotak Mahindra Prime. And the rest of the pieces are right now having a much lower share of the total pie, in fact banking and financing is now more than 80% of the total profits. And to refresh some of you, if you look at our numbers on 2007 or 2008 capital markets was between 55% and 60% of the total profits and they are now into single digit as of now. So with this background I will now request my colleague Jaimin Bhatt to take you to the details of our numbers. And we can then go on to Q & A.

Jaimin Bhatt:

Let me just take the bank stand-alone highlights first and then the consolidated numbers. The bank stand-alone for the year March 2012 after tax profit of 1085 crores which is 33% higher than same period last year. The loan growth in the bank also was at 33%, we ended the year with advances of just over 39,000 crores as against 29000 a year ago. As Uday mentioned our NPA numbers are still pretty low, we are at 0.57% at the net NPA level other than the Stressed assets. Re-structured advances we have only about 30 crores of net restructured advances on the books which is 0.08% of our advances. Capital Adequacy continues to be very healthy at 17.5%

overall, 15.7% at Tier-1 which comprises entirely of the net worth of the bank. CASA as Uday mentioned at 32%, CASA number at 12,400 Crore which is a 40% rise in absolute numbers over the same period last year. In fact we have seen a 50% plus growth in savings deposit during this period bulk of which has come in the second half and the CA deposit have grown by 30%. On the consolidated side we end the year with 1832 crores of profit after tax which is 17% higher than the same period last year.

At consol levels loan growth has been 29% which we close the year with advances of over 53,000 crores as against 41,000 a year ago. Consolidated NIM at 4.8% with return on assets at 2.2% for the consolidated entity. Our overall balance sheet size as of the end of the period is about 92,000 crores. The net worth at the consol level now is just short of 13,000 crores with a book value of Rs.174 per share. As regards the advances breakup as I said we grew the overall number at 29%, year-on-year where the big growth has come in the agri segment which is grown by about 35% to close the period at about 5700 crores which also had a sharp growth this quarter, where it grew from 4900 crores to 5700 crores in this quarter. Corporate loans on a year-on-year basis also has seen a growth of 30%, closing the period at 14,000 crores. This quarter has seen a drop in the corporate loans, lot of it is conscious.

The investment portfolio during this period grew by 27% on a year-on-year basis and overall advances/investments, we are at 76,000 crores and the year end.

If I look at the entity wise profits apart from bank, the other big contributor has been Kotak Prime which clocked 385 crores of post-tax profits about 21% higher than last year. Uday talked about the challenges in the capital market during this year and we see that in those numbers of Kotak Securities and Kotak Mahindra Capital Company where aggregate their clocked in profits 132 crores this year which is almost 100 crores lower than last year. The insurance company ended the year with a profit of 203 crores as against 101 crores last year and overall we ended the year at 1832 crores for the consolidated entity. This quarter, 521 crores for the quarter 4 January-March 2012. 297 crores of which came from the bank and 97 from Kotak Prime. Uday talked about how we run in the securities business profits this quarter, Kotak Securities clocked to 50 crores post tax for the quarter 4 whereas the insurance company brought in 57 crores of the contribution for the quarter. If you look at broadly where the contributions came from the different businesses, for this year 82% of the profits comes from the financing business which is rise from 75% last year whereas both the capital market and insurance businesses are at about 8%. Of course if one looks at the last quarter both the capital markets and the insurance businesses would be in double digits. With the contribution of financing piece been something like 76% for this quarter.

Overall consolidated financial if I look at a five-year numbers we have grown advances by about 28%, overall assets in the consolidated basis also at about 28% where as our net worth has grown to by 32% on a five year basis. We end this period as I said with ROA of 2.2% with NIM at 4.8%. Overall on a consolidated basis our NPA is at net level, it's 0.5% and gross at 1.1%. Financing which contributes the largest part of our profits the advances mix if one looks at the

period end, 41% of the advances come from what we classify under the consumer segment, 32% under the commercial segment and 27% under the corporate segment. Corporate segment has been low at the end of the year thanks to the drop in the quarter. The interest income on a five year basis has grown with the CAGR of 33% with profits from the financing entities 46%.. At the bank stand-alone ratios ROA at 1.8% whereas as we mentioned the capital adequacy remaining pretty healthy at Tier-1 of 15.7% and overall at 17.5. The restructured advances again dropping over the period, we started the year with net number of 67 crores, we close the period at 30 crores of net restructured advances. Provisioning coverage ratio remains at 70%.

At the bank profit and loss number for the year we have seen the income growth at 21%, expenditure has been more muted at 18% and overall profits after tax growing at 33% at closing the year at 1085 crores, the quarter at 297 crores. The segmental classification is more to do with, more classified in terms of the RBI requirement where all sanctions over 5 crores will go and sit in the wholesale corporate banking segment. On that basis we closed the corporate segments for the year at a profit of 997 crores and retail at 566 crores with treasury contributing the 35 crores. Advances at the bank level grew at 33%, the commercial vehicle segment going at 25% for the year closing at about 7800 crores with mortgages growing at about 21% and closing at about 8300 crores.

Corporate bank at the stand-alone level, growing 36% for the year and ending the year with 12700 crores drop from 15,000 crores at the previous quarter. The balance sheet of the bank overall deposits that I mentioned grew 32% with current segment growing 35% on a year-on-year basis closing at 7300 crores, savings at 5050 crores, September before we launched the 6% campaign which is actually launched on 1st of November, we were at about 3500 crores. That's in addition of 1500 crores in a five-month period. The time deposits have also grown 46% during the year and we have actually done that lowering our certificates of deposit number during this quarter.

Borrowing continue to grow, we have grown in foreign currency and refinance during this period that came in at an overall cost cheaper than the other ones. Our investments as mentioned overall gone has up to 21000 crores for the period giving us a bank level balance sheet number of close to 66,000 crores. Consumer bank we end the year with overall branches at 355 and with an ATM number of 848, we continue to target 500 branches during the next calendar year. As I mentioned we have grown savings account during the period and added 1.73 lakh customer accounts during this quarter.

At the lending side of the consumer bank we had a growth of 26% during the year and we closed that segment at advance level of 21,600 crores with focus continuing on the auto sector and mortgage growth has been in select territories. We have also grown the personal loan segments in with selectively growing that segment in certain geographies.

The commercial bank which focuses on the Bharat, which is a semi-urban and rural pieces have seen a 32% growth on a year-on-year basis. We have also set up during the year asset focused

branches in semi-urban and rural areas which have helped to grow in this commercial banking piece. We have always been meeting our priority sector targets and this segment plays a role in helping those targets.

On the wholesale banking piece the overall growth has been 30% on a year-on-year, with the year closing at 14,000 crores. With focus continuing to be at the quality end of the credit curve, another opportunity which has been opened up by the RBI in the Jan-March quarter is permitting all banks to take up the Government businesses during this period which was pretty much restricted till January of this year. Kotak Prime as we mentioned ended the year with 385 crores of profits, advances at Kotak Prime being 13,300 crores of which cars are over 10,000 crores, car's contributing about close to 80% of the advances booked in Kotak Prime. NPA numbers in Kotak Prime contained at net number of 0.2%. Capital adequacy there at 16.3% as against a regulatory requirement of 15%.

The life insurance business on an overall premium on a year-on-year basis has been reasonably flat with individual regular premiums actually showing a drop on a year-on-year basis. The profitability of the insurance company as we mentioned has grown to 203 crores for the year with assets managed by the insurance entity at 9700 crores.

The securities space we talked about the drop in cash volumes over the years and if you look at the chart there FY2008 cash volumes were 20,000 crores a day which now dropped to 14,000 crores a day, which is where the bulk of revenues for broking entities are main. At this period the Kotak Securities entity closed the year at revenue of 610 crores with a profit of 126 crores. The last quarter showing a profit of 50 crores, backed by some rise in volumes which happened for part of the Jan-March quarter and helped by certain bond issuance like NHAI and REC which we were part of. The investment bank in addition to managing the bond issuance which I talked about was also involved with the IPP placement of Godrej consumer as well as certain blocks there. The overall assets under management across the entities which we have are at about 46,000 crores.

The domestic mutual fund contributing the largest parts of it. Overall mutual fund number and assets under management has remained flat for a year on year at the industry level while the debt segment has seen some rise, equity has dropped marginally. The Alternate assets piece which is undertaken by Kotak Investment Advisors, we manage realty, funds of close to 3000 crores, and private equity of about 2000 crores. And that entity contributed 36 crores to the annual profits for the year. At the end of the period we now have presence in over 2000 locations across the country with a presence in other parts of the world in various geographies.

Probably that's what we are talking about in the highlights for the year and we are open to taking questions now.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. First question is from the line of Manish Ostwal from KR Choksey Shares & Securities. Please, go ahead.

- Manish Ostwal:** My question on security broking piece, business is so strong rebound during this quarter, so is there any one-off or propriety gain included in the total income.
- S A Narayan** No, there is no one-off propriety gain we had a small propriety gain for the quarter which we're talking about, there is no significant gain coming from propriety gain. See the cash market in January - February did well, in effect actually January February cash markets percentage itself increased. That definitely contributes to the bottom line of any securities firms. Number two debt issuance happened which played a major role and there is no issuance which we noticed in the first nine months, significant issue which has happened in the first nine months. That also contributed to our income. And good part about this business is that when this income comes then there is no proportionate increase in expenditure.
- Uday Kotak:** It is a high operating leverage business and therefore when there is a delta improvement it just goes straight to the bottom line.
- Manish Ostwal:** Secondly, the corporate loan book shows contraction of 17% quarter-on-quarter, so is there any de-bulking of balance sheet or its short term maturing loan?
- Uday Kotak:** I think it is short term maturing loan, it is a part of our plan we are very conscious about the fact that we have lot of our working capital, transaction banking lines which normally mature in the first quarter which has some shrinkage on the corporate Bank side for our a balance sheets, you would have seen a similar trend in the last year and this is our consistent philosophy at the end of the year. Keep in mind that this is not something which we would try and do in a manner which hurts customer franchise.
- Manish Ostwal:** What is the, with next year macro estimate of 7.25% kind of GDP growth, how do we see the loan growth and what are the key growth driver for the loan book?
- Uday Kotak:** At this point of time, we believe that the estimate for our loan growth is between 25 and 30%. If you take around a 7% GDP growth plus inflation, you are talking about nominal GDP growth of 14 to 15%, I see the banking sector loan growth will be between 16 to 18% and we normally do better than the banking sector average, so we think a 25 to 30% loan growth is something which we see in the year ahead. And the key thing is not just growing at 25 to 30%, how we work towards making sure that we make this loan growth happen in a more challenging credit environment. And that is the focus of the bank.
- Manish Ostwal:** And lastly, standalone number the employee cost flat sequentially so generally there is an increase in employee costs in line with branch expansion, or employee recruitment so why this cost is flat on a sequential basis?
- Jaimin Bhatt** One major reason there is, okay when you said branch expansion, we have very little branches coming this quarter but we have also have the benefit of the current period what is known in accounting parlance as AS15 requirement which is what you provide for compensated absences,

leaves for people. Basically you carry out the actuarial valuation at the end of year and that gave us some benefit. A part of the amount which you set aside for this is also getting invested and those returns keep coming in so that also contributed to the AS15 number coming down.

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

Kunal Shah: Sir firstly in terms of the government business which you have highlighted, so would you think is the potential out there and how significant could that chunk be as far as the Kotak Mahindra bank is concerned.

Uday Kotak: First of all, I think government business is a very large pie which was not open to banks like us. It was first opened up for private sector banks when we just became a bank and it was opened up to 4 banks which is ICICI, Axis, HDFC and IDBI. And I think it has done wonders to their CA and SA over the years. It has just opened up, it's not going to be easy, it is going to be a lot of hard work to make breakthroughs in many accounts whether it is CBDT, CBEC, police, army, navy so it's a lot of work ahead for us. But we have an opportunity to make breakthrough and the good news is that when you start from zero anything more is infinity.

Kunal Shah: Okay, but any particular trend?

Uday Kotak: It's hard work, it's like you will have to build the innings ball by ball and it will take time and at the same time we think it is from a secular point of view a significant addition to our motto of stable and low cost deposits.

Kunal Shah: What time period do we actually see when we would be stabilizing ourselves into this business. So would see the benefit coming through in the first year itself or say it will be like 2 to 3 years down the line where in we will see the entire potential?

Uday Kotak: I would say that, it's like we are in the process of talking to various government departments and others and the time lag is long I would say we should start seeing results six months from now and see a steady progress thereafter.

Kunal Shah: In terms of our margins despite the buildup on the Agri side and the rates also being on the higher side through the entire quarter, we have been able to sustain our margins out there. So, any particular reasons for sustaining the margins and what is the Outlook over there?

Uday Kotak: Over the years we have been having reasonably good margins, if at all we have come down it is compared to last year. So we believe that it's back to our business model on philosophy of risk adjusted returns and that's how you are in lending business. And we feel that if we keep our discipline and rigor which is at the heart of what we do, this whole philosophy of risk adjusted returns we think 4.5% plus is something which we can set.

Kunal Shah: Okay and in terms of personal loans we have grown almost by 25% in the last six months. So it's mentioned that we have been selectively targeting some customers out there. So what is the

Outlook may be now that this would be growing in line with the overall loan book or say higher than the loan book for the bank?

KVS Manian: We are not looking to grow faster than the balance sheet but in line with the pace of the growth in balance sheet we will definitely grow it. As of now we have not seen any stress in even the unsecured part of our loans that we have grown. So right now the environment looks okay to grow it at least at the pace that the balance sheet overall grows. So that's what you should expect.

Kunal Shah: Okay so there is more confidence in terms of asset quality outlook in this particular segment or say the behavior of customers as far as the unsecured loan is concerned?

KVS Manian: Yes sure, we have seen a difference, the stress is almost negligible in the book that we have and we have seen clearly improving quality of credit in that, and I think developments like CIBIL has helped the overall credit infrastructure in the country. And by and large people have become far more conscious about their individual credit ratings and we have seen some impact of that, whether in car, home or cards or even personal loan businesses. So clearly from the meltdown time where we have seen stress in 2008/2009 I think environment looks good enough to grow this business.

Uday Kotak: And let me also add that we have done a lot of analytics and work on our portfolios of 2008 and 2009 and learnt a lot of lessons in terms of choosing our segments within the overall unsecured book and therefore the focus is more on segments which we have found more resilient even in the stress times of 2008-2009.

Kunal Shah: What would be the average ticket size would there be substantial difference from what it was in 2008 or 2009. Is it pretty much to the existing customer base?

KVS Manian: See, on the business loan segment side, personal loans we used to do for small business men, the ticket size is at least twice what used to be in those days. So clearly the higher ticket size is what is better and that was our learning what Uday was talking about, the learning that we got in those times 2008-2009 times, so clearly it's much bigger ticket size. While we are also expanding slightly the salaried segment but not really a small ticket kind of loans but the medium-sized even in the salaried segment, one to one a half lakh kind of loans are much better than the 30,000 to 40,000 kind of loans and even in that personal loan segment and we are chasing relatively higher ticket size. Maybe three times what STPL used to be in those days.

Uday Kotak: Having said that, one of the lessons we have learnt over the years in the lending business is have no holy cow therefore be very alert and open to learning from any signal which the environment gives in terms of new types of risk which may suddenly hit you and that's something which we are open to therefore if there is a significant stress in any particular sector in the mid-market business we are ready to sort of tighten ourselves firmly for example we have in the last few months, thanks to the infrastructure sector going through a major slowdown we have seen a derivative impact on that coming onto construction equipment segment. So we have been ready

to slow it down ahead of what before we see more pain coming in in-terms of our new lending. Therefore very much more alert on sector signals and act on it early rather than late.

Kunal Shah: Okay and on the security business, whatever delta is there in the revenue considering the average daily volume has been almost flat quarter-on-quarter, so would it be with respect to the bond issuances and distribution income.

S A Narayan No, let me put in two parts. One is if you look at January-February, part the cash market volumes had gone up the percentage of the cash market to the overall market and in absolute terms the cash market volumes went up. And that's definitely has the income ratio in the cash market that you know will be at least about 7 to 10 times more than the futures and the options market. So that definitely adds to the top-line and being directly almost to the bottom line. The debt issuance of course has also been one of the factors which helped us in the last quarter. This is the combination of both that helped us.

Kunal Shah: And anything on the distribution sir on the third party distribution?

S A Narayan That is what I said the distribution side, nothing is specific, but this is more again to the take on the debt issuance which happened which has got a distribution of primary issuance is what was reported.

Moderator: Thank you. The next question is from the line of Anand Vasudevan from Franklin Templeton. Please go ahead.

Anand Basudevan: On the liability side, you said that you have added 1.73 lakh customer accounts during the quarter. Of this, how much would be savings account customer additions?

KVS Manian: Almost 92% of this is savings accounts.

Anand Vasudevan: And what is the average balance per account currently?

KVS Manian: It is 40,000 odd.

Anand Vasudevan: And can we understand sort of what is the profile of customer additions that you are doing, are these primarily through the corporate salary account group or are they single individual customers?

KVS Manian It is a mixture of both. On the savings account side, almost it is a mixture of let us say 60-40 is being corporate salary and retail customers who are not corporate salary customers.

Anand Vasudevan: Your branch growth, it has been just 10% last year which is much slower than the other banks of your size and even slower than the larger private sector banks. So can we understand the thinking behind that and you said that over the next 1.5 years, you intend to grow your network at a lot more rapid pace?

- Uday Kotak:** I think on a rough basis from here, we should be seeing our branch growth at roughly between 15 to 20 branches a quarter.
- Anand Vasudevan:** But why is it that in the last one year, it has been much slower than..
- Uday Kotak:** I think two reasons. One is for the first part of the year, we had a major implementation on change in our system which was moved to Finacle system from the Flexcube system. So very significant organizational focus at least at the end of August was on that and secondly we also wanted to get an appropriate mix of branches in terms of our approvals from our regulator because of the queue between rural, semi-urban, metro, and we want it to make sure that our mix of branches is appropriate.
- Anand Vasudevan:** Going forward, what will be the pattern of the geographic expansion?
- Uday Kotak:** Geographically our focus is significantly more in the West and we have a very clear focus in terms of our branch network. So top 8 cities, thereafter the next level of cities, then within rural and semi-urban, a particular strategy. Our rural branch network which is between Tier3 to Tier-6 is now driven much more by our commercial bank priorities which is lending to Bharat which is where we need our rural branch banking strategy and our consumer bank strategy is much more open focused. So we have actually got very clear strategy between two segments of the branch network and one are more liability led which is a consumer bank side and the rural and semi-urban is more asset led. That does not mean we are not doing liability in the rural and semi-urban side or we are not doing asset in the urban side, but the broad bias or the focus of the branch banking network is now divided into these two banks, effectively the consumer bank more urban and the commercial banks more semi-urban and rural.
- Anand Vasudevan:** What are the trends in the breakeven period for the consumer bank-oriented branches and what is the expected breakeven that you are working towards on the commercial lending-oriented banks?
- Uday Kotak:** Of the consumer banks, we are working with a basic game plan of full breakeven and when we use full breakeven, we sort of amortize everybody's cost including a part of my cost or allocate including every cost including a part of my cost to every branch. On that basis, we are working on a plan for about 3 years and on the commercial bank, we think the breakevens are faster because the asset side is what is helping there and that is also what is enabling us to get our reasonable growth on the lending side and there we are doing liability enabled of these branches and I think on the liability side, was kicking over a longer period of time, but we think the rural and semi-urban therefore because the asset costs are also lower, probably the breakevens are more likely 18 to 24 months.
- Anand Vasudevan:** What is the implication for your cost-to-income ratio, currently you are running at 53%, but the proportion of new branches was quite low on that as you go forward and accelerate branch network?

- Uday Kotak:** First of all, if you look at our cost-to-income ratio has improved over last year. It is 52.6 down from 54 in the previous year and overall in terms of operating expenditure, our overall operating expenditure growth is 18% year-on-year in the bank. So we have made some improvement in our overall strategy. Our cost-to-income ratio has to be also looked at in the context of the fact that there are significantly more retail advances in our lending and our NIMs are higher than the industry average. We are at 4.7% max NIMs. So there is higher NIMs which is also leading us to a slightly higher operating expenditure. That is part number one. Part number two is with reference to our branch banking, one of the things which you got to keep in mind is that last year and this is true for us, but I suppose it is more an industry trend. The growth in current account balances have been pretty low in general across the banking industry and lot of the costs are into branch banking if they are going in and we do not get enough throughput on current accounts. That puts pressure on cost-to-income ratios. Going forward, we are getting more and more focus on how we can get more current account throughputs. We have started whole host of things to get better throughput on the current account side which we think will help us in this ratio and the savings accounts, if we are able to maintain the trend of growth which we have got in the last 5 months in the savings accounts going forward, then that can be pretty significant because one of the challenges we have faced in the retail branch banking is for the amount of cost with branch banking takes is productivity.. Absolute productivity of the frontline was a challenge, but with this productivity improvement which is about 1.7 to 1.8 times of the front engine, fronts and sales force, we have started getting after savings account deregulation we think improves this ratio. Our target is to obviously go below the 50% mark and whether we achieve it in '12-13 or whether beyond that is where we are coming out.
- Anand Vasudevan:** Question on life insurance, in APE terms, what was the new business sales performance this year versus last year?
- Gaurang Shah:** The new business premium if you look at the individual premium, regular was 436 and single premium was at 374. Though the things have changed now, but even if you apply the 10% norm, then we have done a volume of around 473 crores compared to the last year around 710 crores. So that is a relative APE for the 2 years. Last year first half was a different world because the first half up to September 2010 if you remember, the IRDA regulations changed from 1st October and the first 6 months sales was business as usual at that time.
- Anand Vasudevan:** What do you think of the outlook for sales in the coming years?
- Rohan Shah:** If you look at the private sector last year, the private sector industry for individual premium, the total was around 19% fall and regular premium fall was around 23%. I think next year if I look at my last quarter Q4, 2012 in an individual regular premium, we give by around 17%. I think next year estimate, I can say that the industry overall should be around 10 and we would like to grow at 10% higher. So I think 10% overall in our growth rate should be around 20%.
- Anand Vasudevan:** What is the sustainability of the profits that you are declaring now, 203 crores. How sustainable is that going forward?

- Gaurang Shah:** Sustainability I would say may be for another year or so, year or year and a half or so, it may continue. How we improve next year is going to in terms of our new business premium, we will decide how much we sustain beyond 2014-15. I think everything depends upon what growth rate in new business premium we are able to achieve.
- Moderator:** Thank you. We have the next question from the line of Amit Premchandani from UTI. Please go ahead.
- Amit Premchandani:** In the financial year, your credit costs have been pretty muted. Just wanted your thoughts on floating provisions or contingent provisions given the benign environment you are?
- Uday Kotak:** We do not believe in floating provisions. We believe in having standard provisions and provisions on specific accounts.
- Amit Premchandani:** And what could be the consolidated deposit and borrowing numbers for the year ahead?
- Jaimin Bhatt** If you look at overall deposits, the only deposit taking entity in the group is the bank. We do not really take deposits in the rest of the balance sheet, if you look at the bank is about 66,000 and overall it is 92,000.
- Amit Premchandani:** And what would be the margins for the last quarter, the financial year end?
- Jaimin Bhatt** It is about the same. As we mentioned earlier we have actually maintained margins this quarter. So it is 4.7 and bank has 4.8 overall.
- Moderator:** Thank you. We have our next question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.
- Ashish Sharma:** Just wanted to get sense on your CASA strategy, just wanted to get what fillip was this exemption in budget where interest up to 10,000 is exempted from tax. Do you think this also will boost average balances for the savings?
- Uday Kotak:** I will first give you my own example. I am trying to keep a little more money in my savings account because I am getting pre-tax 9%.. Put more money in your savings account with Kotak Bank, you will get 6% tax free up to 1,75,000 average balance.
- Ashish Sharma:** But has this led to an increase in balances or is it too shorter time to?
- Uday Kotak:** I think it will and as I mentioned, our current average is 40,000. If we can move the average from 40,000 to 50,000 or 60,000, it is 25 to 50% higher per account.
- Ashish Sharma:** And this savings 5050, what is the split between below 1 lakh and above 1 lakh sir?
- Uday Kotak:** We are not ready with that.

- Ashish Sharma:** I can take that later. And just on your commercial financing in CE and CV which is where you are focusing on semi-urban and rural areas. How has been the collection efficiency in LCV. Has it remained strong and what sort of potential this segment holds going forward?
- SA Narayan** In big picture commercial vehicles still fine. Construction equipment, we are more watchful and alert.
- Ashish Sharma:** In terms of collection efficiency, has it remained stable or any signs of.....
- S A Narayan** Till now, the collection efficiency has been stable. We have not seen any pressure points anywhere except in few locations very small amounts like Orissa where for example where the mining industry was banned and hence consequently all the transporters were dependent on that. Obviously their cash flow has been affected, but it is not a very large amount of exposure from our point of view. Other than this specific pockets, the collection efficiency has been normal as in early years.
- Ashish Sharma:** And in the presentation, you mentioned that you have launched gold loans in selective locations and what is the strategy in that segment. Do you think this is scalable?
- SA Narayan** It is scalable, that is why we launched it. We have started introducing the first, we have introduced it in Mumbai. Now we are about 4 months old in Mumbai in about 12 to 14 branches. Our experience has been good. Now we have launched in Gujarat and Delhi and will be rolling it out in Chennai. So you see next year, we will have about may be the product being offered for about 150 branches of ours.
- Ashish Sharma:** But focus is on the metro cities only in the initial part?
- SA Narayan** In the initial part yes because we will launch it from our current branches wherever they are and then roll it out to the rural branches and then see how to take it forward.
- Ashish Sharma:** And do we do tractor financing also in the bank, in which segment does it gets classify?
- SA Narayan** Of course we do tractor financing and we are in the top 3 on that and that comes under the agri lending. That is a part of the agri lending and that is what we do very well there.
- Ashish Sharma:** And just wanted to get sense on this media reports. I think can you just throw some light on that where RBI had asked promoters to cut stake to below 10%, what is the roadmap from the promoters on that?
- Uday Kotak:** Let me take this question and share with you exactly the situation on that. When we got our banking license in 2003, the license came with a condition that the promoters shall hold a minimum of 49% which will be locked in for a minimum period of 5 years. What does it mean is that as per the license condition, the promoters were obliged to hold 49% minimum up to 2008 and the license specified thereafter no conditionality of dilution from 49%. That was the basis on

which we have got the license in 2003. Thereafter in 2005, RBI came out with a set of guidelines which did not have the word promoter in the guidelines, but talked about ownership and gave out a statement that ownership and Governance guidelines in general would not allow any party to own more than 10%, but in selected cases, holding more than 10%, more than 10 to 30, 30-50 and above 50 in those guidelines of 2005. From our point of view, when we became a bank in 2003, we started with 63% as approved by RBI in terms of the promoter shareholding with a lock-in requirement of at least 49% till at least 2008. As we stand today, we are in 2012, we are at promoter ownership of 45% which has been a dilution of promoter ownership from 63% to 45% over this period in a non-disruptive and value creating manner. Going forward, we are in dialogue with RBI and are committed to broad basing our shareholding in a non-disruptive manner. We are also awaiting what is the final level of promoter ownership which will be allowed for new private sector banks which is still under a draft stage of RBI guidelines; however, even in the draft, the RBI has moved promoter ownership from 10 to 15% in the draft and had given the new banks a period of 12 years from start to come down to 15% and we believe that we will have a non-disruptive roadmap to broad base and dilute our shareholding. WE hope that the level of ownership applicable to new banks will also be applicable for existing banks and new bank guidelines coming at some point of time.

Ashish Sharma: Surely and just one last question on the fee income for the standalone bank. Could you throw some color, what is the split between retail and corporate?

Jaimin Bhatt We do not give the full breakup, but what has happened is over the years, the corporate book has grown significantly with the fee income from the corporate book that we have grown the corporate book over the years whereas if you go back to a year or previous years, the third party distribution has been slowing down.

Ashish Sharma: But was there any one-off from stressed assets in Q4 or they are normalized?

Jaimin Bhatt: No one offs in Q4.

Ashish Sharma: And what sort of a guidance on which we can work on, do you expect that it can match balance sheet growth?

Uday Kotak: I think we don't divide the fee income with the independent of balance sheet growth like DD charges, other charges coming out of branch banking or FOREX and then there is balance sheet growth, but just want to highlight again in one more philosophic issue which I would like to state here is we consider fee income as fully processing fees. We do not as a philosophy believe in front-ending fees for loans we give.

Ashish Sharma: Fine and just last one bookkeeping question is employee base as on March '12?

Jaimin Bhatt Overall across the group we would about 22,000 numbers as on March '12. We have added 1500 employees over last one year.

- Moderator:** Thank you. We have our next question from the line of Jimith Doshi from Reliance. Please go ahead.
- Jimith Doshi:** Your risk-weighted asset numbers?
- Jaimin Bhatt:** If you look at this way, it was 7900 crores of capital in the bank and Tier 1 capital adequacy was 15.7. I do not have the number on hand, but that is in effect will work back to the risk-weighted asset number.
- Jimith Doshi:** My second question is for Mr. Uday Kotak. With the macro environment pretty challenging and the bank is guided for 25 to 30% growth as in how confident are you growing the bank given the macro environment?
- Uday Kotak:** I think at this stage, our view on the macro environment is a little different. On the big macro side, we think a lot of the pain has been passed into the system with a nearly 20% depreciation of the rupees and most of the interest rate hikes in the system. So the macro pain has already been passed into the system. What we are seeing is disproportionate pain in spreading narrow band of corporate India particularly expose to power or infrastructure and then in terms of credit derivative coming from that narrow segment of macro India, we have to just watch what are the derivative pains which can come as long as we protect ourselves on that. We do not believe that it is across the board pain in the system at this stage. We are of course watching very closely. We are watching also the job environment. One of the very important aspects of macro pain is what the speed at these new jobs are happening or getting lost. So that is another signal which we are watching, but at this stage we are not seeing anything which is dramatic and I think rupee depreciation also creates a lot of opportunity for domestic producers as long as we have not made mistake of keeping their imports unhedged or things like that.
- Moderator:** Thank you. We have our next question from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.
- Subramaniam PS:** My question is on the international business. I think you have mentioned that there has been loss of 11 crores. Could you explain what is it?
- C Jayaram** The reason is why this loss is made because on the prop book last year, there were losses essentially because we have some investments into underlying India bonds, FCCB etc., and credit spreads widened. As a result of which, there were losses on the prop thing, but the other businesses which is the asset management business, they did reasonably well, but given the fact that the movements are pretty sharp on the prop front, that was the reason for the loss.
- Subramaniam PS:** And is this broadly an asset management kind of a business and what is the total assets that you currently managed?

- C Jayaram** On the international platform, the bulk of it is in asset management business where as of the end of the quarter, it is about 8500 crores, it is the assets we have under asset management or advisory. So that is the bulk of the business. The other two portions of the business are one, we are active in bond trading essentially India underlying bonds and we do that actively out of debts in London, Dubai, and Singapore and finally of course we have a prop desk which again does come as a trading again primarily India underlying paper. So these are the broad set of business which comprises that and the bulk of it is the asset management business.
- Subramaniam PS:** Okay fine, that was helpful. One more question is on your overall credit cost. If you want to break your loan book into corporate and retail, where is it that you have seen credit cost being lower than what you have budgeted for an expected, just to see that where is it that profitability is much more than what you have anticipated?
- Uday Kotak:** Of the credit cost, back to what I started by telling you, our strategy is in general of the retail and commercial side, the mix of collateralize is much larger and in an inflationary environment where the underlying collateral value gets protected and of course it depends on the quality of the borrower and everything else all that is important but we have found that so far okay. On the corporate side, we have tried to dodge the bullets of any challenging exposure so far and we moved up the quality curve in terms of whom we are lending to. Therefore the kind of corporates and others we are lending to are more of the quality curve more transactional and more working capital again.
- Subramaniam PS:** I think even in the last call when you were asked on asset quality, you said things are not as bad as they look to be, but this time you seem to be a bit more concerned on staying away from some of these exposures, on your own book, do you think there is..
- Uday Kotak:** Last time I was pretty cautious on infrastructure exposures. So I have not changed my position on that.
- Subramaniam PS:** Fair enough. On your corporate book itself, do you think or on the overall loan book, what would you kind of budget in terms of credit cost, do you think current credit cost is something that you want to work with or?
- Uday Kotak:** I would say let us watch the year and let us play it more on its merit and watch the pitch carefully.
- Moderator:** Thank you. We have the next question from the line of Brian from KBW. Please go ahead.
- Brian Saker:** I got a question on credit cost. I guess in the quarter, the provision charge was quite low. I just wanted to confirm were there any significant write backs or recoveries of written-off accounts that has kept that for low in quarter?

- Jaimin Bhatt** Two reasons for that. One is yes, there was some amount of recovery, but it had also been helped by the fact that overall if you look at the bank standalone, the overall advances book has come down and when the advances book comes down, you get a release of standard provision. So that has been another credit factor in addition to the recovery.
- Brian** Okay. And then which recovery was it, any one particular account was it fairly broad based?
- Uday Kotak:** It is not spiky, chunky one as such.
- Brian** And then sort of longer term question about the provisions and someone previously asked about credit cost. I just wanted to hear your thoughts about the proposals for dynamic provisioning. I guess in particular, for Kotak in last 3 or 4 years, we have seen quite a lot of volatility on the credit charge. So how do you see this issue over the next year? How do you see this developing potentially over the next couple of years?
- Uday Kotak** No. I think with Basel-III, we are moving in that direction as also with the regulator wanting the provisioning to be more linked to expected loss on each account. I can tell you one thing the rigor credit process even today in our credit committee is that because each credit is analyzed or approved, there is an expected loss, expectation against each of the credits which we already have in our whole credit process and it is pretty rigorous on that. So far and that is probably which I am happy to say that so far compared to our expected losses, our real losses have turned out to be significantly lower which means that our underwriting is pretty strict and I will now request my colleague, Dipak, to give you greater clarity on how we propose to handle on dynamic provisioning at this stage from the draft from RBI.
- Dipak Gupta:** At this stage it is just a draft. The percentage looks high because if you go by the experience of the last 4-5 years, the actual provisioning has not really been close to that level, but at the end of it, that is regulation. So that is what the average of the industry is we just have to follow that. At this point of time if you look at the percentages, they look high.
- Brian** I appreciate that. I was kind of wondering if there is any risk of you have been punished for some of the experiences of the past even though the current performance has improved and seems like you made a lot of changes to in learning processes.
- Dipak Gupta:** No, not really, but that is the average of the industry, then the regulator will probably push down something which is an average for the industry as the percentage or provisioning every year, but at the end of the day, if that is not what is going to hit us, then it still always sits as reserves. So it is not something which is money gone away. From that point of view, it is always a buffer which is available.
- Uday Kotak:** Brian, again one point which I just wanted to highlight to you and something which we, we believe that there is a real life and there is accounting. We need to follow accounting which is

conservative, but our focus in terms of how we look at credit is much more in real life what we will be losing.

Moderator: Thank you. We have a next question from the line of Hiren Dasani from Goldman Sachs Asset Management Company. Please go ahead.

Hiren Dasani: I just wanted to check what is the total recovery from the acquired NPAs, distressed asset for the year?

Uday Kotak: Last quarter was lower than the third quarter.

Hiren Dasani: It is for full year, last year it was about ...

Uday Kotak: Fourth quarter was lower than the third quarter. And for the year versus with the previous year was more or less flat.

Hiren Dasani: Yes, last year you did about 125 crores of top line. It would be lower than that?

Dipak Gupta: Actually about the same, almost the same.

Hiren Dasani: Okay. And one related question is that you are becoming cautious of and you have been cautious on the infra and power side and all. Do you see some sort of opportunities emerging in these areas for the acquisition of distress effects in the next?

Uday Kotak: Yes, I think that is clearly an opportunity and we are trying to address it two ways. First is in our alternate assets, we are right now on the roads today is an infrastructure fund. We are not calling it a distressed infrastructure fund, but if we get an opportunity where we need to put money to work in some of these distress situations, we will certainly take that opportunity. So that is one. Therefore on the alternative asset side, we see some opportunity coming by raising up fund on the, that is the equity play on the infrastructure side. On the debt side, on stressed debt, I think we are probably a year or two away because at this stage, most bank don't seem to be recognizing the stress. It is probably sitting in many cases in restructured assets, not even NPA. So it has to move from restructured first to NPA at some point of time and from NPA to highly provided NPA for us to be finding value and buying it.

Hiren Dasani: Okay and hopefully by that time, some of the regulatory issues also will have greater clarity on that sector.

Uday Kotak: Right.

Hiren Dasani: Okay. Just one last question on the loan yield side, you are saying that you are moving towards higher rated corporates and all but that does not seem to be reflecting in the overall loan yields.

- Uday Kotak:** If you look at between last year and this year, they have given away 40 basis points from 5.2 to 4.8 on our entire balance sheet. So there is a 40 basis points we have done in one year.
- Hiren Dasani:** Yes, I mean that seems to have come more from the increased cost of fund rather than the lower loan yields if you were to look at spreads on this.
- Uday Kotak:** Yes, but we think that the mix we have worked. Therefore we are giving a guidance of 4.5 and we will come back and talk to you every quarter.
- Moderator:** Thank you. We have our last and final question from the line of Shyam Shrinivasan from Goldman Sachs. Please go ahead.
- Rahul:** Hi, this is Rahul here. Just a couple of questions. First is, is it possible to get a breakup of term deposits between retail and wholesale?
- Dipak Gupta:** No. We do not publish that.
- Rahul:** Okay. Second one is the current account balance is moved up quarter-over-quarter. So is it more a fourth quarter seasonal phenomenon or there was a flow of bond issuances and all that?
- Uday Kotak:** No, there is no IPOs or bond issuances, nothing that number, but there is an element of seasonality. As you know that there is also tax treatment for lot of individuals because of section 14A. Therefore end of March, they move money out of mutual funds and other asset investments and keep that in bank accounts for end of the period. So some of that is also there, but there is no IPOs or bond issuance floats sitting in our current accounts for end of March.
- Rahul:** Okay and next question is basically what kind of retail deposit growth that you are looking for over the next couple of years?
- Uday Kotak:** We are currently planning more than 40%.
- Rahul:** 40% growth in retail deposits?
- Uday Kotak:** More than 40%.
- Rahul:** Okay. So this would be both savings as well as term deposits.
- Uday Kotak:** Overall, our simple philosophy is we would like to see our deposit growth higher than our loan growth and within that, we want to see a continuing improvement in our mix towards retail versus wholesale.
- Rahul:** Alright. So when you are saying that you are targeting 25-30% kind of a loan growth, you would be looking at 30-32-33% kind of growth?

- Uday Kotak:** On the total deposit growth and within that, mix more for retail.
- Rahul:** Okay. And this last thing on the loan growth side, when you have talked about 25-30% growth, are you not really sort of seeing any competition building up from some of the large private banks or PSU banks who are talking a bit aggressively on improving the retail piece especially on the secured side, the likes of mortgages, car loans and other securities?
- Uday Kotak:** No, there is regular competition, but we feel that the size of the market is large enough for us to get what we want at our risk-adjusted return. On a relative basis compared to some of the larger banks, we start with a smaller base.
- Rahul:** Okay. In that sense, given that credit cost on the retail book has been had its all time low pretty much I think for all the retail banks. So would you also look at sort of adjusting the pricing of the retail loans because of this?
- Uday Kotak:** That is a very tough one. If we adjust the pricing, you will tell us the NIMs have gone down and if the credit cost goes up, you say why are you not having your risk adjusted return, but back to our philosophy, we get our risk adjusted return for the risk we are ready to take, we will do the business. If we are not comfortable with the risk adjusted returns, we will not do the business.
- Uday Kotak:** Okay. Thank you very much and look forward to being in touch with you from time to time.
- Moderator:** Thank you so much. On behalf of Kotak Mahindra Bank, that concludes this conference. Thank you for joining us.