"Kotak Mahindra Bank Q4FY13 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4FY13 Earnings Conference Call of Kotak Mahindra Bank Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * and then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Uday Kotak – Executive and Vice Chairman, Kotak Mahindra Bank. Thank you. Over to you, sir.

Uday Kotak: Good evening, friends and welcome to our annual Kotak Mahindra Bank review of performance. Before I go into specific numbers, I just wanted us to take a one year perspective about how the situation has been both from an environment point of view and how we have responded to it, and also a bit about how we see the future into next year.

First, we got to look at the backdrop in which we started. Through the whole of last year we have consistently had a situation where the policy expectation on economic growth was higher than what we have actually come out with throughout the entire year. Therefore, an economy which has been consistently slowing compared to the expectation at the beginning of '12-13. So, from an expectation level of somewhere around 6-6.5% we are ending the year with an economy which is likely to be around the 5% mark. So a consistent backdrop of a slowing down economy. We have seen interest rate drops on the policy side. That is also been about 75 basis points through this year. So, somewhere around 8.25-8.50% range we are now down to about 7.5%. It is in this context that some of the concerns which we had highlighted in our annual call one year ago, about our view that the economy is actually slowing, the fact that the challenges to the infrastructure sector are beginning to have an impact on sectors like Construction Equipment and Commercial Vehicles, was something which we had highlighted about a year ago. So in that context, we feel that we have managed to negotiate this year with a 25% loan growth on a consolidated basis, and a bank standalone profit growth also about 25% and a consolidated profit book ex-insurance of 22% and including insurance of 19%. And yes, there have been higher credit costs in our numbers compared to last year but that is something which we had seen coming at the beginning of the year

The situation as we stand today is where do we go from here and how do we see the perspective. Our view into next year is oil as a commodity has clearly softened to be in the range of about $100-105, that is the base case which we are using and we see the real economy still continuing to be slow and our assessment of the pickup of the real economy is more in the second half. I am personally in the camp where I see this year's GDP growth at around 5.5%, slower first half, better second half for getting us this average. We see interest rates on the policy side through this year coming down, at least 75 basis points, if not a little more, maybe 100 basis points, but 75 basis points is what we see, out of which about 50 basis points interest rate cut is what we will probably see in the first half of this fiscal. Whether how much happens tomorrow and what happens, the split is something which is a matter of conjecture, but about 50 basis points cut in the first half of this fiscal.

We also would like to believe that in this change there could be a shift in the pattern of savings which is what may happen in the current year, moving away from historically a very significant Indian bias in favor of gold and real estate to more financial savings which is what we are hoping for as a change in behavior in the current year. And within that we do believe that fixed income will be the first place where more money will flow, which is what is happening right now as we talk. And at some point of time, from fixed income to as investors try and chase a little better returns, some movement back into equities down the year. So, this is the broad picture in which we are embarking upon in the next year.

We are cautious in the first half but overall if I take a full year view ahead, we do believe that from an advances growth of around 25% which we achieved last year, we would say we expect growth in the 20s in terms of advances in the current year. And whether it is early 20s or late 20s, really depends on how we see the year pan out between the first and the second half.

While Deposit rates will soften, there is also a base level of deposits beyond which Indian savers are hesitant to put too much money into deposits, so which will be the issue and around the 8% mark on one year deposits is when you start beginning to see serious resistance by Indian retail savers to put money into deposit if the rate starts dropping significantly below 8%.

So, all in all, the real economy, slow start from where we are to picking up in the second half is the base case, interest rates softening but nowhere near like what we saw in 2009, where we saw rates just collapse, we do not see that kind of a collapse in interest rates, we see shift from savings into gold and real estate into more financial major savings which we think is particularly good for a firm like us with our presence across the whole spectrum of financial savings. Credit cost in the first half could weigh on financial institutions as I look at their balance sheets and that is something which we are watching very closely and I think this is where there is one of the challenges for the financial sector because a number of borrowers in a number of sectors have stretched and managed to keep themselves still current in many banks, but if the economy does not show sign, by the end of the first half, you could find a lot of those borrowers losing their resilience and falling into stress category. So that is something which we need to watch very closely in the first half, as we go into 2013-14. So a good year for us in the context of the backdrop. Pretty clear, two divergent trends, current slow economy, but financial markets giving signals which ultimately may help the real economy and that is a good place to start this year but the real sector, credit issues, certainly not behind us as we stand today, particularly with a lot of companies in some level still on the edge as borrowers.

With this I now request my colleague, Jaimin to take us through the specific numbers and highlights.

Jaimin Bhatt: Thanks, Uday. I will just run through the earnings update which you have a copy of. For the full financial year, at the bank standalone, we clocked post tax profit of Rs.1361 crores, 25% rise on a YoY basis and at the consolidated level, we clocked post tax profit of Rs.2188 crores which is 19% rise on a YoY basis. The loan growth overall consolidated has been 25% and the bank just a tad lower at 24% on a YoY basis. Net NPA numbers at the bank level other than stressed assets at 0.63% continues to be low. And this needs to be looked at with the restructured number. Our restructured assets consider standard as of March 31st is all of 10.7 crores. Capital adequacy continues to be healthy. We have closed off the period capital adequacy of 14.7%, with the Tier-I of 14.7% with overall at 16%. Return on Assets at the bank standalone for the year at 1.8% and for the consolidated entity at over 2%. For this quarter actually the standalone entity would also show a number in excess of 2%. CASA growth has been at 20% for the year; Savings particularly showing a healthy growth, 44% on a YoY basis.

If you look at the split of the Advances growth, overall growth of 25% on a YoY basis. Segments which have grown this year include the Agri business and the Business Banking piece, which have grown in excess of 40% on a YoY basis. The Auto segment is doing about 20%, so also the Mortgage Loans. Personal Loans showing a large growth also helped by the fact that we had an acquisition at the beginning of the last calendar quarter. Corporate Banking showing a growth of 18% on a YoY basis. And as Uday mentioned, at the beginning of the year we had seen slowdown happening in the Commercial Vehicles and the Construction Equipment segment. That number remaining flat for the year and showing a small negative growth for this quarter.

Overall, profits of Rs.2,188 crores and if we split into the numbers entity wise, the Bank contributes the largest number at 1,361 crores for this year which is about 25% rise on a YoY basis compared to Rs.1,085 crores. Kotak Prime, other significant contributor, closing this year at 431 crores as against 385 crores last year. Kotak Securities will show a post tax profit of 114 crores for this year. I must only add that in the last cal quarter, thanks to an internal restructuring of investments, Kotak Securities has taken a knock off 30 crores which does not impact the consolidated number. Life Insurance showing a profit for the year of Rs.190 crores compared to Rs.200 crores last year. For this quarter overall profit of 666 crores with the bank clocking Rs.436 crores this quarter compared to Rs.297 crores same period last year, a growth of 47%. Prime showing a Rs.119 crores profit being the other major contributor apart from Life Insurance at Rs.58 crores.

If I look at the consolidated profit number, the lending business for this year contributing 85% of the overall profit number for this period. If I look at the way we have grown 10-year period since we converted into a bank, the assets have grown at CAGR of 38% whereas **a Netwoth** has grown at a CAGR of 31%. Post the results, our book value now stands at Rs.204 per share.

The Financing business itself has seen advances growth over a 10-year period at 36% CAGR whereas the after tax profit for this business has grown at 38% CAGR. Net NPAs reasonably under control overall at 0.5% of the Advances. Net Interest Income and NIMs remaining healthy. We closed the current year at NIM of 4.7%. At the Bank level, again, the NPAs remaining steady and the gross number 1.3% and net number at 0.6% for this period. Capital adequacy, as I said, 16% and 14.7% overall in Tier-I with very low restructured numbers remaining there.

The P&L for the Bank has seen a 25% growth on a YoY basis. Net Interest Income growing 28% whereas the other income has shown a growth of 19%. Expenses growing 20%. We have had larger provisions towards advances during this period as against 73 crores provided towards expenses in the last year, this year we have taken a provision of 206 crores which effectively puts pressure on before tax profits which is 23% rise YoY. For this quarter, the Bank's 436 crores profit showed a 47% growth on a YoY basis coming on the back of NII increase of 31% and other income growth of 43% with expenses growing at 24%. And again, compared to the same period last year, provisions have seen a growth from Rs.12 crores to Rs.36 crores for Advances**15:25**.

As regards the segment level within the Bank, this is as per the RBI classification which requires all loans or all sanctions which are in excess of 5 crores to be considered as Corporate or Wholesale. On that classification, for this year, the Corporate or Wholesale Bank showed a pretax profit of Rs.1,211 crores, the Retail Bank contributed Rs.614 crores whereas the Treasury had a share of Rs.146 crores in the pretax profit.

At the Bank level, Advances have grown 24% on a YoY basis, very much in line with the overall trend for the consolidated advances as a whole. And on the RBI classification of 5 crores and less than 5 crores being Retail and Corporate our effective advances at the end of the period are almost 50-50 between Retail and Corporate.

At the Bank balance sheet level, we have grown the standalone balance sheet to 83,694 crores at the end of the year. Deposits growing 32% for this period. Savings Account balances had a 44% growth on a YoY basis. We closed this period March at 7,268 crores. When we had started the campaign for 6% in November 2011, Savings Account number was 3,500 crores. This has more than doubled in about 17 months period.

On the Liability side of the Consumer Bank, we have added 82 branches during this year. We closed the year at 437 branches and 961 ATMs. We expect to end the next financial year March 2014 with the branch number in excess of 550 overall. We have added about 2 lakh customer accounts during this quarter. And if one looks at the overall CASA number plus the term deposits which are below 5 crores, that constitutes about 59% of the overall deposit base of the bank. We continue to focus the segment on the affluent population of the country as well as the big focus on the digital space going forward. The Consumer Bank asset side has grown 26% on a YoY basis ending the period at Rs.27,000 crores. Delinquencies in this segment continue to be extremely low. The focus continues to be on the SEMP segment as well as a lot of cross-sell opportunities with the bank branches.

Commercial Bank which is primarily lending into the non-urban India, the growth of Advances during the year has been at 27% that segment clocking an overall net advances at the end of the period at 24,000 crores. Big growth in the Agriculture division lending. We are now the "No. 1 Tractor Financing Bank" in the country. We have also used this division to focus on asset-led branches in the rural areas and continue to have the growth in the Agri segment. The

Wholesale segment grew 18% on a YoY basis with focus continuing to be on the working capital segment and efforts to deepen franchises across the customer segments.

Kotak Prime, as I mentioned, ended this year at 431 crores post tax profit and this quarter at 119 crores. Overall Advances in Prime are 17,000 crores; about 75% of that coming from the Car finance-led activity. Very low net NPA numbers at 0.2% and decent ROA in that business at 2.6%.

The Life Insurance business recovered from all carryforward losses is now in profits on a net worth basis. A healthy solvency ratio ending the year at 2.93% and focus on the traditional segment for the last year.

In the Securities business, as you are aware, the trading volumes have shifted largely to the options segment, we continue to have a market share at 2.5% but the larger share on the cash market segment. We currently service about 8.5 lakh secondary market customers split across 20-30 branches and franchises across the country.

The Investment Bank has been involved with offer-for-sale of a number of companies, including NTPC, Oil India, SAIL, Mahindra Holidays and the others, has also been a financial advisor to a few transactions on the advisory side, and has been in the middle of fund raising for tax free bonds for IRFC **HUDCO,** IIFC. For this year the Investment Bank clocked a post tax profit of 17 crores.

The asset management across the group now handles AUM of about 55,000 crores, up from about 45,000 crores last year. A big growth this year has been in the domestic mutual fund, particularly on the debt side. Overall the assets under management for the domestic mutual fund for the Jan-March quarter have been close to 36,000 crores, where for the period end it ended at about 31,000 crores. The alternate asset business which comprises private equity, real estate and the infra fund, overall we manage about 4,750 crores under management currently.

Those were the broad highlights. We would be open to take any questions on the numbers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Ashish Sharma from Enam AMC. Please go ahead.

Ashish Sharma: For the Kotak Bank standalone, just getting a sense on the cost-to-income ratio, we hit close to 50%. Do you expect further improvement as efficiency kicks in for the branches you have opened in the last two years, any guidance on that?

Uday Kotak: I think the cost-to-income ratio for the full year we are at 50.6%. If you recollect at the last year's call, we had guided that as we move into '13-14 we would like to see the first number sharting with 4 The second digit really depends on two things. How much efficiency we can versus how many new branches and ATMs we open. So I would like to continue with this view that next year we will try and reach the 50% barrier in terms of the cost-to-income ratio. or around that is really dependent on how much efficiency as I said we can squeeze. But keep in mind we are going to be opening more branches in the next year than what we have done in the current year.

Ashish Sharma: And second was on the non-interest income for standalone bank that is Rs.364 crores number for Q4, any one-off in that or it is purely core fee income?

Jaimin Bhatt: No, there is actually no one-off there. We have some amount of the stressed asset recoveries but pretty much in line with what we have been doing across.

Ashish Sharma: And any split between Retail and Corporate for that?

Jaimin Bhatt: No, not really, nothing which is extraordinary in that segment.

Ashish Sharma: And what will be the guidance in terms of non-interest income? Will it be tracking the balance sheet growth?

Uday Kotak: Yes, we need to get more efficiency in things like getting higher share in foreign exchange business, in transaction fees, but nothing which will be like an outlier. We are going to see steady granular build-up and growth. One point which I must mention that this year if you look at the current year which is for March '13 the ARD division or the distress asset division, net profit contribution has been pretty low in the total profits compared to the previous year. And at this stage, the initial signals in the next year are more positive on that business compared to '12-13.

Ashish Sharma: On the credit cost guidance, I think peer banks are doing very well in terms of credit costs. Do you think this is sort of an outlier number and the normalized credit should sort of inch up in an ensuing quarter?

Uday Kotak: As I mentioned, I think it really depends on how the economy turns. The current status of the economy is challenging. And I would like to sort of guide at this stage and of course we will keep on refining our views as we go down the year but at this stage one should be ready for credit costs somewhere between 40 and 50 basis points.

Ashish Sharma: Just last question. In mortgage loans, what will be the contribution of LAP as a product or is it purely mortgages?

Uday Kotak: 40 is LAP and 60 is home loans.

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

Aditya Narayan: I had three questions. The first was just following on from the last one on mortgages. You have now reached about 15% of your overall consolidated loan size from a mortgage perspective. Where do you think you are going to a) start capping that; and b) in terms of the return structure there, if you could give us some sense of how the return structure is panning out there? The second question was on something you had said and probably done in the last quarter, which is you made a strong call that rates would fall and to some extent your book was positioned for that, a) some sense on how that has played out and secondly, is there something you are thinking of this year and generally other strategy, will you have such tactical leaning going forward? The third question was on the capital markets side. You have talked about what you think might be a bit of a revival now. Given that the market has changed, I guess your own structure has changed a little bit, what kind of leverage do you think there will be for your capital market businesses if the markets were to pick up? How much of effective upside would you see from a return structure there?

Uday Kotak: First, on the mortgage book, again, there are three parts to the mortgage book on a big picture basis. Number one is of loans, number two is LAP, and number three is commercial real estate and developer loans. And it is quite amazing in terms of the variance of the returns of the three, and at times you ask a question, are these returns commensurate with the risk. And therefore, in terms of how we build this out, my view is that fundamentally, we like secured lending, home loans of course is the lowest end from a returns point of view but there is a customer stickiness and CRE is the highest. You probably know that a lot of private equity players are now plunging into lending to real estate through various structures. So, we actually believe that between the three, we have got our mix of the 15% and at this stage would like to believe that the mix would be broadly in the similar range in terms of the mortgage loans as a percentage of our total loans. Now, whether it is 15%, 18%, we do not see it going above 20% in the reasonable future. That is one. Secondly, on rates, as banks, you really have three main levers of making money. Just trying to simplify it, there are lots of ways banks can make and lose money, but I am just trying to simplify the three big levers for making money. One is spread, second is fees, and then third is directional bet cost interest rates. At this stage, your question specifically is with reference to Point No. 3, for us, the way we would like to position is certainly we are bolder in this than what we used to be historically. So, if we feel that there is a view we have, we are voting more actively on our fee than we used to. So that will give you a sense about how we position this, but we are not being bolder than because we have issues on the credit side. So, we think that finally you can play the credit cycle carefully and be bolder on the treasury side; it is not a bad thing. And in that context, in addition to treasury, my view on the distress asset business also is that we think a little more wind in '13-14. And lastly, on capital markets, let me say that we love this business. And yes, it has had very rough 5 years. In many ways, the revenues, people and players in that business have hurt pretty deeply but that does not reduce our commitment in terms of what leverage that business can give to our totality. Therefore, just because they have become a smaller percentage of our total pie, we will not take the eye off the ball in terms of getting that leverage should we see more opportunity. Yes, the market place has changed. The structure of the industry has pretty significantly changed. A lot more global players versus domestic presence, but we also see many global players significantly cutting their own capacity. And for us, on a relative basis, the cost of keeping our presence in those businesses is relatively small in our overall scheme of things and it is an option value we will certainly want to play.

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

Kunal Shah: On the priority sector lending, we had seen a significant growth on the Agri advances. So how are we in terms of a priority sector lending, what is the shortfall this year vis-à-vis if we look at it on the FY12 basis, if you can just provide some color?

Uday Kotak: We are a little short of 40% because of the change in guidelines by RBI, and around 36-37% is where we are ending this year at. And in terms of the mix, actually Agri mix is pretty good in this total. And I think we are significantly more comfortable than a lot of our peers.

Kunal Shah: How would this have been, say last year?

Uday Kotak: Last year was over 40% in terms of what we reported.

Kunal Shah: And Agri, we would have met the entire thing or would this shortfall be primary on the weaker section side or on Agri also?

Uday Kotak: It is a combination, but overall we are marginally short than what we wanted to be because of the change in guidelines by RBI in July last year. If the guidelines had continued as they were, we would have been well above 40%.

Kunal Shah: Secondly, on this Kotak Mahindra Prime If we look at the advances ex-pure auto advances, the growth year-on-year has been quite significant. So if you can just throw some color as to whether this would be less or what is the nature of these loans which are sitting out there and where the growth has primarily come from?

Uday Kotak: I think Jaimin mentioned that. Car related dealer loans and all are around 75% of total and balance 25% is a mix of things, which includes capital markets, commercial real estate, and some regular business lending to some related business opportunities. So it is a mix of all those.

Kunal Shah: But maybe in terms of growth, maybe everywhere we would have grown at a particular rate or maybe on some of these segments, ex-car, we would have grown at a higher pace?

Uday Kotak: No, I think more or less similar. No dramatic difference. Of course, the yields on ex-car business are better than car business.

Kunal Shah: On the private equity side, has there been any exits during the quarter or it is just the re-grouping because if I look at the private equity fund, the corpus was Rs.2,000-odd crores, which now shows at Rs.1,570 crores?

Uday Kotak: Yeah, I think private equity funds there have been some exit, against that we have raised a new infrastructure fund and had a first closing close to $100 million and we hope to raise more money in the current year both in the infrastructure fund and in real estate fund.

Kunal Shah: So on these exits, maybe the overall it seems to be somewhere around Rs.430-odd crores of exits. So any profit booking which would have been done on this, maybe because the profitability on the KIAL is almost similar to last quarter?

Jaimin Bhatt: There will be profit booking for the investors in the fund, but which will go down to KIAL levels. But ultimately in that game, you will have to first return the entire money before you can get any share of that profit.

Kunal Shah: Maybe the outlook on margins would also help. You had provided an outlook on most of the other stuff in terms of growth, credit cost and all. But how do you look at the margins going forward into FY14?

Uday Kotak: If you recollect, exactly a year ago, on this question, we had guided that around 4.5% is what we could sustain. At this stage, we believe around 4.5% is sustainable as NIM.

Kunal Shah: If we look at overall, maybe your stance which says that maybe you will see some shift in savings happening from say, gold and real estate to more of financial nature, which would be helpful to a bank. Apart from that, I think the excess SLR today on the book is also huge as of now because I was just looking, it is like Rs.21,500 odd crores of G-Sec vis-à-vis the balance sheet size or say overall liability of say approximately 70,000 odd crores. So maybe there also there seems to some kind of an excess SLR. So looking at this situation, would that be more of a drag on earnings or say margin?

Uday Kotak: Keep in mind that first of all, how it works is that to the extent your SLR over and above your statutory requirement it is refinanceable at the repo window of RBI. And we would do that only if we think there is a positive carry broadly. Number two, in addition to SLR, we also have some book on the non-SLR investments, very highly rated investments in that category also. And it is a bullish view which we have taken, which I discussed even in the January quarter, about our view on some softening on interest rates which as of today has been working and obviously, we are doing it within the framework of this management we are comfortable with, but it is a stance which we have taken.

Kunal Shah: What will be the excess SLR as of now?

Uday Kotak: The excess numbers I think Jaimin can give you, but we are running in excess of that, but keep in mind that is fully refinanceable and therefore it is not a drag on our balance sheet from the point of view of being funded by deposits.

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

Amit Ganatra: My only question is on the growth guidance that you provided. Basically at the beginning of last year, we were looking at economy which was slowing down, and that has actually happened. Now in that scenario, you have managed to grow at 24%, 25%-odd. Now you are basically expecting some sort of a recovery maybe in the second half, but at least a recovery next year. So why growth guidance of 20%? Why not to maintain the same growth?

Uday Kotak: First of all, I have not guided 20%, let me correct, I have said 20s. And if the economy remains where it is, it is early 20s, if the economy shows pick up, we could think about going to late 20s.

Moderator: Thank you. The next question is from the line of Subramanian PS from Sundaram Mutual Fund. Please go ahead.

Subramanian PS: My query was on Kotak Prime. I think we have had a 25%, 27% kind of asset growth, but profits have grown just by 10%, 11%. If you could just attribute to what actually resulted in the lower profit growth and what do we need to factor in the year going forward?

K.V.S. Manian: In the Car business in KMP, had undergone a compression of spreads there over the last year but we have seen the spreads improve through the later part of the year compared to where we started the year. But, on an average through the year that was primarily because of compression in spreads.

Subramanian PS: And could you please quantify that.

K.V.S. Manian: Quantify the spread?

Subramanian PS: Yeah, on a year-on-year basis, how much was the compression?

K.V.S. Manian: About 35-40 basis points.

Subramanian PS: And do we expect to recover the entire part of it?

K.V.S. Manian: Like I said in the later part of the year, we recovered almost the entire spread but through the year we did suffer there **that.**

Uday Kotak: And some of it could have been respective of the previous year.

K.V.S. Manian: So, as the older book runs out we saw the lower spreads I think the placement spreads were fairly good and like I said that is why towards the year end we caught up with the …... Let us not forget one more thing is that last year we had some fee income booked in KMP in the non-car side of the business, which was not there in the current year.

Subramanian PS: So is it fair to assume an ROA of back to 3% or 2.9% next year? I think you are at 2.6% this year.

Uday Kotak: We also have to watch competitor action, but I can tell you at this point of time there is an improvement in cost of funds, which is quite attractive.

Subramanian PS: My other question was on the dividend payout policy. Given that you are not guiding very high on growth, there has been a small equity raising that you have done as of now and capital seems to be very comfortable. Just wanted to know your thoughts on the dividend payout policy?

Uday Kotak: **I feel that** from shareholders point of view, the firm is making decent ROE. Yeah, obviously, on marginal capital we are making higher ROE and that is from the point of view of firm overall capital but even then the returns are not bad. Number two, the moment you distribute dividend, there is a leakage to a third-party, mainly the Government of India in terms of dividend distribution tax and I think on behalf of all owners in this company that if a marginal tax rate is 33% and a dividend distribution tax is 17% of the money we distribute we are paying 50% of the money which goes in the hands of owners. And fundamentally, if we are building a stable leverage business which is fundamentally leverage and risk taking philosophy of being conservative on dividend is at the heart of what we have been doing all these years. And at the same time, we have been gradually increasing dividend but the philosophy stands.

Moderator: Thank you. The next question is from the line of Rohit Shimpi from SBI Mutual Funds. Please go ahead.

Rohit Shimpi: In the last couple of quarters back, you had spoken about the different asset quality that you were seeing in segments like Corporate, Commercial and consumer. Could you once again highlight for us at this point how are you looking at each of these segments?

Uday Kotak: As I mentioned of course, there are problematic sectors like infrastructure and a few others which there maybe hope but on the ground I do not think much fixing has happened and while we may not have any big exposure that is the big picture on the infrastructure and project side. But even within corporate, we are seeing some signs of a lot of mid-sized companies, which were keeping up the brave face in a slowing economy, probably now at a stage where they may hole out for the next few months but if the economy does not recover they run the risk of falling off. And that is a risk which I think is clearly there in the system. We have to watch that as the economy which has slowed down significantly, whether it is bottoming out and are we seeing a turnaround or is this going to continue. And in that context, how these corporates will be supported, there are really two ways. A lot of these middle market companies need capital. So I see capital coming to them in two ways. One is a la 2009, a sharp V-shape recovery and money coming into India which leads to them being able to refinance themselves on the capital side. So that is possibility one, though I think that is a lower possibility. The second possibility which I am seeing more likely and this is not with reference to our bank, but more on the banking system, some of the banks may raise capital themselves and carry the problems through this cycle which I think is a higher possibility for the banking system. So for a while some of the banks with reference to some of these loans may take equity kind of risk or loan kind of return. This is how I see on the corporate side. The Commercial side, interestingly, non-urban India is holding up pretty well, though I still believe that Construction Equipment and Commercial Vehicles are still areas to watch, they are still not out unless there is a signal of economic recovery which we see in the next 6 months. On the Consumer side, while the demand may have been slowing down, the credit is holding up very well. And it is still not showing any problems on the credit side. For example, car loan growth may slow down but car loan credit is not showing signs of problems.

Rohit Shimpi: In the service of primarily commercial there, are you seeing any stress in the books like loan against property or this which more in the small business related books?

K.V.S. Manian: No, in the loan against property side in our book, we are not seeing any stress as of now. It continues to be as good as it was. In the last 12, 15 months we have not seen any deterioration at all in our books.

Rohit Shimpi: And I guess similar for business banking?

K.V.S. Manian: Yeah, even on business banking, on the small side, we have not seen any deterioration at all in the last…

Uday Kotak: In fact, just to mention a point that we are hungry looking for asset portfolios. We had good ones of the time which we bought from Barclays on 5th January.

Moderator: Thank you. The next question is from the line of Arindam Bhattacharjee from Genesis. Please go ahead.

Arindam Bhattacharjee: Two questions; one is on an earlier comment on the dividend payout policy, etc., you mentioned in the past that there is really no need for equity in the business given the level of Tier-1 capital almost excessively capitalized at this point. So why raise primary capital from the recent Heliconia placement as opposed to just selling down on the secondary basis? That is the first question. And I know it is a small issue, but still why do it? And second question is the credit costs. You mentioned to expect slightly higher levels of credit costs for this year for fiscal '14, 40 bps to 50 bps. But given your previous comments a lot of the areas are not seeing stress, just some more color on where you could potentially see some stress going forward would be interesting?

Uday Kotak: On the first one, we have a five-year requirement to come down to 20% by 2018 in terms of promoter ownership. The routes available in front of us are three -- Inorganic, Primary and Secondary. As we think through all these three routes, we also have to take a call of demonstrating small progress; however small it maybe, in the overall scheme of things to the

RBI that we have made some movement down the path of going to the percentage we need to. We understand it is small and almost insignificant in the broader scheme of things. Currently, based on the approval, 5 - 5.5 year period from here, that we will have to get more, we have to see as we look at value creating assets or business acquisitions over this period, is something which we are very conscious of. And in terms of our preference it is inorganic, primary and secondary in that order. Again, I am speaking as a promoter, I may reach a situation where I will be left with no option but to move down that path, but for a person who has not sold a single share ever since the company started it is not an easy decision. So, I understand the surgical rationale of what you are saying, but keep in mind that however small this dilution maybe, I am also sharing the pain of the dilution alongside with all the shareholders. We also recognize that overtime, the optimum way for us would be to grow through value creating inorganic, but in trying to chase inorganic for the sake of it, we should not be making a stupid mistake as well, so that is also something which we are conscious but we are going through pretty significant internal debate on this road forward and we are thinking through very closely but I do hear your comment and therefore, have been very careful about not going overboard in terms of what we are doing on this, and it is something which we are conscious of because of the potential impact on returns. On your second point with reference to credit costs, I think we are going to be ready for potential credit costs if the economic cycle does not recover, possibly on corporate credit. And it could be in the mid-market or middle to larger corporate which have been hanging on for the last 2 years, but finally, giving up. That is the risk we see in the next 6 months coming to the fore. Therefore, that is one area where we need to be careful. The second area where we need to be careful is till Construction Equipment and Commercial Vehicles not showing great signs of recovery. And lastly, while the Consumer is holding up wonderfully, he has already demonstrated that he has started slowing down on his spend, so that is the first signal that there is a slowing down impact happening, and if that continues whether it would impact the credit side which has had a very good run, therefore, in the absence of a quick recovery of the economy, a combination of these make us feel 40-50 basis points is a reasonable number to assume. And this year has been 42 basis points but keep in mind within 42 basis points there have been some asset acquisitions on distress assets which have actually increased that. So if you took that out it is more like 35-36 basis points.

Moderator: Thank you. The next question is from the line of Umang Shah from CIMB India. Please go ahead.

Umang Shah: I have two questions in particular. One, you have already answered, which is regarding CV&C. Just want to understand that as per your assessment, how soon you think probably this segment can start growing and are you seeing furthermore deterioration in asset quality or probably it has kind of started stabilizing right now?

Uday Kotak: Let me say it has not got worse since the January call, but it has not got better.

Umang Shah: Second question was relating to Kotak Prime wherein for the Auto Loan segment we are seeing around 20%, 21% kind of a growth. So looking at the overall numbers for the industry, the car sales have not been that great. If you could just break it up into volume and value growth for this segment?

K.V.S. Manian: One reason it has grown is of course we have gained market share there, especially in the lower Car segment, we have gained market share. We have undertaken geographical expansion over the last 18 months to 26 new locations which is adding to volume. So it is largely coming out of extra share of the market.

Umang Shah: Over the past one year, how have your loan-to-values would have behaved? Have they increased further or they have remained pretty much where they were?

K.V.S. Manian: We have not changed any loan-to-value adversely at all.

Moderator: Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

Rahul Jain: Just need a few data points. So can I have the breakup of other income for the quarter first then maybe for a year?

Jaimin Bhatt: Talking about at the bank standalone level?

Rahul Jain: Yeah.

Jaimin Bhatt: Ballpark if you look at would be from the traditional commission exchange distribution of mutual funds, insurance, so that has contributed bulk of the 360-odd crores for the quarter. ARD division would have kind of cost close to 50 crores for this quarter.

Rahul Jain: And how much would have come from capital gain side or profit on sale of investments side?

Jaimin Bhatt: Very little, say, another 40-odd crores.

Rahul Jain: Second is, can you share the duration that you are carrying on your AFS book on the SLR side?

Uday Kotak: We change it pretty often. Again, we run it between the banking book and the trading book; it is a little more complex in giving you an answer right now.

Rahul Jain: But can I get the proportion by any chance of the AFS book in our total SLR?

Uday Kotak: I do not have it readily, it is something which we will have to just go back and see what we can share and how we can share.

Rahul Jain: In Kotak Prime, is it possible to get a broad sense of the composition of non-car book?

Uday Kotak Car book including car dealer funding and all that is about 75%, and the rest is about 25-27%.

Rahul Jain: So is it possible to get some broad sense as to what would be there in this 25% to 30% book?

Uday Kotak: Yeah, it is capital markets, it is some lending against commercial real estate, and there are some corporate loans.

Rahul Jain: Just wanted to get a sense on how are you now thinking about the credit costs and overall coverage ratio? Would you want to keep it at around 50% or so or if the environment is stabilizing, maybe you would try to bring it down further and stabilize it at a certain level? Can you just explain about how you are really thinking about the credit costs part?

Uday Kotak: First on let me just give you again something which is on philosophy which is important. If we have to restructure a loan, as long as we are not going to lose our money, we are comfortable making an NPA and then restructuring as a philosophy. And therefore, if you look at our restructured standard loan it is the lowest in banking. And that is coming again out of a view that much rather restructure after taking it through the NPLs if we have to. And of course, it is not that we don't restructure just for the heck of it. Because when you take a loan to an NPA, your provisioning is much higher than a restructuring, number one. Number two is in a restructuring you continue to accrue interest. In an NPA, you stop accruing interest as well as reverse the accrued interest. So both these from a revenue and P&L point of view are significantly different from a standard restructured loan but we are happier to do that because at least we know what are the things we really need to focus on and get on with, trying to get fair value of that asset. Again, on the matter of philosophy, there are two or three things which we believe are some of the practices in the banking industry which we just do not do, number one, from the bank's books, do not sell any loan to an ARC in return for security receipt. We know this practice is quite prevalent in Indian banking but something which we just do not do. For us, anything to do with that I think is fundamentally an issue because there is a risk of mispricing; the price at which you sell and then buy it as an investment. So, we do not like that, one. Number two, again, in the context of distress, we are very cautious about off balance sheet exposures which may potentially be protecting some of the stress through off balance sheet exposures rather than reflecting on the funded exposures, and we are very cautious on doing anything on that. So our philosophy on NPLs is you see what you get and you get what you see.

Rahul Jain: But just a small follow-up on this. So the current coverage that we carry at about 48%, 50% or so…

Uday Kotak: We carry 60%.

Rahul Jain: And what would be that if you were to exclude the ARC parts from this?

Uday Kotak: Same now, it is about 60%.

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

Amit Ganatra: Can I just get the movement of NPAs for the full year?

Jaimin Bhatt: If you look at gross numbers, we were at the beginning of the year 614 crores and we closed the year at 758 crores, and at the net level, 237 crores to 311 crores.

Amit Ganatra: No, That number is there in the press release also. What I wanted was the slippages and recoveries and upgrades?

Jaimin Bhatt: This would be net of whatever some recoveries and whatever increase this year.

Amit Ganatra: Movement number is not there?

Jaimin Bhatt: Not here with me.

Amit Ganatra: Because it helps to make like-to-like comparisons with the other banks as well. In the year end, most of them do disclose.

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

Pankaj Agarwal: Your cost of funds on standalone bank has decreased around 35 basis points sequentially, any particular driver for this?

Uday Kotak: Cost of funds, I think Jaimin will take the ratio and come back to you. I do not think the improvement is 35 basis points.

Pankaj Agarwal: So on calculated basis, if I take interest expense divided by your average liability…

Jaimin Bhatt: If you look at sequentially, my cost of funds has actually remained the same for the quarter versus the immediately preceding quarter.

Uday Kotak: For the year it has improved by about 35 basis points.

Jaimin Bhatt: On a year-on-year basis it has improved but not on a quarter-on-quarter basis.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Uday Kotak for closing comments. Over to you sir.

Uday Kotak: Thank you very much. Sort of summarizing where we are, we feel that this is a year which will see two forces working at the same time. One is beginning of the year with a slow economy unlike last year at an economy which was at a faster growth rate slipping through the year, we would like to believe that this maybe a year when the economy is starting lower and would gradually start moving up. Though we do not see a V-shape, we see a more moderate, gradual recovery in the economy with an average of 5.5% first half lower, second half hopefully better. And we will continue to watch it carefully through this period. We do believe that a loan growth somewhere in the 20s is where we will position ourselves and we will look out for opportunities on the inorganic side, particularly on asset acquisition which come our way and we think we are very well capitalized, we have the ability to, if growth opportunity comes in, to be able to take that and continue the philosophy of building a clean balance sheet, try and control credit and hopefully get some wind both from interest rate decline and improvement of savings going into financial savings. With that thank you ladies and gentlemen.

Moderator Thank you. On behalf of Kotak Mahindra Bank that concludes this conference. Thank you for joining us and you may now disconnect your lines.