



“Kotak Mahindra Bank Limited Q4 & FY16 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Kotak Mahindra Bank FY16 Earnings Conference Call. As a reminder, all participants' line will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you and over to you Mr. Kotak.

Uday Kotak: Good Evening Friends. Delighted to have you on our Q4 and annual presentation post the financial results which we announced earlier this afternoon.

I'll first start by talking about three things in the context of what's happening to the banking and financial sector and therefore the factors connected with Kotak – First is about loan growth; second is Credit Cost; and third of course is our Integration Process which I'll just briefly touch upon.

Loan Growth: For the year which has just gone by, we have reported loan growth of about 11.5% - 12%, but one of the reasons why this number is lower is because post the merger there were quite a few accounts which, by choice, we have taken a decision on the size of the exposures or exit. Our core operating Loan growth therefore is reasonably higher than the 11.5%-12% on a net basis. Also, keep in mind, 6% of ING Vysya's loan book, which was on day one identified, as the stressed book; on which also there was an additional focus, to run down or freeze it. So, 11.5%-12% therefore represents the story after adjustments of these factors. Going forward, I am happy to guide you as things look today and subject to all the caveats about what happens during one whole year in these times, we are quite confident of about 20% Loan growth going into 2016-17 and we see that as reasonably broad and we believe that the growth will happen on all the

three categories viz., Retail, Commercial and Wholesale. We are not necessarily biased against any of these segments as long as we get our risk adjusted returns from them. We do believe that a lot of our loan growth will come from gaining share and only some of it from the size of the market growth. Therefore, we believe that the overall market growth will be lower than this number and we will get a combination of these factors for our loan growth of 20%.

Credit Cost: We had guided in the last call of credit cost for this year on the merged bank of about 80-85 basis points and bulk of those credit cost coming from the erstwhile ING Vysya Bank portfolio. I am happy to report back that our credit cost on the basis which we had shared with you are 82 basis points for the full year. Going forward, we see a path towards normalization in the year FY17 and our current best judgment estimate for credit cost in 2016-17 on the combined merged bank is about 45-50 basis points from the current year's 82 basis points. In that context, we have also taken probably the first initiative to publicly disclose our SMA-II outstanding as of 31st March 2016. As you know, SMA as a segment refers to loans only to exposures above Rs.5 crore but it is a standardized format which has been set out by RBI for all the banks and therefore there need not be difference in approach between different banks. Therefore for the analyst community it is a reasonably standardized platform number which makes it easier for investors and analysts to compare in this sector. In that context, our SMA-II number as on 31st March 2016 is a total of Rs.153 crore or 0.13% of our net outstanding advances. We believe it is one of the lowest in Indian banking and it also highlights the fact that a lot of the loans, particularly from the erstwhile ING Vysya Bank have already flown in to a significant extent into the NPA bucket and wherein we have reflected our gross and net NPA.

It continues with our core belief and I think my colleague will talk about it that the fundamental of banking is the balance sheet and it is important for investors and analysts to have the ability to come out with a fundamental view, which is what you see is what you get.

Integration: 2015-16 was a very important year for us because we integrated, what was probably one of the largest bank mergers in India, with ING Vysya Bank as of April 1, 2015. This year has been a year for us to consolidate, get the two ships together and work on it. I am happy to inform that we see our integration process getting completed by end of this quarter that is June 30, 2016. And a significant progress has been made by us in the last year which enables us to really gear up for the future as we go forward.

Beyond Banking, which is now, we believe this is a very crucial time for us. Now having done most of the core consolidation of the two banks, having managed to get asset book broadly in line with what we would be comfortable with and credit cost being at elevated levels from '15-16, now moving towards normalization, we look at '16-17 with a significant optimism both on the absolute loan growth, but also significant synergy benefits coming out of the merger.

Beyond Banking, I am happy to also share with you that our Life Insurance business which was ranked at No. 9 for new business in March 2015 is now at No. 5 as of 31st March 2016. So, we have made significant progress and have grown that business at 50% + in an industry which has grown in early teens.

Also, beyond Life Insurance, our core model of diversified Financial Services India, is playing out pretty well, we are seeing progress on our Asset Management business, our alternate Asset business and in recent times we are finding a lot of traction in our Investment Banking business as well. Therefore, I look at the year FY16, we have, as a

team spent significant time towards internal consolidation and working on getting our house in much better shape, to a significant opportunity in 2016-17 despite the fact that we do believe the growth in the economy is going to be improving slowly and we expect to have advantage of both growing share as well as advantage of some economic growth.

With that, I will now hand over to my colleague, Mohan Shenoi to talk about the Integration Process.

Mohan Shenoi: Thank you, Uday. The mandate given to the Integration Management Office (IMO) was to integrate the ING Vysya into Kotak Mahindra Bank on Four Dimensions – People, Process, Technology and Synergy. I am happy to say that we are now at the fag-end of the integration process on all these four dimensions. People and Process Integration is more or less done. Integrated organization structures across various businesses have been announced. Close to 5,000 + processes have been harmonized and integrated. IT integration has also gone up smoothly so far. The core banking system integration is slated in end of this week and we expect that to go on smoothly. Along with core banking we are also migrating other satellite systems such as the Switch Mutual Fund, Systems, Demat, etc., all those are going to happen this week end. Overall, I think on all these four dimensions by the end of Q1 FY17 we would have completed the integration process.

Our experience on accrual of cost synergy has been very positive. We have been able to increase the span at supervisory level and at the same time we have been able to significantly increase customer facing feet-on-street sales force. Now, this has helped in rationalizing cost and at the same time increase customer acquisition. Even our experience on the revenue synergy side has been very positive. Average SA for Q4FY16 at eIVBL branches was around 34% as compared to Kotak branches which was at 43% YoY. So, this has helped in increase in

revenue. Even sale of insurance, cross-sell of asset products like car loans, etc., have also seen significant improvement in this period. All in all, I would say this merger has been excellent one which has been seamless and significantly value accretive.

With that over to Shanti.

Shanti Ekambaram: We continue our focused approach on our entire Digital initiatives. Main aim being customer delight, both internal and external customer efficiency, increasing Digital adoption amongst our customers, as well as launching new products. With that end, in addition to what we have talked about earlier, one of our key liability products which is the Savings Account; to digitize the entire process end-to-end we have launched it for our Corporate Salaried segment and are in the process of launching it, as we talk to our other segments. This has significantly reduced the turnaround time, improved the customer experience and made the entire process extremely efficient. We launched what we call the “Instant Loan Approval” for our internal as well as external customers and we have seen some very good response. Literally, you can get a loan in 90-seconds. We moved to online acquisition and decision making platform for our unsecured loan which is the Personal Loan. We have seen significant adoption in increase from December when we have launched it. So, we continue to focus on initiatives that will improve customer experience, internal efficiencies as well as provide an overall delight. Our Digital adoption continues and on benchmarking by external agencies, Kotak has been ranked as one of the fastest growing Mobile Digital Adoption.

As far as products are concerned, based on gaps and customer need, we launched the “Bharat Banking App” aimed at semi-urban and rural markets where there would be no connectivity and again multilingual i.e in six different languages keeping in mind the need. We continue to

focus on trying to launch products that are again customer focused like, NPS, as well as focused on social commerce.

I talked about the fact that our "Mobile App" has been rated one of the highest as far as India is concerned. We completely integrated many of the e-Commerce initiatives into our platform which makes it convenient for our customers to carry out their daily payments and their daily needs are very easily taken care of through the banking app. We are amongst the top five banks in "Mobile Transactions" both in volume as well as value and I talked about the fact that we have one of the "Fastest Mobile Adoption" and we continue to revamp and improve our website and our platforms to make sure that it is best-in-class and cutting edge.

I now hand over to Jaimin Bhatt.

Jaimin Bhatt:

Thanks, Shanti. I will just take you through the numbers which we have declared earlier today. Let me start with the bank. We ended this quarter with a Profit after Tax of Rs.696 crore Vs. Rs.635crore in the preceding quarter. Our Net Interest Income for this quarter has been at Rs.1,857 crore, with a rise in advances and investments during the quarter and of course on NII, we continue to pay the 6% including on the eIVBL customers, which for this quarter would have cost us about Rs.36 crore. We have had a small dip in the other income during this quarter, largely on lower non-fee income but we continue to be sitting on pretty significant non-realized MTM which is not yet part of the books. There is a lot of positive MTM which has not yet realized and not part of the accounting yet. Merger cost which we have incurred till date is just short of about Rs.150 crore. We expect some more cost coming in the current year but we would be somewhere in about Rs.175 crore of overall merger cost. This quarter we have taken a provision hit of Rs.200 crore. As Uday explained, the overall credit cost for the year including some of the ones which we have taken a hit

on the income would be about 82 basis points for the current full year. As Uday explained, for the current financial year we expect it to be in the 45 to 50 basis points range as we still have some pain of the eIVBL book to go. The loan book in the bank stands at Rs.1, 18,665 crore.

This quarter we have seen pretty significant growth happening on the commercial vehicles and the construction equipment segment. We have also seen a lot of the retail segment growing which includes the small business, personal loans as well as on mortgages and LAP.

Net Interest Margin at the bank for this quarter was at 4.35%. SMA-2 as Uday mentioned was at Rs.153 crore as of March 31, 2016; 0.13% of our outstanding advances. Restructured Standard Loans again at low levels; Rs.305 crore which is 0.26% of the overall net advances book. As in the previous quarters, we have had no sale to ARCs nor CDRs, no conversion to off balance sheet or rectification of any sort in the current quarter too. The net NPAs at the bank were 1.06%.

We end the year with the number of branches at 1,333, having added about 72 branches during the year since the merger and we now have a healthy distribution of branches across West, North and South of India and on track to getting to 1,400 branches by the next calendar year.

CASA ratio was at 38%. As Mohan mentioned, we have seen a healthy SA growth; the erstwhile ING Vysya branches showing a growth of 34% on a like-to-like basis as well as Kotak branches continuing to show 43% growth. On an average basis, both the Current Account and the Savings Account growth have been pretty healthy during the quarter. Savings cost were at 5.52% on an overall basis. CASA plus TD below Rs.5 crore now at 70% of the deposit base. We have also seen significant growth in the TDs below Rs.1 crore which is now close to Rs. 35,400 crore.

Capital adequacy pretty healthy at 16.3 % overall and 15.3%% at the Tier-1 level.

On a consolidated basis, Q4 profit at Rs.1, 055 crore vs. Rs.945 crore for the preceding quarter. Apart from the bank, contributions coming in from Kotak Prime at Rs.130 crore, Kotak Life at Rs.77 crore, Securities at Rs.51 crore, Kotak Mahindra Investments at Rs.50 crore and the Mutual Fund business at Rs.25 crore. Our overall net worth is close to Rs.33, 400 crore with a book value of Rs.182 per share.

Advances now at the group level at Rs.1, 45,000 crore. Among other businesses, as Uday mentioned about the Kotak Life business which is now at No. 5 among the private insurers, up from No. 9 a year ago and individual regular business growing at 54% against an industry growth of 14%. Kotak Bank's share of Kotak Life premium on an APE basis is almost 50%. Domestic Mutual Fund has had an average AUM in the last quarter of Rs.58,000 crore which is significantly up from about Rs.41,000 crore a year ago. It has also had a decent improvement in the equity market share and in overall market share. The total assets under management across all verticals is crossing Rs.1 lakh crore. On the alternate asset piece, we raised close to a billion dollars in this current quarter across real estate, private equity, infrastructure, special situations and listed strategies. Kotak Securities as I said ended the quarter with post tax profit of Rs.51 crore. Kotak Investment Bank was involved recently in the buyback offers for Dr. Reddy's, the offer for sale of Concor and has been recently involved with IPOs of Ujjivan and Healthcare Global. We've just about set up our IBU in the GIFT City, which was recently launched. So, those are the broad highlights for the current quarter.

We are now open for questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Aditya Narain from Citibank. Please go ahead.

Aditya Narain: I have two questions: First one was, in terms of fee incomes on a Q-on-Q basis, it is relatively flat. If there is anything one should read into that either in the asset linkage or otherwise? And added to that is just in terms of your 20% kind of Loan growth forecast for the next year, how would you see fee incomes grow given that, there does seem to be a lot of momentum in a lot of the associated businesses? The second is really, your perspectives in terms of all these new small banks and new licenses that are potentially coming to the market; how do you see that; either changing the landscape or impacting your business?

Uday Kotak: Aditya, one of the main reasons why fee income numbers are what they are is because of mutual funds, and there we have moved to an annuity model with the industry moving towards lower fees per annum compared to front end fees which was a norm especially for the previous quarters and normally as you know that fourth quarter is where you see a reasonable traction in some of these. So, I think fee income on that is one of the important reasons. Again, if you look at the fourth quarter, January-February versus the full quarter, you saw significant volatility across many parts of businesses including in the rest of the world and that had some impact; you saw bounce back coming in March but Jan-Feb was a reasonably rough time for financial sector both in India and also the rest of the world. Therefore, we believe that the core banking fees are continuing to grow. We are feeling significantly more confident about some of our subsidiaries businesses whether it is Asset Management or Life Insurance as I mentioned Also, there is some bounce back we are seeing in our Investment Banking business as we go into '16-17. So therefore fee income, is looking better from here.

Loan growth will obviously also give you the respectable banking fees. Having said that, Aditya, you know that we are not used to charging 5% and 10% for front end fee for loans. Moving on to a very relevant question and something which is on everybody's minds— one; is how is this whole Digital game going to play out as we think about the future and my sense on that and then what does it mean in the Indian context which is even more relevant. Therefore, on the whole Digital game, my view is the area where we will see the biggest competition is in the transaction space and it will get more and more brutal, and we believe that we will be certainly more alert than a lot of players on the street in terms of how we respond to it as we see the transaction flows get determined. So transaction is where I see the most competitive element including on the margins. Risk is a place where we would continue to believe that there will be differentiation and finally that will show up over time. The third area is whole area of knowledge and skill. Therefore, whether it is wealth management, asset management, investment banking and also specialized areas within financial services, those areas will really depend on the quality of knowledge and skill. There is of course a risk of commoditization there as well. As you have seen particularly what is happening in the US with ETF gaining significant traction over discretionary asset management, partly due to its poor performance. In the Indian context, I do believe we will see a lot of players which will increase the competitive element of the sector but I genuinely believe that, over the next 3-5-years disproportionate market share in Indian Financial Services will be owned by a few players. You are aware of the situation in USA, Canada, and Australia, where financial services had significantly consolidated. For example in US, you have seen it down to 4 major banks who have disproportionate share, similarly, you are seeing it in Canada and many other countries and I believe that India will also see a significant further consolidation play from here as you will see large market share moving to a few players provided they are also alert and

nimble. The question which you have to ask on structurally, Aditya, in the context of what you said is what happens. The Indian policy makers so far have made sure that no bank in India goes bust. Whenever there has been a situation which gets close, that bank has been merged with some other bank and historically with PSU banks as well. Now, as you increase this level of competition and as you see 20, 30, 40 players coming in, we all know inevitable aspect of more competitive environment is also mortality. I am actually wondering how the Indian policy and system will deal with mortality, as you get so many new players as a fundamental, systemic and structural issue which I am sure policy makers would have thought about before deciding to open up the sector. But that is part of more crystal gazing into the future. In the medium term, as I see it, whether it is more players or less, US has few thousand banks, but four banks dominate. I see the race to build to a certain scale, customer experience and quality has the key to be in that small group rather than getting left out and that is how I see the future.

Moderator: Thank you. The next question is from the line of Adarsh from Nomura. Please go ahead.

Adarsh: Sir, just again on the fee side, just wanted to check because the Rs.200 crore run rate that ING had before the merger, once we add that up, it looks like again a contraction. Agreed that there were certain parts like mutual funds, which de-grew but, can you explain like what happened to the ING piece of fees in terms of whether a lot of parts of that fee income, which was not desirable or too bulky and you've let go or how would have that tracked?

Uday Kotak: One simple question and I will give it to Jaimin immediately. You know my advice to the analysts and investor community is look through the quality of piece. I cannot comment on what ING piece were before the merger because that is erstwhile management. As far

as we are concerned, we will be very happy to get fees as franchise but not as something which is one time in nature and not sustainable or franchise driven. That is something which we have been careful with. We love fees but we are actually believing that fees requires a lot of hard work and franchise building and without getting into specifics, we are actually quite amazed at how some of the fee income numbers happen in the street in India and I am not talking about ING erstwhile, I am talking about the overall sector, but you guys being close enough would have a better sense of that. As far as we are concerned, we believe franchise granular growth but fees to the extent to which they are also less linked to risk versus risk based fees, all of the things which matter to us and probably that is a little old fashion way of thinking at. But over to Jaimin.

Jaimin Bhatt:

Broadly, the numbers you are talking about is more other income than fee income. So overall other income has a component of fees and component of other activities which would include a lot of things which are treasury and proprietary related. So if you split the two and that is the breakup we give out, if you look at Page #10 of the 'Earnings Update' which has been given out. The fee income overall has kept a steady pace. Even if I look at on a combined basis, yes, from last year Q4 to this year Q4, a significant part of the fee income which has gone down is thanks to the mutual fund commission, in fact, if I look at it, on a combined basis this year what we would have earned as mutual fund commission in Q4 would be less than what would be half of what Kotak standalone had realized in Q4 of last year. So that is a very significant drop. I am not even counting the ING Vysya and that is something which was expected as the AMFI rules had changed in the 1st of April this year. So that has been a big significant first point. On the other hand, as we reported, there are several other aspects of fee income which has not continued and to that extent if you look at a linear number from Q3 to Q4 we have actually increased the fee

income maybe a small amount but that is again coming from the fact that mutual fund last quarter to this quarter would be more or less the same number. On the non-fee income which gets into things like proprietary activities and what not, just as I mentioned, that is something which has been lower this quarter compared to both sequentially previous quarter as well as the last year same quarter, but recognize the fact that we are sitting on a significant amount of unrealized MTM which we have not booked and which will help us going forward.

Adarsh: I understand the granular part of it, but it looks like our fee to assets is 1.3%, 1.4%, not comparing to say players whom could have a lot of credit-linked fees, but say some larger banks who are as granular still have like 160 bps, 170 bps of fee to assets. So, I think from like a 3-year to 4-year perspective, do you see that number going up or probably being in line with kind of balance sheet growth?

Jaimin Bhatt: There would be parts of the fee which should be linked to the balance sheet growth which are let us say your processing fees or service charges or things like direct banking fees and what not, but there would be several other parts which are not necessarily linked to the balance sheet growth, Mutual Funds or other third-party activities like Insurance or even the syndication fees on DCM and all coming part of that. So, yes, we are pretty well positioned on the non-balance sheet activities also and presumably, yes, as Uday mentioned, we should be striving like fees but yes, of the right quality.

Adarsh: On the cost-income side, certainly, this year looks like a peak, because you have taken a lot of integration cost and one-off will not repeat. From a 3-year perspective given the granularity we are trying to build in, what kind of cost-income should one look at?

Uday Kotak: I think first of all in 2016-17, we would like to see the first digit in our cost-income ratio to be 4 and therefore below 50%. We do believe that cost-income is really combination of both income and cost and we need to make sure we significantly improve our handles on both sides of the equation. There is a price we have paid till now for capacity building which is effectively merging a bank which was in terms of network 90% the size of our network compared to where we were. Therefore, on a combined basis, a lot of combined cost has happened to build the capacity and we genuinely believe that we need to sweat our organization structure and system to get efficiencies out of this and therefore I would like to believe that even beyond one year and assuming everything else works out well, probably this is a slope downward and certainly for the first year we are guiding to a number which is sub-50% for '16-17.

Adarsh: Then it is still a drop you would say, because...

Uday Kotak: I would like to believe it is a slope down, but we will come back to you with a fresh guidance based on also real evidence. So rather than giving you a 3-year guidance without having done enough homework we have done enough homework of what we see in '16-17, so we are giving you a reasonable guidance on that.

Moderator: Thank you. The next question is from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa: My question is on Deposits. While it has been a great success on CASA deposits, but what we see is that while Deposits are growing very fast, the Loan traction has been relatively slower. I believe some of it would be conscious, but either the growth needs to pick up or probably are you looking at cutting Deposit rates going forward, otherwise, there could be some NIM pressures that could come in over time?

Uday Kotak:

Manish, let me divide it. First of all, I said our core operating loan growth for '15-16 was higher than 11-12% which we have reported. The reason is that as a matter of discipline when you get a reasonable size portfolio, you just want to make sure that you have done what is right for the credit of that portfolio. As a result of which in some cases we have exited, in some cases we have shrunk the book on a combined basis our exposures were too high and therefore we had to reduce that on a combined basis. So all that chipping and chopping is what we have done through 2015-16 and we are more or less done with that portion. So therefore, 11-12% growth which we are seeing on a combined basis has an element of that, which will not be such a major factor into '16-17 and therefore we have the confidence of giving a guidance of 20%. That does not mean we see the growth in the Banking industry at 20%, we think part of it will come out of growth in share and we therefore feel that Loan growth will be around 20%. On the Deposits side, I think we are making significant progress. From us dropping Savings Deposit rate, if I dropped it to the levels of the other big three banks, we would save Rs.600 crore a year. But just before you heard another question which was asked, "How are we taking on the challenge of the new players?" I do believe that the new players will use pricing as a method of disruption and at that point of time we need to make sure that we are not doing something which is shortsighted and given the market, we would rather play the game, be on the wicket and score runs. Even if it means in the short run, we are taking Rs.600 crore a year cost because of a higher savings rate. I would want to see the growth in our Savings continue in the late 30s to early 40s through 2016-17. For me the game of cricket is pretty easy; the easiest thing is to drop rates and show you good P&L next year. But that is not the play we are making. We are making a play which is over the next few years where we are gaining share, we are gaining customers and we are positioning ourselves with the capacity we have

for a significant larger play in the future. Therefore, it is a classic short term versus medium term and we are playing medium term.

Manish Karva: My question was also that like next year again if you see your overall Deposit including Term Deposits grow at 30%, while you are guiding Loan growth to be at 20%, would you be okay with that?

Uday Kotak: Let me just turn it around and I am not saying that we are going that way; if our Savings Deposits average cost is 5.5%. So is it too bad compared to Term Deposits one year at 7.5%? So if that share grew faster and I get a lot more customers. I believe some of the payment banks including some of the other players Digital-only players are going to be at 7%-8% for Deposits.

Manish Karva: No, I am also saying that your Term Deposits will also probably grow at 30% given the efficiency of the branches.

Uday Kotak: But rates are up to us. If you notice our rates on Term Deposits are very much in line with some of our major competitors. It is only on Savings that we have a differential rate compared to the big three or big four. Therefore, our view is Term Deposits we will continue to be competitive and we will not be an outlier on the higher side on pricing. But on Savings, we think it is a great acquisition tool, it is both an attacker and defense mechanism because if you got 20 new players coming in, you have to be very careful in giving away growth engine of 40% p.a.

Manish Karwa: Initially you mentioned about the unrealized mark-to-market gains, what are you referring to, debt products or on stressed assets or equity?

Uday Kotak: Jaimin was referring to the debt products but let me assure you that there are various other unrealized matters which we consider as part of book, we do not bother to reprice it or mark to market. That is journey of building a business.

Manish Karwa: On stressed assets, last year or year and half back you had given a number of about Rs.2, 000 crore of unrealized gains. So would you still believe a similar kind of a number exist?

Uday Kotak: Let me put it this way; now you must keep in mind the stress asset book has grown much larger – thanks to the bad bank of ,6% of the ING Loan book which is also a part of that and we think there is a lot of embedded value. I must also highlight one point and this is an important point for investors and analysts to know – If there is one thing, which is happening in India is recovery and resolution are happening much slower than anticipated by anybody. Therefore, if you get a loan which goes into the ditch, getting out of the ditch is getting much tougher and longer. Therefore, is there inherent value once you have marked it fully? Of course, but the IRR depend on how quickly you get it. Therefore, our view is do not mix accounting and resolution. For accounting, do what is right for accounting and get it out. For resolution, make sure you are focused on IRRs on the book you have and you constantly have to evaluate that but the legal process, the resolution process, whether it is DRTs, whether it is a functioning of ARCs, whether it is all these SDR, 5/25, taking over fixed real estate as part of your balance sheet, all that stuff is still not giving you cash as resolution. Generally, the truth of the pudding is, when you get your money back with returns. The banking system is sorely suffering from the speed at which that is growing which is really-really problem for the system as a whole.

Manish Karwa: This year has been a much muted year for Prime. Is it to do with Auto Loans or the Non-Auto Loans wherein probably we would have seen some margin pressures coming in?

S.A. Narayan: This year overall growth in the Car business has not been high. We have maintained our market share in that space and hence the total assets growth will be slower. Some of the decisions we have taken

consciously, because we did see in certain pockets and certain regions some amount of slowdown, especially rural India, so we have slowed down in certain areas for disbursement, but at the same time we found some amount of margin pressures especially in the last quarter. So, we consciously decided to reduce the overall disbursement in that quarter. We would wait and watch. We hope post monsoon disbursement is better. I can assure you that they are well positioned to improve our market share and volumes if we are confident about both volumes and margins.

Manish Karwa: The Non-Auto Loan business in the Prime that also seems to have not grown as fast this year. Is it to do with sharing...?

Uday Kotak: Manish, keep in mind that we have another subsidiary called KMIL. So Kotak Mahindra Investments net worth is lower than Kotak Mahindra Prime. Therefore, Kotak Mahindra Investments is our primary vehicle for NBFC financing non-cars. Size of the non-cars loans is much higher that KMP does it. Therefore, you got to look at KMP and Kotak Mahindra Investments together and Kotak Mahindra Investments growth is nearly 50%. So look at the two combined.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential. Please go ahead.

Roshan Chutkey: On this Kotak Mahindra Prime, so what is your outlook for this business?

Uday Kotak: Two-three things -- First of all, I think this year our anticipation of Car industry growth is 7-8% and we believe we will gain share and we will grow faster than that. So we would like to believe we will grow at about 15% this year on the Car side if the industry grows at 8%. On the other hand, there are two structural things which we have to keep out in mind medium-term – One, what is the impact of “Uberization”, how

many people would have bought a second or third car, will buy a second or a third car going forward. So impact of Uber and Ola will be an impact on overall Car industry something which we need to be aware of. I am saying, that will start impacting in terms of the speed of growth which slows down to that extent, maybe it is 1% or 2% p.a. this year, but it starts chipping away at what you call as the topping but over time Uberization and Ola will be a challenge to the car industry growth itself. The second big area is “dieselization”. How this whole diesel game plays out? We have seen suddenly the situation in Delhi. So both these have to be watched. Our view is 7-8% growth. We will gain share and we will grow at around 15% in the Car business if industry grows at (+8%).

S.A. Narayan: On the Uberization, let me also highlight one thing, that as it keeps growing, that segment of the market, the risk is different and we still are analyzing about what share of that market we want to get because the type of customers there is different from what we have been lending the normal car owner. And as they gain share, the call we have to take is how much and how will this entire scene play out, the borrowers who take 4-5-year loan will be in a position to continue paying, as the overall margin for them keep coming down as more and more Uber and Ola cars on the road.

Roshan Chutkey: Essentially in the borrowings on the standalone business, what does it comprise -- is it lot of infrastructure bonds?

Jaimin Bhatt: The quantum of infrastructure bonds for us would be very small and borrowings will include typically refinance borrowings which we would go to NABARD or SIDBI or NHP, some foreign currency borrowings and some infrastructure bonds. So it is a mix of each of these. Maybe at the year-end we may have some repo borrowings.

Moderator: Thank you. The next question is from the line of Seshadri Sen from J P Morgan. Please go ahead.

Seshadri Sen: I had a question on the insurance side. Two things: One is that there were some media reports about Old Mutual raising their stakes. If there is any progress on that and how is it heading? Secondly, in terms of disclosures on value of new business and embedded value under the new Indian format, are you contemplating that this year or any time in the future?

Uday Kotak: First, I would like to categorically state that at this point of time there is no discussion on Old Mutual increasing its stake. Secondly on the reporting of value of new business, embedded value, we will do it at an appropriate time. There is no current plans to be disclosing that and we will come back to you at some point of time as to when and how we plan to do it, because again in all fairness the whole issue about even this value of new business as I understand that like in accounting there are games people play. Therefore, there is something known as European value, there is something known as MCEVs and there are lots of ways in which you can skin this cat. Therefore, we just want to make sure that we see what everybody else is doing, what is the industry standard and then at an appropriate time come back with what we need to disclose and we are really waiting for that. We do not want to be caught in this game where different companies using different methodologies, different assumptions, different cuts to make themselves look worse or better and we will come back but we will come back in a very considered way, and we do understand the value of making fair and correct disclosures and therefore when we believe it is truly relevant and material and consistent with the standard we will come back. I am coming back to the banking example, the community and the street getting confused across disclosures on assets by different banks, what is right, what is wrong and getting confused. Therefore, we have become the first bank to come out as a part of our disclosure

with SMA-2 because that is a standard which is on the basis of which each of our banks report to RBI for all loans above Rs.5 crore. Therefore, you do not need to worry about what is included and what is not included and what assumptions are right or wrong.

Seshadri Sen: I have a question on related issue on your Home Loans. A) What share of your home loans is LAP? B) Where do you see that market going because there is a lot of concern being raised on practices in that and I am sure you are at the low risk side of the market, but is there some risk building up in the system which could affect your growth going forward?

Shanti Ekambaram: Firstly, we clearly distinguish between Home Loan and LAP. So I can say with certainty that at least 90% of the Home Loans are pure Home Loans. If you look at the market, you are seeing a sluggish real estate sector, though there are certain pockets that if you see in the south, certain pockets in the west where the real customers are actually buying. So when you look at our Home Loan business we are seeing a combination of new business as well as a small portion of balance take over. We still see stable trends as far as that business is concerned and individuals are concerned. Wherever they maybe business asset, again, we have not seen stress on the books, but that is where you have to watch out if there are any business customers on that. But otherwise, ours is still largely an individual customer driven and yes that is a LAP-driven business. Second, as far as LAP is concerned, we heard for the better part of last 12-months that there is stress building in the system and thanks to that we have been watching the portfolio very carefully but we are seeing very stable levels of portfolio even as we talk and we can see the results are there for last year where we have not seen the trends that have been highlighted by the market either in terms of stress or in terms of bad loans. As we continue to underwrite at the same pace, we maintain our credit philosophy, but for now it is still looking stable.

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

Rahul: This is Rahul here. Uday, you guided for 20% growth for '17. Now, what could make you change this assumption... what kind of indicators would you look for in order to change this number?

Uday Kotak: Two or three things – first is this is on the basis of a normal monsoon. We are not assuming sub-normal monsoon, we are not assuming a super normal monsoon. Secondly, on the basis that we do believe some of the banks in the sector will continue to lose share. So we will gain something from the share. #3, our broad philosophy of Loan growth is roughly 1.5-2x nominal GDP. Now if I go with the finance minister's budget numbers, it is based on 11% nominal GDP and therefore 1.5-2x plus some gain in share therefore giving you a number of 20%.

Rahul: But when I look at some of the other large private sector banks, their growth has clearly taken us by surprise. I was kind of wondering that given that our market share is still small, this 20% growth number can definitely surprise us from the upside it seems ... of course, subject to macro developments. So basically, you are trying to be a bit conservative and there could be some upside or this is the most realistic number for the next 12-15 months or so?

Uday Kotak: I'll come back and give you our view every quarter as we see the progress. Rest assured we are also hungry to grow, but we want to grow in a manner that we get money on our loans back as well. So we keep both that in mind and with that we also would love to grow because if you look at our NIMs, if you look at our margins on a risk adjusted basis it is certainly looking worthwhile to grow faster. But we just got to make sure that the principle also is taken care of as we go into the future. It is a combination of very high focus on getting risk adjusted margins right, because one of the things which I believe

deeply in banking, this is true not only in India but worldwide is mispricing of risk by bank where very often they become private equity investors with all the downsides and upsides. That is something which is always on our mind. Therefore we are ready to take risks which is why whether it is distress business, whether it is alternate assets, we are ready to put money to work but we must get returns for our risk, we do not like a situation where we are having our heads chopped off because some borrower has used our loan as equity and we are sucking our thumbs.

Rahul: A sub-question to this; Business Banking portfolio over the last 2-3-quarters has been kind of stable. Now when do you see this portfolio kind of pick up or still some...?

Uday Kotak: Keep in mind, there is a very large book on Business Banking and SME which is coming from ING Vysya Bank. One of the first principles we implemented post-merger is protect BAU, that is 'Business As Usual' therefore make sure you protect what you have got and as you get fully on top of it, thereafter you start pressing our accelerator. So that is exactly what we are doing. It is like consolidating, getting our act together, two banks have come together, lots of people coming together, and then you also have to make this tradeoff between how fast you integrate versus how fast you keep them as independent vertical. So we are working through all these but bottom line is we are now coming to what we call as the "End of our integration process" after which we have significant capacity to be able to grow faster as long as we get our risk adjusted returns.

Rahul: So, just wanted to understand what part of our fee income would be linked to the balance sheet growth as we get into FY'17 and what part would be otherwise?

- Jaimin Bhatt:** Tough to put a number but I would presume just on a quick basis almost half of it may be linked to including business which will include fee which I make on Retail, Branch Banking and the LAP with the customer also, not just asset-based but including the liability-based customer.
- Uday Kotak:** That is 50% there and 50% on the third party products.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Edelweiss Securities. Please go ahead.
- Kunal Shah:** Firstly, in terms of the non-fund based exposure when we look at it in terms of say some of the foreign banks they are also going slow and there is an opportunity which is coming up. So how do we look on the non-fund based side, particularly, say, the LCs, Forex derivative, in terms of being say ROE-accretive and would we want to get into that particular segment at say pace higher than the overall balance sheet growth?
- Uday Kotak:** I'll ask Manian who heads our Wholesale and Institutional Banking to give an answer to that.
- KVS Manian** Our firm belief is that non-fund based products revenues seems like fees, but large part of it is risk-based revenue and therefore ROE focus on that is extremely critical. We also believe that large part of the market misprices on non-fund based products. So we remain focused on growing this part of the business only on the basis that it makes the business more ROE-accretive. If you look at our numbers, the Letter of Credit business has grown, the bank guarantees have been relatively muted, but we also believe like I said in bank guarantees the pricing is just not ROE-accretive at all, in LC business we like that business better for the reason that it also gives you flows and other kind of revenues with the customer. So we do like some part of the non-fund

business but there is clearly some part of it which we do not like in ROE terms.

Kunal Shah: Because overall capital consumption would also be very low, because when we look at something like say sight LCs also coming in from a better rated Corporate, there is hardly any capital limits within it is to be assigned out there and fee income is also there?

Jaimin Bhatt: There maybe hardly any fees as well on that while there is hardly any capital. So I think it is a question of right balance between the fee and capital. Yes, you are right that capital requirement is lesser in some products, it is not necessarily the case with let us say financial bank guarantees, the capital requirement is extremely high and the price you get may not be good enough for getting the right ROEs there.

Kunal Shah: Mispricing is largely on the guarantees base or on the financial guarantees side of it?

Jaimin Bhatt: No, we see mispricing in derivative trade, we see mispricing in bank guarantees, we see mispricing in LCs, all of them, and the lure of fee income can drive this behavior because it comes up as fee but capital consumption is fairly high.

Uday Kotak: I wanted to at this stage share one other philosophy with you is we sit with significant capital, we have got enough capacity to take on risk and from time to time we keep on asking ourselves why do we not on a marginal basis get incremental business of the risk acceptable at significantly lower ROEs and we think very hard about that because on a marginal cost basis it is wonderful for P&L and growth. The challenge when you go down that path is once what you start as marginal basis, sooner or later start getting into culture and discipline and then you destroy the whole culture and discipline which is focused on risk adjusted returns, ROE and all the good things, the moment you

start going into we will look at that later. While we do not want to be too puritan about this, at the same time we like to have some core culture which focuses on ROE and risk adjusted returns rather than throwing the baby with the bath water because we have got surplus capital. I think it is a very important philosophic issue for us and something we care about. We may not be puritan about it but we certainly do not want to give it away and throw it to the winds.

Jaimin Bhatt: Another aspect is that some of these are really long-term lock up of capital and what looks like fees this year actually locks up capital for 3, 5, 7-years and it may be very difficult to reverse these for a very long time once you get into these.

Kunal Shah: I think cost-income ratio we are getting quite positive, in fact, like provisioning would also be lower over next 2-years. So finally in terms of ROEs, when we look say 2-3-years down the line, how we are looking both on the ROA and on the ROE basis?

Uday Kotak: I promise you one thing, Kunal, we would like to see it significantly better than where we are.

Kunal Shah: Yes, but this year obviously maybe because of all the integration cost and maybe the lower growth it would be on a lower side obviously the base is much lower in FY'16, but...?

Uday Kotak: All the stuff which we are doing now is to make sure that the sustainable ROEs keep on growing over time and that is the whole focus of what we are building. So it is like front-ending cost, front-ending capacity, and front-ending structure, all that is being done to build a sustainable model which can generate long-term sustainable growth in ROEs... I do not want to put a number but I would like to shock myself with what we can produce over next 2 or 3-years.

Kunal Shah: In terms of your perspective on the overall Commercial Vehicles segment, the growth there across the players have been quite strong, even the underlying sales growth has been strong. So do we see it more kind of sustainable or this is like just the initial phase of a real traffic moving towards the road and we have seen a larger part of it? Maybe this kind of a growth might not be sustainable, because we were amongst the earliest one in order to say slightly moderate the growth. So now, are we preparing for growth in this particular segment?

Uday Kotak: I think it is a damn good question. I will ask Narayan but the key question which we need to ask is how much of this growth is structural and how much of this growth is replacement demand. I think the jury is still out.

S.A. Narayan: The demand has come both from replacement as well as we see new demand coming because of both from the fact that I think more roads are getting built as well as the more from the mining sector. As rightly said we did pull back earlier from the sector. But in the last 9-12-months we have substantially increased our disbursement, we have gained market share substantially on a month-on-month disbursement and we will continue to grow keeping an eye on how the overall Commercial Vehicles sales are happening, the sales of the Medium and Heavy Commercial Vehicles last year was about 30% up and our disbursement would have doubled compared to the previous year, the Light Commercial Vehicles, etc., started growing now. So it is a very good sign if you ask me, normally this sector gives an indication of how the overall economy is going to perform, I hope I am right, but we will continue to grow the segment, we have made a lot of structural changes internally and I am more confident that our market share by end of this year will be more than what we are today.

Kunal Shah: So the lead indicators also suggest that okay, this would be more kind of a structural and it is not purely say the shift from the rail traffic

towards the road one which is actually linked to that in terms of last one year?

S.A. Narayan: It looks like but I am not in a position, because you will know it better than me as you analyze a lot of these numbers.

Moderator: Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please go ahead.

Praful Kumar: Can you please elaborate on the point that you made that recovery and resolution are much lower than anticipated by anybody, what are the impediments which nobody expected are playing out? Second, given the fact that a lot of large private sector banks in India are now biting the bullet and starting to take big ticket NPAs, do you think this can change in terms of resolution process?

Uday Kotak: I think this has been the reality over the last 2-years. The moment something slips in, the whole resolution process whether it is DRTs or DRATs, whether it is courts, whether it is a borrower's intent, ability to move money across the group companies, all that is a very big issue in terms of governance. Obviously, you are seeing the bankruptcy court as well. So hopefully that will make things better but it would take its own time. I think we are coming into a system, as some of you are aware of this, what I call as "Jalebi". You just cannot get out of it. You sort of keep on rotating around in the system, but clearly keen, neat resolution takes a hell of a lot of time and that results in significant drop in value. If it is further on top of lot of postponement which banks may have done where they have loaded interest and added fresh loans and then whatever else? I give this example, if you think about say 2011 loan which was Rs.100 loan, security was Rs.120 and there was a problem then, bank kicks that can in 5-years at the rate of interest of 14-15% with a lot of front end piece which some of you really like, the Rs.100 loan becomes Rs.200 loan and asset value which

was Rs.120 will become Rs.90 or Rs.100. So you now have a loan to value of 50% and then you try and recover Rs.200 and you are not ready to settle.

Praful Kumar: Given the fact that we have seen significant CASA momentum, where do you see this number going over 2-3-years? Some color on the deepening of accounts and new accounts that you are adding together now?

Uday Kotak: One thing is obvious; as I said cost-income go from 50s to 40s, CASA grows from 30s to 40s.

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

Nilanjan Karfa: When you talk about costs, would you not want to look it at as a percentage of your either total assets or your business which is Loans plus Deposits? That is why I do not see a lot of improvement, it has come off because instead of putting up operational cost, we put up equity to acquire it, but do not see a lot of improvement, and it has broadly hovered as a percentage of assets, upwards of 3%. How do you look at that number?

Uday Kotak: Keep in mind, 2015-16 is a year of transition. So I would say that when you acquire a whole new bank, you go through a lot of transition challenges, like for example in the June quarter, we took Rs.305 crore hit on pension underprovided by erstwhile ING Vysya Bank, it is a part of our cost. But is it something which is every quarter item? Answer is 'no'. Our view is if we see something which is we need to take recognition of we take it up front and move on. We now see that we have come to an integration cost as Jaimin mentioned that is stamp duty and other significant cost we have taken in this year and next year therefore we are guiding clearly to a sub-50% cost-income and

hopefully with a slope getting better. That is the core focus of getting that right. I understand cost as a percentage of assets, but keep in mind, certain element of fixed cost also comes in when your NIMs are high. So what you would otherwise have variabalized it is also coming through the P&L. We are looking at all costs very carefully and we will do whatever it takes to get some of the PAT out as we go into next year.

Nilanjan Karfa: If I understand or hear you right even on this particular parameter you would see the trajectory move down?

Uday Kotak: We would like to, certainly, but it also depends on the ticket size of your loans, no, if you are growing, your ticket size...

Nilanjan Karfa: Given that the structure of the loan book, which is more SME and more Retail?

Uday Kotak: That will always have a higher operating cost ratio compared to Wholesale that goes without saying but therefore it is back to what is the return I am making for the cost I am taking. It is a pure simple common sense first principle business approach.

Nilanjan Karfa: Second is on fee. Unfortunately, I always look at fee on a consol basis, because there are a lot of intra-linkages. Obviously, YoY are severely distorted. But, if you look at sequential numbers, it is actually very weak on every sequential number going back into history.

Uday Kotak: AMC this quarter.

Nilanjan Karfa: We talked about AMC fees. But this is something when I look AMC numbers, whatever was disclosed in the presentation, it does not seem that it has paid lot of fees, I probably did not understand that annuity part. I think you are ...?

- Jaimin Bhatt:** That is on the wealth side.
- Nilanjan Karfa:** So, can you tie it up all of this together because frankly looks a bit soft. Maybe we can take it offline?
- Uday Kotak:** AMC is actually much higher.
- Jaimin Bhatt:** If you look at the pure fee income on a sequential quarter, the bulk of the negative has been in the bank which we explained but if you look at most of the non-bank actually has done reasonable fine, some of them maybe flattish, the AMC has done much better if you look at the AMC income this quarter versus the sequential previous quarter was up by almost (+40%), Prime has been okay, investment book has been okay, the investment bank has been reasonably flat QoQ whereas almost the entire delta on account of the fall in the bank on the other income which is where again as I explained it is a non-fee income which has dropped down.
- Nilanjan Karfa:** When you talk of AMC and then you consolidate it, it gets cancelled out?
- Jaimin Bhatt:** No, the distribution fees in the bank is for selling all kinds of mutual fund. What we sell for Kotak Mutual is only a small part of it and whatever we make of all the other mutual funds
- Uday Kotak:** We are amongst the largest and the most independent open architecture distributors of mutual fund profit.
- Nilanjan Karfa:** I completely get that. I mean what gets nullified is just the Kotak AMC product?
- Uday Kotak:** That is very small part of the total, in fact, the biggest grip of our AMC is that Kotak Bank does not sell us enough.

- Jaimin Bhatt:** If you look at the 'Press Table' which we have given out, there is a note there which gives a breakup of other income and there is an item called "Commission Fees". There has been a marginal rise in the current period, previous quarter was Rs 912 cr and this quarter its Rs. 950 crore and this comes despite the drop which has happened in the bank.
- Uday Kotak:** Number 6 of the notes section of consolidated statement, Commission Fees, Exchange, Brokerage and Others, quarter ended March '16 is Rs 950 cr, quarter ended December '15 is Rs 912 cr.
- Nilanjan Karfa:** I'll probably take it offline. We have different Savings Account product. How much of this is actually the 3-in-1 product?
- Uday Kotak:** Not very large of the overall Savings product, it is growing but not very large.
- Nilanjan Karfa:** Then what kind of cross-sell are you getting out of this liability customers, if you can just help us with that because the numbers are fairly stable and rock solid, actually it is a good thing?
- Uday Kotak:** Yes, Savings, we are adding about 1, 10,000-1, 20,000 new customers per month.
- Nilanjan Karfa:** But of the stickiness in...?
- Uday Kotak:** We are deepening.
- Nilanjan Karfa:** How are you deepening it? There has to be some cross-sell product, right?
- Shanti Ekambaram:** Just to give a very broad perspective; if you look at this 6% Savings account product was new for the entire what we call the ING Network last year. Large part of the deepening came from there because customers they were having accounts but dormant, we were able to

bring them back. So that has a deepening impact. As far as Kotak is concerned we had both increases in acquisition and significant deepening this year and this is across the base of customers which is the simple branch banking customers, corporate salary customers, NR customers, priority customers, wealth customers, across customer segments this year we are seeing both acquisition and deepening route. So you had one new network where 6% was new and we saw a lot of deepening and the Kotak network both acquisition and deepening across very network customer segment. That is what made us so solid.

Nilanjan Karfa: Any color on the ticket sizes of these Deposits?

Uday Kotak: But having said that, I think the ticket size keep one thing in mind, we do not pay anybody more than 6, we do not do funny stuff of 7% and 8% and the average cost of Savings Deposits which is 5.52%, we pay 5% up to Rs.1 lakh, 6% anything more than Rs.1 lakh.

Shanti Ekambaram: No rate beyond 6% to any customer.

Uday Kotak: Despite that at our cost on a run rate basis this year if you look at we are close to Rs.600crore compared to banks at 4%, but we are taking that on our chin and through our P&L because we believe strategically that is the right thing to do.

Nilanjan Karfa: When we talk about this SMA-2, these are standard assets and interest paying assets that has not crossed 90-days...?

Uday Kotak: Exactly, it is known as Special Mention Account (SMA) as defined by RBI.

Nilanjan Karfa: Does it also include the 6% of ING?

- Uday Kotak:** Everything, this is for the consolidated combined single bank as a whole. What is not NPA, more than 60-days, less than 90-days across the merged bank?
- Nilanjan Karfa:** So what we put out as Rs.2, 500-3,000 crore, is that number from the ING's book?
- Uday Kotak:** That has grown either into NPA or it is there in the restructured book which we have said is 0.26% or Rs.300 crore or is in SMA-2 or whatever the old SRs they had sold or some of it maybe still not flown in, but very little of that.
- Nilanjan Karfa:** So that is a base to the SMA-2 essentially whatever is not combined?
- Uday Kotak:** Yes.
- Nilanjan Karfa:** Do you have the treasury income for the bank this quarter?
- Jaimin Bhatt:** That is across the group, so you will have prop, you will also have Forex for clients and what not. So treasury segment is given out, which is Rs.149 crore for the quarter.
- Nilanjan Karfa:** So you are not giving the old disclosures, you used to give that?
- Jaimin Bhatt:** Segmental profit is what we have given out which is there in the 'Press Table' also.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, that was our last question. I would now like to hand the floor over to Uday Kotak for the closing comments. Thank you and over to you, sir.
- Uday Kotak:** Really happy that so many of you attended this call. This is a very crucial time in the Indian financial sector and for us at Kotak. We are on one level, aware of the challenges which Indian banking faces but on the other hand also the significant opportunity it throws up and we

are looking to really see our integration process get behind us by end of June. We believe we will get our loan growth we are seeing, much greater handle on our credit cost and some of our broader financial services businesses are beginning to kick in, so we see a pretty good outlook going forward in a broader economy which we think is going to probably continue to have some challenge, but that is the opportunity. Thank you very much, Ladies and Gentlemen.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Kotak Mahindra Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines.