



“Kotak Mahindra Bank Limited Results Conference Call”

October 25, 2011



MODERATORS: MR. UDAY KOTAK – EXECUTIVE VICE CHAIRMAN & M.D.
MR. JAIMIN BHATT – PRESIDENT & GROUP CFO
MR. C. JAYARAM – JOINT MANAGING DIRECTOR
MR. GAURANG SHAH – PRESIDENT - ASSET MGMT & LIFE BUSINESS



*Kotak Mahindra Bank Limited
October 25, 2011*

Moderator: Ladies and gentlemen good afternoon and welcome to the Kotak Mahindra Bank Q2FY12 Earnings Conference Call. As a reminder for the duration of the conference, all participant 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 call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank. Thank you and over to you sir.

Uday Kotak: Good evening and good afternoon to all my friends. You obviously had a very busy day today and lots of things happening in the financial sector in India, so maybe it's appropriate for me to start with the big picture. In the financial sector, I would see the implications for the Indian banking sector. Obviously, the quarter percent increase on repo and reverse repo with a signaling of a pause that's a positive sign in terms of where the rate cycle is going and how the RBI feels about inflation and a reasonable clarity on the direction of where it is going. And the second and far more path-breaking move by the Reserve Bank on savings deposit deregulation. At here, I would like to think about this deregulation essentially in four clear aspects, the first one being in terms of what it does for the consumer and savings deposit customer. Irrespective of what different banks might say posture position, this would in the current interest rate regime lead to an increase in the returns to the customer on his savings bank deposit, so that is one thing I feel reasonability about the extent and the level to which that happens is something which to over the next few days. But the savings deposit rates do go up for the customer.

As far as the impact on the banking industry is a general point, we have seen liberalization by the RBI on the liability side of the bank's balance sheet with this move. One would like to see a similar policy thought process on asset side of bank balance sheets. Essentially, the fact that on CRR banks get zero returns, obligatory 24% SLR which makes a total reserving about 30%, significantly higher than most of the places outside India. As also pretty high requirements on priority sector, agriculture and weaker section. So we would hope and believe that along with reform and liberalization of the liability side of bank's balance sheet, from the point of view of the longer term help of the banking industry, there is thought on the asset side of bank balance sheet. So that is the second point with reference to the banking sector. And third point is really on what does this imply for individual banks and the big picture here again is in terms of cost of funds, it would depend on the percentage of liability. The saving deposit forms out of the total liability base of banks and each bank will have different impact on that link to that factor. We did a quick analysis of this number from the point of view of the size of our balance sheet and that includes obviously three parts, one is deposit side, second is non-



*Kotak Mahindra Bank Limited
October 25, 2011*

deposit liability, and third is capital. Our balance sheet at the bank standalone as of 30th September is about Rs. 60,000 cores around that and savings deposit depot forms just about 5% of our total balance sheet. Therefore, we will have to think the implications of this move in terms of our savings deposit base as a percentage of the total balance sheet and how do we think about our customer acquisition strategy as well as overall liability gathering strategy from the point of view of cost of funds as we think about the future in the context of a change which at this stage affects about 5% of our total balance sheet. And then of course, I am sure this is the way each individual bank will need to apply its thought process to working on this. The fourth point really is the increase in cost of fund if savings deposit rates move up and how do banks tackle that. My sense is that bank may absorb some of it, but some of it will need to be transmitted in terms of cost of funds and especially if it depends on pricing power these banks have. And I think we will watch the situation over next few weeks from our point of view and take a decision accordingly.

These are the four main plans about the savings deposit deregulation as we see in the context of our bank. I will just hand it over to Jaimin, my colleague, to take you through our presentation. But on a big picture basis, we have grown our loan book year on year at about 35% consolidated, bank standalone at 40%. At the same time, as I sit today, we are seeing a continuing improvement to the quality of this book. And our NPLs as a percentage have continued to drop all the way through and into this quarter. At the same time, as a philosophy, we have never believed seriously in the philosophy of restructuring of assets and therefore restructured loans as a percentage of our total loans and in absolute terms have actually gone down.

Last year same time, it was Rs. 130 crores, this year we are down to Rs. 72 crores, therefore we have seen it continually run down in this period. Back to very philosophic issue which has been very close to ours. And similarly on this whole business of corporate debt restructuring, at this stage we don't have any account which is a CDR accounts in our books as we talk to you today. So therefore, pure health of our balance sheet continues to be robust on the back of pretty decent loan growth. And at this stage, the way the year looks, we see ourselves growing in advances for this year around 30% year on year which is I feel, a little more confident about this number, so up from 25%-30% guidance which we gave at the end of last quarter and based on the fact that we have got quite a bit of it already in the bank. With that, I will hand it over to Jaimin to take you through the specific presentation after which we will take Q&A.

Jaimin Bhat:

Thanks Uday. Good evening friends, these are the numbers for quarter two which is July-September. At the consolidated level, we ended the quarter with a profit of Rs. 433 crores which is a 19% jump over the Rs. 364 crores which was the same period last year. At the bank standalone, we ended the period with Rs. 250 crores, which 34% rise over the RS.



:

*Kotak Mahindra Bank Limited
October 25, 2011*

194 crores for the same period last year. Loans as I mentioned, we have grown on a consolidated basis by 35% and we ended September with an overall book of just in excess of Rs. 50,000 crores. Net NPA, we feel the story continues to be good and other than stressed asset acquired, we have a net NPA of 0.36%, which is about half the level of what it was a year ago, not only that, we have seen actually the absolute numbers of our gross NPA come down over the period. NIMs we end this period at 4.8%. At the stand alone bank, our capital adequacy overall is at 17.8% with Tier-1 itself at 15.9%. CASA at Rs. 9,247 crores which is 26% of our deposits. Of which, current account would be 16% with savings to be somewhat less than 10% of the overall deposit rates. Advances of Rs. 50,000 crores, growth of 35% over the previous year, areas which have seen higher growth have been largely corporate bank which is now at Rs. 16,000 crores.

Commercial vehicles again show a growth of over 45% on year on year basis, whereas advances like agri, auto loans, and mortgage have been in the mid-20s. Overall revenue for the quarter at Rs. 3000 crores, about half of which has come from the financing business, which also is 50% rise over the same period last year. While the fee income is relatively flat, being a big change in mix where the broking revenues and investment banking revenues are lower on year on year whereas the fee income from the core banking activities has gone up. Entity wise after tax profits of Rs. 433 crores for the quarter bank as said is Rs. 260 crores.

Kotak Mahindra Prime which ended this quarter at Rs. 90 crores versus Rs. 61 crores a year ago, the other notable contributors to the bottom line for the quarter have been the insurance company with Rs. 53 crores and the securities company with Rs. 29 crores, which ends up the quarter at Rs. 433 crores itself. As we see this year, this period like in the previous quarter, the financial business has contributed a significant part of our overall profits and that contributes now 83% of the profits of first quarter, the capital market business contributing 6% and the insurance activity contributing 8% number. At the overall consolidated level our asset book is now about Rs. 84,000 crores with a net worth at about just short of Rs. 12,000 crores.

Our overall asset on the management cutting across to various entities is at about Rs. 50,000 crores. With this quarter, we end the book value at Rs. 161 per share and ROE of about 15%. As I talked about the net NPAs at 0.36, the gross NPA consolidated is at 0.9%. The financing business cutting across entities has shown a sharp rise with NPAs being continuously coming down. And as Uday touched upon, our restructured advances as of date, as of 30th September are down to Rs. 72 crores which is about 0.15% for advances, which is down substantially from Rs. 130 crores last year. And as he mentioned, we are not currently participating in any CDR outstanding at the moment. Our



:

*Kotak Mahindra Bank Limited
October 25, 2011*

net interest income has again grown in the quarter with Rs. 778 crores. And the profits from the financing business itself at Rs. 353 crores.

On the liability side, we end the period with overall ATMs of 755, we haven't grown branches during this quarter as we were implementing a big change of our systems. We moved to the Finacle system around the second half of all this. Our CASA deposit as I mentioned at Rs. 9200 crores of which CA constitutes 16% and SA about 10% of the deposit. Consumer finance which is comprising largely lending into the consumer activities which comprise of car finance, mortgages, personal loans and credit cards. It constitutes about 38% of our overall advances at about Rs. 19000 crores, has seen a slower growth than the other two segments which comprise the commercial banking and the wholesale financing activities. But we continue to focus there on the auto segment and the mortgage segment. We are currently doing mortgages in about 14 cities.

Commercial financing which looks at commercial vehicles, construction equipments, agri related lending and capital markets is about 29% of our overall advances at Rs.14,500 crores and has grown by over 40% over the year with big growth coming in the commercial vehicle construction equipment segment. The wholesale book has seen a sharp rise and is now close to one-third of our overall group advances at Rs. 16,000 crores not only in the funded books, but the non-funded book has grown sharply over the year and end the non-fund book at about Rs. 8,000 crores at the end of September.

At the bank standalone level, our overall income for the quarter is Rs. 818 crores with expense of Rs. 437 crores. Pre-tax profit, we ended at Rs. 382 crores, helped by the fact that our provision number for the quarter is actually net negative and that despite standard provisioning kicking in, effectively that meant was that recovering more from our past NPAs than creating new NPAs. Post tax profit of the bank is Rs. 260 crores. As regard with segments in the bank, the corporate bank at Rs. 198 crores against Rs. 138 last year, retail which comprises both the lending and the liabilities business at Rs. 165 crores and treasury at Rs. 19 crores. The bank's standalone advances have grown by about 41% on a year on year basis and if we look at the segmental classification as prescribed by RBI, where every loan of excess of Rs. 5 crores goes as corporate, effectively the retail and the corporate segments balance each other. As Uday touched upon, our balance sheet at the bank's standalone is now just short of Rs. 60,000 crores with net worth of the bank standalone at Rs. 7,300 crores. While deposits is what we touched upon, we have got significant amount of foreign currency and refinance borrowing during this period. The foreign currency positions at the bank level is about Rs. 3,500 crores are fully hedged as of now. Our capital adequacy something Uday touched upon, 15.9% Tier-1 and 17.8% overall with ROA at the bank level at 1.8. Kotak Prime ended the quarter at Rs. 90 crores profit. It has an advanced book now of about Rs. 12,500 crores. Of which about 78%



*Kotak Mahindra Bank Limited
October 25, 2011*

comprises car advances. Very low NPA number there of overall Rs. 22 crores in Rs. 12,500 crores book that's 0.2%. And Kotak Prime currently is sitting on a capital adequacy of 15.9%.

The insurance segment, current quarter overall premium Rs. 675 crores as against last year Rs. 735 crores for this quarter. The previous quarter, we had Rs. 511 crores coming in from the premium segment. Our solvency ratios there continue to be strong, we are at 3.04 as of September 2011. The insurance business is continuing to grow at Rs. 142,000 crores with asset under management at the insurance segment itself is at 8000 crores. We have seen the insurance entity has declared profit of 53 crores post tax as of this quarter.

The securities business as most of you are aware has seen complete change. If you look at what has happened from last year to the current year, both the cash volumes and the future volumes have gone down and whatever rise which we have seen has been in the option segment. The Kotak Security is a stock broking entity, ended the quarter with a profit of Rs. 29 crores as against Rs. 52 crores in the same period last year and Rs. 23 crores in the immediately preceding quarter. The investment bank has been involved with few transactions during this period. The joint venture of Kokuyo with Camlin, the business restructuring activity in Jubilant as well as demerger of the Orient Paper, for this period with revenues being subdued has ended with a small negative of Rs. 4 crores.

The overall asset management at Rs. 50,000 crores, of which domestic mutual fund comprises about half of that. The debt part of the domestic mutual fund comprises about half of that segment. At the domestic mutual fund, we ended the period at about Rs. 32,000 crores of assets under management, which is comprising both equity and debt. Equity is about Rs. 28,000 crores. The alternate asset piece, we closed Gilt fund in our real estate business in the current quarter which takes our overall assets under management and alternate assets to about Rs. 5,500 crores. That entity ended the quarter with Rs. 8 crores profit. That's probably the highlight for the quarter and we can take questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Manish Oswal from KR Choksey Shares and Securities. Please go ahead sir.

Manish Oswal:

Good evening sir. Congratulations on good set of numbers. My question on macro side, today we have seen RBI deregulated this savings bank deposit rate, so how we are positioning to capture the benefit in new environment. Could you spell out something about that?



:

*Kotak Mahindra Bank Limited
October 25, 2011*

- Uday Kotak:** Yeah I just made sort of position at the beginning of the call.
- Manish Oswal:** Actually I missed it sir.
- Uday Kotak:** Essentially what we are saying is savings deposit for us is a little over 9% of our total deposit base just below 10%. And it's about little over 5% of our total balance sheet at bank. Therefore when we think about the savings deposit deregulation, we have to think about how we position ourselves in terms of customer acquisition. For us, we have to focus on the cost benefit of customer acquisition versus higher saving deposit rate as a key part of our strategy and that's something forces deregulation today. We apply our minds significantly to think about the customer proposition and rates being only one part of that overall strategy as we think into the future. On a more general note, considering the current interest rate environment, my sense is that for the banking system as a whole and different banks may play this game differently. We do believe savings deposit rates will move up. But, along with the strategy on savings deposit rate as a price strategy, we need to have a customer proposition strategy thought through. And we will do some significant thinking on that and then come out with our game plan. We do believe that this obviously for the banking system as a whole leads to cost increase. On a relative basis, it hurts bank with no savings ratio compared to banks with high savings ratio. But does it increase the cost of the banking system as a whole, if saving deposit rates move up. The answer is yes. We may therefore be relatively less affected than the others and that doesn't mean that it does not increase the cost of funds for anybody who has got savings deposit as a liability. The question is how do we use the deregulation phenomenon and the period to leverage our positioning for customers and acquisition of customers and growth of a customer proposition as an integrated strategy, of which the saving deposit rate is one part of that strategy.
- Manish Oswal:** Okay. And second, when I look at the standalone numbers of Kotak Mahindra Bank, there is one line item provision which is negative. Could you explain any depreciation right being there or the loan-less provisioning stand....?
- Uday Kotak:** Our credit provisioning after standard provisioning compared to right back of earlier provisioning for moneys recovered from customers on a net basis was a positive outcome for the quarter.
- Manish Oswal:** Okay. And last on the non-interest income side, could you explain what is the driving non-interest income on the YoY basis?
- Jaimin Bhat:** Broadly, as I mentioned what's happening in the bank, why there seems a growth of the corporate bank that is also resulted in lot of the regular non-interest income of the bank



*Kotak Mahindra Bank Limited
October 25, 2011*

whether it's the credit, bank guarantees. The regular banking income has gone substantially during this period.

Uday Kotak: And that makes up for the drop in the brokerage fee income at the consolidated level.

Manish Oswal: Okay sir, thank you very much and all the best for next quarter.

Moderator: Our next question is from the line of Murli Gopal from Brics Securities. Please go ahead.

Murli Gopal: Good afternoon and thanks for taking my call. My question is can you tell me what's current rate on your short duration fixed deposits? I am looking at say 30-45 days and in that regard, would it be a reasonable assumption that in general has savings rates move up in a deregulated environment. The short duration fixed deposit rate probably is going to be sealing above which it's unlikely to trend. And in the trend connection if you can kind of tell me what's kind of the short duration fixed deposit rate, what's been the peak rate over the last cycle or so that would be very helpful.

Uday Kotak: I think you got to keep in mind on the whole area of interest rate at the short end. The rates vary pretty dramatically across buckets based on the quantum of deposits, that means the size of the deposit. And the more wholesale rate, that is say Rs. 5 crores and above or higher, the rates tend to be closer to what the money market rates are. And at the more retail end, they tend to be lower and they sort of climb up from the savings deposit rate gradually upwards. Therefore it's a pretty wide variation depending on the size of the deposit at the shorter end. On your point about where the savings rate market moves post this, it will depend on two or three things, one is each bank will have a different strategy for different customer segments, that is how I feel. In early days, it's something which we are sort of deeply engaging ourselves. Our team is here, all of us are here and which on eve of Diwali is something which has given us a lot to ponder. But it is about where do you position yourself, what is customer segment you want to focus on, do you want to have a proposition as a product, do you want to be a price leader, do you want to have price as one of the aspects of the whole equation? How volatile you want your balance sheet liability side to be versus benefits in regard to term deposits? So in a way this single deregulation has brought about a significant opportunity and a challenge for banks to think about this as an opportunity while it will certainly put pressure on cost of funds for banks.

Murli Gopal: Okay. And then can you just comment a little bit on your CASA deposits were down, the proportion was down in the current quarter and also the NIM outlook if you can?



*Kotak Mahindra Bank Limited
October 25, 2011*

Uday Kotak: Our NIM, if you look at it on a consolidated basis, we are at 4.8%, on a standalone basis, we are at 4.7%. It sort of continues. Yes there has been some trending down, but in the context of the speed at which interest rates have moved up, it demonstrated we have been reasonably able to pass the higher cost of funds back on to the lending book. We believe that NIMs, in our case, we don't see them to collapse, because I mean there may be some trending depending on how this whole saving deposit gain gets played out and what is the implication between how much we as a bank absorb versus how much we pass on. And in that context, we also have to think about the strategic aspect of customer acquisition versus short term NIM and looking at that equation as we look at in the future. And I think after today's deregulation, we will look at NIM in the context of the strategic focus we want on the customer side, on the liability customer side.

Murli Gopal: Okay. And lastly on the life insurance side, looks like you have a nice improvement in the margins although obviously the top line remains challenging for the industry. I mean is this a function of all the new initiatives that you had to take approximately a year ago or so. Can we kind of expect margins to sustain at these levels or be any one-off items here?

Uday Kotak: I will ask my colleague Gaurang Shah, who heads the insurance SBU, so Gaurang...

Gaurang Shah: Yeah I think like we had a lot of cost cutting and other things, so year on year the cost also down by around 18%. And the other is so far as the new product mix is concerned, it maintains more or less the margin which you have in the past. The only issue is now how do you bring the sales up plan that is going to be the real challenge. And I think the October 2011 onwards, you will see the new normal growth for the insurance as we complete cycle of the whole year, but the profitability at this point looks quite okay for the year.

Murli Gopal: Okay great thanks a lot.

Moderator: Our next question is from the line of Sheshadri Sen from JP Morgan. Please go ahead.

Sheshadri Sen: Hi everyone, thanks for taking my question. I have few questions, two separate questions. One is set of questions on your savings bank or the impact of the savings bank and the second your corporate loan book which grew very aggressively. On savings bank, what is your assessment of what it costs to run in savings bank? So what differential between say a 90-day deposit and savings bank rate you think is fair, which would include (a) the operating cost of running the savings and (b) the optionality that you give the savings bank customer in terms of being demand deposit. And some more color on where do you see the pricing and I do realize that in the short term that fair pricing may not hold as the



:

*Kotak Mahindra Bank Limited
October 25, 2011*

market tries to find its level. But over the longer term, what would be the fair differential in your mind? And secondly the corporate loan grew fairly fast over the quarter, if you look at the quarter-on-quarter basis, some color on where that came from, which segment and what the outlook is.

Uday Kotak:

I think on the first question, this saving rate deregulation, we need to first think about it in two aspects, the strategic aspect and then the cost and spread aspect, as a second aspect. On the strategic aspect, the way we are thinking about it is how do we look at the savings deposit rate as one of the components for superior customer acquisition going forward where in addition to the other aspect of the proposition, where price as a variable was not available at all, now price as a variable starts getting available. So that is the strategic aspect. Within the strategic aspect, one needs to think about customer segmentation. Customer below 1 lakh, customer upto 10 lakh, customer above 1 crore, how do we think about different segments of the customer as we think about the strategic aspects and where do we want to go and focus on customer acquisition. We believe, while price is certainly an important characteristic, for a sustainable customer acquisition strategy, we will need to rethink the entire customer proposition because obviously one is out there acquiring new customers and also looking at customers whether we can acquire customers from other banks strategically as well as what does it cost, I mean, strategically to strategically what is the cost of that acquisition in the medium talked. Therefore pricing strategy would be a part of that overall proposition and could be different at different points of time as the market levels out, but more importantly, what is our strategic goal and hunger on, how much we want to acquire customers. So it is the whole new ballgame which comes up with opportunities and challenges. You realize it rightly that it is not something which we will sort of, see an equilibrium urgently in a short while, but we think it's a very significant strategic opportunity in front of us as we think about our customer proposition. In terms of the price side, again obviously you have the repo rate, the reverse repo rate, the interbank call rate at the wholesale sale end and you have the whole customer segment from wholesale to retail and as we have got more and more retail as we get more and more fixed cost into the branch network, the fixed cost component of the rate becomes higher. Therefore ability to price the savings deposit on a fully costed fixed cost of the branches and everything else is very different from pricing of more wholesale kind of savings deposit. And if you notice, RBI itself has given the ability for banks to price differently at different points on the curve as long as one is paid to the customers for that amount. Therefore the equilibrium even on the customer segment at different amount is an interesting new variable which is now coming to the game. And I do believe that in totality for the banking system as a whole, the cost of funds from a licensed 4% era has changed. Therefore total cost of funds of banking system as a whole will go up. Obviously within that, there will be winners and losers and



:

*Kotak Mahindra Bank Limited
October 25, 2011*

winners and losers will not be only on the basis of price, but price is a new component of that and those winners and losers is something which will have to be thought through and we are obviously wanting to see how we can leverage this challenge and opportunity at the same time to get advantage of this. I think the game changer, which has happened in this industry. So I am giving a long answer, but in nutshell, I think the pricing will be more wholesale oriented at larger savings deposit and as fixed costs are larger part of the absorption, the ability to price at the lower end of the deposit curve is a different point of view. But I do believe the average cost of savings deposit will go up from 4% where it is. Whether it is 50 basis point, 100 basis point, 200 basis point or more, difficult to say at this stage and it also depends on how the different competitive plays also happens, but I do believe that a savings customer will not be won only on the basis of price. Price will be an important component, but will be a combination of things. Moving on to the second question, in terms of corporate, on the corporate book which we have grown, its pretty clear how we have thought about it. We have moved to the higher end of the curve. We have tried and avoided a few sectors, which we have been finding it as a worrying sector for a long period of time and in some of the sectors which I can clearly tell you of the curve, we have been pretty cautious on the infrastructure sector, airline sector and similarly, we have for example even on textiles we have very limited exposure. So we have been focussing on moving up the quality curve as we have grown on our advances book at the corporate end and that I think is critical at a time when there is reasonable uncertainty in the economy. You want to make sure the balance sheet is kept clean and has the resilience to all at the same time not the downside risk of credit losses.

Sheshadri Sen:

Thanks, I do have a follow up if you permit me, doing basic math on a Rs. 1 lakh, savings bank deposit, a hundred basis point movement in interest rates is Rs. 80 a month. We know it will be difficult to move to so for rates to be any sort of incentive for someone to take a decision on which bank he banks with. But the question is that, you know, what is the size of the opportunity in the really bulk sale of 2 lakh, 3 lakh, 5 lakh kind of segment. If you look at your own book will give us some color on what percentage of your savings book are these high ticket accounts and if you scan the environment for that as well, that would be very useful. Thanks.

Uday Kotak:

You know, Sheshadri, we had a board meeting all that period, something which we have already started engaging our minds about this, see and there are two parts for it. One is our existing book at 1 lakh and below and existing book above one lakh and above 10 lakh and whatever those numbers are. So that is one part. That is the existing book situation. We also need to look at the size of the ocean in front of us and what does it take for us to get reasonable water from that ocean without doing stupid things. There is a huge amount of ocean out there in terms of the pools of money which are currently captured within the savings deposit world out there and as you know, in our case, we



:

*Kotak Mahindra Bank Limited
October 25, 2011*

have been actively marketing for a long time our sweep deposit product because we felt that was a superior customer proposition and it obviously cost us more than the savings deposit. It caused us 5.5 to 6% of the sweep deposit and we were treating it like a quasi, it could be drawn on though the sweep was given. So though it was like a savings account for a customer, his cost was higher. I mean, his return was higher and our cost was higher than the 4% saving deposit. So we had a conscious approach to a customer proposition even on the sweep deposit. Therefore, yes, one is obviously, we got to look at our backyard in terms of what it means for the existing base and as we mentioned, yes our base is about Rs. 3,500 crores, which is a little over 5% of our current balance sheet and about 9 to 10% of our current deposit base. But the more important is, one is the cost on that and how we position. More important is does it change the water in the ocean and does it give us an ability to acquire customers which otherwise at a part of time are very difficult to move and what would it take for us to do a prudential pricing at the same time get customers to move.

Sheshadri Sen:

Thank you, thank you very much.

Moderator:

Our next question is from the line of Ashish Sharma from Enam Asset Management, please go ahead.

Ashish Sharma:

Good evening and congratulation on good set of numbers. This one data point on this whole savings bank account, I mean, currently what is the split between accounts above 1 lakh and below 1 lakh, sir.

Uday Kotak:

You know, Ashish, between our board meeting and now, I don't have the data and obviously we are doing work. We will think about it and I am sure at some point of time when we are ready to sort of sharing, we will share it.

Ashish Sharma:

Okay, and this one more point on the same topic. How the industry will cope up with some an outer or an irresponsible player you mentioned about stupid pricing, I mean, how the industry will cope up with that, sir?

Uday Kotak:

I think it is an interesting question and I am not saying what is stupid pricing and I am not talking about any players, but we want to make sure that, you know, it is a very delicate matters between what tool you use for strategic acquisition of customer base. How important is pricing in that? I do believe pricing is an important tool, certainly, but you got to combine with the overall customer proposition and think it through very carefully before you use pricing as a tool because the problem with pricing alone as a tool is that they can be reached to the bottom. We will think it very carefully and again we will think about in the context of segments as well. I mean you don't think about it as one price fits



:

*Kotak Mahindra Bank Limited
October 25, 2011*

all and deeper work is required. We obviously are waiting for the final guidelines of RBI. Therefore we don't want to shoot of the cup about what we are going to do tonight or tomorrow morning but we consider this as an opportunity as well, so we will think about it closely.

Ashish Sharma:

The second question will be on the strategy you mentioned in the last previous con call that the strategies from India to Bharat, now we know about the strength of rural consumption but what do we see as a possible challenges to rural consumption now we are already hearing that NREGA outlay would be a bit lower going forward. I mean do you see the scenario where this rural consumption will slow down sir?

Uday Kotak:

Yeah some of our growth in advances has come because of the Bharat part of growth in some of them like commercial vehicles and other things and agri we also sort of done pretty well overall. Therefore India to Bharat is a good story and it is actually not having a significant in credit impact as well. We found Bharat giving us good advances growth, good NIMs and low credit cost. At this stage I still continue to believe Bharat looks better than India. And when I say India I am talking about big India including infrastructure and everything else and I do continue to be cautious on the infrastructure sector till I see a mindset both on business and policy to get to superior execution and till superior execution is that why should banks take that execution risks as lenders.

Ashish Sharma:

Yes sir, and you mentioned that as central loan bank we have grown at around 40% and I think in the media call you mentioned that the outlook is 30% would be I guess a conservative number how have done in the first half?

Uday Kotak:

Our consolidated growth of advances is 35%, bank standalone is 40% therefore we are guiding to 30% growth consolidated.

Ashish Sharma:

Okay and one more question on the branch network, there has not been any addition you mentioned about the reason also but going forward would be the run rate in the branches?

Uday Kotak:

Our current thought is an obviously we need to factor the savings deregulation as part of this thought process but the current thought prior to the savings deposit deregulation as part of this thought process but the current thought prior to the savings deposit deregulation and its implication on our strategy for branches is 500 branches by 2013.

Ashish Sharma:

Okay so March 2013?

Uday Kotak:

Calendar 2013.



*Kotak Mahindra Bank Limited
October 25, 2011*

- Ashish Sharma:** Fine sir. Thank you sir. All the best for the next quarter.
- Moderator:** Thank you. Our next question is from the line of Kunal Shah from Edelweiss, please go ahead.
- Kunal Shah:** Good evening sir. Sir definitely in terms of corporate we had seen a significant traction so do we consider the outlook to be similar and the mix which we were planning to achieve we have almost reached like 40% in terms of corporate loan book to the overall and it was at 31% at the end FY11. So do we see these levels to sustain going forward or we see the retail component also moving up because that will have the impact on margins as well.
- Uday Kotak:** I think our broad view is corporate between 35-40% that range. Now whether its 35 and retail 65, net of 60-40. So roughly retail would be 60-65% of our total book.
- Kunal Shah:** So then in terms of margins apart from say cost of funds do we see in terms of because of the portfolio mix which was suppose to effect the margins we had seen that completely having the impact in the first two quarters and we may not see further compression on debt count.
- Uday Kotak:** I think 2 or 3 points you have to keep in mind first is some of the compression you have seen is because we have really focused on the quality end of the corporate sector. So we have said we will be more willing to give up a little bit on the margin but not compromise on credit quality. So that is something which you probably are seeing in terms of our focus and in terms of margins going forward look at our broad mix as about 65-35, 60-40 range between corporate and retail and we now have to factor the new equation which is saving deposit deregulation into the margin equation and I don't have an answer at this stage how that would play out. Having said that the current impact of savings deposit of the total balance sheet is a little over 5% of the total balance sheet.
- Kunal Shah:** Okay and sir so what would be your view whether they would be like the pricing discipline as far as the saving bank rate is concern may be of late we had seen too much of a pricing discipline even on the lending side of the industry post the introduction of the base rates. So do we see similar things happening on the liability side as well?
- Uday Kotak:** What would you like?
- Kunal Shah:** Pricing discipline would definitely be better.



*Kotak Mahindra Bank Limited
October 25, 2011*

- Uday Kotak:** I think you can't give an answer to that easily. It will give an addition arrow if I can say if we were a bank to use a strategy for customer acquisition. Therefore you have to look at it in the context of that.
- Kunal Shah:** Okay and sir one thing on this international subsidiary side, the loss is again on many of the MTM on the FCCB.
- Uday Kotak:** I will have Jairam.
- Jairam:** Yeah essentially the loss on the international book is because of credit spread widening on bonds and ECBs and MTM sort of loss but the business side itself is sailing alright and there is hardly any leverage so it is just an MTM sort of thing which we believe we have pretty much seen the end of the curve on that.
- Kunal Shah:** Okay sir the other thing was write-back in the provisioning on the standalone side there is entire write back on the say the loan loss provisioning only there is nothing on the investment side.
- Jaimin Bhatt:** There would be some amount of investments as well as on account of loan losses in fact loan losses as mentioned we actually have recovered more in terms of past NPAs then creating anymore and recognized the fact that we had a buffer of standard provisioning which was there when RBI changed policies which held us till the June quarter which ends at till June till year for about a year and half we not providing standard provisioning which is now caught up in the quarter we rationally started providing the standard provisioning. So it is after providing the additional standard provisioning that the provision numbers are negative. That is a positive thing.
- Kunal Shah:** And sir one last question if you can give some sense just to out of your saving deposits how much would be say in terms of number of accounts with the corporate salary accounts and in quantum also if you can give some color on that.
- Uday Kotak:** Early days, Kunal give us a little more time.
- Kunal Shah:** Okay thanks a lot sir.
- Moderator:** Thank you. The next question is from Ganesh Jayaraman from Spark Capital.
- Ganesh Jayaraman:** Yeah hi, could you just give me view on your exposures to the commercial realty sector in the bank and also in Kotak Prime what are the trends that you are seeing there, how do



*Kotak Mahindra Bank Limited
October 25, 2011*

you want to positioning yourself to the challenges which is sectors likely to experience over the next 12 month in terms of their repayment scheme.

Uday Kotak: On a consolidated basis our exposure to commercial reality would be around 5% of the total advances and we have significantly lower LTV ratios there in most cases we actually lend not more than 40-45% of the underline value of the asset. Therefore somewhere between 40-50% LTV is the norm. Our current experience is quite fine on that and we have it as a reasonably small part of the total book and you know but we do it in a very controlled manner but at the same time it gives us a few hundred basis points of higher yield.

Ganesh Jayaraman: Okay fine thank you.

Moderator: Thank you. The next question is Rohit Shimpi from SBI Mutual Fund, please go ahead.

Rohit Shimpi: Yeah sir congratulations on good results, just wanted to talk about in terms of exposures on the non-funded book which has grown rapidly over last two years, could you share in any what is top industry concentrations on that?

Uday Kotak: Let me put it in this way, the way we look at risk whether is funded or non-funded we evaluate it similarly. We don't have just because something is non-funded we lower our guard in terms of how we look at that risk. And therefore in terms of industry exposure same discipline for risk funded or non-funded. Having said that as we grow the corporate book we have been able to grow the non-funded book along with the corporate book and as I mentioned separately on the risk side. We have tried to keep ourselves at the higher end of the risk curve in terms of quality of corporates and being careful about a few sectors which we kept our exposures to the minimal. So non funded exposure in terms of treatment is more different from a risk point of view compared to the way we look at the funded exporters.

Rohit Shimpi: And if look at the last available annual report seeing some of the sectors like infra in the non-fund seems to have 1350 odd crores of exposure which appears to be among the higher ones, any color on that or would there be a similar?

Uday Kotak: Make sure when you are talking about the infra company without me being able to name it because of confidentiality it is probably amongst the highest rated companies we would call in that sector. It is not any of the companies where we would have a sleepless night over. So I can't obviously give you the names but I suppose when I say really the top end of the quality curve companies you can't think about more than 2-3.



:

*Kotak Mahindra Bank Limited
October 25, 2011*

- Rohit Shimpi:** Yeah good point. On the real estate you answered this earlier, but I mean also similar observation from annual report or there is seems to be about what Rs. 4,300 crores commercial real estate with exposure on Kotak Bank and about Rs. 12- Rs. 50 crores on Kotak Prime could you share any color on that?
- Uday Kotak:** Top of that you got to keep in mind is also home loans in the form loan against properties to home loan customers when I talking about commercial real estate, I am talking about loans to developers. Also what we are referring to is on the way we have to disclose is also on the basis on sanctions not actual outstanding.
- Rohit Shimpi:** Okay so you think that 5% represents a fair way of looking at it in terms of ...
- Uday Kotak:** Exposure to the commercial real estate sector.
- Rohit Shimpi:** Okay thanks so much. Bye.
- Moderator:** Our next question is from the line of Ronak Agarwal from the Royal Bank of Scotland, please go ahead.
- Ronak Agarwal:** Hello sir. Sir coming back to the savings bank deregulation hypothetically assume that smaller players get aggressive and they start giving 5% -5.5% for SB. What happens in a downward interest rate cycle because if the customers are switched are so interest rate sensitive won't they move back to another bank when the cycle turns?
- Uday Kotak:** I think you got to first ask the question how switchable are customers? And then ask the question on the way if they switch, on the way down will they switch? And at how much margin? So big question and you know customers, this is a big test on customer behavior and we go forward and banks have to play it smart. I mean think about it very carefully in terms of their strategy including we will think about it very carefully and we obviously want to strategically acquire customers as we think this is an opportunity. And in that we got to balance it by how volatile customer base we want.
- Ronak Agarwal:** Sir even today there is about 50-200 basis point interest rate differential in fixed deposits but do customers really are that interest rate sensitive that they switch between banks. I mean term deposit is the most flexible product so do they actually exhibit that behavior. If no then obvious they won't in SB.
- Uday Kotak:** I will ask my colleague who heads the consumer banks and deals with retail customer day-in and day-out, Manian, he will share with you what he thinks about flexibility on CDs about how customers behave because he deals with them every day.



:

*Kotak Mahindra Bank Limited
October 25, 2011*

Manian:

Obviously price is an important factor in any decision but as you we all know it is not the only factor that means the decision for the customer and we often come across cases where a customer being not move his deposits just because there is 25 basis point difference. Now if there is a 100 basis difference obviously he might move it but there is obviously some stickiness in this product being it is relationship business finally customers have a relationship with the bank and they don't just keep looking, they may be a few who shop for every deal but large part of customers values and relationship and they would probably give you a premium if your service was right or other aspect they will look like location on your branch, the level of service, quality of your product, all those kind of things make a difference. I am sure it is not a pure price equation and also don't forgot one thing, till now the way the industry operated was it was bundle-in product. There was discount built in for the saving rate but a lot of other things came bundled in free of cost with that as this aspect of segregating the price on saving deposit happen, I think there will be other desegregation of prices which you have seen in western market. There are lot of other services will start getting priced independent of the price on the savings account balances and I think one has to discover we may see journey for the next six months, one year, I think it will be clearer how customers behave. Obviously past behavior will not be guide for how customers are going to behave in future on this.

Uday Kotak:

And I think you got to look at what point of time does the customer proposition dilute in the minds of the customers, the totality including the price that make them switch and we had some very other dramatic movements in banking industry which we forget like free usage of ATMs that changed customer behavior significantly in terms of how easily he would use the third bank ATM for drawing money on his bank because it did not cost him anything before it has dramatically changed behavior of customers and therefore to assume that there will be no change of behavior of customers to a saving bank deregulation I think would be an aggressive assumption. Say that the customer will move only on the basis price would also be a dangerous assumption. Therefore you got to think about price as a more important component now in the customer proposition.

Ronak Agarwal:

Perfect sir. Sir there is one more thing in the 30-90 day bucket if I look at retail term deposits how much is the origination there, as in what proportion of the retail term deposits comes in that bucket which is a short end of the cycle.

Manian:

Again the retail customer, when I say retail I am taking about customers who place deposits less than 50 lakhs I think 30-60 days is not a very big segment, I think less than 5% of the deposit that actually come in that segment. Typically the retail customer looks for and especially in our case, because we have a product which is sweep product when most customers who want to place really short term deposit actually they use the sweep



:

*Kotak Mahindra Bank Limited
October 25, 2011*

product rather create a term deposit for 15 days and 30 days and stuff like that. No I would say in retail side very low proportion of deposits come in.

Ronak Agarwal: Okay if I can squeeze in one more question. Now banks are allowed to open branches in Tier-2 without the permission of RBI. How big is that opportunity and putting it in context with customer acquisition drive that will happen now? How big is the opportunity for Kotak and for the sector in general.

Manina: Any deregulation is an opportunity in the sense earlier it was Tier-3 to Tier-6 now it is also Tier-2 so it gives more flexibility to plan your network to the banks. So obviously it is positive move and as all of us know, earlier in this call we talked about Bharat and all that sometimes well. Yeah I think the Tier-2 town is an opportunity and banks will use these opportunities given the flexibility to use it.

Ronak Agarwal: But does that change out strategy in the meaningful manner going forward.

Manian: Till not we have always believed the large part of the liability business is in the top of say 10, 15, 20 cities. It is disproportionately large but having said you always you know see for future as well so some of these Tier-2 centers will get bigger as they go and therefore there is always some merit in keeping your footprint in these with the view to future growth in these centers.

Uday Kotak: Having said that on the mid India, semi-urban India, and rural India, we believe opportunity on asset side is pretty big if you can manage your risks and get your execution right and we found that to be a pretty profitable segment of our business.

Ronak Agarwal: Alright sir, thank you so much. This is it.

Moderator: Our last question is from the line of Hiren Dasani from Goldman Sachs Asset Management, please go ahead.

Hiren Dasani: Yeah just had one small question which is not related to the today's announcement but what is probably likely to happen over the next few months what NHP came out recently guidelines about removal of prepayment penalty and you know the existing rates and the new rates should be the same? What do you think would be the difference let say it is fair to be applicable for the banks as well for your loan book, the difference between the new and old rates?

Uday Kotak: Yeah, I think in our case home loan as a total percentage is for about 12% of our total book and yes there is a new book, old book, different rates or something which we will



*Kotak Mahindra Bank Limited
October 25, 2011*

have to look at pretty closely but you know one of the things which we got to keep in mind is that in general and this is what RBI's position is if your rates are floating as they are truly floating you should not really be pained if somebody goes in or gets out, so that is the philosophy..... which yes obviously banks have played the game and keep in mind we are also hungry for good quality risk assets. Therefore while we may lose some in this process we could gain a lot as well. So it is two-way traffic. on a net basis we may give up some spread because obviously that is true but we could get a significant increase in volume or the quality of risk which is acceptable to us and sitting as we do on significantly surplus capital we are hungry for risks which are acceptable to us and are ready to grow provided we get our risk standards.

Ronak Agarwal:

Okay thank you.

Uday Kotak:

Okay I just wanted to thank all of you and being the eve of Diwali. Wish you all a wonderfully Happy Diwali and a great New Year and hopefully as they say in this world of deregulation a new challenges and new opportunities come every single day. Thank you very much.

Moderator:

On behalf of Kotak Mahindra Bank that concludes this conference. Thanking for joining us, you may not disconnect your lines.