"Kotak Mahindra Bank Q2 FY15 Earnings Conference Call"

October 22, 2014

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Moderator Ladies and Gentlemen, Good Day and welcome to the Kotak Mahindra Bank Q2 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you. And over to you, sir.

Uday Kotak Good Evening, friends and first of all, let me take this opportunity to wish you all a very happy diwali and a wonderful year ahead. Let me start with my initial comments and then I will hand it over to my colleague Jaimin. In terms of the real economy, while we continue to see the real economy slow, we are seeing a significant improvement in Indian macro and we see that as the fundamentals are improving , the economy continues to be slow. We also believe that global factors will continue to impact not only global growth but moderate the trend of Indian growth. Because, we see that putting pressure on our exports and at the same time on the favorable side some deflationary pressures coming into India through imports as well. Therefore, while GDP will have some pressure, we see that helping inflation in the broader Indian macro. In this context, I am quite hopeful of the possibility of an RBI rate cut between now and 31st March 2015.

Moving on more specifically to the 'Credit Cycle', I am seeing the credit cycle at this stage not getting better but not getting worse either, therefore more or less flat, and one has to continue to focus granularly on each account within sectors and take the calls, but fortunately it does not seem to be getting worse.

In terms of our own plan from the point of view of the strategy I have shared it with you on my earlier calls, our strategy for building and executing at capacity is continuing to work. As you know, we have focused on CASA and I have mentioned in earlier calls our Savings Account growth. We continue to see a significantly higher than industry Savings Account growth between 35% to 40% and we are quite confident to maintain this growth rate even as the base increases. You may be aware that we have made a small change in our Savings Account below Rs one lakh balance, but let me tell you at this stage we have no intention of reducing the 6% at Rs one lakh and above balance in terms of the Savings rate for the reasonably foreseeable future. For us faster growth in Savings Account is crucial to our capacity building engine and therefore 6% is the number we would like to hold for some time and use that as an acquisition engine which is enabling us to grow the Savings Deposit base at 2x the industry average. As I have mentioned earlier, we do not pay anyone more than 6%. There is no change of rate for amounts above 6%.

Our other focus on building the stable liability base continues. Our Retail Term Deposits have continued to grow in excess of 30% and we would propose to continue with that step, which is a simple focus on continuing to have enough petrol in the engine as the Assets side and the Loans side picks up over time. And we see pick up on the Loans side not only from the growth in GDP but also by gaining some market share. You may have noticed our strategy on Deposits as a part of capacity building to grow the liability base faster than the Loan growth, which is why our CD ratio now is below 90%.

In terms of 'Loan Growth' we have more confidence in continuing with advice and target of 20% Loan growth and that confidence level now is higher even compared to the last quarter. In the early stages, of course, we are continuing to see Loan growth come from the Wholesale side while the Retail and the Commercial Financing side begins to recover in due course.

On Commercial Vehicles, we are feeling better about the HCV segment, especially the higher end HCVs, and if you would have noticed, we are now moving flattish on a Q-o-Q basis in the Commercial Vehicles segment. On a disbursement basis, we are now seeing positive trends Y-o-Y on a monthly basis compared to earlier. So we are actually now beginning to get selective growth in our Commercial Vehicles segment particularly at the higher end.

On the Construction Equipment again, while the external environment is not still improved, there are pockets where we are beginning to see some lending opportunities. We are also hoping to see some improvement in demand forecast in the second half. The Car business growth has been pretty muted as can be seen in our numbers in our Car Finance subsidiary. Again, here, we do believe that things should get better in the second half.

On a broader basis, I am quite happy with the overall health of our balance sheet and we do believe that the bottoming out of the credit cycle is here, and therefore, while more significant improvement in the credit cycle is seen, we do hope that things will improve from here. Along with this, if there is some improvement on the interest rate cycle downwards, we could see a pretty interesting period ahead for our business. Overall, I am optimistic about the future for our bank while the macro India improves, and growth will trend up at a pretty low upward trending gradient. Therefore, we are not going to see a hockey-stick increase in growth, that is my view, but a gradually trending upward growth at maybe 5.5% to 6% between now and next year, and I continue to maintain my 5-year average of 6.5%, and a lot of this is also due to the fact that the global factors will put some headwinds on the domestic growth story. But, the fundamental macro India story is looking significantly better. With that, I will hand it over to Jaimin.

Jaimin Bhatt: Thanks, Uday. I will take you though the salient points of the 'Earnings Update' which has been circulated earlier. Q2 July-September 2014, we have ended on a consolidated basis with a post-tax profit of Rs.718 crore, 23% up from the same period last year. Return on assets at consolidated level was 2.2%. Our net worth now crosses Rs.20,000 crore on a consolidated level. Loan growth 19% on a Y-o-Y basis and this is after taking into account the negative growth on Commercial Vehicle/Consumption Equipment, without that it would be 24%. Net NPA numbers at the consol level at 0.84%. At the bank standalone level, post-tax profit at Rs.445 crore, a 26% jump from the same period last year. Bank standalone showing ROA of 2%. Loan growth of 20% Y-o-Y with the book now at just short of Rs.61,000 crore. This is after the negative growth of CV/CEs. Net Interest Margin at the bank standalone level was 5%. Net NPA at 1%. The CASA level stays at 31% which is showing a Current Account growth of

35%, Savings Account growth of 39% on a Y-o-Y basis. We have added 27 branches in the quarter and we are now 641 branches as at the end of the quarter. During this quarter, as most of you know, we have also picked up 15% stake in Multi-Commodity Exchange at Rs.600 per share. At the overall entity wise level apart from the Bank, Kotak Prime reported Rs.125 crore post-tax profit for the quarter. The Securities business, Rs.66 crore, a jump from Rs.40 crore the same period last year and the Insurance entity Rs.52 crore as against Rs.44 crore last year. The International subsidiaries this time around reported Rs.13 crore overall profits after tax. Rs.20,000 crore of networth overall of which Rs.13,000 crore sitting in the bank; Kotak Prime having a net worth of little over Rs.3000 crore; the Securities business at about Rs.2,200 crore and Life Insurance at Rs.1,100 crore. The Consolidated Advances book about Rs 81,000 crore of which ~ 40% now from the Corporate side at about Rs.32,000 crore with the balance 60% being split roughly half and half between the Consumer and the Commercial segments. The overall balance sheet size at consolidated level is now Rs.1,34,000 crore and the book value at Rs.266 per share.

On the Advances book, as we spoke, the Corporate Bank has been the largest grower during the season with now at Rs.25,000 crore of Corporate lending across the group. The Agriculture division has seen another growth this period, ending with Rs.10,000 crore. Small Business Personal Loans, again, a sharp growth 29% on a Y-o-Y basis, Rs.5,300 crore being the book size as of September. And as Uday mentioned, the Commercial Vehicle/Construction Equipment business which was showing a negative growth of 25% Y-o-Y,. At the bank standalone, the profit and loss account, you see an NIM increase of 12% on a Y-o-Y basis. The other income has grown sharply and we had Rs.466 crore of other income during this period helped by areas like Distribution of Mutual Funds, Insurance. The debt capital market and the FOREX plan business is helping us to increase this number. Employee cost has risen during this quarter, partly on the back of the fact that some of our payments on variable are linked to stock and stock price has gone up this period. On our provisions, this quarter sees an overall provision of Rs.54 crore as against Rs.72 crore last year. However, the provisions related to Advances are Rs.95 crore this quarter, which includes standard provisioning as the book size has grown up. Fee income in the bank at Rs.321 crore which is 52% rise on a Y-o-Y basis. ARD buyout income at Rs.48 crore.

As regard the segmental numbers for the bank, the Corporate business showing Rs.335 crore pre-tax contribution, the Retail side Rs.210 crore, the Treasury side Rs.135 crore, up from Rs.47 crore a year ago. Advances at the Bank have 20% growth on a Y-o-Y basis despite the negative growth of CV/CEs. You take that out, it will be about 28% growth on these numbers. The Retail and Corporate book, I split on the basis of the RBI classification, Rs.61,000 crore would be split as just short of Rs.25,000 crore in the Retail and Rs.36,000 crore on the Corporate book. Bank balance sheet as we said the Current account has grown 35% on a Y-o-Y basis, Savings at 39%, overall Deposits have grown 29%, Sweep Deposits have again seen a 46% growth on a Y-o-Y basis. In addition to CASA of 31%, we have a sweep of 8% of our total deposits. And as Uday mentioned, the credit-deposit ratio now at 89%. At the bank standalone, the capital adequacy as of September end at 17.6% for the overall number and Tier-1 at 16.6%. The restructured number at 0.26% of our overall advances.

We continue to be on track for reaching the 1,000 branch mark during the calendar year 2016. We focus on the non-bulk deposit base, I have shown the fact that our CASA plus Time Deposits below Rs.5 crore now 65% of our overall Deposit base. The TD below Rs.1 crore has grown 31% on a Y-o-Y basis. This quarter also added 2.1 lakh customer accounts on the liability side. Our average cost of Savings Account continues to be in the 5.58% range. The Consumer Bank assets overall have grown 18% Y-o-Y basis, that is in the bank standalone. Home Loans and LAP grew 14% and the Small Business Personal loans 29% on a Y-o-Y basis. Commercial Banking, while the growth is 6% on a year, the Agri division has Rs.10,000 crore book and has grown 28% on a Y-o-Y basis. Wholesale Bank, as we saw, is now at Rs.21,000 crore as of September end with the non-fund business itself is at about Rs.12,000 crore. The focus this year is on clearly franchise establishment with Large Corporates and deepening the mid-market segment.

Kotak Prime, Rs.125 crore contribution to profit after tax. The Advances growth at 6% on a Y-o-Y basis. Car Advances continuing to be over 75% of the Advances at such a time. While the growth of 6%, the disbursal during the quarter have shown a good trend, and this quarter, we see overall disbursal of Rs. 1,800 crore as against Rs. 1,400 crore same period last year.

Kotak Mahindra Investments has shown a trend where the NII has grown up to Rs.39 crore this quarter compared to Rs.20 crore last year, and the post-tax profit at Rs.25 crore as against Rs.11 crore last year. Overall customer assets in KMIL now at Rs.2,300 crore with negligible NPA numbers there. The Life Insurance business showing a post-tax profit of Rs.52 crore, Agency Regular business has grown 21% and on an APE basis single premiums at1/10th, Kotak Bank contributes 28% of the overall premiums collected. The Securities business, Rs.66 crore post-tax contribution up from Rs.40 crore last year. We have overall market share of 2.7%, crorecroreKMCC still in growth mode and we have lost Rs.7 crore during this quarter on a post tax basis. Assets under management have grown to Rs.65,000 crore at the end of this period; the equity portion is showing an increase. Domestic Mutual Fund now has Rs.5,900 crore of Equity Funds constituting 9% of the overall number as against Rs.2,800 crore same period last year. Offshore funds have been the other big gainer. At the end of this period, we have about Rs.12,250 crore of Offshore funds under management. Mutual Fund business has a small negative contribution for this quarter at Rs.1 crore. As you are all aware, we have also agreed to acquire schemes of PineBridge Mutual Fund which has an aggregate AUM of around Rs.660 crore; the transaction is still awaiting approvals. The Alternate Asset business which is housed in KIAL has Rs.4 crore contribution post-tax. The overall assets which the company manages under alternate verticals is over a billion dollars now. That is broadly the highlight, we will be open to take questions.

Moderator Thank you. We have the first question from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma Sir, on the Retail piece first of all, in the Housing and LAP segment, are we sort of seeing some competitive pressure in terms of pressure on yields, what is your take on that?

Uday Kotak I will ask my colleague, Shanti who heads the Consumer Bank to answer.

Shanti Ekambaram There has been increased competition in the Home Loan as well as the LAP segment. Yes, there has been an incremental pressure, but again, two things – we focus on the SENP segment in addition just to the salary class. There is a lot of competition in the individual and the salaried segment as compared to the SENP. But overall, yes, there has been competitive pressure and some pressure on margins. You got to sort of determine the mix of the purpose of business.

Ashish Sharma Second question, is the LAP book too concentrated on the big cities, any color on that?

Shanti Ekambaram We have a fair spread of LAP across the many cities, it is not just restricted to the top 7-8 cities.

Ashish Sharma Second question would be on the credit costs. We have seen some sort of a write-back also, but overall on a guidance basis, where do you see the credit cost sort of trending? You see the current numbers sort of sustainable, what will be your guidance in terms of credit cost?

Uday Kotak I think first of all you have to be clear, you must take out the standard provisions, because that is not a credit cost, that is linked to standard provisioning, dependent on the size of the book. And my broad call is around 40 basis points call on credit cost. Now, I hope we will do better than that, but I would say broadly, that is the kind of number which I think we would feel comfortable with at this stage.

Ashish Sharma Lastly on the growth part, sir. You mentioned about 20% is now looking more achievable, but is it sort of again conservative given the expectations in terms of uptick we have from macro? It has already trickled in but we already are at 20%. So is 20% sort of a conservative number or?

Uday Kotak "Achche Din Dhire Dhire Aa Rahe Hai" in my view is, if you notice lot of our growth is coming from Rs.5 crore plus Lending segment. So, we are actually gaining share of customers in many cases moving from other financial institutions, primarily in public sector, because that is a larger part of the market and also from private sector. So, we are gaining share of customers, who we would like to believe our good customers and this is giving us confidence that we think we can sustain the 20% growth rate again unless the shoot falls, and our issue is while Indian macro is getting better as I mentioned earlier, the global situation is something which India has to be careful about. And therefore, if the global situation even hangs in there reasonably, then I would say, we are being conservative, but if the global situation there is a some issue there, then at this stage, we are confident of 20% achievement.

Ashish Sharma On the NIM side, given the shift we are seeing on the Corporate book, can we sort of maintain the margins or will the focus on Corporate book put some pressure on the NIMs?

Uday Kotak My guidance for a long time and so far we have done better than what we have guided, but my guidance is that if we are in the NIM of4.5% plus , whether it is 4.7%, 4.85%, pretty difficult to predict, our internal view is we want to maintain 4.5% plus wherever it finally comes out at. We think even with some change in the mix that is something we are reasonably confident of.

Moderator Thank you. We will take the next question from the line of Aditya Narayan from Citi. Please go ahead.

Aditya Narayan I had two questions. The first really is the fact that the Wholesale book now has been growing a little faster over the recent past. I just wanted to get some sense on from a medium term perspective, do you see this trend actually continuing in part because the Retail side is also seeing a fair amount of structural competition? So one, this slight shift that we have seen recently, this continues towards the Wholesale side and any implication it might have in terms of how you effectively fund that business? And the second one is really on the Capital Markets, you have spoken about it extensively last time. At least on a quarterly basis, most of the Capital Markets businesses have kind of flattened out and here again from a medium-term perspective and with your view that the economy will recover slowly, do you see the Capital Markets of yours leading the balance sheet side or is it just going to be more balance sheet driven growth than Capital Markets and then the balance if any there?

Uday Kotak I think, Aditya, both pretty relevant questions in terms of our strategic view as well as the market reality. First, we have to be a little careful how we define Wholesale book versus Retail book. The RBI definition of the Wholesale book is anything more than Rs.5 crore is Wholesale. So that is how one is looking at the split between the two and we are actually very excited about the mid-market space. That is probably the space in somewhere between Rs.5 crore to Rs.30 crore kind of Loan space, a space which has historically been dominated by the public sector banks. Our view is that the Indian financial system will continue to have capacity challenges and as the system deals with problems of stress, very often there will be opportunities of good accounts getting less attention in many places of their needs and an opportunity for us to be able to gain share. And we therefore like this space which is what I call as the 'Mid-Market Space' where we think we can do reasonable credit judgments, work on it and effectively on higher, then the really top-end Wholesale book where also we continue to play, but we always do worry about concentration risks on Wholesale books as a philosophy. So, that is one space. Within the Wholesale, Retail space, the mid space which is the wonderful space of around the Rs.5 crore to Rs.25 crore kind of space is something which we like a lot and I do believe that the economy being slow, Retail is lagging the relatively Wholesale side of the business in terms of the pickup. And the Wholesale side of the business, the pick up is coming not only from the little bit of GDP growth we are seeing, but also by movement of customers within the banking industry, and Retail will pick up more gradually. Therefore, Retail this time around unlike the earlier cycles is following the mid-market in terms of the opportunity. And on the second question on Capital Markets, Aditya, one of the numbers if you look at in our bank's revenue which has shown a significant jump is the fees number which you are seeing within the other income. I am happy to say that we are now the Top-2 or Top-3

Distributors of Equity Mutual Funds in India and the delta growth which we have seen in the Fee earnings coming from distribution is very significant, the numbers are 3x, last year distribution fees were Rs.16 crore of funds, this year is Rs.52 crore just Mutual Funds. Therefore, when you are looking at the whole Capital Market space, the beauty is that pockets of opportunity. Look at the growth in Equity Mutual Fund over the last 4 or 5 months in terms of new money, and frankly, in the equation today between manufacturer and distributor of Mutual Funds, the advantage is completely on the distribution side versus the manufacturing side as things stand today. I think the balance will come at some point of time but Mutual Funds are out there to gather corpus and therefore are ready to pay a price for gathering corpus which is a fair strategy on the Mutual Fund side and therefore the Capital Markets business, if you look at Securities, Brokerage Q-o-Q flat, obviously, Y-o-Y higher but when Capital Markets take off there are different pockets which start feeding in into our earnings and we are beginning to see that trend develop. I also believe that post the new guidelines on debt funds effective October 1, so the post-tax returns on debt funds on FMPs from 9% comes down to 6%. It will begin to make on the affluent and above customers look at more risk products and we believe that we have a very decent share in the affluent and higher segments which can be a pretty profitable segment as we go forward. Therefore, yes, there are questions about from here how do your simple securities brokerage volumes grow but as long as Capital Markets are in good shape, the cat can be wonderfully skinned, fairly and properly in many ways.

Moderator Thank you. We have the next question from the line of Anish Tawakley from Barclays. Please go ahead.

Anish Tawakley I guess a part of my question has been answered which is around the mid-market space. If you could just elaborate a little bit on that and talk about kind of the yields that you see there and if you do not mind, what would be your estimated risk pricing there?

Uday Kotak Anish, very difficult to give you the exact, because again within that there are lots of gradients and categorizations, but in general, it is back to what Shanti said, the pricing difference, say, for example between a Salaried Loan and a SENP Loan. The mid-market space is more like the SENP category, maybe a little lower than that in terms of yield because of the alternatives, but the key issue here is you have to be able to judge risk adjusted returns. And you must have deep ability to price risks and your returns and these customers also want a whole host of services around them which need to be given and if you serve them well, these are the classics nationalized banking industry…

Dipak Gupta These are basically takeovers from PSU banks, we have very good customers, we are not just hungry, but they do as Uday mentioned, take a lot of other products and services. And yes, there is higher level of risks, but remember, most of these are reasonably well colaterized and the return is significantly higher justifying the small amount of additional risks which we are really taking.

Anish Tawakley Within Corporate Banking, the segment that we are talking about, is the mix of your book changing or you have always been in this space?

Dipak Gupta We have always been in this space.

Uday Kotak Let me just clarify this business sits both in the Corporate Bank and the Commercial Bank.

Anish Tawakley No, I am talking about, if I look at the disclosure that you give on Page #7, right, I was trying to understand the 44% growth in the Corporate Banking book?

Dipak Gupta You are correct, some of this would be Large Corporates, but there would be a fair increase even in the Medium Corporates there. But as Uday said the Mid-Market Corporates sits both in the Corporate Bank as well as in the Agri business as well as in the Business Banking. So, some of the increase for example, in the Agri division also, maybe Medium-Sized Corporates also.

Anish Tawakley The other parts of the book, the growth is pretty…?

Uday Kotak But Corporate Banking does have a whole mid-market business.

Anish Tawakley Is that the part of the business that is growing faster now, so is the mix of Corporate Banking shifting or?

Uday Kotak No, that part of the business is more profitable and we think it will grow even faster from here.

Moderator Thank you. We have the next question from the line of Manish Karwa from Deutsche Bank. Please go ahead.

Manish Karwa Just a similar question, given the fact that now you are growing very quickly on the Wholesale Banking piece. In the current cycle where we are in, do you think it is more profitable to do Wholesale than Retail where yields are given where risk perceptions are?

Uday Kotak Manish, if I use a cricketing term on, when you are batting on the wicket, spin bowler or pace bowler, there is an opportunity to make runs, we can go out and score runs. At this stage, whenever we are getting pockets of opportunity where we can move and find further risks we are ready to take get loan growth, we are ready to do it, because we have a no-no list of companies and sectors which we are uncomfortable with. But outside that, if there are opportunities to lend, we are taking them and we do feel that there is some moderation in interest rates happening as we talk and there may be a little more, and therefore, we are not averse to growing segments where we think we can make money, even if it is more Wholesale.

Dipak Gupta At this time the growth opportunity is more there than Retail, yes.

Manish Karwa I was also just checking from an industry perspective, at this current juncture, from a bank's perspective, Wholesale becoming more profitable than Retail given the cost associated with Retail and given the pricing or the yields that you are getting on the Wholesale side?

Uday Kotak Manish again, Wholesale is a very general word, anything more than Rs.5 crore is technically RBI definition of wholesale. So, as I said, for a return point of view, say Loans in the region of Rs.5 crore to Rs.30 crore or Rs.5 crore to Rs.40 crore is where the margins are better. Moment you go to higher levels, the margins drop but you still make money. So, we are playing both the segments.

Manish Karwa On your stressed asset portfolio, your unrealized gains of about Rs. 18-20 billion. Do they still hold and do we have any visibility of monetizing them this year, next year?

Uday Kotak We continue to hold that and if you notice every quarter, stressed asset division is chipping away and we hope that the trend improves. What we are really wanting is not just harvesting this which we are reasonably confident will happen in the next few years. We are also wanting to put money to work, and for that we need other banks to write down and start offering at fair clearing prices and that is happening slower than we like. So, one is monetization, which we are quite confident of, and if you again look at very quarter, ARD division is continuing to chip away and makes its contribution; we think the momentum increases in due course. But the new acquisitions for us happen at a quicker pace once banks start marking these assets at more realistic values in their books and that is the part we are even more excited about, but that is in our view 6 to 12 months away.

Manish Karwa Your investment in MCX, what would be the medium-term and long-term plans on this – would it just be financial investments or do you think you can get more out of this investment in terms of allied businesses?

Uday Kotak Manish, we have to be very careful about how we look at this from a medium to long term point of view at this stage. It will be appropriate for us to say that we have got in only as a financial investment to start with. We are obviously looking at opportunities down the road, but at this stage, it is a pure financial investment from our point of view.

Manish Karwa Lastly, it is quite nice to see your Current Accounts growing very fast and unlike many other banks we are now showing very strong growth. Is it to do with Capital Market activity or there are other contributors also to the Current Account growth?

Uday Kotak I will ask both my colleagues who own the current account business – Manian from the Wholesale bank and Shanti from the Retail bank to answer.

K.V.S Manian On the Wholesale side, the Current Account growth is not driven by Capital Markets alone. Yes, Capital Markets have contributed a bit to that because our custody and PCM business has gained due to better Capital Markets. But the growth of that business is not more than the growth of CA in the rest of the Wholesale Bank. So, even the rest of the Wholesale Bank has grown reasonably well on the CA side. And we are focusing on flows from existing customers and the credit-led customers as a segment in the Wholesale Bank, and that is definitely showing some results in terms of growth in CA.

Shanti Ekambaram: From the Consumer Banking side and the Retail side, there is really no Capital Market impact on our Current Account growth. It is a pure strategy to keep on increasing acquisitions. We have introduced a lot of new products, for example, different segments like trader segment, textiles segment, etc., We are beginning to see the results of a segmented approach in terms of providing products and services on the Current Account side. It is reasonably widespread and targeted as a strategy and not really Capital Markets focused.

Manish Karwa: I would assume, as of now, it would largely be Corporate-heavy Current Accounts, right?

Shanti Ekambaram: The Consumer Bank has grown equally strong in this quarter.

Manish Karwa: Of the current Rs.9,000 odd crore of Current Accounts, would Corporate be a larger proportion?

Uday Kotak: No, it is the other way as of today.

Moderator: Thank you. The next question is from the line of Manish Ostwal from KR Choksey Shares and Securities. Please go ahead.

Manish Ostwal: A question on Fee income and your income from ARD buyout side. So you said you have Rs.1,800 crore to Rs.2,000 crore of stress book which will be monetized over the years. So how sustainable are these incomes in the next 6-months to 12-months perspective, number one? Secondly, Fee income side, could you give some flavor in terms of distribution side of growth and Lending-related Fee income growth?

Jaimin Bhatt: If you look at, as mentioned in the earlier this call, a lot of the Fee income growth at the bank level has come from distribution, we talked earlier about the Mutual Fund distribution, we have also seen good growth coming in from the Life Insurance distribution businesses. Syndication and the DCM part about two-three quarters ago we had talked about focusing on two activities – one was DCM and the other being FX advisory business, both of them have shown traction and the DCM business has shown a 2.5x over the same period last year. FX advisory again is showing a growth. And then you have the host of regular banking-related activities, whether it is service charges, processing charges, LC/BGs or minimum account balances, all of that has shown an upward trend. So yes, we are pretty comfortable about this growth. The ARD business, yes, you could say, will have its spike, but the rest of it is pretty much on track right now.

Uday Kotak: And on ARD business also, we do believe over next two years we will get what broadly we think we have indicated in the earlier analyst call. On the sustainability, it also depends on how much new order we get over the next 12 to 18 months.

Manish Ostwal: Cost-income ratio last many quarters hovering around 51%, given the investments in the branch network and the revenue momentum both in the Fee side and NII side, so what kind of sustainable cost-income ratio one should look at given your business mix and operation?

Uday Kotak: We would like to move to a cost-income ratio at first digit 4 instead of first digit 5. But we will not do it at the cost of compromising capacity building. We want to continue to build capacity and have a significant medium term opportunity out of higher capacity across the board, it is not just branches. It is risk management, risk assessment, credit, distribution businesses, everything else we are continuing to add to capacity but we would like to see our revenue growth consistently pick up so that the net ratio we are able to move towards first digit 4.

Manish Ostwal: I just want to check because in the last conference call also you said there is a reasonably sizable pipeline of deals in the Investment Banking business, but we have seen that business not turning around. Any specific you can comment over there?

Uday S. Kotak: The pipeline remains robust at this stage and hopefully we should see conversions going forward.

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

Kunal Shah: My question on, the focus on Bharat, I think this time there has been no mention of it. So can you say are we going slow in terms of say the rollout of the branches in the rural areas or say we are seeing more opportunities on the Corporate side and that is the focus in the near term?

Uday Kotak: We all love Bharat, but finally, what has happened is there has been a significant challenge to Bharat especially in the last 12 months, particularly if you consider Commercial Vehicles to be more Bharat and less urban. So, on Bharat, we particularly things like Commercial Vehicles we have gone slow by design. Now, similarly, Construction Equipment, a lot of it is in mid-India, the business has seen pressure. So we believe that bottoming out of some of these segments is happening as we talk, and if you had heard us on the call one year ago, we were far more bearish about those segments than we are today. Now, within say for example, Commercial Vehicles, we think HCV is doing better, LCV has still a lot of pain. So LCV will continue to bleed. And on Tractors, again, which is core part of Bharat, the industry is flat. So the industry is not growing and therefore what we can do at best to improve our positioning in Bharat is get some share, but share in a manner that we get our money back. Therefore, this is the challenge. I think as I said we are seeing momentum in the slightly larger ticket size, the Retail will be a flow through this time, we think in the next say three to six months we will see the pickup in these segment as well. We are seeing early signs of that in Car finance and it is looking better. And our Agri book is also growing. I will have my colleague Narayan to talk about some of the things he is seeing on the ground in the context of Bharat.

S. A. Narayan: In the case of Bharat, maybe we have not mentioned it in our presentation this time, but we continue to focus on it by rolling out branches. As Uday mentioned, Commercial Vehicles and Construction Equipment have been very slow last year and as he mentioned at the beginning of the call that we have started disbursing more than what we are doing and now on a quarter-on-quarter basis, our portfolio has now become flat instead of showing negative growth. On the overall traction at the Bharat, my feel is that we are seeing better traction both on the liability and the asset side there. For instance, we were not there in the Car Finance at all in the Bharat market. We have started rolling that out. We are not there in the small ticket loans in the Bharat market. We have started rolling out that. So we are continuing to have our focus on Bharat, but in a gradual and a very calculated basis. So, our focus on Bharat continues and we think it is a good market to be in. Tractor, for example, the growth of the overall tractor industry is almost flat, so obviously, we are a part of that market and if that growth starts coming down, it will show some slowdown, but let me tell you our market share in many of these states, compared to last year gone up. So the Bharat story overall continues to be a focus on it, but it will be selective, maybe our presentation we have not mentioned it again and again that we have put more branches at Bharat. If you look at our Agri portfolio, it has grown about I think 28% on a year-on-year basis. So, I hope that answers your question.

Kunal Shah: In terms of branch presence, what we were planning to reach 1,000 by calendar 2016 from the current level. So are we seeing any kind of a change in terms of what penetration we were expecting to have on the rural and the semi-urban areas, maybe like 1.5-2 years back and what we have today? So, is there any change in terms of how much, say, of the incremental branches would be in rural and semi-urban?

Uday Kotak: We will do the mix more or less on the lines of what we are and what is permitted as per the RBI licensing policy. So it will broadly be within the framework of the licensing policy. And the mix will continue on that line and we continue with our guidance to 1,000 branches by end 2016 at this stage.

Kunal Shah: No, but strategically we have not shifted over last 1-1.5 years in terms of what internally we would have planned, out of say these 1,000 branches we would have so much in rural and semi-urban and say what we have as an internal plan today?

Uday Kotak: Not really, but keep in mind, as per RBI licensing policy, metro and urban branches have an obligation for semi-urban and rural, and therefore the licensing policy has no licensing requirement in case we felt the opportunity in semi-urban and rural is higher. But currently, we are ensuring the mix broadly on the lines of the licensing policy.

Kunal Shah: In terms of the Auto Financing business, I do not know if you have highlighted earlier as I came late on the call, but how now we are prepared in terms of the Kotak Mahindra Prime in order to take the benefit of the opportunities which would come through over next two years or so because I think that, maybe in terms of earnings as well, it has been pretty stable over last 7-8 quarters? I think the pace of growth is also lowered like it is in a low-single digit, which would be more of industry phenomenon. But, how is our preparedness for Kotak Mahindra Prime?

Uday Kotak: Can ask Narayan to answer that, but before that one quick point as Jaimin mentioned. While our YoY Advances growth is only 6%, our disbursements in the last quarter have grown significantly faster over last year, the percentage growth is 25% on disbursements YoY.

Kunal Shah: How it would be quarter-on-quarter?

Uday Kotak: Significantly higher than the previous quarter..

Kunal Shah: That is there for Q1, but maybe Rs. 1,800 crore in Q2 and it is definitely higher than the Q1?

Jaimin Bhatt: It is higher than Q1. Same period last year would be significantly higher. Q1 the exact number is not off hand, but you can take it about Rs. 1600 crore.

Uday Kotak: It is higher than Q1 and it is significantly higher YoY. Narayan, do you want to talk about your strategy about penetrating deeper

S. A. Narayan: Kotak Mahindra Prime has been a focused car finance company and it has been consistently in that market over a long time. It has good strong relationship going with the dealer, of course, it is the overall market which will drive its growth substantially. Having said that, if the market as you said was to grow in the next one or two years Kotak Mahindra Prime is well placed to capture that besides being in the main cities and towns it is already well placed, it is also now getting deeper into smaller towns either to the bank or by itself to capture that market. So as we see the growth happening, we are confident that we will get a better share of it in the next growth phase.

Kunal Shah: How is the distribution in this particular segment in terms of Auto Financing, how is the origination happening, how much is through bank, how much is others, so what are the various channels of the origination?

S. A. Narayan: Origination will happen from the branch network, it will happen from the dealers, it will happen from the DSAs. These are the broadly three channels through which the origination happens. The branch network contribution, now we see growing in the last six months over a month-on-month basis.

Moderator: Thank you. We will take the last question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: First one is on topic that you touched earlier on, is on the CD ratio which is now below 90% and you commented about it as well. So what is the outlook like – do you think it will stay now below 90% as Deposits are growing faster? And the second question, this is just on yield on advances, like how we calculate it. It seems to have dipped quite a bit in the quarter. Is it because you had a lot of the growth come in later in the quarter?

Uday Kotak: I will first answer on the CD ratio and the second question I will ask Jaimin to answer. On the CD ratio, we are working towards, just as I mentioned, on cost-income I would like the first digit 4, on the CD ratio I would like to have the first digit 8, but we are not too fast for a quarter, so, it went to around 90%, it is not the end of the world, but broadly we want to be in the 80s.

Jaimin Bhatt: On the yields, it is not necessarily at the end of the period, but if I look at my average yield which we track out, it will be slightly lower than last year, maybe about 25 bps or so, largely on the basis of a shift from Retail to Corporate Banking. Yes, there has been some shift on this, as I said about 25 bps on a year-on-year basis.

Moderator: Thank you. I now hand the floor back to Mr. Uday Kotak for closing comments. Thank you. And over to you, sir.

Uday Kotak: First, I need to mention one of the pointers and that is with reference to the fact that the rating agency has given us for our long-term bond now, "AAA" rating and that is applicable to the bank and both its non-banking finance company subsidiaries, both subordinated as well as senior debt. So that is we think particularly with reference to our NBFC subsidiary, that is going to help us in our cost of fund in those entities since both of them have also got the rating from AA+ up to AAA. In totality, we do feel that things are certainly looking better; the credit cycle more flattened out, I would not say the credit cycle is dramatically better, but it seems to be flattening out. Overall, our business mood and view is positive, we are continuing with the focus of gaining share and capacity in appropriate segments. Our view is the overall view of the economy will pick up slowly, while India macro gets better, that is a perfect situation in terms of where we are. We do hope sometimes in the first quarter of 2015 calendar we see a potential review on the rate side downwards and we are running with a ball and really feel quite more confident this Diwali compared to the last Diwali when we were just coming out of the challenges on the macro which India was facing. 'Acche Din' hopefully this will now come maybe a little faster than over the last few months and we look forward to a great year ahead. Thank you very much, ladies and gentlemen.

Moderator: Thank you, sir. Ladies and Gentlemen, on behalf of Kotak Mahindra Bank Limited, that concludes this conference call. Thank you for joining us.