



“Kotak Mahindra Bank Q2 FY16 Earnings Conference Call”

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MANAGEMENT: MR. UDAY KOTAK – EXECUTIVE VICE CHAIRMAN & MANAGING DIRECTOR, KOTAK MAHINDRA BANK
MR. MOHAN SHENOI – PRESIDENT –IN CHARGE OF INTEGRATION MANAGEMENT OFFICE, KOTAK MAHINDRA BANK
MR. UDAY SAREEN – PRESIDENT- “BANK IN A BANK” COVERING ALL THE ERSTWHILE ING VYSYA BANK’S CONSUMER BUSINESSES, KOTAK MAHINDRA BANK
MR. JAIMIN BHATT – PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER, KOTAK MAHINDRA BANK
MS. SHANTI EKAMBARAM – PRESIDENT - CONSUMER BANKING, KOTAK MAHINDRA BANK
MR. KVS MANIAN – PRESIDENT – GROUP TREASURY, GLOBAL MARKETS, CORPORATE, INSTITUTIONAL & INVESTMENT BANKING, KOTAK MAHINDRA BANK
MR. GAURANG SHAH – PRESIDENT, ASSET MANAGEMENT, LIFE INSURANCE AND INTERNATIONAL BUSINESS, KOTAK MAHINDRA BANK
MR. NARAYAN SA – PRESIDENT - COMMERCIAL BANKING, KOTAK MAHINDRA BANK
MR. D KANNAN – GROUP HEAD, COMMERCIAL BANKING, KOTAK MAHINDRA BANK

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Moderator: Ladies and gentlemen good day and welcome to the Kotak Mahindra Bank Q2 FY 16 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and 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 ‘*’ and 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 Mr. Kotak.

Uday Kotak: Good evening friends, looking like a very busy day for all of you today and really appreciate being on the call late evening after 6 PM. Just starting with a little bit on macro side, our view is that the economy is slowly turning with no major investment demand but some replacement demand and some demand coming in from the consumer side. We are seeing actually significantly higher growth on the consumer side compared to the wholesale side; we are also seeing some pickup in commercial vehicles cycle and overall I think there is a very slow but gradual turn of the economy for the better.

On our side we had given you a view of growing our loan book at 15% to 20% per annum and we continue to maintain that guidance on the merged entity. The other very positive sign which we are seeing is significant growth in domestic financial savings across the whole range of financial products and we consider that as a very good sign for the financial services business.

Moving from the broader macro to more specific the merger and the integration. The hard work continues, this is the 2nd quarter post the merger and we are continuing the plodding across getting different parts of businesses integrated working together as well as working the whole host of issues including on technology which my colleagues will take you through in greater detail. We see at least two more quarters of hard work continuing and the full benefits of the merger in terms of both, cost savings and revenue synergies flowing in, in the next financial year.

We have seen some very positive trends in some areas on the Retail side on the erstwhile ING Vysya Bank network particularly on the savings deposits side, the average growth from September 2015 to September 2014 is about 23% and as you may recollect the historical growth of IVB network was around the 10% mark on the savings account. We are also continuing to see the Kotak Mahindra Bank savings deposit growth YoY average around 35% mark. We are hoping to see IVB also come to those levels in the next 2 to 4 quarters and before we move to a more sustainable growth on combined basis which takes us to say something like the 35% to 40% mark as the basis. Our current plan is to continue with our 6% interest rate, which means on an average cost of savings deposits continues at the 5.5% mark because we do not pay anybody more than 6%.

Other extremely positive developments are in Life Insurance and Asset Management, there has been a very significant growth in both these businesses; our Life Insurance business first-year

premium is up 93% on a YoY basis and we are seeing significant traction in that business as also our Asset Management business where Assets under Management, both domestic and offshore, are showing extremely positive growth.

On stress, I will divide it into two parts first, I will talk about us. From our side we had given a guidance of about 30 points provisioning on our credit cost in the first quarter and for incremental, 50 basis points over the next three quarters totaling to a total guidance of credit cost the way we calculated of about 80 points. We continue to maintain that guidance for the year and in the second quarter we have taken roughly a credit hit in the provisioning column of about Rs. 176 crore plus an additional Rs. 62 crore which has been taken as a hit in our other income because of a credit cost event out of the erstwhile ING Vysya Bank portfolio croretotaling to Rs. 238 crore through our P&L, and we continue on the guidance of a total of 80 basis points which is 30 in the first quarter and 50 over the next three quarters as we had guided for the entire full year.

With these words I will now hand it over to my colleague in terms of the quarterly results itself, we still have a long way to go down this journey and we still are in very early days of the post-merger world. With that I will request my colleague Mohan Shenoi to first talk about the integration along with Uday Sareen and thereafter Jaimin Bhatt.

Mohan Shenoi:

In our earlier interactions we had informed that apart from the wholesale segments all the Retail and consumer and commercial segments and the support functions of the erstwhile IVBL were kept in a separate vertical called Bank in a Bank (BIB). Since then the role of integration management office has been to move these verticals from Bank in a Bank into the mainstream bank, vertical by vertical. In June quarter we were able to integrate some of the verticals and we continued that in the September quarter. In that quarter large number of verticals could be integrated from BIB to the bank including currency chest, non-resident business, some support functions like vigilance etc. and some asset functions like gold loan, other areas like legal, operation risk management etc.

On the technology side in the September quarter we were able to integrate the wholesale banking technology system, we were able to migrate the data from the IVBL system in the surviving Kotak system. This is going to continue in the next quarter, where we have been able to integrate some verticals like personal loans, ATM operations etc. To handle the system aspect there is a huge initiative to train the employees of erstwhile IVBL in Finacle and some of the other surviving systems on the Kotak side, about 6,500 employees are being trained currently on various systems and that is progressing quite well.

Coming to the next slide on cost synergy we have identified, last time we had informed that we have identified 75 overlapping branches, in these overlapping branches what we have done now is we did a pilot of two branches in Mumbai and two branches in Bangalore, with the help of the experience gained on those pilots now we are rolling out to the remaining branches which are overlapping branches, so that is one of the activities that is currently going on. Secondly, on

space rationalization shifting some of the businesses from rented premises to owned premises is underway. Vendor contract renegotiations and disposal of some of the non-core premises all that is being done and is progressing quite well.

As far as the integrated verticals are concerned wherever there is a surplus we have a system of surplus staff sending them into an in-placement unit and from these in-placement units we place them within the bank in other areas where there is a budgeted requirement, including in group companies wherever there is some requirement. With that I will now hand over to Uday Sareen to talk about revenue synergy side.

Uday Sareen:

Thanks Mohan. I will update basically on three broad headings, let me start with the liability side and that this is of course pertaining to what Mohan called the Bank in a Bank which is the erstwhile ING Vysya consumer businesses. As Uday mentioned, clearly we are seeing a traction to start with on the savings accounts. The average balance of savings accounts of the eIVBL book which is roughly one third of the bank's saving book grew by 23% and this number you'd recall at the end of the first quarter was more in the range of about 18-19%, so we are seeing traction there but heartening to note there is that if you look at just QOQ itself on an annualized basis that number is now crossing 30%. So when Uday says get to the 35% I think that traction one can already see on QOQ basis of course we need to continue to move towards the 30+ number on a full annualized basis. So clearly the savings book traction one can see in terms of average ticket size, acquisition, customer segments and this number over the last I would say 4-5 years CAGR growth for SA on ING was in that 10%-12%-13% so clearly that is seeing traction.

The current account piece, there is a lot of focus and initiatives and there both in terms of deepening, distribution, distribution segments, segregating dedicated folks for current account acquisition, linkages with assets, with trade, with Fx so there are lot of initiatives and activity there and I'm confident that we start to see an uptick even on the CA side in the coming few months and quarters, so that is another big focus area for the branches. So that is a quick update on the liability side.

On cross sell, we are making good progress on three fronts to start with, on auto loans the products which was not there on eIVBL, as of September 30th now we have 312 branches in eIVBL which have actually started to sell and when I said not just activity but actual transactions happening and we have seen almost 25%-30% jump QoQ itself in terms of the number of auto loans, 300+ branches there on auto we are close to 183 branches which are active on credit card cross sell another product which did not exist in the eIVBL system, so cards and auto we are beginning to see traction there and as Uday mentioned on Life Insurance which has also been traditionally a strong product on the eIVBL side the whole transition to Kotak Life is complete and we are seeing a good traction there on life. So these three are really big updates on the cross sell side.

Just a quick word on the eIVBL SME asset book that continues to be, this is largely a trader book with 75% of the book which is non-manufacturing largely working capital and we are seeing good asset quality risk cost close to 20-25 basis points, GNPL at 1% level, the asset quality and traction of that SME book I would say the value preservation is complete and now we are moving to how we can enhance value, get the cross sell, get linkages on liabilities side. So these are the three broad updates on what we called the Bank in a Bank which is the eIVBL business.

Jaimin Bhatt:

Thanks Uday. Jaimin here, I will take up the profit and loss account for the quarter. For this quarter, we have ended with a net interest income of Rs. 1,679 crore roughly about 5% increase over the previous quarter. The other income Rs. 616 crore is after the taking hit of Rs. 62 crore on account of the derivative transaction which Uday talked about; this was a derivative client who had to pay us and it is now 90+ day overdue so we have effectively reversed the income which had been accounted for as income there. So that's the Rs. 62 crore hit on the other income, post that is the Rs. 616 crore other income.

Employee cost for the quarter Rs. 623 crore, in the previous quarter some of you will recollect we had taken a one-time hit on account of retiral benefits for eIVBL employees but even if you account for that the employee cost for this quarter versus previous quarter is reasonably flat.

Operating expenses again slightly lower than the previous quarter, thanks to the fact that merger expenses this quarter are at Rs. 12 crore compared to Rs. 63 crore which we had taken in Q1, advertisement expenses again are lower this quarter versus the previous quarter. We end this quarter with OPEX of Rs. 627 crore other than employee cost.

At the provisions we have taken a Rs. 176 crore overall position hit which includes Rs. 190 crore towards advances and some write back on investments of Rs. 14 crore. So we end the period with pre-tax profits of Rs. 869 crore and post-tax of Rs. 570 crore. So effectively at this stage we talked about at the last call that for the three quarters remaining we would be taking the possible hit of 50 basis points on the combined advances book. If I add the hit on account of the derivative transaction to the provisions the total hit for this quarter is about Rs. 238 crore roughly about 21 bps to the advances book.

Net interest income as I said Rs. 1,679 crore, NIM for this quarter at 4.3% marginally up from 4.2% that we had seen in the previous quarter.

As far as the segmental are concerned, the corporate and the wholesale bank showing a profit of Rs. 530 crore pre-tax for this quarter, previous quarter a lot of the hits on the provision lines was taken by that segment. The Retail bank at Rs. 328 crore against previous quarter, bulk of the reitral benefits was on this line. Treasury and BMU for this quarter at Rs.11 crore and this is after taking into account the Rs.62 crore hit on the derivative transaction.

Overall advances book in the bank at Rs. 111,000 crore, a quarter ago we were at Rs. 103,000 crore we have seen about in a quarter a 7.5% increase on the advances book, large part of the advances this quarter coming in business banking, agriculture division and the small business personal loans and the credit card activity.

At the balance sheet level as Uday touched upon we have seen a good growth in the CA and SA balances, the current account at the end of this period at Rs. 20,000 crore roughly 16% odd of the deposit base and savings at about 20% of the deposit base a total CASA level of 36.3%. We also have the savings bank effectively grown by about 28% and we have also seen deposits which are lower than Rs. 1 crore have had a significant growth and that is today about 28% of our overall deposit base.

Our capital adequacy continued to be pretty healthy 16.1% overall of which 14.9% is pure equity and Tier-1, the CASA per branch roughly at about Rs. 35 crore per branch and the restructured standard assets now at Rs. 403 crore and we continue to have a situation where during the quarter we have had no CDR participation, no transfers to ARCs, no off-balance-sheet, no 5/25, no rectification.

At the branches, we close this quarter at 1,269 branches we plan to reach 1,400 branches by March 17, as I mentioned CASA and time deposits below Rs. 5 crore now constitutes 72% of our overall deposit base. We have added 2.8 lakh customer accounts on the liability side during this quarter. The cost of savings account average is 5.48% as Uday mentioned. I request Shanti to talk about digital initiatives.

Shanti Ekambaram:

Thank you Jaimin. Digital continues to be a focus at Kotak and some of the key areas that we have focused on include mobility, we are clearly seeing a shift of transactions to mobile, the acquisition through digital space, and big data and analytics, social payment, digitization with core of security being a key focus. I will just take you to one or two key initiatives out of this before we talk about the highlights. Our App continues to be rated amongst the top App with more than 80 features in mobile banking, almost most of the banking services. We launched this last quarter Bharat banking App, keeping in mind customers where there are no connectivity be it in some parts of urban or even some parts of metro cities and rural India. Basically you do not need Internet to be able to transact. We have 25 different banking transactions which can be put through this App including small value fund transfer and this is in about six different languages. We received very good response and it is just being recently launched.

Acquisition continues to be focused and we are completely eKYC enabled through the online method and continue to see traction there. Analytics is driving a lot of our cross sell, new acquisition as well as product upsurge on the Retail side. Social we were amongst the first to really launch social banking, hashtag with 23 different features and social commerce is something that we launched and will continue to explore that space. Payments remains a very key focus area in number of initiatives which have been outlined there. I would like to just talk about the highlights.

We have a 8% share in value of mobile banking transaction, while if you look at our share of advances and deposits it is about 1.6% and 1.3% respectively, so clearly something that a focus has resulted into. We are ranked number 5 in terms of value of mobile transactions across all banks this is the data put up by RBI, we look at from April to July we have been at 81% growth which is the highest growth across all banks. We have launched Instant PL through net banking and we will be rolling this out aggressively over the next few months. 50% of our incremental term deposits come online, we have digitized our savings account end to end for our corporate salary customers and these are being now acquired on Tabs across the various corporates. We have seen a 50% growth in online payment across all our platforms. Our App is rated one of the highest at about 4.5 out of 5, I talked about the Bharat banking App. We have launched a website for some of our premium customers, the Privy league customers and continue to invest in our engagement of content on our website which has increased usage and penetration. So to end digital remains the focus and we will continue the initiative.

Jaimin Bhatt:

Let me take up the consolidated numbers now. Post-tax profit for this quarter at Rs.942 crore compared to Rs.718 crore same period last year. At the group level again the CAR continue to be healthy 16.5% overall and 15.5% Tier-1. Loans and advances across the group Rs. 134,000 crore clocking an 11% growth over last year. The total balance sheet size now goes to Rs. 220,000 crore. In terms of advances apart from the bank, the car finance activity which is done in Kotak Mahindra Prime seen roughly about a 15% growth on YOY basis.

In addition to the bank the other contributors to the bottom line Kotak Prime constituted Rs. 127 crore to the profits, Securities Company at Rs. 78 crore, Life Insurance at Rs. 48 crore, Mutual Fund which had a negative last year is now Rs. 23 crore profit for this quarter, the Kotak Mahindra Investments at Rs. 36 crore, International Subsidiaries at **Rs. 32** crore. The overall net worth of the group now standing at Rs. 31,300 crore with apart from the bank, three subsidiaries is having Rs. 1,000 crore plus net worth. Insurance and Asset Management as Uday said have done very well, I will just request Gaurang to take us through those segments.

Gaurang Shah:

Thank you Jaimin. As Uday mentioned earlier like the individual regular business grew by 93% and the erstwhile ING Vysya is additional distribution and the Kotak agency as well as Kotak Bank has done very well. Even if you remove the erstwhile ING Vysya volume we grew by 64% and group business grew by 60% and we continue to focus on the pure risk business, reflected in sum assured growth of 29% and now with the agency and combined Kotak Bank we are roughly 50-50 between the two major channels.

Our total premium for the Q2 was Rs. 842 crore against Rs. 668 crore last year and the profit is Rs. 48 crore against Rs. 52 crore last year Q2 and this is mainly due to investment income difference between Q1 and Q2 and also because of the new business trend due to higher volumes.

Our persistency numbers continue to be industry top quartile of the best in terms of 13 months persistency we are at 78% and conservation ratio improving from 79% to 85%. Our AUM

growth has been 19% cumulative for last couple of years and that this is on the back of better persistency and lower surrenders. Now surrenders are dropped to around 4.4% of the total AUM.

We also take pride in terms of one of the best settlements, claim settlement ratio among the private sector players and we have been always amongst the top 1-2-3 players. The number of Life have grown by 42% YOY and now the absolute terms we are at around 1.32 crore and the E-Insurance now we are doing around a couple of percentage 2% of total policies sold. Our investment performance across all our verticals be it Life Insurance or Asset Management has been in top quartile, insurance both the funds are the best performing funds in the industry.

Coming to Asset Management – Asset Management performance in terms of overall market share for equity moving up from 2.59% to 3.35% and 15% growth in the overall average AUM for Q2 FY 16 against an industry AUM growth of 7% QoQ. So we continue to gain market share, the profit after tax, main improvement is due to upfront distribution cost reduction and overall Asset under Management if you look at from YoY basis has gone up by 46% and the large part of gain is coming from offshore assets and equity in domestic. So now I hand over to Jaimin for taking up the Securities business.

Jaimin Bhatt:

At Kotak Securities, we clocked a daily volume of close to Rs. 7,600 crore in this quarter with an income of Rs. 270 crore ended with a post-tax profit of Rs. 78 crore this quarter and market share continuing to be at 2.7%. KMCC, the investment bank this quarter had advisory activities with respect to the divestments of stake of National Collateral Management Services, also advised Godrej Agrovet for acquiring Astec Lifesciences and did the placement for Parag Milk Foods. Placements for HDFC warrants and NCDs. Also involved with the OFS of Indian Oil and the IPOs of Sadbhav Engineering and Power Mech. No M&A transactions completed in the previous quarter. This month the company had been involved with IPOs of Coffee Day, IndiGo, and SHKL.

Kotak Prime – with an advance book of Rs. 20,000 crore 78% of which is sitting in the auto loan book. NII for this quarter at Rs. 237 crore and post-tax profit of Rs. 127 crore.

Kotak Mahindra Investments – which is commercial real estate and loans against security, a Rs. 4,000 crore book size with a profit post-tax for this quarter of Rs. 36 crore and CapAd of 18% at the end of the quarter.

That's broadly the highlights for this quarter. We will be open for questions.

Moderator:

Thank you. We will now begin the question and answer session. Our first question is from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah:

Firstly in terms of margin – actually when we looked at it you said the margins have gone up in quarter so was it more to do with overall CASA or we are getting any other benefit on the funding or on the lending side?

Uday Kotak: I think one point is clearly there that the cost of fund is gradually coming down so that is certainly helping. And CASA ratios are steadily improving in due course so if you look at last year comparable basis, our average CASA ratios were around 30% mark. We are now moving into the mid-30s and we see that traction continuing. We would like to see our performance on our CASA ratios and along with the Sweep deposit to continue.

Kunal Shah: So overall may be we expect to sustain these kind of a levels of say 4.2% to 4.3%-odd.

Uday Kotak: I think Jaimin has been giving guidance between 4% to 4.3%. So, Jaimin has been pretty consistent about that.

Kunal Shah: And when we are looking at it in terms of what we mentioned say in terms of say cross-selling which is happening particularly with respect to say the Auto or Credit Cards or say the other portfolios wherein we have started rolling out of ING branches, so how are we seeing it on the ALM side? May be to that extent the entire ALM would also need to be tweaked considering the way we would be transitioning into this portfolio?

Uday Kotak: ING branches are acting as distributor. For example if it is auto, ING branches act just as a Kotak Bank's branches act as a distributor for Kotak Mahindra Prime for the car product. The car product fits in KMP. So, it is like ING branches and Kotak branches act as distribution points so that is the way we have worked on the arrangements. And frankly on a broad basis if you had seen on the bank standalone our Retail deposit growth has been very good so which really gives us stable money so it is CASA gives us lower cost, Retail giving us stable. So between the two on the ALM side we are actually very comfortable on our liquidity and ALM ratios.

Kunal Shah: Thirdly, overall in terms of say we have seen payment bank licenses being announced, small finance bank so how we are seeing say the entire financial landscape. Say the experts have also highlighted that obviously, there would be few who would emerge as a winner. So Shanti clearly highlighted in terms of the digital initiative but the entire financial landscape how do you see and how are we prepared for it going forward?

Uday Kotak: I think the financial landscape is interesting and I think we are moving to a world where you are seeing developments certainly on the digital side new players coming in and if I have to take a big picture view when you look at the overall financial services business there are three key parts. The transactions; risk management; knowledge, and skill. Transactions part banks will continue to have a competitive edge provided they are ready to do it as more and more competitive price points.

So the pie will increase and the scope will certainly go up. Having said that I think there is no bank in India who can truly put its hand on heart and say that it can make a Rs. 1,000 savings account profitable in its true sense. Therefore, whatever the noise is making a Rs. 1,000 savings account profitable the business model in Indian banking does not seem to have developed so far. But I think it is an exciting space and we want to learn, which is why we are taking a 20%

investment stake in our payments bank being promoted by Bharti. This is the era for each of us to have a certain level of paranoia but be open to learning and also implementing quickly. So these are the things which we certainly need to keep in mind. We think the competition in transactions will be higher. Banks especially at higher end of advances, which means not the really small ticket personal loan side but on the higher end we will have a competitive advantage if they can produce superior risk management. And knowledge and skill we all know that I mean you are in that industry say there is still a value for research analyst just as there is value for asset managers on a discretionary basis.

So the knowledge and skill is part of the intermediation business will have a hope but of course within the knowledge and skill there is also ETFs are our competition for discretionary asset managers and research analysts. So the world is changing and I just believe that we as a firm would like to have a simple principle, only the paranoid survive.

Kunal Shah: But sir, would it be more kind of say creating the new markets or say incrementally competition what you seemed to be suggesting is also may be this Rs. 1,000 so obviously on the profitability side it may not be used, but whether they would be like creating a new market and that is the reason may be the entire financial landscape would say grow wherein every player will have a pie for themselves?

Uday Kotak: Time will tell Kunal, I think we all got to watch the space and be quick learners.

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

Manish Karwa: Just on your loan growth you had said that you will not want to do few loans or want to trim down certain exposures of the erstwhile ING Bank branches. Has it largely happened and is the loan growth that we have seen in this quarter post that how do you see that?

Uday Kotak: Manian, you want to answer that?

KVS Manian: So over the last two quarters we have rationalized some exposures where we think either the combined exposure was large or the ING exposure we were not comfortable with. So there are cases where we have reduced the exposures or we have exited or exiting those exposures. So obviously if you look at the numbers the wholesale side advances growth is almost flattish. The reason is primarily because while we have added new assets we have also cut the exposure on many customers and therefore the net result is a flattish growth. We do expect from next quarter this to correct itself and even on the wholesale side we are likely to see reasonable growth. If you recall our growth rates last year were fairly healthy. This year also in the second half we are hopeful of getting in to reasonably healthy growth rates on the wholesale book as well.

Manish Karwa: If in that case the 20% loan growth target is reasonably well achievable now?

- Uday Kotak:** Yeah, which is why we are guiding on that and we feel reasonably confident. But having said that we are currently YoY growth on if I took the combined numbers about 11% to 12% and we think we will get to somewhere closer to 20% there is this higher confidence at the end of this quarter compared to the first quarter.
- Manish Karva:** And just quickly on NPL. There has been some increase in NPLs as it still largely to do with ING's branches?
- Uday Kotak:** Manish, if you recollect in the last quarter we had given a clear guidance that the total stress in the ING Vysya Bank book was about 6% and 2.5% of the combined loan book. Now the issue about stress is that even if we identify a loan as stress till it becomes an NPA we cannot treat it as an NPA. But, once we get there we are taking it through our NPA recognition and also appropriate provisioning which is what we are continuing to do, therefore the total credit hit which we have taken in this quarter including the credit hit on the derivative counterparty exposure is Rs. 238 cr in totality. It is fair to say that very significant portion of this came from the erstwhile ING Book primarily on the corporate book and we are taking the nobs on our chin. As we have said we have guidance for the full year which if I think the first quarter which was about 30 basis points and we have said for the next three quarters 50 basis points so total of 80 basis points. Now obviously you can debate whether we should take it on the opening loan book or the closing loan book give us that flexibility on the range. But other than that we think that beyond that in to next year we get in to a more normalization kind of credit situation and a lot of the pain from the ING book would have been covered through this year.
- Manish Karva:** And just lastly, on this distribution I think we are doing extremely well on insurance and AMC while Gaurang mentioned about some contribution coming from ING branches but even existing Kotak branches are seeming doing extremely or have seen significant improvement. Now what is lead to this improvement and are all the ING branches now starting to sell insurance/AMC products?
- Uday Kotak:** So first is I mean if Gaurang hesitates I must say the insurance management team and the Asset Management teams are really kicking in well. So Gaurang with that over to you.
- Gaurang Shah:** No, I think we started with ING Bank somewhere in end February and I think by March we had activated almost 97% of their branches. So I think it is one of the better executions and coming to your question about whether the Kotak Bank, I think Kotak Bank year-on-year growth this year has been 60% plus and same thing agency side also is kicking. So I think all part of distribution is doing very well. Group used to do always very well so I think all four, five segment of insurance distribution has done well. May be the wider bank has done well probably I will leave it to Shanti to say rather than me saying.
- Shanti Ekambaram:** I think it is really focused and very well coordination between the product and our distribution team. So it has been focused and we sort of focusing around the year. So that is what I would say.

Uday Kotak: And Manish, there is a very fundamental change. Now as I said in the beginning financial savings story is looking pretty good. People are moving away money from real estate and gold and we think that is very good for financial savings across a range of segments.

Moderator: Thank you. Our next question is from the line of Nikhil Bhat from Barclays. Please go ahead.

Anish Tawakley: This is Anish here. Just had a few small question. The Kotak Mahindra Prime and Kotak Mahindra Investment looking at their books so in the non-car book in Kotak Mahindra Prime is shrinking that used to be the real estate and loans against securities business as well, right whereas the Kotak Mahindra Investment is growing. So is there any reason for the shift why operating one or the other? And secondly, how should we think about these international businesses the profits have grown I know it is a small part of the overall business but it has grown quite meaningfully. What is the sort of driver there? Is it volatile or is it sustainable profits?

Uday Kotak: I think first is Kotak Mahindra Prime versus Kotak Mahindra Investments; Kotak Mahindra Investments is the more focused securities and commercial real estate financing business and therefore as that business grows there is a pretty significant team which has put in place. So that piece is growing pretty well in Kotak Mahindra Investments. And Kotak Mahindra Prime is becoming more and more a focused car finance company. The advantage, which Kotak Mahindra Prime has over Kotak Mahindra Investments is the significantly larger net worth compared to Kotak Mahindra Investments therefore ability of Kotak Mahindra Prime as per the NBFC guidelines would take significantly larger single party exposure is higher. We also want to make Kotak Mahindra Prime much more an asset finance company and primarily a car finance company and Kotak Mahindra Investments to be much more the investment and securities and structured financing company as we go in the future. The question on international – the international story we are seeing serious growth in assets under management. And contrary to all the talk about money having moved out of emerging markets we are seeing more money coming in to our offshore India dedicated funds therefore a lot of this income is coming from genuine growth in assets under management. If you have seen our assets under management numbers on a consolidated basis we have had a nearly 50% growth YoY. In offshore it is double nearly double from Rs. 12,000 crore to Rs. 23,000 crore. So we are seeing a pretty good traction in what I would call as a much sustained high quality earnings business.

Anish Tawakley: So that is not investment gain but recurring revenue?

Uday Kotak: Yeah, it is not any disproportionate prop it is much more Asset Management and products around Asset Management.

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

Adarsh Parasrampur: Just a question on the fee side apart from the third party fees. If I just look at the proforma number add up ING 2Q and then compare core fee numbers it is still almost flattish. I understand

there is you will have a lead lag between transition of treasury and various other products. So I just wanted to understand by when do you start seeing some growth when you do the proforma numbers of adding the fees of both the companies and then comparing the fee growth?

Jaimin Bhatt:

Adarsh, I presume you are talking about other income as fees. Now yes, apart from the one-off which we talked about, mutual fund distribution is a big contributor and if I look at even proforma as you have said added Kotak and ING last year and compared to the same number there is a drop in the mutual fund line which has the commission on distribution. You are aware about the AMFI changes, which became effective from April. So that is one factor. Second, in the other income you would also have some spiky income, which had happened on the ING side last year, which was relating to one-off charges on LCs or processing or tie ups so that has all gone this quarter. So one-offs have gone and also on the Kotak side we had other income in the form of we have sold real estate property which we had earned some money which is not there. That is about Rs. 10 crore to Rs. 12 crore and to that extent that kind of has been the one-offs last year which are not repeated and that is resulted in the drop. Actually if you take the Rs. 62 crore back because that is not exactly other income drop it is much more a credit event, which from an accounting point of view reduced from other income.

Adarsh Parasrampur:

So if I add that up it was flatish but I think so largely you are saying if you include all these one-offs from a transaction basis are you now growing 15% to 20% you think or?

Jaimin Bhatt:

That is right. So if you take that off and if you add Rs. 62 crore for this quarter and if you look at quarter-on-quarter we would have grown Rs. 592 crore to about Rs. 677 crore.

Adarsh Parasrampur:

And do you think the combined business grows in line with balance sheet, say FY17 you do not have a your balance sheet drag that you had in the corporate side when you grow little more faster than 20. Will the combined business grow or you have some consolidation of treasury fees and all enhance that can be a drag?

Jaimin Bhatt:

No, treasury fees is not. It is there but not significant in the overall other income.

Moderator:

Thank you. Our next question is from the line of Sri Karthik from Investec. Please go ahead.

Sri Karthik:

My question is pertaining to the underlying advances growth number. I find it slightly difficult to comprehend what is the underlying trends given that Q1 might have probably been the quarter where there might have been certain run-downs because of which the sequential growth is looking slightly higher while on the other hand the YoY growth is around 10%, 11%. So within various businesses like car loans, auto loans, personal loans, etc., the sequential growth has been very high. So where do you see the underlying advances growth trend in some of these businesses?

Uday Kotak:

I think underlying growth is coming a lot more in Retail and now in SME businesses. So far we have not seen any significant growth in wholesales as Manian mentioned which will get better

in the second half. The overall growth in Retail is significantly better even small and medium businesses we are seeing decent growth. Commercial vehicles which we picked up momentum from about 9 to 12 months ago is continuing to show pretty good growth. Narayan, you want to comment on some of the commercial lines the commercial vehicles and all?

Narayan SA:

You see in the last six months we are seeing our disbursements have increased by about 80% compared to same period last year and we especially in the heavy and medium-commercial vehicles we have increased our market share in this period by at least double on that segment. As far as the light commercial vehicles segments, while the increase of market share there also but the market growth is not much but and also we had a very small base the previous year hence our growth has happened. But to sum it up we have taken a call that we will grow in this segment and accordingly we have started putting our distribution and people in place and that has already in to this.

Sri Karthik:

Is it fair to say then that the underlying growth run rate in our granular business is already touching the 20% YoY growth levels?

Uday Kotak:

I think if you look at quarter-on-quarter we are making good progress. Our view is that we do not necessarily want to target a growth rate and chase it we want to see wherever we get risk-adjusted returns we build our business in the medium term-on that. Therefore, I think we are feeling certainly more optimistic about growth rate though we are guiding 15% to 20% we feel that the chances of going closer to 20% are higher in this quarter than what we would have thought last quarter.

Moderator:

Next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma:

Just on the deposit side specifically the CASA accretion you mentioned that the erstwhile ING branches are sort of a showing strong growth but how many quarters away you see the optimal efficiency of these branches? The second question would be on the LAP segment itself. We have been hearing from the competitors or other NBFCs that few of the private banks have become little aggressive in terms of LAP. Just want your sense in terms of how do you see the underwriting strength on that?

Uday Kotak:

I think first to get to normalized efficiency levels in IVB branches what we are compared to the KMB branches, we are probably three to four quarters away before we can sort of do serious benchmarking. We also want to move to one common technology platform, which will be probably a couple of quarters away. So after that I would like to see settlement for a quarter or two and thereafter obviously we will be driving serious benchmarking on IVB branches and KMB branches. And we actually, I mean the whole purpose of the merger is to really get a lot more juice out of the 580 odd branches which have come to us from the ING Vysya Bank stable in addition to ours 650 branches. So the core of our rationale for the merger has been that and it is something which is we will be very, very focused on to get the juice out over time. In terms

of LAP I have got both Narayan and Shanti may be Shanti, you can answer by giving your perspective on what is happening in the LAP side and how do you see our standard cash flows and everything else?

Shanti Ekambaram: From our perspective actually we are seeing LAP as a stable growing business. There are some segments of market, which do get aggressive. But our underlying credit philosophy whether it be LTV, whether it be tenors or something that we continue to retain the way we have been doing business but we still see good growth. We have also seen the portfolio a very stable as far as quality is concerned, NPLs are concerned; so from our perspective it is a stable growing business. But keeping underwriting philosophies within what we have been seeing and there are some segments of markets which then it is each players' outlook as to what needs to be done.

Uday Kotak: Uday, what are you seeing on the BIB side?

Uday Sareen: Yeah, pretty much second what Shanti says. I will just add that this is one segment where depending on the risk segment we have got deals and offers starting at 11.5% going all the way up to 18%-19%. So it is really vastly segmented as to which segment one is going to. And if you look at the earlier erstwhile ING Vysya book almost half the book was LAP and that is one product where we saw a lot of synergy in the whole underwriting philosophy with our self-employed SME segment. So it was always dovetailed with the underwriting which we had on the SME side. So in terms of the segment we are seeing in terms of the risk metrics; risk costs; GNPL the performance is I would say significantly better than even industry and I am talking about just the BIB book. But then again there are LAP segments and there are other LAP segments across various platforms.

So I know where the question is coming from but the short answer is clearly we are cautious but we continue with our philosophy of not just looking at just a collateral but also looking at the businesses, the cash flows and how it dovetails with the overall SME underwriting practice that we have.

Ashish Sharma: Just a follow up on the CASA part. In terms of average balances the difference between the ING branches and the Kotak branches we do not have the number but in terms of the difference between the two networks what exactly is the difference and then have we seen that difference being normalized in the last two quarters?

Uday Kotak: Some way away from normalization. So as analysts you must be confident about our future there is upside.

Moderator: Thank you. Our next question is from the line of Alpesh Mehta from Motilal Oswal. Please go ahead.

Alpesh Mehta: Just on the Agri portfolio we have been seeing some strong growth happening on this side. So anything specific that we have been doing with related to this portfolio after ING acquisition?

- Uday Kotak:** I think first of all I must say that we are delighted to share that the ING Agri portfolio particularly the crop loan portfolio has been a good portfolio. We at Kotak did not have a crop loan business. Post the merger as a combined basis we are now growing we will be growing the crop loan business as well. So essentially on a combined basis there are three segments now of our agri business. One is the crop loan business; second is our tractor financing business and third is the broader agri business. Where you are seeing growth is more in the agri business financing side. The tractor piece is soft; the tractor industry is soft and maybe I will have two people speak on this. I will have Narayan speak on the agri business financing piece and I will have my colleague Kannan who directly oversees the tractor financing business speak on the tractor financing side.
- Narayan SA:** Normal Agri business, we are seeing growth there and this has happened for two to three reasons. One is we have the increase our distribution width so the number of flow which is coming from there has increased. We have some dedicated agri focused branches, which are set up close to the mandis and substantially managed under the commercial bank, which has yielded us good assets. So yes, the growth in that segment has been good and the portfolio has also been good.
- D. Kannan:** On the Tractor Finance space in the first half the market is down 20% but we have been growing our market share. We have grown about a percentage on our market share and second half looks flat. So there are some states where there is some stress because of continuous failure of monsoon as well as local conditions but overall the market looks flat in the second half and we will do our numbers as may be last year.
- Alpesh Mehta:** And any specific product like one of your large competitor has been growing aggressively on the Kisan Gold Card kind of a product. So any specific product that we have been focusing on in these things?
- Uday Kotak:** The crop loan product is called as KCC and which is actually the product which has come from the ING Vysya Bank's stable and that is the piece in the first half was flat as we got accustomed to that new product, getting our system, credit, operations, and risk comfortable with it. And I can say that it has taken us some time to get comfortable but now that we are comfortable we see potential in that.
- Alpesh Mehta:** And two more questions related to your loan portfolio. One is on the small business personal loan and credit card among the three products which product has been growing quite well because the traction in this portfolio is also quite good. And secondly, on the home loan and LAP portfolio?
- Shanti Ekambaram:** If you look at it all the three businesses which is the small business loan, which is the working capital to the small segment, personal loans and credit cards; all three actually have shown significantly healthy growth if you look at the last quarter.

- Alpesh Mehta:** And just from a definition perspective if in a Business Banking segment you gave a loan for our working capital financing but the collateral is a property, would it be classified under LAP or it would be classified under business banking?
- Shanti Ekambaram:** When we assess working capital it is classified under business banking. That is based on the assessment of the business, the cash flows etc; LAP is just collateral it is on the business banking side.
- Alpesh Mehta:** And before the merger Kotak had around I guess 50:50 in home loan and the LAP but after the merger what would be the ratio in this portfolio now?
- Shanti Ekambaram:** Broadly similar.
- Alpesh Mehta:** And last question related to some of the e-commerce offers that we have been seeing off late wherein some of the large players have been very aggressive where the presence of Kotak was quite limited. So any specific reason related to that and just wanted to understand your business strategy in to this space?
- Shanti Ekambaram:** Can you be a little specific about it; it is very broad?
- Alpesh Mehta:** Something like the recent offers on the Amazon or the Flipkart?
- Shanti Ekambaram:** You are talking about the credit card tie-ups?
- Alpesh Mehta:** Yeah.
- Shanti Ekambaram:** We also have tied up with two, three e-com players. We may have missed that but that really depends upon the amount of money that you want to put on the table. And we have our own strategy as far as that is concerned but we have also participated in that with at least two of the big players.
- Moderator:** Thank you. Our next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** Just had two quick questions. In terms of products rollouts through erstwhile ING branches so I guess you have rolled out through some 300-odd branches. So can you just share some timeline as to one, how many more products will be rolled out to these existing 300 branches? And two, in terms of expansion of these roll outs in to other branches. So what kind of a timeline can you share on that? That is my first and second I will ask after the answer of this question.
- Uday Kotak:** Okay, on roll out the way we are thinking about it is we want at this point of time over the next three to six months whatever the product owner groups feel comfortable to launch within the IVBL system product owners go to BIB network and roll it out. Therefore, we more important at this point of time for us is to complete our integration and make it in to one unified branch

network. That is the bigger priority over the next one or two quarters. And we will obviously let the product owners go and roll out products because if you look at it there is cars; there is credit cards; there is now I think home loan product is being now consolidated in to the merged entity and thereafter it is being launched as an offering through the entire IVB network.

The IVB system itself we used to work as assets and liabilities the two very independent functions. Kotak Mahindra Bank's approach has been assets of the products being pushed through the branch distribution as the primary distribution channel. So that change is something, which is underway. Gold loans has been unified similarly across the combined branch network. So we just want to make sure that yes, more and more products come in but at the same time want core focus on some big focused areas like a CA, SA, Retail TD, Insurance as the core focus areas without too much dilution on that.

Rahul Jain: So is it fair to say that the consumption-oriented products would be rolled out perhaps over the next 12 to 15 months?

Uday Sareen: So Rahul, see the thing is that there are two kinds of products, which are coming in to the eIVBL system. So one is there are products which were already existing in the eIVBL system. For example – the home loan, the personal loan, the LAP. These are anyway first getting integrated with the consumer bank and then you would really scale it up. The second category of products are products, which did not exist in the eIVBL system. So it is auto, credit cards and there when I say 312 branches auto the fact is that there are 347 branches where there are auto loan sold through the Kotak system through KMP.

So already 312 of those are energized so the universe there is 347. So clearly as a distributor we have kicked off the products which did not exist. And as far as the products which existed, the game plan there is add Mohan articulated we are integrating the HL, the LAP, the personal loan and then we will get traction going in a unified way with these branches. So that is the thinking on this but yes, for the products, which are did not exists where the distributors clearly 312 already energized. Now we need to start the next step do marketing, do pre-approved offers there is this whole base of 2 million customers sitting there which traditionally have not been sold these products. So that is the headroom and opportunity for products which did not exists.

Rahul Jain: The second question was on our savings account growth. So you said erstwhile ING branches helped or rather the SA balances in those accounts grew at about 23%.

Uday Kotak: Average not EOP.

Rahul Jain: So I think despite the sort of an early stages of integration we have been able to juice out 23%. I would imagine that this piece should accelerate in terms of growth momentum perhaps fourth quarter onwards of this year? Would that be a fair assumption to make?

Uday Kotak: Let us have Mr. Sareen to answer that question.

- Uday Sareen:** Well, it has been two quarters, right so in the first quarter we had the entire training and the entire product roll out while it is savings account but even within SA there are multiple different products which so we have been through that journey. And yes, so I would say this was may be some low hanging fruit there. So obviously we have accelerated from a 10%, 11% to 23%. And as Uday mentioned if the bank consolidated the go-to number is 35% and then over the next few quarters the endeavor is to see how we can start to get to at least where the rest of the bank is moving. Of course this has two parts to it – One is the new-to-bank acquisition and the other is the deepening and we are seeing that obviously the 6% rate, this is the first time that the ING network is getting that traction and increasingly that is becoming more attractive. So we are seeing that in terms of deepening the whole relationship model that is working. Just to give you a number over the last four months we have increased sales capacity. We are building sales capacity in the network. So we had relationship managers, relationship officers, personal bankers close to 800, 900 folks have joined the network and that training is on. So that should start to really kick in and get to the benchmarking but yes, 10% to 23% in about four months and the go to number is we have to get to 35% first.
- Rahul Jain:** Just one last question if I may. The Tier-1 ratio dropped 40 basis points QoQ. So can you just share some more color on that why was that or this was just a normal function of growth?
- Jaimin Bhatt:** If you look at the asset growth itself advance to growth has been pretty sharp in this quarter and to that extent there are quite some others have got has impacted.
- Rahul Jain:** So that is the only reason, right?
- Jaimin Bhatt:** That is right.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the floor over to Mr. Uday Kotak for closing comments. Over to you, sir.
- Uday Kotak:** Thank you. I just wanted to say that we have a lot of hard work to go and next two quarters are going to continue to be tough and for us to get the full synergies of cost and revenue we see the full impact of that in the next year. If I take 12 to 18 months' view I feel positive but I know before that in the first six months there are lot of challenges, there is a lot of issues which we are dealing with in the whole integration process and we will go steadily. But overall, our view is the economy is slowly turning for the positive; financial savings story in India is looking extremely positive over the medium-term and we feel good about our positioning and the fact that we know have significantly higher capacity than we had one year ago. Thank you, ladies and gentlemen.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Kotak Mahindra Bank that concludes this conference call. Thank you for joining us and you may now disconnect your lines.