

MESSAGE FROM UDAY KOTAK



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Uday Kotak
 Managing Director & CEO



As the years roll on, the temptation to look at the rear view mirror rather than the windshield in front increases for both the company and the individual. And if the past has been positive, it is even more so. Succumbing to that is dangerous. What matters is the road ahead and it is important to sift the past between lessons and baggage of history. Kotak is at one such juncture, where it has to not only embrace the change, but accelerate it. At the same time, Victor Hugo's words ring a bell: "Change your opinions, keep your principles; change your leaves, keep your roots intact."

An institution has to outlive individuals, including those who founded it. But like the water in an ocean, each contributory stream collectively makes up the institution. It is this continuous 'Manthan' that strengthens the core. I look at Kotak as a constant confluence of river waters, collaborating to build a sustainable ocean, aspiring to live in perpetuity.

What does it take to build a sustainable institution for the future? Product excellence, customer obsession and trust. We, at Kotak, are in midst of this mindset shift for these priorities. We have moved in part from the physical world to the 'phygital' (physical enabled by digital) one.

We are now leap frogging to 'digical' (digital first supported by physical), and soon, technology and AI may change this too. We need to live with conflicting emotions of paranoia and excitement at the same time.

For a long time, we believed that the best way to grow was to give our internal people new opportunities. But when we got the banking licence in 2003, we created a great blend by hiring experienced bankers and our internal team of non-bankers to build the bank. We are now looking at the new 'compound' required given the dynamic transformation happening in the banking industry.

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We are willing to benchmark the internal talent vis-a-vis our needs and attract the talent from outside for Kotak to be the best in class in what we do for our stakeholders. I can see and feel a palpable change, both in the mindset and the execution.

In the last one year alone, we have onboarded a new CTO, a Chief of Customer Experience, a Head of Brand, Product and Marketing and a Chief of Retail and Commercial Risk to drive potentially transformative changes in each of these areas. At the same time we will grow internal talent, which is future ready.

Moving to the big picture. Geo-politics dominates the world economics and India has indeed played its cards well. From oil diplomacy which has given India access to cheaper oil to a strategic positioning among the US, Russia and China, India has pivoted herself to be a key player for Europe, the Middle East, Japan and Australia as well.

Indian economy in a sweet spot: Good time for bold thinking

Indian macro is in good shape. So is the micro. At this stage, a virtuous cycle for India is on the cards. Our financial sector is in its Goldilocks period. Clock striking midnight seems far away for Cinderella. Hence, this is the time to ask ourselves the tough questions. What are we doing for a USD 30 trillion economy by 2047 when India completes 100 years of Independence? Our financial sector needs significant capacity building for this aspiration.

The turbulent period post 2008, saw the Indian financial sector experiencing many crises till about 2020. That has created a certain backdrop. We must avoid a mindset that we want accident free roads hence we will restrict cars. Instead, to take this analogy further, we need more roads, more cars and better signals and traffic regulation. Accidents have to be minimised and managed, and cannot be eliminated without having a significant impact on growth aspirations.

The policy and regulatory framework needs to be aligned with this. We must let entrepreneurship thrive, as I was fortunate to see in most of my career. There is a need to build regulatory trust which requires action on both sides of the aisle.

I feel the financial sector players risk becoming more robotic, curbing the entrepreneurial flair since the fear of making a mistake overrides the joy of creation and development. While we need 'Arjuna's eye' on risk management, we must prevent bureaucratisation of financial services.

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I would like us to pursue the Indian dream of a USD 30 trillion economy and unshackle the financial sector in a nuanced manner towards optimum regulation. The Finance Minister has identified the issues in her 2023 Budget speech Para- 99 that seeks to bring feasible public consultation into the process of regulation making and Para-100 that targets a comprehensive review of existing regulations to ease and cut down the cost of compliance. I look forward to seeing progress on that.

Our performance - A strong focus on fundamentals drives a stable growth

The optimism is well reflected in our full-year numbers too, especially in our growth in profits, margins and asset quality standards. In FY 2022-23, our Net Profit at the consolidated level witnessed a 23% YoY growth to ₹ 14,925 crore. The Return on Assets (ROA) at the consolidated level was 2.62% for FY 2022-23 (2.36% for FY 2021-22). Our Bank Standalone Net Interest Margin (NIM) stood at 5.33% (up 72 bps against FY 2021-22) and our Net Profit witnessed a 28% YoY growth to ₹ 10,939 crore.

Reflecting our conviction and commitment to growth, we grew our Net Advances in the year by 18% YoY of which our unsecured retail advances book (including retail microfinance) forms 10% of Net Advances as on 31st March, 2023. Our CASA stood at 52.8%, Capital Adequacy Ratio (CAR) at 21.8% with CET1 at 20.6%.

As on 31st March, 2023, the total Assets Under Management (AUM) for Kotak Group was more than ₹ 4,20,800 crore with our alternate assets book showing a growth of about 125% YoY at ₹ 46,077 crore (Include undrawn commitments, wherever applicable).

The focused ESG journey we began last year has reaped results in the form of better ESG ratings and recognition through various awards. We are proud of our growing focus on education and livelihoods, healthcare, sports and environmental sustainability through our Corporate Social Responsibility programs. We continue our relentless efforts to enhance gender diversity in our work force and we extend support for our employees who are new mothers or single parents by facilitating day care for their infants starting April 2023. We have achieved group wide coverage on key ESG disclosures for FY 23, enhancing the communication to our stakeholders.¹

As a responsible, homegrown ecosystem, we cater to the diversified financial needs of our customers in addition to banking and financing, be it mutual funds, insurance (life and general), investment banking, institutional and retail broking services, investment advisory, alternate assets, et al.

"We were at the right place at the right time. We are a quintessential product of the India growth story and the financial sector evolution. We have created value for stakeholders and now provide ~100,000 direct jobs and a multiple of that in indirect jobs. An investor who invested ₹ 10,000 with us in 1985 would be worth ~₹ 300 crore today. Most importantly, we have built an institution, on the basic tenets of trust and transparency."

Nurture a world class institution

As I step down from my whole-time role soon, I would like to reflect on what that role means. I am a manager, a board governance member and a strategic shareholder defined in

¹GRI 2-22, BRSR section B, Q7

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Indian terminology as a promoter. Yes, I have spent most of my life here, starting from scratch with very little capital in 1985, 3 people and a 300 sq. foot office.

We were at the right place at the right time. We are a quintessential product of the India growth story and the financial sector evolution. We have created value for stakeholders and now provide ~100,000 direct jobs and a multiple of that in indirect jobs. An investor who invested ₹ 10,000 with us in 1985 would be worth ~₹ 300 crore today. Most importantly, we have built an institution, on the basic tenets of trust and transparency.

Let me quickly move to the "windshield" in the front.

Going forward, I see my role as a non-executive board governance member and a strategic shareholder with a long term perspective of nurturing a world class institution. It is unusual in today's world of banking anywhere to have an individual with ~26% skin in the game with disproportionate family assets in one stock, emotionally attached to living his dream of making India proud.

I am confident that the alignment and commitment of the shareholders, board and the management will navigate us through the changing times. And of course, dealing with the ever-evolving regulatory and policy landscape.

I end with my favourite quote from George Bernard Shaw: "The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man."



Uday Kotak
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