"Kotak Mahindra Bank Limited Q1FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Kotak Mahindra Bank Q1FY17 Earnings Conference Call. As a reminder, all participants, line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone telephone. 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. Uday Kotak.

Uday Kotak: Good Evening, friends. Happy to be here along with my colleagues on the first quarter earnings conference call, and also sharing with you how I see the situation and we see the situation as we look at, at this point of time in July 2016.

First, just to give you an update about our merger: Quarter April to June was an extremely crucial quarter for us, because the heart of our integration which is the technology integration and integration of our Retail pieces happened in this quarter. With some teething problems, we have got past the major item of the merger, which is technology. At this point of time we feel reasonably comfortable that the integration has got done and we are moving ahead into the next quarter with much greater confidence about a single bank from being effectively a bank and a "bank in a bank".

The Retail integration of people has also taken place, obviously that includes significant number of people, branches, structures, and most of them have been put in place. At this stage, I would like to say that we have completed the broader integration of the firm to the extent of more than 90% of where we would like to be. The last tail is on its way to get completed which we hope to completely close out through this quarter. Like in every merger, the challenges have been enormous and we have had great learnings over the last 15-months on what all needs to be done to get a merger done in general and a merger done in the Indian context. At 90% plus level of completion we now feel that we are well on our way to life beyond integration which has taken a disproportionate mind share of our team to really make it happen.

We are also pleased to have been very-very deeply focused on detailed execution which is at a heart of getting the mergers working.

So from here, we are now in a mindset and a position to get much more focused on getting things cracking and at the same time focusing on pockets, which now need to move towards the whole area of synergy and transformation.

Coming to the broader issue about the economy and the growth prospects in that context for our bank, we are actually seeing two or three significant developments taking place: First, clearly, we are seeing demand pick up in pockets of the economy specifically the areas of Commercial Vehicles and Construction Equipment sector including the Road sector and our business therehas already begun to scale up and we will continue to scale up further. We are also seeing some pick up in our Wholesale Banking and Corporate Banking business. As you may recollect through most of last year, we were facing the challenges of getting the two parts of the bank together on the Wholesale Bank side which we had completed integration earlier, and we are now seeing our ability as a single bank to be able to grow and build towards significantly faster growth rate in our Corporate Banking business.

The areas where we have had some challenges in the last few months have been in the area of SME, where we have basically merged the two banks together and there are some areas where we see some level of stickiness on the quality of the accounts and that is something I just thought I must bring to your notice. But some of it is linked to integration pangs, since the SME and the Retail business got merged in this quarter and from here we would hope to see in the next nine months a quicker pace of growth in many of the Retail and Commercial segments compared to what we saw in the first quarter. I also see an improvement in the liquidity situation. The RBI position on liquidity has had significant impact positively on the overall liquidity in the financial markets and we see that as a good sign from the point of view of building our business from here.

Our Deposits franchise continues to be pretty strong and we are continuing to see a high growth both in CA and SA through this quarter and over the last one year.

On the broader economy situation about stress, my sense is we are seeing a situation where if a loan goes into the ditch, it is very difficult to get the loan out of the ditch and it takes a long time for the system in terms of the recovery. In the context of our book, we think we are close to peaking of where we see our gross NPA cycle, it is all a flow, a significant portion of it is coming out of the merger or the assets which we acquired from erstwhile ING Vysya Bank and some of that stress has also converted into NPAs. We do believe that our continuing guidance, we maintain our guidance of 20% loan growth for this year and our guidance on credit cost which we had indicated 45-50 basis points, we would like to believe at this stage we will be at or around 50 basis points in terms of stress in terms of credit cost for this year.

Overall, I would like to at this stage be reasonably optimistic, good rains, we are seeing early signs of pick up on the agriculture and the Bharat part of business in terms of Wholesale side. On the Retail and the SME side, post the integration blues which we faced in the first quarter, we hope to settle down in the second quarter and beyond and see a significant growth. Therefore, full year guidance of 20% loan growth is something we are very comfortable to maintain and a credit cost of around or below 50 basis points is where we continue to guide you.

With that, I will request my colleague, Jaimin, to take you from here.

Jaimin Bhatt: Thank you, Uday. Let me take the standalone numbers first: We ended this quarter with a post-tax profit of Rs.742 crore for the quarter, same period last year we were at Rs.190 crore but recognizing the fact that last year was effectively the first quarter after the merger happened and had some one-time additional cost like we had taken Rs.300 crore plus hit on account of pension and further some integration related cost. But nevertheless, the last year first quarter was Rs.190 crore to this quarter at Rs.742 crore. Our net interest income is roughly up about 20% over last year's numbers, having closed this quarter at Rs.1,919 crore. The other income at Rs.733 crore comprising fees and services of Rs.564 crore and other income at Rs.169 crore. At operating profit level, we have in this quarter Rs.1,315 crore, provisions as Uday was talking about this quarter we took a provision hit of Rs.179 crore, largely coming on the advances front and post tax we end with Rs.742 crore for the period. Our net interest margin for this period at 4.37%, Tier-1 continuing to be really healthy; we are at 15.8% on Tier-1 as of June 30th. Restructured loans, we are at Rs.160 crore which is about 0.13% of our overall advances and as on 30th June our SMA-2 number stood at Rs.474 crore. As in the past, we have neither participated in CDRs or done sale to ARCs or off balance sheet conversion or 5/25 or any rectification of standard asset

On the segmental front, the Corporate Bank contributed Rs.601 crore of pretax profit, Retail contributed to Rs. 250 crore and Treasury, BMU & Corporate Center getting into a total contribution of Rs.285 crore. Of the advances of Rs.1,20,000 crore, on a year-on-year basis, we have seen the Corporate Bank grow about 22%-odd, Commercial Vehicles, Construction Equipment as Uday mentioned has seen a robust growth during this period as well as in the quarter. Agri division has had decent growth and Home Loans on a year-on-year basis had a decent growth. Of the Advances if I take on the basis of the RBI recognition of Rs.5 crore and above, of the Rs.1, 20,000 crore, about Rs.70, 000 comes in the Rs.5 crore plus category.

On the liability side, we have seen good growth both on the Current Account and the Savings Account. On an average basis, our Savings Account grew at about 35% on YoY basis and Current grew at 32%. Our CASA at the end of the period was at 37.4%, in addition our sweeps constitute about 6.2% of the overall deposit base. SA costing us about 5.51% of the overall numbers. We end the period with 1,333 branches and on track for 1,400 branches by the end of next calendar year.

Uday talked about integration. Post the integration and the technology merger, we have identified around 70 plus branches which are in close vicinity of each other and during this year we would be relocating most of them and bulk of these are in metro towns.

Before I get on to the consolidated numbers, will request Shanti to take us through the Digital slides.

Shanti Ekambaram: Thank you, Jaimin. I will talk about four to five broad Digital themes before I get into a few details that are there in the slides. Firstly, we are focused on Digital Transformation across major activities in the bank which includes Lending, Credit, Automation, Sales Force Effectiveness and Process Automation. We are moving from a product journey focus to customer journey focus in the products whether it is the ease of transacting in Savings Account product, Personal Loans, Holiday Loans, etc., In terms of payment, we really focus on transaction eve and convenience in all our payment journeys, whether it is in the app, whether it is Ecommerce, Recharge, Bill Pay and other mobile transactions. Mobile is the center of our universe and our focus and most of our designs going forward will be designed around the mobile, because we find that customers are going to mobile directly. As usual, we believe Digital is a shared ecosystem and we are working in a collaborative ecosystem looking at Fintech innovations, ideas and various designs. We believe branches are here to stay and we are working on some branch repurposing to look at a combination of technology and people to really look how we get to the next-generation banking.

Specifically, if we get into the slides, from delighting our customers whether through tab banking for our corporate salary customers, where you can open an account under 24-hours, instant pre-approved loans with less than 90-seconds with no documentation for our employees and for some of our customer base, Mobile Banking we have seen like increased incremental logins. We have set up an Innovation Lab in Bangalore to really coordinate with the Fintech ecosystem to get new ideas and design equipment and on SME front, we have sort of built a SME macro site to really see how we can build value.

In terms of best-in-class transaction experience, our Mobile App has been one of the best rated app. We have been one of the few banks which has integrated with Google now, which help customers on Android platform, get notifications about almost all transactions that they do and of course, we have more than 100 transactions that we can do on our mobile.

Ecommerce has been integrated into our Mobile and Digital platform as we continue to see increased enhanced transactions. We are amongst the top five banks in terms of growth in Digital, Mobile Transactions and with the launch of UPI that is likely to take even further fillip.

In terms of activity as far as through Digital is concerned, our monthly transactions on Mobile crossed about Rs.3,000 crore and from a growth perspective, value growth of 153% YoY and volume growth of about 159% and some of our products like RD and TD continue to show incrementally very healthy growth through the online platform. In Digital Payments in absolute terms we have seen growth across Recharge, Online Trading, Bill Pay and Online Shopping.

In addition to the bank, we are also focused on Digital in some of our key subsidiaries; if you look at Life Insurance, 35% of our incremental business comes through Genie which is our tablet end-to-end solution, 15% of Renewal Premium comes through Digital platform and 49% of the Switch Request comes through the online customer mode. In Kotak Securities, our Mobile volume transaction is more than Rs.6, 000 crore per month and number of trades on mobile has grown to 4.5 lakhs per month. So both on the bank and our subsidiaries, we have focus on saying how we can digitally transform our business for ease, convenience and delight for our customers.

Over to you, Jaimin.

Jaimin Bhatt: Thanks, Shanti. Taking the consolidated numbers for this quarter, we ended the consolidated entity at 1,067 crore of post-tax profits, up from Rs.517 crore for the same period last year. Our

Capital adequacy Tier-1 at the consolidated level at 16.5% and overall loan of Rs.1, 47,000 crore at the consolidated level, with the book value now standing at INR 187 per share.

Other than the bank, the contributors to the consolidated numbers Kotak Prime had post-tax profit for the quarter of Rs.120 crore, Life Insurance entity contributing Rs.71 crore, the Securities entity at Rs.60 crore and Kotak Mahindra Investments at Rs.40 crore. We have seen the AUM which we manage across the group now at Rs.1, 10,000 crore which also include the domestic asset management business on an average for the April-June quarter we were at Rs.63, 000 crore. Alternate assets we do about Rs.11, 500 crore of assets under management.

Broadly, that is the highlight across the group. We would now be open for Questions.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Mahrukh Adajania from IDFC. Please go ahead.

Mahrukh Adajania: A couple of questions; On CVs, you said there is a pick up, but there was a slowdown in June sales. So anything material to read into that or do you have any views on how sales would shape up in the months ahead?

Narayan SA : June is the only month we saw a small dip of about 2% but April-May-June together has been 13-14% increase. I think it is because of the rains which happened in June, last year June if you remember there were hardly any rains, and heavy rains normally results in lower sales. We think that is the reason. We have to wait and watch. But as of now on the ground, I do not think there is any message saying that is substantially down, but we have to keep in mind that last year the growth rate especially in the Medium and Heavy Vehicles was very high, to some extent growth will get tapered down this year, but we see while on Light Commercial Vehicles was flat last year, we see it growing this year.

Mahrukh Adajania: On the standalone numbers, was there a reclassification within Retail Loans?

Uday Kotak: Yes, broadly what happened was, there was the SME loan which was sitting in the ING Vysya system, the whole business has got migrated into the bank and broadly the way we were doing the KMBL classification that some part of it has gone into what we manage under the Commercial Bank and part of it is coming to the Consumer Bank. So to that extent, that part of the ING book which was broadly classified as Business Banking in the previous year has got split between Business Banking and what we now call as small business. So roughly the delta which would have moved from Business Banking earlier into the new method would be close to about Rs.5,000 crore.

Mahrukh Adajania: Would you have the number of trading gains for the standalone bank?

Jaimin Bhatt: As we said, the other income which we have given is Rs.169 crore that includes treasury gains from the sale of investments as well as other parts of income. Overall about half of the non-fees i.e. Rs. 169 crore would come from the trading gains

Moderator: Thank you. The next question is from the line of Rajatdeep Anand from Canara HSBC Life Insurance. Please go ahead.

Rajatdeep Anand: So I was just comparing Q4 numbers to Q1 numbers. Now, there was an expectation which was built of growth and you know the utilization from Vysya Bank's network going forward for next one, two years. But, if I look at the numbers for Q1, there seems to be a very, very sharp slowdown. Can you please explain if this is only a one quarter phenomena, because Loan growth is only 1.7% Q-on-Q, assets are actually down Q-on-Q, CASA percentage, CASA absolute, both have declined Q-on-Q, number of branches added is zero. So, I was just wondering if this is a one quarter phenomena or is there more to it ?

Uday Kotak: Let me take you back to our world before the merger and you can sort of look at the history. In that history, normally the first quarter would be around or below the last; the last quarter normally is the best quarter of the year. In the last quarter there is a significant increase in business coming out say for example distribution like insurance products, also historically when you add the year end requirements for Agri and PSL, you would normally have all those businesses coming in the last quarter which is exactly what happened this year. Therefore, when you are comparing quarter-on-quarter you have to be keeping in mind that. I think it is true for most banks, the last quarter is normally the best quarter of the year from a bank's point of view. So keep that as a broader perspective in mind. Second, the way we have gone through integration is we have done granular integration. So immediately on merger we integrated treasury, thereafter we went ahead and integrated the wholesale bank last August-September. Thereafter, we started the process of integration of the Retail and the SME businesses. The reason why we kept that last was we wanted to complete other pieces. Therefore, between August-September and end of the year we integrated a lot of the support functions which were then merged into a single unit. The integration piece which we kept last was the Retail and SME piece from ING Vysya Bank .The reason why we kept it last was we needed to get the technology piece of both the banks together. Now, both the banks as you know were on different technology pieces. Kotak bank was on Finacle which is Infosys, ING Vysya was on a system of FIS which is Profile. So, Profile moved into Finacle. That integration happened in the middle of May. So, quarter, April to June, was when for the first time the organizational integration and the technology integration of the Retail and SME pieces got completed. Now, you go back to our situation last year. When we merged the Corporate Bank together, for a period of three to six months, which is the post-merger stabilization period of that division, we actually saw a dip in our Wholesale Lending business which was mainly because of the fact that there were common accounts getting it together, new set of managers, the restructuring which happened. With reference to Retail, the same situation happened; we merged the organization structure effective 1st May and the technology integration happened on 15th May. The good news is technology integration is fully done. The organization structures are about people. This also combines itself with the annual appraisal cycle of people. So this is also a very crucial and sensitive time for the whole appraisal process. So all that got really clubbed together in May 2016. It was not possible for us to do it earlier till we were ready from a technology point of view to fully integrate. Therefore, some of the impacts which we have seen particularly on the SME side comes out of the fact that this was a period when actual integration has happened. The good news is; all this is now behind us. We now are able to look forward which is why I have continued with a clear guidance that we think we will get to 20% growth this year and a lot of the merger blues are in fact now behind us. Till the March quarter I would come back and tell you every quarter that merger is progressing well, we are coming closer and closer to the final big burst which is the technology integration and the retail integration. I am happy to come back to you today and say that that is an event of the past which has happened and it is now behind us. Having said that, I must also mention that if you look at CA and SA, and you go back to Kotak numbers standalone, normally EOP March on CA has been historically higher than EOP June on CA. This is because of a lot of reasons including customers withdrawing money from elsewhere and wanting to show it in their bank account on 31st March as their objective. While you are looking at quarter-on-quarter, firstly keep in mind quarter-on-quarter you must compare in the context of premerger situation. Secondly, in the context of the merger, this is one quarter when we were going through the full integration which has also happened at the same time. Yes, now, we feel as I said we are more than 90% done on our merger and integration and going forward I would like to talk to you less and less about the merger, more and more about synergy and transfer.

Jaimin Bhatt: Just want to add something to what you talked about the year-end CA and SA numbers. If you look at the average for the Jan-March quarter versus average for the April-June quarter, both CA and SA show an increase; SA from about Rs.26, 700 crore to Rs.28, 500 crore and CA from about Rs.17, 900 crore to Rs.18, 500 crore. So both of them on average even on QoQ basis have shown a rise.

Uday Kotak: I would strongly encourage the analyst community to insist on banks giving averages for the quarter rather than EOPs. Also on CA and SA, as we mentioned, January-March versus April-June growth on averages, significant growth year-on-year and EOP is the easier thing for us as a bank to bump it to make you feel good. We are not in the business of bumping it, we are in the business of giving you what the facts are.

Rajatdeep Anand: The increase in SMA-2 is on account of this merger, you were saying that Vysya Bank is actually attributable to that?

Uday Kotak: Firstly, we are the only bank in the country which discloses SMA-2. No other bank in the country discloses SMA-2. Having said that, we are ready to answer that question; SMA-2 is still 0.26% of our total Loan book. It has gone up from a number which was 0.13% of the previous quarter, but this SMA-2 is still 60 to 90-days. There was one wholesale account which came from ING Vysya, where out of this Rs.474 crore this account was for Rs.150 crore .We have recovered the money after 30th June and as I talked to you, it is no longer in SMA-2, but we are disclosing the number as of June 30 and therefore that is including Rs.474 crore number.

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

Kunal Shah: Sir, my question is when we have highlighted in terms of the presentation that we have identified few synergy levers both on the cost and the revenue side, and things have been put into action, would it be possible to quantify the same, the way we quantified at the time of integration in terms of so much would be the cost which we would be incurring, so much in terms of the credit cost which would flow in from ING Vysya, so to that extent on the synergy side, any kind of an indication in terms of how much say it would help overall?

Uday Kotak: Kunal, while we have not put out the consolidated quantified numbers, because some of them are annuity in nature and some of them are one-time, we need to distinguish between both. But, let me just give you a few illustrations of how this works as we go forward. If you go to history of Kotak standalone, our credit costs were in the region of around 30 to 35 basis points. Post-merger for the year-ending March '16, as was fully shared with you, our credit cost moved from 30 to 35 basis points on an increased book to 82 basis points This year, we are guiding you as we stand today, the credit cost will be 50 basis points or around. Going forward, steady state numbers should come back Again I am also making it a very clear position that most of the increase in credit costs are coming because of the merger. Many-many accounts on a standalone basis we did not have in our books. Therefore, I would still like to believe that our steady state credit cost in this environment and if the environment improves obviously it gets better. Even in this environment is 30 basis points to 35 basis points. So if you look at steady state, we are still watching some of these issues coming out of the merger process.

Secondly, Jaimin mentioned about relocation of nearly 70 to 75 branches, which are virtually next to each other. They translate into effectively getting 75 new branches. I am talking about effectively is not from an accounting point of view, new branches at zero additional cost. Because we combine two branches, one branch gets freed up. So that is the second advantage.

Third; just to give you a sense there were many areas, say for example, in the whole area of space, lots of the buildings including the building at Bandra Kurla Complex had lots of surplus office space which was not used. So we have moved all our people from rented offices out into the buildings which we now own.

Fourth, ING Vysya had nearly 100 residential apartments. So there is a detailed process which is working on monetizing each of these surplus residential assets, which were otherwise lying vacant and unused or not producing productive returns.

Fifth, across if you look at our people number, we are continuing to add people in the front end, but we are significantly tightening people at the supervisory levels and we are beginning to see significant synergies coming out of this. To explain, if we were two banks, we needed two CEOs, if we are one bank, we need one CEO, CFO, one person to heads each business type then you move to the next layer of supervisory, regional managers. So, there is a whole host of areas of significant duplication which is systematically being addressed. We are also trying to make sure that if there are good people across the system, we are giving them opportunities across in the group as the first option, and it is not just cost reduction at any cost.

Sixth; as we get all this together, we have to manage two parallel forces. First, economies of scale coming out of this and second, what we have to be careful about and which is where some of the challenges are coming at this economies of complexity. So we are working towards minimizing the cost of this economies of complexity out of merger and optimizing economies of scale.

Kunal Shah: So in terms of the integration cost as well, whatever we have highlighted in terms of Rs.200-odd crore, have we entirely incurred that, so is there any element of integration cost even in Q1?

Uday Kotak: Very little, but Kunal, at some point of time, we have to say now, life is as usual. So now we have said, integration cost, let each business take it. We do not want to let the business permanently have the advantage of having a gunny bag of debiting integration cost. But in totality, the total integration cost is less than Rs.200 crore

Kunal Shah: In terms of say the increase in the NPL, so is there anything which has slipped from restructured pool?

Uday Kotak: No.

Kunal Shah: So the restructured advances are largely down as we have seen compared to that of Rs.305-odd crore,

Uday Kotak: One restructured account was actually fully paid back.

Kunal Shah: So there is no slippage which has happened?

Uday Kotak: No.

Kunal Shah: Because what has happened is like when we highlighted in terms of SMA2 last time, it was Rs.153 crore and the addition to the NPLs is to the extent of Rs.160 toRs.165 crore.

Uday Kotak: Yes, you got to keep in mind, SMA-2 is Rs.5 crore plus only. That is the RBI guideline. SMA-2 does not include below Rs.5 crore.

Kunal Shah: So maybe whatever would be largely on the Retail side?

Uday Kotak: As I mentioned there is some spottiness on our SME book which is what has resulted in a slightly higher NPA.

Kunal Shah: As you mentioned, maybe Rs.150-odd crore in SMA-2 this time would any which will go out of say Rs.474 crore, which we have highlighted?

Uday Kotak: I hope that something else does not come in.

Moderator: Thank you. The next question is from the line of Sri Kartik from Investec. Please go ahead.

Sri Kartik: My first question is regarding the banking system and the associated growth which the private sector banks are seeing. What we have noticed is, on an average, private sector banks have gained about 300 to 400 basis points of market share during '16. So without the pie itself growing, that is the system credit growth not improving, how long do you think the party can go on for private banks?

Uday Kotak: Why do you think about this as a party? The trouble with the party is that there are overhangs also. So when some of the other banks are not in a position to do lending and which a very large part of the system is, you have to be very careful on what you buy. Therefore, if you buy it right, it is a party, if you buy it wrong, it is a hangover.

Sri Kartik: If you could help us estimate what is the addressable portion which private sector banks can target away from the PSU banking system, the opportunity in your assessment?

Uday Kotak: You are talking about Indian banking system. We all know the numbers; 70% of the Indian banking system is owned by the public sector

Sri Kartik: There has to be something which cannot be part of any private sector banks given the low profitability?

Uday Kotak: There would be some part of it, but if public sector banks stop lending to those segments which are low profitability, either those will get out of the system or they will become better profitability.

Sri Kartik: Turning the tables around SMA-2. It actually seems quite low for a bank which is supposed to take some risk. Are we risk-averse?

Uday Kotak: No, we are not. First of all, I think you must keep in mind last year we had big challenges on our corporate book which was coming out of the inflation. You have seen how we have kicked back the corporate growth especially in this quarter. So, probably we should soon see that kind of kickback coming in to our growth in our Commercial and Retail sectors as we go forward. Bulk of this if you look at it the non-integrated areas even in the Commercial and Retail sector are growing pretty well like construction equipment and commercial vehicles which were essentially Kotak businesses and not having anything to do with integration has started kicking in. Credit Cards, Personal Loans, they have started kicking in. Therefore, the pockets where we have had a little bit of slowdown come out of segments which were integrated in quarter April to June.

Sri Kartik: Some thoughts on how the fee income piece could essentially evolve from here, because that was a large part of what ING used to earn especially coming out of the non-fund business and we continue to probably be slightly more conservative still on the non-fund piece?

Uday Kotak: I think the first item on the fee income, which we need to highlight to you is the mutual fund fee income piece which is year-on-year flat for the first quarter. This is despite a significant increase in our focus on the mutual fund fee income. Here we have with some other players, made a structural change in how we are getting fees paid from the mutual fund industry, and if there are mutual funds on this call, they would certainly confirm this. We have moved from a model which was high-front end and low trail fees to amortizing trail model. Let me give an example, in the past, the standard structure for distribution fees was moment you distributed an equity fund, it was 1% front-end and thereafter 50 basis points trail, thereafter. Instead of that, we have now moved to sale model of around 1.3% to 1.5% per annum. Therefore, as an example, say if the fee was say 1.3%, in the first month if we booked it in April in the old scheme, we would have booked 1% as a fee. This new model, we will book 0.11% per month, we will get an effectively higher economic value, but lower front-end which we see in this quarter. Second, if you look at it is insurance income, fourth quarter is always a peak for insurance. Therefore, our insurance income in normally 4x in the first quarter.

Jaimin Bhatt: In general on the rest of the fees which is banking and other pieces, our growth in fee income year-on-year is pretty good.

Moderator: Thank you. The next question is from the line of Jignesh Shial from Quant Capital. Please go ahead.

Jignesh Shial: Just two questions: What is your view on the margins considering overall cost of funds are easing out and even you are doing pretty fine even during this quarter also, so what is your stance on how will it be moving?

Uday Kotak: I would continue to guide you at which is what we did earlier at (+4%) and I do not want to give you the exact number whether it is 4.25, 4.3, 4.4 and we also are very clear that at (+4%) NIMs, we are for the risks which are acceptable to us, we will grow the balance sheet.

Jignesh Shial: Do you think with the ease in yields of funds happening, not particularly Kotak, but across the sector, do you think the yields are supposed to be fallen down or the rate of interest should be declining little quickly or little faster manner compared to what earlier you expected?

Uday Kotak: I think the yields are certainly dropping, there is no question on that, but banks are well positioned to ensure that they can manage their margins.

Jignesh Shial: Secondly, a little hypothetical, but are you actually still looking forward as kind of inorganic growth that you did previously, do you think the similar kind of trends for your bank to continue and even in the sector do you think that kind of trend is emerging further?

Uday Kotak: Let me guide you since we talk every quarter, we are not doing anything in the next quarter.

Moderator: Thank you. The next question is from the line of Parag Jariwala from Religare. Please go ahead.

Parag Jariwala: Jaimin, you said that because of this ING business book coming in, which was like around Rs.5,000-odd crore you have adjusted, that is the prime reason why the Business Banking has seen a quarter-on-quarter decline. Am I right this Rs.5,000 crore to Rs.17,000 crore is our business banking book and I have to add Rs.5,000 crore to it then YoY growth looks 33%, is it a right number?

Jaimin Bhatt: No, it is other way round, Rs. 17,000 is under Business banking , that is if you look at the same methods the last quarter number which we had given in that was about Rs.23,000 crore which under new classification is Rs.18,000 crore. So if you look at the current update, the numbers are very much comparable on a like-for-like basis. **Parag Jariwala**: So, adjusted for all these is Business Banking growth would be?

Uday Kotak: All what you see in the current numbers are entire reclassified numbers, what you see now is all the numbers which are comparable to the previous periods.

Parag Jariwala: One question on the NPA coverage ratio, if you read all our parameters, we are much better than all the private sector banks, but if you look at NPA coverage it remains to be somewhere around 50% range. So your comments on that and any thought to increase that too probably 65%, 70%?

Uday Kotak: Let me divide into two parts – first of all, the starting point of any NPA coverage to recognize it as NPA. I assure you that whatever we are bringing within the coverage of defining as NPA is what NPA is. That is the first point. Therefore, our entire set of what is coverage of NPA is to the best of our knowledge without any negotiating, massaging is the NPA. So the coverage of the NPA is full. Then within that we have a policy which for larger exposures we sit every quarter as a committee and discuss what we think is fair value of recovery of each loan and based on that we make our provisioning, looking at the levels of security, for example, if we have got a direct charge on a security which is more enforceable versus Pari-Passu charge, so we go into granular detail of what we think will be recoverable in each and every loan case, not a broad brush. Therefore, first, honest, fair assessment of what I think is a pure mathematical basis of what is an NPA. In the mathematics, I would like to assure you that there is no art, it is pure mathematics. If it is 90-day plus, on the 91st day it is reported as NPA. Second, not even months end or not even quarter ends and all those things, on a day-by-day basis it is recognized on the 91st day as an NPA. Therefore, in our case I want to make it absolutely clear, if a loan is 90-days overdue on say 7th of June it is classified as an NPA. We do not wait till the end of the month to classify it as an NPA which I believe is pretty prevalent practice in Indian banking. Second, once it is recognized as an NPA, the NPA committee sits and evaluates the quality of the loan, the cash flows, the security, nature of the arrangements, fund-based, non-fund based, the full picture and takes an assessment of what they believe and on heart is recoverable at this point of time and based on that the provision is done. Whether it is 50%, 60%, 70% is a mathematical outcome.

Moderator: Thank you. The next question is from the line of Krishnan SV from Motilal Oswal Securities. Please go ahead.

Krishnan SV: Just a couple of things at my end: One, given what you mentioned around liquidity in the system, how much of a transmission are you seeing in terms of Deposits side as well as on the Assets side, partly because I see a switch between Term Deposits and CDs in your own balance sheet as well? That is part one. Secondly, this entire stress asset resolution being extremely slow moving in the system. How do you see what exactly is happening at the ground level in terms of exposures that have gone through SDR, what is the bank appetite, system appetite right now to move towards S4A and any other forbearance that is being allowed by the regulator?

Uday Kotak: First is on Deposits. When we look at our Deposit world, obviously, there are three parts, there is Savings Account, there is Current Account, and there is the Term Deposit Account. We are continuing to see (+35%) growth on our Savings Account, which to some of you, you would be aware that we are still continuing to pay 6%, we think that is giving us much higher growth. We have no intention to but want to make that clear that it is always possible for us to stop riding this and if we just for example, moved our Savings Deposit to 4% and by end of this year we would be able to have a run rate of nearly Rs.600 crore P&L, but we are not chasing P&L, we are chasing building annuity business. So on the savings, we are continuing to see pretty strong and healthy growth which is helping us in our core, low cost liability, Savings and Current base. On Term Deposits, we divide the world into two categories -- Deposits up to Rs.1 crore, Deposits above Rs.1 crore. We also have little more openness for Deposits between Rs.1 crore and Rs.5 crore. But Deposits below Rs.1 crore is treated as special and we meant measured growth of Deposits below Rs.1 crore as a part of our long-term stable household deposit base. Deposits above Rs.1 crore are larger deposits, say Rs.5 crore, 10 crore, Rs.20 crore, Rs.25 crore. In our view, those are purchased deposits in many ways because customers in that category shop. Therefore, if we are going to be exposed to customers shopping, we also do our calculations on where it is most economic between the money markets versus purchased deposits called technically deposits in this definition. Wherever we can get better and more efficient cost of funds we take that. So that is the basis on which we do, but we have a significant focus on below Rs.1 crore which we do not consider that as purchased and we consider that more as franchise and stable liability. On the whole area of stress, I think there are number of schemes which are being tried for forbearance, methodology to cut. I heard a wonderful phrase recently, "Once upon a time banks used to lend based on land banks of customers. Now, a lot of those have become bank lands." So that is not settlement of a loan, because finally we do not know what the fair value and realization of that security, it does improve the NPA position and the stress position, but I do not know whether it is really true fair value of accounting. So I am not commenting whether it is or it is not, but our view is that there are different ways of managing accounting. On the other hand, it is a completely different game of what is the truth. Our approach is, let us face reality of what the truth is, and I can do S4A which gives me sustainable debt, unsustainable debt, so effectively it is indirectly saying, instead of taking a haircut, I am getting a paper which is called equity. That is what unsustainable debt converted to equity is. Maybe that equity some point of time may create value, that is a good thing if it does, but essentially, the key issue for the system is, "Are we ready to recognize the truth?" That is the key thing. I do believe that we still are some ways away from coming to true and full recognition. I hope that gives you an answer to what you asked.

Krishnan SV: Just on the first question in terms of the switch that you have seen towards the CDs, are you seeing any pressure in terms of pricing or mispricing of assets at all at this stage given that almost everybody wants to do Retail Lending, SME Lending right now?

Uday Kotak: I still think Retail is a good segment. Having said that we are definitely heading for what I call as "Herd Mentality". That is the risk for the system not now but over two to three years, because whether it is unsecured personal loans or whether it is huge growth in micro finance loans, the fact of the matter is that in an unsecured retail loan, your accounting profit is immediate which the analysts and investors see in the next quarter, the economic profit is only when the customer pays the last installment, because all the profit is at the end in terms of cash flow. So I do not see an immediate risk, but this is a potential risk. If you and I having this call two or three years from now, some of this has the risk of or potency to get into something much bigger but not today.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Uday Kotak for closing comments. Thank you and over to you, sir.

Uday Kotak: Thank you very much, colleagues and friends. If I have to look at the future, we think in terms of economic growth, lot of positive factors are coming in, Brexit is behind us, it has not done anywhere near the damage we were worried, there is a favorable monsoon, there is significantly higher liquidity in the system. We from our immediate point have now got most of our integration issues behind us and we are looking to 20% loan growth this year, most of our spreads are eased effectively out there for you to see as we sort of go down the provisioning and recovery path on that and we feel pretty good overall in the context of where the overall Indian economy is which we are feeling better about. Thank you very much, Ladies and Gentlemen.

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