Kotak Mahindra Bank Q3 FY18 Earnings Conference Call

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the Kotak Mahindra Bank Q3 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Uday Kotak. Thank you and over to you, sir.

Uday Kotak: Good afternoon, friends. Happy to be doing this call at the end of quarter 3. Let me first start with a little bit of the big picture situation. As I have mentioned publicly, I am seeing an improving micro, but a more challenging macro and this improving micro is now manifesting itself in clearly a better loan growth situation which we have been seeing on the ground. And as you would notice, we have reported a 23% loan growth on both consolidated and standalone basis Y-o-Y and we, at this stage, believe that the momentum of a 20% plus loan growth seems to be sustainable.

Moving onto some specifics, our engine on customer acquisition continues to grow pretty strongly. We have crossed 12 million customers. As some of you may recollect on 29th March when we launched our 811 digital bank account we had mentioned that we are at about 8 million customers then and we indicated that within a period of 18 months, which is by September '18, we would double the number, which is at about 16 million plus customers and our current path gives us conviction that we are well on our way to our customer journey and growth. Overall in terms of the credit cycle, the new flow into challenging accounts has slowed down for us and we therefore are essentially on the path to making sure that we are resolving, recovering and correcting the existing stock and the new flow seems to have slowed down compared to the earlier except maybe some pockets, but in general the flow of problematic accounts at least in our books seems to be under control. As you would go through our numbers, while our bank has had a pretty steady growth in this quarter despite more challenging bond markets and everything else, we have seen a significant growth coming into our subsidiaries particularly the four areas which are having an excellent time in the market place namely the Securities business, the Investment Banking business, the Asset Management and our Life Insurance business.

And if you sort of dissect our numbers, which my colleague Jaimin will also take you through. If you take out our banking and NBFC businesses and look at these four businesses broadly, the actual growth rate in profits Y-o-Y is nearly 80% on those numbers. So while on a consolidated basis, we have grown at 28%, the bank itself at around 20%. These businesses namely securities, investment banking, asset management and insurance have recorded a growth of close to 80%. And keep in mind, by design the bank owns 100% of these businesses.

As I look at it, the key question is the whole situation both on a macro and micro position in 2018, our view is micro trends continue to be strong. The formalization of financial savings and digitization of the financial sector continues at a brisk pace. Our view is for well-focused lending, the credit cycle is certainly feeling better at this stage in the overall context of things and all these investment products at this stage seem to continue to rally as the capital markets continue to rally pretty briskly and is back to the point that not only our global flows looked pretty good in January, they are combined with significant amount of domestic flows which currently do not show any signs of preceding significantly. So with this background, the financial sector at least at this point of time looks like in a sweet spot, but as we always know that we need to keep our alert on some of the areas particularly in the capital markets where money flows are just driving behavior particularly as I have mentioned in my media interactions, the small and mid-cap space which is seeing disproportionate flows as well. But on the big picture, financial services industry is in certainly pretty good times and with that, I will now hand over to my colleague, Jaimin Bhatt.

Jaimin Bhatt: Thanks, Uday. Let me just take you through the earnings update which is with you all. This quarter at the consolidated entity level, we end with the profit post tax of Rs. 1,624 crore, 28% growth from the same period last year and we have seen contributions coming in from a variety of entities. The bank contributed Rs. 1,053 crore and as Uday just briefed you, the whole area of securities, investment banking, life insurance and others have contributed. Kotak Securities clocked Rs. 154 crore profit post tax for the quarter which is its best ever in history. Prime contributed Rs. 148 crore. The insurance company was just below Rs. 100 crore. The mutual fund, the investment bank as well as the international companies again clocked substantially higher numbers than what they had done in the previous year. And as Uday spoke about the contribution of the non-bank and the non-NBFC entities which grew 80% from last year, now that portfolio constitutes about 23% of our post-tax profits for this quarter which the same period last year was about 16.5%. So we have seen a big growth coming in from the subsidiaries during this period. At the consolidated level, the loans at Rs. 195,000 crore, net interest margins at the consolidated level at 4.2%and healthy tier I at 17.9%.

During this period, we also completed the acquisition of Old Mutual's stake in our life insurance joint venture. So now we own 100% of the life insurance entity. The growth of advances at the consolidated level is 24% on a Y-o-Y basis and the net NPA at that level is at 0.94%. We have a net worth now across the group of Rs. 48,000 crore ending up with book value of Rs. 255 per share. At the standalone bank, this quarter recorded a profit of Rs. 1,053 crore, 20% rise over the same period last year. Net interest margin at the bank at 4.2% and the net NPAs have dropped to 1.09% this time around compared to 1.26% a quarter ago. In fact, if I look at the gross NPA for this quarter, it is lower than what we had in the immediately preceding quarters. So we have had a negative growth where slippages during this quarter are lesser than what we have seen recoveries and upgrades.

Tier I in the bank at 18% and CASA at 46.7% overall. If I look at the P&L, the NII we have seen a growth of 17% during this period. Other income clocked Rs. 1,040 crore during this quarter with fees and services bringing in Rs. 829 crore and other than fees Rs. 211 crore helped by recovery on stressed assets to some extent. Our cost for this period includes the fact that we have continued to spend on 811 and that is going into the current quarter. So pretax profit of Rs. 1,607 crore with post-tax Rs. 1,053 crore at the bank level. The SMA-2 numbers continue to be low. We are at 0.19% of our advances and restructured standard at 0.04% of our advances.

Among the segments, the corporate bank contributed Rs. 784 crore out of the Rs. 1,600 crore of pretax profit. Advances growth at the bank has been at 23% and we have seen growth across segments. CV/CE showed a 37% growth. Small businesses, personal loans, credit cards grew sharply by 45% on a year-on-year business. We have seen growth across agri, the corporate bank and across the sectors which we operate. On the liability side, 46.7% CASA. If I look at average numbers during the period which is during the quarter on a daily average basis, we have seen current account show a rise of 21% over the previous period and savings account at 60% higher than the same period last year.

Our CASA plus term deposits of less than Rs. 5 crore constitutes 75% of our total deposit base and the total cost of SA at 5.58%. Our overall balance sheet at the bank level just crossed Rs. 2.5 lakh crore now. I will give to Shanti to run through the Digital slides before I come back to the subsidiaries.

Shanti Ekambaram: Thank you, Jaimin. We continue to focus on bringing best in class experience for our customers on the digital side. Some new introductions this quarter. We introduced facial under biometric authentication in the mobile banking app, now we have both facial as well as finger print. Again, we have the new Forex platform where through Aadhar OTP you can have instant online remittances and for online shopping below Rs.2,000 without OTP which has seen a significant increase in transactions. Across our products, 83% of our recurring deposits, 65% of our fixed deposits and 32% of our personal loans being sourced through digital channels and this continues across our assets and liabilities. As far as payments is concerned, digital is the way of life and we continue to see the growth on mobile, payment gateway, UPI, where we have seen a 7x on a quarter-on-quarter basis, our mStore transactions and in terms of our ranking, where the Ministry gives target to each bank on digital transactions and we are amongst the top three banks in the country as per their ranking itself.

We have total customers of about 12 million plus of the bank and in terms of the metrics of 811, 45% of 811 customers are salaried, 91% now comprise between 18 and 40 years of age, 63% of customers are from the top 20 cities. We had 2 new innovations. One of course the entire welcome kit has become digital. More importantly now, customers of 811 can apply for credit card and get them on the go on 811. Not just the banks, but the subsidiaries focus continues to be on digital. Kotak Securities particularly saw a surge in volumes on training through mobile and that is because of a number of new initiatives that they had launched. Kotak Life Insurance, 78% of the individual policies continue to be through digital, i.e. through Tab and Kotak General Insurance 30% of the new business sourced comes through digital means. So digital continues to be a focus in our way of life at Kotak. Jaimin, over to you.

Jaimin Bhatt: Sure. Let me talk about subsidiaries**.** Kotak Prime which is primarily into cars, 70% of the book constitutes the car finance activities. We ended this quarter with a post-tax profit of Rs. 148 crore, with low net NPAs at 0.4% and a healthy capital adequacy at 16.6% as of December. Kotak Mahindra investments which is largely in the capital market and commercial real estate space saw a 28% growth on its asset base and ended with Rs. 7,700 crore. NII of Rs. 77 crore and we ended with a post-tax profit of Rs. 50 crore for the quarter. Net NPAs here at 0.05% with CAR at 16.8% as of December.

Kotak Securities as I mentioned on the back of record volumes and market share, we got the best ever quarter and had post-tax profit at Rs. 154 crore. We have seen growth both on the retail side and the institutional side there. The Life Insurance company clocked new business premium of Rs. 831 crore which is about 38% higher than the last year. The investment performances of the funds continuing to be at the top quartile. The conservation ratio at 87%, high solvency at 3.08%. I think the investment bank has done a very active quarter. We have been involved with a number of IPOs, QIPs, offer for sales as well as the advisory side**.** We clocked a post-tax profit of Rs. 36 crore for the quarter and the revenue at Rs. 76 crore after sharing with the securities company on the distribution for IPOs and QIPs. Our overall assets under management improved by 37% on a year-on-year basis. We ended the period with Rs.1,82,000 crore. We have seen big rise in our domestic mutual fund where the overall equity base has doubled during the period from Rs. 22,000 crore as of December '16 to close to Rs. 47,000 crore as of December '17. Even the debt fund has grown significantly. Our offshore fund grew almost 50% from close to Rs. 22,000 crore to Rs. 32000 crore. Asset Management company ended the period with quarter profit of Rs. 38 crore.

Those broadly are the highlights during the quarter. We will be opened to taking questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Ashish Sharma from Enam Asset Management.

Ashish Sharma: Just two questions from my side. One is on outlook on the net interest margin. I think this is for the system, I think given the deals are under pressure, the revenue growth is not in sync with the loan growth. You mentioned that you see a pickup in credit cycle, but will that credit cycle be matched by NIM which is under pressure at this moment for the system and for Kotak Mahindra Bank that is one and second would be an outlook on the CASA. We have seen a big boost for CASA for the system and for Kotak Mahindra Bank. So as the impact of demon led improvement wins, do we see the CASA ratio to be at these levels? These are the two questions.

Uday Kotak: I will answer the second question first and then come to your first question. As you know on the CASA journey, we are amongst the few banks which have held out the 6% number for savings account deposits that annually cost us in a P&L based on our current savings base more than Rs. 1,000 crore a year on PBT basic which is what we currently absorb, that is continuing to give us significant wind on our savings account growth and we therefore see the CASA journey to be pretty robust and strong even from here and on the steady increase in our CASA including the fact that the 6% is working to our advantage for a faster delta growth compared to the industry, is something which we see continuing from here and we are happy to see that number grow and at a very fast clip going forward. On the matter of NIM, I think there are two or three things which we need to keep in mind. One is between April to December, for almost the entire period, you are in a situation with significant surplus liquidity, a lot of domestic surplus liquidity was flowing into mutual funds both liquid, short term and debt as also surplus liquidity lying with banks and that has led to a competitive pressure on the lending rate which is what you have seen, manifest itself for actions over the last 3 to 4 quarters post demon and continuing pressure on margins. However, the liquidity situation is not as flush as it was for the first 3 quarters of this year and whenever liquidity gets a little tighter, I am not saying that it is in any panic situation, but as liquidity gets tighter which is what we are beginning to see wholesale funding begins to dry up and that is where the core franchise on the liability side starts playing its role. When that happens, you begin to see the pressure on margins actually start reducing and we therefore see this change in situation where on the asset side as a bank, we were competing heavily of course with surplus liquidity banks, but also with wholesale funded institutions who are able to compete and bring down the rates for the last one year. We see that actually is bottoming out and therefore we are not dramatically concerned about significant drop in NIMs from here. The second important point which is something which I think the system needs to be aware of and which is a pressure on net interest margins is the whole LCR regime or the liquidity coverage ratio regime and I think we need to keep in mind that from January 1, this liquidity coverage ratio has moved to 90%. So banks had to start preparing in the second half of the third quarter towards keeping buffers for a higher LCR ratio effective January 1 on a daily basis and if you look at the math today, unless currently on a 19.5% SLR, the RBI allows a fall SLR that means amount of SLR which is adjustable to LCR as 11% which means 8.5% of NDTL as SLR plus 4% of CRR is not allowed as adjustable towards LCR and assuming LCR went from 90% to 100%, out of this 12.5% surplus CRR plus SLR, what is needed for reaching 100% is around 2% to 3% only, and we all know that SLR stands for statutory liquidity ratio and CRR is for cash reserve ratio. At the current level of liquidity requirements by the regulator on banks, we are as an Indian bank maintaining LCR significantly higher than the 100% global benchmark and this surplus liquidity which banks are currently required to maintain actually has a cost in terms of the margins and I do hope and believe that the RBI in due course will reduce or allow more drawdown into the SLR to reduce the burden on banks of this excess liquidity which they have to carry in liquid assets at much lower margin and I think the analyst community and investors need to keep this in mind as it is beginning to have an impact across the banking industry. So having said that, on the pure market place, we are less worried about dramatic drop in NIMs from here and on the LCR side that is cost and burden which is now in the hands of the regulator to moderate as we go into 2018 for the rest of the year. I hope that answers broadly your question.

Moderator: Thank you. We will take the next question from the line of Kunal Shah from Edelweiss. Please go ahead.

Kunal Shah: Mainly on the nonbanking side of business, so obviously the capital market activities have been robust and we have gained out of it, but looking at the platform which we have created, invested into digitization as well as the customer acquisition, how much do we think is on account of leveraging our own platform and how do we rate ourselves in terms of either cross-selling and creating the synergies out of each and every businesses which is there within the group.

Uday Kotak: Kunal, I think it is a very good question. We can always do better. I think the ability to cross sell in a manner which is customer centric is something which I think we are still in very early stage of the journey particularly on the asset side of the balance sheet. And we are focused on getting that digitally driven cross functional leverage as we go into the future and I will ask my colleague Shanti about how she sees the potential for cross-sell in the digital world, where I do believe that we made good progress on the liability side, we need more progress on the asset side going from here.

Shanti Ekambaram: Thank you, Uday. I think there are two parts to it. Because we also got the benefit of an added network this year, we saw cross-sell go up significantly because we had an opportunity in the entire network. From the asset side, we did manage to get the uptick on the ING network that we acquired which was relatively undersold. So we saw an uptick from there. I think there is a tremendous opportunity even on the liabilities and the asset side. We continue in our journey. I think we keep putting milestones in reaching there. But there is still a big opportunity and we continue to work on that front, both on assets, transactions and the liabilities side.

Kunal Shah: And even if we look outside of the bank, maybe in terms of be it the securities business or say the asset management, how do we try to leverage the various online platforms which are there and maybe get the maximum wallet share and make the customers much stickier and leverage on that front?

Gaurang Shah: If I say life insurance, general insurance and asset management, I think 50% plus of volume for life and general comes out of Kotak Bank distribution. For AMC, we have real open architecture. So our overall bank's distribution of asset management product, the share of Kotak AMC is just above 20%. So I think, if you are saying opportunity in terms of leveraging outside platform, I think if we have 20% plus from Bank for asset management for example, the rest is all done by the other banks, national distributors and IFAs.

Narayan SA: For securities, the bank is an important channel for acquiring clients. The Bank will be contributing about 40% of our total fresh customer acquisition and we work very closely with the bank for seeing that we also share**,** the customer they acquire for us are also the customers to whom they sell other cross-sell products as mutual funds etc. So that way we are able to get a good wallet share of the customer.

Moderator: Thank you. We will take the next question from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

Amey Sathe: Two questions from my side. First is that, in the various press reports we have been talking about participating in some of the NCLT cases, so as Kotak Group if you can help us understand what are the opportunities that we have in participation of such distress cases and second question is on SME lending side, have we seen any increase in turnover for some of your SME borrowers post GST implementation?

Uday Kotak: I will ask Dipak Gupta to answer the first question and what was your second question?

Amey Sathe: Are your SME clients are experiencing any increase in turnover post GST implementation?

Dipak Gupta: I think the first one is easy like we have mentioned in the past. We intend playing this basically across the three broad propositions which we have. A) out of the bank itself, b) out of assets which we pool together and manage consolidated and c) through the ARC. If you look at the scenario today, yes, a lot of transactions have been progressing. We are watching each of these closely. We are trying to participate selectively in transactions where we think we can make a difference and there is economic sense in participating in that. But more importantly I think it is very important in the beginning to watch the space. A lot of moving pieces there in the space at this point of time, including the legalities really. So I think we will watch the first few set of transactions. Participate to the extent required to maybe wet our feet and then probably plunge headlong once we are very comfortable with the space. I think it is a very long tail business. We are talking of a very large base of assets, all of which will probably be available over the next 6 to 12 months really. So we are patiently going ahead with that. On the second one, SME I don't think we have seen any significant growth in either the turnover or the working capital requirement on the SME side. In fact, what we have seen really is, in some of the SMEs GST system is still not supporting them and they are not able to participate in the full chain really. So the SME piece at this point of time does not look like a growth opportunity from the GST perspective really. I think a lot of them are still trying to find ways and means of seeing how between the gross payable and the input tax credit they can make their margins.

Moderator: Thank you. We will take the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir you mentioned what was happening in the bond markets and the spike that we have seen. I wanted your thoughts on the macro a little bit more. On one side, we are seeing credit demand picking up, on the other side we are seeing yields going up. So I was just trying to understand is it just the macro which is driving the yields up or on a broader scale will we see this yield, the spike which is happening continuing to let us say 8%. What is your sense there, sir?

Uday Kotak: See, look at 2014 to 2017, it was a period where we had consistently improving macro. Whether it is oil prices, which reflected in our current account, our fiscal was improving, inflation was coming under control. Macro story in India for 3 years, 2014 to 2017 was one with significant tailwinds. And in many ways, some of our tougher reforms including demon and of course the early part of GST had happened in a time when macro was very comfortable. Therefore I think macro actually saved us from a lot more pain which we would have had if we had a tough macro for the first 3 years. So in this period, our micro did not grow as fast as we would have liked despite a good macro and private investment was in a very slow cycle, partly hurt by the whole bank NPL situation and this postponement of reality by banks and borrowers for many years started sometime around 2010-2011, really created a situation where new micro growth was getting stunted. Now the situation is, I think global interest rates steadily inching up and one can debate the pace. Equity markets at this point of time believe that the pace will be more sort of moderate and not dramatic and on the global basis with the weakening dollar, you are seeing significant money flow all over the world and also the US getting the big steroid of lower tax rate and everything else. So a steadily rising yield is a reality over the next 12 to 24 months. Now, we can debate where oil will be, India is disproportionately sensitive to oil in terms of our import basket, whether it is 60-70-75 we don't know where it stops, but the current base case of most people is oil in the 60 to 70 range. But who knows where it goes because oil has been one of the most unpredictable commodities which we have seen from time to time. The third factor is that because of these investment flows and a weaker dollar, you have a very strong rupee which is putting pressure on our exports. So in this situation on the macro side after 3 years of good macro, you will have challenges of gradually increasing global interest rate scenario. Though the global markets are clearly on a role with huge money is going into equities, but a significantly tighter interest rate cycle as we go into the future, India's current account deficit now people are talking about 2% plus as we go from here and in a good market, people start ignoring a gradually developing or a warming of water while it happens. In the early stages, as you know from cold water when you go to warm water, actually you feel better, till it begins to get too hot. So we are right now in a situation where the water is warm, it is not too hot. After 3 years of cold micro water, it is feeling good because markets are on a roll. But the water is warming up steadily and then of course on the fiscal, my personal view is government will be able to manage the fiscal in a reasonable number, but will be having the ability of dipping into a lot of money from the PSUs the government control. Now therefore on a purest basis, these are not technically part of the fiscal but money from PSUs belonging to the government will be used to keep fiscal under reasonable check. So that is my view on the macro. Now how it translates to earnings, equity, performance, I think it is something we got to watch. So this is a warm water cycle right now.

Agastya Dave: So sir just a small follow up, what is the boiling point then and my second question is that you have been very clear over the last couple of months I think that you are not very comfortable with small caps and mid-caps. Are you seeing similar problems on the retail asset side because the growth there has been blistering? Almost everyone is entering some of the spaces which are attracting a lot of competition as well as growth. So are you worried, similarly worried on the retail asset side? Are we going to see a bad cycle there also anytime soon? And the follow-up to the commentary that you just gave, what is the boiling point according to you?

Uday Kotak: I wish I knew the timing of the boiling point. So we have to watch the situation. Let me tell you one thing. If one month down the line, oil is back to $60, you may not see a boiling point and you maybe in a wonderful warm sea for a long period of time. But it is a fast changing movie. So at this point of time, interval, I can't say whether we are at the interval, after interval, but it doesn't feel like we are before the interval. And on the asset side, the good news is even now the Indian consumer as we talk is not overleveraged. So fundamental leverage of the Indian consumer is still not at levels where we need to worry. But as I see it what will happen is that as funding rates go up a bit, wholesale funded financiers will start taking more and more risk to make their margins. So you would see that gradually move forward and I am not a betting man, but I don't think the problem of retail stress is a problem of 2018, could be a problem of 2020-2021, maybe, but not certainly of 2018, as I look at it.

Moderator: Thank you. We will take the next question from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: I have one question on the cost-to-income ratio. Currently, it is 47% and what we have seen in the larger banks now hitting especially the similar kind of loan book mix touching 40%. So what is our overall medium term outlook given the digital initiative across the business line?

Uday Kotak: I think we see our cost-to-income ratio is steadily improving, but you know cost to income is a misnomer. And I am hoping the income side continues to grow, but on the cost side, the cost-to-income does not give clarity because it is one single black box number where how much of the money is for the operating business and how much of the money is investing into the future. Therefore, we will not be carried away by the cost-to-income ratio as one black box. We will obviously want to significantly improve the productivity of our operating business and constantly improve cost per unit of business Keep in mind when we acquired ING Vysya Bank, ING Vysya Bank cost-to-income ratio was 59%. So now on a combined basis, we are at 47%. Therefore, clear operating productivity improvement and including disruptive change, which is inevitable part of this digital journey will continue to be the focus. At the same time, wherever we have conviction that we need to invest, we will not be colored by the cost-to-income ratio, but by investment opportunity including the frontend opportunity on the digital side.

Jaimin Bhatt: And Jaimin, in fact on the investment side itself, the very fact that they are paying 6% versus 3.5%, as Uday was pointing out earlier, that cost us Rs. 1,000 crore a year, that impacts cost-to-income, but that is also an investment.

Uday Kotak: Correct. Therefore, we have improved our income by Rs. 1,000 crore and our cost-to-income would look better.

Manish Ostwal: Sure sir. And second question on the fee income side, again the fee income growth compared to peers group is slightly weaker side. So how do you see the growth in this line item going ahead?

Jaimin Bhatt: If you look at the fee income, you will have components of fees which come from third party distribution, insurance, mutual funds and others where we have had a steady flow. And if I look at what is happening on some of the other components which are linked to businesses, again we have had a good flow. So there are some spikey elements which happened last year particularly during the demon period, some spikey elements where you had income which are not there this year and to that extent on a year-on-year basis, we ended up with about 15% growth,, components like insurance, mutual fund, referral fees and others have shown decent growth as we speak here. And the rest of it as we grow our business, some of it linked to the asset side, whether it is your loan processing fees, retail charges and what not and others link to areas like credit card growth.

Moderator: Thank you. We will take the next question from the line of Nilanjan Karfa from Jefferies. Please go ahead.

Nilanjan Karfa: In the first question that was asked which is how much we are paying on the savings account, if we let us say annualized customer additions it is about 4 odd million roughly, right? And so basically we are spending let us say Rs. 1,000 crore?

Uday Kotak: What customer addition?

Nilanjan Karfa: The total customer to the Bank. I guess at the starting of the year, it was close to I think 9 million, right?

Uday Kotak: We were around 8 as of end of March, we are around 12 as we talk.

Nilanjan Karfa: Right. So basically we are spending what? Close to Rs. 2500, I am just doing ballpark math's that is how you know most FinTech companies would want to look at in order of the customer acquisition cost. They are Rs. 2,500. For FinTech companies, they consider this number as way too high.

Uday Kotak: But you keep in mind that the customers we acquire don't start giving us immediate SA, the customer acquisition today, the SA growth happens overtime. So there is a frontend cost.

Jaimin Bhatt: And if you look at the SA growth including on increased basis, we have been able to grow SA significantly higher than what the industry is doing. I mean, I mentioned earlier about the fact that this quarter average versus last year the same quarter average, our SA is 60% higher and if you look at industry number they would be somewhere in the mid teen.

Uday Kotak: Customer acquisition cost is frontend. His or her balances grow overtime.

Dipak Gupta: Not just that. I think the other big mistake you are making really is, look at SA as replacement for term deposits. You are actually saving significantly. You are only looking at addition. You are not looking at the mark down because when Jaimin is acquiring a 60% growth, which is let us say 25%-30% higher in the market place, he is saving significantly on cost which he would have paid out as term deposit cost really. There is a significant saving on that front really.

Nilanjan Karfa: I think we probably need a longer discussion because we have been spending let us say Rs. 1,000 crore for the last 4 years now, right?

Dipak Gupta: Yeah, but I think saving Rs. 5,000 crore every year also simultaneously you see because we are growing SA significantly higher than what it would have grown have we not been offering this rate. Anyway I think we should have a separate discussion on that.

Uday Kotak: There is a stock and perpetuity value. I think in your calculation, there is a stock and perpetuity value of the balance.

Nilanjan Karfa: At what point, let me ask you, at what point do you think we will start unlocking the value of this?

Uday Kotak: See, at this point of time your term deposit rate is now close to 7%. Therefore my carry on the SA, there is an ALM adjustment, is still positive.

Dipak Gupta: And just to answer your question, you stop or slow down only when the differential between the normal growth rate and the growth rate at which you are running at is small. So let us say ordinarily if you have grown at 15%, if you start growing only at that rate, it is time when you cut down and come back to the normal rate.

Nilanjan Karfa: Sure. And second question, the LCR table has been brought upon and if I look at the composition of that, it looks like the deposits which are growing is essentially the non-operating deposits. So is it that the quantum of savings account that we are growing is essentially very stocky. It is not very granular?

Uday Kotak: No, it is very granular. We give you weighted average cost of SA also. Our weighted average cost of SA for this quarter is 5.58%.

Nilanjan Karfa: That is correct. I am talking about the nature of the savings account.

Uday Kotak: As we have mentioned in our earlier this thing, that of course there are some institutional savings which are part of this, but a very significant portion of this is granular. And with this institutional portion, our weighted average cost is 5.58%.

Moderator: Thank you. We will take the next question from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Sir if you could give us some sense on Rural India. Some thoughts as we get into elections year and state government election? And secondly on 811, given the profile of the customer what products we are trying to focus, cross-sell and ensure our advances grow with that base now?

Narayan SA: Let me just give you a color on rural India. We had a good monsoon this year which is getting reflected and definitely showing good signs of growth. For example, our tractor finance portfolio has been growing well, as you all know the tractor sales itself have gone up. Similarly if you look at our commercial vehicle sales, it may not necessarily be in rural India but a good portion of it comes to rural India growth also. So definitely rural India is showing signs of growth. One more example I can give you is that, we have branches under the commercial bank which are not in the tier 1 cities but in the tier 2 towns and villages where we see good growth in SA, in fact the growth in SA has been higher than the normal growth which we have. So overall if you ask me, the Bharat story is doing well for us.

Prakash Kapadia: Isn't it part contradictory to the SME kind of piece which somebody mentioned on the call, where SME we are not seeing traction because I guess you know some of these tier 2, tier 3 would be SME or smaller kind of entrepreneurs or employees. So it should translate into higher SME growth, right, or not necessary?

Uday Kotak: Not necessary because SME is more urban, tier 2 urban and rural is tractors, other things and agri. And Agri actually had a rough time last year. So actually it is coming back from a difficult period.

Prakash Kapadia: Understood. And on the 811 on the product side?

Uday Kotak: I think the product side really the big thing is the cross selling which we are very focused on and we think we will continue to acquire and get in more hook for cross selling. We are finding reasonable traction both in the digital and physical world. Shanti has got a wonderful phrase for this. She calls it the Phyigital world. And we are feeling good about it.

Shanti Ekambaram: Yeah. We introduced credit card this quarter which I missed.

Prakash Kapadia: Yeah, you mentioned in your remarks. Will be credit cards, personal loans, those would be two key focus areas?

Shanti Ekambaram: And more. Yes, we have physical debit cards, credit cards. We will be introducing few more products, the payment and the engagement on the transaction side itself is large. So across the range of products.

Moderator: Thank you. We will take the next question from the line of Gurpreet Arora from Quest Investments. Please go ahead.

Gurpreet Arora: Three quick questions. One of the peer banks raised MCLR symbolically by 5 basis points just 2-3 days ago. So are we sooner than later in the rate hike cycle that is one. B, I have seen the yield on advances have risen sequentially for us. So is it more to do with the CV/CE, personal loans and credit card portfolio? And third data point which I request is what percentage of our book would be on fixed rate and on MCLR? Thank you.

Uday Kotak: Okay. On the first one, I mean just to inform you on 31st January that will be effect from 1st February we have already raised our MCLR by 5 basis points. Okay, so that is on one. On second and third, I will ask Jaimin to take it.

Jaimin Bhatt: Actually it is not correct. We actually dropped our yields, if you look both sequentially and year-on-year. And as we spoke earlier, yields have been dropping and we have actually seen that trend continue. Of course this quarter the drop maybe small, but it is still directionally negative.

Gurpreet Arora: Could be on fixed and MCLR basis?

Jaimin Bhatt: Fixed would be roughly about 30% or one third as fixed portfolio.

Gurpreet Arora: Okay. And MCLR?

Jaimin Bhatt: The balance.

Moderator: Thank you. We have the next question from the line of Kislay Upadhyay from Ambit Capital. Please go ahead.

Kislay Upadhyay: My question is on SMEs. So we have seen two big disruptions in the form of demon and GST, in which demon has already had 3-4 quarters and GST about 1-2 quarters, both of which impacted the unorganized and small businesses mostly. So any delinquency in the SME loan book, our reduction in businesses from SMEs should have been observable now. So you had mentioned that you had seen some worry. Is there some reason for this worry in terms of numbers as well?

Uday Kotak: No. If you look at our last 3 or 4 quarters, a reasonable part of new flow has been from the SME segment which has flown into the NPL on the basis of the slippages. The individual ticket sizes may not be large, but there has been some flow on that. And as we have been more conservative in the new risk underwriting which we have been doing over the last 12 to 15 months, we feel that has actually helped us contain what could have damaged more. And I stand by my original position that overall, I think in totality, we are seeing a clear bottoming out in terms of the credit cycle on the stress side.

Kislay Upadhyay: You are talking about the SME loan book?

Uday Kotak: SME loan book also we think of, most of the things which would have surfaced, has actually flown through. Therefore the new flow now would be significantly slower than what we have seen over the last 3 or 4 or 5 quarters or actually longer, 6 quarters post ING merger.

Kislay Upadhyay: Okay. So sir in your view is the SME pain over and you would be looking to grow the SME loan book aggressively or would you continue to be conservative going ahead?

Uday Kotak: We will watch the situation. We think the micro is getting better and also as we are going to see how GST settles down and as we get more confidence, we will start taking a call on these and again SME is a very general world. Within SME, there are different sectors from a restaurant to a pharmacy or to a wedding contractor. So there is a whole range of SMEs. Maybe we need to go more segmental and continue with that as the basis for our lending and growth thereof.

Kislay Upadhyay: Sir just one more question. Sir, which segment in the SME would worry you the most or have you seen the pain in the most in the past 4-5 quarters?

Uday Kotak: I think the trader segment is something which we have been getting more cautious on.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the conference over to Mr. Uday Kotak for closing comments.

Uday Kotak: I know all you guys have to run to many other calls and you have got a very busy Friday evening, so I would not take more of your time. Thank you very much for sparing the time and being on this call and as we embark on 2018, let me once again wish you a wonderful 2018 and let us hope that most of the year remains warm and does not get too hot. Thank you very much.

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