



# Kotak Mahindra Bank Q4 FY19 Earnings Conference Call

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**Moderator:** Good day, ladies and gentlemen. And a very warm welcome to the Kotak Mahindra Bank Q4 FY19 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 evening, friends. Very happy to speak to you today at the end of the financial year 2018-2019 and to share with you our thoughts. I will first like to start by giving a little perspective on the financial sector as I see at this point of time. And then what does it mean for Kotak for the year which has gone by and for the future.

First of all, I do believe that the financial sector in India is at a major cross-road with significant challenges and turbulence at this point of time. And it is extremely important that the next three to six months, the financial sector, both from a point of view of practitioners and policy makers is handled in a manner which leads to smooth navigation in turbulent waters. I do believe that if you go back to the history post 2011, we saw the real sector and the problems of the real sector impacting the financial sector. We have now got to be careful that the challenges of this financial sector do not impact the real sector, because there are clearly significant challenges which we see as we stand today.

And it takes me back to the end of 2016 calendar when we saw a significant change in India’s financial savings scenario which is post-demonetization, we saw flood of financial savings coming into organized finance. And I think it was one of the greatest benefits to the financial sector out of the demonetization exercise which is, growth in organized financial savings.

However, as organized financial savings grew first into banks, then into mutual funds and into insurance, and then into other segments of the financial sector, which is both housing finance companies and NBFCs, we also saw behind this flood of liquidity; a significant dilution to what I call as risk underwriting standards. And a lot of money went into underlying illiquid assets and essentially a lot of assets getting wholesale funded with cheap liquidity coming from the formal financial savings market.

And some of the challenges which we have started facing post August-September 2018 are the results of liquidity or surplus money which was sloshing around in the system gradually get back as currency in circulation also significantly increased to much higher levels. Which means, cash in the economy took money away from organized formal finance as a system. And as this money and liquidity started getting tightened, the asset side of balance sheets started getting pressure, and some of the challenges which we are facing today come from challenges on risk underwriting, underwriting of illiquid assets and mismatch of ALM, combined with significant part of this money being wholesale funded. I do believe that this is impacting and will continue to be a major theme for the next three to six months. And it is here that effective navigation is crucial for Indian financial sector.

It also highlights something which we at Kotak have deeply believed in our entire careers and history, that in financial services the importance of the balance sheet, and by balance sheet I mean off balance sheet items as well to the extent that they are risk oriented, over short-term P&Ls. And it is here again that a long-term financial business, especially with high-leverage finance, it is very crucial to ensure the quality, sustainability, liquidity and stability of the balance sheet of financial institutions. So a continuing belief that the balance sheet is far more important than the short-term P&L account.

Third, on the liability side, something which we have been almost like a crusade focused on, which is, stable and low-cost retail liability is core to our financial institutional franchise. And some of the travails which we are seeing in the financial sector are coming out from a disproportionate part of balance sheet getting wholesale funding. And we have through good times and tough times had a relentless focus on our liability franchise.

And it is here that I am happy to report to you that as of 31 March, 2019, our CASA ratio has now touched 52.5% and we are not obsessed by a number, we would like to see it continue to grow in a systematic manner. We are also very happy to report to you that our focus on retail deposits, particularly, deposits below Rs. 1 crore have also been key. We have grown the retail deposits, I think Jaimin will have the exact numbers, but we have grown the retail deposits also by more than 30%. And this is again back to the importance of stable and sustainable liability as a core to financial services.

Therefore, as this turbulence goes, we believe we at Kotak, with a well capitalized balance sheet, a continuing focus on stable, sustainable and low-cost retail liability as a core of our franchise, high focus on the risk underwriting side, ready to recognize problems earlier rather than waiting for things to happen and us being caught unaware is the core to our philosophy and culture. And we would very much like to continue that as we go forward.

We are also seeing a continuing opportunity to gain share. We are also seeing an ability to get better pricing for the risks we are taking. And that is reflected in our growth in loan book and also in our net interest margins. We are also very committed to the broader financial services business which includes, if you would have seen our numbers particularly in life insurance as also in asset management businesses, I am happy to report to you a very significant growth in embedded value of our life insurance business from Rs. 5,800 crore to Rs. 7,300 crore. And our margin on new business now at 36%, which is probably the highest in the life insurance industry. We have also seen a very good growth in our mutual fund business, and we are focused on customer assets including asset management business and continuing to grow them. And at the same time, our relentless focus on pure banking as a heart of our financial services franchise continues.

With these comments, I will now ask my colleague Jaimin Bhatt to take you through the facts and details of our numbers for March 2019.

**Jaimin Bhatt:**

Thanks, Uday. I will just take you through the earnings update which we had circulated a little earlier today. Let me take the standalone numbers first.

As Uday mentioned, we closed the quarter with a profit growth of 25% for this quarter over the same period last year. This quarter we clocked Rs. 1,408 crore as the bank's standalone number. Advances at the bank standalone, we crossed Rs. 2 lakh crore for the first time and we also crossed the balance sheet total of Rs. 3 lakh crore in this period.

We end the year with Rs. 1,500 branches. Our capital adequacy is pretty healthy at 17.5% with Tier-I itself at 16.9%.

On the P&L, our net interest income has grown 18%, if I look at this quarter versus the same period last year, as well as if I look at this full year versus the same period last year. Our fee business has seen a decent growth, this is despite the slowdown in the mutual fund income. Our fee business overall has done, this quarter versus last quarter, an 18% growth. And a full year basis a 23% growth over last year.

Our operating profit has done a growth of YoY 13% and a QoQ growth of 17%. We have done a step up on our provisioning, especially against advances. And for this year we have an advances provision of Rs. 976 crore as against Rs. 743 crore last year. In the previous quarter we had also given a reclassification of our P&L in a manner in which it would be identifiable. And on that basis, we have given the current quarter numbers also. And on that basis if I look at the full year number, our operating profit is a year-on-year growth of about 19.5%.

Our advances in the bank standalone grew by 21% on a year-on-year basis with growth across the segments, corporate banking grew close to 19%, CV/CE is about 30%, the agriculture division lead by tractors is about 18%, small businesses about 30% odd and home loans 25%. The business banking segment for the year as well as for the quarter remains flat.

Focus on the NPA numbers, we closed the current period with a gross NPA at 2.14% as against 2.22% last year, and a net number of 0.75%. Our SMA-2, again, at the end of the period, Rs. 138 crores, which is 0.7% of advances.

Exposure, and this is exposure including non-fund and investments and whatever, to the NBFC segment has come down, both in absolute terms and percentage terms over the last year. And similarly, on CRE, excluding the LRD book, has come down again both in percentage in absolute terms over the last year.

On the deposit front, as Uday mentioned, our continuous focus is on that. CASA at 52.5%. Sweep, in addition to that is about 6.2%. CASA plus TD less than Rs. 5 crore now constitutes 81% of our overall deposit base. The focus on TD less than Rs. 1 crore, that has grown by 32% on a year-on-year basis. If I look at my full year and average number, the current account on average number has grown 20% on a year-on-year basis and our savings account at 38% on a year-on-year basis.

Our relationship value of wealth and priority customers that we advise is now approximately Rs. 270,000 crore. And as I mentioned, in the balance sheet we are in excess of Rs. 3 lakh crore at the bank standalone level.

Before I take the consolidated, I will request Shanti to take the digital part.

**Shanti Ekambaram:**

Thank you, Jaimin. Kotak's mobile banking app continues to be one of the top rated mobile app in both Apple Store as well as Google Play Store. It is reflected in the 50% YoY growth in monthly incremental active users in the mobile. Out of 78% of our mobile banking customers are only mobile and not net. And 14x is the number of mobile logins versus our net logins. So, mobile first focus continues for Kotak.

For RD and TD, digital sourcing continues to dominate. And we introduced many enhanced features in the app across products, customer service and customer experience. Industry first Keya voicebot; 1.3 million is the monthly average interactions with Keya, of which 1 million complete the fulfillment at Keya voicebot itself.

In terms of digital payments, we continue to overachieve digital payments target set by MeitY (by 110%). This is across UPI, AEPS and DGPS. API banking, which is really in the open banking where we are the pioneers had seen a 2x growth, and our KayMall is also showing a YoY growth of close to 2x.

On the lending side, we continue to grow digital lending including acquisition across credit-cards, personal loans, business loans and home loans. Notable is home loans where we have seen a 5x increase in acquiring home loans digitally. We will continue to partner with fintechs to be able to provide innovative solutions for our customers.

In the subsidiary, across security, life insurance and general insurance, we continue the digital plus. In security, we see a 121% YoY growth in mobile daily ADV, which is average daily volumes. In Kotak Life Insurance, 94% of the banca sourcing comes through Genie, and in Kotak General Insurance we have seen a 123% growth in volume of digital business YoY.

Jaimin, back to you.

**Jaimin Bhatt:**

Thanks, Shanti. On the consolidated numbers, we closed the quarter with a profit of Rs. 2,038 crore, crossing the 2,000 number there. And for the year as a whole, the consolidated profit of Rs. 7,204 crore. Again, a healthy capital adequacy; we have tier-I at 17.5% and an overall capital adequacy of 17.9% at the group level. Our NIM at the group level at 4.46% again, and the book value of Rs. 302, net worth of Rs. 58,280 crore.

For the year, apart from the bank, the major contributors were Kotak Prime at just short of Rs. 600 crore, the life insurance company at Rs. 507 crore, Kotak Securities at Rs. 452 crore, the mutual fund delivering Rs. 255 crore, significantly higher than the same period last year. And international subsidiaries just getting short of Rs. 150 crore.

The net worth of Rs. 58,000 crore across various entities includes close to Rs. 43,000 crore in the bank, this is before the dividend for this year. Advances at the group level at Rs. 243,000 crore, we have seen about a 18% rise on a year-on-year basis. At the non-bank level, the auto loans remaining flat both year-on-year and quarter-on-quarter.

Uday talked about the insurance activity and the embedded value as of the end of the year at Rs. 7,306 crore as against Rs. 5,800 crores last year with a VNB margin of 36.9%. Of the product mix, ULIP constituting just around 25% and the bank bringing in about 48% of the total premiums of the insurance company. Our gross total premium in the insurance grew by close to 24%, and we end the year with a solvency of 3.02 against a requirement of 1.5.

Kotak Securities ended the year with Rs. 452 crore profit, post tax, and the quarter at Rs. 111 crore. Market share at 2.6%, but the cash market share at 9.1% for the year.

Kotak Capital has been in the middle of several deals in the quarter, both on IPOs, blocks, buybacks and advisory. And clocked the year with a profit after tax of Rs. 63 crore.

Assets under management across the group at Rs. 225,000 crore, 23% up from the same period last year. In the quarter we closed a special situations fund, and asset fees of over \$500 million.

The asset management company improving the profitability and improving its share of equity AUM at 5.52% against 4.8% last year, and an overall market share of 6.13% as against 5.4% last year.

Kotak Prime, having a total book of about Rs. 28,000 crore, of which about Rs. 20,000 crore plus is the passenger car segment. The net profit post tax of Rs. 599 crore for the year. The capital adequacy at 19.4% and ROA of 2.2%.

Kotak Investments, lending book of Rs. 9,000 crore plus at the end of the year. Profit of over Rs. 200 crore. Capital adequacy of 18.4% and ROE of 3% for the year.

That's broadly the highlights of the group and for the year. And now we are open to questions.

**Moderator:** Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sri Karthik from Investec Capital. Please go ahead.

**Sri Karthik:** I wanted to ask a question on our SA growth. So when we look at our CASA per branch, we are probably at industry best levels. So, how should one look at the overall liabilities momentum in this context?

**Uday Kotak:** I will ask my colleague Shanti to give her perspective. Shanti, over to you.

**Shanti Ekambaram:** So there are two aspects to it. One is the function; SA growth basically is a function of, one, constant customer acquisition, and second is deepening. As you may remember, in the last two years we have seen a tremendous movement in our customer base which we continue to deepen

for savings accounts. And in the physical through branches, both from NTB as well as deepening, we have been able to very successfully grow our SA franchise. So I think you have got to look at this digital model which has really worked for us in the last two years and we continue to focus on acquiring and deepening our savings balances.

**Sri Karthik:** So, with the current run-rate of branch additions which is obviously lower than our overall SA growth, you would expect the current SA momentum to sustain going forward?

**Shanti Ekambaram:** The way I look at it is that our branches are in localities where the opportunity is far deeper and wider than what we are. So there is an opportunity even within where we are located to continue to deepen SA. And as you may have seen, we have continued to grow the network, we grew the network and we will continue to grow the network in a calibrated manner based on where we see is the opportunity. So I think you have to look at the metric, just SA per branch, and look at how you can deepen and widen the markets around you.

**Uday Kotak:** And I think the answer is, one plus one is more than two, that is the core of what we are learning, which is a combination of branch plus digital. And I think therefore we think there is lot more legs to go in the SA acquisition. The CA piece requires more branch network. SA piece, as long as there is a branch in a reasonable density that combined with digital is a very effective way of doing SA. Therefore, we are not constrained by our current percentages. As we said, we are obsessed with continuing to focus on stable and low-cost liability, and there is no upper limit to which we are concerned with.

**Sri Karthik:** Sure. And just one data question around our small businesses, PL and credit cards line item that we disclosed. Any further breakup that you could provide between the three?

**Jaimin Bhatt:** Honestly, that is one number which is overall for the three businesses put together. They operate pretty much within the consumer bank as one piece so we are not giving really the breakup of what each of them is.

**Moderator:** Thank you. Our next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

**Vishal Goyal:** I think especially on life insurance; I think that makes you one of the most profitable insurance company. Is it possible to get some more breakdown of the EV movement? Because we can see one leg which is VNB, and probably we can even derive the EV unwinding. But are there any other parts where you are seeing positive variance? We are just basically more interested in that.

**Gaurang Shah:** See, I think on an investment side you do better than compared to how we have discounted the future cash flows. Perhaps, that leads to the unwinding of the VNB versus actual. So in terms of profitability, as you say, increasing profitability in real terms, the Rs. 507 crore post-tax profit, it generates out of that. Otherwise, it is like a huge reconciliation. So we don't provide that details. But we have just started giving you the overall numbers, so last year we gave you both



EV as well as margins, we have given you the embedded value at the end of the period. So I think over a period of time we will see that what all can be added.

**Uday Kotak:** All that I can share is that we really like our life insurance business.

**Gaurang Shah:** And the other thing is that cost efficiency is also increasing, plus through Kotak Bank, which as Jaimin mentioned, we have a 46% to 48% distribution, we pay only IRDA commission, so that also perhaps helps us in terms of higher margin. And again, on the same way, on a credit term business where we have got a large mortgage and LAP business on which when you sell the credit cover there also the IRDA payment of commission is very low. And both these aspects also help us in terms of our higher margin and profitability.

**Vishal Goyal:** Okay, thank you. And the other question, I think you are talking about the climate and the environment being still very, basically, problematic in some sense. So, is there a second round of NPL cycle which we should all expect, especially coming from the promoter groups? Is it that what you are alluding to or you are still talking about the SMEs?

**Uday Kotak:** So, as I said, for the first time you are seeing inter-play between challenges of the real sector and the financial sector. And so far if you look at, if you and I were talking one year ago, we were all sanguine about potential stress coming from the financial sector itself. All that I am saying is in turbulent times don't be sanguine about anything.

**Vishal Goyal:** Sorry, so I think when you say, I mean, financial sector is that about NBFCs and all the ancillaries around financial services, is it the next leg of problem you are looking at?

**Uday Kotak:** No, I am just saying that you have to be, risk underwriting is risk underwriting, whether I am giving money to a real sector company or a financial sector company, my underwriting standards have to be sure to be taking care of what is my credit cost for the risk I am taking and what are the returns I am making. So there is risk in everything, not just the real sector, that's all I am saying. And it is very important for any financial institution to risk underwriting, pricing and measurement, irrespective of whether the counter party is real sector or financial sector.

**Moderator:** Thank you. Our next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.

**Rahul Jain:** A couple of questions. First of all, Uday, on the macro question and extending it from what Vishal was asking you. With regards to the NBFCs you have seen slew of ratings downgrade happen, and clearly the funding seems to have again gotten dislocated, do you worry about a second derivative playing out in the broader financial sector as a result of which the macro will also have to take a knock on? Logically, one would like to think that ways but clearly with a slew of rating downgrades that have happened in the last couple of months, how are you reading the overall space and how do you think we resolve this space, as in this problem?

**Uday Kotak:** Rahul, I think the macro questions are something which we need to focus on. And my view is, one of the areas which minority shareholders, debt holders, stakeholders depend

disproportionately on is what I call as external fiduciaries. And these external fiduciaries can be auditors, rating agencies, supervisors, independent directors, call it by whatever name, different roles but essentially I would club all these in the category of what I call as external fiduciaries. And, I am clear that when we are underwriting and whenever we are looking at underwriting in the current context in India, I would be very careful in disproportionately depending on external fiduciaries for my credit judgements.

**Rahul Jain:** Got it. And therefore, you expect some more...

**Uday Kotak:** I am not making any expectation; I am saying when we are lending money we have to lend money on what we think makes sense for risk and return. There is too much of lending in the financial sector which depends on external fiduciaries for our credit judgements disproportionately. Inevitably have to rely on them to a certain extent because audited accounts and things like that. But please use your diligence, please use your nose, please don't take anything at face value, ask the difficult questions internally before putting out risk. And I think we are at this crucial juncture in the financial sector where in many ways the role of the external fiduciaries is under a challenge and we need to ask the tough questions before putting out our money because if our money goes bad just because there was some view given by an external fiduciary will not protect our money and that is the most important point which we are learning in the last 6 to 8 months.

**Rahul Jain:** Got it. That takes me to another question of about credit cost, now in this quarter actually it came in relatively at a healthy rate. I guess over the last few years we have been consistently bringing down the credit cost. So that combined with your macro view, do you see any risk to this number or there is a further scope for improvement?

**Uday Kotak:** Our view is that, we would like to see it moderately come down or we think it should remain same or moderately come down.

**Rahul Jain:** Got it. The second question is around the liability franchise and kudos to you and your team and we saw that you cut savings rate on deposits less than one lakh rupees and all, how would this translate into the margins? Would you choose to pass it on to the borrowers and therefore have a much better selection or you would actually pass it on to the shareholders, how do you see that?

**Uday Kotak:** I think Rahul, the first point is pretty clear. We have not changed that deposit rates for any depositor between one lakh and one crore. That is still at 6%. Let me reiterate, 6% stands between one lakh and one crore, we have not changed it. We would love to see our savings account depositors who are below one lakh who actually go above one lakh, okay? So therefore one of our big focus areas is how do we deepen SA balances per account? So that is a relentless focus and the decision which we have taken actually strengthens our desire and effort and execution to get more money into savings accounts with our bank, so that is a very clear strategic positioning which we want to do. Get customers to put more than Rs. one lakh and get 6%. On

the other hand, of course for balances below Rs. one lakh if we have moved from 5% to 4.5%, we see some shareholder benefits. We would continue to be focused on growing our consumer franchise. Therefore, if it means we need to get more spend into debit cards, into credit cards or getting consumer to be more sticky with us, we would certainly do that. But, that is for ultimately growing shareholder value, but our strategy for dropping from 5% to 4.5% is not only about immediate short-term P&L but more strategic stickiness of our customers and growing our franchise stronger.

**Rahul Jain:** Got it. Just one last question on the growth in small business and personal loans it has been fairly healthy at about 30%-35%. One of the large banks recently said that they are consciously going slow on this portfolio. Of course, your size is much smaller and therefore there is still a scope for you to keep gaining market share, but are you seeing any early warning signs across the industry in this portfolio and should we be sort of also cognizant of this fact or how do you see this portfolio play out for you guys?

**Uday Kotak:** In fact I think Rahul, in the last quarter or quarter before that I had mentioned about the fact that we have to watch out for unsecured consumer lending very carefully. So as while we have grown the book, we are watching it very closely. We think this is the time to be watchful, but at the same time what is also happening is that the market place has suddenly seen some of the larger players including from the NBFC sector slow down. So there is more space.

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

**Kunal Shah:** Firstly, in terms of the overall CV/CE portfolio, if you look at it, we have still grown quite strongly quarter-on-quarter as well as year-on-year despite the industry rates. So are we really gaining the market share and taking away the market share from few of the NBFCs as well and how do we look at it given the underlying slowdown in the space, or may be the overall industry?

**Uday Kotak:** My colleague Kannan will answer. He handles the commercial bank.

**D. Kannan:** On the CV/CE segment, especially on the CE segment we have gained quite a bit of market share, so also on the CV segment. Yes, there was a bit of a slowdown in the last few months, but post elections we don't expect it to continue. We expect the growth to continue until about December before the market moves on to BS-VI. So we do expect post elections the growth to come back. Yes, there was a bit of a slowdown in the last couple of months.

**Kunal Shah:** And on particularly with respect to the deposits, so given that the circulation is still hovering slightly on a higher side, RBI is taking all the measures to infuse liquidity, but finally in terms of the deposit rates, how do we look at the industry, particularly on the term deposit side, with say the stance of the monetary policy almost like 50 odd basis points cut, so do we see it on the downside or maybe given where the CD ratios are of the private banks, we see it at the elevated levels?

**Uday Kotak:** I don't see much room for downside on deposit rates from here because finally there is a demand for bank deposits. Having said that, I must also mention one point, there is some movement of money coming back to bank deposits away from other pieces of the financial sector and therefore banks are getting some flow of deposits coming from other areas of financial savings.

**Kunal Shah:** Yeah, but structurally if we look at it over the last 4-5 years the share of deposits have actually been coming down. So may be in the transition or maybe what we had seen in terms of what NBFCs are going through that would be the trend, but structurally if we look at it in terms of the proportionate of the financial savings deposits have been more or less stable in the absolute terms. So do that really suggest that deposit rates would move on further despite maybe RBI cutting the rates and given that we are say gaining the market share both on the savings as well as the term deposit side, what would be our stance on say our own deposit rate?

**Uday Kotak:** I think a lot depends on what RBI does on policy rate and the liquidity in the system for us to be able to take a view on where the deposit rates are. Therefore, as we get clarity on RBI's position both on further rates from here whether they reduce or not as well as the liquidity available in the system will drive deposit rate. I have to actually come back to a very fundamental point in the financial industry. Raising liability is excruciating hard work over long periods of time, okay? And if any of us believes that is the easy part, let me assure you that it is the toughest part of the financial services franchise and you need to be doing hard work year after year, day after day to really keep on growing that franchise and that is something my team is completely committed to. Deposit, retail, stable, sustainable franchise. On the other side, on the asset piece, a relentless surgical focus on risk for the returns we get and ability to say no to risk for returns is the other part of the equation. And at some level if these two parts are reasonably done and of course when you do a sprinkling of fees coming from different sources, there is a financial services business.

**Kunal Shah:** Okay. And lastly in terms of these slippages for the quarter and any of the pockets wherein we would have seen a relatively higher stress this quarter compared to the first 9 months of FY19?

**Jaimin Bhatt:** Not particularly. It is across the Board, but as we spoke about earlier, we have seen some of that unsecured ones happening, but it is not significantly but slightly negative.

**Kunal Shah:** And how much would be there...?

**Uday Kotak:** Overall there is no chunky hit, it is well distributed.

**Kunal Shah:** Okay. And slippages for the quarter?

**Jaimin Bhatt:** For the year we will be at Rs. 1,995 cr. which is against about Rs. 1860 cr. for the same period last year

**Moderator:** Thank you. The next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

**Prakhar Sharma:** I just wanted to get a little more clarity on the corporate book, just to understand it a little better and I am kind of referring to slides 5 and 6 of your disclosures. What I wanted to understand is, slide 5 just shows 30% of the book is corporate banking at a standalone bank and slide 6 you have provided some Basel III disclosures on NBFCs, CRE and LRD. I believe obviously this will be on a consolidated basis, but broadly even if I take that out of that Rs. 2,78,000 crore of consolidated exposures, these 3 sectors are constituting to something like 7% of total or maybe 8% and broadly this adds up to like 24% of the corporate book i.e. if I am assuming 30% of 2,78,000 crore is corporate books. So I am trying to understand that, is it correct to understand that these 3 sectors could be almost 25% to 30% of your corporate book and how do you look at the book when you have 3 sectors constituting this large? Thank you.

**Jaimin Bhatt:** If I look at the total advances at the bank and these numbers both 5 and 6 are at the bank's standalone level, not the consolidated level. The bank's standalone advances are Rs. 2,05,000 crore which is on slide 5 and slide 6 talks about Rs. 2,78,000 crore which is total exposure. Now, exposure will include non-fund, exposure will include investment and everything which is exposure to a sector. So it is the same Rs. 2,05,000 crore if I include all the exposure it is Rs. 2,78,000 crore. So it is not necessary correct to say that 11+4+4 which is about 19-20 odd thousand is 20,000 as percentage of 60,000, I don't have the exact proportion but it is exactly 7 odd percent of the total book of the bank which is Rs. 2,78,000 crore.

**Prakar Sharma:** Okay. And if I do a third of it being corporate then eventually will get to something like a 21% or something like that?

**Uday Kotak:** No. Let me just explain, Jaimin, correct me if I am wrong. Rs. 2,05,000 crore is the loans and advances book. That is funded loans and advances. Rs. 2,78,000 crore is loans and advances plus off-balance sheet exposure plus debentures. So bulk of the debentures and off-balance sheet exposures like LCs and all would be in the corporate side.

**Jaimin Bhatt:** So of the delta of Rs. 2,05,000 crore and Rs. 2,78,000 crore a larger portion will go into the corporate side.

**Uday Kotak:** So your denominator actually is much larger on the corporate side for this delta between Rs. 2,05,000 crore and Rs. 2,78,000 crore. So your percentage actually will be lower if it is out of Rs. 2,78,000 crore versus what it is out of Rs. 2,05,000 crore. Second, you got to keep in mind that lease rent discounting is across the sectors not only corporates, LRDP. So our absolute exposures to these sectors are nowhere near the number which this calculation, which you mentioned.

**Prakar Sharma:** Got it. Second, is it possible to give your own cut of the corporate book across the rating profile, your own book?

**Uday Kotak:** We have not been doing it. We will keep it in mind, but I mean for whatever it is worth, let me tell you one thing, our risk weighted assets have actually...Manian, why don't you do that.

- K.V.S. Manian:** All I can tell you, we have not been disclosing the RWA numbers I think, but all I can tell you is our RWA numbers on the corporate book have been declining over the quarter-to-quarter also, almost they have been declining over the last 2-3 years.
- Prakar Sharma:** That frankly I fully appreciate. You have done very well through managed reported stress or reported risk as well as inside the book, so just wanted to get a little more clarity. As a part of data keeping question, can I have the RWA number for standalone balance sheet?
- Jaimin Bhatt:** I will give it you, we don't have it now.
- Uday Kotak:** We will have a view on that in good, will do what Jaimin can, okay?
- Jaimin Bhatt:** Yes, I will give it to you.
- Moderator:** Thank you. The next question is from the line of Abhishek Modi from Asit C Mehta. Please go ahead.
- Abhishek Modi:** My first question is with respect to CASA. If I am writing the CASA is excellent, 52%. Now my query is that if it is 52% I know the impact on interest is quite low, but if you have CASA of 52% wouldn't you require high liquidity coverage ratio and some of your funds have to be sort of lock-in high liquid asset except CRR, SLR or am I missing a point? So my question is we want to keep it at high or if you are okay for even lower?
- Uday Kotak:** I will also ask Gaurang who also looks after risk in the bank to give you just a little bit of understanding on how liquidity coverage ratio is done from a behavioral point of view?
- Gaurang Shah:** Yeah. I think key is the behavior, like how your CASA year-on-year is showing what pattern of behavior, so that leads to kind of working out the LCR.
- Uday Kotak:** So there is a core CA and there is a core SA which comes out of behavior which is not in the first month.
- Gaurang Shah:** In fact, as you are asking on LCR, we are currently at a LCR of 115.
- Uday Kotak:** Let me explain to you, out of CA and SA what LCR requires you to do is to look at core CA and core SA from a behavioral point of view. That is considered not in the first bucket for liquidity purposes.
- Jaimin Bhatt:** Prakhar, just to answer your question, RWA at the bank is about Rs. 2,35,000 crore.
- Moderator:** Thank you. The next question is from the line of Ravi Singh from HSBC. Please go ahead.

- Ravi Singh:** Just wanted a clarification on Slide #7 where average SA and average CA growth rates are discussed, so these numbers are different from what is given in the press release and press release numbers are more consistent with what is given in previous quarters.
- Jaimin Bhatt:** Just what is there on Slide #7 is the average for the year. So the year this we are in Q4, so what we talked about is on this slide is the average for the year and not just for the quarter.
- Ravi Singh:** Okay, got it. And could you also provide standalone bank RWA say March last year, so Rs. 235,000 crore is this year, what was this number last year?
- Jaimin Bhatt:** Rs. 199,000 crore.
- Ravi Singh:** Okay, thank you. And just one final question, I mean more qualitative flavor around, so our cost to assets at around 2.7% if you benchmark with other banks is on higher side, so just wanted to understand what will be attributing the higher cost to asset, is it higher effort intensity on the liability side or the additional effort on the asset side in terms of credit teams and recovery team which is reflecting in higher, a better credit cost?
- Uday Kotak:** It is both and it depends on the mix of your assets also, if you have a higher proportion of retail, the cost too tends to be higher, if you have a higher proportion of wholesale, the cost tend to be lower.
- Ravi Singh:** But in general Opex growth has picked up pace in last 2 quarters, so what are the factors driving that higher Opex growth?
- Jaimin Bhatt:** If you look at, one is of course we did advertising spent, plus of the fact that there are certain items which are showing increase in Opex cost, but also leading to higher revenue happening. For example, we have an arrangement as a business correspondent to source microfinance, so that is adding to a cost and also adding to expenses. A lot of credit card related expenses are adding to cost but also giving us higher income. Similarly, POS or e-com and what not are giving us higher cost but also leading to higher incomes. So the cost on a standalone basis would look higher compared to what was there, but it is all of these are corresponding to giving us higher income at the same time. So all of these are kind of variable costs which are also kind of giving us revenue. The only other thing which is a small amount is that we have started doing consumer durable activity in the bank, so that led to some cost this time which was not there in the previous year.
- Moderator:** Thank you. The next question is from the line of Kabir Gulati from HL Capital. Please go ahead.
- Kabir Gulati:** Actually, just wanted to understand, I see a big disconnect between the NII growth, sequential NII growth and the increase in margin that have been reported, the absolute growth in NII and the increase in ratio, NIM?

- Jaimin Bhatt:** I will take that. If you look at NII, it comes from a combination of both advances' growth and investments growth. In this particular quarter you have seen advances as a proportion of what is happening as an overall interest earning assets, advances are the higher proportion than investments and advances does bring us higher yields compared to investments. So the sharper increase in the advances growth compared to a muted increases in the investments, actually if I look at my average investments on a quarter-on-quarter sequentially, average earning investments has dropped compared to the previous quarter, whereas advances have grown decently and advances getting me the higher topline has led to the NIMs going up higher
- Kabir Gulati:** But the date and balances does not show this actually because the other items other than advances do seem to have grown in line with that one.
- Jaimin Bhatt:** What you earn, therefore is giving you average numbers, what you earn is on averages and not on EoP numbers. If I look at advances, my yield on advances has grown during the current period, whereas investment has grown but that is a smaller proportion.
- Kabir Gulati:** Yeah. I understand. So maybe during the quarter, the numbers would have been much less than what they have been reported at the.....
- Jaimin Bhatt:** If I look at my average advances, it has been on a year-on-year basis about 23% growth as against 21% for the period in, and again if I look at for the quarter my average advances would have grown by about 4.7% as against smaller number on a quarter-on-quarter, EoP.
- Moderator:** Thank you. The next question is from the line of Saurabh Kumar from JP Morgan. Please go ahead.
- Saurabh Kumar:** Sir, just on this prime thing, your books has still not grown, I mean what is the view incrementally you are forming there and secondly on this...?
- Uday Kotak:** Tell me you will sell more cars and we will grow Prime faster.
- Saurabh Kumar:** Well, I mean, if you compare just to other even NBFCs or even banks which has auto loan...?
- Uday Kotak:** Kotak Mahindra Prime does not do business which compete with the bank. It is focused on car finance. So whatever we can do in the bank we are doing in the bank. Our approach is a little different and therefore Kotak Mahindra Prime, the biggest piece in Kotak Mahindra Prime is the car finance business.
- Saurabh Kumar:** Okay. So granted that given where we are in the market this book will then continue to be very slow, will that be a fair comment?
- Uday Kotak:** Yeah, but at the same time if you look at it, we have managed this book with pretty good situation keeping in mind that the car industry including car dealers are under significant pressure.



- Saurabh Kumar:** And sir the LTVs here would be what, sub 80% or...?
- Uday Kotak:** It is more than that. It will be about 90%, new cars. Used cars will be less than that.
- Saurabh Kumar:** This is the average for Prime, right?
- Uday Kotak:** The new cars will be high, but used cars is much lower.
- Saurabh Kumar:** Fair, okay. And just a second question on business banking, so that book has still not grown, I mean, so that view which you had on this segment that still continues or is it likely to change?
- Uday Kotak:** I think it is getting better. I think we believe we are bottoming out and we should see better growth next year.
- Moderator:** Thank you. The next question is from the line of Rahul Maheshwari from TCG Asset Management. Please go ahead.
- Rahul Maheshwari:** Two questions are there. First on agri portfolio, as one of the larger bank had told that post elections they might have to, they will see the portfolio how it is panning out. So in your book as post elections do you find any contingency to be provided for the agri portfolio and what is the nature which in your agri portfolio has been panned out during the quarter in the last 6 months and going forward post elections where you find ?. Second as you were the first to highlight to be cautious on SME portfolio in the industry, any other segment where you find cautiousness for next 6 months to one year because of the liquidity tightening or you as a bank would be cautious for not growing in, let first the things get settled and then will look at the further picture?
- Uday Kotak:** Okay, on agri, if there was any pain which we saw coming or which we saw in our book, we would provide for it. We would not wait for the elections to provide for it. That is assured on that. And on how the portfolio is looking at this stage, we think we are in reasonable shape. We had seen this spotiness about a year ago, so we have taken corrective measures and I think we are in reasonable shape on the agri portfolio at this stage, the cycle and, unless there is a big disaster on monsoon we don't know, but at this stage we are not seeing anything dramatically worrying in our agri portfolio.
- Rahul Maheshwari:** Any contingency provision on agri portfolio has been created?
- Uday Kotak:** No, we think we are adequately provided in terms of what we require. And second question is on sector which we are worried, I think we are worried about across the group lending against residential real estate and land.
- Rahul Maheshwari:** So in your home loan and LAP which is 20%...?
- Uday Kotak:** No, when I say residential real estate, I mean wholesale CRE, developer finance.

- Rahul Maheshwari:** That is just 1.6 or something percentage. So in that the lending is to well retail exposure in your as per the segment concerned?
- Uday Kotak:** We have been pretty choosy about lending in real estate. And therefore, we think we are in reasonable shape. But all of us have to watch the cycle.
- Rahul Maheshwari:** And just last, out of the home loan and LAP which you combine together and give as a 20% roughly, what is the LAP component and where do you find as a LAP because many of the bankers in previous quarter also had this slowdown in the LAP portfolio. So has the business segment started picking up in the specific LAP segment?
- Shanti Ekambaram:** So approximately the portfolio is about 50:50, but if we look at the growth track, home loans has been higher than LAP for this period.
- Rahul Maheshwari:** And how is the LAP portfolio performing in terms of...?
- Shanti Ekambaram:** Stable.
- Moderator:** Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Asset Management. Please go ahead.
- Roshan Chutkey:** Firstly, if you could give, talk a little bit about your incentive system for the liability stream?
- Uday Kotak:** So, at junior level it is more variabilized, at senior levels it is based on discretion, culture, weightage for behavior, conduct, customer experience, NPS score and based on that we give incentives. If NPS scores are low that affects the kind of incentives we pay because we do care about customer experience as an important part of how we compensate our people.
- Roshan Chutkey:** Okay. And particularly on CA growth, while banks at an overall level are struggling in terms of CA, our CA growth has been pretty strong for the last 3 quarters in particular. Any reason, what are we doing different from the system, if you can talk a little bit about that?
- Uday Kotak:** We don't know what the system is doing, we are doing what we think will get us more CA.
- Shanti Ekambaram:** Provide value added service.
- Uday Kotak:** And we have also, for example, we have now started doing merchant acquiring and all that which is also helping us in growth of CA.
- Roshan Chutkey:** On products per customer, how has that number moved say over the last three months?
- Shanti Ekambaram:** It has continuously been improvising. You know that we have grown our customer base exponentially. Despite that, our GPH has kept on sort of inching upwards.

- Roshan Chutkey:** And any views on the MHCV cycle, how are you leading that?
- Uday Kotak:** I think Kannan answered that question. That there is a little bit of slow down but we think it picks up after the election provided monsoons are normal and we will continue like that till December.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Uday Kotak for closing comments.
- Uday Kotak:** Thank you very much friends and colleagues. We at Kotak continues to see steady sustained growth. As we look at this current year, we do believe that we should get to 20% plus growth, decent part of it coming out of growth in share and market share. We think there is reasonable ability to price risk as we go forward. And we feel cautiously optimistic as we look at the outlook from a Kotak point of view in a sector which we believe will be turbulent and navigation will be key. 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.