



“Kotak Mahindra Bank Q4 FY20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the Kotak Mahindra Bank Q4 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you and over to you, Mr. Kotak.

Uday Kotak: Good evening, friends. Welcome to the Investor and Analysts Conference Call post Kotak Mahindra Bank's results for the year ended 31st March, 2020. We are truly in uncharted times. And also, as is said, 24 hours is a long time. I would first like to say that we have been significantly enthused in the last 24 hours, first with the Prime Minister Modi's announcement of a very significant stimulus package and reimagining of India, which he did last night at 8pm and which was followed by a television conference by the Finance Minister, which ended just a few minutes ago. And I would like to actually comment on some of the points, which were made by the Finance Minister which has significant positive implications for the financial sector.

And she made a list of more than 15/16 points, but some of them which stand out and have significant benefits for the financial sector, number one, is a Rs. 3 lakh crore line for central government guarantees for MSMEs, for new financing. It's a significant relief and will be a big boost for MSMEs to start and banks to be able to lend an incremental Rs. 300,000 crore fully guaranteed by the Government of India. And this will actually also help in protecting the existing book.

Second is redefinition of micro, small and medium enterprises, with higher investment and turnover limits, which significantly enables the MSMEs to grow and for the Banking industry to be able to redefine MSMEs including the eligibility for priority sector advances.

The third important aspect is relief for non-bank financial companies in terms of two packages. One is a Rs. 30,000 crore package, which is effectively guaranteed by the government. And another is a Rs. 45,000 crore package with a first loss. Of course, we wait for the greater details. But I do believe these are very very significant game changing moves.

In addition to that, the relief to real estate for force majeure under RERA has also postponement by six months for the construction period. And easing on tax payments and tax returns are all benefits which will make a significant difference to liquidity and ease the pressure in the COVID era for consumers.

And I would like to say that this is a very meaningful package, and consistent with the fact that the Prime Minister Modi thought it important yesterday to make the economy as the main focus for the next steps in COVID era.

That brings me, friends, to the whole COVID situation. And here are three or four points which stand out in terms of the COVID situation and its implications for us as we run our bank and our business.

First, it looks like COVID is here to stay longer than what most people would have liked to see it in end March or early April. It is not going away in a hurry. We do not see a sustainable cure as of now, nor do we see the potential of a vaccine for the next 12 to 15 months. So COVID will be with us, it will linger on and we will have to continue and deal with it as a part of life at least for a while.

Number two, while lockdowns maybe necessary from a health and a science point of view to protect lives against virus, lockdowns have an exponential cost on the economy. And the other issue about the lockdown is, once you are into the lockdown, getting out of the lockdown is not easy, it is complicated. Therefore, while India has been successfully controlling the impact of the number of deaths through the virus because of the lockdown, there are economic costs. And it is in a calibrated manner that India is getting out of this lockdown situation and moving towards a gradually normalizing economy.

We think we are some way away, and there is an economic cost to it. There is a wide variation in expectation of economic cost. On the optimistic side, we have seen IMF at 1.9%. And I saw some research reports yesterday talking about minus 5%. So we have to watch and see. And it also depends on how much support which comes from the government in terms of fiscal stimulus, which can ease the pain of the lockdown, as also the calibrated opening. Therefore, the second point, lockdowns have an economic cost and difficult to get out of is a reality with which we will continue to deal with as we talk.

So in that context, how do we think about the business side? The impact on the real sector, of course, has real cost of the financial sector. And to the extent to which the state supports the real sector, the impact cost on the financial sector reduces. But there is still going to be a cost. So, in that context, what are the few first principles we need to follow in the financial sector ourselves?

Number one, strong balance sheet. And it's absolutely clear that at this point of time, the balance sheet has a significant weightage in terms of strategy. Number two, a strong and trusted deposit franchise. And in that context, I am happy to report that both on the balance sheet, with Tier 1 capital of 17% odd, and the deposit franchise where our customer deposits for the year ended March 2020 grew at 20%. CASA ratio of 56.2%, and 86% of our deposits are CA, SA and term deposits below Rs. 5 crore. These are all strong positions from the point of view of the balance sheet and the deposit franchise.

The next question is, we really divide the world on the balance sheet to pre-COVID that is what we call as before COVID, which I would in a simple way call it as pre 31st March, and after COVID which is post 31st March. And in the post-COVID world, we need to be looking at our lending business in a very different manner. Our strategy for lending, therefore, is right now pegged on three important aspects. Number one is the sector. Number two is individual companies with high fixed operating costs, we are a little more cautious in terms of lending to. And number three is businesses or companies with high leverage. And I will add the fourth point now that the state is stepping in, companies which otherwise we would have found it challenging to lend. But with the support of the state as a guarantor, we would be certainly more willing to

consider that and really help in kick-starting the economy while making sure that the safety of our balance sheet is insured. And we will certainly use this opportunity to grow on a state guaranteed situation.

Further, we are also very clearly focused on customer acquisition through the digital route. We are seeing even today in the month of May, we are adding about 14,000 new customer accounts every day through our digital acquisition channel. And we see that actually speeding up as we go further. Therefore, without any physical intervention, if we can get to a level of customer acquisition from 14,000 to even higher, that would be a part of our focus. And in that context, we have also taken a decision that we will spend more on technology rather than less.

We are also completely flexible in terms of what segments of business we lend to, and not married to a fashion as a herd, which is something which we have always stated as our core. And on the customer franchise, we also see a very significant opportunity to grow our franchise in non-credit risk areas of business, which are the advisory businesses, the securities business, the wealth management, business and the asset management business. And we continue to see a robust growth in the brand, the franchise and the positioning of our firm as a consolidated entity.

Also, as we go into the future, we see the financial sector as it navigates through this turbulence, like we have seen in the telecom sector as also probably seen sectors like airlines as we go forward. We see the financial sector going through a significant consolidation phase as we go forward. And from our point of view, we at this stage have two ways of looking at this, first is to continue focusing on navigating, driving with care and alertness through the turbulence at the same time, keeping an eye on the other side of the shore, and seeing what opportunities can come to us in the context of this all transformation of the financial sector, which will inevitably take place over the next 12 to 18 months, or maybe even earlier.

So with that, I just want to say that we in terms of our focus, continue with a conservative approach, but alert to opportunity, and not scared of taking opportunity in this period. And in terms of our internal working, it is just quite amazing how the levels of productivity and efficiency of our firm, especially at the senior level, has dramatically increased. I have got my full senior team here on this call. And we frequently interact, and at times we are now also working on a plan that in the post-COVID world how will our business look like? What will be the future requirements? What will be the impact on the cost to income ratios? How will digital and technology do vis-à-vis the branch networks? And we are at about 1,600 branches, how do we strategize on that into the future, as also what are the levers we need to press to significantly transform Kotak as an institution in the time ahead, what we popularly call as AC, after COVID.

With that, I will now request my colleague Jaimin Bhatt to take you through the presentation. And then we can reopen for discussions and questions and answers. Over to you, Jaimin.

Jaimin Bhatt:

Thank you, Uday. Let me take you through the standalone numbers first. For the full year FY20, the Bank closed with a post-tax profit of Rs. 5,947 crore, this is 22% higher than the same period last year. We end this quarter with a net interest margin of 4.72%, which is compared to 4.46%

we had the same period last year. Our capital adequacy continuing to be very healthy, we have a total capital adequacy of 17.9%. And it's Tier 1 at 17.3%.

Our net interest income this quarter grew 17% on a year-on-year basis, thanks to the cost of funds coming down. We also had the NIM expansion, as I talked about. The other income, again, grew recently to Rs. 1,489 crore for this quarter, which is about 17% higher than the same period last year.

At our operating profit level, which we grew to Rs. 2,725 crore for this quarter and over Rs. 10,000 crore for the year, we had a decent growth when it came to the operating profit level. Rs. 2,725 crore which is significantly higher than what we did last year, about 19% higher.

When it comes to provisions, we have taken a provision hit of Rs. 1,047 crore in this quarter, which includes a COVID related provision of Rs. 650 crore which I will take in a minute.

Uday talked about the deposits level, we have continued to see deposits growing well. Our CASA deposit at the end of March is at 56.2%. In addition, our Sweep deposits continues to be healthy at 6.6%. Our average deposits on SA grew by 21% average this year versus last year.

We have a component of a wholesale floating rate savings account deposits, which is part of the savings accounts. If I take that away, the actual savings account non-wholesale floating rate grew by 34% on a year-on-year basis. We also saw in this period, our savings account overall deposits cross the Rs. 1 lakh crore mark.

And we talked about the lockdown period during this month and what not. In the current month of May, we are actually opening a total of about on an average 14,000 accounts per day, which pretty much compares well with the 44 lakh accounts which we opened in the whole of last year.

Our deposits overall grew by 16%. But that's also because we actually defocused on the certificates of deposits which are the wholesale variety. We actually grew them down by 55% on a year-on-year basis. Our CASA plus TDs below Rs. 5 crore now comprising 86% of our overall deposit.

Our savings account cost now coming to 5.23% because of the cuts which we did in the previous quarter. We have had some more reductions of our savings accounts rates which have happened in April, not factored into this number.

On advances, we ended the period with total advances of just short of Rs. 220,000 crores about a 7% rise on a year-on-year basis. Our corporate book at about Rs. 84,800 crore grew by about 6% on a year-on-year basis. We had decent growth in the tractor finance division, which grew about 18% on a year-on-year basis. Home Loans again grew and we closed the period at Rs.46,800 crore, a 15% growth on the year-on-year basis. CV/CEs, we had a negative growth for the year, smaller number but we degrew from Rs. 19,700 crore to Rs.19,250 crore.

On the consumer bank side, one component is the consumer bank working capital, which is a small business working capital financed by the consumer bank, which is secured, which ended the period with Rs. 19,800 crore. On the other hand, the personal loans business loans and the consumer durable loans we ended with Rs. 9,750 crore, a sequential negative growth for this quarter. Similarly credit cards, we ended with Rs. 4,700 crore, again, a sequential negative for this quarter.

On the asset quality, we closed this period with GNPA of 2.25%. We increased the coverage ratios and we moved to 69% coverage against 64.4% one quarter ago, resulting in a net NPA now at 0.71%. Our slippage is this quarter at Rs. 491 crore, of course, this got the benefit of the RBI circular on standstill which, if we had taken that, the slippages would have been higher by about another Rs. 660-odd crore. Our SMA 2 amounting to a low of Rs. 96 crore, which is 0.04% of our total advances.

What we have done on the COVID provisioning at Rs. 650 crore is we have effectively taken all overdue amounts as of February 29, 2020, when the moratorium period began. And for those accounts, which had availed of moratorium, we considered all of that, and at account level we provided 10%. And we have considered people who have taken moratorium right up to April 30, 2020. If I take that population of people who have opted for moratorium up to April 30, 2020, about 26% of our borrowers at account level have gone in for that moratorium.

Now if you look at the Rs. 650 crore of COVID provision which we have taken, plus if we take the standard provision and some other provisions which are like unhedged foreign currencies and specific sector provisions, that total actually covers up our entire net non-performing assets. So, together with specific provisions today, we have provision numbers which cover our entire gross non-performing assets. And we are therefore starting the financial year with a reasonably clean number.

Our specific sector provisions, again, our NBFC numbers remained at 4% of our total exposure. Commercial real-estate at 2.2% and LRD at 1.6%. As you are aware, we have sought approval from the shareholders to do an equity raise of up to 65 million shares for which we have sought shareholder approval and the ballot should be ending by the end of this month, by 25th of May.

At the consolidated level, we ended the full year with a post-tax profit of Rs. 8,593 crore which compared with Rs. 7,200 crore last year is about 19% rise on a year-on-year basis. At the consolidated level, again, capital adequacy is pretty healthy at 19.8% overall capital adequacy and 19.2% at Tier 1. NIM at 4.73% for the consolidated entity.

Apart from the Bank, we had contributions coming in from the life insurance entity, the shareholder profit post tax for the quarter at Rs. 165 crore. Kotak Securities at Rs. 163 crore, Kotak Prime at Rs. 161 crore, the Kotak Investments at Rs. 77 crore, the mutual fund and the trustee company at Rs. 88 crore. A total net worth at the group level now at Rs. 67,000 crore, giving us a book value per share of Rs. 348.3 per share.

Our advances at the group level had a slow growth as subsidiaries, which are into auto loans had a negative growth for the year, and also the other subsidiary, which is more into loan against shares and commercial real estate. So, at the non-bank level we had a negative growth on the advances.

Kotak Life, we declared our embedded value last year. At the end of this year, we have an embedded value of Rs. 8,388 crore with a VNB margin of 28.8%. Bancassurance continues to be a 44% of our total channel mix. And persistency ratio is continuing to be high on the insurance segment. The life insurance company, again, having the solvency ratio which is pretty healthy at 2.9x. Seeing the gross return premium growth in the year at 26.6%.

On our capital market subsidiary, we were involved in transactions during the quarter notably of SBI Cards and the D-Mart issuance, as well as the buyback of Aster DM. Our securities company on the cash market segment clocked a market share of 9.1% in the Indian market.

Our assets under management spread across the group at Rs. 225,000 crore across the groups including the offshore entities. The domestic mutual fund, we had a profit post tax of Rs. 88 crore between the mutual fund asset management company and the trustee company. Our average assets under management overall was Rs. 186,000 crore for this quarter

The two NBFCs, as I said, both of them have had a degrowth on their advances number compared to the previous year. But both continue to be pretty healthy on their capital adequacy, Kotak Prime at 24.3% and Investments at 29.4%. In both these NBFCs, again, we have taken COVID provisions on similar principles. At Kotak Prime Rs. 50 crore and Kotak Investments Rs. 14 crore.

I would hand over to Shanti for giving a flavor of the digital world before we take the questions please.

Shanti Ekambaram:

Thank you, Jaimin. Digital was a way of life even before COVID, only this is more-so during the COVID era. Whether it is customer acquisitions, Uday talked about the fact that we are opening up savings account on a daily basis, we have extended our 811 account opening platform all channels, corporate, salary, branches and other channels. Whether it is customer acquisition, transactions, deposits, we have seen a significant increase in customer throughput and transactions through digital, and mobile remains the preferred way for customers to transact with us.

We have done a few interesting things like Google Assistant integration, we are the first bank to do that. And customers can actually ask for their balances via the Google Assistant. We have continued to work on our open banking platform, including API integration with corporates and service partners. We added 91 new partners and we have seen 16x transaction growth over FY19. Our focus continues to be on building digital journeys across our products and services to enable customers in this less contact or no contact world to comfortably do banking from the comfort of their homes or even offices going forward.

Not just the Bank, even the subsidiaries, whether it is the broking and the securities firm, which has seen a significant jump in average daily volume trading through the mobile, life insurance and our general insurance, have all focused on digital journeys and are acquiring a significant part of the business to digital.

Thank you, Jaimin. And we can go forward.

Uday Kotak: I think we can now open up for Q&A.

Moderator: Sure, 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 Elara Capital. Please go ahead.

Mahrukh Adajania: Sir, my first question is on today's package, that today's package of Rs. 3 trillion for the SMEs or the MSMEs is with outstanding of Rs. 25 crore. So do you lend to SMEs in that bucket or your ticket size of SMEs would be a higher outstanding?

Uday Kotak: No, we lend all the way from the bottom of at much lower level and below Rs. 25 crore. Therefore, if you look at our asset book which has been presented by Jaimin, if you look at the different segments, if you look at within the corporate bank there is a business banking segment which is the SME segment, we lend there. Then we lend in the commercial vehicles and the construction equipment division, again, to SMEs. Then there is the agricultural division, then there is a consumer bank working capital division, there is a business loans division. So, all these are in our MSME bucket. And many of them will be beneficiaries of this. Therefore, we see this as a very significant move, and therefore, we cover the whole spectrum of micro, small, medium, corporates and large corporates, the entire range in the business segment across our different segments.

Mahrukh Adajania: Right. And is it at all possible to give some quantification, as in what proportion of the SME book would be?

Uday Kotak: We have given that, if you look at table, if you look at the corporate and business banking... Manian, what is the size of the SME within the business banking division, the SME division?

KVS Manian: About Rs. 21,000 crore out of that is business banking.

Uday Kotak: So, out of corporate and business banking which is at Rs. 84,855 crore, SME division is Rs. 21,000 crore. Then commercial vehicles and construction equipment would have some parts which is SME, which is Rs. 19,000 crore as total division. Agricultural division which is Rs. 21,000 crore will have some part which will be an SME. And consumer bank, working capital security is almost entirely micro and small, the Rs. 19,000 crore which you are seeing there. Therefore, I would say it's a very reasonable percentage of our total book.

Mahrukh Adajania: Got it. And most or large proportion would be in the Rs. 25 crore and below outstanding, right?

Uday Kotak: Yes, a large portion of that. A large portion out of the SME piece, say for example, in corporate and business banking the SME division is Rs. 21,000 crore, a reasonable portion of that would be below the Rs. 25 crore mark. Not all, but a reasonable portion.

Mahrukh Adajania: That's very helpful. And my other question is on your outlook on loan growth, as in that you have been rightly cautious all this while because the macro has been very volatile. Now, given that most other banks or a lot of NBFCs and a few banks would have capital constraints, would you still be very cautious because of COVID? Or would you like to take market share?

Uday Kotak: Okay. Mahrukh, divide it into two parts, one is what I call as the BC period, which is before COVID period, okay. At that stage we were seeing an economic slowdown on the cards, we were cautious on unsecured consumer. For example, if you look on credit cards, personal loans and business loans, we had given our caution even in the earlier earnings calls, and which we repeated in the last call, and we actually walked the talk on that, for our conservatism on that was something which was pre-COVID. And of course, in the post-COVID world, our view is the pain on the unsecured consumer in the balance sheets of banks would have a reasonable proportion.

But having said that, how do we see in the post-COVID? In the post-COVID world we are in the middle of three clear streams, which we have to think about as we think about the risk return matrix. Number one is the very short end. And I am going across risk and duration. At the very short end the spreads are negative, because any surplus liquidity, RBI is taking at 3.75%. So that is not a great carry, but it's a protection. Therefore the move is, you first move up the duration curve. And as you move up the duration curve on risk free, that is sovereigns, you start getting some returns. Therefore, a three year GSec will give you a return of 4.70%, 4.80%. Then the next decision you take is you want to move to quasi-sovereign. So if you go to quasi-sovereign or a three year loan, you get 5.70%, 5.80%. Then you move to high end corporate, the high end corporates today for a three year loan give or take around 7% odd.

So, then you take a decision, what is the level of risk, you want to take on the credit side, what is the level of risk you want to take on the credit side, what is the level of risk you want to take on the duration side, and what is the trade-off between spread, duration and risk as you take your calls across different segments. Of course, on the consumer segment, at this point of time, for the month of April, there was virtually no lending in the banking industry, new lending in the banking industry, very small amounts of lending which has happened in the banking industry. So, we have to see how the consumer segment opens up as we go forward.

But I just wanted to say that if the government has given a guarantee on the Rs. 3 lakh crore, we have the advantage of significant liquidity and our cost of funds is very, very attractive. You are aware that we have dropped our savings deposit rates even in April going forward, and despite that we are continuing to get a very high savings deposit and deposit flow into our bank. Therefore, with low cost of funds, high capital, where we feel credit risk makes sense and effectively we get the money back, that's the bottom-line. We will lend, but we will lend when we have that comfort. Therefore, if there was no sovereign guarantee for some of the weaker

MSMEs, we would be more cautious. But as the sovereign is stepping in, we will step up, that's the bottom-line.

Mahrukh Adajania: Got it. And just one last question. What would be your deposit inflow in April, May? Like rough accretion to deposit.

Uday Kotak: Mahrukh, normally every year, say for example, if you take a savings account or a current account, every year in April it is normally a negative. But this year, particularly in savings, we are finding a surprising positive in terms of growth. And our saving growth in April has been extremely positive year-on-year as well. Okay?

Moderator: Thank you. The next question is from the line of Manish Karwa from Axis Capital. Please go ahead.

Manish Karwa: Just on the savings deposit piece, would it be fair to assume that our savings cost this year would be about 80 to 90 basis points lower on an average compared to last year?

Uday Kotak: Manish, I will have Jaimin answer that, but let me just. I remember in many earlier call, you have always been pushing for us to be dropping rates.

Manish Karwa: Yes.

Uday Kotak: Now you have seen we have dropped rates, at the same time we have kept the customer franchise. And if you look at our savings deposit positioning, we are now from a peak of 6% we are now at 4.5% above Rs. 1 lakh, and below Rs. 1 lakh, 3.75%. Our major competitors are at 3.25% up to Rs. 50 lakhs, and 3.75% above Rs. 50 lakhs. So even now we have a competitive advantage despite a really significant reduction. And even at these rates we are getting money in. Now in terms of the benefit to cost of funds, I will ask Jaimin what he would like to talk about. But yes, we have made two drops on 1st of April and 20th of April, which will flow through the current year. But over to Jaimin.

Jaimin Bhatt: Yes, Manish. Look, we have actually done the drop during the last year itself and we started seeing that benefit. We continue to be still giving a rate which is higher than most of the larger private sector banks, even today after the drops in April we are offering 3.75% and 4.5%. So that's a rate which is still higher. But yes, we have dropped the savings account rates, which has resulted in our cost dropping down. We ended this quarter at 5.23%, which was for the full year it is still a higher number. But as we see that drop which we have done in the month of April, which is a sharper drop, we will see that benefit flowing into the current year. Now, of course, depends upon how much of the savings comes with it. And what we have also seen is despite the drop in the rates in the previous periods, we did not see deposits moving out. So we have been able to maintain the deposits and rate improvement should actually flow through in the current year.

Uday Kotak: And to add to Jaimin's point, Manish, and this is important. We consider the customer franchise as a key part of our decision. We are not going to give away our customer franchise and the

savings deposit growth strategy which we have had, while obviously being conscious of the commercials of what we are doing. Therefore, it's a very careful balance we are doing between those, and ensuring that the franchise of sustainable and low cost deposits and the competitive advantage we have, we keep on driving home while reducing the cost of funds for the Bank.

Manish Karwa: And since the funding costs are now at par with probably the best of the bank, I mean, the largest private sector bank now, does it also mean that we become a lot more aggressive on the best of the corporate lending which up till now we have not done much? Is there a change of thought process on the lending side as well?

Uday Kotak: No, there is clearly a recognition that where opportunity is we will lend. But we have to make sure that when we are driving the car, we don't get colored by the rearview mirror. We need to make sure that the best of corporate in the BC era, which is before COVID era, remain the best of the corporates in the AC era that is after COVID era. We believe that that is true, we will be more aggressive, and we are more aggressive in those cases. But no getting blindsided that in the past these corporates are good therefore they will remain to be good. Because the impact on different sectors is different, therefore a good corporate, for example, let's say the movie industry, will it remain a good corporate going forward? Or theatres or airlines or hotels, so you have to look at a good corporate looking in the front, and you have to be very careful, we don't look at a good corporate on the rearview mirror.

Manish Karwa: Sure. And does it also mean that for at least some time we work with reasonably higher margins, because not everything can get passed on, because risk perceptions have also gone up in industry?

Uday Kotak: No, we will work on sensible business model where we hold the customer and we are in the business of ensuring higher pre-operating profits, because the fact of the matter is, risk loss are going to be high, that's the nature of the COVID world, isn't it?

Manish Karwa: Yes. And lastly, Jaimin I just wanted one data point. This 26% is by value, right, moratorium?

Jaimin Bhatt: That's right.

Manish Karwa: And this is on consol basis or only on the standalone bank?

Jaimin Bhatt: Standalone bank, actually in the other entities it's not large, this is standalone bank.

Manish Karwa: So the Prime and Investment would be a smaller number than 26%?

Jaimin Bhatt: That's correct.

Uday Kotak: Having said that, I must add one other point, that this is moratorium given to customers by value as of 30th April, customers are continuing to ask and take moratorium even in the month of May.

Manish Karwa: You think, Uday, that this 26% can actually go up to somewhere around 30%, 35% by end of May?

Uday Kotak: I will tell you on 1st of June.

Dipak Gupta: And some of that we are finding because of extension of the lockdown period. Customers are coming back, let's say, it gets extended next week again, we will find a fresh set of people coming in.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Had a few questions on the life insurance arm. So we saw our margin decline over FY19 to FY20. And this is despite us doing amount of good business, and even the non-PAR mix remaining constant. If you can throw some light on that particular segment.

Uday Kotak: I will give it over to Gaurang, but you must keep in mind that in the non-PAR segment as yields drop, your margins come down. But I will hand it over to Gaurang.

Gaurang Shah: Correct. So I think there are factors which have contributed to reduction of margin, which is, one is as mentioned, by interest rate changes. So wherever interest rate comes down and you are holding a non-PAR book then probably it hurts you in terms of your overall VNB margin. The second one is relating to the expense increase. There is a higher agency proportion we had this year compared to what we had last year so Bancassurance came down by around 4%, so your channel mix also contribute. There is also have some impact on the product mix. And there is also an additional the cost which came because of the IRDA changes in terms of the surrender values and all that. So all four factors combined, probably led to the margin drop. But still let me tell you, at 28.8% it is the highest margin.

Harshit Toshniwal: Sure. One more follow-up. So you talked of return guarantee, but if you can share the mix within the non-PAR? And two, what is our hedging strategy in those kind of products, because shouldn't it be more viable that when we hedge this product we can do that in a much larger proportion?

Gaurang Shah: I think we have probably used all the possible options which are available in terms of partially paid bonds, we have done recurring deposits, we have taken FRA, which is future rate agreement. And what we have done is, we have invested all other non-PAR funds also for a long-term. So if I look at currently in terms of present value terms, I think we would be completely hedged in terms of what liability we hold on these accounts.

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

Rahul Jain: I have got a bunch of questions. The first one is, just wanted to know the proportion of the portfolio where the standstill was offered and we had to make 10% provisioning. So what would that number be on the loan book?

Uday Kotak: Jaimin, you want to go?

Jaimin Bhatt: Yes. Rahul, you are talking about what the standstill was offered and what would have otherwise turned into NPA as of 31st of March? As I mentioned earlier that number is Rs. 660 crore.

Rahul Jain: Correct. But they would have been SMA 0 and SMA 1 accounts also where the standstill would have been offered.

Jaimin Bhatt: That's why if we go back to the fact that what I described is we have made a provision on all accounts which were overdue and where moratorium has been given, and which were overdue on the 1st of March.

Uday Kotak: Overdue could even be one day

Jaimin Bhatt: The overdue is even one day. So even if you had a due on 28th of February and he did not pay on that day, he has an overdue on 29th of February.

Rahul Jain: So, what would that amount be, Jaimin?

Jaimin Bhatt: So that's where as I said, Rs. 650 crore which we have provided at account level represents about 10% of that number.

Rahul Jain: Okay. So the total loan amount would have been Rs. 6,500 crore?

Jaimin Bhatt: About that, yes.

Rahul Jain: Yeah. Okay got it. That's helpful. The second question is, is it possible to know the real-estate exposure across the group? For standalone you give it out, but I just wanted to know in other entities also, KMIL and Kotak Prime, if you have any out there.

Uday Kotak: Yes. I think, Rahul, the point on KMIL, if you look at it. What is the total balance sheet size, Jaimin, now for KMIL?

Jaimin Bhatt: KMIL would be about Rs. 5,800, Rs. 5,900 crore.

Uday Kotak: That is total balance sheet size, and something in KMP.

Jaimin Bhatt: Yes, KMP would be about non-CAR would be about Rs. 7,000 crore.

Rahul Jain: Non-Car?

Uday Kotak: But all that is not real-estate.

Jaimin Bhatt: Yes, there would be something, in KMP particularly it's there,

- Dipak Gupta:** There will be dealer loans there.
- Uday Kotak:** So Manian, what is the real-estate exposure in KMIL and KMP?
- KVS Manian:** Yes. So if you see in the bank standalone, we have shown you the number Rs. 6,251 crore. Total exposure across the group will be roughly about 50% more than this.
- Jaimin Bhatt:** That's correct. Between the other two it will be about Rs. 6,000 crore.
- KVS Manian:** No, sorry. It will be less than that, Jaimin. The CRE part will be less than that.
- Rahul Jain:** The CRE part 50% when we say it's about Rs. 3,000 crore. So total would be Rs. 9,000 crore.
- KVS Manian:** No, no, sorry. One minute. Rs. 6,251 crore, plus LRD Rs. 4,457 crore is there, in the bank it is effectively Rs. 10,000 crore.
- Rahul Jain:** Okay. Yes. Got it. And the group would be another couple of Rs. 5,000 crore, Rs. 6,000 crore?
- KVS Manian:** Not more than that, less than that, yes.
- Dipak Gupta:** That includes LRD.
- Rahul Jain:** Yes, understood. The other question was on the liquidity trends, I think many congratulations to all of you to build such a mighty liability franchise. But creating I think the demand for loans is going to be low, so therefore the LDR ratio would like to come off, which is I think in this environment a good thing. But where do you see that stabilize, because at some stage in start it is costing us our margins as well?
- Uday Kotak:** I think it's a very fair question, and that is why I said we are toggling between matched spread on the liability versus assets, duration call and credit risk call. And we are toggling between these three almost every single day and figuring out how to position so that we minimize the negative or spread for marginal amount versus taking a duration call or a credit call. So it's a juggling of the balls in the air, but it's a very, very focused exercise we are doing across on a continuing basis, on a day-by-day basis as we go forward.
- We have an internal policy as we talked through, where we have significantly changed the credit and underwriting matrix. Where we are looking at accounts on incremental basis, it is taking a disproportionate amount of our time. But the good news is, in this post-COVID world, the productivity of operating from home for all of us has dramatically increased, and also the number of hours we are spending at work.
- Rahul Jain:** Yes. But is there a band of margin that you would like to operate, can you help us?
- Uday Kotak:** Rahul, I think the answer to that is very simple, it is risk and return. We are not operating on an absolute margin level; we are ready to operate at lower spread if the risks are lower. Obviously,

if the risks are higher we need to make sure, first, whether we should take those risks at all. And if we take those risks, are the risk worthwhile for the returns.

Dipak Gupta: Rahul, risk-adjusted after tax is on equity.

Rahul Jain: Yes. But as you said, these are unusual time and we have to do the hard work on lending.

Dipak Gupta: It doesn't make sense just to lend for the sake of lending.

Rahul Jain: No, I get that.

Uday Kotak: See, Rahul, one of the most important thing which is coming out is, you get a great top-line and great spread. Pre-operating profits look good and then the provisioning line is taking it all away.

Rahul Jain: Fair. That's where it's a nice time we move to my next question, and then perhaps maybe the last one. On these loans where the moratorium has been taken, when you compare to some of the other developed markets where this kind of facility has been allowed by the regulators, the amounts of moratorium is much smaller than in India. And then one would wonder as to what would be the default rate, eventual default rate in this category of loans. So you have seen many cycles yourself, Dipak, Jaimin, how are you thinking about it? Because one way to think about it is, this COVID provision that you've taken works out to about a percent more on the moratorium loans. But the eventual loss it could be higher than that in this cycle. So how should we think about it?

Uday Kotak: Yes. I think Dipak will give you a more detailed answer. I just want to add one more variable in this. If the Sovereign is going to come and guarantee some part of it, that takes some of the sting away for some part of it. However, Dipak, you want to give an answer on a more detailed one?

Rahul Jain: If I can just interject, Uday, on that point. But what sovereign has announced is, it seems to be more on the incremental lending part, but not on the bad debt part.

Uday Kotak: It will protect the base also, for example, if I get 100% protection on the incremental lending, it protects my base also better, because that guy would have died otherwise without it.

Rahul Jain: Yes, that is true. So it will grow out of the problem essentially?

KVS Manian: That is one. I would like to add one more thing. Manian here. We are finding a lot of cases, actually if you ask me, the overall working capital utilization of the SME sector actually has gone down in our book, overall utilization. So there are several cases where people have taken moratorium, doesn't mean that their utilizations are at the brim, but they have still taken moratorium.

Shanti Ekambaram: It is the same with the small working capital segments as well, utilizations have actually come down.

Moderator: Thank you. The next question is from the line of Amey Sathe from Tata Mutual Fund. Please go ahead.

Amey Sathe: Two questions from my side, one on the asset quality. So if you look at, do you think the asset quality outcome for customer, some have been given opt-in option vis-à-vis who have been given opt-out option can be a significantly different? And second question is on employee cost. So apparently we have been hearing that we have implemented some salary cuts for Rs. 25 lakh and above. Just want to understand, what are your thoughts, how are you seeing the situation? Because peer banks have not implemented such kind of cuts. So what are we looking at in terms of data points that we think that we need to take that kind of a step? Thank you.

Uday Kotak: Okay, I will answer the second one. And then on the asset quality, I will ask Gaurang to give his perspective. On salary cuts, I think our view is, finally we need to make sure that, especially Senior Management, and we are very institutional in our commitment to our firm. And if the firm is going through obviously a revenue impact coming out of COVID, it is an institutional framework that we will share it and take the pain alongside. Therefore the leadership, which is the KLT team has taken up to 15% voluntary cut.

Now as far as growing up to Rs. 25 lakhs is concerned, we have been driven by our conviction that our team is aligned to the purpose of this firm and will do what is in the interest of the firm on a sustainability basis. Our entire focus on strategy is build up a sustainable firm in the post-COVID world. And it is also a signal to people with salaries above Rs. 25 lakh, not only for the salary side, but that this is the time when we must build our firm into a sustainable firm and avoid all the areas which are areas of potential excesses which may be happening even in operating expenses. So of course there is a real saving, but it's also a more a signaling thing that world is not the same. COVID has made a significant change how the world of the future is. And it does not matter what others may do or not do. We are an institutionally aligned, culturally aligned firm, we will do what it takes to build a sustainable ship on a medium-term basis beyond the current challenges of COVID. So it is about sustainability, it's about signaling that the world is different.

And third is that we believe that we will actually spend, as I mentioned, we will spend more on digital and technology than what we did last year. We are very committed to it, because that is where we will put the money and we'll carry our teams with us and work towards a difference in the future. The post-COVID world is going to change how branches look, we are at 1,600 branches with fixed cost, and there may be others who may be larger. We will review whether more branches make sense, does not make sense, office spaces. So there is a massive internal plan, which is going on that how will we change ourselves structurally in a post-COVID world to dramatically improve our sustainable efficiency without giving up where we can be better to customers or better on execution. And therefore, the signal on salary cuts is more than anything else that the world is different, we have to be sustainable and signal that we are in ready for the change. Now, second point is over to Gaurang.

Gaurang Shah: Can you repeat your question on asset quality?

Amey Sathe: Yes, question is that, if you have been given an opt-in for a customer, so the asset quality performance of a customer who has been doing option of opt-in vis-à-vis opt-out, will that be a significant difference?

Gaurang Shah: No, but what do you mean by opt-in means?

Amey Sathe: If I want to moratorium I will have to opt-in for the moratorium and opt-out is that if you don't want moratorium, probably then you have to send a message or you have to inform the bank that I don't want moratorium. So, if both the cases, do think the asset quality outcome, because what we are hearing that some of the customers are taking moratorium simply because to conserve cash, they still have balances in their savings account. So that is what the feedback we are getting. So these customers might be completely standard and might come back and pay. So does the opt-in and opt-out mechanism actually make a difference from asset quality perspective?

Gaurang Shah: I think it's very qualitative. But my view normally is, people who have probably gone for the benefit of opt-in, like have proactively gone for it, the likelihood of those guys probably giving you maybe a marginally higher delinquency, it is very difficult to say how exactly it's likely to play out. Because the entire thing actually is dependent upon how we come back in terms of near normalcy, maybe just now we have just opened up and with the economic activity or industrial activities just starting, maybe if near normal you reach in, say, three, four months, perhaps that is likely to affect the delinquency more compared to how quickly you achieve normalcy. That will affect the delinquency more compared to whether somebody has preferred a moratorium just now, whether opt-in or opt-out.

Dipak Gupta: Well, if I were to answer it differently. I think it will depend a lot more than opt-in and opt-out, more on the sector first, the customer segment, second; and the type of balance sheet and business which the customer runs, it really doesn't have to depend too much on opt-in or opt-out. But having said that, all of this is early days, yes we have to go through it, we have to go through the next one or two months to really realize what happens with each segment.

Moderator: Thank you. We take the next question from the line of the Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Uday, I have been hearing you in the media as well as in this call that the world post-COVID would be very different. If you could help us understand what is the framework you are using internally as to what are the key changes that are likely to happen post-COVID, and which are sustainable ones, sustained changes? And what does it mean for some of your key portfolios like commercial, real-estate, etc., or LRD within that?

And the second question is regarding, which are the segments where you see incrementally higher pocket of stress within your book or which are the segments where you are seeing incrementally huge opportunities because of consolidation of the industry, financial sector which is...?

Uday Kotak:

Yes. I think, Prashant, a very good questions, but very wide. So, first is on the changes in the post-COVID world. Number one, I think we will need less office space. Full-stop. Okay? That seems to be a reasonable outcome where we have found that operating from home is not that difficult a thing. And in a lighter vein, I was just joking with my wife, Pallavi, and telling her that I just wonder whether I need to go full day office, five or six days a week and attend office where a disproportionate amount of time gets wasted in relative trivia compared to kind of focus one is getting operating from home. And therefore, maybe the requirement to go to office comes down 30%, 40%, 50% 60%, okay? I am just looking at each of us. And we have all tested this in a new way. Therefore, certainly, I believe the demand for space has to get different from the past.

Number two. I think, we are bound to see significant increase in the digital journeys. So whether it is recoveries, whether it is sales, whether it is customer account opening, whether it is branches, whether it is whole business about how we conduct our life, it has fundamentally changed and this is like the tipping point, I think demonetization was the tipping point. For us demonetization was a wake-up call. And as you know it was 8th November, and that gave us an outcome of 811. We think the post-COVID world on the digital and the technology side is a turning point for the future of most businesses, and certainly for ours as we see the future. We ask the question how many any branches will we need in the future. How much of the office space will we need? How many call center will we need? How do we get to significantly higher levels of productivity, both on space and digital?

Post COVID world I also clearly believe spending on digital and technology will go up. I also believe brands will matter a lot more, established people with certain brand must leverage that and invest in brand and customer franchise. From a financial institution point of view, the importance of non-credit risk businesses and the share in the revenues of the firm as a focus area will significantly go up. So whether it is our advisory business, our wealth management business, our securities business, our asset management business, these are the businesses which will get to a very, very significant focus and customer franchise. And they too will be subject to a lot more digital. I think these are some of the immediate changes I see.

And the post-COVID world will also take a very important point, no firm is safe forever. It will make the credit decision making process far more flexible and alert than ever before. I cannot take for granted, for example, the way banks do renewals, we review it once a year. In the post-COVID world we should be thinking about how we are going to review every stage and maybe much faster. Because the change in business models and the future of institutions and companies will change at a much shorter period than before. What looked like a good business in the BC world may change in the AC world and may change again. Therefore, alertness, deep rootedness, the institutions have to be careful that they do not remain soggy as they have been. These are some of the changes I see.

Prashant Poddar:

Okay. I will quickly just add one question that is, so which parts of the portfolio do you see incrementally higher stress? And where do you see more consolidation lead opportunities?

Uday Kotak: See, obviously, the question which you asked is, I think unsecured consumer is an area which I would worry, okay? Because it had become the high-fashion model where everybody was lending, it was giving higher spread and it was just the place to improve short-term ROEs, because of the accounting treatment which unsecured consumer got. You recognize or did not recognize, you accounted for profits along the way of accruals, without knowing that till the last your profit is all in the real world only in the last few installments. The unsecured consumer is the area which will be affected.

Therefore, for example, if business is rationalized, there was this perception that small business people are at higher risk than the salaried people. Companies will reduce jobs, I mean, in my view both have the risk. I am not saying the small businesses don't have the risk, but so also the salaried segment, and it does not matter whether you're a large company or a small company, everyone will have to find a way of handling excess job if the world changes. And therefore to say, a salaried customer of a large company is safe, I don't think so.

Similarly, obviously sectors which look apparently under the heat are hospitality, malls and shopping. Are we going to see a lot more e-commerce going into the future? Yes. And look at the dramatic turnaround of the telecom sector, a sector which had 13 players saw the destruction of 10. And out of the balance three, one was under pressure. And in a matter of 45 days in the post-COVID world, that is the backbone of our future. So that is a change post-COVID and that will happen sector after sector. Do we need so many airlines?

And we will have to deal with the question, how many banks should there be? How many NBFCs should there be? How many entities should be doing the same thing differently with different levels of governance, underwriting, etc. And while public sector may be safe because it is ultimately owned by the government, which has the right to print money. The question is, various quality underwriting, execution and a fast-changing business model requirement? How are you going to meet it even in the financial sector in the times to come? And those are the questions which need front-end answering and strategic focus.

Moderator: We move to the next question. The next question is from the line of Mr. Kunal Shah from ICICI Securities. Please go ahead.

Kunal Shah: Sir, two questions. As you clearly said that there will be lot of a consolidation and we will be seeing how many players could be there in the financial services space as well. So do you think this is the time or an opportunity to look at maybe growing inorganically in any of the area, particularly on the lending side? So does it make sense? And I think just to tie it up, maybe the need for equity raise defines such a strong balance sheet, are we looking at any kind of an inorganic opportunity that could come up in these challenging times?

Uday Kotak: Yes, Kunal. I think the answer to that is, if consolidation happens, as you know consolidation will happen in the sector through two roots, one is mortality, second is combinations. Okay? These are the two roots through which it happens. Now if you look at the telecom sector, a lot of it happened through mortality and very little through combinations. So we don't know how

the sector plays out. The first job of ours is to ensure that we don't take anyone's mortality or immortality for granted, us included. Our first job is to navigate our boat through the turbulent sea. So the first job of any financial institution, which is by very nature high leverage, high fixed operating cost is to navigate its boat.

While you are doing that, you keep your eyes and ears open, particularly as you look as the shore may look closer to see what is possible. Because it's not just about being acquisitive for the sake of acquisition, it is about health of the industry. And I worry fundamentally in the financial sector, because if you look at the last five, six, seven years, barriers to entry have reduced. Therefore we had a flood of 8, 10, 12 small finance banks, nothing against any of them individually; so we had a flood of small finance banks coming. So, barriers to entry have being relaxed. Similarly we have seen a whole host of NBFCs come in, in the last five to seven years. Again, welcome, no issues on that. But across all these new players there are varying layers of governance, there are varying underwriting standards, there are very varying execution issues, and the quality of the liability franchise which I think is extremely important in financial sector.

And at this stage, at the policy level, we do not have a clear strategy for exit of financial institutions. One of the important aspects of any free entry has to be thought through exit. Now, we were trying to get the Financial Resolution and Deposit Insurance Bill approved I think about a year or two ago. It has not happened. Therefore, you have a reasonable entry availability for people, what is the exit policy which we in the financial sector have? Inevitably, that leads to a situation where you will have either mortality or some of them may be appropriate for consolidation in the sector.

Kunal Shah:

And secondly, particularly for Kotak, so obviously a very, very strong balance sheet with the capital adequacy, deposit franchise. But maybe in terms of the salary class, you clearly highlighted that looking at a long-term sustainability and stability. So I think, obviously, coming from a low growth very, very strong underwriting standard, credit filter, is there any pocket which is worrying us or is it something that we see that this is one of the much more prolonged and that's why this kind of decision is needed at a such an early stage?

Uday Kotak:

Kunal, the fact of the matter is, worry is a way of life. Therefore, you want to keep on worrying. At the same time, you must also have a nose for opportunity. So you must have worry, worry, worry, opportunity, opportunity, opportunity. So you really are toggling between these different things, but you got to constantly do it. Because the challenge with opportunity also is, it never announces that it has come, it's only after its gone that opportunity has gone. So you need to keep both on your mind. And worry is, I wake up in the morning worrying about something else; by night, it is worrying about something else; and then wake up next morning and find something else as an opportunity. And I think my entire team who's on this call, we debate endlessly. We start our days having a small group, chatting every single day and saying every day is a new day.

Kunal Shah:

Okay. And lastly in terms of the moratorium, I don't know if you have said it, but can you highlight in terms of this breakup between the retail SME and corporate at a broad level?

- Uday Kotak:** Jaimin?
- Jaimin Bhatt:** Look, we have not given the overall numbers. But broadly, suffice to say that the percentage of people opting, and I am talking value terms, opting at the retail level would be significantly higher than at SME levels. And then you take, let's say, for example, the microfinance guys, almost everybody because you did not collect got into moratorium side. Then you take the next set of levers would be different. As you go to the upper end corporates, the numbers keep tapering down, they are smaller in terms of number of customers, but very large in value. That segment would be the smallest in terms of opting for moratorium at that stage.
- Kunal Shah:** No, but since we had given it in terms of value, so maybe when we look at 26% of the value of loans being under moratorium, would there be too much of a difference? Customers I clearly understand that retail would be much on the higher side, but in value terms what are we seeing between retailers and corporate?
- Jaimin Bhatt:** So value wise, as I said, the wholesale number, the larger corporates would be a small number compared to what is their weight in the overall advances segment.
- Uday Kotak:** Kunal, the percentage in value terms of retail is higher than percentage in value terms of wholesale.
- Kunal Shah:** Okay. Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurav Kochar from Mirae Asset. Please go ahead.
- Gaurav Kochar:** Yes, good evening, everyone. And thanks for taking my question. What is the average SA balance of 811 customers versus non-811 customers? If you can give some color on that.
- Uday Kotak:** Jaimin?
- Jaimin Bhatt:** Sorry, I missed the things. What we were talking about is, in the last year we had opened a total of about 44 lakh customers. In the lockdown we earlier felt that how would you reach out to customer, whatever, but in the lockdown we continued to get these customers on board. And if I look at the average for May in the current month, we are actually opening on this month the average is as good as what I had the average for the previous year.
- Gaurav Kochar:** I meant the average balances in their account.
- Jaimin Bhatt:** Balance in the 811 accounts will still be small. We can migrate them to the full KYC account and make him a regular customer. So that's a journey.
- Gaurav Kochar:** Sure. But what is the difference? I mean, I am sure the 811 would be significantly lower, but the non-811 customers, what would be the average savings account balance there?

- Jaimin Bhatt:** Non-811 customer would be higher; it would be close to Rs. 40,000, Rs. 50,000. I don't have the exact number here.
- Gaurav Kochar:** All right. On SA, clearly last two, three years, I mean, our SA has grown in place of the term deposits where the other banks have grown faster. But this was primarily because our SA rate was about 200 bps higher than the largest private banks, perhaps. Now that gap has narrowed down to, say, 75 bps. Do you see that as a risk and now probably the bank will focus more on term deposits going ahead?
- Uday Kotak:** Shanti, you want to give a sense on SA year-on-year April without getting into specifics how is SA year-on-year April versus last April growth?
- Shanti Ekambaram:** Yes, Uday, I will do that. So to answer the question, last year we had dropped rates and we saw no change in the acquisition or deepening pattern of our customer base on savings account. This April, as Uday had mentioned, we have dropped rate further. And in fact, this has perhaps been one of the best April's that we have seen. Typically post March you see a different April, but we have seen significant franchise improvement in our savings accounts for the months of April as compared to last April, and it is significant.
- Uday Kotak:** And this is despite drop in rates.
- Gaurav Kochar:** Sure. Just from a strategy point of view, will there be focus on term deposit, say, for a longer term, I mean, in the next couple of years? Or will you continue with the same strategy of SA acquisition in place of term deposits?
- Uday Kotak:** No, we are continuing to take term deposits, but the focus on term deposits is smaller ticket. That means deposits up to Rs. 1 crore is our preferred term deposit strategy.
- Shanti Ekambaram:** And our focus on savings account continues, both on number of customers, growing the customer franchise in terms of deepening product and our balances, there has just being no stoppage on that front.
- Gaurav Kochar:** All right. Sure. And if I can squeeze in one more question. If I look at the Basel-III data that we disclosed, roughly 100% and above risk weight comprises of around 58% of the overall assets. So that number does not tie up with the loan book mix. Am I missing something? Or what forms large part of that 100% and more than 100% risk weights, if you can give some color on that?
- Uday Kotak:** Jaimin, or you want to get back?
- Jaimin Bhatt:** I get that. The Basel-III disclosure is just to say, they are all on exposure levels. They take into account non-fund based investment, all of that stuff.
- Gaurav Kochar:** I am talking about only the funded exposures.
- Jaimin Bhatt:** Yep. So I will get back to you with the exact categories.. That's exposure, not outstanding.

- Gaurav Kochar:** Sure. All right, the funded exposure?
- Jaimin Bhatt:** That's right.
- Uday Kotak:** But not outstanding loans. We may have a limit on a client which is 100 and we may utilize 60. So then the loan is 60, the exposure we'll show as 100.
- Gaurav Kochar:** All right. Sir, we can take it offline, that's fine. And then lastly, this slippage number that you gave would have been increased by Rs. 6.6 billion in March, which means that as of 31st March, if not for moratorium Rs. 6.6 billion would have slipped, is that a right assumption?
- Jaimin Bhatt:** That's correct. Rs. 660 crore would have slipped, that's correct.
- Gaurav Kochar:** But this ideally should have then been reflected in the SMA 2 book, because as on 1st March if these are 60 plus...
- Jaimin Bhatt:** Agreed. I will answer. Broadly there are two categories, SMA 2 reflects only balances of accounts which are Rs. 5 crore plus. Plus, the Rs. 660 crore would have accounts which are not NPA in the classic definition of having crossed 90 days, but they get into that category because they have not, let's say, serviced the interest debited in the cash credit account for a three-month period, so they are not 90 days overdue. But they are, what is technically called, out of order. So they would have got into NPA, but they are not SMA 2 still.
- Moderator:** Thank you. The next question is from the line of Ananda Laddha from HDFC Mutual Fund. Please go ahead.
- Anand Laddha:** I have a couple of questions. Sir, what's your view on consumption spend going to happen? What's your view on credit card and personal loan? How do you see growth in these two segments? And do you still believe that credit card has more risk than a personal loan or vice versa? First question is that.
- Second sir, when do you think the economy will come back to normalcy, be it September, be it December or maybe take a longer time? And lastly, sir, what's your view on the CV/CE construction equipment and auto portfolio, do you think the risk on their CV and CE is higher than the personal loan book? Or is it similar to SME? And if you can share your view on the same?
- Uday Kotak:** Okay. Based on what we have seen, I think unsecured consumer loans and credit cards, we see some pain coming clearly in that segment. In the secured statement, we are seeing commercial vehicles continue to see high pain. Therefore the three, obviously, you can't compare a secured versus unsecured. I would say, the areas which we are watching very closely are unsecured consumer loans and credit cards, microfinance loans and commercial vehicles in particular. These three segments are reasonable soft belly of the lending business today.

- Moderator:** Thank you. The next question is from the line of an Anirban Sarkar from Principal Asset Management. Please go ahead.
- Anirban Sarkar:** A few data keeping questions. First, if you could provide the split of provisions for loans into provisions for NPAs as standard asset provisions for the full year?
- Uday Kotak:** Jaimin?
- Jaimin Bhatt:** Yes. Okay. Just one minute. So for the full year, my specific provisions will be about Rs. 1,400 crore and all standard provisions, including COVID and all, would be Rs. 720 crore.
- Anirban Sarkar:** Okay, all right. And sir, my second question is on the cash on the balance sheet. So I see that there is a sudden spike in the amount of cash in the balance sheet, and my calculated margins actually are lower than your last quarter's. But I see that your reported margins have increased. So that is a bit counterintuitive bit where I see how much the amount of cash has increased. So is it like a lot of cash came in towards the end of the quarter or how should we look at this? Is that why your average balance is lower than what I get from the period end?
- Jaimin Bhatt:** That is right. What you are looking at is end of period, The NIMs are calculated on a daily average basis. So on a daily average what is my earnings investment and what have I earned against that.
- Moderator:** Thank you. The next question is from the line of Chandan Yadav from AU Small Finance. Please go ahead. Chandan Yadav from AU Small Finance, you may go ahead with the question. There seems to be no response in the line of Chandan Yadav. We move to the next question. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. I had two questions. On the saving account rate cut, this would lead to Rs. 700 crore, Rs. 800 crore kind of benefit on the P&L this year? And secondly, on home loan and LAP, that has been a growing segment. So is it due to the lower cost of funds, which are the cities we are seeing, are we building the LAP book, what is the mix? If you could give some sense.
- Uday Kotak:** Shanti?
- Shanti Ekambaram:** Yes. I will talk about the home loan and the LAP book; number savings, I leave that to Jaimin Bhatt. So our strategy last year has been to build the home loan business actually quite aggressively over the course of the year. We incrementally have focused around our own branches and our own customers. So we have followed the strategy of our liability customers on the home loans segment and really tried to build largely in the main cities, which is Mumbai, Delhi, Bangalore, Ahmadabad, Pune, but also the smaller locations where we are. So that has been our strategy. On loan against property, it is more in the larger cities and the home loan business has to been more aggressive than the LAP business in terms of the growth. Historically, LAP has grown more. And roughly, you can say, in terms of the break-up between the two, it is almost equal.

Prakash Kapadia: Even today, it is equal?

Shanti Ekambaram: Yes, almost. Home loan maybe slightly marginally high, home loan maybe higher..

Prakash Kapadia: Jaimin, you want to give some color on the savings rate cut?

Jaimin Bhatt: The savings changes which we have done over a period of time, we started doing it last year and we have continued the cuts in the current year, they will bring in benefits. Some of them have been seen in the last year, including the last quarter, and some of it will slow because there have been further cuts which have happened in the month of April. So, we will get some benefit, but that's where the cost of funds have come down sharper and which has resulted into the NIMs going up and whatnot.

Moderator: Thank you. The next question is from Ashish Sharma from ENAM Asset Management. Please go ahead.

Ashish Sharma: Thanks for the opportunity. Sir, just one on the asset quality side, given that we will not get a color on the asset quality of the moratorium loans, any guidance in terms of credit costs for FY21? And if I presume that non-COVID, we were closer to 70 bps in terms of loan loss provisioning, the number for FY21 could be similar or you see higher risk? But I think we need to wait for the clarity on the moratorium account behavior.

And second would be the question in terms of your consumer book, could you give some color as to how much is salaried and how much is self-employed? And I would assume, so we would have given higher loan to the existing customers, any sort of a color on that would be helpful. That will be all.

Uday Kotak: Yes, on the first, on credit cost. When I look at before COVID era, which is before 31st March, one of the things which we have done, as you know, which I mentioned is, whatever is a standard provisioning plus COVID provisioning versus net NPA, we are in excess on those provisioning over and above our net NPA number. Therefore, we start 2021 with a provisioning number which has taken care of the balance sheet as of 31st March more than adequately.

Now you come to the New Year. The AC era as we call it, or after corona or after COVID era. Now on that the issue is, at this stage the World Bank is talking about India's GDP growth at 1.9%, Nomura is talking about India's GDP growth at minus 5%. We are all speculating up in thin air. Therefore, if I take a Rs. 100 lakh crore banking sector loan book, it is impossible for us to say whether the loan losses will be 2% for the industry or 10% for the industry. And it also depends on how much the state and the sovereign is coming in to plug the hole.

Therefore, the way I would look at it is, take it as it comes. And of course, you must be conservative, therefore, make your provisions to the extent possible which fortify you and make you safe. But speculating on how much the hit will be, of course, we have internal workings, numbers, what we think could happen, base case, sector, everything. But the base position changes almost every day. What looks bad today looks good tomorrow, what looks good today

is looking bad tomorrow? And it is changing at a very fast pace. Therefore, whether it is us in the banking business or you in the asset management business, or in any other as some of you as analysts, to try and predict what that cost will be, it is still early days. We will get a better sense of this, in my view, by July, August. And I do not want to speculate on that at this stage what it will be. But all that I can say, at this stage, it is reasonable to assume that the banking sector credit costs will certainly be higher than what they were.

Moderator: Thank you. The next question is from the line of the Vikram Kotak from Lansdowne India Equity Fund. Please go ahead.

Vikram Kotak: My question is that we have seen the quality of borrowers deteriorating over the last five years, whether you see individual borrowers or sector wise. And post-COVID, as you rightly mentioned, the further bank sectors would be non-lendable. So don't you think that this is going to lead to a portfolio concentration risk, whether it is a sector wise or group wise or company wise? And how do you deal with that?

Like, Uday bhai, you gave a right example of telecom sector, which was on death bed six months back, and today we are in the positive side. So do you really see this is going to be a huge challenge for banking industry to help portfolio participation risk? And how do you deal with this?

Uday Kotak: No, I think, Vikram, it is a very good question. If industry consolidates, the lending business takes more concentration risk, that's inevitable outcome. But we will have to see how it plays. Against that, I think the banking industry will get more responsible on kind of covenants it must have for its lending. One of the problems with Indian banking and underwriting has been very poor covenants, and that will also change. As also if you get consolidated industry, the larger player we will assume we will have better fiduciary responsibility of auditors, we will have hopefully better fiduciary responsibility of rating agencies. And you need to make sure for a properly functioning financial system, which is both the loan market and the bond market at the same time, you need significantly higher level of commitment, diligence and accountability by every player if the sector. And I do believe consolidation will get us better on that path as well.

Moderator: Thank you. The next question is from the line of Gurpreet Arora from Aviva India. Please go ahead.

Gurpreet Arora: Yeah. Hi. Three quick questions. In your sense, do you think there is a case for the loan moratorium extension? And if yes, then what is our assessment of our numbers that ways? Second is, I mean, if you could spell a little bit on the recovery infrastructure that the bank has and is planning to scale or, I mean, develop?

And when you talk about cost in terms of more technology and less of others, if you can quantify with the 18% OPEX growth rate is what is sustainable, or we are looking at a lower number than that?

And third and last question is, if you can quantify what is the excess liquidity in the balance sheet, what will be the quarterly average LCR ratio? And till what time do you think, we will need to keep excess liquidity in the balance sheet? Thank you.

Uday Kotak:

Dipak, you want to go for this? Dipak, you're on it, you're on the line?

Dipak Gupta:

Yes. It is difficult to say whether the moratorium will get extended or not. But once the package from the government is there, guaranteeing a lot of this stuff, probably the moratorium may not necessarily be required for any longer. So I guess, one hopes it does not really hit. Even if it does, it doesn't extend for too long. But it is probably may not be required because of the financial package really now. I did not get the second part of your question.

Gurpreet Arora:

Second, with respect to the OPEX, I mean, we have spoken about increasing OPEX more towards technology and less towards others. So in terms of recovery infrastructure, I mean, how are we placed, if you can highlight a few qualitative and quantitative aspects? The OPEX growth run rate of 18%, are we targeting a lower number than this, overall?

Dipak Gupta:

Well, like Uday mentioned sometime back, we have to look at our overall cost structure in the post-COVID environment. What costs are required? What costs are not required? What costs are useful? What cost can be cut down? All of this will go through productivity measures as we come out of the lockdown. So there will be some savings, there will be a lot more work from home, office space saving, all of that, travel saving, all of those will be there.

When it comes to recovery infrastructure, recovery infrastructure is different for retail and for SME and corporate. I think, going forward, one has to invest a lot more in the retail infrastructure, because what happens really is, at such time those numbers actually shoot up in a step fashion. So you require a lot more of infrastructure. Infrastructure is not just people, its people plus technology required to chase customers and do your collection.

So those costs do go up, and some of that is reflected even in this quarter's number, which is given. We do use technology to do some of this very smartly, you don't have to chase all customers. You know, technology and analytics provide you with inputs to chase customers who you think will probably pay you faster and quicker really, so some of those also you are putting away.

Gurpreet Arora:

So overall, are we targeting an OPEX growth run rate of 18% or a lower number?

Uday Kotak:

Obviously, it will be lower. And keep in mind, our OPEX cost last year on a year-on-year basis is also higher because of 811 costs. If you look at the previous year, with respect to 811 cost, Aadhaar had a Supreme Court judgment, therefore second half of the previous year there was no Aadhaar based 811 account opening, which has come back in the current year. So those costs are front-end acquisition costs we are taking through P&L and they are more sort of acquisition costs for future growth, and obviously, that increases the operating cost ratio.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference over to Mr. Uday Kotak for closing comments.

Uday Kotak: Thank you very much. I think this has been a long call. We are now nearly, 1 hour, 40 minutes into the call. I would just like to end by saying that, in this new world, we move forward with, what I would call as, conservative optimism, to build a sustainable and resilient firm as we go forward, would like to be fleet-footed and flexible, and be able to look at the world from a different length than what we have looked at in the past. And we do believe that for all the challenges which we are facing, there will be also opportunity for growth across the financial sector as we go forward. Thank you very much, ladies and gentlemen.

Moderator: Thank you very much. On behalf of Kotak Mahindra Bank, that concludes this conference. Thank you for joining us, ladies and gentlemen. You can now disconnect your lines.