



“Kotak Mahindra Bank Limited Q4FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the Kotak Mahindra Bank Q4 FY 2021 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 '*' 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: Thank you very much. And good evening, friends, and colleagues. First, I wish each of you good health as we live through unprecedented times. I am going to start today's meeting with first talking about the criticality in this battle of lives and livelihood. I think we are at such a crucial juncture in the Indian scene at present, that saving lives scores over everything else at this point of time. And it is in this context I wanted to first share and talk with you about the people balance sheet, which is even more important than the financial balance sheet in this juncture, which we stand on. And I will share with you the kind of pain we have gone through at Kotak with number of lives lost.

For the period April 2020 to March 2021, out of our total 70,000 employees, we lost 17 lives in a period of one year. Between April 1 to May 2, 2021, that is in a period of barely one month, we lost 17 lives. So, what we lost in a year we have lost in one month. And that is the reality of the situation which we counter and face at this point of time. So, in this battle, we at Kotak have first taken an immediate short-term call that we will protect the lives of every single Kotak employee across the length and breadth of the country. We have tightened rules on the basis of which our people will work. And we have currently taken a call that for the next one week, no person will move out of the home unless he or she is required by law to provide an essential part of our services or needs to come with prior approval from senior management. And both these are something which we are implementing thoroughly over the next one week. We are making sure that all our people work from home in a digital and a virtual manner. And our call is, at this point of time, we will not want our branches, which normally have eight or 10 employees, to work with more than three.

Similarly, we are taking a view that whether it is sales or collections that can be done by mobile or digitally, and our employees will not step out and go for collection or sale and meet customers or prospective customers face to face. They are putting their lives at risk as also our customers' lives at risk. And we will monitor this week by week. Every single Kotak employee's life is important for us and we will go all out and save it, especially in the current crisis and the context. And we will watch and evaluate every single week. And every one of my team here is committed to save lives of every Kotakite, because that is the balance sheet which matters most to us.

Coming to the financial part of our balance sheet and P&L. As we look at the year ended March, here are a few things which are extremely important about how we think about the financial situation. First, if you notice, we are structurally ready for a growth engine going forward. If you look at the last quarter, which is January to March, we have grown at 4.5% quarterly, which is 18% annualized. We have continued with our commitment on the mix. And our view is, we will fly through these clouds keeping in mind proper underwriting, right segments to lend, but

something we believe it's time for us to appropriately grow with a significant amount of ability to grow as we see ourselves flying through these clouds. We are also very clear that there have been segments which we have been cautious on for the last 18 months and we believe that has worked to our strategic advantage as we go forward.

Our total unsecured lending, which includes consumer loans, credit cards, microfinance loans, consumer durable loans, all put together unsecured retail lending, which as of 31st March 2020, was 7.5% of our balance sheet is now down to 5.8% total of our balance sheet. That does not mean that we will not grow from here, we are in fact having our powder much drier, we are much lighter on this path. And with tighter and proper underwriting standards, we are ready to continue our journey, both in secured and appropriately in unsecured business. We are not daunted; we believe that Indian economy will come back at some point of time. And our hope today is this COVID curve, which is sharply up, like the U.K., comes down with that speed, which may be end of June or early July, that is our hope.

Having said that, we will not make a mistake like many of us in India did, which is declaring victory too early by January 2021 against COVID, and we let down our guard as a country. I am permitted to say that we will be always factor in, in our planning, a risk of COVID 3.0 and not forget about it moment we see the economy recover. COVID is the key issue, we need to keep that in mind even as we get out of it. And even more importantly, keep a track on the speed at which India is vaccinating itself. I think that is one very important parameter for us to measure as we go forward. Therefore, the measurement of what will make COVID less effective is a more critical path, which we will watch as we plan our growth on the business side as we go forward. But we believe we are very adequately stocked up on capital, we have done a significant amount of work on digital and technology which is continuing even as I talk to you, we have considered this as an opportunity to make that up and we are present and future ready.

And I would like to also clearly state that growth, both organic and inorganic, is something which we are very open to. And with a capital adequacy in the early 20s, with a very good mix on the asset and liability side, strong presence in different segments of financial services business, we believe that we can serve our shareholders, our stakeholders, and the Indian economy in the days, months and years ahead.

With that, I will request my colleague Jaimin Bhatt to take you through the specifics on the financial highlights, and thereafter, of course, we will be open for discussion. Over to you, Jaimin.

Jaimin Bhatt:

Thank you, Uday. As Uday mentioned, this has been a pretty unprecedented year, something that we have not seen in our lifetimes. To first take the year-to-year comparison, for the year 2021 which we closed, at the standalone bank level we closed with a post-tax operating profit of Rs. 12,200 crores, which is about 22% higher than last year. We had a post-tax profit in the bank of Rs. 6,965 crores, which is again 17% higher than last year.

As Uday mentioned, we continued to have a very strong CASA number at 60.4% as of the period end, and this is an addition to our sweep numbers which is another 7.5%. Strong capital adequacy continues from 17.9% which we were as of March 2020, we end with 22.3% and a very large part of this is Tier-1 capital. Our SMA2 numbers, again, looking very small at Rs. 110 crores as against Rs. 96 crores a year ago.

If I look at the quarter, we end this quarter with a pre-tax number of Rs. 2,228 crores, which is 33% higher than one year ago. And similarly, a post-tax profit of Rs. 1,682 crores this quarter is about 33% higher than Rs. 1,267 crores a year ago. Our net interest income this quarter at Rs. 3,843 crores, which is 8% higher than the same period last year.

This quarter we have taken an estimated hit on account of the Supreme Court decision on reversing interest on interest, compound interest and whatnot. We have taken an estimated hit of Rs. 110 crores in the NII line in this quarter. So, though this is effectively an expense for the period from 1st March 2020 to 31st August 2020, the hit has been taken in this period. After taking that hit into account, our net interest margin for this quarter we end at 4.39%.

Our other income for this quarter at Rs. 1,950 crores, which is decently up from what was there a year ago by about 31%. Our fees and services continue to grow Rs. 1,378 crores, of which distribution itself is Rs. 292 crores, which is about 25% higher than the same period last year. The non-fees and services part of other income showed a jump to Rs. 572 crores this quarter, somewhat helped by profits in the treasury segment of our business.

Our overall expenses this quarter at Rs. 2,385 crores, which is roughly about 2.5% higher than what we spent in the quarter a year ago. At the full year level, again, we have spent Rs. 8,584 crores as expenses, which is less than what we spent last year by about 3%. This quarter, we were somewhat helped by the employee cost coming lower than the same period last year and in the preceding quarter, by lower retirement benefits thanks to interest rate changes and better returns on the funds invested.

Operating profits have gone up this quarter though we have seen expenses like recovery, and those relating to acquisition of assets going up also. Our total provisions we have taken in this quarter at Rs. 1,179 crores, which includes Rs. 746 crores of what we saw as provision towards advances and the balances towards the investment activity.

We have not dipped into any of the COVID provisions which we made in quarter four last year and largely in quarter one of this year. We end with a total COVID provision of Rs. 1,279 crores which is roughly about 0.6% of our overall advances.

If you look at the credit cost without the COVID provisions, this year we would end with a total credit cost of 84 bps as against 67 bps for the period last year, which is without the COVID provisions again. Our total provisions which we look at, which is including specifics, standard, COVID and all of that, would cover about 95% of our overall gross non-performing assets as of

March 2021. Advances for the year have grown by 1.8%, but during this quarter we have seen advances grow by 4.5%, not annualized.

I would request Shanti to take the digital slides before we get into the consolidated numbers, please.

Shanti Ekambaram:

Thank you, Jaimin. I will start with our digital strategy and then the consumer bank. Our digital strategy is centered around customers with key focus on customer acquisition, engagement and experience.

Let me start with Acquisitions.:

Till the previous year, our main engine for digital customer acquisition was 811 and savings proposition, including through video KYC. This year, we have invested and focused on powering other engines of customer acquisitions in payments, lending and investments, thus enabling multiple customer engines. We will continue to power and add additional engines in future.

To ensure a strong engagement platform, we invested in upgrading all our core systems this year, including assets, core banking, trade, cash, amongst others. With the foundation in place, we have used extensive analytics to deepen our engagement with our customers, including cross-sell of products and services based on customer persona propensity, as well as focus on risk control function towards protecting customers. We have worked on extraction of APIs from our upgraded core systems to help us in faster product rollout, innovation and ecosystem connect through open banking platform. We have used APIs to integrate with external partners to enrich our customer proposition.

The third leg of our strategy is customer experience where we have invested on enhancing front-end customer journeys across our product platforms, as well as build resiliency at our core and back end to ensure superior experience and scalability. We will continue to invest and build around these core digital business strategy. And this is across retail, commercial and wholesale.

So, few highlights from the digital side:

We continue to see a surge in customers using of digital channels, with mobile being the preferred channel. We launched our revamped net banking platform, providing customers with the choice of two interfaces. We enabled several new digital journeys to help customers transact with us across liabilities, assets, payments and services. On the service side, we have scaled capabilities to serve our customers across voice and chatbots, WhatsApp banking and other forums. 811 customers continue to use our digital channels extensively across within the products and services. Digital payments to UPI continues to see a surge in both customers and merchant's transactions. 94% of savings account transactions were through digital or non-branch mode this year.

Now to Liabilities:

Q4 was near normal across the branch banking network, in-branch transactions have seen consistent increase, cash transactions continue to grow spurred by business banking. Our average savings deposit growth YTD Y-o-Y is 27%, and current accounts 17%. The focus has been on granular customer growth. Our acquisition saw a growth during the quarter across physical and digital channels. We continued to use the 811 platform for significant acquisition through digital savings account.

Our CASA ratio, as Jaimin said, was at 60.4% as at March 2021 versus 56.2% last year. CASA & TDs below Rs. 5 crores comprised 91% of the quarter versus 86% in Q4 last year. Sweep deposits comprised 7.5% versus 6.6% in Q4 last year, and the cost of savings is at 3.74% this quarter, versus 5.23% in Q4 last year. Our asset, cross-sell and distribution fee income showed strong growth in this quarter. We continue usage of analytics and CRM platform to penetrate and deepen our customers. Digital adoption by all segments of our customers have continued to surge.

Moving on to Consumer Assets:

Mortgage and home loans- We continued our strategy on focusing on home loans. We ensure that customers got access to home loans at the right price, which made home loan buying easier for them. We announced competitive rates of 6.65% in March, making us one of the lowest priced players in this segment. Our consistent focus on improving customer TATs and right pricing has helped us grow aggressively in this field. We had our best ever month in March where we did almost 3x of our pre COVID monthly originations. We focused on penetrating the salaried segment which showed significant growth in this quarter as well. Home loans will continue to be a very big area of focus for us. LAP, February and March were our best ever months in LAP too. This has traditionally been an area where we have done well, both in terms of market share and credit quality and we will continue to consolidate and grow our share. We made many digital journeys in the mortgages side, which has helped us acquire customers through this digital mode.

MSME Working Capital -In keeping with economic revival, we saw demand pickup across certain segments like exports, auto ancillaries, light engineering and even some impacted segments like textiles. Utilization and cash flow improved as well as the demand for some capex. Our new acquisitions have grown month-on-month, we will continue our focus on building a quality franchise in this important MSME sector.

Turning to Unsecured lending, - Credit Cards - Both spends and new acquisition bounced back in credit cards in this quarter. We have been focusing on strengthening our technology back-end in cards. In the month of March, we successfully completed migration of our existing Vision Plus platform to the latest upgraded platform, this has helped us access a large stack of APIs which we are currently needing for innovation and enriching our products offerings.

Personal Loans- We saw month-on-month growth in volumes in this quarter, and in March we were back to 80%, 85% of our pre-COVID levels.

Consumer Finance- This business has made strategic strides in the last two quarters in the online and offline distribution. With deep analytics, end-to-end digital journey and curated risk models this business has grown in the fourth quarter. We will continue to build this business as we get into the next year.

Collections- Last quarters of both bounce rates and resolutions pretty much back to pre-COVID levels across products. We continue to invest in technology, analytics and capacity enhancements to grow our consumer assets businesses, which will continue to be the focus next year.

I now request Kannan to take you through the commercial banking highlight.

D. Kannan:

Thank you, Shanti. I will begin with the CV business first. Commercial vehicle sales in quarter four have been better than quarter three of FY 2021, though they have been lower by around 20% for the entire year. Our disbursements during the quarter have been higher than the previous quarter. Capacity utilization in the goods segment continue to be good in quarter four. However, current wave of COVID localized shutdowns in various states, utilization may get impacted in the near-term. Passenger vehicle sales continues to be impacted as most of the vehicles in this segment are off the road. It may take some more time for this segment to show some improvement. Collection efficiency for the commercial vehicle business as a whole has improved during the previous quarter, and they have been as good as pre-COVID times. But the current wave, though, can impact collections in the near-term.

Demand for construction equipment continued to be worked during the quarter four, driven by government infrastructure projects. Our disbursements during the quarter has been higher than the previous quarter. Customer cash flows have been good in the segment and collection efficiency during the quarter has improved over the previous quarter and is back to pre-COVID levels. Localized lockdowns in the current COVID wave, may impact activity in this segment in the short-term.

Demand for credit in our Agri SME segment continues to be good, driven by improved levels of activities and consumer demand for essential commodities. Cash flows of customers during the quarter four was good and our collection efficiencies were normal. Predictions of a normal monsoon is a positive for this segment of the business.

Microfinance disbursements and collections were normal in quarter four, both collections and new disbursements have been impacted in the month of April.

Tractor volume grew 26% during FY 2021, our growth in disbursements is better than industry growth. A good harvest has ensured good rural cash flows and this, in turn, has ensured our collections during the quarter was good and collection efficiencies were near normal.

We will have to wait and just absorb what is going to happen in the light of recent developments in these markets. I now hand it over to Manian to take it forward.

KVS Manian:

Thanks Kannan. On the corporate side of the business, as we discussed last quarter, we of course remained cautious in the first four-five months of this year, but then the trend turned around and we did build a book from its lows in the month of July-August, and we build it till December. In the last quarter, of course we saw extremely high pressure on pricing and the pricing was essentially unsustainable kind of level where we think after building our PSL cost, it was not viable to be building that book to give us the right risk adjusted returns. So, if you broadly look, if you add the credit substitutes and the corporate banking book, we have maintained a flattish book in the last quarter.

On the SME side, of course, like I said last time as well, I think we are beginning to see good traction, both in terms of NTB as well as in the growth of the book therefore, and the book did grow in the last quarter. However, the utilization levels in this book continued to remain low, which of course is positive from the quality of the book perspective, but from the growth perspective we are not yet seeing the benefit of higher utilization.

So, of course, we continued to focus on our customer level wallet share of the more profitable products out of the customer wallet, and therefore, our focus on transaction banking continued to remain good. Throughout the year, the CA remained robust, the growth in current accounts remained robust. The foreign exchange business after a poor first quarter when, of course, all activity was at a standstill, picked up and continued to do well all through the next three quarters. We were in fact able to improve our pricing on transaction banking products and non-fund-based products.

Our focus also on building a wholesome corporate franchise continued and it continued throughout the year. DCM, Debt Capital Markets had a record year. In fact, we almost had no underwritten book left in our books, we were able to sell down almost every transaction we did in the year, and we recorded record revenues in the year. And our efforts to synergize various businesses across the group on the corporate franchise also continued to be extremely good throughout the year.

Of course, the biggest story, was the asset quality. The overall corporate as a segment retained very good resilience throughout the COVID-1, we will watch the COVID-2 carefully. But, if you really look at the credit cost, they are probably lower in a COVID year compared to even normal years. And even segments like CRE and SME continued to show great resilience and our portfolio held up quite well. We think our portfolio stands up well in the current circumstances, of course, the new COVID situation, we will keep watching it as it evolves. But right now, we are quite happy with our credit quality in this book. Of course, because of all of this, we have been able to maintain a healthy ROE on this business and also post a reasonable growth in profits.

The other thing we are focusing on, which we have focused on in this year and will continue to focus through the next 12 to 18 months is upgradation of technology in business. I think both in terms of internal efficiencies as well as improving customer proposition, there is a lot that is possible, and we want to be ahead of the curve on this.

If you look at the sectors, we did raise our exposure on the NBFC sector, we did get comfortable in this sector, though a significant part of that increase was also in the housing finance sector, which we are comfortable, the sector has held up quite well on asset quality and we are quite comfortable. And our exposure is, the increase is coming out of really high rated, very, very high quality HFCs.

CRE if you notice, our exposure has actually slightly moderated. And LRD, in fact, LRD is one product where we think, of course, they are very, very finely priced, it's a very finely priced product and therefore in some parts of LRD, which is essentially commercial space, office or retail, I think we are cautious on what will happen to some of this rationalization of office spaces and retail space rents. And therefore, we have been cautious, and you can see our exposure has dropped in this sector.

Just quickly I will cover also the Kotak Mahindra Capital Company position. Because as I said, our effort is to develop a corporate franchise which is more holistic. So, a corporate bank, investment bank, DCM and institutional equities are all part of that franchise. And we have a unique franchise when we synergize all of them together. So, of course, the Kotak Mahindra Capital Company did extremely well on the ECM side of the business. It was a record year again on the ECM business. We did several marquee mandates, as you can see, and we continue to maintain dominant share and franchise in that business. And in fact, most of our issues that we did, almost all of them have also delivered post-listing performances which are excellent.

However, of course, the advisory revenues were slightly muted, not only for us but overall, in the industry it was muted. While we have a great pipeline, we expect to get closure on some of these advisory mandates in the coming year, and therefore we remain optimistic about the future revenues in this business. Overall, this franchise is doing extremely well, and we maintained our market leading position in this business.

May I now hand it over back to Jaimin.

Jaimin Bhatt:

Thanks, Manian. If I come to the consolidated numbers. We end this financial year, March 2021, with a post-tax profit at the group level of Rs. 9,990 crores, which is about 16% higher than what we did in FY 2020. For this quarter, we ended the period with Rs. 2,589 crores, which is about 36% higher than what we did in quarter four last year.

The non-banking entities contributed 35% of the total profit, by non-banking I mean everything other than the bank, the subsidiaries and associates put together, brought in 35% of our post-tax profits.

Of the entities which contributed to other than the bank, Kotak Securities brought in Rs. 241 crores this quarter, which is almost 50% higher than what they had done Rs. 163 crores in the same period last year. We also ended the year with a profit of Rs. 793 crores as against Rs. 550 crores.

The Life Insurance Company brought in Rs. 193 crores of post-tax profit at the shareholder level in quarter four, as against Rs. 165 crores last year.

Kotak Prime brought in Rs. 184 crores as against Rs. 161 crores, and Kotak Investments Rs. 73 crores against Rs. 77 crores. Both these, again, like the bank, took the pain of the interest-on-interest reversals, both in Kotak Prime and Kotak Investments. And again, like in the bank, we have not dipped into the COVID provisions which we had created last year and early part of this year in either of these two NBFCs.

The mutual fund business, which is both the management company and the trustee company together, got in Rs. 100 crores of profits this quarter and Rs. 346 crores for the year as a whole.

The international companies contributed Rs. 50 crores of post-tax profit for this quarter as against Rs. 30 crores for the fourth quarter last year.

At the overall level, the advances at the group level at Rs. 252,000 crores and customer assets at Rs. 268,000 crores, which is about 4.8% higher than what we did a year ago. At the group level, our net interest margin at 4.45% for this quarter and a GNPA level of 3.22% gross and net at 1.23% for this quarter. If I compare this with the immediately preceding quarter, these were 3.31% and 1.32% respectively.

Having a healthy capital adequacy ratio at the group level too, 23.39% overall, with a Tier-1 itself of 22.65%. Our capital and reserves at the group level now at Rs. 84,836 crores, almost all our subsidiaries are pretty well capitalized and servicing their growth of business on their own.

Our book value per share now as we end the year is at Rs. 426 per share.

I will request Gaurang to take you through the insurance highlights please.

Gaurang Shah:

Yes, thank you, Jaimin. And let me first take you through a management change at Kotak Life Insurance. Mr. G Murlidhar, who was our Managing Director for last 10 years, superannuated on 30th April 2021. And we have appointed Mahesh Balasubramanian as a new Managing Director. Mahesh has been in Kotak for last 15 years and his immediate prior assignment was the Managing Director of Kotak General Insurance business.

Let me first, in terms of performance, take you through the embedded value, which is the Indian embedded value, IEV, which grew by 17.7% to Rs. 9,869 crores. It is backed by a value of new business of Rs. 691 crores during the year 2021, with a margin of 28.6%. As you all know, margin is basically a function of product mix which has been very balanced for us in terms of ULIP and traditional plans, and within traditional plan between participating and non-participating products.

It is also important to highlight that the share of risk premium, be it at individual or at a group level, as a percentage of total premium was 26.6% during the year. On quality parameters, if you look at our persistency, on the five data point, between 13th month to 61st month, I think we

were leading the industry in first four, which is between 13th and 48th month, and which gives us a very strong conservation ratio of 85%.

If you look at in terms of the performance of immediate quarter and for the whole year, our profitability improved by 17% in Q4 from Rs. 163 crores to Rs. 193 crores, and for the entire year at 14% at Rs. 692 crores. If you look at our net worth, it crossed Rs. 4,000 crores and giving a very strong capital adequacy of 2.9 percent.

In Q4 2021, the APE grew from Rs. 600 crores to Rs. 827 crores, giving a growth rate of 37.8%. The group business also improved in the last quarter by 48.9%. Our individual renewal premium grew in the fourth quarter at 8.5%, but for the entire year it was at 11.8%. AUM of policyholder grew by 34.2% to Rs. 43,000 crores. And individual protection share at individual level grew from 4.8% to 5.8% year-on-year.

Now, let me take you through our digitization efforts. I think our digitization effort last few years has been focused more on empowering distribution, energizing employees and superior customer experience. The entire post COVID-19 scenario actually, in fact, helped us in terms of accelerating the entire process. Our digital onboarding of customers through Genie is nearly completed 95%.

We also introduced an app for our advisors, which is called Boost, and which helps the advisor in terms of improving their efficiency. And the utilization in the first year moved up to nearly 50% to 60%. In terms of recruitment, because that has been a very critical activity in terms of our agency, we completely introduced a new platform for onboarding the advisors. And you may know that we are one of the top three recruiters of advisors in the agency business.

In terms of superior customer service, now Digipro which we launched in Q4 2021, which is nothing but integrating entire journey of the customer onboarding, and now it is completely paperless digital customer onboarding, backed by video calling for verification and also using the digital liveness check and face mesh technology.

In a group business, is which is very critical in current times, we have introduced Insta-Claims, and 60% of our claims today are getting settled in two days, which is very critical in this environment. Digital servicing channels which are normal things like on the chatbot and all that will continue to see higher traffic.

Now I hand over to Jaideep for taking the presentation forward.

Jaideep Hansraj:

Thank you, Gaurang. Hello everyone and good evening, I am here to talk on the Kotak Securities numbers. For the quarter ended March 2021, Kotak Securities achieved a total income of Rs. 570 crores. This is compared to Rs. 470 crores in the previous quarter and Rs. 462 crores for the quarter ended March 2020. The total income for FY 2021 now stands at Rs. 2020 crores versus Rs. 1,690 crores for FY 2020.

Profit before tax for this quarter is Rs. 321 crores compared to Rs. 245 crores of the previous quarter and Rs. 218 crores for the quarter ended March of 2020. PBT for the full year thus is Rs. 1,057 crores versus Rs. 738 crores for the full year FY 2020. PAT for this quarter is at Rs. 241 crores as compared to Rs. 184 crores in the previous quarter ended 31-12-2020 and compared with Rs. 163 crores for the quarter ended 31-3-2020. PAT for the full year now is Rs. 793 crores versus Rs. 550 crores for the year ended March 2020.

Our market share in the cash segment for FY 2021 is 9.3% and our overall market share, including futures and options for this quarter, is 2.2%. The market volumes over the last 12 months have been phenomenally high for the whole of last year actually. The average daily volumes calculated for the market have been Rs. 22,47,000 crores for this quarter compared to close to Rs. 17 lakh crores for the previous quarter, and Rs. 10,59,000 crores for the corresponding quarter last year. The jump is more than 2x in the last one year.

Kotak Securities did an average market volume daily of Rs. 49,256 crores this quarter, compared to Rs. 33,793 crores last quarter and Rs. 25,603 crores for the corresponding period last year.

I would also like to highlight some of the digital updates which Kotak Securities has taken last year. The trade free plan was launched in October November last year, which is one of the cheapest plans in the industry for derivative and intraday traders. The DIY or the Do-It-Yourself account opening was again launched somewhere around the same time, where a customer now can open his trading account fully digitally and start trading in 60 minutes flat.

The new mobile app launched of Kotak Securities is built on the latest technologies stack with faster speed, improved features and enhanced product offerings. The new direct mutual fund platform also launched, which enables clients to invest in mutual funds through the direct route, at a far lower expense ratio. The platform to invest in the U.S. and global equities was also launched in the middle of last year. For the last quarter, close to 93% of accounts were opened digitally by Kotak Securities.

Thank you friends. With this, I would hand over to Kannan to talk on the vehicle financing business.

D. Kannan:

Kotak Mahindra Prime had a profit after tax of Rs. 184 crores this quarter as compared to Rs. 149 crores in the previous quarter. Profit after tax up Rs. 535 crores for the entire year. Disbursements during the quarter has been higher as compared to the previous quarter, as well as the same quarter last year. Demand for cars continued to be good and amid supply constraints. The current wave can impact demand in the near-term, but it is expected to stabilize soon thereafter, due to an increased preference for personal mobility. Placement margins during the quarter has been good. And collection efficiency in quarter four was as good as pre COVID times.

I will now hand it over to Nilesh to speak about the asset management business.

Nilesh Shah: Our total AUM grew by 26% year-on-year to Rs. 2,34,798 crores at the end of FY 2021. Our equity assets under management grew by 25% year-on-year to Rs. 97,997 crores. Our total AUM market share increased by 40 basis points to 7.3%. This performance reflected in our profit after tax growth of 14% year-on-year to touch Rs. 100 crores.

For the full year of FY 2021, our total assets under management grew by 17% year-on-year. Our equity assets grew by 13% year-on-year, and profit after tax grew by 3% year-on-year. We recorded positive equity sales in FY 2021, even though mutual fund industry registered negative equity sales in FY 2021. Our SIP market share continued to rise in terms of volume as well as value throughout FY 2021.

Our asset management across mutual funds, insurance, alternate PMS and offshore grew by 43% year-on-year to Rs. 3,23,762 crores. Relationship value of our wealth, priority and investment advisory business grew by 41% year-on-year to Rs. 3,82,000 crores.

I will hand it over to Jaimin Bhatt to take this forward.

Jaimin Bhatt: Thank you, Nilesh. We should be willing to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Adarsh Parasrampurua from CLSA. Please go ahead.

Adarsh Parasrampurua: Hi, Uday, two questions, first is on the transition. There is a roadmap till December 2023, post that you will have a management change requirement basis one the RBI has come out with. Any comments you would like to make on what the RBI has put out transition plan? I know it's quite far, but just wanted to get your comments on that.

Uday Kotak: Thank you. Let me first say that as things stand today, the current term which has been approved by the RBI is up to December -31-2023. Let me assure you that the bank and the board are fully aware of the situation and I would like to assure you and all stakeholders that the institution is committed to long-term institution building and shareholder value. And all the steps which the bank will take will be consistent with ensuring of continuity of the growth in shareholder value and stakeholder value as we go forward. I would also like to wear my hat also as a promoter family and shareholder to say that we are committed long-term shareholders and just wanted to say that we will continue to be long-term shareholders as we see this particular bank and institution. We will take whatever are the necessary steps as we go forward. And rest assured, both from the point of view of the bank as an institution, and us, that is me and my family as significant shareholders, we are committed to continuing long-term value for all the shareholders of the institution.

Adarsh Parasrampurua: Got it. And second question is more to do with little more two, three-year view about the ability and willingness to grow. So, I think over the last two, three years, our cost of funds have come down. We have been more than willing, and we can see that in numbers, the growth coming in mortgages, the cost of funds have been low. You today spoke about that you can at some point

do cards because you have a liability base as well. So, just wanted to understand where we stand today both in terms of cost of funds and OPEX. And from a year two-year perspective what segments, like mortgage you have articulated a couple of quarters' back, from an ability and willingness perspective, today I believe we could do everything, willingness will be in different shades, so how does that change over the course of the next 12 months?

Uday Kotak:

So, we have to really look at the call which we had as a management in the month of October, when we signaled significant clear focus on assets as a strategic area for growth. And post that if you look at the quarter January to March and look at our growth rate on an annualized basis, it is 18% per annum, which is 4.5% per quarter. Within that, if you see, the mix at this stage of the cycle has been much more the secured piece relative to the unsecured piece. I would like to share with you here that we are significantly building up our IT and digital capacity and capability in this period. And we actually believe that we will fly through the clouds without being scared necessarily of what is happening disproportionately around us because we have confidence in our underwriting ability. And we see this as an opportunity from a business point of view to actually gain share, certainly in the secured piece, but we are also beginning to smell more opportunity in the unsecured piece with significantly lower baggage which we carry and having a significant amount of powder dry. We are therefore not necessarily at this stage taking a view that this COVID 2.0 is something which is going to change our view at this stage. Of course, we will watch the situation carefully as I said right at the beginning. Our current view is, and I hope we are right for all our sake that this is a sharp spike up, but like what you saw in the UK, there could be a sharp drop by June or July in terms of the new cases. Therefore, in terms of protecting lives, we do everything we can in the short-term. But in the medium-term, we are not changing strategy with reference to our strategy on asset growth, secured, and even unsecured. We are actually believing that this could be a bigger opportunity, thanks to COVID 2.0. Having said that, we are very clear that we will not let our guard drop and certainly factor in potential risk of COVID 3.0. We will also monitor the vaccination progress and the efficacy of vaccination in terms of infection and morbidity. Therefore, a lot of our evaluation will parallelly look at the reality of COVID even as we move forward, flying through the clouds. I hope this gives you a sense about how we are thinking about the future as a significant opportunity while not letting our guard down.

Moderator:

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

Rahul Jain:

A couple of questions actually. First of all, the housekeeping stuff. Can I know the slippages at the standalone level for this quarter as well as previous quarter please?

Jaimin Bhatt:

Rahul, actually previous quarter you are aware about the Supreme Court and all of that. So, there was no NPA which was kind of declared for the quarter at all. So, that's previous quarter not relevant. So, if you then look at for the full year this year, we have about 5,400 crores as against about Rs.3,400 crores full year last year. This half year we would have taken about Rs.4,400-odd crores.

- Rahul Jain:** Jaimin, can you also share the write-off numbers during this quarter and second half?
- Jaimin Bhatt:** So, second half would be about Rs.530-odd crores, just under Rs.500 crores has been this quarter.
- Rahul Jain:** And this would predominantly be unsecured I presume, right, cards and PL, etc.?
- Jaimin Bhatt:** Large part, yes.
- Rahul Jain:** The other question is this provision for investments that we have made Rs.400-odd crores, what exactly is this, it was pretty lumpy?
- Jaimin Bhatt:** It is both on investments as well as it would include an amount of provision on security receipts which we carry. So, it is the treasury investment book as well as the security receipts, both of them are included.
- Rahul Jain:** So, treasury will be mark-to-market and SR will be realized losses
- Jaimin Bhatt:** Not realized losses. They are provisions
- Rahul Jain:** The other is bit of a strategic question going forward. So, you talked about the ambition to grow, etc., but COVID 2.0 of course has been unprecedented. Any stress test that we have done so far, what could be any impact because nobody knows how this episode plays out, and might be too early for you all as well? And at the same time, last time when the RBI and the government did roll out ECGLS there was a moratorium given and restructuring was also allowed, do you think this time around also we may need some of those measures?
- Uday Kotak:** I think it's very important strategic view about how all this will play out. Rahul, here is my sense on the stress. If you look at our book and the credit cost without considering COVID provision for the full year, it is 84 basis points versus 67 basis points of last year. Now, out of that, if you look at it, the bulk of it, actually, a lot of credit cost has come in Q4. Why has it come in Q4? The moratorium period was from 1st March till 1st September. Therefore, potentially weaker accounts in the moratorium period went into some sort of an NPA. If assuming there was no Supreme Court stay, lot of it would have gone into NPA in Q3 of December. However, the way we provide provisioning particularly for our retail side is very aggressive provisioning by 180-days. So, a lot of that provisioning on the retail side which we do it as sort of almost like a formula takes the bulk of the provisioning pain on that book in 180-days. Now 180-days gets over post September 1, a lot of it got over in February and March. And that led to a higher formula provisioning which you can see in terms of our higher provisioning non-COVID in Q4 versus Q3. If you look at the numbers in the P&L and look at the non covid provisioning Q4 is a number which is higher than Q3. On specific if you look at Q3, the provision on advances was Rs.461 crores, the provision on advances in Q4 is Rs.745 crores. A lot of it is flow through of the moratorium book and the 180-day period getting hit where we take a sharp jump in provisioning, for example, on commercial vehicles, we provide on a truck 100% provisioning at the end of 180-days as long as it is retail below a certain amount in rupees crores. At the end of

90-days the provisioning is relatively lower. So, 90 to 180 days we do a scale up in provisioning which is what has hit higher in the Q4. Despite that if I take the full year average, we are 84 basis points versus 67. And that gives us a reasonable confidence to us in the quality of our book. Of course, COVID 2.0, what it does to the corporate side? I hope it doesn't do damage. But what has been extremely enthralling for us is that any corporate which has had the ability of raising capital, including stressed sector corporates, they have the ability to withstand the shock much better than the non-corporates. The corporate book has held up remarkably well. The ECLGS book we actually believe has done well and I'm very comfortable with it. And also keep in mind that is guaranteed by the Government of India, the incremental book which we have got. And some of it has also helped us keep many of those accounts, able to continue and function as they are. But at this stage, we have got significant comfort in the quality of our book and we believe actually it's a great strength which we have to be able to take the shock at just keeping in mind 84 basis points as the cost in a COVID year. Moving to the specific point you asked that what does it mean from a stress testing point of view? COVID 2.0 is a question which we have to ask, is it a short one or is it a prolonged one or there is 3.0 coming in September? Those are the questions which we need to have good answers too. However, what I personally believe... and this is something I genuinely feel that if there is stress on the book of a bank or a financial institution, the answer is that financial institution has to take a judgment call, that is my borrower in a position to be better off if I restructured his account and gave him a little longer time to pay. And while I restructure his account, I must provide and take the pain upfront. I do not subscribe to this theory that I will restructure accounts for borrowers only if the regulator gives me some dispensation. My decision on my borrower's ability to repay, if I gave him a little more time, should be based on the facts of the case, not whether the RBI gives me more time on that restructuring and therefore I provide lower. Provisioning in my view has to be a must, because the shock of the system must be taken on the chin. And the answer for financial institutions is not relaxation by the regulator or forbearance by the regulator, but the answer is capital, capital, capital. The capital has to be a shock absorption for the stress of the book and restructuring has to be done based on assessment of the ability of the borrower to pay if you give more time. And that has to be the basis of strategy for financial institutions rather than waiting for doles from regulators for forbearance.

Rahul Jain:

One more question about the inorganic opportunity, right. Now, we have created a fantastic liability side franchise. On the asset side, while it started growing, but still seems like at the early stages. From the inorganic side, you talked about cards, etc.. Any other asset segment that comes to your mind which, because I guess, the acquisition, if at all, would be more determined by what the value proposition getting on the asset side and on the customer side, right. So, how are you thinking about on that front because, again, if I were to just superimpose the big picture view, consolidation needs to have begun and you definitely have an upper hand in that process?

Uday Kotak:

I think the answer to consolidation is clear. What we look out for is customers and capabilities, not physical branches. When I say I have 1600 branches, I think it would be a liability if I had 10,000 branches. And that's very clear because I think the digital and technology change is going to make the density of branch network requirements more even for current account customers, for savings account customers as Shanti shared with you 94% of the transactions have moved

outside the branches. So, we are seeing a whole new world where you're buying into franchisees with customer ownership and strength in certain product areas and that's what we have to be open for. I just wanted to say that we are very open for organic growth and inorganic growth, we are open for business as long as it makes sense, but we are patient, I mean, it took us a long time, which we worked and prepared on before we acquired India's largest private sector banking merger which is ING Vysya Bank into Kotak. But when we did it, we did it with a lot of thinking and deep analysis and high focus on execution. We are looking, but we are very clear what we want, what is the value proposition and how we will execute.

Moderator: Thank you. Next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: First, on the promoter CEO question, just wanted more clarification. So, Uday, would you look at it one year before the tenure expiring with the NRC looking at possible candidates or how will this work?

Uday Kotak: Suresh, we are two years, eight months from that day. At what level, it depends, it's like a classic, "Is the glass half empty or half full?" So, the current approval from RBI is two years, eight months. Let me assure you, it goes back to the point I say we do think long-term, we think strategic, we evaluate all options. And whatever we do, we will do it in the long-term interests of all our shareholders, and this is deep DNA and commitment from the institution and it is a similar view, which the promoter shareholders have which is long-term view towards their investment in this institution which promoters deeply care about.

Suresh Ganapathy: Just a technical clarification, Uday, on this? Mr. Dipak Gupta's tenure if I were to count as a 15-year-old time director ends on what date?

Uday Kotak: Mr. Dipak Gupta and I, both our tenures on end on the same day, 31st, December 2023.

Suresh Ganapathy: Fifteen year as a whole-time director, right?

Uday Kotak: No, no, no. I'm talking about the current two tenures. We have letters in writing that our current tenure is up to the current approval from RBI, December 31, 2023.

Suresh Ganapathy: Last question is on mortgages. Of course, this looks like a margin dilutive product considering that you're giving ...of course, the lowest rate is 6.6. But compared to many other products, obviously, this look like margin dilutive and perhaps it may look negative on overall company margin perspective. But how do you look at it from a product profitability perspective? Do you think mortgage can give you a similar ROE as compared to that as an SME or commercial banking or say any personal loan, just curious because it should not be ROA or ROE dilutive, right, Uday, so just wanted to understand that?

Uday Kotak: I think a very, very, very fair question. Let me first tell you what we believe. We believe residential mortgage is a centerpiece for a customer relationship. And it gives us a hook into a customer long term around which we can do many, many things. Therefore, mortgage itself is a

very important product to consolidate a relationship. Suresh, I don't have to tell you the story of Otis Elevators no. The money is on the maintenance. So, having said that, I would also like to mention one other point. COVID has transformed the importance of the home in the life of every consumer. And that is something which we are also keeping, and we are going to go relentlessly at building the mortgage business even as we build other businesses around it. And simultaneously with the cost of funds provisioning we have and continuing improvement in our cost of funds is a factor which is also an important point as we come far more competitive in a highly secured long-term product. We are not averse to unsecured products, but we believe the anchor product for us is home mortgage or a secured, co-secured loan. That does not stop us from building SME working capital, we will do all that. Let me also, Suresh, give a little perspective on our approach and long-term orientedness. We went out with savings deposit first off the block post opening up in 2011. Our CASA ratio was probably very, very low because we were a relatively newer bank. And we were relentless from that level to today to build our savings products and our CASA products to now over 60.4%. Therefore, in the bargain over the years, many-many analysts asked, Uday, why are you guys wasting so much money on your SA acquisition, it would have cost the firm 1000s of crores of higher SA we would have paid compared to many of our competitors. But 10-years later, we believe that strategy has been vindicated. Our approach to any product, including a mortgage product is medium to long term. We will go relentlessly at building it. And along with it, all the other paraphernalia which we think will come along with it both on the asset side and transaction side. And that is how we think about it, we do not think for the next quarter, half year, one year. Pursuit of mortgages is a core part of our strategy going forward.

Suresh Ganapathy: Sorry, just a follow up, I hope there is a controlled aggression, because we do see a lot of that, I am getting cold calls for balance transfers, I hope all the checks and balances are in place when you are going about doing business, because it is done really well in the last couple of quarters and I hope there is no adverse selection of assets in a pandemic environment, right?

Uday Kotak: You're absolutely right, we have to be careful about it. And if you pick up any signs of that, please give Jaimin or me or Shanti a shout and we will attend to it straight away.

Moderator: The next question is from the line of Sayantan Bhowmick from PineBridge Investments. Please go ahead.

Sayantan Bhowmick: My first question is a data keeping question. Just wanted to know the total customer franchise of the bank and how many customers we've added over the last year and if you could also compare it with customer acquisition in FY'20? That's the first question. Second question is thank you for elaborating on the various steps we are taking to ensure our employees are safe. If you could also highlight what the bank is doing to support the communities during this period of time?

Uday Kotak: Okay, I will take the second one first and then I will ask Jaimin or Shanti to talk about the customer acquisition. On what we are doing for the community, I'm happy to report to you that we have completed a full CSR of 2% this year between the amount of money we have actually

spent, or projects we have identified and which we have put in our CSR escrow account, that is full spend of two percentage points from a number which last year was less than 1%. And I wanted my colleague, Dipak Gupta who had run it with passion to talk about what we have done on CSR in the current year, and thereafter, between Jaimin and Shanti on the customer acquisition Dipak.

Dipak Gupta:

This year unlike last year the activity has primarily been on the health side and the livelihood side, these are the two ones which were really pained events in the marketplace and all our resources we really put on them. And it's really spread wide and distributed widely across the country. So, right from the simplest of them, that is, distributing the masks, the PPEs, the ventilators, the oxygen concentrators, those are the elementary one, right up to trying to support setting up hospitals, and private primary health care centers. So, it is primarily being on health side as well. And I think, looking ahead, given the way COVID 2.0 is going, I think that part of the activity will be the predominant one in this current year. Apart from that, like I said, last year, we also played a large part on livelihood. Basically, what we found really is a lot of workers, particularly in the unorganized sector or even for the organized sector the temporary or part time staff were being shunted out and sent back. We ran a very interesting program for a couple of months really towards the end of COVID-1 where we paid them a part of their monthly salary payments, so that at least their basic needs are met for basic sustenance as well. And like I said, going forward this year, we see a lot of that being necessary to continue.

Dipak Gupta

Well, roughly, we are adding about half a million customers every month really.

Shanti Ekambaram:

I will just broadly add to what Dipak said which is across largely on the liabilities but if I take liability, assets and you wanted the YoY number I will revert, but that's about the number you can take across digital, physical, every channel that we do.

Uday Kotak:

So about five lakh customers a month, give or take.

Moderator:

Thank you. The next question is from the line of Saurabh from JP Morgan. Please go ahead.

Saurabh:

Sir, just one question on the corporate banking piece. So, we are seeing your bigger peer group is actually growing by double digits and different pricing pressure will be there for them as well and your cost of funds is actually competitive versus them. So, how are you thinking about the piece for next year?

Uday Kotak:

I will get Manian to answer this, but before that, let me give you some reality check. Today, if I had overnight surplus as a bank, I have the ability of putting money with the RBI in reverse repo at 3.35%. Then, if I wanted to take a little tenor on a risk-free basis, and assuming I went for a six-month treasury bill, I would get somewhere between 3.5% and 3.6%. And against that, a lot of short-term corporate lending to the top end customers and Manian will confirm this, is going at 4% today, top end corporates 90-days. Now, if you take 4% lending rate for 90-days assuming it is crossing any quarter, there is a priority sector lending obligation which includes not only 40% priority sector but also includes agriculture and micro. The annualized effective cost of that

is anywhere between 40 to 60 basis points on the margin. And on top of it whatever it is worth you're taking a credit exposure using capital. So, whether we do it some deal at 4%, 4.1%, that's great, I can do a very large book of Rs.5,000 crores to a corporate if I do 3.9%. But on a relative value add basis, is it adding value. Today, a foreign exchange swap is giving me higher return which means if I convert rupee to dollars and do a swap, the return on the swap is higher than 3.8%, 3.9% for a similar period. Therefore, I am asking the question that are we in the business of purchasing loans and advances to show loan growth or are we in the business of creating value for our shareholders sustainably. And with that, I will hand over to Manian.

KVS Manian:

If you recall in my commentary earlier, I did mention about the fourth quarter pricing pressures and PSLC costs in my commentary. Uday explained the details of that. Let me put it this way. We have the relationships, we have the access, we have the ability, or we get a look in to every deal that happens in the market or every client that there is a transaction. So, it's not about our ability to source those deals or be in the mix. The issue is whether it is accretive or not from our point of view. In fact, if you recall just a while back, I was making a reference to this exactly that we are extremely focused on our risk adjusted return on capital. And we don't think a 4% transaction at the end of the year crossing a quarter is worth doing given even our cost of funds. So, we have to make the right choices. So, we focus on making sure that we are getting the right revenue wallet share from the client. And as I said, therefore, we have been able to maintain a very healthy ROE in this business and a growth in profits, both we have been able to achieve even during this year. And we feel that is more important and the franchise with the corporate is not necessarily in doing sub optimal price deal. So, we remain focused on profitability.

Saurabh:

And your comment on the SME business, yields are better there, that is just caution right now because again we've seen divergence for you vs the others

KVS Manian:

If you see SME in the last quarter from December to now there is growth clearly and we intend to keep building that. There, the pricing pressures are not as bad as some of the corporates. In fact, there are segments, which are not even high rated, but the pricing is poor in the corporate side, SME is not like that and in SME, we have reasonable comfort on pricing.

Saurabh:

So, fair to assume that SME book at least will start growing?

KVS Manian:

Yes. Of course, COVID year is an aberration, but if you see the medium-term growth in the corporate book, we've been growing in at mid-teens kind of growth rates and in better cycles we can grow that faster and when the pricing affords growing faster. Like I said, it's not about access or ability to get a look into the deal.

Moderator:

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

Kunal Shah:

Sorry, again, to come back on this corporate, the factors which we more or less highlighted with respect to the mortgages be it in terms of the customer acquisition plus consolidating the relationship and looking at more of on medium to longer term business and get competitive?

When do we see we would get to that on the corporate side as well, because maybe it's also getting the corporate relationship trying to consolidate and the way the government is also focused in terms of the investments, shouldn't we tap this opportunity as well, no doubt in the earlier question, it was highlighted, but the comfort which is there on the housing to be equally competitive, that doesn't seem to be reflected on the corporate side, so just want to get the sense on that?

KVS Manian:

So, we don't see our corporate franchise exactly the way you... I mentioned that during my commentary we see our corporate franchise as an integrated franchise of corporate lending, investment banking, DCM, institutional equities, our corporate franchise is quite unique. Actually, there is no other competition which has four legs as strong as we have. So, we don't look at the corporate franchise as just building a book which does not give enough ROE. The way we look at it is whether we are doing more things with the corporate across all these four legs that I talked about. And that's the way we look at it. And we think we are building a fairly unique corporate franchise, which is highly focused on profitability and real value add to the corporate.

Dipak Gupta

In the case of the corporate relationships are all there, the franchise is already deep. In the case of mortgages, we are getting new customers and new relationships. I'm not selling him one more home loan. I'm selling him the first home loan, and hence, other relationships will get built around that. This is where there is an opportunity of deepening expansion and cross-selling. In case of corporate, you name a corporate and we will probably have a fair share of our relationship and business with that corporate. That doesn't mean if we've given him 100 crores, we should go ahead and give him 500 crores, that's the difference.

Kunal Shah:

Two more questions; one is on the net NPAs, no doubt the overall GNPA has also gone up. But where do we want our net NPA to settle, no doubt we have a contingency buffer, but 1.2, 1.3 compared to where it was earlier, we are at 63% coverage, but would there be a plan to inch it up further? And second on this inorganic opportunity side on credit card and Citibank portfolio, if you can comment on that?

Uday Kotak:

On the level of net NPL, we will take a call on the basis of what we think is recoverable on a present value basis. If we believe our loans are recoverable and on a reasonable present value basis, that's how we will value. Finally, a net NPA is a number of what we believe recoverability of the underlying loan. If a particular lender believes the recoverability is low, then you better provide more. If you believe the recoverability is better, you provide accordingly. But it has to be a pretty honest answer about what we think it is. And we believe that our net NPA reflects what we think is the recoverability of that loan on a reasonable present value-based judgment. And that's how we think primarily about net NPA. Because we have been a lot in the distressed asset business, so we know that what is the fair value of a loan, is the present value of the money will collect from that loan at a point of time. And that is the true way you measure the net NPA part of your book. On inorganic, I think we have already made it clear; we are open for business, we are looking at a lot of stuff which comes our way, but we will be focused, and we will be consistent with creating value. I mean, you are aware that we took a long time before we did the

inorganic which I talked about ING Vysya in 2015, we also did the strategic investment in MCX. We are patient, but we are ready to move when we see the opportunity is real. And we have also given you another perspective that today with the changing world, the physical branch network is marginally important compared to the value of customers and products and value specialization which a target may give us.

Kunal Shah: Would that be the perspective in terms of the branch expansion because a few of the other private banks we had seen maybe they are adding on to the branches, but our take has been maybe in terms of the branch additions it has been minimal, so now, would that be the stance that maybe it's not more about physical but...?

Uday Kotak: The primary driver for branch expansion will be current account market and SME markets as a focus and high transaction markets. We will be relatively less excited about opening too many branches around savings account markets if you understand what I mean.

Moderator: Thank you. The next question is from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: I had a question with respect to return ratios over the next two, three years. The bank obviously has a lot of levers; one of them was interest rate, and it was very well executed last year. I had a question with respect to operating leverage. You highlighted how branch with reliability be able to do the work, sourcing incremental business. My question here is, how should we think about cost growth in the next two or three years as we accelerate to 20%, 25% kind of loan growth? Is it fair to expect significant operating leverage? And do you have a three-year cost-to-income ratio in mind?

Uday Kotak: Sumeet, you're absolutely right, there's a significant opportunity for us to increase our operating leverage. You are in the institutional equities business; you know how operating leverage works better than anybody else here. Once your costs are reasonably known and the brokerage revenues go out of the roof, you just get everything straight to the bottom line. Our view is physical will be more measured, it is going to be much more around customer, products, digital experience on a strong technology base. And if at all, we will be spending more money, it's going to be in these areas and we are not going to stop that spend in the short to medium term for really what I think is a significant catch up where our competition may not just be other banks, our competition has to be tech players of the future and present and how they are playing the game and how do we learn from them. I think Indian banks have a unique opportunity that while we continue to be regulated, how do we transform and transcend to be a customer-oriented product tech player. And while we still have the cover of being a regulated bank. And that is the journey we need to do; we need to be ready to spend present for that. But I don't think the spend which we require for something in that area is anywhere near 10,000 physical branches. We clearly see the advantage of operating leverage as we add a lot more products to your base organic or inorganic.

Moderator: Thank you. The next question is from the line of Roshan Chutke from ICICI Prudential Asset Management. Please go ahead.

Roshan Chutke: Firstly, what explains the declining of employee OPEX? Second question is in the investment provisions, what proportion of it is because of the security receipts?

Uday Kotak: Jaimin will answer that question, but on this investment provision, remember, there is other income profit line which has grown and there's an investment provision line. You need to look at both. Also, with some parts of it may be an accounting requirement to show it both as income and provision.

Jaimin Bhatt: What Uday said is right. So, you should look at the fact that there's a spike in the other income also which is treasury related. Of the overall number there in the provision line, the security receipt would be in about 50, 60-odd crores, it's a smaller amount. On the operating expenses, if you look at year-on-year, for the full year the expenses have been lesser. But if you look at the quarter itself, the expenses have picked up as activity levels have picked up. In the first quarter had a lot of savings which we've got. So, for the year, yes, we have spent lesser than what we would have spent for the whole last year. But as we get to fourth quarter is actually caught up and the expenses in this quarter which we've talked about as overall operating expenses, we are higher than both last year and the last quarter. And in fact, some of that was helped by the fact that the employee cost came down, as I mentioned earlier, thanks to the retiral benefits being lower, and of course some of the employee benefit costs are also linked to the stock option appreciation rights which we give out, which also has turned out to be lower...

Roshan Chutke: How much is the declining retiral provision?

Jaimin Bhatt: Retiral provision, if you look at for this quarter versus the previous quarter it is a decent amount, I mean, we had a benefit coming both from the interest rates on pension as well as the fact that the retiral benefits were invested and overall, some of the equity returns rubbed off on the fact that the NAV of the investment portfolio went up. So, if you look at for this year versus for the year last year, there is a decent Rs.200 crores plus of retiral benefits savings. But overall, as I was coming to it on the other operating expenses, while there has been savings on the fact that activity levels in the initial period, Q1 particularly was lower. While this quarter, as I said, the non-employee cost is actually 12% higher than last year. Some of it of course coming from the fact that things like deposit insurance, deposit insurance is linked to the total deposits you have to insure. So, to that extent, that has been a spike. And in addition to that, you would have also seen the rates on DICGC going up by 20% over the last year period. So, those are the costs which have actually gone up. So, me of the areas which we've actually also seen going up is relating to repossession and recoveries as well as things like brokerage which we go out and pay for home loans and others. So, the other expenses we can control. So, it has been a mix. So, don't go by the fact that overall, it has been lesser last year, some of it by activity levels which were lower especially in the initial part.

Moderator: Thank you. We move to the next question from the line of Nilanjan Karfa from Nomura. Please go ahead.

Nilanjan Karfa: Two data questions. Jaimin, if you can take this up. One is the overall ECLGS, if you can split it also between ECLGS-1 and 2? Second on the full year NPL movement, if you can split the slippages of about 5,400 crores between the three buckets of loans that we disclose which is the consumer, the rural and the corporate and if I can also have the write-off number for the full year? And the third, obviously we will talk a lot about savings but if you look at on the year end to year end basis for last five years, we have actually aggregated the least amount of savings in FY'21. How do you look at that? It therefore means that the lowering of rate has probably some impact and therefore, on the contra whenever the economy recovers, it would mean that you will have to also raise rates and get those savings back. Is that how you want to think about it?

Jaimin Bhatt: On the ECLGS overall we have disbursed something like Rs.11,500 crores. So, that is an overall number which we did for the whole year. And it is spread across the ECLGS-1 and 2. And if you look at the overall increase of the assets book on the ECLGS accounts from then, it is much lesser than that Rs.11,500 crores which we had disbursed out. On slippages, I talked about it at about 5,400 crores for this year, versus about 3,400 crores last year. Honestly, we haven't been giving the breakup of what the slippages have been. But overall, I talked about the fact earlier also that you've had slippages increase in the unsecured businesses, which is disproportionate to the overall size of the unsecured book. And you talked about the write-off. I mentioned earlier about the fact that this year we have an overall write-off of about Rs.625 crores as against about Rs.930-odd crores in the previous year.

Shanti Ekambaram: There are three parts to the reasons I see. In the first quarter of last year, our acquisition, NTB got impacted and the value buildup typically happens in Q3 and Q4. Second, actually in the first half of last year, we had a huge buildup of balances and we saw a large amount of investments and consumptions go out in Q3 and Q4, right. And some HNI and large money moved out on account of the interest rate. The combination of all of this is the growth rate that you saw in Q4. As we said, we are back on our acquisition track in Q3, Q4 and you will see the value buildup. These were broadly the reasons that we see.

Nilanjan Karfa: How large is our NRI portfolio, I mean, if you can disclose that?

Jaimin Bhatt: I'll come back to you, Nilanjan, on the NRI overall book.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to the management for closing comments.

Uday Kotak: Thank you very much. This has been a long meeting. It's been one hour forty minutes. These are exceptional times. My view is we really need to take this I think at clearly two levels -- people level and business level. And as we go after the business, we need to once again constantly say that the people level is even more important. And with that, I wish every one of you safety and good health and hopefully, when we meet next time, we will have a much better situation on the

pandemic. Let's pray for that and let's all of us work hard towards making sure that we save lives and save livelihoods. Thank you very much, ladies and gentlemen.

Moderator:

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