Kotak Mahindra Bank Limited
Q1FY24 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Q1FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that the 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 and colleagues. Welcome to you on a wonderful Saturday evening. I know you had a very busy day today. So have we. And I want to really start by sharing with you something which is on the top of my mind. For a long time, I did not believe in the concept of astrology and stars. But when I think about the India situation today, I really feel that the stars have aligned for India to be in an almost wonderful, unbelievable position as it stands today.

And if you look at just the geopolitics of the world, and I'm just keeping my fingers crossed, India can continue down this position. It is unique for us to see the nature and the depth of our relationship with the United States, with Europe, whether it's France, whether it's UK, whether it's Germany, whether in the Middle East, whether it's UAE, whether it's Saudi Arabia, whether it's Israel. Moving farther, whether it's Japan, whether it's Australia, and we have been able to even manage our relationship well in the context of all the geopolitics with Russia.

And in this context, the axis for the new geopolitical dynamics are uniquely positioned in favor of India. And when COVID happened first, many of us were seriously worried about the impact on the Indian economy. India did a reasonably good job in managing itself through the COVID period. When the Russia-Ukraine war happened, we were all very concerned, including on the price of oil and how it would impact India. India navigated itself beautifully through this and actually ensured that our key necessity, which is energy, not only is taken care of, but actually effectively the cost of energy was lower than what it was in the pre-COVID world.

And now the whole relationship with the rest of the world is almost at a stage which I can't recollect having seen in my career over a long period of time. So with this geopolitics which is getting increasingly critical for how the global investors think about India's positioning, you combine it with an extremely benign and I would say positive macro situation on many fronts for India.

Our current account deficit at 1% of GDP, that's what it looks like for the current year. A balance of payments, which is looking very strong, our reserves having crossed USD 600 billion. And over the last many years, we have also been able to get a better handle on some other macro factors like inflation. And to see our current inflation situation to a point where the differential between the Fed rate and RBI's repo rate is now barely about 1% as the differential.

I haven't seen that for a long time in my career. And in that context, we have really moved a long way to a very sound macroeconomic fundamental situation. And I must take this opportunity to compliment our government, policymakers and regulators for really giving India this very, very positive positioning which we are in. And it is in this context, I think both policymakers, governments and practitioners can take a bolder view for India's future. And I think it's a great time to be building and nurturing business in India from a medium term perspective.

And that's how I feel about India the present and feel much more confident and bolder about India's future, and we all will have to take calibrated risks in the different areas we work in to take the calls and make this dream happen and make India in a much superior position, including over time, and I hope that's not too long a time, where the Indian currency gets more and more acceptable as a currency in many, many more countries from where it is today.

So with this background of a positive alignment of stars for India, a strong geopolitics, strong macro, and a mindset for us to really take this forward. We now need to ask the things we need to watch out for as we go forward. And I think one of the most important things for India will have to be a continuing stable political environment. And I'm using the words about a stable political environment for us to be able to sustain these growth rates over a long period of time.

At the same point of time, I think we need to keep a strong, united India through this period and the famous words of 'Unity in Diversity' as a single country are going to be even more relevant as we go into the future. And if we can keep a strong India, a united India and a long-term stability combined with both political and macroeconomic stability, India truly has a great opportunity into the future.

And with this backdrop, I am happy to say that we at Kotak Mahindra Bank continue to strive and grow and we are feeling pretty confident about how things are shaping. And while my colleagues will take you through a number of developments, there are two important developments which stand out for me to share with you.

The first is a very significant lever in terms of our deposits growth. Our deposits have really picked up and are growing at a very good pace, driven by a product which we think is, again, bold and disruptive in this marketplace, which we call as 'ActivMoney'. And this product for us, just in this quarter, has grown at a flat rate of 24%, which would make it annualize nearly 100% growth on an annualized basis.

And it's a unique product which is now about 7% to 8% of our total funds or total deposits and it positions itself beautifully from the point of view of cost of funds between a traditional deposit and CASA. So if a savings account cost for us is about average of around 3.6% to 3.65% average, and a term deposits cost which is between seven to 7% to 7.3%.

A sweep deposit or ActivMoney as we call it, we offer our customers 7% on a six-month FD and the corresponding rate if they break it earlier. Based on our experience, the effective cost of this ActivMoney is in the range of 5% to 5.25% broadly, which gives us a sweet spot between our savings account and our term deposit with significantly better alignment in the favor of the customer. So if the customer keeps it for a longer time, the customer gets it more. And this is a product which we are going all out. We will continue to go all out and focus on this as one of the core products we will offer.

Yes, to a certain extent, you can see it in the CASA ratio. There is an internal cannibalization on CASA as our customers move into the ActivMoney product. But we believe this is in the interest of the customer, long term, giving us a much greater flow of deposits into our coffers and we will sustain it over the medium term as a strategic intent to build a stronger, stable and a more customer engaged franchise around ActivMoney in our menu.

The second development which is again making me quite in a way proud is something about our international fund management. More than 10 or 12 years ago, we started on our international platform a India dedicated fund called the 'Kotak Mid-Cap Fund'. The primary source of distribution and the corpus was in Japan. And we have now a very significant distribution network to Japanese investors. And many, many Mrs. Watanabes and others have invested in this fund. And I'm happy to share with you that we have now, as of end of June, crossed this single fund, which is an active Mid Cap fund, has crossed USD 2.5 billion, making it one of the largest India dedicated active funds in the world.

And in just in the quarter April to June in one quarter, we have received, we have got fresh inflows into this fund in excess of USD 500 million. And it's a matter of particular pride for us, since when we started this, our entire offshore fund management, we were first of all countered with a question that, you don't have a global platform, how will you build an offshore fund of scale? And it is that progress, we have made on this offshore fund and other international funds, it gives me hope that, if you have the right product and the right distribution, it is possible for an Indian firm to be thinking more positively about global opportunity as well.

And the other point on this fund is that even in July, the flows continue to be very strong coming from various geographies, including Japan. And with that, I will now hand it over to my colleague, Jaimin Bhatt, and all other colleagues from my group management council are here with me, on this call to take you through the various aspects of Kotak financials for the first quarter.

Over to Jaimin Bhatt.

Jaimin Bhatt: Thank you, Uday. Let me start with the consolidated numbers first. Quarter 1, FY24, April-June, we closed on a consolidated basis with a post-tax profit of INR 4,150 crore, which is 51% higher than what we did in Q1 last year. The bank itself brought in INR 3,452 crore during this quarter. We will talk about the bank in some detail as we go forward. Kotak Securities got in INR 219 crore this quarter, which is about the same as what they did last year and against INR 182 crore, they did in quarter 4, last year. The market share of Kotak Securities of the overall market has increased from 4.2% last year first quarter to 7.5% this quarter.

Kotak Prime got a post-tax profit of INR 218 crore this quarter versus INR 157 crore a year ago. Last year quarter 1, Kotak Prime had taken a one-time hit of over INR 100 crore on a pre-tax basis due to change in accounting policy on brokerage. The vehicle book in Kotak Prime has actually gone up by 31% on a Y-o-Y basis.

The other NBFC Kotak Mahindra Investments had a post-tax profit of INR 102 crore this quarter versus INR 63 crore, a year ago. This is on the back of a 50% growth in the advances book there. The business correspondent in microfinance called BSS has now had a post-tax profit of INR 95 crore this quarter versus INR 56 crore a year ago. The life insurance entity dropped in INR 193 crore this quarter versus INR 248 crore a year ago.

The mutual fund entity contributed INR 106 crore which is the same as what they did last year. In Q4, the mutual fund entity had a capital gains income of over INR 90 crore pre-tax. The overall assets under management at the group level have gone up by 23% on a Y-o-Y basis.

At the consolidated level, you see an adjustment of INR 375 crore on the sheet, which is largely on account of dividends received by the various companies. The bank itself got about just over INR 300 crore out of this. The consolidated assets at the group level now crossing the INR 4 lakh crore mark and it is about 19% higher than what it was a year ago.

The capital and reserves at the group level at INR 1, 16,500 crore. Both the NBFCs, Kotak Prime and Kotak Investments have capital adequacy of 26% plus, the life insurance entity having a solvency of 2.68%. The ROA at the group level at 2.63% and capital adequacy comfortably at 23.3% with CET1 itself at 22.3% and book value now at INR 584 per share.

If I go to the bank standalone, the first quarter recorded a profit of INR 3,452 crore, which is 67% higher than what we did in Q1 last year and a tad lower than what we did in the immediately preceding quarter. The NII, this quarter at INR 6,234 crore which is 33% higher on Y-o-Y basis. Q1 also saw fees and services grow by 20% to INR 1,827 crore this quarter. The other income, which is non-fees and services clocked INR 856 crore partly helped by a reversal of INR 240 crore on MTM hits, which we had taken in previous periods. Q1 last year, had MTM hits of INR 857 crore.

We continue to have a large part of our book on AFS and HFT. As of June 30, this amounted to 74% of our overall book with the modified duration (net of OIS) being 1.3 years.

Overall cost during the period at INR 3,967 crore. The employee costs look higher this quarter compared to both last year first quarter as well as the previous quarter. Quarter 1 last year, the retiral cost had dropped sharply due to change in interest rates and Q4 had a beneficial change on account of pension annuity rates. We don't have that benefit this quarter. The other operating expenses took a higher load on account of IT and promotional expenses this quarter.

The pre-provisioning profits are 78% higher than what we did last year and this quarter at INR 4,950 crore. Our provisions at INR 365 crore gives us a pre-tax profit of INR 4,585 crore. In quarter four last year, we had a favorable tax order which resulted in that quarter's tax rate being lower. This quarter is a more normalized tax rate.

On the balance sheet standalone, we crossed the INR 5 lakh crore mark during this quarter at the bank's standalone level. Before taking account of IBPCs and BRDS, advances grew 19% Y-o-Y and closed at INR 3, 37,000 crore. On a Y-o-Y basis, advances have grown in most of the categories, credit cards, home loans, tractors, CVs, SME, microfinance.

Our unsecured retail book now, which includes retail microfinance, now at 10.7% of net advances. Net interest margin, which was 4.92% in quarter one last year, now at 5.57%. In quarter four, it had peaked to 5.75%. As of June 30, the bank had 43 and half million customers, which is 9 million higher than what we had a year ago.

On asset quality, the GNPA at 1.77% versus 2.24% a year ago, and with a PCR of 78%, our net NPA now are 0.4%. Slippages this quarter were INR 1,205 crore, of which INR 288 crore got upgraded during the same quarter. Our fund based restructured under COVID and MSME aggregating to 0.19% of net advances. SMA 2, which is for borrowers with exposure of INR 5 crore plus on funded basis at INR 203 crore.

Our CASA ratio at 49% and as Uday mentioned, during this quarter, we had reactivated ActivMoney and the amounts on the TD sweep grew by 24% during this quarter, not annualized. The capital adequacy at the bank again, healthy at 22% overall with CET1 itself at 20.9% and at the bank standalone, the ROA for this quarter at 2.81%.

I hand over to Manian to take on the corporate book.

KVS Manian: Thank you Jaimin. I will make a short commentary on the wholesale businesses. During the quarter, we saw a reasonably strong demand for credit off-take, especially among the larger corporates. Our wholesale book grew by 7% Q-o-Q. Two other segments, which did well were the MNC and the NBFC segments.

In MNC, we are seeing good traction in terms of new to bank customers. With MNC's increasing footprint in India, both in manufacturing and services sector, we see an opportunity there. We have a dedicated country-focused coverage strategy, where we are seeing early success.

On the NBFC segment, we are seeing good growth in credit off-take as the demand remained robust across all retail assets including affordable housing, CV, passenger vehicles, SME and even unsecured segments. While we have witnessed healthy growth in the number of SME NTBs, the book growth is lower than expected due to lower utilization of limits.

Effective 1st April this year, we have also carved out a separate segment called mid-corporate segment. We believe this segment has potential to grow faster and we have put in place a dedicated team to focus on new client acquisitions and grow our franchise amongst mid-sized corporates. While it is still early days, in Q1 the business has grown at a healthy rate.

While volume growth has been reasonable, on the pricing front we continue to witness spread compression due to competitive pricing pressures in the market. However, we continue to follow a disciplined approach of taking measured risks only where risk-return metrics are justified. We are also focusing on identifying opportunities to leverage our structuring and advisory capabilities to identify better yielding opportunities without commensurate increase in risk.

We continue to focus on fee income which shows a healthy growth on Q-o-Q basis. We have also seen strong traction in our DCM business in this quarter with completion of some large deals in the large corporate space. We have closed diverse set of deals across high yield, structured, credit bonds, high-grade bonds, REITs and InvITs.

Favorable interest rate environment has also seen the wholesale bank benefit from MTM gains on credit substitutes in this quarter. Credit costs continued to remain low.

On the liability side, we are seeing good traction on the non-custody current account balances. Custody flows have been a mixed bag. Global headwinds caused some amount of flight of capital both in the listed and unlisted spaces in the initial part of the quarter. But we saw some inflows back by end of June in line with the change in market sentiments. The domestic custody business has done better than the FPI custody business in this quarter.

On the digital front, 'fyn', our integrated corporate portal for trade, CMS and account services, continued to scale up well. We also implemented an online supply chain platform with industry preferred features like dynamic discounting. Overall, the business remains in good health and with healthy ROEs.

Let me hand it over to Shanti to take you through the commercial bank.

Shanti Ekambaram: Thank you, Manian. I will start with commercial vehicles. At the industry level, the volumes actually witnessed a de-growth of 3% Y-o-Y and immediately on a Q-o-Q basis even lower at 22%. This is on the back of a very strong Q4. However, our disbursement in unit volume terms this quarter has grown 21% Y-o-Y, leading to an improvement in market share. At an industry level, the freight demand and availability of return load continues to be stable. We expect this to get better as we get into the busy season in Q3. Collection efficiency for us continues to be stable and we will continue to build our book and market share in this segment with a focus on risk-adjusted return and increased distribution across geographies.

Construction equipment at an industry level showed a growth of 17% Y-o-Y in Q1 due to sustained growth in execution of infra projects and aggressive targets for road building and expressway under the Bharatmala and big ticket infrastructure under PM Gati Shakti. This has given boost to growth in the CE segment. Our disbursements were in line with the market growth and collections in this segment have increased.

Tractor finance. The tractor industry actually de-grew 2% YoY due to higher base and higher inventory at dealership at the beginning of the year. While collection efficiency continues to be stable, impact of monsoon, excess in some parts and deficient in other parts will need to be watched closely to assess the impact it can have on both demand as well as collection. We grew our disbursement in used and new tractor financing in this quarter, leading to a step up in market share. Overall, advances grew at a healthy pace of 26% Y-o-Y. This will continue to remain a focused segment for us as we deepen our distribution.

MFI. Our microfinance continued its strong growth momentum in Q1 with disbursements growing at 69% Y-o-Y. We currently operate in 11 states through a network of 719 BC branches and have a customer base of 16 lakh women borrowers. Asset quality continues to be strong. Our outreach to the microfinance segment has also enabled credit for low-income households in microenterprises and allied activities. We expect the credit demand in rural economy to be stable as well as see growth in our microfinance business.

On the agri side, we saw some reduction in utilisation as the Rabi peak procurement started getting utilised. There were increasing prices of agro-commodity but processors and traders held on to the stock in the hope of higher prices. Although above factors led to a muted growth in our agri advances in Q1, we continue to focus on new acquisition of customers across geography. The credit quality in this segment has been very stable.

I will now request Virat to take you through the consumer banking highlights.

Virat Diwanji: Thanks, Shanti. I will start with consumer assets. Our strategy to gradually build our market share in the unsecured business backed by data analytics continues to yield positive results. Our unsecured products in consumer banks have grown 51% on Y-o-Y basis and approximately 9% on Q-o-Q basis. From a risk perspective, our unsecured loans portfolio continues to hold well and is adequately priced for risk.

Our mortgage lending business continues to grow well at 18% Y-o-Y and we see traction both in home loans and loan against property segments. The book continues to hold well on all parameters of collection.

We continue to invest in our cards franchise with overall credit card advances growing by 67% on Y-o-Y basis. Our market shares have been steadily growing both on spends and cards in force. We continue to strengthen our co-brand product suite. Last quarter we had shared about our new Indian Oil co-brand. This quarter we are happy to share that we have gone live with a co-brand card with Myntra that would enhance our value proposition to our millennials and Gen Z customer segments. We also went live with UPI on credit card which now enables our RuPay credit card customers to map their credit card on UPI payment apps and use the scan and pay functionality.

Our story on digital acquisition continues and significant proportion of the personal loans and credit cards continue to be sourced digitally.

Going on to business banking, Bank continues to focus on growing business banking franchise both on assets and liabilities. While the demand for new working capital loans have shown healthy growth, improvement in the limit utilization is relatively slow. The demand for unsecured loans by the business customers continues to show positive traction both in terms of demand and portfolio performance.

We are witnessing a steady formalization of informal units in MSME space with higher GST registration and compliance. This is enabling us to improve both the speed and quality of underwriting for this segment. With focus on digitization, we have gone live with our new loan origination system helping us to further improve our turnaround time and enhancing our portfolio management ability.

The assisted digital current account opening have shown improvement in resource level productivity and customer experience. The traction on ActivMoney among current account customers continued to show encouraging results in higher acquisition of new to bank customers and also building balances of our existing customer base. With the aim of supporting the startups, we have revamped our startup proposition with more power-packed features on banking and non-banking needs in their business journey.

Our QR acquisition across merchants is gaining speed with growth in new merchants acquired and spends driven by product innovation. We have also empowered merchants to accept digital rupee from their customers furthering the nation's march towards digitizing retail franchise transactions.

Coming to liabilities, the total deposits have grown at 22% on Y-o-Y basis with major contribution coming from fixed deposits. With an objective of building a retail SA franchise, we rolled out an ActivMoney proposition which allows savers to earn higher interest on their deposit without compromising on liquidity or having to incur penalty on withdrawal. This feature allows customers to enjoy up to 7% interest on savings balance above a pre-decided threshold. This not only facilitates in holding on to the existing deposits from being moved to higher yielding investments option, but it also helps us in acquiring new customers.

With focus on enhancing our large premium banking franchise, the all-new Privy League proposition with best-in in class features and lifestyle benefits was introduced. We launched 'Sankalp Saving Account' with exclusive features that cater to evolving needs of emerging India in semi-urban and rural markets. The revamped corporate salary product offering is showing encouraging results. We were successful in building our term deposit book which showed 49% growth on a Y-o-Y basis.

With this I will pass on to Milind.

Uday Kotak: Yes, colleagues, before Milind starts, let me just introduce Milind Nagnur. Milind Nagnur is the Chief Technology Officer of the bank. Milind joined us on August 1, 2022. So he is now close to celebrating his first birthday. And we thought that's a great time for him to come and meet investors virtually and share the developments on the technology front as he's gone through nearly one year at Kotak. Milind comes with a very interesting background, being an engineer from IIT Mumbai, then IIM Calcutta, then spent about nearly 23 to 25 years in the U.S. across various banks thereafter for a few years at a Zelle which is a company started by all banks similar to an NPCI concept in India and Milind was the Chief Technology Officer there. We are really delighted to have him come and join us about a year ago. So over to you Milind.

Milind Nagnur: Thank you so much Uday for such a generous introduction. I'll provide a short update on our tech and digital strategy. Our tech strategy is aligned with what customers want from us. And whether it's in the branches or in the digital channels, customers want tech that works fast, works reliably all the time and is always on and always available. We will therefore continue to invest in nurturing deep engineering talent, software engineers and principal engineers who know how to design and deliver fast, robust, reliable platforms.

We will continue to fortify our digital and technology core with strong talent as well as robust systems design and architecture. A short glance at the metrics on the digital page show notable improvements in digitization across both the consumer and the corporate area. Overall, we strive to see ourselves delivering technology that would be a key differentiator for our customers.

That would be my short update on technology and digital and I'll pass it on now to Dipak for the next topic.

Dipak Gupta: Yes, thanks, Milind. I'll take up Kotak Prime and Kotak Life. First, a quick update on the car market. What we're seeing is, while the wholesale industry numbers are looking up, they are up 9% plus Y-o-Y basis, retail is down practically by about 10% and that means we're seeing a lot more stocks at the dealer level. So inventory is piling up at the intermediate level.

On the demand side, entry-level cars still is a problem and that manifests itself in us seeing a lot more promotional drives from both manufacturers and dealers. However, when you look at the SUV segment or the luxury segment, both of them are seeing reasonably good demand. In fact, the waiting periods are only going up and up in some of these cases, really.

I think when you look at Q2, one probably will expect a subdued Q2 for two reasons. One is of course monsoons have been heavy this time and second of course this time if you recollect the entire festival season has got pushed by at least a month so it happens in Q3. So Q2 should probably be not as good as the past.

Overall from a financial point, financials, the profit after tax is significantly better but remember last year this quarter we had an accounting policy change for brokerage because of which the PAT was depressed. Otherwise, KMP is doing fine.

On the life side, Kotak life, what we are seeing really is premium growth has been relatively slow, not as good as probably some of our peers. This quarter we expect to catch up and grow faster particularly on the group side and the other big piece on the life side is that going forward we'll have to watch out for how the entire expense of management philosophy pans out and what it does to product sales and product margins as we move ahead. From a profitability point of view, the profits for this quarter are slightly subdued as compared to the previous one.

With that, I'd hand over to Jaideep to talk about securities.

Jaideep Hansraj: Thank you Dipak. I'm here to talk on Kotak Securities. Just a brief before I get on to the numbers and performances, the cash market volumes this quarter has been pretty subdued and have started seeing some bit of improvement in the months of June and that continues in July.

The options market or the derivative market has gone up significantly. It's more than doubled year-on-year and shown maybe a 15-20% increase quarter-on-quarter as well.

KS for Q1 did a top line of INR 805 crore compared to INR 744 crore last year and INR 682 crore in the last quarter. The PAT for this quarter is INR 219 crore which is flat over last year and compares to INR 182 crore over the last quarter.

The cash market share for KS as a firm for this quarter is 10.5% compared to 10.4% for last year as well as last quarter. But as Jaimin earlier mentioned and I mentioned earlier as well that the overall market share is nearly doubled on a doubled volume for Kotak Securities which is something which has been good for this quarter.

On the digital side, lot of developments, we focused primarily on platform and product. The Kotak Neo platform is a top of the line OMS and RMS as called by us, which is an order management system and a risk management system, which is what we are currently using. On the product side, two products which have met very decent success is Kotak Trade Free and Kotak Trade Free Youth, which has been now in existence for some time. Clients have liked the product and are adapting to it or accepting it gleefully.

A self-trading customers today contribute about 63% of cash market volumes and 96% of option volumes for KS. 80% of customer service requests are served digitally. The Y-o-Y growth in mobile trading has gone up 3x of last year and on the web it is close to 2x.

I will now hand over to Nilesh to take you through the AMC numbers.

Nilesh Shah: Thanks Jaideep. Let me take you through our asset management business. Our total average AUM grew 10% year-on-year in first quarter FY24 to reach INR 3.12 trillion. Our equity average AUM growth was at 16% Y-o-Y to INR 1.67 trillion. Our active equity AUM market share grew to 6.43% in first quarter FY24. Our SIP inflows for March 23 grew 21% year-on-year to touch INR 9.5 billion.

Our retail AUM stands at 55% of total AUM. As mentioned by Uday, we now manage one of the largest India dedicated offshore fund, viz Kotak Funds - India Mid-Cap Fund for Global Investors, and second largest actively managed onshore equity fund for local investors, viz Kotak FlexiCap Fund.

Our profit after tax was flat at INR 106 crore in first quarter FY24, as economies of scale was shared with unit holders. Our total assets under management across mutual funds, PMS, offshore, insurance and alternate assets grew 23% year-on-year to INR 4.67 trillion led by alternate assets.

I'll now hand it over to my colleague, S Sriniwasan.

S Sriniwasan: Thank you Nilesh. The alternate asset management business has been built since 2006 with aggregate assets that we have raised of USD 8.8 billion, growing at a CAGR of 26.5% over the last 17 years. In the last 12 months, we have raised USD 3.6 billion across multiple asset classes, two funds in the real estate strategy aggregating USD

1.18 billion, a strategic situations fund which has a first close of USD 1.25 billion, an infrastructure fund at USD 664 million and a datacenter fund at USD 590 million.

With these pools of capital that we have raised, this makes us India's truly first and only multi-asset alternative asset management company, about 90% of the assets under management that we currently manage has been raised from global institutional investors and we believe that there is significant opportunity to scale this further.

With that, I will hand it over to Jaimin.

Jaimin Bhatt: Thanks, Srini. We'll be open to taking questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania: Hello, hi. My first question is on miscellaneous income. So it's been very strong this quarter, right? You have trading gains of around 240 crore and then you have other and miscellaneous of around INR 600 crore. So would you have any break up of that income?

Jaimin Bhatt Mahrukh, that's something I mentioned earlier. We get dividend from the subsidiaries largely in the first quarter. As I mentioned, that's about 300 plus crore in the bank standalone. This quarter we also had some benefit of a transaction from our ARD team which brought in another income into that category. So yes that is in addition to the MTM gain which we talked about.

Mahrukh Adajania: Okay all right and the other question is on loan growth. So, personal loans as guided by you are growing very well. They're growing at 7% to 8% Q-o-Q. Is that pace comfortable given talks around some asset quality issues in some segments? Of course, there's a mixed feedback on that, but is there any issue in any segment of unsecured loans that worries you at all?

Jaimin Bhatt: Paul would take that question now.

Paul Parambi: See as we see it right now we don't see any major issues in these segments. Having said that, the overall credit environment is normalizing right now, but overall we are comfortable with all the unsecured segments and the way they are currently behaving.

Mahrukh Adajania: Thank you. Thanks a lot.

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

Kunal Shah: Yes. So the question is with respect to asset quality. So in terms of the slippages, compared to the run rate, which we have seen in the past a few quarters that has gone up. And even credit cost is almost like 50 basis points plus. In fact, at the time, we should be able to sustain the relatively lower credit cost of, say, less than 30 odd basis points because that was not much visible. So can you just highlight maybe what's leading to that and what should be the sustainable level of slippages and the credit cost with this unsecured pool. Yes, that's the question.

Paul Parambi: Yes, so, you know, if you have to look at the entire credit environment and how it has evolved over the last two or three years, and then look at the current context, you know, the COVID period is one which really served to flush out a lot of the stress in the entire system. That had two impacts overall.

One, if you take out a lot of the bad assets over a period of time, therefore, in the following periods, a lot of the overall credit costs come down because the flows also come down because recoveries tend to be good in that period and, you know, super normal.

The second is because a lot of the weaker accounts have got flushed out, what you also find is that subsequent underwriting in the immediately subsequent period tends to be much better. So this is really the phenomenon one saw in the last couple of years. I believe the environment is now normalizing and to that extent therefore while we are not seeing anything to worry about, I would say it's now becoming more normal and what we would usually expect.

Kunal Shah: Yes, anything on ECLGS, maybe the flow from the SME was that relatively higher in the overall slippages or maybe broader slippages across the segments are being similar to what we have seen in last few quarters?

Paul Parambi: No, flows from SME were not higher than normal and they're absolutely normal right now.

Kunal Shah: Okay, Yes, thanks a lot.

Moderator: Thank you. The next question is from the line of Gaurav Singhal from Aspex Management. Please go ahead.

Gaurav Singhal: So because of the success of the ActivMoney product, I'm just wondering if you would still maintain the stance you had in the previous quarter call, where you said that NIM probably, based on your assessment so far, does not decline below 5%. Would that still be correct, given that ActivMoney seems to be cannibalizing CASA? That's my first question. I have a follow-up.

Jaimin Bhatt: So just let me take that. Yes, if you look at the fact that this quarter, last quarter itself, we had talked about the fact that the 5.75% was a peak and you could see some correction there. We've talked about this period we've closed at 5.57%. While the ActivMoney does mean that we are paying higher than what we would have done on savings account, but recognize that the ActivMoney costs us decently lower than what a equivalent time deposit would have cost.

A time deposit would cost us north of 7%, ActivMoney would be more like 5%-5.5% on the assumption that not everything stays there for 180-day period. So it's a mixed balancing between the two and more importantly, we are getting a flow of deposits which has improved significantly in this quarter. So while it may have some impact on the margins, it's not just because of ActivMoney. It's also last year we saw the NIMs improving quarter on quarter on the back of repo rate rises. This quarter in April and June we've seen that becoming flat. So to that extent, some of that is also impacting the NIMs. And your question about being north of five, I think for the current year we can reasonably safely say we'll be there.

Gaurav Singhal: Thank you. And then the second question related to that, so while the deposit growth has been quite good this quarter, our loan growth at like net loan growth at 2.7% I think Q-o-Q, I think it's below system, which is like 4% to 5% Q-o-Q roughly. So just wondering, you mentioned last quarter we want to be 1.5 to 2X nominal GDP, which is like, I would like to be towards 2x, close to 20 year on year. Does that view still hold or do you feel pricing competition is so intense that 20% or maybe close to 2x GDP might be difficult?

Jaimin Bhatt: Okay, let me just take that out. It is, quarter one generally has been a slower quarter, so if you look at pre IBPC and BRDS, we are still at 3 plus percent, 3.5% thereabouts. So to the extent of the fact that we've talked for the full year maintaining a loan growth number at about 1.5 to 2 times the nominal GDP growth, I think we are reasonably comfortable at this stage that we would be in that range.

Gaurav Singhal: I think that the cash and other balance increased quite a bit at the quarter end. Is there some one-off here or maybe? Up 36% Q-o-Q. Just wondering what's the reason?

Jaimin Bhatt: Some of that is 2000 rupee notes which came in there but not a significant one. It's actually if you look at the last year it was 40,000, we are at 44,000 right now. So it's not completely unusual there.

Gaurav Singhal: Thank you.

Moderator: Thank you. The next question is from the line of Prakhar Sharma from Jefferies, please go ahead.

Prakhar Sharma: So my congratulations on this result and best of luck. But my question on this ActivMoney programme, you know, at a strategic level, do you think this has an impact on customer behavior and how they think of deposits in the Kotak Bank? Because, you know, while I understand that the blended cost of ActivMoney is lower, the term deposit programmes are easier to withdraw and they can be far more sensitive to the rate environment. Whereas, programmes like ActivMoney probably have very average branch level people and the customers think of deposits at Kotak and that's why, in this period you have had a lot of savings deposit impact on the growth. So I just want to get a pulse on what do you think of this ActivMoney type of programmes on the way people see Kotak Bank and the deposit relationship? Thank you.

Shanti Ekambaram: So, this is Shanti here. The whole programme was structured based on customer need and customer requirement. Now, go back to the customer, they have short, medium, long term needs. Bulk of their long term needs, they park in term deposits. They have their short term needs in savings. Now, a savings bank rate is at about average of about 3.5% and even lower.

When a customer wants to have the flexibility of a savings but slightly better returns is when they keep the money in the savings account but sweep above a certain threshold into ActivMoney. It gives them two things- whenever they want liquidity, they get it immediately, there is no penalty on breaking. It gives them the comfort of saying, I am keeping my money liquid, I am getting a better rate than what I get in savings account. It is this customer psychology and behavior that we tapped and we are seeing the results of this ActivMoney. So that is why, when Uday started he said, it is between savings and term deposits, people do keep in term deposits and the growth in term deposits has also been healthy as you can see because that's how people plan their cash.

Uday Kotak: I wanted to add something here. This is Uday here. If you go back to 2011, when savings deposit rates were opened up, most of the strong entrenched incumbents did not change their rate. We went out and started a 6% savings deposit rate and sustained it with the higher pressure from 2011 to 2020. We were perceived as the potential disruptor.

In this period, we grew our savings franchise for a period of over nine years at 40% plus compounded CAGR. We believe that, we are looking at total cost of funds. We believe that, we have a strong position in the CASA, which we are quite confident, we will maintain at a reasonably high level versus the broad industry benchmark. So we are not worried about that in terms of absolute CASA percentages.

But we also believe that, there is a huge opportunity for a space between CASA and traditional term deposits, with some short-term pressure on CASA. We are very clear, we see this as a sustained programme and this is not about being a disruptor for disruptors sake. We think, it's a hugely positive customer engagement and customer franchise programme and we will be going guns blazing on this for a long- long time.

Dipak Gupta: I'd probably add two more nuances to what Uday and Shanti mentioned. One is the product in itself helps you attract a lot many more customers. So it is a phenomenal NTB tool, New To Bank tool. And we are seeing early signs of that on the franchise. The second really is for a certain set of customers, who otherwise probably would have just gone because of rate, particularly the more affluent type of customers, this is a good product to hold them back. And again, we are seeing a reasonable insight into that. So the combination of this does give you a far better control over your customers.

Prakhar Sharma: Perfect, thank you for explaining in so much detail. Thank you everyone.

Moderator: Thank you. The next question is from the line of Param Subramaniam from Nomura. Please go ahead.

Param Subramaniam: Yes, hi, thanks for taking my question. My question is on the cost of the term deposits. So you provide us the cost of savings accounts. Now, if I try and impute from that, the cost of term deposits, it seems to indicate that, from the bottom of first quarter last year, it seems to be up about 200 basis points. So is that rough number correct? And does that mean that, there is not much incremental re-pricing that is to happen on the term deposit book? That's my first question.

Jaimin Bhatt: No, I don't think it's as sharp as 200 basis points. If you look at last year to this year, it would be certainly lower than the 200 basis points, which you're talking about. We need to look at it on an average basis, not on a period end basis.

Param Subramaniam: Okay, maybe I can connect with you offline on that. So any indication on where we are in terms of the incremental versus the stock of term deposits, perhaps? The differential between what we have?

Jaimin Bhatt: Yes. So lot of the term deposits, which are taken earlier, durations are not long. So a lot of them have got priced in, in terms of the renewals. And as we go forward, some more will get priced in, but assuming the rates stay as they are, then maybe after a quarter or so, I guess most of that would have happened.

Param Subramaniam: Okay. Thanks for that. Another question, perhaps on the operating expenses. So any color on, how we see this shaping up over the next couple of years, because we've actually seen the cost to assets increase quite substantially over the last couple of years. So, when do we see this start moderating? And that's it from me and congratulations on the quarter. Thanks.

Jaimin Bhatt: So on the cost, as I explained this quarter, we've had on the employee front, the delta looks higher because of the retiral cost. If I take that out, the employee cost delta between last year and this year is about just over 20%. This is including the increments and all which, we would have done at the beginning of the year. On the overall cost and again the other things are we have been spending this quarter on promotion particularly on the ActivMoney promotions.

The technology cost has got elevated and it will possibly remain there for a while. So, a lot of attempt and lot of plan, which we have to bring down the cost to income and the cost to assets. But you would see that, somewhere elevated for some time. But as you've seen from last year to this year, we've kind of getting some traction and as we go forward, we would have a plan to get that down as we go forward.

Param Subramaniam: Okay. Thank you so much and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Pankaj Agarwal from Ambit Capital. Please go ahead.

Pankaj Agarwal: Yes, hello, sir. So your attrition rate has gone up quite sharply over the last two years. What's causing this and how it's impacting your operations?

Shanti Ekambaram: Yes, I'll take that question. Shanti here. So if you see the breakup of the attrition, and I just want to quote some numbers, at the senior management level, it's around 10%, at the middle management level, it's less than 20%. It's only in the junior management, which is really at about 50%, which is what our disclosure is. And this is largely in sales, service and call center, some amount in collections. Now this has had several reasons.

Firstly, this was the first full year post COVID, where people have decided their calls as far as their careers are concerned and we have had some spillover of attrition this year. At the industry level, there is a strong demand supply gap, which continues. Despite that, we were able to fully resource our requirements despite the gap and the attrition.

We are focusing on a number of areas to reduce the attrition. Sorry, another point. We also include probationary officers in the calculation, which is not really permanent employees, but we include them in the calculation for the purpose of attrition. A lot of them are reflecting only in the junior management.

Working on a number of platforms and areas, including how to make ease of working, better engagement, training, benchmarking, and technology automation and how to make their lives easier. So a number of initiatives are being worked on to see how we can control the attrition. So far, it's not really impacted in terms of our business. You can see that, but it's important that we work on this.

Pankaj Agarwal: Okay, one related question. Is it the reason that cost, employee cost is going up for all the banks? And can it put a structural pressure on cost to assets ratio for the banking?

Shanti Ekambaram: So I think, if you look at it, from an employee cost perspective, Jaimin gave you the number, if you take out the retiral one time cost, it is 20% Y-o-Y and if you see banks across, that is a number that is more than in line with industry trends. More importantly, it is important from a longer term productivity perspective to reduce the attrition. So, that is where I would put the emphasis on. It is not necessarily costing us that much. Yes, there is a cost but I do not think that's a significant part of the cost.

Pankaj Agarwal: Okay, thank you. Thank you very much.

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

Manish Shukla: Good evening and thank you for the opportunity. First, to reconfirm on credit costs, was it said that, now credit costs have normalized to 50 basis points and we should probably expect it to be in this region?

Paul Parambi: So what I would, this is Paul here. What I would say is that, yes, the credit environment is getting more normal. So I would expect that going forward, the behavior in terms of fresh flows and all of that should be in similar terms as it is currently.

The second thing one has to keep in mind is that, credit costs to a certain extent are also influenced by mix. And as the mix of our unsecured portfolio goes up, you would find that, the credit costs can pick up a little bit, but that is clearly getting, therefore, there is the risk and return are therefore priced in as you think about unsecured. So, one has to look at the overall credit costs in this context.

Manish Shukla: Sure. So now, if you put the three together, margins normalizing to 5% plus levels, some normalization of credit costs, moderation in opex, broadly how should we look at it in terms of ROAs? In where, we are right now at 2.8% of standalone bank. Where does it have gotten out?

Jaimin Bhatt: Manish, 2.8% this quarter is also helped by some of the ones, which we talked about, like the MTM gains, dividend comes in this quarter, doesn't happen every quarter. So, we've been generally north of 2%. 2.81%, don't go with that number as a normal one.

Manish Shukla: Yes, the number 2.82% is a very normal. Can be, right, sir?

Jaimin Bhatt: Yes, I said 2.81%, don't go with that as a normalized number also.

Manish Shukla: Okay, thanks very much.

Moderator: Thank you. The next question is from the line of Dhaval Gala from Aditya Birla Sun Life Asset Management. Please go ahead.

Dhaval Gala: Thank you, sir, for the opportunity. A couple of questions. So, I just wanted to know, you've been fairly having strong views and bullish commentary about Indian banking as well as the country's economy. Just wanted to understand, how do you differentiate Kotak Bank's progress from here on say for next three years to five years. What is the competitive advantage Kotak Bank would have and differentiation Kotak Bank would have versus the markets?

Uday Kotak: Thank you for that question. We should get you for a strategy session and we can take you through that. I just want to make a general point. We will at Kotak, like I would like to believe at Kotak, we will take decisions, which are medium term in nature. We are not colored necessarily that if we believe a decision is right, it will be taken from a point of view of what does it do for value addition over the medium term.

And therefore, we will dare to be different, we will dare to be bold, we will take calls, which may seem at the point of time we take the calls a little ahead of what has to be done and I can give you a number of examples of that in our history, whether it's a distressed asset division, whether it's alternate asset business, whether it's international offshore fund management, whether it's a tractor finance business, where we continue to have probably the largest market share in the tractor finance business.

Whether it's private banking, which is something, which we really built as a bank, because we thought, it was a very significant opportunity going forward. Whether it's our product excellence in our investment bank or institutional equities franchise, whether it is technology, we believe going forward. If I have to say, where do, we will focus on the difference, it will be product excellence, customer obsession and differentiated talent, including in the field of technology.

And just so that I wanted to share, I don't want to get into numbers, but we think the future is going to be different from the past. A transformation is undergoing the financial services sector. We genuinely believe the future is neither physical, not even phygital. We think the future is at least digical, which is digital first along with physical. AI and machine learning are going to question even that. So if you ask me a three year to five year view, financial services landscape is going to be wholly different. And I share, as I've said, both excitement and paranoia, when I look at three years to five years ahead.

Dhaval Gala: Sir, just one request. You made a very good presentation last year, same time, on your 811 update. Would like that maybe in the half year, if you could present something or you could put it there for everybody across all businesses.

Jaimin Bhatt: What we currently are doing is we are doing a yearly update of the 811. And currently at present, that's the idea that, we'll do a yearly update, which is a reasonably detailed update on what's happening there. We did that after our annual results in ‘22 and ‘23, and we'll do that again next year.

Uday Kotak: And we also got to keep in mind that, we want to remain competitive in terms of our strategy and you have to wait for it to unfold rather than sharing it up front.

Dhaval Gala: Thank you.

Moderator: Thank you. We have the next question from the line of Samir Bhise. from JM Financial. Please go ahead.

Samir Bhise: Yes, hi. Thanks for the opportunity and congrats on the strong quarter. Just wanted to hear, how would the Board timelines on the leadership transition move here on? And secondly, in terms of the next three years to five years journey, do any inorganic opportunities fit into the picture? That's all from my side. Thank you.

Uday Kotak: We are, I just wanted to share that, we are on track for our leadership transition and at an appropriate time, we will share with all of you as we go forward. And on inorganic, we are always open. We have done inorganic in the past and we will continue to do it, if we believe that we are getting either product excellence or significant addition in customers or a differentiated strategy based on geography and markets or something, which gives us a cutting edge through technology. We are very open to all of those, but we need to make sure that, we evaluate that very carefully and closely rather than rushing into a deal.

Samir Bhise: Okay, that's helpful. Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question. I would now like to hand the conference over to Mr. Uday Kotak for closing comments. Over to you, sir.

Uday Kotak: I think, I've shared my views at the beginning and also in the last couple of questions. I continue to be very optimistic about India's future, about the Indian financial services landscape and about Kotak. I do believe Kotak will be and continue to be a player, which will be differentiated in many areas, not for the sake of differentiation but because we believe it adds value to our stakeholders.

And I see actually, Kotak having the ability and the resilience to change with the times as the times change. And particularly in the last 18 to 24 months, we have made a very strong beginning in that, and I will assure you, we'll continue to nurture talent both in terms of attracting talent externally as well as internal talent. And we see a long-term, huge road way out in front of us to see this as a multi-year and hopefully, a multi-decade opportunity for growth. Thank you very much.

Moderator: Thank you. On behalf of Kotak Mahindra Bank, that concludes this conference. Thank you for joining us. You may now disconnect your lines.