



“Kotak Mahindra Bank Q1FY23 Earnings Conference Call”

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MANAGEMENT:

- MR. UDAY KOTAK – MANAGING DIRECTOR & CEO.**
- MR. DIPAK GUPTA – JOINT MANAGING DIRECTOR**
- MR. KVS MANIAN – WHOLE TIME DIRECTOR**
- MR. GAURANG SHAH – WHOLE TIME DIRECTOR**
- MR. JAIMIN BHATT – GROUP PRESIDENT - GROUP CFO**
- MS. SHANTI EKAMBARAM – GROUP PRESIDENT – TREASURY, HR, CSR & ESG**
- MR. D. KANNAN – GROUP PRESIDENT - COMMERCIAL BANKING**
- MR. NILESH SHAH – MANAGING DIRECTOR, KOTAK MAHINDRA ASSET MANAGEMENT Co. LTD**
- MR. PAUL PARAMBI – GROUP PRESIDENT- CHIEF RISK OFFICER**
- MR. VIRAT DIWANJI- GROUP PRESIDENT, CONSUMER BANK**

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Moderator: Ladies and gentlemen, good day and welcome to the Kotak Mahindra Bank Q1 FY23 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 conference 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: Good evening and welcome to all on a very busy Saturday for many of you. And of course, also a very busy weekend where you have lots of work to do not only in the financial sector, but many other companies between Friday through Sunday as well. I'll just go straight to the point and come to Kotak Mahindra Bank. As you may have noticed for the year, for the quarter ended June we have shown a loan growth of 29% and 4% quarter-on-quarter which is annualized 16% if I take quarter-on-quarter this is on loans plus credit substitutes. Our net interest margins have gone up since the last quarter now to 4.92% and our ROA on a consolidated basis is in excess of 2% and for the standalone is around 2%. Our credit costs, if I take out the COVID writeback as also the restructuring writeback, our credit cost net of those writebacks are at 16 basis points annualized, which is four basis points for the quarter.

Therefore, if I look at the credit costs, again to reiterate, for the quarter as reported in P&L, without COVID writeback and restructuring at 16 basis points. The slippages are very much under control as Jaimin will separately explain. There has been in requirement of RBI on out of order accounts which has been implemented by us fully, which does create some volatility intra month. Current and savings ratio is 58.1% and we are taking a host of steps as Shanti will explain to ensure our continuing focus on CA and SA. Another important aspect which I would like to share with you is our unsecured retail. We consider unsecured retail to include microfinance as well, because that is by its very nature also unsecured retail.

In June'21 unsecured retail as a percentage of our standalone advances was at 5.6% and it's now around 7.5% for the quarter ended June. We are looking at settling this as we grow this book over the next few quarters to somewhere in the early to mid-teens from the current 7% odd. So, we would see continuing growth of the unsecured retail in our mix of the loan portfolio. Overall, we continue to be quite confident of building our loan book and I'm quite comfortable and confident to be able to grow our deposit franchise along with it. And with that, I will now hand it over to my colleague, Jaimin Bhatt, to take you further.

Jaimin Bhatt:

Thank you Uday. Let me just take through the consolidated numbers first. We ended this quarter at an overall bank at Rs. 2,755 crores which is a 53% higher than what we did in quarter one last year. Our consolidated customer assets at the group level at Rs. 337,000 crores which is about again 28% higher than last year with advances at Rs. 312,000 crores. Our capital adequacy at the group level at 24% including this quarter's profit, large part of it coming through CET I which is itself at 23%. This takes our book value to Rs.502 per share and our ROE on this quarter's profit is at 11.2%.

Of the overall, the bank contributed Rs. 2,071 crores roughly 70% of the total profits, including the subsidiaries. The bank's profit is 26% higher than what we did same period last year. Kotak Prime brought in Rs. 157 crores of post-tax profit as against Rs. 79 crores a year ago. And in this quarter actually Kotak Prime took a hit of Rs. 111 crores pretax on account of a change in accounting policy which is related to brokerage cost. The microfinance business which is microfinance business correspondent entity which is BSS that clocked in Rs. 56 crores of post-tax profit against Rs. 7 crores first quarter last year. The other NBFC, Kotak Investments brought in Rs. 63 crores against Rs. 71 crores last year.

The two capital markets subsidiaries which is Kotak Securities and KMCC brought in Rs. 270 crores with KS improving its market share on a Y-o-Y basis both in the cash market and the overall market. Kotak Life had a loss in first quarter last year thanks to increased COVID claims and it ended up first quarter of FY22 with a loss of Rs. 243 crores. Things are normalized and this quarter they have brought in Rs. 248 crores of post-tax profit. The domestic mutual fund entities brought in Rs. 106 crores which is about the same as what we did last year. And the international subsidiaries took some MTM losses and brought in Rs. 14 crores of post-tax profit this quarter.

Our overall capital and reserves at the group level crossed one lakh crores. The bank itself at Rs. 74,000 crores out of this. The two NBFCs end up being pretty well capitalized with each of them having a capital adequacy of over 30%. Kotak Life also has a solvency ratio of 2.72% with a net worth of Rs. 4,500 crores.

At the bank level we brought in Rs. 2,071 crores of profits for this quarter which is 26% jump on a Y-o-Y basis. Last year quarter four we did take reversal of COVID of Rs. 453 crores. The NII this quarter is 19% higher than the same period last year, with our overall advances book at Rs. 280,000 crores roughly about 29% higher on a Y-o-Y basis. With the credit substitutes we crossed three lakh crores, we are at Rs. 303,000 crores which is 29% higher than last year. And, as Uday mentioned retail unsecured book which includes the retail microfinance is about 7.9%. Our NIMs which was 4.6 a year ago, ended this quarter at 4.9.

Of our overall loans and advances as much as 69% is on floating rates, with our EBLR which are repo linked constituting 50% of the total advances book. This plus the total advances book which are linked to floating plus the fixed rate book which is due in less than a year is totaling to 80% of our total advances book. This quarter we also acquired a small portfolio from DLL India in the agri and health equipment space which is a standard portfolio of about Rs. 580 crores. Our fees and services did a 42% high than first quarter last year, with the growth coming both from the distribution side as well as the syndication and the general banking fees.

Our other income saw a hit on account of both trading and MTM on fixed loan book, which has resulted in the other income showing a negative number this quarter. Our HTM book as of June 30, is just 39% of our investment book and the total HTM is less than half of what is permissible as percentage of NDTL. So, we effectively have taken a hit on the 61% of our investment book which sits in AFS and HFT.

The rising interest rate saw some small benefit on the employee retiral cost, of course this is much, much smaller than the hit we've taken on the Treasury side. As we continue to grow and push for growth, some of the non-employee cost have increased on account of both pushing for growth on both asset side and the liability side as well as on advertisement and promotional, technology and communication. We ended this quarter with an overall customer base of 34.5 million which is as against 26.8 million which we had last year. The operating profit this quarter was a tad lower than the same period last year largely due to the Treasury hits. We followed the same principle as we did last year on the COVID reversal policy and on the same principles we've taken a Rs. 65 crore write back in this quarter. And other provisions on advances also lower partly due to recoveries of the past written-off accounts. Credit cost as Uday mentioned is a low of 0.16% on an annualized basis, as against what we had 1.3% in quarter one last year.

Our GNPA at 2.24% as of June 30, we had 3.56 a year ago. In absolute numbers the GNPA is down to Rs. 6,379 crores as against Rs. 7,932 a year ago. Slippages which Uday talked about for this quarter at the gross level at Rs. 1,435 crores. However, Rs. 781 crores of these slippages which happened in this quarter got upgraded or were recovered in the same quarter itself. Therefore, in the net level which has taken into account which slipped into NPA, but recovered in the quarter, our net slippages were Rs. 654 crores which is 0.2% of our advances; this happened primarily because of introduction of out of order from the fourth quarter last year, which took the full hit this quarter where any overdraft account which has interest debit has to have an interest credit on the previous 90 days.

Our fund base restructured accounts in either COVID or MSME resolutions together are a low of 0.38% of our overall book and our SMA2 book, which is with respect to

borrowers with exposure of over five crores, continues to be low at Rs. 159 crores. Our CASA as Uday explained, continues to be healthy at 58%+, and the capital adequacy at the bank level again at 22.9% with CET itself at 21.6%. So, those are the broad highlights of what we did in the bank this quarter. I hand over to Manian to take up the Asset book.

KVS Manian:

Thank you Jaimin. Good evening, everyone. So, let me take you through the corporate bank and the SME segment. Overall, as I always do, I will bring to your attention the credit substitutes in the table and request you to look at the advances in combination with the credit substitutes. Before I get into the numbers, in the market we saw extremely high price pressures and margin pressures in the corporate segment clearly in the last quarter. Significant amount of irrational pricing in the market and we decided to stay away from some of those transactions. And we found that to be sustainable and being ROE accretive it was important to select transactions carefully. In fact, when there is pricing pressure, we also tend to do a bit more of credit substitutes and in fact, the increase you see the credit substitutes from Rs. 21,000 to Rs. 23,000 crores on March to June basis is largely in the short term side. And we did not grow the credit substitutes on the longer end, we grew them on the short run. Overall on a Y-o-Y basis the corporate segment along with the credit substitutes shows a Y-o-Y growth of close to 15%. While the Q-o-Q looks more moderate at 10% annualized. And overall, if I look at the wholesale as a segment between corporate and SME and credit substitutes put together the Y-o-Y growth is about 17% on customer assets, and the Q-o-Q is again slightly muted at annualized 8%.

Within the segments on SME the Q-o-Q is essentially lower because of lower utilizations. However, we see continued traction on acquisition of customers and the segment looks robust in terms of overall Y-o-Y growth at 25%. So, we continue to look at a 15%-20% kind of growth in the corporate segment and 25% odd growth in the SME segment. Our strategy to use credit substitutes to maximize returns on the lending side thus face the downside of MTM risks in the market where interest rates go up. So, we did take some of the MTM hits that Jaimin talked about did happen on this credit substitute's book.

The DCM business remained robust in the quarter and our revenues continue to be good. Overall key revenues apart from DCM also remained quite robust. Transaction banking trade and forex fees were quite robust through the quarter. While our transaction banking led granular CA continued to grow reasonably well, some of our businesses like custody and capital market related entities, the CA in these does reflect the weaker capital markets. And we did see some impact of that on the growth in current accounts. Overall the asset quality remained very good and credit cost have been absolutely minimal. So, the health of the business continues to be good and we are hoping to be able to capitalize the opportunities that come as the economy turns and further capacity creation happens with the corporate. We've also invested

significantly in our platform and the progressive rollout of our corporate portal proposition is being very well received and across corporate segments, and we continue to gain traction and market share in the transaction banking business. Thank you so much. Can I hand it over to Kannan.

D. Kannan:

Thank you Manian. Let me start with the commercial vehicle finance business. The commercial vehicle industry saw a good growth during the quarter as compared to the same quarter last year. Our disbursements during this quarter is considerably higher than the same quarter in the last year. Demand for finance is being driven by replacement demand for the vehicles. Goods freight demand is good and the recent reduction in fuel prices is helping operator economics. Utilization of passenger vehicles have improved across all segments staff, school, travels and intercity. Passenger transportation business getting closer to normalcy. Collection efficiency on current demand is stable and as good as normal times. Demand for construction equipment continues to be good. Demand during the quarter was much higher as compared to the same quarter last year. Demand for equipment in the mining sector continues to show an uptick. Utilization of equipment across segments continue to be good. We continue to grow our disbursements and market share. Collections against current demand continue to be stable.

The tractor industry continues to grow both on a year-on-year basis as well as quarter-on-quarter basis. Our disbursements are strong and we continue to gain market share in this business. Better crop yields and good commodity prices have ensured good cash flows in the hands of the farmers. Given the good monsoons and robust cash flows, outlook for the industry continues to be good. We continue to focus on improving our distribution and market share. Utilization of tractors for commercial applications to continue to show improvement. Collection efficiency against current demand continues to be good. Against the background of good monsoons and stabilizing commodity prices, demand for credit in our agri division is expected to be good going forward. Our customer cash flows continue to be good in this business. We continue to grow our retail microfinance book, focus is on semi urban and rural markets and borrowers in the agri and allied segments. Collection on demand in this segment has also been good. I will now hand it over to Shanti to take it ahead.

Shanti Ekambaram:

Thank you Kannan. In continuation I'll start with advances. All our retail lending products showed robust growth in Q1. At the consumer assets aggregate level we grew 44% Y-o-Y and about 6% Q-o-Q. Mortgages, we continue to see demand for home loans in this quarter. Last quarter we shared with you about the launch of our DIY journey. Taking our tech investments further in this business we went live with revamping our core tech stack performance on the salesforce platform. We expect it to enhance our customer experience even more. We continue to focus on acquiring quality customers and strengthening the market share in this very important focus business for us. We

saw good volumes in LAP on account of business momentum in the quarter. Our mortgages business grew 46% Y-o-Y and we continue to consolidate our business in both home loan and LAP.

Unsecured retail, we had one of our best quarters in credit cards with acquisition of over six lakh cards and the card spends also saw their best ever quarter. Bulk of the sourcing has been from existing customers. We launched a marquee product White Reserve targeted on the ultra HNI segment and has been one of the best offerings in this space. Overall credit card advances grew at 77% Y-o-Y.

Personal loans, we had a healthy quarter on account of increased demand in consumption from segments like travel, wedding, home loan, renovation, and over 40% of the personal loan continues to be sold digitally and internally. We have scaled up our acquisition in both the traditional and the digital led data space. Consumer finance a good quarter across physical and digital distribution and we continue to focus and scale in this space. Across personal loan consumer finance and business loans, the advances grew 77% Y-o-Y. In the working capital and business banking segment we have been focused on growth and focus on prime quality. Businesses are witnessing higher input prices and the currency volatility along with interest rates. However, we continue to identify opportunities through sector focus, and with clients which are at the top end of their respective industries and segments. We have been sole bankers for most of these clients with a full suite of loan and banking products.

We are seeing a demand for capex picking up and therefore some increase in demand for their working capital as well. Unsecured business lending is seeing steady demand from all sectors, particularly the services sector. We were the first bank to go live with transaction on GeM Sahay platform this quarter. And we hope to scale this up on a real time lending basis. About 85% of the business banking portfolio in consumer qualifies for the priority sector. On collection, our bounce rate continues to be better than pre-COVID level and demand efficiencies stable across all products during the quarter. We've invested significantly in the consumer assets across tech, digital and data and will continue to grow this business.

Now to deposits. The average fixed rate savings deposit grew at 8% Y-o-Y. Current account at 19% and term deposits at 16%. The focus continues to be on granular retail customer growth across digital and physical channels and 811 continues to contribute successfully to our digital customer acquisition. The bank had 34.5 million customers as at June 22 versus 26.8 million customers, a growth of 28% Y-o-Y. Our CASA ratio was at 58.1% as of June 22. CASA and TD below five crores comprise 88% of deposits. TD sweep deposits were at 7.4% of total deposits. Cost of savings was at 3.59% this quarter versus 3.73% in Q1 last year. We continue the focus on asset cross sell to our customer across all the retail consumer and the commercial space. This was driven by

deep analytics and that helped deepen our customer base. We continued our focus on fee income across trade, FX, insurance and investments. Post receiving in principle approval from the Government of India for agency business we've gone live with customs and income tax payments for our customer. And we'll go live with GST, customs and railway pension upon receiving necessary approval, and we intend to build each and every one of the individual proposition.

Our savings deposit growth has largely been from granular retail customers and we have seen funds move to liquid and other higher interest bearing options by HNIs and UHNIs. We have a very low base of government business, which we have started our journey after the agency business approval and we will focus on scaling this with a continued focus on retail segments. Customer acquisition deepening in CASA is the core of our consumer bank strategy and will continue. I will now request my colleague Dipak to take you through the digital highlights.

Dipak Gupta:

Thank you Shanti and good evening everyone. The broad tech strategy continues to be three pronged, #A, sharpening the acquisition engine, two, enabling customer engagement and three, enhancing customer experience. And if you look at this quarter, we focused on all the above three aspects and to that extent, we've been working largely on building resiliency, reinforcing all our core systems and improving the customer journeys. Shanti mentioned about some of the interesting introduction of products particularly on the tax payment side, you will see a lot of those going forward. And this will help us build not only government deposits, but acquire new customers while it helps our existing customers in their transactions.

On the digital side we have progressed with the market. Initially several of our digital initiatives were largely in the payments space really, this keeps witnessing continuous technological developments driven primarily by UPI, and other P2P and P2M customer segments. We have recently launched Spendz account as an interesting proposition. Spendz is a prepaid account for customer, our customers that is Kotak customer's to manage their everyday expenses. And we've seen a lot of traction from customers on this proposition. You secure your small payments without exposing the main account or debit card through the Spendz account.

While payments continues to be an area of focus, we have moved on to the retail assets segment and again Shanti touched upon some of these basically the consumer lending space, the key focus of technology and analytics here has been to #A, improve the customer acquisition metrics, convert or cross sell to a larger base of our existing customers and lot of work is going on in the unsecured retail segment in this area. And #B, significantly improve the customer journeys through DIY that is do it yourself, and assisted digital processes and ongoing endeavor in all these digital pieces is to continuously improve the customer experience. So, a lot of work on the mobile, newer

versions, state of the art versions and developments on the mobile, on the net, and several other channels for that matter, whatever the customer chooses.

While a lot of digital is focused on the retail customers, I must mention about the work on the retail commercial side and Manian also mentioned briefly about the corporate side. Kotak.biz is our offering in the retail commercial space. It is a mobile app which offers a sort of all in one bundled merchant proposition. A lot of digital generally tends to be largely focused on the retail side, we've actually invested very significantly also on the wholesale and corporate side. We talked about briefly about Kotak Fyn in the past, that's a state of the art transaction banking offering. And we've added a lot of functionalities to that really.

The key digital metrics are outlined in our presentation and just to name a few. Our mobile banking app continues to be among the top rated banking app. 98% of our SA transaction volumes are in digital or non-branch modes and increasing trend in digital source retail asset products. I'll hand it over now to Gaurang to take you through the life insurance space.

Gaurang Shah:

Thanks Dipak and good evening friends. We have a more normalized quarter for life insurance business with the profit after tax at Rs. 248 crore for the quarter against loss of Rs. 243 crore last year. Last year we had significantly higher death claims and COVID-19 related provisions and claims net of reinsurance for this quarter Q1FY23 was at Rs. 306 crore against Rs. 562 crore in Q1FY22. The premium growth also came to more normal, gross return premium has gone up by 35.8% from Rs. 1,663 crore to Rs. 2,258 crore in Q1FY23. Individual new business APE grew by 44.6% which is more or less in line with the industry and the group new business premium grew by 78% on the back of strong recovery in credit term business. The AUM growth was 15% Y-o-Y we ended the quarter with a net worth of Rs. 4,522 crore with a solvency ratio of 2.72 compared to 2.57 at the end of Q1FY22. Now, I hand over to Manian to take the presentation forward.

KVS Manian:

Thank you Gaurang. In absence of Jaideep let me stand in for Kotak securities. As you can see in our presentation the cash volumes in the market plunged from about Rs. 56,000 crores last year and Rs. 48,000 crores in the Q4 of last year to Rs. 42,000 crores in the current quarter, while the option volumes grew to 51 lakh crore from 22 lakh crores a year ago and 46 lakh crore a quarter ago. So, we have gained cash market share in the quarter from 9.6% to 10.4% on a Y-o-Y basis, you can see a drop in the Q4 to Q1 from 11.5% to 10.4% that is essentially because we closed some large block deals in the last quarter in the institutional segment of the business. Overall our market share has grown from 2.4% last year to 4.3% and 3.7% in the last quarter. Primarily because we gained significant market share in the options segment in the retail side, where we made a specific customer offering to enhance this market share. Overall, our franchise remains strong both on the retail and the institutional side. We continue to gain new

account opening market share in the retail side. And on the institutional side, our research analysts and sales teams continue to be rated very highly by institutional clients. The retail side is also seeing significantly enhanced usage of digital channels those numbers are there in the presentation. But more importantly, we have gone live with our new app Neo, which has been launched for acquiring new customers. And the gradual migration program of existing customers from the old app to the new app is on the way.

In profit terms, we ended the quarter with about Rs. 219 crores of PAT, which is a small decline over the Q1 last year at Rs. 236 crores and 13% decline from a sequential Q4 quarter. Taking you through KMCC, we capitalized on the small window that remained open kind of before it closed in the first quarter on the ECM side of the business and we were involved with several marquee transactions in the first quarter, and we could sustain our revenues in the first quarter based on that. We do see pressure on revenues, especially on the ECM side in the subsequent quarter. We do have a reasonable pipeline on both ECM and advisory mandates. On ECM, of course, depending on markets returning and getting comfortable with launches of reasonable size issues, we do have potential to book revenues through the year. On the advisory as well we are seeing transactions take slightly longer to close than we have seen in the last couple of years. But we do have a good pipeline there.

Overall, the business ended with quarterly profits of profits after tax of Rs. 51 crores which is better than the first quarter as well as the sequentially quarter behind us Q4. I will now hand over the presentation to Kannan to take you through Kotak Mahindra Prime. Thank you.

D. Kannan: Thank you Manian. Kotak Mahindra Prime had a profit after tax of Rs. 157 crores for the quarter. The profit after tax is lower due to a onetime charge of Rs. 111 crores, though the PAT is much higher than the same quarter last year. Demand for cars continue to be good in spite of the increase in vehicle prices and interest rates. At Kotak Prime we continue to invest in our distribution infrastructure and technology to grow our market share. The collection environment through the quarter has been quite stable. I'll now hand it over to Nilesh to take us through the AMC business.

Nilesh Shah: Thanks Kannan. Our total average AUM grew 15% Y-o-Y to Rs.2.84 trillion. Our equity average AUM despite market correction was flat at Rs.1.44 trillion. Our total AUM market share increased to 7.43%. Our SIP inflows for June 22 grew 34% year-on-year to Rs.7.3 billion. Our SIP book and average AUM growth continues to outpace industry. Our retail AUM stands at 49%. We continue to serve investor requirements by launching active as well as passive funds focused on local as well as offshore markets across debt, equity and commodity. Our profit after tax was almost flat at Rs.106 crore for June'22 quarter. Our total AUM across mutual fund, PMS, offshore insurance and

alternate assets grew 10% year-on-year to Rs.3.78 trillion. Our relationship value across private banking priority and investment advisory grew 24% year-on-year to Rs.5.01 trillion. With this I will hand it over to Jaimin Bhatt.

- Jaimin Bhatt:** Thanks Nilesh. We will be open to taking questions from any of you.
- Moderator:** Thank you very much. We will now begin the question-and-answer session. First question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** The first one is, just wanted to understand about the savings deposits and thanks for giving more disclosures around it. So, the fixed SA can we really know the average balances and how sort of that is moving and what would be the cost of deposit on the fixed SA?
- Jaimin Bhatt:** Cost of deposits what you see there 3.59% is the overall cost of the savings deposit. Technically, there's not much between what is fixed and floating.
- Rahul Jain:** -Just wanted to understand about the savings deposit base, what would be the average balance per customer in the fixed SA part that you shared this time?
- Shanti Ekambaram:** So, Rahul hi this is Shanti here. It's different across different customer segments, At the very retail end it would be below a lakh, in the HNI segment it is much and significantly higher several x's. In the NR segment again it is about four, five lakhs and in the retail institutional segment it's much higher. So, different customer segments have different average balances, at the absolutely retail level it will be just under a lakh of rupees.
- Uday Kotak:** Rahul, on your second question with reference to cost of SA, while the average is for the last quarter is 3.59 if you note, you may be aware that we were amongst the first banks to increase our SA rate because of the changes in interest rates post RBI on May 4th, so we did it sometime late May, if I'm not mistaken. We increase the deposit rates as of June. So, as things stand today, our savings deposit rates for up to Rs. 50 lakh is 3.5% and above Rs. 50 lakhs is 4%. So, this in general is compared to the other larger banks, our savings deposit rates are 50 basis points higher than the larger banks.
- Rahul Jain:** And it would have fully reflected in the 3.59 that you've reported or yet to review?
- Jaimin Bhatt:** Just as a this things Rahul as we said the change happened in June somewhere around the end of 12th of June. So, if I look at a comparative number for the previous quarter, the savings average number was 3.53.
- Rahul Jain:** Understood. And then the reason why we ask these average savings balances is just to understand the strategy behind growing the savings deposits again in this cycle given the LDRs have already touched close to 90. So, what strategy are we sort of trying to

follow, will we be pricing SA more on the higher end of the customer base, the ultra HNI, VHNI, etc. or this will be all across and again just from the LDR what's a comfort level that you all have 90%- 92% is where we would want to run or it could be even higher?

Uday Kotak:

So, Rahul basically we feel that our current view is that we are in a comfort zone considering significantly higher capital adequacy. Therefore our credit deposit ratio has also to be looked at number one with your overall capital adequacy. Second, the medium term refinance which you got from financial institutions. So, we have taken reasonably significant refinance earlier from some of the financial institutions which was fixed rate which was taken and locked in through entire FY21-22 which does not reflect in the credit deposit ratio because that does not come in as deposits. And in addition to that, as Jaimin said, we are setting on capital of around 23%. So, both these give us greater flexibility to be able to be comfortable in the broad around the 90% range, maybe a little lower is what we would like to see, but at 90 we're still comfortable. So, that is what our broad strategy is and in terms of the savings deposit rate, we obviously have a significant discussions on strategy how to go forward and when we are sort of looking at that and implementing that, I'm sure we will certainly share with the marketplace.

Rahul Jain:

Got it. Can I just squeeze in one more question on actually that's more on the credit cards, bit or shall I get back into the queue?

Uday Kotak:

Go ahead ask.

Rahul Jain:

Sure, thanks. On the credit card side here you've been building up the receivables base. So, can we just know what kind of revolver book that we're running in or this is more like the EMI loans, what's the nature of these balances that we are building up and what kind of customers are these?

Uday Kotak:

So, Rahul our current revolve ratio, the ratio was around 30% which is more or less in line with industry.

Rahul Jain:

And these balances would largely revolve or there would be an EMI element also in this or that goes and sits in the P&L?

Uday Kotak:

In fact EMI has grown reasonably maybe faster than the revolve.

Shanti Ekambaram:

Rahul, I can say that we are absolutely in line with industry in both segments both EMI as well as revolve. In the industry and EMI has grown more than the revolve as Uday shared.

Uday Kotak: And Raul as I just mentioned, we are moved from 5.6 to 7.9 in the mix on unsecured retail, please keep in mind unsecured retail has a significant amount of front ended cost in acquisition, which is what we are taking through our P&L and the benefits of margin on unsecured retail come over time. And as I mentioned to you, and we are also looking at our pre COVID numbers over time, so up and we like to include microfinance also in unsecured retail, we don't think it's any different. The overall our comfort is to move in unsecured retail to early mid-teens from the current 7% odd as we have discussed. So, you would see that growing as we've seen in the last quarter, with a much greater comfort and on our credit and deep analytics, our ability to take higher risk for adjusted returns especially with annualized credit costs at 16 basis points our appetite is reasonably significant.

Moderator: Thank you. The next question is from the line of Adarsh Parasrampurua from CLSA. Please go ahead.

Adarsh Parasrampurua: Just checking on the liability side, term deposits. So, you mentioned we are now priced marginally higher than some of the larger banks. And obviously we have seen an uptick in our growth and we kind of run down a lot of extra liquidity that we had in the Bank all the Gsecs. So what kind of delta are we seeing once we've moved on the term deposit rates like how comfortable are you with the pricing or would you need to have a higher differential?

Uday Kotak: Let me just clarify when I talked about deposit differential which is 50 basis points on SA, that is on savings deposits compared to the larger banks. So, most of the larger banks are up to 3% on SA, we are 3.5% on SA up to Rs. 50 lakhs and most of the larger banks are at 3.5% above Rs. 50 lakhs we are at 4% and there is a reason why we are at 4% because we think that in India Cricket matters. And four is also a very important cricketing terminology. So, I'm just in the lighter vein sort of sharing with you. So, when I say 50 basis points higher is with reference to savings deposits. On term deposits, I'll ask my colleague Virat to give you a sense about how the flows are going as we talk, but on term deposits, the difference between some of us banks is barely 10- 15 basis plus minus depending on the situation of each bank and it's nowhere near the 50 basis points I talked in the context of savings deposits, with that over to Virat Diwanji.

Virat Diwanji: Yes, the growth in the retail TD that we have seen in this quarter has been what you call mainly coming from the fact that the interest rates have started looking up and hence the investor is investing in the TDs and this has given us the growth and it continues to continue in the coming quarter.

Shanti Ekambaram: Pretty strong growth this quarter

Uday Kotak: So, Adarsh I hope that clarifies for you.

- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Edelweiss. Please go ahead.
- Mahrukh Adajania:** I have two questions. Firstly, just on the AFS book so how much would be GSECs and how much would be non-GSECs?
- Jaimin Bhatt:** The 61% which I talked about is overall, which does include corporate bonds, let me see if I could give you something.
- Uday Kotak:** While Jaimin is giving you the breakup between GSECs and non-GSECs I wanted to just clarify another important point. If you notice, the duration which we are carrying on our non HTM book is about one year. And I want to highlight some facts to you as analysts, which I'm sure you're aware of. If you look at our overall fixed income book, it's just about Rs. 88,000 odd crores out of which about 39% is HTM if I take that out, about Rs. 50,000 odd crores is what is AFS and HFT. And you would have seen a hit on our P&L which is about Rs. 857 crores coming out of our fixed income book. Please keep in mind, all these are government securities with shorter duration, they are not T-bills. If it was T-bills, there would be no need to mark to market but because they are government securities, they have to be marked to market. But for comparison for analysts, I'm just highlighting two touch points on 31st of March one year treasury bill yield was 4.45%. On 30th of June one year treasury yield was 6.2%. Therefore, if the difference is 175 basis points on one year maturity paper. Now because in our case, it was GSEC with a duration of one year and not T-bills or any other paper and which was completely in the AFS book, you have to do your mathematics 1.75% differential on a Rs. 50,000 crore book which is our 61%, gives you the number which will explain the size of the hit which we have taken. We want to be completely transparent about the hit we have taken in this quarter. But please keep in mind, along with the MTM our entire book is re-priced, to that extent going forward.
- Mahrukh Adajania:** Got it. But you wouldn't have transferred anything to the HTM though you had limit this time?
- Uday Kotak:** No, we have not transferred anything to HTM. Our view on HTM versus AFS and HFT is we like to put more tenured paper which is longer duration paper, if any, into the HTM book, and whatever is shorter tenure paper, we are much happier to take it keep it in our AFS book and this has been a philosophy for a long time. And as a result of which if there is volatility, I would rather take the pain up rather than have a long term drag on my NIM which inevitably happens if I'm having a low yield paper stick in my HTM and give me lower NIM over long period of time and more importantly, it re-prices my book to the current market price, which means if one year duration security is today trading at 630 - 640 I'm fully priced to market in terms of my yield going forward.

- Mahrukh Adajania:** Got it that helps. Uday sir you did not give any overview on the sector this time.
- Uday Kotak:** I thought Mahrukh some of it you may get from my Tweets.
- Mahrukh Adajania:** Yes, I do follow your Tweets.
- Uday Kotak:** Okay, my view is that this is early stage of the interest rate cycle increase there is some way off. It depends on how this whole business about commodities plays out globally. My personal view is the US fed goes all the way up to 3.5% short term rates by end of this calendar. It is right now every Central Bank is following suit and different Central Banks have different choices. Our Central Bank has to make the tough choice between sort of supplying dollars to the market and increasing interest rates versus some level of currency depreciation. At least based on the evidence as of now, our Central Bank seems to be more comfortable with supplying dollars in reasonable amounts based on the data available, which undoubtedly reduces the liquidity in the marketplace. I was just looking at the commercial banking liquidity numbers, 30th September 2021 the liquidity in the system was Rs. 808,000 crores. The number I saw day before yesterday, the liquidity in the system was 129,000 crores. My colleagues mentioned that there is about two lakh surplus unspent government money. So, even if I took that from Rs. 808,000, you're down to about three lakh crores of liquidity. So, as you supply more dollars in the market, you take rupees out. So, I am of the view that at least the short end Indian interest rates continue to tighten, we can see that situation clearly and in that context Mahrukh if you look at, I'm connecting the macro with our overall asset book, our asset book between floating rate plus fixed rate below one year is more than the 80% of our advances. Sorry, fixed rate less than one year sorry, my floating rate book plus fixed rate book less than one year is more than 80% of my advances. So, that is consistent with our macro view that the short end interest rates move up, and therefore we must be less stuck on the long-term fixed rate loans. And for us, more than one year fixed rate loans is now below 20% of our total book, which means our entire loan book up to 80% gets more reasonably priced in the short term consistent with our macro view.
- Mahrukh Adajania:** Makes sense. And do you see any risks to loan growth for the sector and therefore for you either retail or corporate going ahead maybe in the second half?
- Uday Kotak:** Mahrukh I can't, my view is that yes, there are different sectors which are demonstrating different trajectories. My view is that it is possible for us as a bank to grow one and a half to two times nominal GDP.
- Moderator:** Thank you. The next question is from line of Shubhranshu Mishra from UBS. Please go ahead.

Shubhramshu Mishra: Just to ask a question on the credit cards again, how do we source these can we split that into our own liability customers and when we split it into own liability customers how many of them are coming from the salary accounts versus other liability customers and what proportion is coming from open sourcing and what is the cost of each of these sourcing. And when we have to look at the AUM split right now, you gave the revolve rate, but what is the percentage of revolvers in this book, percentage of transactors and percentage of EMI in the book and what was this a year ago. And what would be the steady state ROA of the credit card business.

Shanti Ekambaram: You're asking too many questions. Let me address the larger picture. Close to 100% of our credit card sourcing is from internal liability customers, from my internal asset and liability customers close to 100% so it will be a very marginal percentage that come from outside and we have a good mix of both corporate salary as well as the non-corporate salary. The customers with salary account and segment as well. As Uday had stated earlier our revolve is around 30% and our EMI and revolve is in line with industry. Exactly what was it a year ago as well as now. A year ago the revolve ratio was around close to 27%, it's about just under 30% just now and similar to the industry trends that we have been following.

Shubhramshu Mishra: And the steady state ROEs ma'am?

Shanti Ekambaram: Sorry?

Shubhramshu Mishra: The steady state ROE on this book right now?

Shanti Ekambaram: No, I don't think we sort of talk about ROE specifically for a product but Uday made a general comment last time to the risk adjusted return on our asset products including unsecured retail is holding and the NIMs reflect it.

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

Saurabh Kumar: Sir two questions. One is what will be the LCR during the quarter, both average and period end and secondly, could you just explain what's happened in Prime and Investments both. So, I understand the accounting policy change, but there seems to be some additional impact investments as well?

Uday Kotak: I'll request the head of risk – Paul Parambi to answer that please.

Paul Parambi: Yes, our average LCR for the last quarter was 119.9.

Saurabh Kumar: Okay, and period end sir?

- Paul Parambi:** End of period was, we will come back to you on that one.
- Dipak Gupta:** And on your second question?
- Saurabh Kumar:** Prime and Investments both the profit, there is an accounting change.
- Jaimin Bhatt:** So, if you look at the accounting is only in Prime it has nothing to do with Investments. Broadly what we did in Prime is you do get sourcing of car loans through brokers. And the expense which you incur was kind of being amortized over the life of the loan. From April 1, 22 we have taken the entire hit upfront. So, we will ongoing take the entire hit upfront. And whatever was there as unamortized as of 31st of March, we've taken that entire hit into the current quarter. So, that's the pre-tax number of Rs. 111 crores.
- Saurabh Kumar:** Okay. And sir Investments also there is a profit dip quarter-on-quarter?
- Jaimin Bhatt:** Yes, Investments is a small dip. If you look at quarter four for Investments is always a very healthy quarter. So, it's not correct to look at quarter four to quarter four, quarter four to quarter one. Quarter one last year was about 71 crores, so that has dipped by about eight crores in the quarter which is not significant.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from ICICI Securities. Please go ahead.
- Kunal Shah:** So, firstly, with respect to margins this improvement which is there, there could be various levers to it. But just want to understand in terms of the re-pricing benefit, because of EBLR and MCLR has it happened is it like a one month reset and it is already reflected maybe apart from the period from which it is effective, but at least it's already done in terms of the reset?
- Uday Kotak:** Kunal the way EBLR works is three months reset, there was some part of it has come in this quarter balance will flow over the next few months in terms of the re-pricing benefit., Similar for MCLR bulk of our MCLR book was six months MCLR. Therefore depending on when the six months gets over, it starts flowing in. So, both those significant part of those benefits some part has come in, but a lot of it will come in second quarter.
- Kunal Shah:** Okay. So, EBLR three months, MCLR six months so larger part of the increase is again in terms of deployment of liquidity and growth in unsecured?
- Uday Kotak:** Right.
- Kunal Shah:** Okay. And maybe as you highlighted in terms of the your view with respect to the short term Indian rates still getting tighter, it's very much unlike of Kotak in terms of still

having more than 60% in AFS and HFT. So, what's there may be in terms of, you are still keeping it all through this entire cycle rate hike cycle, so you have you articulated that but it's still slightly difficult to get because all the other banks are much lower and they are accordingly.

Uday Kotak:

Kunal, I've given you the mathematics, at 61% it translates to Rs. 50,000 crores of book, the average duration of the book. I said around 50 somewhere in that range. Average duration of the book is one year, I gave you one year treasury bill rate on 31st of March which was 4.45 which is a publicly available number. I'm giving you 30th June one year T-bill rate which is also a publicly available number of 6.20 that is 175 basis points difference. If our number was, if our one year duration GSEC book was 50,000, 1.75% into 50,000 converts to Rs. 850 crores of course there are some other variations now, but I'm trying to simplify it. Therefore, I don't need to look at what other banks are, our number is clear, one year duration Rs. 50,000 odd crores book, Rs. 857 crores hit, 175 basis points increase in one year T-bill rate between 31st March and 30th June. So, it's very clear, I cannot comment on others I can talk about us. And let me again bring you back to history. On 30th in September 2013 if you go back to Kotak history, we have always followed a philosophy that the short end book is always kept in AFS and HFT so, I don't think if you have a short end book you keep it in HTM as a philosophy, maybe we are different, but even in September 2013 we had taken a very large hit because a very large part of our book was in AFS you are aware of September 13 paper tantrums and the significant amount of MTM pains which happened Kotak had a very high MTM number even then, and at that stage RBI had allowed banks to amortize it over time, Kotak had taken a decision not to amortize it and take the hit on the chin in that quarter. So, the philosophy in September 13, in June 22 is no different what we care about more is the substance of our duration from a risk management point of view. And in terms of substance, our duration is one year, and we cannot make it significantly lower from that keeping in mind the risk adjusted returns. So, duration is one year, 61% of the book is AFS, HFT, movement in a Treasury bill yields are publicly known. And the translation to us is transparently put in front of the investors in the marketplace. We cannot comment on what others are doing.

Dipak Gupta:

And in many case, like Uday explained, the whole book is re-priced already so you're running a higher yield for the remaining period now. So, ultimately financially it doesn't really make too much difference.

Kunal Shah:

Sure, okay. And secondly in terms of credit cost, so again you said like in terms of the unsecured we would want to take it to somewhere around early to mid-teens. So, on a steady credit cost what we had in prior to COVID in fact now it should settle at a relatively higher level. But at the same point in time margins are also improving, you said you always talk about the risk adjusted return, but maybe in terms of the underwriting and the kind of credit which we are doing we are very confident that it can

actually lead to relatively better profile, because we would still be able to contain the credit cost better than what benefit we are seeing on the margin side?

Uday Kotak:

Kunal, on credit cost it's always better to walk rather than talk too much. And let me give you the history about again, the analyst community concern in December 2020, when we wrote a large ECLGS book compared to many other players. There was significant concern that this is going to hit us in credit cost, we said that we feel reasonably confident about what we are doing. Now all that is now reflected in our current credit cost which are not considering COVID writeback and all of 16 basis points annualize we think this is very, very good but we also realize that some of this we are in a very sweet spot therefore how sustainable 16 basis points annualized is, is something which I don't want to speculate at this stage, pre-COVID credit cost used to be between 40 and 50 basis points, that today at 16 basis points annualized. I don't want to be a predictor of where the credit cost will be, but we are brutally focused on risk adjusted margins and that's what will drive our behavior.

Kunal Shah:

Sure. And couple of data points from Jaimin. So, firstly, on the breakup of SA between more than 50 lakhs and less than 50 lakhs if you can give and second in terms of the consolidated earnings and the intercompany adjustments seems to be quite high, it is almost equivalent to what was there in full year of FY22. So, anything to read into it and does it have any impact on distribution income?

Uday Kotak:

No, okay let me the first one honestly, I don't think we are talking about giving that data about what is over 50 and below 50. So, I'm not getting into that data, the intercompany adjustment actually if you look at quarter one last year also it will be a reasonably large number that to a large extent the largest portion of it would be intercompany dividends. So, if my subsidiary has paid dividends to the parent or subsidiaries also held by some of the other entities, those will all get knocked out at the consolidated level. So, if you look at last year first quarter also it was a high number, almost equivalent to the whole number which we had for of the year and that's also reflected in the current quarter.

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 on OPEX and if I understand this well, there are three key drivers, one is disbursement, second is tech and digital, third would be collection infrastructure that you've generally been saying that you've been investing in. Should we expect some of these expenses to now normalize over the next two, three quarters, and the jaws between revenues and cost to open up by the end of this year? Thank you.

Uday Kotak:

I'm going to ask Mr. Dipak Gupta. Since he is now our champion on tech and digital and also on acquisition, he can also comment on it. So, over to Dipak.

- Dipak Gupta:** Sumeet did you say jaw open up or jaws shutting?
- Sumeet Kariwala:** Dipak I am talking about revenue is growing faster than cost, which logically should happen, I am just trying to understand.
- Dipak Gupta:** Yes, that's logical, but some amount of tech spend uptick will happen. But having said that, you see as your retail piece grows faster than others, the upfront cost hits you, the revenue stream happens over a period of time. And that goes on until you slow down the growth rate, I don't see retail slowing down in the next one or two quarters as such. So, for the next one or two quarters you will continue seeing the upfront acquisition cost and the tech cost really hit you, the rest of them probably will normalize. And then also what happens really is once digital see one of the things which I mentioned on digital really is a lot of DIY, and assisted digital processes. Now, once these fall in place, a lot of your acquisition costs, particularly manpower related acquisition costs, start evening out really, that automatically gets your acquisition cost down. But that impact will take about two to three quarters for it to start reflecting, but it will happen big time because we are changing acquisition journeys practically across all asset products including the non-retail one, so that will have a significant efficiency over a period of time.
- Sumeet Kariwala:** Very clear Dipak and the other question was on fee income. So, I'm not talking about fee income this quarter which was 42% and partly helped by the base. But generally, should we expect fee to assets improve over the next two, three years, one is because it you are growing unsecured much faster. And second is, there could be some fee income pools on the corporate side that you might be able to capture so just trying to get some sense on how things will move in next 2 to 3 years
- Dipak Gupta:** Yes, all three will happen the corporate side will happen, see on the retail side again products like credit cards and all have very significant fee pools. And the third one which also depend on markets to some extent are really the distribution related one, so all three streams should happen really.
- Moderator:** Thank you. The next question is from the line of Praful Kumar from Dymon Asia . Please go ahead.
- Praful Kumar:** Uday one question on the deposit side, since we have significant advantage now, asset re- price, investments you have taken the hit already. Any broad strategy on the term deposit rates or how do you accelerate the deposit growth over next three, four quarters?
- Uday Kotak:** Let me first say that, by design we had slowed down the engine on retail term deposits in the last two years in terms of not pushing it as aggressively as we used to do it before that. And retail term deposits it's not that we were shooin customers away, please

don't mistake that but we were not necessarily wanting to be the most aggressive on the price on retail term deposits. We are finding that, that engine is cranking up pretty well on TDs and we therefore feel reasonably confident that and I joke internally, that if I look at our deposit market share, 2% bank. So, there is 98% out there therefore we don't feel it is that difficult for us, if we decided to crank up and get our deposit base higher and the franchise we feel is strong enough for us to be able to do it as we are sort of getting our engine cranked up. So, I don't worry about the term deposit part and getting our act together in terms of cranking it up significantly. We have also, the other very important difference between us and some of the larger banks is, till now we were completely absent from payment of taxes and government revenues which since we were not, empaneled, as you know the budget last year opened up empanelment and then we had to do all the tech connections with the central government and also some of the state governments who depend on central government signal whether we are empaneled. Now we have fully empaneled, we've got all our tech stacks getting cleared, or some of them cleared therefore a whole new sense of flows, which was otherwise not available to us versus the larger banks has now opened up and we see the government payments, tax, GST all those being available for our customers a simple point is on tax 2.0, which is a new system put in by the government. We are amongst the first banks who has run with the ball literally about a couple of weeks ago and some of the existing banks have to come to the new platform, they're still on the older platform. But over time government expects all the players to be on the new tax platform, we are already there and we are starting with the new tax platform, we don't have the legacy issue. But we see some of these actually making much greater customer stickiness for many of our customers, otherwise what was happening is existing customers would say that your bank may we cannot pay taxes, GST, and then they have to either use another bank or pay one day early because there was a friction for our customers that literally as last two weeks ago, has now opened up. So, we think some of these, along with a much greater focus on getting our liability engine firing across the board which is a big area of focus for us as we speak. And, I would like to believe that Kotak management when we make up our mind, we do bring the change, many of you about 18 months or 24 months ago would have said when will Kotak asset engine rev up, now you are asking the question where we have historically been good at which is the deposit engine. So, we are getting our act together that's all I'll say.

Praful Kumar:

No, that's a very comprehensive explanation. Uday one anxiety that, all the investors has is the management transition. So, maybe broader thoughts on when you think in terms of timelines, it happens, what would be the overlap, we understand and appreciate that you will be the largest shareholder and you worry about things much more than we do. But that is one pushback that a lot of panelists must have.

Uday Kotak:

Please rest assured that the 26% shareholder is fully committed to the balance 74% shareholders to ensure smooth transition.

Moderator: Thank you. Ladies and gentleman that was the last question for today. I would now like to hand the conference over to Mr. Kotak for closing comments.

Uday Kotak: Thank you very much. We are certainly into volatile times. Having said that, we think we are reasonably positioned and we see ourselves being able to navigate through this in a reasonable manner. I'm going to share with you a comment which I've put in my annual shareholders message for this year which will be out shortly, that the word change is the new comfortable feeling at Kotak, change is the new comfortable feeling at Kotak. Okay, with that I will end this call. Thank you very much.

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