# Kotak Mahindra Bank

# Q1FY25 Earnings Conference Call

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***Safe Harbour***

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Kotak Mahindra Bank Q1 FY'25 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 this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashok Vaswani – Managing Director and CEO of Kotak Mahindra Bank. Thank you and over to you, sir.

**Ashok Vaswani:** Thank you. Thank you so much and welcome, everyone on this Call to discuss the 1st Quarter '25 Results.

The 1st Quarter has been a very busy quarter for us and today I thought I would cover three things with you, which I am sure on the top of your mind as well.

I think the primary and first thing I would like to cover is the power of being a financial services conglomerate. Obviously, as you know that in this quarter, we closed the disinvestment of the 70% stake in Kotak General Insurance to Zurich Insurance for a consideration of Rs.5,560 crore. The reason I am highlighting this is because:

#1. As I have always mentioned, we will always evaluate our businesses from the eyes of our shareholders. In instances where we think that there could be a better owner that could generate a higher value, we will evaluate that option. In this case, not only have we got a great return compounded growth rate of 45% since we started in 2014, but our continuing relationship with Zurich both in terms of ownership and operational activity, which will continue to be highly accretive to our shareholders.

#2. This transaction also demonstrates the real value of our subsidiaries both in terms of the current embedded value and the way the value grows year-on-year. Obviously, where we feel that we have got a good position and that we have the capabilities to run a particular line of business in a subsidiary on our own, we like the notion of being a financial services conglomerate. And that really is the second point that I wanted to come to, that the power of being together and the power of having the four businesses of banking and lending, asset management, capital markets and protection, really allows us to meet the holistic needs of our customers. I will come to that a little later.

The second thing I wanted to talk to you about was obviously the RBI order. I am very pleased to report that we have made substantial progress on all the points through significant work that our technology teams have put in. In consultation with the RBI, we have put together a comprehensive plan. We have beefed our internal team with resources from Accenture, Infosys, Oracle and Cisco and focused on relentless execution.

We appointed GT Bharat as our external auditors with the approval of the RBI, and they have already commenced their work. We continue to work closely with the RBI and obviously keep them updated on all developments.

As we stand today, we are on track exactly where we thought we wanted to be, maybe even slightly ahead. Our financial estimates around the RBI continue to hold and it all seems in the kind of place where we thought we would be after the order on April the 24th.

Thirdly, I wanted to talk about the business. Devang will of course take you through the numbers in detail. As I mentioned at last quarter's result, the RBI order would affect our 811 and credit card businesses. There would also be a period of two to three weeks as we shifted gears from a digital onboarding process to one which was an assisted process. All of this is played out in the quarter exactly as we anticipated. And obviously this has had some impact on unsecured book growth and consequently on NIM.

Despite that, I am very pleased to say that we have made very good progress in deepening relationships with our 811 customers and through enhanced offers to our credit card customers, maintained ENR levels in cards. In fact, market share of spends on the credit card have actually inched up from March in May. Because of all of the above, we sincerely believe that when the embargo is lifted, we will come out even more strongly.

Exactly, as we talked about last quarter, the rest of the business was unaffected and grew really well. The 1st Quarter is always a muted growth. And if you think about it, the Bank grew year-on-year at about 2%, our subsidiaries grew at 26%. Within the Bank, obviously, if you take out the impact on the unsecured businesses and 811, the rest of the business grew very well. Advances and deposits both grew at around 20% year-on-year.

Like I said, our capital market businesses, asset management businesses and our corporate Bank had another stellar quarter. Group AUM crossed Rs. 6,36,000 crore.

We have seen the ongoing stress in low-cost deposits. And that is an industry wide phenomenon and we continue to try and build propositions to counter this. In addition, we have seen a certain level of stress in certain pockets on consumer, retail unsecured assets, particularly at the low-ticket levels and in certain segments where the customer has got overleveraged. We are obviously maintaining a very, very sharp focus on these kinds of segments.

During the quarter, we also made solid progress in defining the next level of granularity in our strategy on transforming for scale. I wrote about this extensively in my first letter to shareholders in our annual report for the period ending March 2024.

Specifically, in this quarter, we have made progress on the One Kotak Agenda and in revamping our distribution organization, such that our customers have a seamless, resilient, omni-channel experience. More to come on both of these very important initiatives. At the end of the 1st Quarter, I am feeling more confident and comfortable that we can really transform our businesses for scale and take them to the next level of success.

For now, let me hand it over to Devang to take you through our Financial Performance.

**Devang Gheewalla:** Thank you, Ashok. Good afternoon all of you. Before I start the results highlights, I would like to explain two matters which have significant impact on the quarter results, so that all of you have uniform understanding and hopefully we end up answering questions upfront.

The first matter of course related to KGI divestment. KGI was a 100% subsidiary of Bank. The divestment got completed on 18th June, 2024. The divestment in KGI was achieved through a combination of part sale of stake by the Bank, as well as issuance of fresh capital by KGI. Therefore, post the divestment, the Bank holding in KGI stands reduced to 30%. Hence, during the quarter, till the date of divestment, it is accounted as a subsidiary and post 18th June, it is accounted as associate company in the consolidation results of the Bank. Bank was holding KGI investment at cost and received total consideration of Rs.4,096 crore for part sale of KGI shares, resulting in post-tax profit, after netting of direct expenses of Rs.2,730 crore in standalone Bank's books. Further, in addition to the standalone books in consolidated accounts, there is a reversal of KGI accumulated losses of Rs.284 crore which is proportionate to the shares sold. Hence, the total profit impact of KGI transaction is Rs.3,013 crore at consolidated results, which has been disclosed as exceptional item in press table with suitable disclosures. Shanti will of course later explain the business rationale and future benefits arising from this transaction.

So, after the KGI investment, the second matter impacting the Q1 result is the implementation of RBI direction on valuation and operations of investment portfolio. Bank has implemented this direction with effect from 1st April 2024. As required by the direction, applicable investments have been marked to market using the fair value principles, which erstwhile were accounted at cost. At 30th June, value of these investments has resulted in post-tax gain of Rs.3,414 crore, which has been accounted in reserves as required by the direction. So, the Rs.3,414 crore is an entry in the reserves, it has not gone through the P&L.

In the press table, this impact is stated on the date of implementation of the direction which is 1st April. Therefore, you see the figure of Rs.2,905 crore. The Rs.3,414 crore is the valuation impact on 30th June as compared to 31st March. Hence, while the KGI transaction has an impact on profit and net worth, the investment direction impact is only in the net worth accretion.

As you would have noticed, we have quantified impact of above matters in applicable P&L related figures and ratios in the investor presentation which you have. I will be referring above as KGI transaction and investment direction as I provide further insight to our results and largely focus on performance without considering these matters.

While this is accounting, I think as Ashok also stated, both of these value accretion transaction truly reflects embedded value of Kotak group assets, which continues to create sustainable shareholder value, which we are very proud of.

Let me now start with the consolidated numbers, which we disclosed earlier today. We ended this quarter with consolidated profit of Rs.4,435 crore excluding KGI transaction which is about 7% higher than the same quarter last year. Our consolidated customer assets Rs.4,94,105 crore is about 22% higher than the last year. Our capital adequacy at group level robust 22.8% with CET-1 itself 21.9% and the book value of our share is Rs.710 at 30th June, both of these obviously including the KGI and investment direction. ROE at consolidated level, excluding KGI transaction is 13.12% and ROA is at 2.30%.

Would like to clarify if we remove the denominator effect of the KGI investment direction from the ROE computation, the ROE will improve to 13.44%. We have highlighted that on the Page #6 of the investor presentation. So, 13.12% is only after removing from the numerators of the exceptional PAT, but if you have to rightly compute and remove the effect from the denominator of the net worth as well, it increases to 13.44%. And please remember, the transaction of KGI has come towards the end of the quarter. So, the next quarter, the impact of that average will be much higher in the ROE.

Let me now start with the individual entities starting with the Bank first:

Bank contributes about 73% of the group profits excluding the profit on KGI transaction. The Bank ended the quarter with a PAT of Rs.3,520 crore excluding profit on KGI transaction with a YoY growth of 2%. Q4 PAT of the Bank had one-off credit items aggregating to Rs.426 crore, which has been explained on page #10 of the investor presentation. This was also disclosed in our last quarter's investor presentation.

At the Bank standalone level too, we have a capital adequacy of 22.4% with CET-1 itself of 21.3% including KGI and RBI direction. For the quarter, Bank clocked ROA of 2.38%, excluding KGI transaction. Bank's customer asset grew 20% to Rs.4,35,827 crore YoY and 3% QoQ with corporate banking contributing significantly to asset growth during Q1. Unsecured retail slowed down during the quarter due to embargo on credit card and slower disbursement in micro credit loans. Our CASA ratio now at 30th June is 43.4%. Average total deposits for the year grew by 21% YoY and QoQ 7% growth. Challenges of low-cost deposit continue with savers turning into investor, deploying money in high yielding capital market products, which is reflected in our capital market business performance and an increase in cost of fund for the Bank.

On the NIM, I would like you to focus on the NIM trends for the last three quarters. Our NIM for the quarter ended December was 5.22%, for the March quarter, it was 5.28%, it increased and for the quarter June it is 5.02%. So, the way I would urge you to look at is, is actually 5.22% going to 5.02%, 20 bps reduction over two quarters, as the March NIM of 5.28% increase despite increase in the cost of fund and the CASA challenge was due to some of the one-off factors, one of them been Sonata acquisition towards the March end. We also had certain liquidity during the beginning of this quarter, which resulted in deploying assets at a lower yield, and of course the challenges on CASA as well as slowdown in the high yield unsecured business, impacted the yield, reducing the NIM to 5.02%. However, our fees and services continue to grow at a healthy pace of 23% YoY growth in Q1 compared to what we did last year. Operating cost increased 14%. YoY, including annual payroll related increases during the Q1. Potential cost estimates due to IT embargo, which we had indicated last quarter is in line with our initial estimate as per the guidance given. Gross NPA at 30th June is 1.39% with net NPA of 0.35%.

Credit cost at the Bank increased to 55 bps annualized and increase is largely due to losses in unsecured retail book in lower ticket segment and select geography for micro credit business. Currently, we do not see any stress in non-individual customer segment and secured products. Overall, if we were to conclude the Bank result, the Q1 performance normalized on backdrop of generally a high-performance year-end quarter as well as last year Q1 which had NIM at unsustainable level and lower credit cost.

Now, let me come to performance of select subsidiaries:

Kotak Securities and Kotak AMC continue to perform well with growth in capital market, increasing their contribution to the overall group profits. Kotak Securities recorded YoY 83% growth in profit to Rs.400 crore with increase in market volume. Kotak AMC made profit of Rs.175 crore, up 65% compared to last year with increase in average AUM in equity to Rs.2,68,567 crore, YoY growth of 61%

International subsidiaries also benefited from growth in capital market. And increase inflow contributing to Rs.68 crore, profit compared to Rs.32 crore as compared to previous year. KMCC profit was Rs.81 crore for the quarter against Rs.55 crore last year.

Kotak Mahindra Investment profit increased by 35% to Rs.138 crore, primarily due to growth in advances. Kotak Prime, which is into passenger car finance business, customers assets grew to Rs.35,893 crore with a YoY growth of 21%. PAT for Q1 was Rs.232 crore with a tad increase in provisions. Both NBFC, which is Kotak Prime as well as Kotak Investments, are very well capitalized, with the capital adequacy ratio of 24.6% and 30.1% respectively.

BSS Microfinance business correspondent entity has ended quarter with a lower post-tax profit of Rs.50 crore as against Rs.95 crore in the same quarter previous year. This is mainly due to lower disbursement, higher branch expansion cost, besides increase in delinquencies in select states. I must mention BSS net worth is Rs.1,060 crore as at 30th June 2024.

Kotak Life profitability got impacted on higher distribution cost and ended the quarter with a PAT of Rs.174 crore as against Rs.193 crore same quarter last year. We continue to maintain high solvency ratio of 2.48X as against the regulatory requirement of 1.5X.

With this, I complete the overview of subsidiary and Bank's standalone performance and hand over to Shanti for Business Update. Thank you.

**Shanti Ekambaram:** Thank you very much, Devang. Ashok started by saying Q1 is a muted quarter, and we also had some impact of the RBI embargo on certain businesses. In the backdrop of that, the Bank saw good growth in its advances and average deposits. The Bank's customer assets grew 20% YoY and 3% during the quarter.

If you look at the segments, consumer Bank growth was at 20% YoY and 3% QoQ. Commercial Bank at 20% YoY and 1% QoQ, impact of the microfinance business. SME, Corporate Bank including credit substitutes, grew 20%, YoY and 4% quarterly. Commercial Bank includes the Sonata acquisition.

Let me talk about the highlights in each of the segments and I will start with the consumer segment on the asset side. Our mortgage lending business continue to grow well with a YoY growth of 17% and QoQ growth of 4%. We have also seen improvement in yields in the incremental lending during the quarter. Performance of the portfolio continues to be robust, reflecting strong quality. Unsecured retail products grew 25% YoY but were flat QoQ because of the impact of the embargo. Credit cards grew mainly because of the spends increase. We could not issue new cards in the quarter post April 24th, but we still managed to maintain the book because of the spends increase. Personal loans also were flat because we had to move some acquisition from digital to assisted journeys and we lost a few days. Happy to say that we are back with that. So, the result of that, those volumes have been flat while the secured businesses have done well. In the credit card space, we do see some buildup of stress in the industry, largely due to leveraging at a customer end and to a lesser extent in personal loans. And keeping that in mind, we have tightened some of our credit policy norms in the recent vintages to align our risk appetite.

On the business banking side, in the consumer Bank, there was an increase in geographical presence, and we have seen significant increase in our footprint as well as business, and the business grew at 26% YoY and 4% QoQ.

Demand was actually robust, especially on the manufacturing side, and some amount due to the price increase in commodities.

Our portfolio continues to be healthy on the delinquency both in secured and unsecured segments in the business banking area. And we are beginning to see the demand for some amount of CAPEX in this segment for increasing capacities.

Let me now move to the commercial assets:

The commercial vehicles industry saw a growth of only 2% YoY in Q1 and a 16% degrowth QoQ. In the segment, the demand for passenger bus continued and whereas the goods segment degrew. We have grown more than 20% YoY in this quarter in unit as well as in our disbursement, thus helping us improve our market share.

Collection efficiency continues to remain stable. While we have seen some stress at the lower end of the segment, overall, we have done well, and we will continue to grow our book and market share in the segment.

Construction equipment industry in the quarter saw a moderate growth while it has grown YoY. Our disbursements grew at 16% and again it helped us gain market share. Collections and book in this segment were stable and we think that with the government's allocation to infrastructure which we expect in the budget, this segment should get a fillip, and we will continue to focus as well as grow our business in the segment.

Tractor industry was flat YoY, and our disbursements were in line with the industry. The used tractor business witnessed very good growth of 20% in the 1st Quarter. This helped us strengthen the relationship with the existing customer and deepen them as well as acquire customers. This is an important segment for us given our market share and we will continue to maintain focus in this segment.

Let's get to Microcredit:

Post the acquisition of Sonata, the microcredit business of the Bank, we are now present in 16 states with a customer base of 27 lakh. Because of this, we saw an overall growth. QoQ was muted for many reasons; heat wave, some delinquencies in some states and also the elections had some impact.

We are focused on working on strengthening our operations and introducing more technology and controls in this business. We will continue to monitor delinquency and keep our focus on growth within the framework that we have put out. We expect continued demand from rural and semi-urban customers, and we plan to grow this business in line with the industry.

Let me turn to the Wholesale Bank:

In line with the larger strategy, 'transforming for scale', the wholesale Bank has identified a medium to long term strategy with increasing market share and profitable and sensible growth. Focused on increased product holding, transaction banking and capturing a large share of the non-risk income and thus focused on higher ROE. This quarter our wholesale advances including the SME and mid-market businesses in the corporate Bank grew at 6% QoQ and 21% YoY.

Our credit substitutes book though saw a little bit of a degrowth. Our portfolio metrics remains very healthy with negligible credit cost.

Capturing a higher share of trade and transaction flows is a key component of our strategy. Our trade assets during the quarter grew very well, driven by both domestic and export trade. Our supply chain book also grew significant, coming largely from NTB clients.

Our focus continues to be granular in the SME and mid-market segments. In the SME, we have been able to acquire record customers in Q1 and this helped us grow advances by 21% YoY.

In our mid-market business as well, we have ramped up franchise through new customer acquisition and almost all the growth is coming from granular working capital business, thus the shift in focus in the corporate Bank is very clear. Amongst the larger corporates, we saw the demand offtake across almost all of our segments. And in the transaction banking segment, we were able to cross-sell, deepen capture fee income, including in FX, debt capital markets and our current accounts businesses, which I will talk about in a little later.

Technology continues to be important and fyn, our flagship digital offering to the corporate customers continue to show good adoption and usage rate. Overall, the franchise and business remain healthy and with healthy ROE.

Let me now turn to Liabilities:

The average total deposits as Devang has said grew 21% YoY and 7% QoQ, driven largely by term deposits, 38% YoY.

Savings continue to be a challenge and I think the saver to investor momentum continues and especially after elections, this has accentuated. We have focused on, and I will talk about some of the initiatives that will help us grow our savings. The ActivMoney which has contributed a lot on the YoY growth was flat this quarter and we will continue to focus on that as a strategy. We have taken certain steps and initiatives that will help us enhance our deposits franchise. We have simplified the savings product booking, bundled propositions for certain very key segments and focused on value and propositions as we go into the quarter for acquisition of customers.

We relaunched ActivMoney in this quarter with an outreach program, and we expect that to help us garner deposits and pay dividends over the next few quarters.

We also launched a micro market strategy on segment specific offerings in the top 25 cities and this will help us shore up deposits as we get into the next few quarters. On the current account side, very clear bundle proposition for the business banking solutions have also been launched. So, we will continue to focus on deposits. While term deposits continue to grow well, CASA and ActivMoney will be a very important focused area as we get into this quarter and the next.

On the wholesale side liability, custody flows were very strong this quarter, driven by market buoyancy and marquee acquisitions both offshore and in the domestic market.

Tax payments, we were able to penetrate into our customers significantly this quarter. GST payments were at an all-time high. We also improved our penetration in the cash management side, particularly in our asset customers and with higher trade flows benefited the CA balances and expect this to continue to benefit as we get into the next year.

I think Devang talked about the subsidiaries and the growth of the capital market subsidiaries amongst others.

I will now request the operator to open for Q&A.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Kunal Shah from Citigroup. Please go ahead.

**Kunal Shah:** So, firstly, on the growth front, so if we look on an incremental basis, are we out to say 13,000, 14,000-odd crore kind of growth, almost like 10,000 crore coming from the low yielding corporate as well as the home loan. And given that this is just the 1st Quarter impact on the unsecured and you indicated that credit card stress is also arising. So, do we see maybe now the tilt being more towards the secured compared to unsecured and our guidance of 15% unsecured maybe that could be relatively lower in the coming quarter, the way we saw decline this quarter as well?

**Ashok Vaswani:** Kunal, let me take that and Shanti, if you could kind of pipe in, right. So, look, by definition during the 1st Quarter, because of the RBI order, we couldn't grow our unsecured book. Obviously, we didn't put on any new additional cards nor the digital journey for the PL kind of thing work for us. So, actually as a percentage of total advances, retail unsecured loans have actually dipped by 20 basis points. But our goal to kind to get to mid-teens on our unsecured retail book continues and hopefully we will get back to marching towards that goal once the embargo is lifted.

**Shanti Ekambaram:** I just want to say 2-3 things, Kunal. Firstly, if you look at the Corporate, the focus has sharply increased in the SME and the mid-market businesses and I talked about how we are seeing robust growth there with new acquisition, and the share of non-risk incomes has actually gone up. Second, on the mortgages, it's not just about home loan, but it's also LAP. We have a very strong market share in LAP where the yields are higher. And I also mentioned that during this quarter both in home loans and LAP, we have actually been able to see an increase in June. So, from a secured asset perspective, working capital businesses, whether it's in the consumer Bank, whether it's in the wholesale Bank and the mortgages which is LAP and home loans have grown. Unsecured businesses retail, we continue to maintain a strategy of moving towards the mid-teen. But as Ashok said, credit cards and PL we could not grow. Credit card remains a very important and strategic product as a part of our customer proposition, and once the embargo is lifted, we will be back and we will be growing this business.

**Kunal Shah:** And secondly on margin, so if we look at ex of the interest on IT refund, maybe the impact which has been there of almost 16-odd basis points, maybe on a calculated basis it suggests like there is like half impact on account of yield contraction and half of it is on account of cost of deposits. So, would that be the right assumption even when we look at it maybe on a reported basis, you give cost of funds, but purely looking at the cost of deposits and yield on advances, could there be a similar kind of an impact?

**Devang Gheewalla:** Kunal, just to correct, the interest on IT refund was not considered for calculation of NIM because the NIM is calculated on average earning assets. So, it was anyway not considered last quarter. I think the last quarter NIM actually got impacted because of also the Sonata transaction which we disclosed, we did it on 28th of March, so where the average assets were lower, and the interest income came for a larger period. So, that gives us some kicker on that, right. But you are right in terms of this quarter, it's a mixture of increasing cost of fund, which we have now disclosed, if you see the cost of fund has increased and also reduction in the yield on the advances which got impacted by the share of unsecured advances, which dipped as per the reasons mentioned by Ashok and Shanti. So, both of them has impacted the yield. But as I said again, I think the way to look at it is, March was a bit of aberration, the right way to perhaps look at is the September NIM which is 5.22 going down to 5.02, is about 20 bps, which is the case.

**Kunal Shah:** NIM will continue at 5%-plus maybe trying to sustain it over 5%-odd?

**Devang Gheewalla:** So, we will of course try to see how it goes. Obviously, the liquidity, if it eases out, will help us and of course how do we progress on the low-cost deposit strategy as well as how the personal loan, all of those factors will actually I think impact that. Obviously, the biggest question is the repo rate, how it moves also will impact. So, it's very difficult to say as of now how it will work.

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

**Rahul Jain:** Had a bunch of questions. Start with, on the growth bit, quite pleasantly surprised that 1st Quarter typically is a weak quarter given seasonality and management pushed up the growth momentum. So, is this more like the opportunities presented for itself because the corporate which has been one of the drivers for growth, we keep hearing that the pricing is quite ridiculous if I may say so, so was it because the opportunities were unique to your Bank that we pursue that growth and how sustainable would this be at an aggregate level also as well as the corporate level momentum?

**Ashok Vaswani:** Rahul, I will make some kind of opening comments and then Paritosh is here with me and maybe he can talk to you about the corporate. Frankly, from my perspective, I think our corporate team has done a really nice job of pushing the agenda. Like Shanti mentioned, they define like a three-year plan. We are very, very focused on where there's growth in the economy, who is the right people to go after and building it out and building it out in a sense with a very sharp focus on return on equity. So, this is not about just lending at any rate, this is about actually cultivating proper corporate relationships, building out the mid-market book, building out the SME book and this is a focus that we are going to continue and hopefully continue with far greater vigor as the quarters get along. But let me have Paritosh comment on it as well.

**Paritosh Kashyap:** So, we have been focusing a lot on building our trade and transaction banking book and Shanti mentioned that both trade and supply chain have grown significantly in this quarter. We have looked at our numbers and trade active customers give us far larger CA and also it gives us significant upside in FX revenue, and hence doing more trade and larger focus on transaction banking helps us both on liability as well as in the fee income. We also keep very significant focus on having a right mix of risk and non-risk income from our corporate customers. So, while I agree with you, there is a significant pressure on spreads in the corporate segment, however, we are meeting that gap by getting a higher share of transaction banking and cash and FX from those customers.

**Shanti Ekambaram:** I just want to add that in the consumer Bank, you talked about the Corporate, the working capital businesses are growing very robustly in addition to the mortgages business, the business banking both secured and unsecured.

**Rahul Jain:** Just a follow on, so does it mean that the growth focus is going to be a lot more sharper, Ashok, on the leadership and we should see more and more market share gains to come through in the subsequent quarters from here on because 1st Quarter you have done this kind of a growth, so technically as the business momentum picks up in the economy, would Kotak be now able to show us a much larger gains in market share?

**Ashok Vaswani:** My whole hypothesis all been about how we are going to transform for scale, scale, not for the size of scale, but scale for the size of relevance. So, whether it is our consumer business, whether it is our commercial business or whether it is our corporate business, we are developing our plans to get to scale. Now, consumer business, the unsecured part has hit a bit of a speed bump because of the RBI order, but clearly, we are looking, our whole strategy is predicated upon driving transforming for scale.

**Rahul Jain:** Just moving to the margins bit, clearly, I think the quarter-on-quarter downside was slightly surprising because we thought that the cost of funds bottomed out last couple of quarters or at least a quarter back, but we have seen of course the pressure building up again. Devang also made this point about the margins earlier were at an unsustainable level. So, can we just get some idea as to when you think about the profitability or margins in context of growth, how should we think about it if it is unsustainable or if it was unsustainable, are we now at the right level or you still see some more pressure in the margins or there could be some mix driven impact on yields that we can see in the coming quarters?

**Ashok Vaswani:** I think that Devang said was that the two quarters back at 5.20% and then going to 5.28%, that was kind of unsustainable with the cost of funds going up. Look, while there is no question, everybody from the governor downwards has talked about how to go up for deposits is on. Obviously, we are participating in that kind of thing. Our effort is how do we continue to build out a deposit franchise, a broad-based deposit franchise across all our businesses to be able to make sure that we have not only a sustainable deposit growth which helps us grow our business and scale, but also get those deposits at the right cost. Year-on-year deposit growth I would say is a tick, is I would say that the cost has been, one would have hoped that we had a better kind of CASA ratio, but that is the sole focus or the number one focus, may I say as the management team as to how we kind of drive that. We are working on multiple initiatives in that regard. Hopefully, you'll see a new ad on ActivMoney on air tomorrow, which has also worked very, very well for us and other propositions that will start going through. Let's see how the market develops. Let's see how the capital markets do. If God forbid, there is a bump, you will see a return to a more normalized deposit environment as well. Let's see what happens in the budget as to what kind of changes kind of come through there. So, right now, while there are a whole bunch of things which are difficult to predict right, but our number one focus is on trying to build these propositions that will help us to sustain deposit growth and deposit growth at a low cost.

**Rahul:** So, again, sorry to belabour, but is there some more deposit repricing that is still left in the books or as we have repriced some of the deposits now given this war analogy that is given, we could continue to see some more repricing go through in this year?

**Devang Gheewalla:** Yes, I think our deposits are largely repriced and I think the rates have stabilized. I think two more data points I think despite all this, we continue to be at the highest, CASA ratio I would like to believe. I think this equity, profit on sale of KGI transaction should also help some amount of liquidity going forward. But yes, right now, as Ashok said, the war is on and we have to fund our balance sheet as well. So, the challenge obviously is how do we get the low-cost deposit to fund the growth in the balance sheet.

**Ashok Vaswani:** On the asset side, a lot of it is linked, right, pricing. So, the repricing happens every time there's a change.

**Rahul:** Just wanted to squeeze in one or two more questions. So, you upped your branch expansion guidance as we have read in the media to 150 to 200 branches now every year. So, is there a target number do we have as to what should be the branch number now over the next three years or so? If you can share with us and also in that context, what kind of cost to income ratio that you're looking at, do we still see scope for any improvement in that number because that number has been elevated now?

**Ashok Vaswani:** So, Rahul, like we mentioned last quarter also look we are not going to become a primary branch-based Bank, that's not going to happen but branches and a physical network will continue to be a very important part of our distribution network. We believe that by blanketing the top 68 cities with the current kind of branch infrastructure and by making the branch a one Kotak kind of asset which is accessed by or leveraged by the SME business, the commercial businesses as well as the consumer businesses, we will be able to get the maximum impact for our branches. Now tentatively we put in a number or somewhere between 3000-3500 branches in a kind of 5-year timeframe, the speed at which we go, the pace at which we execute, refurbishments that we do is all a function of what kind of response we get and how quickly we get it right. But we will increase our branch network. We were doing about 150. It goes to about 200 and later on to about 250 branches till we get to that number of between 3000 to 3500 in a 4–5-year timeframe.

**Rahul:** So, therefore, cost to income would remain elevated?

**Ashok Vaswani:** Look at the other way, the branches will also generate revenues, both balance sheet revenues as well as fees. So, I don't think we are seeing, we are projecting any kind of significant pickup in cost to income ratio. In fact, what we are saying is when we are transforming for scale and really bringing technology to play, we hope to make a dent over the next 4-5 years in our cost to income ratio.

**Moderator:** Thank you. We have the next question from the line of Chintan Joshi from Autonomous, please go ahead.

**Chintan Joshi:** So, if I can check on the timeline of the work that needs to be done on the RBI embargo, could you give us some sense of optimistically or pessimistically what the timeline range looks like before you put the ball back in the RBI's court?

**Ashok Vaswani:** Chintan, first of all, there is a defined scope of work which we kind of talked about, that defined scope of work is what we have talked about the RBI and said what will put us into may not be a platinum level of standard, but let's say a very good gold level of standard. The RBI has also told us and we have been assured that look, it's not as if we are going to wait till you finish every single thing before we lift the embargo, they want us to demonstrate ongoing progress, they want us to demonstrate sustainability and they want us to demonstrate commitment. I would submit to you that in the 1st Quarter, we have definitely demonstrated progress. Commitment my God, we are working on this like no other. And our technology teams have really worked very hard on this, right. So, there's strong level of commitment and that commitment we have shown by the resources that we have added and I think the RBI is aware of that. At what stage in this journey the RBI gets comfortable, right is very hard to predict. All I am trying to say is, hey, we will continue with incredible gusto down that path where I am thinking about this is at the end of this, we will have a phenomenal technology platform right, one that we can scale, one that has resilience, one that we can feel very confident to match growth. Simultaneously with this, as the technology teams are working very hard on this, it is my job to try and convince the RBI that the conditions which they want, the milestones that we have kind of committed are working through. As of from April 24th to June 30th or even July 20, all the milestones that we said we will hit, we have hit right. In fact in certain cases, we may also be slightly ahead, right? Now, when exactly the RBI will say we are lifting the embargo.

**Chintan Joshi:** Maybe I can ask that another way. How about I ask you as a percentage of like items that need to be completed say 100%, how much have you completed because some things may take longer, some things may be faster at least that might give us some sense of timing than if you don't want to be pinned on timing for the moment, which I completely understand.

**Ashok Vaswani:** Chintan, I know what you are looking for, but is very hard, right. I will tell you one thing. First of all, the RBI is not saying if you hit 60%, I will lift the embargo or something. So, the percentage of completion from an RBI perspective is not very relevant. And then look, I can tell you there's a list of 327 items or 356 items, 400 items. One item is not necessarily equal to the other, right. So, again to tell you that we have completed this, obviously the easier stuff, we complete faster and complete much quicker, right. I think what we have to do is demonstrate to the RBI that the change that we are putting through is completely sustainable. That would be it takes a little longer. I would submit to you that we have got to demonstrate that we are totally committed. I think we have done that and we will continue to do that right and we have got to demonstrate progress. It's been April 24th to July 24th, 3 months. We are keeping them totally up to date on every single kind of milestone, right? In the meantime, Chintan, we are also gearing up that when we get out of the embargo, how can we come out stronger? And by the way, while it affected us in this quarter for 2 or 3 weeks switching from pure digital journeys to physical and assisted journeys, we have done that. So, we are trying to mitigate the impact as much as possible. So, it's a multi-pronged attack which we have kind of gone on.

**Chintan Joshi:** And the second question would be on cost. Should we expect some cost inflation to meet some of these tech demands this year? I don't know how you would like to give that message cost to asset or cost income or just an absolute number, but some idea of the extra cost involved would be helpful.

**Devang Gheewalla:** So, I think we had given the estimate and I think we have also confirmed in this update that we are well within the estimate which we have given earlier. As far as cost is concerned, I think we will continue to spend what we have been spending on IT within the overall OPEX which we incur and as we progress on that, I think some of the benefits of the past spend will start coming in and for a year or two, the cost will remain at elevated level for the spend which we have reinforced.

**Moderator:** Thank you. We have the next question from the line of Param Subramanian from Nomura. Please go ahead.

**Param Subramanian:** My first question is to Ashok. Ashok, you started off your commentary talking about subsidiaries and the deal that we did this quarter. And you said that going ahead, you will be looking at similar partnerships wherever they are lucrative and makes sense right now. Now going ahead considering that the Bank has excess capital, our ROEs are less than 14% even this quarter, how do you plan to juxtapose those two things where the Bank doesn't need capital and at the same time, you're looking to say add a few partnerships in terms of your subsidiaries? Yes, that's my first question.

**Ashok Vaswani:** So, I have spent a lot of time kind of thinking about this right. And let me try and do this. Look, there's no doubt we have excess capital, and I would say excess capital is a good thing. Excess capital is a good thing. Why is excess capital a good thing? Because it helps us take advantages of any kind of opportunities that may arise from an inorganic perspective and God forbid there's a downturn, we can weather that. So, generally speaking, excess capital and having a fortress balance sheet is a good thing. The question is how much and how we are thinking about it. And what I would like to submit to you, and I think it came out very strongly in this quarter, your help sometimes when you're helped by an accounting change, I never dreamt I will get help like that with an accounting change. The real question is how is that excess capital being deployed, right? And if you think about how our excess capital is being deployed currently, what we are doing is we have actually making alternative asset investments business right, there if we can show our other LP's that we have actually got skin in the game, you get a very good kind of response. So, as you know, we have got about $9 billion of assets in that business and we contribute rough numbers, and of course they're ins and outs and their sales and stuff like that. So, don't do the math, but it's about 15% that we contribute. That business generates a very high teen kind of IRR. So, that is a great return for that excess capital. The second thing which we do with our excess capital is really make investments in financial market infrastructures, right, and you've seen the pretty significant number that Devang talked to you about that got added to our reserves this year in this quarter actually because of the embedded value of those investments. Again, if you translate that into a return, that is a very good return on our excess capital. And as we start thinking more and more about how we are investing excess capital, the return on that excess capital will actually between obviously if we invest in our business, we get the best return, but carrying a little bit of insurance premium, I would submit to you is a good thing and we will narrow the cost of carrying that kind of excess capital, right. And now with this accounting standard, frankly you will be able to see the benefit of that quarter on quarter on quarter, right and we are on the lookout like every other business to see what are the kind of inorganic opportunities are there to be able to participate and transform for scale. We are constantly talking to our businesses and all our businesses know that they have the primary raw material for growth, which is capital so that is not a kind of binding factor for that. And that's why I think we can start talking to you about a much better position around our excess capital and the return that capital makes and hence the overall return that the firm makes.

**Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

**Mahrukh Adajania:** I had a question on credit cost and on the unsecured bit. So, on credit cost now, do we see it settling at around 60 basis points? Is that a fair assumption to make even for the future quarters because in the fourth quarter that is there were some reversals on standard provisions, but those have been possibly exhausted now. So, is that the range, is that the correct range to look at 60 basis points?

**Ashok Vaswani:** Yes. So, Mahrukh, let me give you the way I am looking at it and then maybe Devang can help kind of quantify to that extent, right. So, first of all, I think the credit cost is the total cost number and you should kind of think about it in different buckets. Frankly, on the corporate side of the house, Touchwood, credit remains very benign and actually working very well. Now what is happening there is that the level of recovery that we were making post COVID have started coming down a little bit while actual new credit costs are close to zero recovery. So, instead of being a massive negative number, it is a smaller negative number. On the secured side, in retail, no issues at all, very similar commentary to what I just talked about on the corporate side. Every other part of the business, credit cost pretty good. In unsecured retail, we are definitely seeing signs of stress in two areas. One, we are definitely seeing a bit of stress in the lower ticket kind of unsecured credit card, not PL, credit card. And then in credit cards, we are definitely seeing some level of stress where the customers are getting over leveraged. Our hypothesis in this regard is that banks coming out of COVID suddenly realized that it's a pretty benign kind of situation and doubled up very aggressively on credit in areas which were traditionally safe and therefore there has been some level of over leveraging within the system. We are very focused on these areas. We have created specialized collections team to work at and hopefully we won't see a tick up from here on as we manage our way through it. Now obviously how the environment develops and what happens generally in the industry is something that we are going to keep a very close watch on.

**Devang Gheewalla:** Mahrukh, only just one clarification. The credit cost is computed only for the specific provisions. We have mentioned that on page 14 and the figures are comparable. So, 0.55 is only on specific provision does not include standalone provision.

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

**Piran Engineer:** Congrats on the quarter. Just a couple of things. Firstly, employee OPEX has under shot. So, do these numbers reflect the annual hikes or will we see a jump next quarter? And just secondly one clarification, so Shanti mentioned about some initiatives on SA deposit, some bundled product offering something in the top 50 cities. So, if you could just elaborate on that. Thanks.

**Devang Gheewalla:** So, the employee cost includes the total increments which we have sort of declared to the employees so that includes that.

**Shanti Ekambaram:** Yes. So, on the deposit side, I talked about very focused customer segments and bundled products and these customer segments really are the affluent space both in the salaried as well as the business banking. The self-employed customer as a customer, the NRI customer and the early jobbers and we have bundled product offerings that we have already launched. But as we get into the quarter, we will be focused. So, there is a very specific segment and product bundling strategy to increase engagement. Some of these product bundling includes your investment, your lending and other products etc. But this is what I talked about and we said that we are focused on the top 25 cities as far as the micro marketing strategy is concerned for some of these segments. But if you look at the deposit strategy, I think top 68 to 75 cities is where we will be very focused on rolling out some of these initiatives.

**Moderator:** Thank you. The next question is from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

**Suraj Das:** Just couple of questions. One on this ActivMoney. While the focus remains on ActivMoney and granular deposit, if I see the percentage of TD Sweep facility in the overall term deposit, that is coming down over the past two quarters. So, just wanted your thoughts there and similarly in terms of the number that the CASA and TD less than Rs. 5 crore that is also as a percentage of total deposit is coming down over the past, let us say 4 or 5 quarters. So, what is your strategy there? And one more question, I mean on the MFI side, I mean you mentioned I think in the opening remarks that there have been some stress, so is it more related to, let us say Bihar and Uttar Pradesh, where probably Sonata is predominantly present or I mean in specific geography where you are seeing some kind of stress? Yes, that's all from my side.

**Ashok Vaswani:** So, Shanti, you want to cover the deposit side and we have Manish here, Manish runs our commercial businesses and microfinance falls within his empire. So, maybe he can tell you a little bit about the microfinance business and where we are seeing stresses.

**Shanti Ekambaram:** So, firstly, in my opening this thing on deposit, I did say that in this quarter, ActivMoney was flat. When I look at a Y-o-Y basis, we were 66% growth, but in this quarter it is flat. I also said that we have relaunched the campaign this quarter and we will continue to focus on the way we got the success last year. We relaunched the campaign with a different focus. Yes, so we will see ActivMoney as a contributor. It not only gets us the deposit, but it also helps us shore up savings. So, as far as less than Rs.5 crore is concerned, it's about 78% from 80%, this is vis-à-vis last year, right? So, that's a small marginal drop as far as we are concerned, and I talked about the initiatives that we will be testing, and all these initiatives are focused on granular deposits.

**Ashok Vaswani:** Manish would give a brief update on our microfinance business and then get into this specific question.

**Manish Kothari:** So, microfinance business, so we have presence in about 16 states, the existing business in BSS subsidiary is largely concentrated in five large states, which is Karnataka followed by Bihar, Madhya Pradesh, Maharashtra and Tamil Nadu. And the other states are much smaller. Sonata acquisition gives us a larger footprint in UP followed by Bihar and MP and the geographies where we are seeing some degree of increased delinquencies as well as collection related issues are more in parts of Tamil Nadu, parts of Madhya Pradesh, some pockets of Maharashtra, Bihar, Bihar is not as much as we talk, some parts of UP, Rajasthan. Now, these are all areas which possibly have been impacted due to the last year the monsoons were pretty erratic in terms of as we saw floods, we also saw pockets of drought. And then of course, there has been an impact of heat wave in the 1st Quarter of this year and some degree of restricted movement of people during the course of election and hence some of the northern states were hit largely because of that. Pockets of Tamil Nadu, Maharashtra, MP, etc., were because of monsoon impact of that as well.

**Ashok Vaswani:** So, I mean basically between the heat wave, the elections and stuff like that, obviously, and this is Manish keeps telling me that this is a business which is a very person to person, going to each people's home and stuff like that. We are doubling up on all our collections and stuff like that. So, hopefully, we will see this get into better shape.

**Manish Kothari:** Yes, second half should look better as monsoons. If the monsoons are normal and the economic activity in the rural areas pick up, I guess during the course of the year things should get better.

**Ashok Vaswani:** Having said that, it is a volatile business, but with a great return. It's got a very good return but has volatility.

**Moderator:** Thank you. We have the next question from the line of Abhishek Murarka from HSBC. Please go ahead.

**Abhishek Murarka:** My question is on LCR. If I look at the number for the last two quarters, it's been building up. So, it's gone from 126 to 139. And when there is a bit of a margin pressure, why are you building up this number or is this in preparation for the revised framework or do you anticipate any change in classification for deposits? Why you building up this number? That's what my question is.

**Ashok Vaswani:** May I request Paul, Group Chief Risk Officer to kind of deal with this question. Yes. Paul, go ahead.

**Paul Parambi:** This is not something we are trying to build up. It's a natural consequence of how we are managing the assets and the liabilities and it's just a consequence of all of that. So, liquidity is comfortable right now overall. Right now, as Devang and some of the others had mentioned, the real question is in terms of the mix, that is the point. So, it's not a conscious effort to build it up. Of course, we try and optimize it in various ways. So, that does increase it in some ways, but it's no special effort because we are expecting something to come up.

**Shanti Ekambaram:** What Paul said, if you look at the fourth quarter, we got a lot of deposits. If you look at on a Y-o-Y basis or a quarter basis, we are getting deposits. It's a function of the liquidity that we are setting up, we are not actively building up LCR and as and when we see deployment opportunities, we continue to give.

**Abhishek Murarka:** Because the understanding is that most banks are making it more efficient.

**Shanti Ekambaram:** Yes, we are working on it currently.

**Moderator:** Thank you. The next question is from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.

**Suresh Ganapathy:** Just one question, I mean because we did discuss about this capital stuff, is there a thought that the Bank could increase its payout ratio because there is something which has never been discussed and there you will always remain quite well capitalized even if you assume 18% to 19% kind of growth for the foreseeable future, so why not give more dividend?

**Ashok Vaswani:** This fundamentally goes back to this notion of capital and excess capital and like I explained Suresh, the way I look at it is having a fortress balance sheet is a good thing. The fundamental question I am asking for myself is, hey, so what is the return that excess capital is giving and I am submitting to you the way we are investing it, the return that we are getting actually is a decent return as we can't show it in the P&L, but this time the accounting has kind of helped us to show you what kind of returns we are getting on this excess capital and if the cost of the insurance premium is not high, high carrying that excess capital, then having a fortress balance sheet and yet getting a return is a very nice position to be at. So, in fact, as long as I am being able to deliver that for our shareholders, I think we are in a very good position, right.

**Suresh Ganapathy:** Just one extension of the same question is your ROE is at 14%, your peers are at 17%-18%, so somewhere down the line it is hurting you that denominator is that base, right? I mean it's taking time for you to realize some of that excess returns that you're talking about getting flown into the P&L number. That is we are not talking about for one quarter, we are talking about for the past several years, and these ROEs have been lower than some of your peers.

**Ashok Vaswani:** Yes, that's right. That's the point right now today in this quarter, because of the accounting change you've seen, how much has shown into the reserves, right? So, it's the embedded value of the investments that are showing up. If you take that, you can actually compute what is the return that we are generating on that excess capital. And I can assure you, you will be quite pleased that we are generating that kind of return on the excess capital. Now it's not going to P&L, but a sophisticated investor like you will understand the value of this kind of investment. In fact, I would submit to you because of this, our stock is very undervalued. Not only are we carrying a fortress balance sheet, we are making those investments and getting you a very good return. And today, we are actually being able to depict a certain amount of it say this is the same story in KGI. KGI is slightly different from the choice that we have made, right, but the embedded value of the KGI transaction suddenly became known to you in this quarter or whenever we announced the sale. So, you see the embedded value in the franchise, it is incredible.

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

**Prakhar Sharma:** Very quick question. If you look at the margins at 5.0%, they are more or less in line with what it was at like 1Q FY23 when 4.9% margin was there and the share of assets moved somewhere close to 8%, slightly less than 8%. You are touching almost 12. So, how do you look at the risk adjusted margins in the way they are behaving? That's question one. And second on the NPA provisioning level, you move down from 81 to 75, 75 is no less, but since the credit is going up, how do you look at the coverage level? What's the right level for Kotak Bank? Thanks.

**Devang Gheewalla:** I think on the coverage level, I think we are quite comfortable with having 75% PCR ratio, right? The way we should look at it is also the net NPA which remains low at 0.35. So, I think we are very comfortable with that. Yes, the credit cost has gone up. I think we have discussed about this, the measures we are taking over it. But as far as the coverage on the net NPA ratio, we are quite comfortable about it.

**Ashok Vaswani:** And correct me if I am wrong Devang, but the change in accounting policies that we did would have had some impact on that, right?

**Devang Gheewalla:** Correct.

**Ashok Vaswani:** The write off which we did last quarter.

**Devang Gheewalla:** The coverage also is obviously reduced because of the write off, which we explained in the last quarter. We did it in line with the industry, which we are carrying over a longer period with a recovery pressure, but then we did it in the March an accumulated write-off of close to Rs.1,500 crore. So, that has also impacted provision coverage ratio. But

I think as a philosophy, we are quite comfortable with the PCR of 75 and as long as the net NPA remains at 0.35.

**Prakhar Sharma:** Got it, and the first question?

**Devang Gheewalla:** So, on the margins, I think the way we look at it, where do we go from here, I think we explained what are the reasons why some of the growth in CASA was muted due to the correction we have to do due to the RBI matter. The reason we explained in terms of holding back the unsecured loan growth which has affected the yield. I think if we take those corrective actions and it does result in getting more low-cost deposit and disbursing higher yield unsecured loans going forward, it will have a positive impact on the margin. So, it all depends on how does it play out and of course, as a systemic liquidity, how it behaves as well as the repo rate which are all the determining factors which affect the margin. As I said at this level also would like to believe we are still one of the highest NIM margins and at the highest CASA ratio.

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

**Ashok Vaswani:** Yes. So, first of all, thank you so much for being with us this afternoon. I hope we have explained the results. It has been a very busy period for the management team, but I hope they give you a sense of the solid progress that we have made and how we are putting steps into place to really transform our business for scale. So, thank you, much appreciated.

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