



**Kotak Mahindra Bank**  
**Q2FY25 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 Q2 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 call, please signal the operator by pressing “\*” and then “0” on your touch tone 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 so much. Welcome, everybody for our quarterly call. For the 2nd Quarter, let me let me cover kind of four points:

The first point I will kind of cover is “Financials,” but at a very high level, I will get Devang to do it in detail.

Two talk a little bit about the progress that we are making on the technology front, three, a little bit about the personal loan portfolio that we have acquired or are going to acquire from Standard Chartered, and four, I know for a fact that you will have the recent draft RBI circular on your mind so let’s try and address that as well.

Starting with the “Financials”:

We ended Q2 with a group profit after tax of 5,044 crore. That’s up 13% year-on-year. I’ve always talked about Kotak being a financial conglomerate and a collaborate compared to a plane flying with multiple engines, and this quarter, if you see three of the four engines grew at over 50% year-on-year -- Capital Markets at 52%, Asset Management at 58% and Insurance at 50%.

The Bank grew at a less higher number and the reason for that is #1, this was the first quarter where we saw the full impact of the embargo. Despite that, we grew deposits by 16% year-on-year and assets by 18% year-on-year. In our deposit growth of 16% year-on-year, our CASA ratio stabilised at 43.6%, which I think continues to be industry-leading. Now, even though CASA ratio was 43.6% and customer deposits grew by 16%, our cost of funds went up by about five basis points quarter-on-quarter.

On the Asset side, like I said, we grew our customer assets by 18%. This was largely in the wholesale Bank and on the secured advances in the consumer Bank. We had more muted growth in the commercial Bank on the back of slow growth in the CV and tractor industry. That is more of an

industry kind of trend and what we are hoping is that this industry trend kind of changes and moves to the better in Q3 and Q4.

On the MFI side of the business, we restricted growth because as we called out about two quarters ago, we were seeing some strain, and we are being cautious of growing in the MFI space. We expect this trend to continue for the next quarter, maybe two quarters, and then it should get okay. It's obviously confined to certain states and some states are coming back quite nicely, while in some cases, the strain kind of continues.

On the Unsecured Retail business, obviously, the tech embargo has had an effect, particularly on the credit card business. And as you can see, our total share of retail unsecured asset businesses has dipped a little bit to a shy over 11%. In the credit card business, we have also seen some level of credit stress due to the overleveraging of certain kind of customers.

Our loss rates are pretty much in line with industry, though the percentages may look a little elevated and the reason the percentage looks a little elevated is because our denominator is not growing as we are not issuing fresh credit cards. Overall, our CD ratio continues to be in our acceptable range between 83 and 87 at 86.6.

So, that's where I will leave for the financials. I think a strong quarter, 5,000 crore in the quarter with three of the engines clocking at over 50% year-on-year kind of growth.

Let me move to "Technology":

This quarter, again, incredible amount of progress, a lot of hard work, a lot of significant progress on the risk and resilience front. We continue to work under the advice and guidance of the RBI and make strong progress on the matters highlighted in the April order. We are also working very closely with GT Bharat, our external auditor, so that they can validate the work that we have done.

But more importantly, while we greatly improved our risk and resilience, we also use this period to begin to improve the experience for our customers and our colleagues. This through the beta launch of a new customer-facing mobile app and if you haven't tried it, I would urge you to try it. It's available on the App Store as well as on the Android Store, and on the automation of processes. This is quite a significant rewiring and of course there's more to come on both these fronts, but I'm very excited to share with you the progress that we will be making on these two fronts.

Finally, this quarter we saw the RBI issue a draft circular on 4th of October and obviously we are looking at that circular in great detail and trying to understand the implications of that circular for our businesses. We have time until November the 20th to go back to the RBI with our comments, which is of course something that we will do, and once we get the final circular, obviously we will implement the final circular as required. Needless to say that it's a matter of where we do business

as opposed to whether we do any kind of business. So, it can get kind of sorted out and we are working through those kind of provisions, Needless to say also that we will continue to keep you posted on the progress that we have made. But at Rs.740 book value per share, that is a clear indication of a strong, strong fortress company and a strong fortress balance sheet.

With that, let me hand over to Devang to take you through the details of the Financials.

**Devang Gheewalla:**

Thank you, Ashok and good evening, friends.

Let me just take you through the Q2 numbers, which we disclosed earlier today. We will start with the consolidated numbers first. We ended this quarter with a consolidated profit of 5,044 crore, which is about 13% YoY up and 14% higher on a QoQ basis, on QoQ obviously we have excluded the profit from the Kotak General Insurance transaction which we booked in the last quarter.

Also, it is important to note that this profit does not include MTM gain post tax of 1,363 crore, which according to the investment circular and our classification has been accounted directly in the net worth and it has not gone through the P&L. So, this 1,363 crore is for the quarter MTM gain which has not gone through the P&L and into net worth. With these profits our consolidated net worth of the group is 1,47,000 crore with a book value of share of 740 as mentioned by Ashok which grew 22% YoY.

Our consolidated customer assets is about 5,10,000 crore which is 19% higher than the last year. Our capital adequacy at the group level is at 22.6%, of which CET itself is 21.7%. ROE at the consolidated level is 13.88% and ROA is at 2.53%. Would like to clarify if we remove the impact of the increase in the reserves as I explained, the consolidated ROE will improve to 14.28%. The share of subsidiaries in the group profit at the Q2 stood at 33% on the back of capital market growth.

Let me start with individual entity, with the Bank first, which this quarter contributed 67% of the group profit. The Bank ended the quarter with a PAT of 3,344 crore with YoY growth of 5%. Q1 profit of the Bank included dividend income of 380 crore as explained on page #8 of the Investors Presentation.

At the Bank standalone level too, we have a capital adequacy of 22.6%, of which CET-1 is 21.5%, and for the quarter the Bank clocked an ROA of 2.17%. It is worthwhile to note this is the first quarter with full impact of embargo which was applicable towards end of April last quarter.

The Bank's customer assets grew by 18% to 4,50,000 crore YoY and 3% QoQ basis with secured consumer banking, SME segment contributing significantly to asset growth during the Q2. Unsecured retail mix reduced to 11.3% due to the embargo on the credit card and lower disbursement in the micro credit business. The mix change in the asset growth towards secure assets resulted in

reduction in the yield on advances and consequently reduction in NIM for the quarter by about 11 bps to 4.91%.

Our CASA ratio is now at 43.6%, in fact, improved marginally on a QoQ, contributed by SA growth of 5%. Our average total deposit for the year grew by 16% with average TD Sweep growing over 50%. The Bank continues to maintain healthy CD ratio of 86.6%.

Our fees and services at the Bank grew 14% YoY in the current year. There was also a impact of slowdown due to the credit card business income not been accounted due to the embargo in the current quarter.

Operating costs are stable at 2% QoQ growth with a reduction in acquisition cost for 811 products, but higher IT spend to meet the remedial measures relating to embargo. The overall P&L impact estimated due to IT embargo is in line with the initial estimate as we have given as per the earlier guidance.

The gross NPA of the Bank at 30th September is 1.49%, net NPA is at 0.43% with a credit cost of 65 bps annualized increase largely due to losses in unsecured retails book.

Let me now just shift to the “Subsidiaries Performance”:

Kotak Securities and Kotak AMC continues to perform well with growth in capital market, increasing contribution to our group profits. Kotak Securities recorded YoY of 37% growth in profit to 444 crore with an increase in market volume. Kotak AMC made a profit of 197 crore, up 60% compared to last year with an increase in average AUM in equity to over 3 lakh crore, YoY growth of 63%. My colleague, Mr. Nilesh Shah, will delve into AMC performance during this call later.

International subsidiaries also benefited from the growth in capital market and increased inflow contributing 76 crore profit as compared to 41 crore in the previous year, clocking a growth of 84% YoY.

Kotak Mahindra Capital profit was 90 crore for the quarter as against 27 crore last year on back of large IPO mandates.

Kotak Prime Customer assets grew to 37,000 crore with a YoY growth of 19% and PAT for Q2 is at 269 crore clocking a growth of 29% YoY with some one-offs in Q2 performance.

BSS Microfinance business, a correspondent entity, ended the quarter with a lower post-tax profit of 16 crore due to lower disbursements and an increase in delinquencies in select states. BSS net worth is 1,076 crore at 30th September 30<sup>th</sup>, 2024.

Kotak Life ended the quarter with a PAT of 360 crore as against 247 crore same quarter last year, YoY growth at 46%, primarily due to higher investment income and realized equity gains. Kotak Life continues to maintain a higher solvency ratio of 2.57x as against the regulatory requirement of 1.5X.

With this, wishing you all the best for the festivities ahead and look forward to interact with you. I hand over to Shanti for the Business Updates.

**Shanti Ekambaram:**

Thank you, Devang. As has been stated, the Bank's customer assets grew to 4,50,000 crore, which is up 18% YoY and 3% QoQ.

I would like to get into the highlights of each of these segments of assets and I will start with the consumer segment. The Consumer Bank advances were primarily led by secured businesses, which grew 6% QoQ. This includes the mortgage business, both home loan and LAP as well as the business banking segment, which grew 21% YoY. The portfolio of the secured book continues to be robust, reflecting strong quality.

The unsecured retail business showed a muted QoQ growth of 1%, largely because of the embargo on credit card and some amount on the personal loan.

In the credit card business, we do see some build up of stress, particularly in the vintage segment. We had calibrated our risk framework last year to align to the macro and the recent vintages continued to perform well. Personal loan showing a slightly better stable trend.

Let's move to Commercial Assets. The CV industry saw 10% degrowth in Q2, largely due to the goods segment, although the passenger segment continues to grow. At Kotak, we manage to gain market share marginally, but growth was relatively muted. This segment of commercial vehicles has seen disruptions in the last two quarters, largely due to heat, rains and climatic risks. This impacted overall economics for the truck operator to some effect including a lower load factor. So, due to this, we have seen some delinquencies, particularly in the retail segment. We have tightened our credit underwriting and strengthened our collections to ensure that we continue to underwrite well. With the ongoing festival season and the anticipation of increased government spend, we expect H2 for the sector to be much better on demand.

The construction equipment saw the modest grow. Our disbursement grew along in line with industry and the portfolio is reasonably robust and we plan to retain our growth momentum in this segment in line with the industry.

The Tractor Finance business was largely flat in the first half of the year. This was on the back of 8% degrowth in the last financial year. There is a seasonal impact on the tractor business in Q2, including due to certain erratic climate persisting and the slower rural economy. Our disbursements have grown

largely in line with industry, and we continue to be a key player in the industry. We continue to focus on our used tractor financing business. With the above normal monsoon and expectation of the government's push on rural infra, we expect a revival of the tractor demand in H2. We also expect the cash flow in the rural and semi-urban areas to improve and hope to see better collection efficiencies in tractor in H2. The agri business utilization was very flat, but the portfolio continues to be stable.

Micro Credit, after a consistent 20%-25% growth in the last two years, the micro sector degrew by 4% and was expected to degrow in this quarter as well. The segment saw certain stress because of overleveraging of certain borrower segment. This along with the slowdown in the rural household incomes saw some increase in delinquency. This is likely to play out over the next two to three quarters. Our micro credit business actually degrew. We pulled back a bit and we will be watchful of the trends as we look at this important business. We are optimistic of the medium- and long-term prospects of the business and building a quality franchise with the right reward metrics.

With the acquisition of Sonata, our footprint has increased, and we are currently in 16 states with 27 lakh customers.

I will now take you through the "Highlights of the Wholesale Business":

Last quarter I had spoken about the medium to long term strategy laid out by the wholesale Bank of increasing market share holistically with sensible and profitable growth. A key component was to grow the granular book at a much faster rate and in line with this the corporate SME and the mid-market businesses saw healthy growth. The corporate SME grew at about 31% YoY and the mid-market saw a number of new acquisitions. New acquisition has been a main focus, and we have been able to achieve a 56% YoY growth in the corporate SME businesses of new customers.

Amongst the larger corporates, the growth was a little more muted. Growth came more in the form of credit substitute. This space continues to face challenges of irrational pricing and our strategy in this continues to be initiatives such as increasing product holding, capturing a higher share of transaction banking businesses. The credit substitute book actually grew 32% YoY this quarter.

Trade assets continue to be a focus and showed growth. There has been a 2.2X increase in new customers on our flagship digital offering "Kotak fyn" and the number of trade transactions on our digital platform has grown significantly. We will continue to invest in enriching our digital propositions for trade.

GIFT City has been another important initiative on the wholesale side and our GIFT City business actually grew 80% YoY in both trade and non-trade advances this quarter.



Our asset quality across the customer segments on the wholesale side continues to be robust and we continue to bolster across through higher cross-sell and deeper penetration of income.

One of the highlights of this quarter has also been our debt syndication business and we were able to close a number of mandates in a diverse set of sectors like infrastructure, data centers, real estate, auto, retail. We will continue to focus on this business. Overall, the franchise and business remain healthy.

Let me now turn to “Liabilities”:

The average deposits for the Bank grew by 16% and our CASA ratio this quarter actually improved marginally. Savings deposit, particularly the fixed rate savings grew sequentially and we saw growth across segment of affluent, core, non-resident and we are beginning to see some green shoots in the savings deposit in this quarter. We make sure that we are focusing on the premium end of the customer as far as new acquisitions are concerned and have moved to co-originate bundled offerings across all our products.

On the Current Accounts side:

We again have focused more on the proposition for customers, payments, current accounts and other products. We relaunched “ActivMoney”, we saw a strong growth this quarter of 9% QoQ and 41% YoY. Deposits will continue to be a focus, particularly granular deposits across savings, ActivMoney and term deposits.

“Distribution”:

We make deep-rooted changes in the distribution strategy within the consumer Bank with a focus on customer centricity and have structured ourselves across product proposition and distribution. Our distribution is across physical, digital as well as voice and video with a focus at a micro market level and provide best solutions to customers based on their persona.

On the “Digital Platform”:

The focus has been in best-in-class experience across banking, investments, payments and also through our mobile banking app which is the banking app, 811 and Cherry.

On the wholesale liability side, average custody flows were strong, driven by market buoyancy in both primary and secondary market and marquee acquisition in offshore and domestic market. We continue to strengthen our offering in this space and have launched Global Custody Services at GIFT City this quarter.

Tax payment continues to show strong growth, so also our collection-payments on the cash management side. We have launched the Kotak API Developer portal which enhances the visibility of our API offerings facilitating new business acquisitions.

I will now request “Nilesh to take you through the Asset Management Business.”

**Nilesh Shah:**

Thank you, Shanti.

Let me talk about our Asset Management Business. Kotak AMC's North Star is to be the most trustworthy Indian Asset Management Company.

By focusing on the 4Cs of customer, company, colleague and community, we are building a bond of trust with our customers and has emerged as the fifth largest mutual fund in India.

At the end of 2nd Quarter FY'25 our folio base grew 20% YoY to 1.2 crore, a growth of 2.4x in the last five years. Our unique customer base grew 31% year-on-year to 65 lakhs, a growth of 3.8x in the last five years.

Our average assets under management grew 41% YoY to Rs.4.7 trillion, a growth of 2.8x in the last five years. Our total AUM market share grew to 7.1%. Over the last five years, it has increased by 60 basis points from 6.5% to 7.1%. Our total equity AUM comprising of active, passive and arbitrage funds grew 61% YoY to Rs.3.1 trillion, a growth of 4.6x in the last five years. Our pure equity AUM grew 58% YoY to Rs.2.4 trillion, a growth of 5.3x in the last five years. Our pure equity AUM market share grew to 6.5%. Over the last five years, it has increased by two percentage points from 4.5% to 6.5%.

Our SIP inflows as of September '24 grew 23% YoY to Rs.17.6 billion, a growth of 3.2x in the last five years. We continue to serve investor requirements across active and passive funds, focusing on local and global markets across debt, equity, and commodities for retail as well as institutional investors. We maintained our focus on ESG investing as India's first signatory to the United Nations principle of responsible investing. Since our adoption of UNPRI six years ago, our rating has consistently been above the median across emerging market peers.

Digital transactions contributed 91% of our total transactions in 2nd Quarter FY'25. This restricted investor queries to just 312, which represents 0.0035 percentage of our folios. Our digital properties had an uptime of 99.95% in 2nd Quarter FY'25, demonstrating robustness of our technology platform. Our investor base remains well diversified. The top 10 investors contribute 7.3% of total AUM and the top 10 distributors contribute 22% of total AUM.

Our disciplined investment management process continues to add value to our investors. 11 out of 16 equity and hybrid schemes are outperforming respective benchmark indices over the last three

years. We have embedded quantitatives in our investment process with the launch of Kotak Quant Fund last year. The alpha of this one in the last 12 months is 20%. Our non- institutional AUM is 59% of the total AUM. Over the last five years, it has moved 14% in favor of non-institutional investors as we have expanded our branch and digital network. All this is reflected in our profit after tax, which grew 58.87% YoY to Rs.197 crore in 2nd Quarter FY'25, a growth of 2.3x in the last five years.

Coming to our International Asset Management Business:

We manage \$6.1 billion across debt and equity, across funds and advisory for global investors. Kotak Asset Management, Singapore, manages the largest India dedicated Mid Cap Offshore Fund vide Kotak Fund - India Midcap Fund, which has an AUM of over \$4.4 billion. With offices in Singapore, Dubai, London and New York, among other places, we are emerging as the preferred choice for inward investment in India for global investors.

Coming to our Alternate Investment Management Business:

Kotak Alternate Assets has secured commitments of US\$352 million in 2nd Quarter FY'25, a growth of 88%, taking its total commitments to US\$10 billion since its inception.

Kotak Life Science Fund, which is part of the private equity strategy, was launched in 2nd Quarter FY'25. Kotak Private Credit Fund raised US\$33 million in 2nd Quarter FY'25, a growth of 153% YoY, taking total commitments to US\$211 million as of 30th September '24. Discretionary Portfolio Solutions under Kotak Optimus and Kotak Iconic added US\$80 million in 2nd Quarter FY'25, a growth of 40% YoY, taking its total AUM to US\$809 million.

Our total assets under management across mutual funds, portfolio management services, offshore, insurance and alternate assets grew 37% YoY to Rs.6.8 trillion, led by domestic equity mutual funds and offshore funds. It has grown by about 2.8x in the last five years.

I wish all of you a happy festive season. I will hand it over to the operator for initiating question-answer session.

**Moderator:**

We will now begin the question-and-answer session. The first question is from the line of Chintan Joshi from Autonomous. Please go ahead.

**Chintan Joshi:**

Can I start with your recent interview where you had kind of expressed a desire to be the #3 private Bank in India? If I look at the kind of where consensus estimates are and extrapolate, it feels like you need to grow 8% to 9% faster than your peers in the next five years. What I was interested in understanding was the products, the geographies and the subsidiaries in which you could outgrow your peers to achieve your objectives. And then the second question was on the margins. If you could

highlight, what kind of sensitivity we would be facing from the RBI rate cuts and how much offset will there be from the StanC deal and the savings account rate cuts that you've announced? If you could kind of give us a picture on margins, how they might evolve over the next year?

**Ashok Vaswani:**

So, Chintan, I will start and then I will ask Devang to also chip in. Look, I think on the vision, this is something that we have said as a team as a goal over the next 5 years. So, this is not like in kind of one quarter and the way we thought about it is that we have said that look, this will happen both from an organic perspective and an inorganic perspective. Obviously, we will see a step up. Inorganic is not in our control, depends when opportunities come up. We step up the pace of organic growth and we are going to do a whole bunch of stuff to kind of get that going. Now, you are going to see the impact of that immediately in one quarter. Right now, our first priority like I have been mentioning since April, at least, is that our first priority is to fix our technology estate and get out of jail. But as you would have heard Shanti talk, at the same time, we also are investing heavily in technology, not only from a risk and resilience purpose, but from a customer and a scale perspective, right? And that is the way to kind of get about. So, you will see more of those kinds of things happening. As far as NIM is concerned and margins are concerned, Chintan, as you know we manage this very tightly and we manage it on an ongoing basis. One of the things that we have been talking about is how do we at least align some of the rates that we pay in the marketplace, let us say our savings book. The rate change that we have made on 17th of October was really to bring our savings rate in line with that of the competition. Going forward, Chintan, it is obviously say, how do we monitor, what pricing we can get on our loan book. Once we get out of under the embargo, obviously we will grow our unsecured retail book and that will give you a higher yielding asset. Obviously, we are looking to grow our rural kind of book, which is both CV/CE and then hopefully come back strongly on Microfinance. Again, those are high yielding books, so over a period of time we will manage the rate, the yield on our asset and then manage our deposit rates such that come out with propositions such that we maintain our CASA ratios or maintain our kind of cost of funds. So, this is something that we kind of do, I mean like we call it every week, Chintan.

**Chintan Joshi:**

But just I am trying to think about the near term in terms of the NIM impact from three factors. RBI rate cut, the StanC deal and the Savings account reduction?

**Devang Gheewalla:**

So, Chintan, RBI rate cut, it is anyone's guess when it will be and how much it will be. What is definitive today, which we have already declared, is the saving account rate cut which will add roughly about 4 bps improving the NIM margin. What we have already also announced is the Standard Chartered portfolio and unsecured book, which will also add about couple of bps to the average yield on the assets, right plus what I think Ashok said will continue to take measures to improve the margin through change in the asset mix and maintaining the deposit ratio. So, these are the things which we can clearly see now, and we will see how the RBI rate cut as and when and how much it comes. And as you know, when the rates were higher, we took the benefit clearly when the

rate cuts will happen, it will have initial reaction, but it will stabilize the way it stabilized when the rates went up.

**Moderator:** Thank you. We have Sumeet from Morgan with the next question. Please go ahead.

**Sumeet:** I had a question with respect to margins over the last 2 quarters. So, margins have come down from 5.27 to 4.9 and I was looking for some waterfall and what has happened. So, I see three or four factors, one is basically change in loan-mix, second is higher liquidity as reflected in LCR, third is IPO flows and fourth is Sonata the way in which it was accounted in the fourth quarter, then first quarter. So, if you can give me some breakup that will be very helpful because your margins have come down by 35 odd basis points?

**Devang Gheewalla:** So, I think you have given me the answer in the question itself, but I can only conclude by saying despite that fall in the margin at 4.91, we are still the leader in the sector with the highest margin. But you are right about your analysis. I think I can only add saying that in the current quarter you saw the fall of about 11 bps. That is purely because of the mix change more towards the secured book. So, we have continued to grow our book at 18%, but the proportion of growth is more towards secured book, housing loan, LAP, working capital which are generally at a lower rate than a normal unsecured loan book. And as you know, we have a constraint we cannot grow credit card book and this being the first quarter where the full impact of the embargo in credit card is felt. So, these are the reasons which contributed, so clearly the reason is the yield on the asset and not much on the cost of fund or the deposits fund, which seems to have stabilized. That is the reason for this quarter fall in the margin.

**Sumeet:** I was looking for some quantification, but that is fine, Devang and second is on asset quality, when do things stabilize? This quarter was slightly higher on slippages, and I also see coverage moving lower Q-o-Q. So, I guess coverage moving lower Q-o-Q is because of fresh slippages, but I just wanted to get some idea as to how do you look at coverage and where are we on the slippages cycle?

**Paul Parambi:** As was mentioned earlier, the main areas where there was some amount of delinquency pickup were two, one is significantly in unsecured and within that credit cards. We have not onboarded any fresh credit cards as you know since April. And we have already taken a lot of action probably for a year before that, and some of the impacts are also because of the older vintage clients who normally behave better in the industry seeing some amount of delinquencies. So, the actions which we have taken all this will take a few quarters, maybe 2 or 3 quarters to sort of play out. Our recent sourcing, which we had done before the embargo kicked in, those are behaving much better. So, hopefully that will hold up and some of the slippages in the older book will play themselves out. And similarly on the Microfinance, we had acted much earlier and there again as you are seeing degrowth. So, the fresh onboarding will be better and some of the pain in the older book will play out over the next 2 or 3 quarters. So, that is how one sort of sees it.

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

**Kunal Shah:** So, firstly, with respect to the entire StanC portfolio, if you can indicate in terms of the profile in terms of the average ticket size, how it is panning out and earlier also we have seen Kotak doing not so sizable acquisition creating the MFI or the vehicle financing and that has continued even on PL side. So, should we assume that those inorganic opportunities would be relatively in few of the sub segments of a smaller size or maybe evaluate a slightly maybe a larger inorganic as well?

**Shanti Ekambaram:** So, let me take that question. This was an opportunity that came up and when we looked at the portfolio, we saw that it was in keeping with our strategy of the Affluent segment. We have done our due diligence, as you may know, before we signed up for the portfolio. I think that what we found the portfolio is in keeping with our Affluent segment strategy, which is what evaporates strategy in the personal loan segment, so very much what Ashok has called the tuck-in acquisition strategy, which we will be looking for. And there is an opportunity we get roughly 95,000 customers which will help us onboard, upsell and see what other opportunities we have with us.

**Kunal Shah:** And when maybe RBI, slightly cautious with respect to growth in the unsecured side, maybe how would it be looked upon from the regulator side because that growth still continues from our end in this segment?

**Ashok Vaswani:** No. Look, I think the two are completely different. The RBI basically is saying right that you are going to get your technology stack under control, and we are working very hard on that. I think they have said as part of that you can't do digital onboarding, and the portfolio acquisition is something, these opportunities come along and when they come along, we will look at these opportunities and these tuck-in portfolio acquisitions is what we really like because we just bring in the portfolio, you don't have to pay for cost of acquisition. It is an easy kind of switch across. It is a business we know. It is a risk we understand, and it is very accretive right from word go. So, I just wish more of them came along, we did Sonata, we did Standard Chartered. If others come along, we will love to do these kind of things. The technology infrastructure build out that continues and those two events are completely independent of each other.

**Shanti Ekambaram:** I just want to highlight, even today 89% of our book is secured which you have seen had grown pretty well this quarter and our earlier stated objective which continues is that we will look at unsecured up to the mid- teens level. So, as and when we see opportunities that show growth which fits within our risk and strategy framework, we will look it.

**Kunal Shah:** And secondly, on this RBI's supervisory reaction, given that we are very much like almost a quarter into it and generally the way we have seen the restrictions getting lifted for most of the other names in terms of the period that it generally takes, what is your assessment in terms of where we are? Would RBI look at some kind of piecemeal lifting of the restrictions? What could be the timeline that you would want to assign given the progress which you are very confident about in terms of it is going very well on track if you can just give some comments on that?

- Ashok Vaswani:** Look, it is impossible for me to know how the RBI is thinking or on what date they are going to say the embargo is lifted, right? That is the question for the RBI and obviously the sooner the better from our perspective. What I do know is that we are working exceedingly hard and kind of systematically knocking out any kind of points of failure, any kinds of things that have been brought up in the RBI exam points, anything that we think can improve risk and resiliency. And of course, the work that we are doing is also being validated by our external auditor that should give the RBI greater comfort that what we are saying is validated by the independent kind of person. Having said that, that is all I can do. After that, frankly, it is in the hands of the RBI and at some stage they will determine that we have made enough progress to lift the embargo of us.
- Kunal Shah:** And one last question on incremental slippage. Would it be fair to assume that larger part of incremental slippage would be from the credit card or are there other segments as well, including MFI and the others?
- Ashok Vaswani:** Kunal, as you know, the credit card business generally speaking has most of the credit losses. So, if you look at our total credit cost, credit card is always going to constitute a very significant portion of that total and that will kind of continue.
- Kunal Shah:** On slippage?
- Devang Gheewalla:** Yes. So, you are right from the slippage, credit card does constitute about 30%-35% of the share of that, the net slippage. I think we are very hopeful that in quarter 3 and 4, we will have recoveries from the rural and secured businesses which will sort of help us to reduce the slippage going forward further in the Q3-Q4.
- Moderator:** Thank you. The next question is from the line of Piran Engineer from CLSA. Please go ahead.
- Piran Engineer:** Firstly, just wanted to understand the rationale for the SA deposit rate cut in an environment where our SA deposit growth is weak and the benefit is merely 4 bps?
- Ashok Vaswani:** The SA deposit card, first of all, it is restricted only to balances below 5 lakhs and we were paying a rate of 3.5% which was more than what competition was paying and really the rate cut is to bring our deposit rates in line with competition. Based on everything that we have looked at and based on the analysis we have done, the impact from a volume perspective is going to be at best muted.
- Piran Engineer:** And just to clarify, if I back calculate, it means that only about one-third of your SA book is less than 5 lakh ticket size?
- Devang Gheewalla:** So, I think it is not that simple because this is up to 5 lakhs means across the buckets up to 5 lakhs where that is not the way perhaps you will calculate, so that will not be the right way to calculate it.

- Piran Engineer:** Why Devang because if cut by 50 bps, and if it is only a 4-bps impact, it means it is less than 1/10th of your deposits and if SA is 30% and this is 9% or 10%, it means one third, right? Where am I wrong?
- Devang Gheewalla:** So, I think we should separately take this. I will explain you. As I said, this is across the buckets up to 5 lakhs.
- Shanti Ekambaram:** It is the first level of 5 lakhs across the entire portfolio.
- Devang Gheewalla:** Yes, of course I will explain to you separately offline.
- Piran Engineer:** And just secondly, just wanted to confirm this in terms of our outlook on slippages in credit cards and microfinance, it remains elevated in the second-half, but we also have some offsets from the secured loan book. Did I understand that correctly?
- Devang Gheewalla:** So, yes, you are right about the offset about the recovery, but I think the slippage itself, we expect with the measures what Paul has described to reduce going forward especially in the microcredit book.
- Paul Parambi:** But this can continue for a couple of quarters, but the measures have been taken such that each of these are, so if you look at microcredits loan. So, as the old legacy loans run down, what is left will be fresher underwriting and that therefore automatically means that these slippages come under control. So, that is already how it will play out and we have done this a few quarters back. It is not that we saw it this quarter, yes, but it is something we saw a couple of quarters back, but this has to just play out.
- Moderator:** Thank you. The next question is from the line of Manish Shukla from Axis Capital. Please go ahead.
- Manish Shukla:** I wanted to check what proportion of your loan book is linked to repo and external benchmark?
- Devang Gheewalla:** About 60% of our book is linked to the external benchmark loan.
- Manish Shukla:** So, the question here really is that we are at a margin level where we were in June '22 and May '22 is when we had the first-rate hike. While I appreciate that timing and quantum of RBI rate hike is not known, but if we take a 6-12 months view, rate cut is inevitable. So, what contingencies would you have in that scenario? Because if 60% is linked to repo and we get 50 bps cut, that is a pretty decent yield on your yield on loans?
- Devang Gheewalla:** So, I think, it is not just on the rate cut on the advances side. As you have seen, when the rates went up, there was a repricing of the deposits as well with a lag. So, similarly as when the rate cut comes down, we also would expect the cost of deposits also to fall with a lag. And 60% is something which



is if I look at the peers it is something across the board. Kotak is no different from the others. So, I think as we got the benefit when the rates grew up, as the deposit repriced with a lag, similarly when the rates go down, the deposits also will reprice downward and you will start seeing the inflow coming.

**Manish Shukla:** Lastly, in terms of credit cost, should one expect credit cost should remain in the 65 to 70 bps handle or do you expect it to go up before it comes down?

**Ashok Vaswani:** So, my sense is that credit cost will more or less stabilize and then over the next 2 or 3 quarters actually come down. But of course, these things you got to be, this is like looking into the crystal ball. We got to be careful, depends on how things kind of play out. Right now, the macroeconomic indicators look strong, a bit of stress on micro. But let us see how it plays out. But given everything that I am seeing, I feel pretty comfortable when at least two quarters out, we will see, loss rates come down.

**Devang Gheewalla:** I think as I said, the secured book recovery from Q3-Q4 will ensure that the slippage comes down as we go forward.

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

**Param Subramanian:** Firstly, again on the credit cost. So, in the fourth quarter, a couple of quarters ago, we had taken a big write off and we had explained that it was largely unsecured and credit card businesses. So, that pertain to the longer vintage unsecured NPLs, right, so what we are seeing now in this quarter is more pressure delinquency is of more recent vintage. Is that the way to look at it?

**Ashok Vaswani:** No, one second. What we did in March, about for the quarter ended March was we changed the way we do the accounting, right. Throughout the period, what we have been doing on unsecured, we have been providing 100% at 180 days, right? But the actual write off which we take we were taking 2 years hence. So, what was happening is our GNPA was showing elevated kind of numbers. To try and make it in line with industry, we bought down the write off from 2 years out to 270 days DPD, right? That was the big change that we did for the last quarter of last year, right. That is just an accounting change and that has nothing to do with, frankly, it made no difference to the P&L or anything like that. That was just so that the numbers for you could become, it made your life easier because you could compare numbers across banks. What we are saying separately is that separately and frankly, we called this out about 2 maybe 3 quarters ago, 2 or 3 quarters ago, we said that there is a certain amount of over leverage in the system and that over leverage in the system is starting to show up. The initial place where it showed up was in the microfinance business and then it showed up to some extent in the credit card business. And so you see the loss cost and the credit cost kind of following through, but we are also saying now is that, we expect post Diwali that we will see a certain amount of recoveries particularly in the businesses that are linked to the rural parts of India and a improvement in credit costs in the next 3 to 6, 9 months in portfolios like credit cards. That is the

entirety of what has happened, how we think things will happen, and what you are referring to for the last quarter of last year was really just a big accounting change.

**Param Subramanian:** If I heard you correctly, Ashok, you said 270 days is when you write off unsecured retail, right? That is correct?

**Ashok Vaswani:** Yes, 270 DPD. So, other banks, we are banks who do 180 DPD, we have chosen to do it at 270 because providing at 100% at 180 and writing off at 180, we felt was not appropriate from an accounting point of view because from an accounting point of view, when you provide at 100%, you expect to get some kind of recovery. Earlier on, we used to have that keep that recovery period open up for two years. Now, we should keep the recovery open up for 90 days. It makes zero difference from all perspectives, because we continue to do recovery irrespective of whether we write off at 270 or at 720 for that matter.

**Param Subramanian:** So, my second question again, this is just data. So, how much of the slippage in this quarter was from the microfinance segment or is this something that where we expect slippages to come through in subsequent quarters?

**Devang Gheewalla:** No, this quarter also had slippages from microfinance business. So, as I said, while the majority of that is from the credit card business, microcredit also had its share in the slippage ratio.

**Param Subramanian:** And lastly, just on this quarter, there would have been some impact of the float from the capital markets on the margin, right, if you could call out that number for this quarter that would be great?

**Devang Gheewalla:** So, you are right. So, we had a short-term surge in the deposits which obviously you could deploy only in a lower yield asset that we did impacted the NIM. The impact is about not more than 2 bps basically on account of this IPO surge bit.

**Ashok Vaswani:** But I guess the bigger point with that is that the strength in one part of the business flowing through, you can see how it flows through so many other parts of the business, right? The fact that we get IPO mandates flows through the deposit side, it flows through on the Treasury side, it flows through on the corporate banking side. And therefore, the power of the financial conglomerate really comes through with these kinds of deals.

**Moderator:** Thank you. We have the next question from the line of Saurabh from JP Morgan. Please go ahead.

**Saurabh:** Sir, just two questions. So, one is, on this RBI norm on investments, what are your thoughts if you had to consolidate both Kotak Prime and all the lending subsidiaries within the bank? And the second is just in terms of Kotak Prime specifically and also in the bank, how many of these customers will have like Kotak Prime customers will have an account from the bank as well?

**Ashok Vaswani:** So, obviously the draft circular we got it on October 4th. We are looking at it in great amount of detail and trying to analyze it, trying to understand what the spirit is and what kind of makes sense. Now, clearly, one aspect of this circular is that the business that you can do in the subs has to be businesses, which can be done in the bank, right. And there is nothing that we are doing in the subs that frankly we are not doing in the bank and therefore it is not a question of whether we have to shut down businesses. It is more a question of where we are going to do certain businesses. We have time till November the 20th to kind of go back and actually talk to the RBI about the implications and what our suggestions would be in light of the spirit of the intended kind of regulation. Now at the end of the day, the RBI will obviously take the collective view of the industry, evaluate it. Some of it will make sense, some will not make sense for them and they will come out with the final circular. When they come with the final circular, we will have to abide by the final circular.

There will be some elements of business which we will do only in the bank. You have got a couple of options that we are kind of looking through, walking through, trying to understand what the implications of that are and get ahead. There are advantages, there are both pros and cons in terms of going there. We are evaluating that very carefully and we should be able to provide a greater degree of clarity once we get a sense of what the final circular is. Also, finally, there is a sense of timing. Let us see, they have indicated on some elements, a certain level of timing. Let us see what the timings actually land up to be and we will work through it.

**Saurabh:** Sir, in terms of your slippages, what percentage would be coming from these linked accounts, so basically, would you expect the stress in credit cards to also go up in your personal loans portfolio?

**Ashok Vaswani:** So, when you say linked account, means a card customer who has got a personal loan.

**Ashok Vaswani:** I think, the real way to look at it is these are usually customers who have also got a bank account and usually have their salary coming through us and those are actually our best customers. And obviously we monitor total unsecured exposure across products, right, and particularly a salaried kind of customer usually gives you the best credit. So, that area, I am a little less worried about.

**Paul Parambi:** Saurabh, I don't have the exact percentages, but the percentages are low and we clearly identified this as a potential area of risk probably a few quarters back and clearly therefore cross sell to customers of weaker segments of one asset to the other, we have actually clamped down quite a bit some quarters back. So, that is how we are looking at it, but the percentages are low. That is not the major contributor.

**Saurabh:** And at this current point you would not expect the credit losses in your card business to eventually go up to the PL portfolio. Will that be a fair statement.

**Ashok Vaswani:** No, definitely not.

**Moderator:** Thank you. The next question is from the line of Rikin Shah from IIFL. Please go ahead with your question.

**Rikin Shah:** Just one basic question, the stage III, the provision coverage on NPAs has come off sharply in this quarter. Just wanted to understand what would be the comfort level that we would like to operate given that we are not carrying any buffer provisions?

**Devang Gheewalla:** I think what happens is when there is a slippage increase in a quarter, you will appreciate that the coverage ratio will come down because the provision on the fresh NPA, you will not be providing 100%, right? So, the incremental slippage will always result in coverage reducing which will get corrected. If it is unsecured loan, as we provide anyway, 100% over 180 days over next quarter, right? So, I think it will depend upon the nature of business where the slippage is occurring and the quantum of it. But with the increase in slippage, you will see coverage sort of reducing, but to answer your second question, we are comfortable maintaining coverage ratio at about 70% on an average.

**Moderator:** Thank you. The next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

**Jai Mundhra:** Sir, on this StanC transaction, what is the price that we are paying? I hope because there is a bit of a risk or the rising stress in the personal loan portfolio. Are we paying at par or is this subpar and are there any risk mitigants in case the delinquency turns out to be higher than maybe the current level. The public disclosure says that their retail GNPA is 2.6% which is at the retail level itself Rs. 20,000 crore, not the personal loan portfolio. So, would you like to get your comments there?

**Ashok Vaswani:** So, like Shanti mentioned obviously, we have done very detailed due diligence on this portfolio. We have obviously compared it to our portfolio. We are obviously aware of the situation and the over leverage in the market. We are obviously aware of the trends of risk in personal loan portfolios and all of those factors have been taken into account in us determining whether we want to do this transaction and if we want to do this transaction, do it at what pricing. We obviously had those discussions with Standard Chartered and have agreed upon a deal, but we are not in a position to disclose the exact price that we paid for the portfolio, but obviously we have taken factors like this into consideration.

**Moderator:** Thank you. Ladies and gentlemen, I would now like to hand the conference over to Mr. Ashok Vaswani for closing comments. Over to you, sir.

**Ashok Vaswani:** Thank you very much. First of all, thank you so much for being with us on a Saturday evening as usual. It is highly appreciated. As you can see, this has been a very busy quarter for us and I think the power of being a financial conglomerate shone through very strongly and some of our subsidiaries as you saw Nilesh bhai take you through the AMC have seen some kind of stellar kind of growth and that is really the power of Kotak. That is the difference of owning Kotak of really bringing it all together to meet the needs of our customers and I am very confident and as we kind of grow, we will

see more such success stories where we bring all the power of Kotak together to meet the needs of our customers, to deliver for our shareholders. So, with that, thank you very much and let me take this opportunity to wish you a very Happy Diwali and I look forward to meeting you, if not before, at the end of the third quarter. Thank you. Good Night.

**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.