Kotak Mahindra Bank

Q3FY25 Earnings Conference Call

IST 5.30 PM on January 18, 2025

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Safe Harbour

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Moderator: Ladies and Gentlemen, Good day and Welcome to the Kotak Mahindra Bank Q3 FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, 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. Thank you so much. And thank you, everyone, for joining us this Saturday evening. A very happy New Year to start with.

It's actually been one year this month that I complete at Kotak. And wow, what a one year it has been, quite an eventful year. And I thought I would share some of my thoughts with you. And I want to give you and demonstrate to you that the team and I have been working on a lot of events through this particular year. And we have made significant progress on a whole bunch of areas in our efforts to transform for scale.

Let me now reflect on the last 12 months:

#1. Starting with technology:

Obviously, in April of 2024 we got the order from the RBI, and since then we have been working very closely with the regulator and have made notable progress on core banking resilience, business continuity, cybersecurity and digital payments framework.

But what's more important is we have not only done that, but we have also utilized this period to:

1. Sharply define the group's go-to-market tech strategy.
2. Launched the new Kotak and 811 apps, which are complemented by Neo and Cherry.
3. We are digitizing and automating our customer journeys to make it much easier for the customer to do business with us.

With all of the above, we are starting to see green shoots, which is very very encouraging.

#2. The second point I wanted to make is, in my very first quarter I talked to you about the potential of a credit strain flowing through the system, and that unfortunately turned out to be true. But as the credit strain kind of has worked through the system, what we have seen in this quarter is that personal loan trends have actually improved. The stress in the credit card portfolio is now plateauing and therefore hopefully in the next couple of quarters we will actually see a decline. But we continue to be very watchful on the microfinance portfolio. What I can say about the microfinance portfolio is, this quarter we have seen a deacceleration of the strain that was coming through that kind of portfolio.

#3. The third area I want to really highlight is the macroeconomic environment. There's absolutely no doubt that there's heightened volatility, and there seems to be evidence of a slowdown in the economy. Now, what we have always said and always maintained is that we will grow the business at about 1.5 times to 2 times nominal GDP growth. And that continues to be the benchmark by which we will direct and manage this business.

Now, it's not been all negative. Frankly, on the flip side, there's been tremendous buoyancy in the capital markets and that has been a real tailwind as evidenced by the results that we are seeing in our investment Bank, in our mutual funds, and in KSec; frankly, as well as in our private Bank. This really has brought to fore that the diversified nature of our businesses as a group helps us to deliver for you, our shareholder, through various economic cycles.

So, while I am mindful of all the above factors, I also feel very good about our strategy built around customer centricity and the momentum we are building to transform for scale at the Bank. I feel very confident that these results will start to show in the coming quarters. And even in Q3, it's worth noting that despite all the distractions and headwinds, we did grow advances by 15%, grew deposits by 16%, maintained NIM at 4.93%, and managed a tight control on our expenses. So, I am really looking forward to this New Year with a sense of excitement but cautious optimism.

Let me now hand it over to Devang to take you through our Financial Performance in detail.

Devang Gheewalla: Thank you, Ashok. Good evening, friends. And first of all, a very happy New Year to all of you. Let me just take you through the Q3 numbers which we disclosed earlier today.

Let me start with the consolidated numbers first:

We ended this quarter with a consolidated profit of Rs. 4,700 crore, which is about 10% higher on a Y-o-Y basis. Mind you, this does not include MTM gain post tax of about Rs. 877 crore for the quarter, cumulatively, Rs. 5,600 crore on investments which as you know, we have been accounting under the new RBI guidelines as net worth, and obviously this has not gone to the P&L. With these profits, the consolidated net worth stands at Rs. 1,52,000 crore and the book value of share grows to Rs. 769 per share, a Y-o-Y growth of 23%.

Our consolidated customer assets is about Rs. 5,19,000 crore, which is 15% higher than last year. And our capital adequacy the group level continues to be strong at 23.4%, within which the CET-1 itself is 22.5%. Our ROE, at the consolidated level, at 12.43% with ROA at 2.30%.

Let me start with the individual entities and with the Bank:

Standalone Bank delivered a stable performance amidst changing macro environment and continuing embargo. The Bank ended the quarter with a PAT of Rs. 3,300 cores with a Y-o-Y growth again of 10% and now contributes 72% of the group profits for the quarter. At the Bank standalone Level too, we have a capital adequacy of 22.8%. Again, within this, a very healthy CET-1 ratio of 21.7%. And the ROA for the Bank for the quarter is 2.1%.

Customer assets in the Bank grew to Rs. 4,59,000 crore at a 15% Y-o-Y growth. The growth is mainly coming from secured consumer banking and SME segment is contributing significantly to the asset growth during the quarter. Advances at 31st December does not include the Standard Chartered portfolio, which we have spoken in Q2, for which the Bank has received all the approvals and we are in the process of migration. We expect this to be completed shortly during this quarter. Unsecured retail mix slowed down to 10.5% during the quarter due to lower disbursement in microcredit and credit card growth, which continues to be impacted by embargo.

Our CASA ratio stood at 42.3% at December 24, with current account showing a healthy growth of 5% Q-on-Q. Yes, it had some of the IPO related fund, which looking at the IPO pipeline we see it continuing in Q4. Average total deposit for the quarter grew by 15% Y-o-Y. Average sweep TD product, which is growing at the 36% Y-o-Y basis. The Bank continues to maintain a very healthy CD ratio of 87.4%. NIM for the quarter was stable, in fact, marginally higher at 4.93%, contributed primarily by benefit of lower SA rate and the higher CA balance, as I mentioned earlier.

Fees and services grew 10% Y-o-Y in the current quarter, impacted by slowdown in credit card income due to embargo and certain regulatory changes impacting the referral fee income earned by the Bank. Our cost control measures have resulted in efficiency reflected in a marginal increase of operating cost less than 1% Q-on-Q, with employee cost remaining at the Q2 level. Further, our cost-to-income ratio for quarter two improved by 22 bps over the last quarter. Overall P&L impact estimated due to IT embargo continues to be in line with our earlier estimate.

Gross NPA at December 1.5%, with net NPA 0.41%, and the provision coverage ratio improved to 73%. Overall, credit quality for the Bank is in line with our expectation and has remained stable over the last quarter. Slippages during Q3 was lower as compared to Q2. This quarter also saw improved recoveries from secured businesses. The secured book continues to have negligible delinquencies. On unsecured credit cost, personal loan credit cost is showing reduction. Credit card costs is remaining at the same level, whereas the micro credit is showing an increasing trend, in line with the industry.

Coming to the subsidiaries' performance:

Our Capital Market subsidiaries, Kotak Mahindra Capital, which is investment banking; and Kotak Securities, which is the broking, both retail and institutional, had an exceptional performance during the quarter. Kotak Mahindra Capital ranked number one in equity capital market category for the third consecutive year, earned a profit of Rs. 94 crore for the quarter as against Rs. 35 crore last year, on the back of the large IPO and QIP mandates. Kotak Securities recorded Y-o-Y growth of 46% with a profit of Rs. 448 crore.

Kotak AMC continues to perform well with the growth in capital markets. Kotak AMC, with the trusteeship company made a total profit of Rs. 240 crore, a growth of 65% compared to last year, with the increase in average AUM in equity to Rs. 3,16,000 crore, a Y-o-Y growth of 51%. Total AUM of Kotak AMC crossed Rs. 5,00,000 crore during the quarter.

Kotak Prime customer assets, which is in the car finance business, grew the asset base to Rs. 38,000 crore with a Y-o-Y growth of 16%. PAT for Q3 at Rs. 218 crore, down 9% Y-o-Y, largely due to the MTM loss in Q3.

Kotak Mahindra Investment Company results for Q3 were impacted by higher provisioning for one single account.

BSS Microfinance business correspondent business ended the quarter with a loss of Rs. 50 crore, owing to lower disbursement and increase in the collection costs related to increase in delinquencies in select states. The BSS net worth continues to be strong at Rs. 1,000 crore at 31st December, ‘24.

Kotak Life ended the quarter with a PAT of Rs. 164 crore as against Rs. 140 crore same quarter last year, a Y-o-Y growth of 17%. For quarter two, profits were higher on account of higher investment income and equity gains. We continue to maintain higher solvency ratio of 2.56x as against regulatory requirement of 1.5 times in the Kotak Life business.

Overall, at the end we remain cautiously optimistic and focusing on execution of our plan for transforming to scale. With this, I hand over to Shanti for the business update.

Shanti Ekambaram: Thank you, Devang. As has been stated, the Bank's customer assets grew by 15% Y-o-Y and the average deposits grew 15% Y-o-Y.

I will start with the highlights on the assets, particularly the consumer assets where growth was primarily led by secured businesses which grew 4% on quarter-on-quarter basis. Mortgage business comprising home loans and LAP grew 19% Y-o-Y, with stable property prices and risk metrics holding up well. This continued to be an area of focus for us.

Mortgage also helps build a solid long-term relationship with our customers and helps increase the wallet share of our customers, particularly in the affluent segment. Thus, it will continue to remain a key focus area. The LAP market continues to be steady. We have always been a strong player in this segment and will continue to focus on this going forward.

Our secured business banking comprising of small SMEs continued to see good growth at 23% Y-o-Y. Given the festival quarter, utilization was strong. Our portfolio metrics continue to perform well across industry segment in geographies. In this business, we are able to serve the customer across all their financial and non-financial needs, business and individual.

We continue to grow in the unsecured business loan segment, which remains stable at the portfolio level. I think the unsecured retail business, both personal loans and cards, have flattened. Personal loan, at an industry level, has degrown and this is reflected in our business. We had tightened the underwriting norms more than a year ago. And in the last quarter we have seen better trends on flows and collections, which has been stated.

PL is a key offering for our customer segment, and we will continue to build this business by managing risk through rigorous data analytics and policy measures.

In the credit card business, because of the embargo we could not issue new cards, but we continue to grow our portfolio and monitor it well. We saw stress increase in line with industry, but we have seen stabilization of flow and resolution in this quarter. Cards, again, is the core proposition and we will grow this business once we come out of embargo. The delinquency trends in both these businesses have been touched upon and I am not going to repeat it.

Let's move to commercial assets:

Commercial vehicles industry saw a flattish growth of 1% Y-o-Y. The passenger segment continued its positive run for this year, but there was a persistent degrowth in the goods segment. Our new vehicle disbursements were in line with the industry, and we retained our market share. We also continued to grow our used vehicle financing business, considering that a large part of this business was coming from our existing clients we have comfort here. The goods segment has been showcasing a weak trend in financial year. This has impacted the overall viability of truck operators and resulted in some increase in delinquency. We have tightened our collections and underwriting in this segment accordingly. I think the overall economic trends does impact this segment, and we hope to see better trends in the next financial year.

Construction equipment, the sales have been flat. And whatever growth has happened has been led by the earth moving segment. I think CAPEX spending by the government and overall CAPEX spending has been slower, which is reflected in the growth trends in this industry. We have grown our disbursement by a modest 13% Y-o-Y, leading in some improvement in our market share. The book remains stable in this segment.

Tractor finance – tractor industry saw a 13% Y-o-Y growth. We grew our disbursement by 16% and improved our market share in this segment. We continue to remain a key player in this industry with a strong presence in market share. We also continue to grow our used tractor financing business. With a normal monsoon this year, we expect rabi sowing to improve, leading to better cash flows in the rural and semi-urban. This will be critical support to our collection efficiency. Pick up in government infra and rural sector should help this segment.

Microcredit degrew 6% in H1 and expected so in H2, this is at an industry level. And our businesses reflected the same. I think the trends on delinquency have been talked about due to various extraneous factors in the first and the second quarter. There have been some structural changes in this sector and in line with industry we degrew. Our delinquencies continue to show an increase in the segment, we expect this to stabilize over the next two quarters as we see the rural economy come back. We pulled back disbursements in certain markets and we will watch the industry trends in this as we craft our long-term strategy for this business.

Agri SME, a good quarter given the rally in the busy season. Our portfolio continued to be stable and we focus on acquiring new customers in this segment. This is a growth area of focus for us.

I will now turn to wholesale business. Last quarter, corporate plus SME advances grew at 18% Y-o-Y, largely led by the mid-market and the SME segment. The SME advances grew 31% Y-o-Y. Acquisition of new customers has been our main focus area and customer acquisition has grown significantly on a Y-o-Y basis. The portfolio quality is very stable, and we continue to invest in strengthening our customer franchise and deepening our customer base. The mid-market business again grew at a fast pace with NTBs in focus and deepening customer franchise in this segment as well.

Amongst the larger corporates, the book showed a more steady growth. However, credit substitutes, which depend on market rates of interest, showed a degrowth. Our portfolio metrics in the large corporate remain healthy, but pricing remains very competitive. And we have given up many businesses, given the price competitiveness of this business. The transaction banking and flow business has grown significantly, which leads to higher fee and flow income. And our trade and supply chain assets grew at a higher rate, driven by granular deals.

GIFT City continues to ramp well and advances, particularly trade advances, grew at a sharp pace Y-o-Y. Our asset quality across all the wholesale segments continues to be robust. We also saw strong growth in the fee income, FX and debt capital markets, and the debt capital markets continued its momentum in Q3 with marquee deals across sectors like retail, intra, hospitality, NBFC, etc.

Let me now turn to liabilities:

The average deposits for the Bank grew at 15% and our CASA ratio was at 42.3% this quarter. The current account average grew by 12%. This was aided by both customers, custody and IPO flows, while savings grew at 1% on an average.

Regarding savings, granular fixed rate savings continued to grow while the affluent clients continued to move funds into higher yield opportunities. Our core proposition of savings with ActivMoney helped us grow our customer deposits. ActivMoney grew by 36% Y-o-Y on an average basis and retail TDs across our segment continued to show an increase. We will continue to focus on our key segments for savings growth and balance between savings, ActivMoney and TD in a granular manner to achieve our growth targets.

Distribution. On the retail side, the focus has been building a granular retail book with a focus on affluence and youth across our channels of physical, digital, voice and video. Customer 360 has been the key pillar as we continue to put our best efforts towards providing seamless customer experience, as well as offer our entire bouquet of products to our affluent salaried and self-employed customers. Our continued effort to help our customers provide the best solutions around consumption, savings, investments, borrow and protect remains the focus.

On the wholesale side, garnering higher client share of collections and payments through digital offerings was really the aim, and the CMS throughput increased by 54% Y-o-Y. We have further consolidated our position in the tax payment space with throughput increasing 124% Y-o-Y. Overall, both on the assets and liabilities sense, we have seen reasonable growth strength, and we remain focused on growing both the segments with focus on quality, deepening customer franchise, acquiring more customers, and focusing on customer experience.

I will now request Devang to take it from here.

Devang Gheewalla: Yes. So, I think I will hand over to the operator for the Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: Congratulations for a good set of numbers in such a challenging environment. So, firstly, any update with respect to the RBI restriction? You have indicated that there is substantial progress, but if you can just indicate maybe where are we in terms of the audit? Is the report submitted? And maybe how has been the feedback from the regulator? Yes, that would be helpful.

Ashok Vaswani: Hey, Kunal. Thank you. This is Ashok here. Like I have been saying, we are in constant communication with the RBI. We give them constant regular updates. We have constant meetings with them and we tell them about the progress that we are making. They look at a kind of stop and say, they do their own evaluations on where we are. And I would say the conversations have been helpful. And they provided us guidance which I am very grateful for. And it has been done in good spirit. Kunal, it's very hard to predict at what stage the RBI will say we are going to lift out of jail. I honestly do not know, so I do not know what to say.

Kunal Shah: But are we done with whatever was required from our end and all the submissions are done, or how should we look at it?

Ashok Vaswani: Yes, mostly all the work has been. Most of the work has been done. And the submissions also, there we make a whole set of submissions, then they will come back with some observations. We will go back on those observations. So, it's not like a one and done thing. And thank God it's not a one and done thing, because suppose we have to submit a report then they came back and again we go back, it would have become iterative kind of a cycle. This is like concurrent kind of conversations. So, we are spending a lot of time effort with them, and fingers crossed.

Kunal Shah: Sure. And the second question is on the overall stress. You indicated some build up of stress on the commercial vehicle side, but besides that any other segment that you would be worried about? And PL we are seeing improved delinquencies, so would we start to push for growth in PL now compared to maybe 10% year-on-year which has been there? And should that take the overall unsecured proportion up ex of MFI?

Shanti Ekambaram: So, we are not seeing stress in any other segment. This quarter, a large part of our growth was driven by our secured assets. And across the secured assets we are not seeing any signs of stress, its reasonably stable. As far as personal loans is concerned, we have been already growing our disbursements month-on-month. We had to sort of tune down in the initial four, five months because we could not do direct digital journeys. But we continue to disburse as far as PL is concerned. Like I mentioned, it's a very core offering in your affluent segment. Based on the underwriting, based on our analytics, etc., we will continue to grow the business.

Ashok Vaswani: And Kunal, of course, you know that the Standard Chartered portfolio will come onto the books hopefully in this --

Shanti Ekambaram: This quarter.

Ashok Vaswani: Definitely in this quarter. Hopefully in the front end of the quarter.

Moderator: The next question is from the line of Chintan from Autonomous. Please go ahead.

Chintan Joshi: Can I ask two questions, please, one on your provisioning policy and one on growth? If I start with provisioning policy, could you give us a little bit more detail around that, when do you fully write-off a non-performing loan, especially on the unsecured side? Or do you kind of assume some recovery rate, color around how you kind of treat customers where they default on one product when they have multiple products with you? A little bit of color around that would be helpful. And then I have one more on growth.

Devang Gheewalla: Yes. So, we follow an aggressive provisioning policy, obviously, as compared to the RBI. And within that also for unsecured asset it is even more aggressive. So, for example, the unsecured book will be provided 100% on a 180-day basis. In terms of the write-offs, Chintan is basically for retail portfolio. While we provide 100%, we do have a lookout period after which we sort of write-off. On the secured or more wholesale sort of assets, it is case-to-case basis based on merit of the case and the estimated collection amount and the time for recovery.

Chintan Joshi: So, write-off on retail product 100%, but with a lookout period. So, I would say there's some recovery assumption there, and then it kind of tapers off if the account is non-performing.

Devang Gheewalla: Yes. For example for credit card, we do it at 270 days, right, the write-off. Whereas for other portfolio we may take some time because we certainly believe that by keeping it we do see value of recovery. Because even after providing after 180 days, in our experience, there is a recovery potential possible. So, while the credit card, we have elaborated earlier in the call also, it is 270 days, for other businesses it is case-to-case basis.

Chintan Joshi: Thank you on that. And then on growth, the second question, I am just trying to think about the current environment. Your kind of current ROAs are at 2.1% levels, where can you take incremental market share where the front book ROAs can reflect well on the back book ROAs without taking excessive risk? So, is it kind of retail consumer which has kind of being the main growth driver, but that's kind of slowing down so I am wondering if that can sustain the above average growth. Corporate margins look weak, deposit competition refuses to ease, just trying to understand that. And also, similarly on your subsidiaries, you have had very two strong years in capital markets, how should we think about kind of there, sequentially? Thank you.

Devang Gheewalla: So, to answer the question on ROA, certainly we would like the ROA to be above 2%. But you are right, it depends upon the mix of the book and clearly currently given the stress in the unsecured book or the retail microcredit, which we spoke about, the higher yielding assets we have obviously a slowdown. In addition to that, of course we have a embargo. So, I think it depends upon when the embargo lifts. We certainly believe that personal loan and credit cards are very, very big, good propositions for us. And once we are permitted, we will be going for the growth on those two segments for sure.

And if you look at even today, actually before the credit cost my profit growth is actually 13%. So, once we come back to the normalized credit cost or credit cycle, and we have a lot of focus on non-interest-based income like fee income, distribution income which adds directly to the P&L. Plus, as you have seen some benefits of the cost optimization have started flowing in. So, I think given the combination of focus on non-interest fee income, cost optimization, and hopefully the credit cost sort of tapering off, all of this will add to ROA, which we believe will fill for the asset mix impact which it can have.

Ashok Vaswani: And Chintan, look, our market shares right now are so small, right, so we are not trying to grow the market, we are just getting growth of market share. And I really believe that with the kind of stuff that we are putting into place, we will be able to do that and continue to kind of grow in line with what we have always said. We have always said that we will grow our business at about 1.5 times to to 2 times nominal GDP, right. Obviously, you do not want to grow and put the firm at risk. So, we will continue to grow at that level and just keep going, right.

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

Mahrukh Adajania: Hi, congratulations. I have two questions. Firstly, your loan growth has been strong sequentially, which is very good, you have grown in a balanced fashion in most segments. So, in that sense the ban is not impacting your growth, right, it's more about obviously banks have to be digital and you need digital for onboarding customers, and you need to be up to date in tech. But despite the ban, you have achieved a sequential growth which is materially better than other banks. So, would it have been different if the ban would have been lifted or the ban is impacting the overall customer franchise, but not really the loan growth? That's my first question.

And my second question is that different banks are at a different stage of asset quality, but most of the channel checks or the macro checks or the bureau checks give negative indicators only. So, are these lagged indicators? Or is it that asset quality going ahead is likely to remain volatile given that these indicators are still emerging or still being seen, and therefore credit cost for the sector will continue to be volatile? So, you may have seen lower slippages now, do you think that your slippages would have peaked or there could always be some other linked sectors of stress? That's my next question. Thanks.

Ashok Vaswani: Sure. First of all, thank you very much. Talking about the impact of the ban, Mahrukh, I think that there are certain areas which really have got impacted, which have got highlighted before. Clearly, I would have liked to continue to grow our credit card book. Our credit card book has not grown at all. In fact, quarter-on-quarter it has degrown, and that's not a good place to be. Our stated desire was to have our unsecured book, which is credit cards, PL as well as microfinance at about 15% of our total assets. And we have kind of dropped off to about 10.5% right now, which is obviously I wish that had not happened. B, also it affected 811 which is another business that's kind of been impacted. And the reason that hurts is that 811 provides tremendous growth in granular deposits, low-cost granular deposits, and obviously that is very valuable at this time. So, definitely the embargo is hurt, and I am hoping we get out of embargo soon so that we can get back to our ways. And then once we get back to it, we are going to come out, I believe we are going to come out much stronger on both 811 as well as in other products, and that will be fun to actually go back to proper business.

Mahrukh Adajania: Does the growth trajectory change, or will it just be a different mix?

Ashok Vaswani: No. See, definitely the growth trajectory for cards and PL will be much higher, right. And it's not all linked, right. What we have always said is that overall growth we will try and do at about 1.5 times to 2 times GDP growth, right. And we will continue to kind of, and that's the kind of range that we think we will be able to grow. The mix will of course change because right now credit cards is zero, so obviously credit cards will contribute to that growth. And linked to that volatility, there's no doubt, Mahrukh, there is a volatility in the market. We are very mindful of that. We evaluate that on an ongoing basis, and we tweak and adjust the kind of things which we do in the business to make sure that we are not kind of caught out. Generally speaking, we are conservative, people accuse us of being overly conservative, but I much rather be conservative and maintain this stance of conservatism through what we do. So, we are very, very conscious and we react to the situation. The business is not on autopilot as you can assume, right. All of us, as a management team, are kind of adjusting what we do on a very regular basis.

Mahrukh Adajania: And can I just slip in one more question please?

Ashok Vaswani: Sure, go ahead.

Mahrukh Adajania: So, in the last call you had mentioned that you wanted to be amongst the top four banks, right, over five years. You meant organically or a material inorganic, I mean, a material acquisition as well?

Ashok Vaswani: Mahrukh what I said was that I want to be within the top three private sector banks in the country in terms of profitability and get there over a period of time in the next five years, which is like 2030 kind of timeframe. I also mentioned there that we will look at opportunities, both organically as well as inorganically, right. And if the opportunity fits the strategic perspective of what we are trying to do, that's a big tick. After it fits the strategic perspective, we then look and see whether it makes financial sense. And if it ticks on the strategic fit and it ticks on the financial kind of thing, we will definitely do it. And therefore, we look at every opportunity that comes our way and then we see whether it makes sense or not.

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

Saurabh: Sir, just two questions, one is on your slippages again. Is it possible to quantify how much of it would have come from microfinance and what is the write-off policy on microfinance? And the second is, in Kotak Prime you have seen a profit drop sequentially, can you explain what's happening here? Thank you.

Devang Gheewalla: Saurabh, hi. I could not hear properly, but you mentioned slippage breakup, right?

Saurabh: Yes, on microfinance, how much in microfinance and what's the --

Devang Gheewalla: Yes. So, I think this quarter the contribution in slippage for this quarter, microfinance does contribute a higher percentage in that sense. But obviously, there is a improvement in some other secured businesses, which is why the slippage for the quarter is lower than the last quarter. And your second question was around KMPL, so KMPL, it's a car finance business where obviously the business is facing some margin pressure. And also, it has an MTM on some OIS which has been a negative, it is more of an accounting sort of hit which has happened during this quarter, which has resulted in a loss. But having said that, on a pure core business also it has margin pressure, and the delinquencies are higher in the two-wheeler business. So, that's the reason why sequentially it is going down.

Saurabh: Sir, just on asset finance if you can just quantify how much will it be higher?

Devang Gheewalla: It is higher than the last quarter, as a proportion it is higher.

Saurabh: Sir, just in terms of if you can give some clarity. And when will the write-offs come because the concern is that if it comes in forward quarters, you could see another tick up in credit cost, that’s where I am coming from.

Devang Gheewalla: See, what we can certainly say, there are two parts, right. One is the fresh inflow, which is the slippage thing, and second is the resolution of existing NPA accounts, they are two separate things, right. So, the slippage as we said has come down as a overall number, yes, but the proportion of microfinance is higher there. But if I look at on an only microfinance business on quarter-on-quarter, while slippages are there, it is showing a downward trend in terms of the slippage part of it. However, the real issue I think Saurabh is the existing NPAs in those unsecured businesses where the collection continues to be a challenge on the ground.

Saurabh: Can I ask just one more question?

Ashok Vaswani: Yes, go ahead Saurabh.

Saurabh: Will there be a case to, at some point, tighten the provisioning policy on these unsecured loans in line with your like the Bank, or that's not something which you are considering right now?

Devang Gheewalla: So, we anyway provide 50% on 90 day and 100% on 180 days. So, it is far, far more conservative than the IRAC norms or the RBI norms, right.

Saurabh: No, I was comparing to, let's say, a private Bank, the bigger private banks.

Devang Gheewalla: We do not have information on others.

Saurabh: I mean, provisioning of 120 and write-off, around those lines.

Devang Gheewalla: Write-off may reduce the gross NPA, it may not impact the credit cost or slippages, in that sense, right.

Ashok Vaswani: So, Saurabh, 50% at 90 and 50% at 180, it’s a pretty aggressive provisioning policy. Honestly, I do not think there’s a need to get more aggressive than that. Write-off, frankly, it's just an accounting entry. It's a pure accounting entry. And we do that, obviously it affects the GNPA, but we do that just to make sure that there's no pressure of the collection to continue to push for collection. And that's not the only reason. From a P&L perspective and from a return perspective and stuff like that, it makes absolutely no difference.

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

Rahul Jain: Just a couple of questions. So, just to maybe ask differently on credit cost and slippages, so I think what I understood is, MFI's still a bit of a trouble, CC's plateauing, PL is gradually improving. Not the recoveries but whatever fits into NPA but the new formation of NPLs. So, does it mean that the slippages will peak in this year and thereafter in the next year it will start to improve, considering, whatever has been happening in the broader economy?

Devang Gheewalla: So, I think we will have to see it over next two, three quarters. While yes, this quarter the slippages have come down. And if you recall, in the last call I had mentioned that essentially the tractor business and other commercial businesses other than microcredit normally perform well in the second-half of the year. So, I think we will have to be watchful in terms of the slippages going forward. But we see it today, the slippage on personal loan is tapering down, credit card has plateaued, remaining at the same level. Let's see at what stage it starts coming down. But the micro credit continues to rise. So, it will be a question of when will the other sort of taper down and to what extent the microcredit set off will happen. And again, it's also a question of size of the book, because if you see the retail micro credit is only Rs. 8, 000 crore as at December out of over Rs. 4 lakh crore book. So, I think we will have to be watchful. And that's why I mentioned that I remain cautiously optimistic. So, we will have to see this trend over a few more quarters before sort of commenting on this.

Ashok Vaswani: And Rahul, we also have to look at the broad economy and how things are going, right. Obviously, we are affected by those kinds of things. But as we sit now and where we are, Devang has kind of summed up how we think about it.

Rahul Jain: Got it. And credit costs should see a similar trend, therefore, right? I would reckon that this quarter a significant part of the credit cost may have come from, let's say, the write-off of the MFI loans. We know the write-off figures and maybe unsecured share to recognize. So, as we get into the next year, all of this would have been recognized as a slippage trend further, keeping in mind, like you said Ashok, where we are in the economy, credit cost also should start to taper off. Would that be a fair assumption to make? Is this how you are also thinking about this line item?

Ashok Vaswani: Yes. So, Rahul, clearly there is a direct correlation between slippages and credit cost, no questions about that. So, that will kind of hold. I think what we have got to look at and say is how does the economy kind of move along. And if the economy kind of stabilizes or gets better, then your analysis is absolutely correct. If there's a worsening in the economy or there's a fair amount of volatility in the economy, the question, and that's what we constantly keep a lookout for is to see whether we are seeing any contagion in any other kind of portfolio. As of now we do not see it. But am I cautious and looking at it on a very, very regular basis? I sure am.

Rahul Jain: Very comforting. And on the similar note, any qualitative trends you can share about the early bucket movements in both the secured and the unsecured portfolio? Secured, I mean excluding the home loans and the LAP book, if you can just share qualitatively how you are seeing those, are those stable. Because the environment, I mean, the different players are sharing different views and different data points versus seeing different trends. So, how are you seeing in your portfolio, a qualitative comment would be helpful to us.

Ashok Vaswani: So, Rahul, I think Shanti covered it, right. Look, most of our growth and everything has come from secured. Our secured book, touchwood, is behaving very, very well. We do not anticipate any issues there. The unsecured book by definition is a little more volatile, right. And that will be a function of how the economy kind of shapes up, right. We have talked extensively about PL, card, microfinance, I am not going to repeat myself. And then there are other books like CV/CE which we are looking out to see how things go. The good news, Rahul, is that we are quite diversified. There is no particular segment of loan type that overwhelms the balance sheet. So, to that extent that gives me a slightly greater degree of comfort.

Rahul Jain: Just slightly switching gears to the margin, so clearly the mix has changed over the last two quarters with absence of new CC onboarding and MFI, etc., which is a high yielding portfolio. So, now margins are clearly stabilizing this quarter, which is great. How should we think about it next year? Because I think some of these components will come back, you'll have Standard Chartered book also, so shall we assume that margins are bottomed out and next year they might have the upward bias?

Devang Gheewalla: So, I think the margin has various components, as you know, the yield on the earnings asset and cost of fund. And both of them have different levers in addition to, of course, the regulatory repo rate change, right. So, it's very difficult to comment on that. But yes, you are right, as the share of unsecured business grows, either by lifting of embargo and once we are comfortable with the credit quality, it will obviously add to the yield on the earning asset. As far as cost of fund is concerned, the cut in the SA rate is helping us. And of course, as the share of current account deposits which we grew nicely during this quarter continues, then the margins will continue to remain or improve from thereon.

Rahul Jain: Very helpful. Just one last data keeping question, two data points if you can share, one is the employee count at the Bank level. And also, in your business banking book, how much is unsecured? Thank you.

Devang Gheewalla: So, our headcount approximately, this is including on rolls is close to about 77,000 people as at 31st December. And with this, what you said, sorry?

Ashok Vaswani: The business banking, as we presented it there is fully secured.

Devang Gheewalla: Yes, correct.

Rahul Jain: Very comforting. Alright. Very helpful. Thanks. And once again, congratulations on a great quarter.

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

Abhishek M: Good evening and congratulations for the quarter. So, the question I have is, on this RBI Bank subsidiary norms, how are you positioning the Bank and the group to meet that circular? For example, I mean, if you take the example of real estate, different stages of financing is done in different entities. How would that adjust or be adjusted? Or would you have to do everything in the Bank? So, just from a business angle, how are you preparing for that circular?

Ashok Vaswani: Yes. So, Abhishek, the October 4th circular, we have kind of studied it like every other Bank, I think. We have given our comments on what we think makes sense and does not make sense. Look, in our case, the level of overlap is actually very, very, very low. There are very few instances where we do the same kind of business in multiple entities. And therefore, in our case, if the circular goes through exactly as was indicated at the time of issuance, it really will just be about consolidating it into the Bank. So, that will be a lot of operational matters but not going to have a dramatic impact on anything else.

Shanti Ekambaram: I want to add what Ashok said. What we cannot do in the Bank we cannot do in our subsidiaries. You talked about different stages of financing in real estate, we cannot do different stages of financing. What the Bank can do the subsidiaries can do. And this changed about two years ago, so we do not do any differential type of financing in the subsidiaries as far as real estate is concerned.

Abhishek M: And if you do not mind, can I squeeze in just one more question?

Ashok Vaswani: Yes, go ahead.

Abhishek M: Thank you. So, this is on cost of funds specifically, one, can you give the balances in ActivMoney maybe this quarter and the last quarter? And second, if I look at the Q-on-Q movement in the cost of funds, there's been 8 bps, 9 bps decline. Maybe 4 bps or 5 bps out of that is coming due to the SA rate cut. But the rest of the drop Q-on-Q, is that because of ActivMoney balances going up a lot or is there some other repricing? Or how has the cost of funds really come down sequentially ex of the SA rate impact?

Devang Gheewalla: Yes. So, if you can see the update where we have the share of current account and the growth in the current account average balance shows a 12% growth Y-o-Y actually, right. So, on a sequential quarter also it has grown by 5%, right. So, as the non-interest-bearing current account share increases, the mix of the cost of fund obviously reduces, right. And you are right, we implemented the SA rate cut on 17th of October, the effect of that is also obviously coming in the cost of funds. So, these are the reasons for that. And of course, as I mentioned, the growth in ActivMoney continues to be 36% on a Y-o-Y basis on average basis, so I think it is also obviously --

Shanti Ekambaram: It's growing at a sequential basis.

Devang Gheewalla: So, obviously it is because the rate of interest on the sweep TD is lower than the normal TD, so it is also helping us in lowering the cost of funds.

Abhishek M: So, how sustainable is this average current account growth? I mean, what are you doing at a business level to keep pushing it up? Or it can be a bit of an aberration and then it subsides, so that's what I am trying to understand because this is critical to your cost of fund and NIM.

Devang Gheewalla: Sure. So, as I mentioned in my speech, I think it is also helped by the IPOs. As you know, we have the large custody business, so it also depends upon the FPI flows coming in. So, I think it's very difficult to predict. But I think at the consumer Bank level, there is a sustained increased growth happening. The one with the volatile part obviously is in the wholesale IPO and the custody segment, which depends upon also obviously the capital market part of it in that.

Shanti Ekambaram: There is also core customer franchise in the wholesale and consumer side, then there is custody flows, then there is capital market flows. So, different quarters give you different flows. Our aim is really to keep growing the core customer franchise, which is the payments, the collections, both on the wholesale and in the consumer business banking and current account services. But we did benefit from custody IPO and that's a month-to-month change.

Abhishek M: Great. Thanks. And all the best for the next quarters. Please share the ActivMoney balance if you can, otherwise it's great. Alright. Thank you.

Shanti Ekambaram: It's there’s in the deposit. If you look at the deposit slide, it is there, Slide #12 in the investor deck.

Devang Gheewalla: Slide number 12. It is called TD sweep,

Abhishek M: Yes, I am sorry, my bad, I will take it from there.

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 clarifications, firstly, on slippages which are down about Rs. 200-odd crore Q-on-Q, is it entirely driven by retail, which means that unsecured slippages have still remained as high as last quarter? I am a bit confused here.

Devang Gheewalla: Hi Piran. So, yes, the slippage break-up, obviously as I mentioned, the slippages for the secured or the commercial business like tractor finance and all that have come down compared to last quarter, but unsecured I think we continue to maintain that credit card is sort of remaining stable, personal loan is tapering down, and retail micro credit is sort of showing a growth. So, this is how our composition has changed. So, the fall in the secured and commercial businesses compared to last quarter has helped it coming down.

Piran Engineer: Got it, that clarifies. And secondly, just on fee income, fee income growth, which was strong since last year has been moderating for the last two quarters, and now we are barely at 10%. Is this merely a function of, A) lesser credit card spend; B) maybe slower disbursals in personal loans, or is there more to it?

Devang Gheewalla: No. So, you are right, this has impact of the credit card business because obviously we are not able to do any incremental card business. It also actually got impacted by the referral fee circular, which was there, in that sense. And also, some of the transactions related fees, so we had in earlier quarter some debt capital market transactions, compared to last quarter this quarter has been lesser. So, these are all deal based income which was there. And of course, there is some IPO-related fee income also which is lower as compared to last quarter. These are the reasons why the fee income is lower.

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

Suraj Das: Thank you for the opportunity, I think a few questions have already been answered, just a follow-up. I think in the commentary you mentioned that there are signs of stress building up in the CV segment. However, if I look at the growth that is impact, in fact the growth has been in this quarter 4% versus last quarter 3% on a Q-on-Q basis. So, I just wanted to know if you can give some color in terms of the segments where we are growing or you are seeing pockets of opportunities and where do you see it going in LCV, HCV, MHCV, what kind of group? Or is it the construction equipment piece or what kind of growth you are seeing in this book from which segment? If you can give some quantitative color, that could be great.

Shanti Ekambaram: So, if you look at the CV, there is a CV retail, there are large fleet operators and you have construction equipment, all of them are bucketed. If you look at the growth, it's 4% quarter-on-quarter. It is the retail CV where we saw a slight increase in delinquency, which is in accordance with the industry levels where disbursements and the growth are actually slower. And it's construction equipment and the larger CVs that we have seen growth.

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

Param Subramanian: Thanks for taking my question. Most of them have been answered, but just this one on prime, on Kotak Prime you mentioned there is a pickup in the delinquency, whereas on the secured assets of the Bank we are very comfortable. So, what is driving this divergence in asset quality?

Devang Gheewalla: Yes, so I think I mentioned the delinquencies, Kotak Prime also does two-wheeler finance, so there is a higher delinquency in two-wheeler financing which is not obviously done in the Bank. So, that is where the delinquencies are higher, yes.

Param Subramanian: And in the last quarter we had made a comment saying that we expect credit card and microfinance delinquencies to largely be absorbed within two quarters, largely. Are we holding onto that sort of guidance?

Devang Gheewalla: I think as we mentioned, credit card delinquencies remain flat quarter-on-quarter and the retail microcredit delinquencies are yet to peak. So, that is how we look at it as of now.

Ashok Vaswani: So, guys, it's already I guess 6:30 on a Saturday evening, I am very conscious of your time and therefore I just wanted to say a sincere thank you. I appreciate it. I hope you got a good sense of the business and the progress that we are making. And I sincerely forward to catching up with you again. Thank you.

Devang Gheewalla: Thank you.

Shanti Ekambaram: Thank you. Bye. Good evening.

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.