



# “Kotak Mahindra Bank Q3FY21 Earnings Conference Call”

**January 25, 2021**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Kotak Mahindra Bank Q3 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Uday Kotak. Thank you, and over to you, Mr. Kotak.

**Uday Kotak:** Good evening, friends and colleagues. First of all, I wish you all a very happy 2021.

I'll start my initial comments in three parts; part one is about the economy and the macro picture as we see in the Indian context; part two is about some of the specifics on the bank and the group in the context of the quarter which has gone by; and part three is more about how we see this broader strategy and the situation of banking and Kotak as we go forward in 2021.

So with that, let me first start with the economy. I think the most important aspect of the economy in the first half of calendar 2021 is going to be the vaccine, the success of the vaccine, the effectiveness of the vaccine in terms of efficacy, how long it lasts, and whether any mutations create complications. But the base case at this stage for most of us is that the vaccine will work and will give protection at least for 9 to 12 months. And that is the basis on which we are working.

At the same time, it is heartening to note that even independent of the vaccine, the number of active cases in India seem to have come down significantly and hopefully sustainably. So with this backdrop where there is a very high probability of normalization on account of COVID happening in the first half of 2021, where hopefully most of us would have got vaccinated in this period, we could see a normalization of the economy and also potential areas of growth.

The big question on the macro side is that as this normalization happens, what happens to the inflation and the interest rate situation, and how does this play out as we go forward. In terms of the big picture, if the normalization on the vaccine happens, my assessment today is that we should, over the period of 2021, see by end of '21, the overnight rates come closer to the current repo rate, which would be give or take around 4%. And the yield curve flatten a bit, but at the long end, it should still go higher than the 6% mark. Now, whether the range is 4 to 6.5 or around from overnight to 10-years is something which we're going to wait and watch. And we also want to watch the inflation trajectory as also global interest rates and global liquidity.

So lots of open questions. But broadly the base case at this time is normalization of the economy through 2021, especially with the vaccine being effective, and that leading to some pressures on the demand and supply side, putting some inflationary pressures leading to normalization of interest rates. However, we are not projecting a very sharp hike or a spike in interest rates of abnormal quantum in 2021. At the same time, of course, we are not discussing the what if question, that is if the vaccine doesn't work, the pandemic continues to create challenges. And I

consider the probability of that at this stage relatively low. But of course, like every risk management aspect, we can never consider it to be zero. So this is a broad macro background on the basis of which we are doing this call today in January 2021.

Coming to the “Specifics on Kotak Mahindra Bank and the Group”, I would first like to share that taking on from where we stopped at the last quarter meeting, where I mentioned that we have seen loan growth coming back. I'm happy to come back and say that we have been warming the waters and quarter-on-quarter growth is about 4.5%, which on an annualized basis comes to around 18%. We see a continuing warming of this water further, and we see that as a trend subject to, of course, the broader macro picture which I shared with you. Therefore, continuing momentum on the growth side on assets is something which we are seeing beyond December 2020.

Our focus, as I mentioned, is more, on the retail and the commercial side, more on the secured lending side, we are also getting some traction on the corporate side, especially at better quality corporates. And in the unsecured consumer credit, we continue with our broader conservative approach, though, we are beginning to grow now at the higher end of this consumer unsecured credit in a manner which we are comfortable with the risk/return matrix of the quality of customers. So this is a broad strategy on loan growth and asset growth. And we will continue with what we mentioned to you in October and the waters have started warming and we do see a continuing momentum going forward.

That brings me to the second aspect, which is “Where are we on the stress cycle in our bank and how do we see it at this point of time?” And it takes me back to something which I have shared with you earlier. And that is, we see a much more different picture between unsecured retail and secured retail and commercial. On the other hand, the corporate book continues to be very robust. Therefore, corporate lending, in fact, has turned out to be much better than what we would have bargained for in April and May. And within the retail segment on unsecured retail just to share with you the numbers, unsecured retail consumer in our book is about 6% of our loans, but the delta on pro forma NPAs between September quarter and December quarter the delta share of unsecured consumer retail is delta 40% of the delta, which means 6% of the loan book has given the delta of 40% of the difference between pro forma situation as of end of September versus end of December. So, this is something which our approach on restructuring here has been that we will do it for customers who we believe will have the ability to repay in the future or else we are taking the tough calls and letting it flow into the 90-day plus stress basket. As a result of which our total restructuring number is 0.28% between what has been restructured and/or invoked. So, the combined number of both this put together is around 0.28%. And wherever we have seen the stress other than this, we have let it flow into the 90-day plus bucket.

Further, our view on this 90-day plus bucket is that we have not used any analytical basis for deciding the pro forma stress. Our view is straightforward that if the Supreme Court deferment order was not there, and an account had crossed the 90-day mark, in normal course, we would have considered that to be an NPA. And we have done that fully in our entire pro forma calculations and made appropriate provisioning on that entire amount. We have further not done

any sale to any ARCs out of our book. And in fact, we continue to see if we get opportunities to be buyers of potential stress where we think there is a value between risk and returns on that portfolio.

On the secured side, however, we have found the book behave much better other than a few pockets, where there is some level of stress in the secured book as well. So, within the commercial vehicles segment, in particular, we have found some stress in the bus segment. This, as you know, the bus segment within commercial vehicles gets used mainly for school buses or also for inter-city and state transports. And that accounts for somewhere between 10% to 15% of all commercial vehicles. And we have found the levels of pro forma GNPA in that segment to be higher.

The other thing which we have done is the entire amount of provision for interest reversal. We have taken it in our provisioning line and the full provisioning on interest reversal including on pro forma NPA has been provided through the P&L. So this is the broad facts on our current banking book. And we do see that a lot of the stress has significantly flown in, in the period post September 1 to 31st December and has gone in and baked in into our numbers. So having said that there is overall some increase in the SMA-2 book as well, compared to earlier time, and we are watching it very closely.

The third point is the future of banking and future of financial services. And here, the first point which we are very, very acutely aware of is that the benchmark for us in the future cannot be other banks, the benchmark for us in the future is any player who has the ability to come into the ecosystem play and be a competition. And therefore, we as a financial institution, are benchmarking ourselves much broader on the consumer plate, not just other banks. And that's how we are planning our strategy, including the digital strategy. And it reminds me of Jamie Dimon's recent statement "That We Better Run Scared." And I do share that we have to really get our act to be significantly faster, sharper than ever before. At the same time, we also believe that financial services and banking is about culture. And there is the old world and there is a new world. There are a few things which we need to move to the new world, but there are some parts of the old culture which need to continue. Culture cannot be a dogma. But change has to be with some areas, which remain fundamentally, philosophically the right way of doing business. And we have seen what happens when financial institutions get disproportionately focused on only cross-sell numbers at the peril of the customer himself or herself across different parts of the world. And we are also dealing with many strategic questions as we go forward and are taking our calls.

Our view is on the future of branches. Branches may still be required, but the density of branch networks will be less than what is required in the pre-COVID world of the past as digital takes a bigger shape. Therefore, our approach to branches from here will continue to be more measured. And we believe that we have the much greater ability to reach out through technology and digital means versus disproportionately large physical infrastructure as we go forward.

We are also doing a lot of work on increasing productivity parameters, including working from home and putting some of this in place in real life as we talk. We see productivity gains as an important part of how we think about the future.

And finally, the internal mantra to my team, colleagues and friends, is execution, execution, execution. We really get down to cutting edge execution within the broader framework of strategy as we take the roadmap forward.

With that I will now request my colleague, Jaimin Bhatt to take you through specific numbers and other aspects and my other colleagues on this call as we go forward. Thank you very much.

**Jaimin Bhatt:**

Thank you, Uday. Let me take the standalone bank numbers first. As you would have seen, we closed this quarter with a post tax profit of Rs.1,854 crores as against Rs.1,596 crores last year. But let me take the details; our net interest income, we clocked Rs.4,000 crores this quarter as against Rs.3,430 crores last year same quarter, which is about the 16.8% growth from last year. Our other income, which comprises fees and services as well as the other part of other income, we grew that from Rs.1,361 crores last year to Rs.1,334 crores. The fees and services part has grown by 3% on a year-on-year basis and 11% on a quarter-on-quarter basis. The fees and services largely comprises distribution of mutual funds, our insurance products, our other investment products as well as our debt syndication and other activities in that area. So that has grown healthy on a quarter-on-quarter basis. The other part of other income which largely comprises treasury and related areas, last quarter we had talked about the fact that we had some treasury gains including equity as well as we had some stress asset realization. So from a number of Rs.394 crores in Q2, this has dropped to Rs.164 crores in Q3. So that has been a negative quarter-on-quarter as well as the year-on-year number. While the employee costs, as we talked about the fact that both last year third quarter as well as the immediately preceding quarter, which is quarter 2 this year, had some element of one-time pension costs which have not been there this quarter, and to that extent you'll see the employee cost a tad lower than even the previous quarter. Our other OPEX cost, as we've seen activity levels go up, some of these costs have come in. This quarter we did spend on decent amount of promotional expenses, on advertisement activity as our asset book has started growing also includes brokerage costs, as well as collection and recovery costs, so uptick during this quarter.

That brings us to the operating profit, which we closed this quarter at Rs.3,083. crores versus Rs.2,388 crores last year, which is about 29% jump.

Coming to provisions, as Uday mentioned, and let me just take a little bit on that. As you'll be aware, the Supreme Court in the interim order had said that banks, NBFCs would not declare anybody any new account as NPAs from 1st of September. So, to that extent, there has been no new NPAs in the current quarter. However, what we have done is notwithstanding the Supreme Court order, if there is any borrower who had even one account, which had a 90-day plus overdue, we treated the entire borrower as a pro forma problem and have provided on that borrower's entire balance, as if we would have provided in the normal course based on either RBI or our policies, whichever is higher. Not only that, we have taken the entire amount of

interest which he would not have paid during the period since he stopped paying and have taken the interest which is not paid in the provision item.

And just to step back on the interest part, considering the fact that you had a long moratorium period in between, anybody who had enjoyed the moratorium period and who is thereafter falling into the 90-day plus overdue in this quarter, would mean that the interest reversal is not just for three months, it could end up for somebody who has taken both the moratoriums, it could end up to be as long as 10 or 11 months. So that's the interest reversal also sitting in the provision number. As a result of which, you see the provision number on advances this quarter at Rs.641 crores as against second quarter at Rs.345 crores.

We therefore come to a pretax profit of Rs.2,484 crores which is a 27% rise on year-on-year basis. Last year in Q3, we had talked about the fact that we had got some favorable tax orders, which resulted in our tax rate in Q3 last year to have come down. And as a result of which while the pre-tax profit has gone up by 27%, the post-tax profit you see a growth of 16.1% on a year-on-year basis.

Uday talked about the asset quality. We declared GNPA which is before taking the Supreme Court numbers into account we close at 2.26% and net at 0.5%. However, if we take the Supreme Court thing which I described, we would end up with a GNPA of 3.27% and an NNPA of 1.24%.

Our credit cost on the optical side would be at 120 bps for the quarter; however, if the interest element was not adjusted in the provision line and was adjusted in the interest line, the credit costs for the quarter would drop to 86 bps.

Our pro forma net NPA, we end the period with 2,646 crores, against which we are holding provisions including standard, COVID and all of that at Rs.2,262 crores, and we do believe that we are adequately provided. We have not dipped into any of those COVID provisions either in the previous quarter or in the current quarter. As Uday mentioned, we've got no sale to ARCs during this quarter or anytime during this year.

Our total approved restructuring as at 31st of December stood at 0.28% of our advances. SMA-2 at Rs.654 crores which is 0.3% of our overall advances. Our net interest margin for this quarter at 4.51%. However, if I do the interest adjustment which I talked about, and this interest adjustment is not just interest for this quarter, but for a lot of previous quarters also; the 4.51 would dip to 4.31. Our overall CASA number at a healthy 58.9%. And as Uday talked the overall loan book has shown a 4.5% growth on a quarter-on-quarter basis, annualized 18%. Our capital adequacy continuing to be very healthy with tier-1 itself at 23%.

I would request Shanti to take on the digital and the deposit activities in the bank, before we go to the others.

**Shanti Ekambaram:**

Thank you, Jaimin. I will start with "Digital." Our retail consumer business strategy is focused around customer, customer acquisition, customer deepening and cross-sell and customer delight.

Our digital strategy is focused around this core business strategy. We had focused a lot on the acquisition side by digitizing acquisition. 811, biometric KYC and video KYC are examples of that, which helped scale the acquisition side and brought efficiencies. We moved to deepening in process journeys using digital and we have implemented many such journeys for assets, cross-sell, and distribution of products. We are working on customer delight. Digital and DIY journeys for everything that the customer engages with the bank across transaction will help. To embed digital in every aspect of our core business around customers, be it channels, transactions, products and services.

Coming to the highlight this quarter, we continue to see a surge in customer's usage of digital channels, led by the mobile being the preferred channel. We enabled new digital journeys to help customers transact with us. Example on the asset side, we enabled Digi Home Loans, for instantcredit assessment and in principle sanction, no physical intervention. Digi Personal Loans, end-to-end 811 secured card being available to customers digitally.

On Mobile Banking, we have a 5% share of mobile transaction value in the industry; transaction volume is up 73% YoY and value 40%.

We launched our "New Net Banking Version". All frequently used services have been simplified and brought to one page in an enhanced dashboard and simplified login and password reset process. Whole technology is based on micro services and containerization technology.

On the "Service" side, we have scaled capabilities to serve our customers across Voice and Chatbot, WhatsApp Banking and other services. Our digital channels of mobile and net have 180 and 250 features respectively, across banking, service, payments, shopping, insurance, loans and card. Customers have used these channels extensively across term deposit, recurring deposit, bill pay, recharge, personal loans, insurance amongst others.

We launched Amazon in our KayMall in December. We have 213 such relationships in open banking. To expand ecosystem participation across platforms, fintech and developers, apart from digital solutions to our customers. Our 811 customers use our digital channels extensively as you can see from the percentages. In digital payment transactions, UPI continues to see a surge in both customer and merchant transactions. And interestingly, 92% of overall P2P and P2M transactions share are in digital.

Now I turn to "Liabilities." Q3 saw a return to normalcy across the branch banking network. In branch, transactions have seen consistent month-on-month increase and was at 95% average pre-COVID level. Some locations are more than 100%. Cash transaction volume in December exceeded pre-COVID level. We continue to see a strong growth in deposits. Average saving deposit growth YTD YoY is 29% and current account 13%. Focus has been on granular customer growth. Our customer acquisition month-on-month grew across all locations. And we continue to focus on significant acquisitions through the 811 platform. Our CASA ratio, as Jaimin mentioned was at 58.9% as at December '20 versus 53.7% last year. CASA and TD below Rs. 5 crores comprise 92% of deposits versus 87% same time last year. Sweep deposits comprise



8.1% versus 7.4% in Q3 last year, and the cost of savings is at 3.81% this quarter versus 5.27% Q3 last year.

Our customer contact center was fully operational across work from home and our center. This enabled us to serve customers for their requirements and active engagement. Our distribution fee income continues to show strong growth this quarter. And we continue the use of analytics and CRM platform to deepen into our customer base. Digital adoption by all segments of our customers continue to surge as we enabled many more digital journey.

Moving on to Consumer Assets. Mortgages, Home Loans - this was the focus area right through the quarter. Given the competitive rates and growth in core home loan demand our disbursements increased month-on-month and we had our best ever month in December. Our focus has been better penetration into the salaried segment, and of course the BT market, both of which are showing good results in terms of increased penetration. We expect this momentum to continue. Initial data shows that we are onboarding much better quality segment, while significantly ramping up numbers.

LAP - Volumes in December are back to pre-COVID level. We continue to see demand from existing and NTB customers. This has always been a steady and stable business for us in terms of market share and credit quality. We intend to continue our focus to grow this business.

MSME, Working Capital - We have seen demand for credit pickup and our new acquisitions have grown month-on-month and are almost at pre-COVID level in December. We see our customers increasing their market share and thus some demand for credit. With the economy opening up, we have seen improvements in utilization by our customers, cash flows increase and some amount of CAPEX demand. We will continue our focus on building a quality franchise in the MSME segment.

Unsecured lending, as Uday has said, we are growing our acquisitions month-on-month but slower and lower than pre-COVID. We are pushing for growth in segments where we see better quality of credit, stable environment and thus ability to grow based on robust risk model.

Consumer Durable/Consumer Finance saw good growth due to significant increase in consumption growth during the festival season. We have developed extensive risk forecasts giving us the confidence to grow this business.

About Collections. Collection efficiencies have improved month-on-month and are back to pre-COVID levels with secured assets and nearing pre-COVID levels in unsecured. We see a stabilization of collection metrics from here on. With the current bucket band stabilizing, we have actively changed our strategy and moving collection to late buckets and recovery. Our investment in technology, analytics and capacity enhancement in collection have helped us improve our resolution across products. We will continue to closely monitor and track collection across all metrics.

I now request Kannan to take you through the Commercial Bank Highlights.

**D. Kannan:**

Thank you, Shanti. I'll start with the Commercial Vehicles Finance Business. Sale of commercial vehicles in the goods segment during the quarter has been better than the previous quarter. Our disbursements during the quarter has been higher than the previous quarter. Capacity utilization in the goods segment is near normal, but operator economics are affected by increasing fuel prices. Collection efficiency during the quarter has been normal. Sales of passenger vehicles continue to be low. Passenger transportation continues to be an impacted segment and capacity utilization in the passenger transportation segment is very low. Our customers involved in staff transportation, school bus operations, etc., are impacted.

Construction Equipment - Demand for construction equipment has been good, driven by infra projects funded by government and government agencies. Demand for equipment in the mining segment is also good. Disbursements for the quarter has been better than the previous quarter and collection efficiency in this business is back to normal levels.

And I move on to our Agri SME business. Our Agri portfolio mainly comprises of SMEs involved in processing of agricultural commodities. Nature of the business has ensured regular cash flows for a customer and our collection efficiency in this business has been normal. Demand for credit is getting better as compared to the previous quarters. Our microfinance exposure is mainly in non-urban areas. Collection efficiency in this business also has been better and has improved in the quarter gone by as compared to the previous quarter. Disbursements have also been better than the previous quarter.

Tractor sales volumes for the nine months ended December '20 is about 17% higher compared to the last year. Our disbursements in this business have grown both year-on-year and as compared to the previous quarter. Rural cash flows have been good. And our collection efficiency has been normal. Volumes are expected to be good in the coming last quarter too.

I now hand it over to Manian to take us through the next part.

**KVS Manian:**

Thanks, Kannan. So taking you through the Corporate and SME book, Uday mentioned earlier during the call that the asset quality has remained fairly stable, and it has been a big positive surprise, that has led us to be relatively more aggressive in the last quarter. So we've been able to grow the corporate banking book in the last quarter. And if you see, the annualized growth rate is close to about 25% on the corporate book. Actually we've been able to get this in good quality corporates, and our RWA percentage have actually fallen during this period. So effectively, meaning that with a better quality, we've been able to grow and the spreads have remained reasonably stable.

On the SME side, for the first time, after several quarters, we are again seeing some uptick in the book, both led by new acquisition as well as better utilization by SME. And actually the SME utilization was also suppressed because of the ECLGS loans because many of them borrowed, but they essentially decreased utilization in the CC limits. But we are now seeing

signs of growth in the book. And that's a positive sign and we intend to build from here. So, overall, I would say that we are beginning to get momentum in this.

And in the corporate side, we remain focused on building a broader franchise with customers, with focus on overall account level RAROCs, and we are finding good traction at that level. If you look at our exposures in sectors, we have grown our exposure in the NBFC sector but that is largely led by growth in the HFC sector, which is again to a very high AAA-rated housing finance company. On the LRD side, we have remained cautious on the office space LRD in the early part of this, but now we are seeing some stability there. But we have remained cautious through the last couple of quarters on the office space LRD. On the CRE, we are again seeing good traction now on the residential side, and there is a lot of demand on that with high quality developers. But of course, during the last quarter we remained fairly stable on that portfolio.

And the other good development in the last couple of quarters was ECLGS scheme. We disbursed close to Rs.9,400 crores as a bank overall across the various divisions of the bank. And the current number stands at about Rs.9,700 crores which is close to about 5%, 5.5% of the overall utilization of the scheme, which is relatively higher than our share in the advances market otherwise.

Also, the businesses facing the market have remained good. So both the DCM in the bank as well as the ECM part of the business in Kotak Mahindra Capital Company, subsidiary, running the investment banking business, have remained good. On the DCM side, the revenues have been significantly better than last year this quarter as well as nine months comparison. And on the investment banking side, we have been part of several marquee issues and traction on that remains good. And we've had a good mix of IPOs, QIBs as well as Block deals. Advisory continues to remain stable. But overall, the investment banking business is fairing much better because of the markets than we thought at the beginning of the year. Can I then hand over to Jaimin?

**Jaimin Bhatt:**

Yeah, thanks, Manian. At the consolidated level, we closed this quarter at post-tax profit of Rs.2,602 crores, which is roughly about 11% higher than Rs.2,349 crores last year. Again the post-tax numbers impacted by the tax benefit we had in the last year third quarter for the bank. If I take the pre-tax numbers for the bank and subsidiaries, the growth on a year-on-year basis is about 19.5%. Other than the bank, the contributors to the post-tax profit for this quarter, Kotak Securities brought in Rs.184 crores as against Rs.128 crores last year. Life Insurance company at Rs.167 crores, about the same number as they had clocked last year. Kotak Mahindra Prime, the total profit is Rs.149 crores as against Rs.187 last year. The Mutual Fund business, the asset management and the trustee businesses together were Rs.91 crores, again the same number as we had last year. The customer assets at the consolidated level at Rs.2,55,000 crores, up from about Rs.2,47,000 crores which we had three months ago. The capital and reserves at the overall group level at about Rs.82,000 crores, of which Rs.62,000 crores sits in the bank. All the companies are pretty adequately capitalized. And at the group level, we now have a capital adequacy of just less than 25% overall, of which 24.3% is tier-1 ending with a book value of Rs.412 per share.

I'd request Murli to take the Insurance Highlights please.

**G. Murlidhar:**

Thank you, Jaimin. For this Q3, Kotak Life Insurance has shown a growth of 9% over the previous quarter, and the numbers are Rs.2,623 crores in Q3 compared to Rs.2,401 crores in Q2. During this period, the share of traditional products for Q3 stands at 85%, and our share of protection products has grown by 4.8% on overall basis and individual protection share has grown by 29%. Our renewal premium has shown a healthy growth of 22%. And our AUM as of 31st December has shown a 22% growth and stands at Rs.39,800 crores. Our solvency ratios is healthy 3.01 and we have a strong solvency and our profit for the quarter has been Rs. 167 crores.

Our focus on digital continues to be on empowering our distribution, energizing employees and superior customer experience. Kotak Life has a significant share of agency in its overall business. So empowering and energizing the distributors, especially the advisors is a very important part of our digitization program.

Smart measures were introduced for improving customer engagement and performance in our "Boost", which is a mobile app for advisors. This really helps the life advisors to improve their productivity. And we have now extended "Boost" to more of our front-end sale user groups so that we can improve visibility and improve business performance. Our digital onboarding of customers through "Genie" continues to be at 95%.

KLI Recruit, a new digital advisor onboarding platform was launched this year. This will make recruitment of advisors much easier for us.

Kotak life has a significant share on some business where payment of claims becomes very important. During this period, we launched "Insta Claims" primarily to settle group claims within 24-hours and improve customer experience.

And we introduced a number of "Digital Service Tools" and More Number of Services" were added like policy document download and premium calculators to make the customer experience better.

Now I hand it over to Jaideep.

**Jaideep Hansraj:**

Thanks, Murli. I am here to talk on the Kotak Securities numbers for the quarter ended December '20. Total income for this quarter was Rs.474 crores. This would be compared with Rs.409 crores for Q3 of 2020 and Rs.516 crores for Q2 of '21. Profit before tax is Rs.245 crores This is compared with Rs.171 crores to the same period last year and Rs.266 crores for the previous quarter. PAT for this quarter is Rs.184 crores which was Rs.128 crores same period last year, and Rs.199 crores for the previous quarter.

I'd also like to talk on some of the continuing regulatory changes which have been happening. The peak margining system introduced by SEBI effective 1st December, and this was coupled with the upfront marginal system which happened in September, we all felt that this system would dampen the volumes a lot. There had been a marginal drop in volumes in the first month

or so. But the drop has quickly recovered. This system would bring in a lot of transparency in the industry, as well as a level playing field for all the players in the industry. The industry continues to open trading accounts with a lot of gusto. And even last quarter, the number of demat accounts opened was close to 3 million.

Kotak Securities last quarter launched a “Trade Free Plan” in November. At the same point of time, it also launched the account opening platform where it allows customers to start trading in 60-minutes. Both have seen some amount of traction, but we need to wait and see how this pans out over the next few quarters.

It's very clear that technology is the name of the game at Kotak Securities, and we realize this and have a razor sharp focus on this.

With this, I'd like to hand over back to Kannan for Kotak Mahindra Prime.

**D. Kannan:**

Thanks Jaideep. Kotak Mahindra Prime had a profit after tax of Rs.149 crores for the quarter on NII and other income of Rs.386 crores. Profit after tax is up 12% as compared to the previous quarter. Demand for cars has been good and supply side constraints are visible in the fast-selling models. Dealer inventories are comparatively lower. Our disbursements during the quarter have been higher than the previous quarter as well as the same quarter last year. Placement margins in the business have been good and collection efficiency is back to normal. I now hand it over to Nilesh.

**Nilesh Shah:**

Good evening. Calendar year 2020 was a rollercoaster year for asset management industry with the headwinds of COVID-19. Kotak Mutual Fund grew total AUM by 22.5% year-on-year and 12.8% quarter-on-quarter in third quarter FY'21. We became fifth largest asset management company in India, managing AUM in excess of Rs.2.17 trillion. Our equity AUM grew by 10.5% year-on-year and 12.8% quarter-on-quarter for the quarter ending December '20. Our market share in total AUM grew from 6.6% last year to 7.3%, a growth of 10% plus year-on-year. Our PBT and PAT remain flat on a year-on-year basis; however, it grew by over 8% on a quarter-on-quarter basis.

Kotak Mutual Fund continued its tradition of being a pioneer in responsible investing. We were the first Indian Asset Management Company to sign “United Nations Principles for Responsible Investment” for ESG Investment. This quarter we have signed for “Climate Action 100” whereby we will work with select Indian companies to implement Paris Accord on Global Warming.

Across our asset management vertical comprising of mutual fund, insurance, EMS and alternate investments, our total AUM grew by 19.6% to Rs.3.15 trillion. Relationship value of our wealth management, including wealth priority and investment advisory business grew by 22.54% to Rs.3.75 trillion. We will continue to be a significant player in asset management industry focusing on alpha generation and ESG investing. We would continue to be a significant player in wealth management space with focus on client first and open architecture.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Adarsh Parasrampuria from CLSA. Please go ahead.

**Adarsh Parasrampuria:** I had one question on the ECLGS book. We've been pretty active; we've had a 5% share of the disbursement till now. Just wanted to understand what gives the bank the comfort that some of the ECLGS borrowers who would have got 10% or 20% of their outstanding, are getting into good servicing mode next year, right, because you seem to be pretty active, giving all these ECLGS loans, so what drives the comfort that this book should be all right next year?

**Uday Kotak:** I think let me just step back and first look at what ECLGS is. It's a government guarantee for any customer with the defined parameters, where the government has said that we, the Government of India, are giving guarantee for the 20% of the loan amount. That is how it was originally launched. The government made a clear indication that it is expected that all the customers who are eligible under this, since there is a sovereign guarantee, the banker's money is safe. Therefore, in many ways, it is a quasi-sovereign risk which a bank is taking. Therefore, if you look at the COVID especially the earlier periods, you were looking at how do you bridge the gap between a company having a possibility to save itself versus going down immediately. So for ECLGS was introduced with the purpose of giving people a chance to survive and the states crept in and said "I take the risk, you Mr. Banker go out and give the money. It is my risk". And we want MSME category of companies to have chance for survival. So if our risk is a sovereign risk and we are giving companies a chance for survival with the downside being taken by the state, we think that is the win-win for all. It is a win-win for the customer who has a hope for survival. It is a win, win for the bank, because effectively that marginal lending is based on a sovereign risk, but also enables the bank to improve the quality of the customers' ability to survive, therefore has indirectly got the advantage of helping the base loan itself because it gives the customer a chance to survive. And of course, the state is protecting the economy from going under. So we think it's a win, win. As a bank, we have the security of a sovereign guarantee. And obviously, we are lending and getting people a chance to survive and making reasonable spreads on the way. Therefore, we think it is a complete positive for us, and which is why we went all out and did a pretty large share of the market.

**Adarsh Parasrampuria:** Uday, just a follow-up here. I understand the Rs. 9,700 crores is backstopped by the government. But this would have given out to, let's say, a loan book of Rs. 50,000 crores or Rs. 60,000 crores, right? That Rs. 50, 000 crores, Rs. 60,000 crores was outstanding for us in February or March, which is basically saying that we have given them a chance to survive. That is not backstopped by the government. So I am just trying to understand from a bank point of view, while obviously it helps them recover out of COVID, but next year will actually end up being the stress testing of those customers. Is that a fair...

**Uday Kotak:** I think it is a completely fair thing. That is the book. See, first of all, you can be superficial in terms of how you go deep into your book or you go deep into a book and find out anyone and everyone who can take that loan, okay? And we did a deep dive into our book and went deep to find out all the potential customers who could take a sovereign risk loan. Therefore, we did a much deeper work on the portfolio, we believe. Number two, if we had not given this loan, these

customers were more vulnerable than what they are now. And in many ways, the sovereign risk has not only helped the customer with reference to additional money, it has also given greater protection on our existing book. So it's worth double.

**Adarsh Parasrampuria:** Good. I completely take the point that it helps take off the risk quite substantially. The only point is that it still like versus a customer who required an ECLGS loan, versus somebody who didn't require one. The person who opted for it is a little more stressful, right? So in that sense...

**Uday Kotak:** But you would be very surprised that there were many borrowers who took just as insurance. There are many borrowers who may not have needed it, but took it as insurance.

**KVS Manian:** Uday, if I can come in. If you recall, in my commentary I did say that, in fact, initially our utilization was suppressed because people borrowed in ECLGS and put the money into CC account, I made that remark in my statement. So it is not correct that people who desperately needed it took it, because the rates were low, actually this loan was coming at a much cheaper rate than their regular borrowings. That's the reason they took it. So it's not correct to state that they were the more desperate people to borrow. That's not a correct assessment of the reality on the ground.

**Adarsh Parasrampuria:** Perfect. This is helpful, Uday. So lastly, how would you assess, right, the risk out of this portfolio, let's say, in 2022? Yes, I understand that these give them a benefit backstopped by the government, they have come out so things will be much better than if they didn't get it. But still it remains a risk for 2022, so how does one look at this portfolio, internally how do you look at it?

**Uday Kotak:** So, I think the way you got to look at it is, you got to come back to what happens to the economic activity in many of those cases. If economic activity comes back to normalize, the portfolio will be okay. However, if you take the very bearish view that the vaccine won't work, COVID is not going to go away, the interest rates are going to be sharply up and there are going to be shocks to the world, then it's a different view. But if you believe on the fundamental that we are on a path to recovery, then these guys have a much better chance to survive than they had in March. So I would say, I would watch the situation. I hear what you are saying. But I think to give you a more sort of considered answer, maybe after a couple of quarters we should get a clarity on how it goes.

**KVS Manian:** Uday, if I may come in once more. You might also remember that we are talking of the same portfolio, the moratorium behavior and restructuring behaviors are there just now to watch as well. If that portfolio was that stressed, even that behavior would have shown up. While of course I agree with you that full impact of this will show up over a period of time, but if there was stress in the portfolio, there would have been a much higher level of restructuring and moratorium required, which was not the case.

**Uday Kotak:** Correct. Therefore if you look at our restructuring, the restructuring numbers are very low, as you have seen.

- Moderator:** Thank you. The next question is from the line of Rahul Jain from Goldman Sachs. Please go ahead.
- Rahul Jain:** Just first a data keeping question. Is it possible to get the write-off number for the standalone bank, please?
- Jaimin Bhatt:** Very small this quarter, negligible actually. Very small.
- Rahul Jain:** Okay, got it. Second is, is it possible to share the 30 to 60 and 60 to 90 day past due book in retail and below Rs. 5 crore SMEs?
- Jaimin Bhatt:** Not that we would do it. We have not done it and I don't think we would really want to share those words. I mean, we track internally, that's different.
- Rahul Jain:** But any qualitative color you can give, Jaimin, how has been the behavior, particularly in the 60 to 90 day book?
- Jaimin Bhatt:** The SMA-2 number reflects that, that is of course, as you said, for Rs. 5 crore plus, so that has picked up to Rs. 654. But even at that level, at point 0.3% our belief is we would still be lower than possibly the best in the industry still.
- Rahul Jain:** No, but in retail how has been the behavior essentially, I was trying to understand.
- Jaimin Bhatt:** On similar lines, I don't think there is a big difference.
- Dipak Gupta:** Rahul, I think the trend is similar and the trend now has stabilized, the flows have all stabilized and the flows post-stabilization are very similar to overall. So unsecured retail is elevated. Secured retail is comfortable and the corporate is pretty good, no difference. But the flows have all stabilized.
- Rahul Jain:** Makes sense. Thanks, Dipak. The other question is this Supreme Court embargo on this NPL classification. It's been going on for a while now, and of course nobody can kind of predict as to when this will be lifted. So do you think there is a moral hazard risk because of this? The customers would feel that the NPL classification would not happen, particularly in the commercial retail and that could push up NPL in the fourth quarter.
- Uday Kotak:** Rahul, just keep one thing in mind. If you look at a customer who was, say, 30 days overdue on 29th of February, he remained 30 days overdue on September 1, assuming he took both the moratoriums. But September 1 to December 31, he would inevitably fall into an NPA category, 90 days plus. Similarly, if somebody who was even zero day overdue, and had taken moratorium 1 and 2, on September 1 he would be zero days, but by 31st December he would be 90 days plus. Therefore, rather than using analytical tools, what we felt is if we take the 90 day plus as all as proforma NPA, it will give you a very large portion of the flow through which would happen, which would have happened out of the moratorium.



- Rahul Jain:** So essentially, there is no more incremental risk?
- Uday Kotak:** No, I am not saying that. I am just using the logic. Say if a customer was zero to 30 days overdue or even he was 60 days, zero -30 -60 days, if he was overdue on 29th of February, that same position remains on 1st of September. But all these customers flow through to 90 day plus by December.
- Rahul Jain:** Makes sense. No, but my mind limited question, Uday, was, does the banking system per se, not alone Kotak, sees a risk of a moral hazard because the customer would just try and elongate their repayment period, etc., and who knows, could build up more stress in the system, particularly in the subprime retail and even just the prime retail?
- Uday Kotak:** Rahul, I think it's a very important question which you are raising. See, the first point is, we have from a long time been saying that we see a vulnerable segment as the unsecured consumer retail. Now, there are two situations which can be happening in the case of our bank, one is, our underwriting may not have been as good as what the banking system may have or the financial system may have, so that is one part. The second is, are we facing reality? Whatever may be the truth, I can assure you one thing, we are facing reality.
- Rahul Jain:** Okay, got it. it is comforting. Just two more last questions. Do you foresee any more restructuring in the fourth quarter on retail side? Because Dipak did say that the flows have stabilized, so I assume you are not much...
- Uday Kotak:** I think very, very little, I don't think it's going to be significant. And our assessment is that it's not going to be dramatically more from the 0.28% which we have seen as restructuring. And finally, restructuring is also what the customer wants and our view that it is justified. Our view of it being justified, number one, the customers wanting has not been as high as it was expected. Number two, we are using a pretty simple analysis, that by giving it does it improve our chance of recovery or we face the fact that even if we have to restructure later, restructuring it by making it a NPA or a proforma NPA, there is nothing stopping us from restructuring thereafter. So why should we be obsessed with accounting restructuring when we can do it any time. Please get on with it, the customer has difficulty, if he is crossing 90 days so be it, I can still restructure it if I think it can improve my ability to collect. Let us not confuse quarterly accounting with the substance of what we need to do.
- Dipak Gupta:** Rahul, MSME-1 is still open till 31st March. So we will have to wait and watch. But it doesn't seem to be an issue.
- Rahul Jain:** Okay. Got it. Just one last question. The final one. The distressed loans, do you foresee a big opportunity to acquire portfolios that are there in the market? And if yes, what kind of economic benefits one could possibly look at in IRR terms over the next couple of quarters or a couple of years? That's the last one. Thank you so much.
- Uday Kotak:** Dipak, you want to go for that? Because you also have an alternate asset...

**Dipak Gupta:** Rahul, basically since the NCLT process is at a standstill, you will see some low degree of activity at this stage. Because typically, in acquisitions one would rather have an NCLT order when one is acquiring, so that comes with a lot more other discounts and benefits. So you will not see too much of activity for, I would say, at least another three to six months. But typically, what one has seen is, when normalcy starts coming back, the level of bankers willing to sell off loans which they have already accounted for and provided for, always is at a much, much higher level. The opportunity to acquire will be significantly escalated once we see NCLT coming back. And the returns are pretty good, even now, for example, on the retail side we still are getting pretty good return and acquisition. Even last quarter, between the bank and Phoenix, for example, we should have acquired the retail asset. On the corporate side, I think will take a while.

**Rahul Jain:** Retail right now looks promising, corporate of course, could take some time because of the NCLT process.

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

**Nilanjan Karfa:** I just want to go back to the ECLGS question. I completely understand the point you are making. But let me ask it differently, I mean, the economy, at least the high frequency indicators do have rebounded, I mean, the different question is how long do they sustain. But for this cohort of borrowers, how would you see their business is versus pre-COVID? I mean, how much recovery have you seen from that?

**Uday Kotak:** I think two parts to it. One is the retail working capital side and the second is SME side. But Manian, you want to go for this question?

**KVS Manian:** Yes. So, at least the way we look at it from our portfolio, if we look at our portfolio it seems to have been fairly resilient. I think like I said, we are seeing utilization of their limits coming back. We have seen significant drop in utilization in this portfolio in the early part of the pandemic, and now we are seeing utilizations come back. So I think this sector, by virtue of the support it got through, ECLGS has done, I would say, at least looking at our portfolio, it seems to have done reasonably well, much better than we thought about it when we were sitting in early part of the pandemic. But finally, the good part is, since the corporates have not been affected that much, finally lot of these SMEs are also feeding into the corporate as supply chain. And therefore, I think by and large I think this sector has been less impacted than most people thought it would be in the early stages of pandemic.

**Uday Kotak:** And to be honest, I think one of the best steps the Government of India took was to give the ECLGS scheme, it has really protected many, many small and medium businesses otherwise who would have fallen off the cliff in this pandemic.

**Nilanjan Karfa:** Uday, that point is very well taken. Absolutely. Second question, it's a bit of a data point as well. But could you kind of tell me the gross NPLs of the Kotak Prime business? We always report the net NPL, but do you have the gross number? And has Kotak Prime also done some disbursements kind of for ECLGS?

**Uday Kotak:** Jaimin?

**Jaimin Bhatt:** Hasn't gone to ECLGS. Kotak Prime, gross number would be 2.46%.

**Nilanjan Karfa:** Okay. Sure. And a final data point. I mean, we used to get TD less than Rs. 1 crore, I think we tend to give out this time. But would you have the number?

**Jaimin Bhatt:** That's been a slow growth.

**Uday Kotak:** I think, to a certain extent by design.

**Jaimin Bhatt:** It will be about just short of 70,000.

**Nilanjan Karfa:** So it's a flattish sort of a number?

**Jaimin Bhatt:** That's right.

**Uday Kotak:** Just to give you an idea, TDs below Rs. 1 crore one year is at about 4.75%. Wholesale market, we are able to borrow one year money at 3.9%.

**Nilanjan Karfa:** Right. And interestingly, our overall SA balance, that is the period end balances haven't grown. I mean, we don't see the need to acquire because maybe the growth is not...

**Jaimin Bhatt:** No, we are continuing, low cost and stable liability continues. Our CASA ratio is 58.9%, we are not obsessed with what percentage it reaches, you keep on growing it. There may be a little variation even within SA, because what has happened is, even within SA we have become more careful about wholesale money, which is liquid fund money coming into SA because of higher yields, so we are managing that challenge also. Because liquid fund returns were lower when we were giving. Therefore, if you look at our SA structure, up to Rs. 1 crore we are giving 4%, and above Rs. 1 crore we are giving 3.5%. So, till recently we will be giving 4% above Rs. 1 crore deposits as well, and we saw flood of money coming from the wholesale market, people moving money from liquid funds where returns dropped to 2.5% to 3% to get purchase money into our SA deposits. So, we tightened it and made it 3.5% in order to ensure that pure granular SA, which is up to Rs. 1 crore, that is from Rs. 1 lakh to Rs. 1 crore, which is a main market, which is the transaction bucket of SA, which is where we want the customer transacting and growing in SA, that is the only bucket we have kept 4%. It is very easy to show high growth in deposits, but you effectively land up paying disproportionately higher rates compared to what your operations are. And you want sticky customers, transacting customers, not purchase money or wholesale money showing you much higher CASA numbers than what is the true quality of what a SA deposit should be, which is the transaction account of a customer.

**Nilanjan Karfa:** Right. If I can ask Jaimin, the Kotak Prime gross NPL that you mentioned, is that ex of SC forbearance?

- Jaimin Bhatt:** That is before the SC deferrals, yes. That is without taking into account the SC deferral number, the declared GNPA as we call it.
- Moderator:** Thank you. We take the next question from the line of Jiten Doshi from Enam Asset Management. Please go ahead.
- Jiten Doshi:** Congratulations to the entire team for a stupendous performance in a very challenging environment. My question pertains to where do you structurally see the interest rates going over the next two to three years?
- Uday Kotak:** Yes. In fact, Jiten, I gave some perspective on that at the beginning of the call. My view is that we see a gradual firming up of interest rates through 2021 in India. And if you look at the current reverse repo rate at 3.35% and the repo rate at 4%, and currently even now some parts of the market operating at or below the reverse repo rate will gradually see through 2021 by the end of it as operating closer to the repo rate assuming it is 4%. So, around the 4% mark is what we think, therefore, there is a steady increase in interest rates as we see it. The RBI would want to, I would like to believe, do it gradually, but on the way up. And we see a flattening of the curve. On the long end we see the 10 years in the range of six, maybe if this is the way the reverse repo rate moves closer to the repo rate as operating rate of the market is around 4%, our view on the 10 years is around 6.5%, give or take.
- Jiten Doshi:** So how much more can we go down on our saving bank account interest rates that we offer our clients?
- Uday Kotak:** No, I think even now for a customer who comes and puts money in Kotak savings account in the bucket Rs. 1 lakh to Rs. 1 crore, which is where we pay 4%. The big three banks offer a comparative average, if somebody had Rs. 1 crore in a savings bank account, the big three banks in the private sector offer an average of 3.25%. So even now we are 75 basis higher for a customer in the Rs. 1 lakh to Rs. 1 crore bucket compared to these banks. We have still kept it attractive for our customers to keep money with us and transact with us, particularly in the operating bucket of Rs. 1 lakh to Rs. 1 crore were effectively in that bucket he makes 4%, while in the other big three banks he makes an average of 3.25%.
- Jiten Doshi:** So you see yourself shaving off at least 25 basis points in the next couple of months?
- Uday Kotak:** Jiten, we are in the business of looking at our overall cost of funds. And now we believe that we have a very, very competitive cost of funds position. And we have actually had a very, very significant sort of improvement in our cost of funds. And we see our CASA ratio now at 58.9% and we are not fixated on any number on that CASA ratio, whatever it may be.
- Moderator:** Thank you. The next question is from the line of Mr. Roshan Chutke from ICICI Prudential Asset Management.
- Roshan Chutke:** Sir, what is proforma NPA of prime business this quarter?

- Dipak Gupta:** That would be above slightly north of 4%.
- Roshan Chutke:** And how do you explain the provisions number in this business? If you have any comments to offer, for these nine months compared to the last nine months, there has been a significant increase there, right?
- Jaimin Bhatt:** So, so just as we have done in the bank, we have taken the full provision hit for all the accounts which are 90 day plus. So the same thing, the principle which we followed in the bank, we followed across the group where the entire Supreme Court deferral 90 day plus, the full provision, the interest reversal, all of that is exactly on the same lines.
- Moderator:** Thank you. The next question is from the line of Mahrukh Adajania from Elara. Please go ahead.
- Mahrukh Adajania:** My first question is on the pro forma slippages for the standalone bank. You have given enough color but could you quantify the number?
- Jaimin Bhatt:** Mahrukh, it is like this. If you look at my pro forma GNPA for this quarter has gone up by about Rs. 1,500 crore, we have disclosed Rs.7100 crore & Rs.5600 crore, that's about Rs. 1,500 crore there. No new GNPA's have got created because of the Supreme Court thing. And my declared GNPA has gone down by about Rs. 400 crore, very little write-off. So, you need to add that Rs. 400 crore out there, so it would be close to Rs. 2,000 crore or slightly over that.
- Mahrukh Adajania:** Got it. And my other question was on ECLGS. Most of the disbursements that have happened in the third quarter, because till the end of the second quarter it was around Rs. 76 billion, would that be under ECLGS-2 or ECLGS-1?
- KVS Manian:** ECLGS-2 is a very small number. Most of it is ECLGS-1.
- Mahrukh Adajania:** Okay. And I just have a last question, like there was a discussion paper that the RBI has come up with, and they have said that if the bank can undertake a lending business, it should not be undertaken through a subsidiary. So, in case the discussion paper moves further and becomes a guideline, what would happen to Kotak Prime?
- Uday Kotak:** I think, Mahrukh, if you notice, this is still a discussion paper, what is being said is, therefore it should be done either in the bank or in the subsidiary. Our car finance business is done by the subsidiary.
- Moderator:** Thank you. The next question is from the line of Mr. Kunal Shah from ICICI Securities. Please go ahead.
- Kunal Shah:** Sir, firstly, again on ECLGS, in terms of the eligibility on our pull, how many customers or accounts if you have to look at it, they would have got eligible and they would have got disbursed? And still when we look at SME or commercial banking, or maybe consumer banking, that's not actually growing. So, what could be like such a reason for the rundown as well on the portfolio despite the ECLGS disbursement? So that was the first question. And second question

was on the cost side. So maybe there was a rise, you highlighted it was more in terms of the spends on advertisement, but have you seen currently it's like back to almost like flattish year-on-year and 20% growth quarter-on-quarter, similar to that of the loan growth? So how much of cost we would have actually cut because of all the efforts which we were highlighting we are doing to improve the productivity? These are the questions.

**Uday Kotak:** The first question is Manian, second Jaimin. Manian?

**KVS Manian:** Yes. So roughly, compared to eligibility, we disbursed close to about 50% to 60%, depending on the type of business. Some businesses were lower, on an average about 50% odd would have been the disbursements. And I partly answered your question earlier, there were many cases in the SME side and MSME side where it did not necessarily lead to higher book, because the money was taken because it was cheaper than their current CC, so customers took this money and actually suppressed their CC utilizations or other working capital limit used utilizations.

**Jaimin Bhatt:** Kunal, to take your next one. As I said, a lot of the cost increases this quarter also happens from some of the promotional expenses, whether credit card or advertisements and what not. And it also includes communication for customers and customer service. You stepped up activity, especially in areas which are consumer, including home loans. So the DMA charges and whatever we put out, we write-off and we take the expenses straight upfront. Similarly, you have had recovery costs which have gone up this time. And also some amount of costs which are linked to, let's say, my insurance cost shoots up as my deposit base grows, because that's entirely linked to the deposit base and keeps going up. So you will see some of that is linked to activity. And as activity has picked up, that has gone up.

Overall, on the efficiency side, we have taken several measures. If I look at some of those, for example, on our premises cost and what not, we have done a fair amount of negotiation and reduction of rentals. And our focus has not just been on what we get immediately for a few months, but how do we get the benefit on the present value basis over the life of the contract. And that is something which we believe has helped us, you may not see the numbers immediately, but over the life of the tenancy which we have, you will see those numbers coming in. A lot of the other things which we have got into, which is technology driven and bringing in efficiencies, are more where you will see efficiencies coming in and productivity improve by the same number of people effectively doing larger volumes. So as volumes pick up, you will see some of that coming in and seeing on the P&L.

**Moderator:** Thank you. The next question is from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

**Sumeet Kariwala:** Just had a question on margin outlook. How do you see that? And if you can update on the competitive intensity, how is that going in corporate banking, secured retail? And do you expect that to increase?

**Jaimin Bhatt:** Manian, you want to take that?

- KVS Manian:** What was the first part of the questions, what is the outlook on --?
- Sumeet Kariwala:** I just requested for the outlook on margins going forward and an update on competitive intensity in secured retail and corporate banking, is that picking up?
- Uday Kotak:** Okay. My view is that with a continuing competitiveness on our cost of funds and sustainable reduction in cost of funds, we believe we are extremely competitive in terms of our pricing power in the marketplace. And therefore, where we find our underwriting to be as appropriate, we don't believe we need to lose a business on account of pricing. Having said that, that additional cushion which we have because of lower cost of funds will also give us protection on our margins. And keep in mind that our net interest income and other growth numbers which you have seen are in a book which has actually been flat to negative in the last 12 months. A lot of the monies have gone into relatively safer assets like government securities where we are running significant surpluses above our mandated requirements, including for LCR purposes. Therefore, as we free up money out of those relatively lower yielding assets and put it on the credit growth side, we think actually margins should be in reasonable shape as we go forward. Because we are moving from lower yield to higher yield with credit risk as we move forward.
- Uday Kotak:** Let me explain, Sumeet, in a simple language. If I had bought a three year G-Sec at, say, 4.5%, or two year G-Sec at 4.5% versus a home loan at 6.75%, which is at the lowest end of this curve in some of the retail businesses. We still have a spread arbitrage in our favor. So our NIMs and NII currently is on a very large book, which is at lower yield interest earning safe assets. So as we move out of that and get into higher yield assets, including on working capital, and maybe some select corporate and unsecured retail gradually as we go up, our yields are bound to improve on the book which we start shedding from the lower yield lower risk assets.
- Moderator:** Thank you. The next question is from the line of Venky Sanjeevi from Pictet. Please go ahead.
- Venky Sanjeevi:** Just wanted to just delve a bit on your comment on the positive surprise on the corporate asset quality side. So what has been the further action from here, I read more reviews in terms of the risk management framework, have there been any changes that have to be done in the risk management, where they have been too tight in the past? The background, of course, is that the discussion we have had in the past as well, is the bank being too conservative, especially when lending to large corporates? And given the cost of fund advantage you have, are there any changes which could have been done in terms of risk management here?
- Uday Kotak:** I think you asked a very good question, but the answer lies with all of you guys. If you look at the three segments of the marketplace, which is corporate, commercial and consumer, the only place where equity markets have given money is to the corporate. Therefore, whether you are a theatre owner or in an airline business or in a hotel business or in a retail mall business, equities capital markets have provided the capital buffer, which has flown through many of these guys in the last nine months. And with that equity capital, which came in, in very large numbers post March till December, has given a lot of corporates, even the so called best-sector corporates, a disproportionate cushion to take the shocks coming out of COVID. So, I think corporate sector

has disproportionately benefited from the very benign capital markets over the last nine months. The same benefit has not been available for the commercial segment or the retail consumer segment, where there is no access to equity capital available to these two segments.

Therefore, on a relative basis, corporate sector benefited because of equity markets. The corporate sector benefited because of very sharp availability of liquidity through measures taken by the RBI to be able to get funding and liquidity in the interim. And the corporate sector was very, very strong in rationalization of its cost. Some of it may be at the benefit of the organized sector, but at the cost of the unorganized sector. And these three factors have actually enabled the corporate sector to come out better. Obviously, we have changed our positions. If you look at the October to December quarter, as Manian mentioned, our quarterly growth in the corporate lending business has been in excess of, I think, close to 7%, which is 28% annualized. So, we are shifting the engine, we have the advantage of a very competitive cost of funds. And as we get more comfortable with risk measures, we are moving the engine and we are clearly seeing the reality. Which is why at the beginning of my comments today I mentioned that we are comfortable with secured retail, working capital and secured, as also with corporate sector. We are less comfortable with unsecured retail, though even there we are beginning to lend in the better-quality unsecured retail, as Shanti mentioned.

**Moderator:** Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal Securities. Please go ahead.

**Nitin Aggarwal:** A couple of questions. One is, the coverage ratio on proforma basis, which I think includes all the COVID provisions has slipped to 62%. So how comfortable we are with that? And do you think that we need to make some higher standard provisions for ECLG loans as well?

**Uday Kotak:** Jaimin, will you answer that question?

**Jaimin Bhatt:** It is treated differently, Nitin. On the proforma basis, there is also, if I take into account all the other provisions which we have, there is specific provision, there is SC deferral provision, there's also the COVID provision. Mind it, we have not dipped into any of those COVID provisions which we provided earlier, that's all of Rs. 1,279 crore. And if I add all my provisions, whether it is specific provisions, SC deferral, COVID, standard, all of that, as against the pro forma GNPA of about Rs. 7,100 crore, my overall provision number is about Rs. 6,900 crore. So we are reasonably provided on the overall GNPA.

**Uday Kotak:** And again, let me correct you, when you said that on a pro forma basis we are at 62%, that does not include the COVID provision.

**Jaimin Bhatt:** That's right. That's only the specific and the SC deferral.

**Uday Kotak:** Therefore, 62% does not include the COVID provision. If you added that we are getting to well above 70%.



**Nitin Aggarwal:** And one clarification is, what percentage of home loan growth this quarter was balance transfer? If you can share this data point bond?

**Uday Kotak:** I don't think we want to share that. Shanti, your thoughts?

**Shanti Ekambaram:** I think we had a good mix of both new sales, because if you saw this quarter across the industry, you saw a lot of developers were able to sell. So, while we don't put out the percentage, it was a good quantum of new sales and BT. In fact, the new sales were significant.

**Nitin Aggarwal:** Okay. And sir lastly, if we can get your views on the recent RBI FSR. wherein RBI projected a 600 basis points increase this fiscal in GNPA and over 300 basis point increase for private banks by September. While I would not request you to like mention any number, but qualitatively speaking, how much like are you in sync with this sort of projection? Does this look too scary to you? And what can go wrong? So the ECLG loans or some certain sectors which can drive, like what can drive this sort of rise in GNPA in your view?

**Uday Kotak:** See, I think RBI has put out a scenario, I think it is still to be tested. My personal view is that RBI has been very conservative in its estimates, it should be better than that. That is my personal view. Having said that, only time will tell. At the same time, you know, for us to be sitting end of December, the Supreme Court not allowing recognition of NPAs, various banks and financial institutions having varied policies on how you account for it, what do you show, what do you not show? I can understand the dilemma facing the entire financial sector on what is the truth. And this is a very serious question on what is the truth and what will be the truth as it pans out over the next six to nine months. And we went through this dilemma ourselves. And we therefore took a view that whatever will be will be. But whatever is happening, let it just flow through so that both in our books and with our investors show the situation as we see it. If there was no Supreme Court deferral, what we would look like, which is the part which is looking more stressful, which is looking less stressful, as things stand today. To be able to judge what will happen six or nine months later, there are too many variables. But in general, I would like to say that RBI estimate is very cautious and conservative. And I would like to believe the banking system should do better than that.

**Moderator:** Thank you. The next question is from the line of Abhishek Murarka from IIFL Capital. Please go ahead.

**Abhishek Morarka:** Sir, a couple of questions. First one, sorry to go back to the ECLGS thing. But roughly Rs. 47,000 crore of your book has received ECLGS, if you could explain how it is spread across different segments, that would be useful. And a question was asked, I think we missed out on that, I had the same one. Going forward, given that there was some sort of stress in this book which required them to take ECLGS, at least some of them, would you consider making higher run rate of provision, either standard or maybe just a higher provision on this Rs. 47,000 crore? So that's the first question. The second one is, if you could give a sense of the disbursement growth in different businesses, that would be useful to judge the kind of momentum that's building up.

- Uday Kotak:** Manian, you want to answer that?
- KVS Manian:** Yes. Two parts to your question. One is, how was it spread? It was across all the three businesses, that is consumer, the small consumer businesses, small businesses that we run out of our consumer bank, the commercial bank which is all the commercial kind of businesses as well as low end of the corporate, which is the SME business. So I would say it is broadly divided, 80% of that will be in the consumer and commercial, and about 20% will be in the higher segment. That's broadly the breakup. On provisions itself, I think provisions are based on the fact of our risk perception on that portfolio or the behavior of the portfolio, any concrete behavior of the portfolio. Neither of that currently makes us believe that we need to take any higher provisions on the book.
- Abhishek Morarka:** Okay. And on disbursements?
- KVS Manian:** On disbursements, what was your question?
- Abhishek Morarka:** Just across the retail segments, how was the disbursements growth or disbursements momentum, if you could sort of share.
- Uday Kotak:** I think we have given that, we have given the whole thing, Jaimin?
- Jaimin Bhatt:** Yes.
- Jaimin Bhatt:** Yes, we have given the SOH of how the stock has moved. But yes, you have seen a lot of that SOH moving in the mortgages and all, which is coming more from a disbursement during the quarter because your repayment of principal in any ways is small amounts.
- Moderator:** Thank you. The next question is from the line of the Naishi Shah from Acko General Insurance. Please go ahead.
- Naishi Shah:** My first question is, if you could give me an idea about the rating profile in the unsecured retail book, and also for the overall book that you all have. And the second question is, I think I missed it, but how much percentage of the slippages are there in the unsecured book?
- Jaimin Bhatt:** So just to take the second question, Uday did mention about the fact that what we have seen as pro forma increase during this quarter, we talked about a number of Rs. 1,500 crores which you see from Rs. 5,600 crore to Rs. 7,100 crore. Almost 40% to 45% has gone from the unsecured retail book, which is the credit cards, personal loans, business loans, consumer durables and alike.
- Naishi Shah:** Thank you so much. And about the rating profile?
- Jaimin Bhatt:** If I look at the overall rating of what we have, almost about 86% odd would be falling in the investment grade rated.
- Dipak Gupta:** I don't know what you mean by retail rating profile.

- Jaimin Bhatt:** No, this is not the retail rating profile; overall, sorry. My mistake, sorry.
- Dipak Gupta:** No. I think she wanted retail rating profile.
- Naishi Shah:** Yes, unsecured retail. The rating profile of the unsecured retail book.
- Dipak Gupta:** Rating profile on the unsecured retail side, how do you define retail rating profile?
- Naishi Shah:** So I believe, I mean, a lot of banks have an internal rating scale or probably they compare it with the external rating that a lot of companies have.
- Dipak Gupta:** Retail we don't normally have. If you securitize the portfolio, only then will we get retail. Very difficult to get the ratings.
- Moderator:** Thank you. We will be able to take one last question. We take the last question for the line of Manish Shukla from Citigroup. Please go ahead.
- Manish Shukla:** What do you believe would be the normalized levels of leverage for the bank standalone? And how soon can you get there?
- Uday Kotak:** We have shown our loan growth which is something which we have shown on a quarterly basis, we continue to believe the loan growth are reasonably good. The capital utilization really also depends on how fast we add risk weighted assets organically, it also depends on how we, at the same time, generate surpluses out of those risk weighted assets as well as other streams of income. And then of course, there is the whole inorganic piece. So yes, we are running pretty comfortable and surplus on overall capital. Therefore, we are aware of that. It is something that we continue to see and evaluate various opportunities, both organically and of course inorganically. And we will make best use of capital, as we see that opportunity as we go forward.
- Manish Shukla:** On the inorganic piece, right, given the asset inflation, especially on the equity side that you have seen. Do you see there are opportunities either at the bank or subsidiary level which might be attractive enough for you?
- Uday Kotak:** See, there is always an opportunity which comes. And when it comes, we will certainly consider it seriously.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.
- Uday Kotak:** Thank you very much, friends, ladies and gentlemen. We are sitting at a cusp of what I would define as the best of times and the worst of times. We are on the edge of having the Union Budget, a new administration in the United States, with a new philosophy and a new policy expanded in the US, India going through its own different opportunities and challenges. And I actually, therefore, feel that the financial sector is in one of the most crucial times of history in India. And therefore, what I said with reference to best of times and worst of times applies as much to the

financial sector. And I genuinely believe that the financial sector will sharply differentiate itself in terms of what different players do and behave, and outcomes which come out of it over the next 12 to 24 months. And each of us has to work on it, has to be paranoiac, has to be on the edge to look at what is right for each of us. There is no room for being complacent about past success.

And with that, I would just like to end on this note of 2021 with a sense of optimism coming out of hopefully COVID being behind us, the vaccine hopefully working, and the world hopefully being a more safe and a stable place. And hopefully, I am not making any subjective judgments, I hope the leader of the free world, the United States, would provide leadership for this transform 2021 and beyond, as also each of us in our countries and our respective leadership. But I do feel for the financial sector, we are truly in the best of times and worst of times. Thank you very much, ladies and gentlemen.

**Moderator:**

Thank you very much. On behalf of Kotak Mahindra Bank, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.